MINUTES OF THE MEETING
TAXATION COMMITTEE
MONTANA STATE SENATE

March 3, 1987

The thirty-third meeting of the Senate Taxation Committee was called to order at 8:00 A.M. on March 3, 1987 by Chairman George McCallum in Room 413/415 of the Capitol Building.

ROLL CALL: All committee members were present.

CONSIDERATION OF SB 66: Senator Gage, Senate District 5, presented this bill to the committee. He said this bill was introduced as a result of SB 390, which was introduced last session. As rules were set up to implement SB 390 they ran into a few problems. This bill provides for a redefinition of "New Production" of natural gas, petroleum, or other crude or mineral oil for purposes of determining the net proceeds tax on such production. He furnished the committee with amendments for the bill, attached as Exhibit 1, and reviewed the amendments with the committee. This bill is connected somewhat with SB 383 and if SB 383 is passed, SB 66 will be void as the same material is contained in SB 383.

PROPONENTS: Janelle Fallan, Montana Petroleum Association, gave testimony in support of this bill. She said she believes this addresses the problem in a fair manner.

OPPONENTS: Hershel Robbins, representing the Association of Oil, Gas and Coal Counties, gave testimony in opposition to this bill. He opposes SB 66 and SB 383 and will give his full testimony during the hearing on SB 383.

William Duffield, representing Fallon County, stood in opposition to this bill.

Lynn Chenoweth, Department of Revenue, gave technical comments concerning the bill. In dealing with expenses related to new production, the way they read the bill now the expenses related to new production could be allowed for old production. SB 383 does not address this problem.

QUESTIONS FROM THE COMMITTEE: Senator Crippen asked William Duffield to give a reason why he was in opposition to this bill.

William Duffield said for the same reason stated by Lynn Chenoweth, the expenses could be allowed on the old oil production.

Jim Lear said that Greg Petesch has said the amendments deal with that part of the bill.

Senator Gage closed by stating in many instances the new production will be on wells that do not have any old production on them.

ACTION ON SB 66: Senator Crippen would move that the committee adopt the amendments to SB 66 presented by Senator Gage and attached as Exhibit 1. The motion carried.

CONSIDERATION OF SB 383: Senator Gage, Senate District 5, presented this bill to the committee. He said this is a somewhat long bill but most of what is in the bill is a very short part of the bill. This bill allows a 24 month exemption for new production of oil and gas from net proceeds. He pointed out the fact that on the fiscal note on number 7 it says the proposal has no effect on the net proceeds taxes on current new production. Net proceeds will continue to be paid on those wells just as it is at present. The only oil or gas that will be affected by this bill are wells that are completed and go into production after December 31, 1986. The fiscal note assumes the oil and gas will be at the same level that it was in 1986. He would point out that is only an assumption and nobody knows what will happen in the current year. Drilling rigs are down from what they were most of 1986. There is not a lot of activity at the present time. He figures the fiscal note is off a minimum of 13%. He went through the bill with the committee. He explained that interim production was used in the bill since this bill is effective after December 31, 1986 and we had to designate that oil that qualified for new production during that period of time, even though it is subject to the same tax. The definitions are given on pages 11 and 12. The definitions on page 11 also deal with what will qualify. The new language on page 18, paragraph (4) tells how to determine net proceeds. In conclusion, this bill will give oil and gas operators a reason to come into Montana and be a part of our economy. It will create jobs and tax revenues for the counties and the state of Montana.

PROPONENTS: William Ballard, Balcrom Oil Company, Billings, gave testimony in support of this bill. He said this bill is a major incentive that will bring in exploration dollars to the state of Montana. His written statement is attached as Exhibit 2. He displayed a map for the committee showing how oil exploration has flourished outside the borders of Montana in certain areas and stops at the Montana border.

Pete Madison, Entech Oil Division, gave testimony in support of this bill. He said this bill is an incentive to work. He participated in determining 55 wells for the Entech Oil Division, 26 of which were in Canada, and 29 in the United States, of which only 3 were in Montana. He said we are a Montana corporation made up of Montana people and we would like to drill in Montana. They have more projects available to them than they have money. They rank the projects and drill only the best. The projects are ranked in terms of economics. Last year Alberta instituted an incentive program for a five year royalty holiday with drilling asset incentives. As a result of those incentives, you could not get a drilling rig into Alberta the last half of 1986 as they were all busy. Royalty is the same as tax. Our decision is not whether to drill but where to drill. He would ask that this bill be considered not as an incentive for the oil industry but as what this can do for the state. This bill will help Montana and he thinks will help Entech keep some of its money in Montana.

Stephen R. Granzow, Meadowlark Search, gave testimony in support of this bill. A copy of his statement is attached as Exhibit 3.

Harold Ude, representing Cenex, gave testimony in support of this bill. A copy of his written statement is attached as Exhibit 4.

Ward Shanahan, representing Chevron Company, gave testimony in support of this bill. A copy of his statement is attached as Exhibit 5.

Janelle Fallan, representing the Montana Petroleum Association, gave testimony in support of this bill. She furnished the committee with a graph entitled "Montana Oil Production, Value, Price and Tax Revenue, 1978-1989", a "Montana Petroleum Fact Sheet", a list of "Montana Drilling Rig Count By Week" and an article from the Independent Record, February 18, 1987, entitled "Long gas lines will return". This information is attached as Exhibit 6. She reviewed information contained in these graphs and lists with the committee.

Stuart Doggett, representing the Montana Chamber of Commerce, gave testimony in support of this bill. He believes this bill will be an incentive to keep this very important industry from leaving the state.

Tom Staples, Montana Trade Commission, gave testimony in support of this bill. He supports this bill on the concept that it will provide overall, long term, economic benefit to the state.

OPPONENTS: Hershel M. Robbins, representing the Association of Oil, Gas, and Coal Counties, gave testimony in opposition to this bill. A copy of his written statement is attached as Exhibit 7.

William Duffield, representing Fallon County, gave testimony in opposition to this bill. He is concerned that if this bill is passed, that the product from the third stage of recovery will be classified as new production. He believes the bill should be spelled out to insure that this stage of recovery is not classified as new production. The impact of the bill would be of such a magnitude that it would devastate his county if not specifically clear as to what new production would apply to. Whenever there is an influx of production, where drilling takes place, there is an impact on the people of the community and he doesn't think we should take away net proceeds completely.

QUESTIONS FROM THE COMMITTEE: Senator Eck asked Mr. Duffield what part of the net proceeds generally comes from what would be classified as new production.

Mr. Duffield said he thought in the last couple of years there hasn't been very much.

Senator Eck asked how much was strippers.

Mr. Duffield said probably 30%.

Senator Lybeck referred to the map demonstrated by Mr. Ballard and said that certainly indicates that the Montana border does have a bearing. In looking at the Popular area, he asked why that was so extensive.

Mr. Ballard said the Popular area has many, many more prospects similar to what you see in North Dakota.

Senator Crippen said the reference was made to Alberta and evidently Alberta is back in the oil business again. He asked Mr. Ballard if there was a time, not too long ago, where, through their legislative policy, oil production had really dropped off in Alberta.

Mr. Ballard said it is his understanding that the tax was raised excessively over what it is on this side of the border and a number of drilling rigs moved south.

Pete Madison said in 1978 the Canadian government, under Trudeau, enacted the National Energy Program and basically what that program did was put additional tax and royalty burdens on the oil industry. In addition, if you paid royalties they were not deductible from federal income tax and you also paid income tax on the revenue to the federal government. This virtually destroyed the oil business in Canada until the Trudeau government was out and things turned around.

Senator Eck asked Janelle Fallan if she would have any objection of putting a top limit on this. If the oil goes up to $80 then we would sunset this.

Janelle Fallan said if you set it at $80, then probably not. She does have a problem with sunsetting this. She said we need to recognize that Montana is a high tax state, our oil and gas tax is the highest in the nation. The industry needs to know what they are dealing with for stability and if you want to start new projects, investors are saying what is your tax rate going to be. To sunset this at a certain level would make it more difficult to get the kind of investment the state desperately needs.

Senator Gage closed by stating what is being relinquished is production that doesn't currently exist. The counties will still retain the net proceeds tax they are currently getting and have been getting in the past.

CONSIDERATION OF SB 381: Senator Severson, Senate District 32, presented this bill to the committee. He said this bill basically leaves our present tax system in its exact same form but sets an upper limit cap of how far you can go in property taxation. You can bump up against that cap but you can't go through it. In relation to CI-27 and I-105, this is an attempt to head off another rebellion. He considers this to be somewhat like California's proposition 13. He is not sure 1.5% is right, he is almost of the opinion 1.25% might be correct. He said this applies to everything that is taxed at a taxable vlue of 3.86% and this bill may need to be amended. His only intention with this bill was to make it apply to property taxable at the 3.86%, houses, commercial buildings and land. An amendment was furnished to the committee and is attached as Exhibit 8. He provided the following information on the chalkboard: $100 X 3.86% = $3.86 X 390 mills = 1.5%, 350 mills = 1.35%, 325 mills = 1.25%, 300 mills = 1.15% and 263 mills = 1%.

PROPONENTS: None.

OPPONENTS: Gordon Morris, Montana Association of Counties, gave testimony in opposition to this bill. He said this is the third bill that basically does the same thing, SB 386, HB 395 and this bill. He feels one of the flaws with I-105 is that it is forcing the legislature to do something that they might regret ultimately. He would hope that the legislature would find a rational, reasonable approach that would provide equity when it comes to substantial property tax relief. He does not belive that this bill does that. Right now the average mill levy is 263 mills. With a 1.5% effective rate, as proposed by this bill, in his opinion that would represent a substantial property tax increase. We need property tax relief, but this bill is not the mechanism to achieve property tax relief. He believes there is a more reasonable approach.

Eric Feaver, Montana Education Association, gave testimony in opposition to this bill. He said he would accept Senator Severson's statement that this is very much like proposition 13. If this bill does work that way, the public schooling in California was not enhanced by proposition 13. It was particularly damaged and in Montana we have a public school system that California envies. California now recognizes the problem and is trying to correct the system. He has gone on record in support of other ways to effect property tax relief.

Terry Minow, Montana Federation of Teachers and Montana Federation of State Employees, gave testimony in opposition to this bill. She does support property tax relief but this bill does not replace the revenue which is lost.

Jim Nugent, City of Missoula, gave testimony in opposition to this bill. According to the fiscal note, there will be a loss of $3 million to cities and towns with no replacement identified within this bill. For this reason they are opposed to the bill.

Alec Hansen, Montana League of Cities and Towns, gave testimony in opposition to this bill. The purpose of this bill is reasonable but the mechanics has some problems. It is extremely difficult to apply an average and a limit to the property tax system in the state of Montana with such differing changes in taxable value. Because of the radical average in taxable value across the state of Montana, it is extremely difficult to apply limits like this. Anyone under 390 mills will have no effect. Those counties and cities where the levies have more than 390 mills will be in trouble. Maybe there is a better way to limit property taxes, some method that would recognize that we have some very rich and some very poor counties.

Greg Groepper, Administrator, Property Assessment Division, gave technical comments concerning this bill. The way the bill is written there was some confusion in the way the fiscal note was prepared. The bill said to cap all real property as is indicated on page 1, lines 9-12. To put the bill in the form that Senator Severson suggests, the title would have to be amended to say class 4 and 12. This would end up generating a significantly different fiscal note. He suggested that the committee request a revised fiscal note.

QUESTIONS FROM THE COMMITTEE: Senator Mazurek asked Mr. Groepper what the fiscal impact would be with the suggested amendment.

Greg Groepper said the fiscal impact would go down quite substantially because we had included a cap of 1.5% of market value on classes with an 11% and 12% tax rate.

Senator Severson said he would not be surprised if the fiscal impact was neutral.

Senator Eck said those counties that have a mill levy of over 390 will be affected to some extent by this bill and there is no replaced revenue here. If we do get a property tax relief package, would he be agreeable to funding the counties with what they have lost out of the property tax relief.

Senator Severson said this is not the only bill lowering taxable values or taxes.

Senator Eck said she thought it would be useful to the committee if we had the researcher put together some comparisons. It would be helpful if we could look at some of these things that we have passed and will pass and see how they will balance out. She thinks it would be important for the committee to put an amendment on each bill stating whether the bill addresses I-105.

Senator Severson closed by stating he wanted this to deal with property taxed at 3.86%, which is basically your house, business or land. The fiscal note should be substantially lower and possibly neutral.

FURTHER CONSIDERATION OF SB 340: Senator Mazurek has a question with regard to the cows. It seems to him that there is a rational distinction between the cattle which are breeding stock and those which are raised for sale. He does not know if that has been considered and it possibly may create administrative problems. He feels the breeding stock are more akin to machines than inventory. If we pass this bill, we might amend that feature into it.

Senator Severson said you could interpret it that way if you wanted. Basically they are all inventory. Breeding stock are for sale and at least 20% per year are sold.

Senator Mazurek said it seems when you are talking about passing this bill because these are inventory, with a cow/calf operation the calves are inventory, what you are raising to sell, and the cows are producing inventory.

Senator Severson said the bill was not ready to act on as it needs a little work as far as amendments for the funding of the Livestock Department. He has to meet with the Department of Revenue and Department of Livestock to work out the proper language as far as funding of the Department.

ACTION ON SB 307: Chairman McCallum appointed the following members for the subcommittee on this bill: Senator Crippen, Chairman, Senator Mazurek, Senator Neuman and Senator Brown.

ADJOURNMENT: The meeting adjourned at 10:00 A.M.

George McCallum

SENATOR GEORGE McCALLUM, Chairman

ah

ROLL CALL

TAXATION COMMITTEE

50th LEGISLATIVE SESSION -- 1987 Date 3-3-87

NAME	PRESENT	ABSENT	EXCUSED
SENATOR CRIPPEN	✓		
SENATOR NEUMAN	✓		
SENATOR SEVERSON	✓		
SENATOR LYBECK	✓		
SENATOR HAGER	✓		
SENATOR MAZUREK	✓		
SENATOR ECK	✓		
SENATOR BROWN	✓		
SENATOR HIRSCH	✓		
SENATOR BISHOP	✓		
SENATOR HALLIGAN, VICE CHAIRMAN	✓		
SENATOR McCALLUM, CHAIRMAN	✓		

Each day attach to minutes.

SENATE Taxation COMMITTEE

BILL SB 66 SB 383 SB 381 VISITORS' REGISTER DATE 3-3-87

Please note bill no. (check one)

NAME	REPRESENTING	BILL #	SUPPORT	OPPOSE
Stephen R Granzow	Meadowlark Search	383	✓	
Donald Ude	CENEX	383	✓	
W.W. Ballard	Balcron	383	✓	
Janelle Fallan	Mt Petroleum	383	✓	
Hershel Robinson	Oil Gas & Coal Counties	66		✓
"	" " " "	383		✓
Tony Wiem	Montana Power		✓	
Pete Madison	Entech Oil Division	383	✓	
William Duffield	Patton Co.	383		✓
Gordon Morris	MACo	381		✓
Eric Feaver	MEA			
Lynn Chenoweth	DOR	66, 383		
Ward Shanahan	Chevron	383	✓	
Sharon M [illegible]	UM administration	643	✓	
Jim Nugent	City of Missoula	SB 381		✓
Stuart Doggett	Mt. Chamber of Commerce	SB 387	✓	
Terry Minow	MT Fed Teachers			
Alec Hansen	MLCT	381		✓
Jerome Anderson	Shell Oil	383 66	✓	
Mike Micone	WETA	383 66	✓	
Jack Paden, Jr.	Norfolk (Tricentrol)	383 66	✓	
Doug Abelin	Mont Oil & Gas Assoc	383 66	✓	

PLEASE LEAVE PREPARED STATEMENT WITH SECRETARY

AMENDMENT TO SB 66

1. Title, line 8.
Following: "PROVIDING"
Insert: "A RETROACTIVE APPLICABILITY DATE AND AN IMMEDIATE"
Following: "EFFECTIVE"
Strike: "DATES"
Insert: "DATE"

2. Page 1, line 19.
Following: line 18
Strike: "from any lease"

3. Page 1, lines 23 and 24.
Following: "~~production~~" on line 23
Strike: remainder of line 23 through "1986" on line 24
Insert: "from any well that has not produced natural gas, petroleum, or other crude or mineral oil during the 5 years immediately preceding the first month of qualified new production"

4. Page 2, lines 11 through 15.
Following: line 10
Strike: section 3 in its entirety
Insert: "NEW SECTION. Section 3. Applicability -- effective date. This act is effective on passage and approval and applies retroactively, within the meaning of 1-2-109, to production of natural gas, petroleum, or other crude or mineral oil from any well after December 31, 1986.

Gomez/tpg/7029b.txt

SENATE TAXATION
EXHIBIT NO. 1
DATE 3-3-87
BILL NO. SB-66

TELEPHONE 259-7860
AREA CODE 406

845 12TH STREET WEST
P. O. BOX 20174

BALCRON OIL COMPANY

BILLINGS, MONTANA 59104

W W BALLARD W R CRONOBLE

March 2, 1987

Senate Taxation Committee
Capitol Station
Helena, MT 59620

Geologically speaking, Montana is a tremendous area in which to explore for oil and gas. In the 70 year history of the industry in this state, we have produced 1.2 billion barrels of oil and about 1.2 trillion cubic feet of gas, and this production came from exploration efforts in about 2% of our potentially productive area. Our lack of development is principally due to our taxation policies on oil and gas.

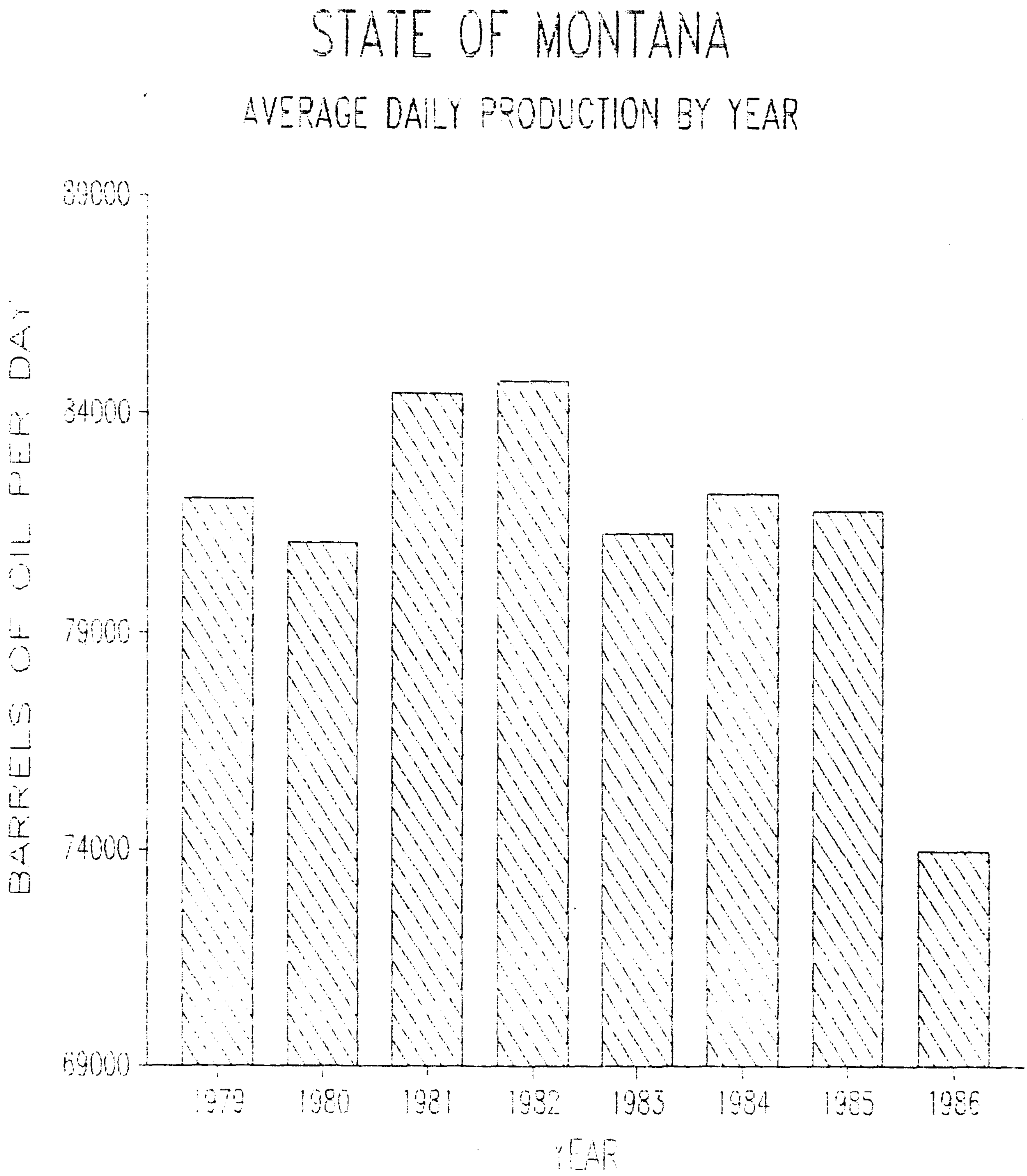
Senate Bill 390, passed in 1985, was the most positive piece of legislation passed during my working life as a Montana independent (which dates back to 1963). This bill made our oil and gas tax structure closer to that in our neighboring states of North Dakota and Wyoming, although we are still higher than either. Both these states, as well as the rest of the producing states in the west, are considering tax incentives during 1987 which are aimed at increasing exploration activity in their area. Unless we do likewise, the Montana independent will again be faced with attempting to bring exploration money into the State under very adverse circumstances.

Montana Oil and Gas Commission statistics show that we have lost 280,346 barrels of oil per month during 1986 as compared to 1985. This loss is due to normal decline and very low drilling activity (Historically, we have drilled enough new wells each year to offset decline.) In addition, this year has seen the abandonment of 379 stripper wells for economic reasons. This will be a significant loss to the State in future tax revenue.

Senate Bill 383 will not affect revenue from existing wells. It will, however, cause new wells to be drilled which will provide net proceeds revenue for most of their productive life. New drilling creates new production, new jobs and therefore new revenue to the State. All Montanans will benefit by passage of this bill.

W. W. Ballard
W. W. Ballard

SENATE TAXATION
EXHIBIT NO. 2
DATE 3-3-87
BILL NO. SB383


STATE OF MONTANA
AVERAGE DAILY PRODUCTION BY YEAR
BARRELS OF OIL PER DAY
89000
84000
79000
74000
69000
1979
1980
1981
1932
1983
1984
1985
1986
YEAR

NAME: Stephen [illegible] DATE: [illegible]

ADDRESS: [illegible]

PHONE: [illegible]

REPRESENTING WHOM? [illegible]

APPEARING ON WHICH PROPOSAL: 383

DO YOU: SUPPORT? ✓ AMEND? ______ OPPOSE? ______

COMMENTS: attached

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY.

SENATE TAXATION
EXHIBIT NO. 3
DATE 3-3-87
BILL NO. SB 383

Meadowlark Search
Oil·Gas·Minerals

STEPHEN R. GRANZOW

March 3, 1987

Senate Taxation Committee

Mister Chairman and Members of the Committee

I am an independent landman, living in Helena. My work in the State of Montana depends on oil and gas exploration.

Work in oil and gas exploration in the State of Montana has been declining rapidly. My work is down to almost nothing in the State of Montana for oil and gas exploration work. The drop of the world wide price of crude oil has had a effect, but is not the only factor in Montana causing the decline.

Oil and gas companies are multi state. The price decline is making companies look closely at every cost in each State before they start exploration and drilling. The cost of drilling is relatively the same through out the Rocky Mountain Area. The costs of the extras(state policies) determine where the next exploration, drilling and possible production will be located. The attractiveness of Montana for oil and gas exploration and drilling is already low due to State Policies.

The number of drill rigs in neighboring States and Canada compared to the number in Montana shows the effect. Some of these States are already working to lower their tax rates even further. Montana must show the oil and gas industry that we are acting aggressively.

Senate Bill No. 383 provides an incentive to the Oil and Gas Industry.

The first 24 month waiver from the net proceeds tax on production from new wells will give a good incentive to the Industry.

Montana has to act or get left further behind in exploration, drilling and production.

The waiver only affects new production. The waiver will not cut existing tax revenues. Existing production will continue to pay severance(except strippers) and net proceeds taxes, in addition to the conservation tax, resource indemnity trust tax and corporate license tax.

I urge you to pass **Senate Bill No. 383.** Creating one element that will bring exploration, drilling and Jobs to the State of Montana

Thank you

Stephen R. Granzow

Stephen R. Granzow

3045 Meadowlark Drive East Helena, MT 59635 (406) 227-5613

SENATE TAXATION
EXHIBIT NO. 3
DATE 3-3-87
BILL NO. SB 383

CENEX • Post Office Box 21479 • 1601 Lewis Ave. • Billings, Montana 59104 • (406) 245-4747

SENATE TAX COMMITTEE
Capitol Building, Helena, Montana
March 3, 1987
SB-383

My name is Harold Ude. I represent CENEX. CENEX is an integrated independent oil company with exploration and production headquarters in the Billings area for more than 40 years. CENEX has been drilling and producing oil and gas in Montana since 1946. At present, CENEX ranks as the 15th largest producer in the state and the 53rd largest oil producer in the nation.

Montana is attempting to be recognized as a natural resources state. To do so, an effort must be made to alert industry that it is wise to make investments here. It is common knowledge that the rate for drilling new holes to locate and produce oil and gas has dropped to historic lows. The national number is currently down 35% from a record low 1986.

Senate Bill 383 rovides the oil and gas industry an incentive to make significant investments in Montana by rewarding success with a 24 month tax reduction. In an

SENATE TAXATION
EXHIBIT NO. 4
DATE 3-3-87
BILL NO. SB383

extremely high risk business the odds are against success; and the investment to participate is large. Prior to drilling a test hole in the ground, every operator must invest time and money to develop a prospect worthy of drilling. Geologic studies occur long before drilling; geophysical money is spent; leases are acquired; and the expense of manpower is constant. These "up front" investments are what makes an oil industry in Montana. By providing the proposed tax incentive for 24 months of the producing phase, the state is encouraging operators to participate in the prospecting process.

As an operator in the Rocky Mountain region, CENEX must weigh the investment and return in each drilling venture in each state. Wyoming has taken steps this year to provide drilling incentives through tax relief. As a Montana based company, CENEX has plans for additional work in our state. Those projects can be increased with the passage of SB-383.

CENEX supports passage of SB-383.

Thank you.

SENATE TAXAT...
EXHIBIT NO. 4
DATE 3-3-87
BILL NO. S.B. 38

NAME: Ward A. Shanahan BILL NO. SB 383

ADDRESS: 301 First National Bank Building, Helena, MT

WHOM DO YOU REPRESENT: Chevron Company

SUPPORT

Good morning. My name is Ward Shanahan, representing Chevron. Thank you for the opportunity to present Chevron's views.

Chevron strongly supports SB 383 and HB 776 - legislation providing for tax holidays for new oil and gas production and tax exemptions for stripper-oil production.

The authors are to be commended for recognizing that economic incentives for oil and gas production are desperately needed during this time of severe depression in the industry. Exploration and development budgets are coming under intense scrutiny and we must allocate our limited financial resources to prospects where the return on investment is the greatest. Reductions in taxes will improve the economics of oil and gas projects in Montana and help ensure that the state remains competitive in attracting investment capital for this industry.

I might also add that our oil and gas industry is very active at the Federal level in seeking incentive legislation that will bolster the nation's productive capacity and help reduce our increasing dependence on foreign oil. By passage of this legislation in Montana, you can help us send a message to Washington that incentives are necessary and that key oil and gas producing states are doing their part by enacting sound energy policies.

Thank you for your consideration.

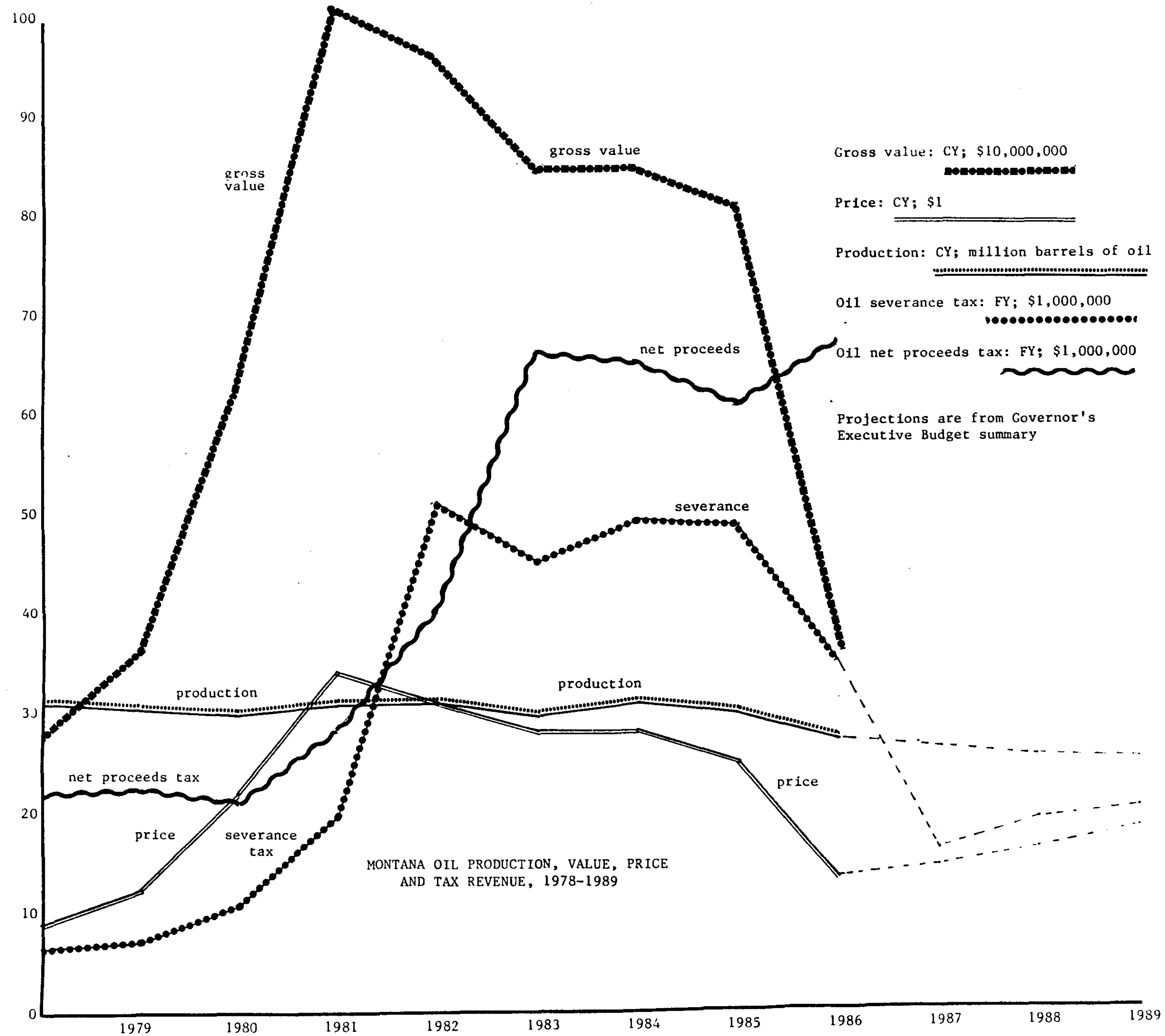
Respectfully,

Ward Shanahan

Ward A. Shanahan
Chevron Company
301 First National Bank Building
P.O. Box 1715
Helena, MT 59624
Tele: (406)442-8560

4258W

SENATE TAXATION
EXHIBIT NO. 5
DATE 3-3-87
BILL NO. SB 383



SENATE TAXATION
EXHIBIT NO. 6
DATE 3-3-87
BILL NO. SB 383
Janelle Fallon

MONTANA PETROLEUM FACT SHEET

PRODUCTION

CY	Bbls.	Gross Value	MCF	Gross Value	Total Wells Drilled
1978	30,934,923	$ 277,737,502	44,615,198	37,342,921	778
1979	30,285,631	362,239,259	50,691,868	60,931,625	822
1980	29,927,468	626,154,711	48,928,608	70,261,481	902
1981	30,517,947	1,052,333,907	44,800,000	85,120,000	1289
1982	30,937,514	963,428,800	50,932,000	107,109,990	816
1983	29,320,418	842,681,933	41,203,000	99,010,809	511
1984	30,668,305	845,919,776	48,499,939	120,949,800	819
1985	29,770,000	808,553,200	44,330,000	98,772,380	592
1986	27,045,000	371,436,030	44,016,000	86,799,552	348

	OIL WELLHEAD PRICE: $/BBL	PRODUCING OIL WELLS	NATURAL GAS PRICE: $/MCF	PRODUCING GAS WELLS	EXTRACTION EMPLOYMENT	SEISMIC CREW MONTHS
1973	3.843	3536	.162	1118	1523	62
1974	6.814	3028	.257	1184	1861	155
1975	7.845	3150	.394	1232	1810	40
1976	8.411	3310	.441	1950	2084	85
1977	8.582	3354	.735	1490	2357	57
1978	9.253	3275	.837	1377	2789	155
1979	12.279	3573	1.202	1881	3383	135
1980	22.250	3628	1.436	2150	4636	202
1981	34.317	3968	1.900	2142	6852	388
1982	31.311	4311	2.103	2069	5482	224
1983	28.804	4675	2.403	2043	3760	156
1984	28.066	4201	2.512	2088	4293	125
1985	25.214	4196	2.329	2033	3357	43
1986	13.734	4036 (est.)	1.972	2006 (est.)	na	na

TAXES

Montana imposes four taxes on oil and natural gas:

A. Severance tax is 5% of the gross value of oil and 2.65% of natural gas.

The revenue is allocated as follows:

1) One-third of the oil severance tax to Local Government Block Grant account for distribution to all Montana cities and counties.

2) A portion of the collections is returned to cities and counties in the oil-producing areas to help them in dealing with impacts. The portion returned varies according to the new production in each county:

FY	OIL	NATURAL GAS
1981	$ 992,488	na
1982	1,644,112	183,789
1983	4,353,485	206,759
1984	1,422,335	509,260
1985	3,087,474	104,910
1986	475,922	106,915

3) The remainder to the state general fund.

The tax rate for incremental oil produced through tertiary recovery after July 1, 1985, is 2.5%.

B. Net Proceeds Tax is calculated on gross value of oil, minus all allowable deductions and multiplied by the local mill levy. The 1985 Legislature set 7% maximum on oil and 12% maximum on gas produced after July 1, 1985, from leases which have not produced during the preceding five years. Therefore, the maximum tax rate on "new" production from a previously non-producing lease will be 12.7% on oil and 15.35% on gas.

C. Resource Indemnity Trust Tax is .5% of gross value of all minerals produced. These taxes are placed in a trust fund to "indemnify the state against damage to the environment from the extraction of non-renewable natural resources."

	SEVERANCE TAX		NET PROCEEDS TAX		RESOURCE INDEMNITY TRUST TAX	
FY	OIL	NATURAL GAS	OIL	NATURAL GAS	OIL	NATURAL GAS
1980	$10,544,555	$1,264,025	$21,011,951	na	$1,828,947	$355,054
1981	19,578,172	2,116,291	28,663,376	na	3,328,426	419,647
1982	51,073,425	2,659,811	40,868,506	na	5,308,525	491,832
1983	45,228,535	2,649,726	66,160,884	na	4,783,438	522,396
1984	49,029,017	2,797,996	65,610,580	$11,976,791	4,279,714	589,348
1985	48,789,984	2,945,778	60,819,000	14,220,000	4,204,763	627,504
1986	34,728,749	2,890,666	67,220,584	14,771,771	3,913,955	583,961

D. Conservation Tax: The Board of Oil and Gas Conservation levies a tax to support its own operations. The tax is .2% of gross value. It yielded $753,000 in FY 1985 and $631,000 in FY 1986.

On the average, local governments spend 60% of these funds for education, 8% for city operations, 23% for county operations, and 6% for fire and other special districts. About 3% is returned to the state to support the university system.

Information compiled January, 1987, from:

Montana Department of Revenue annual reports
Governor's Budget Office reports
Montana Oil and Gas annual reviews
"The Petroleum Industry in Your State," Independent Petroleum Association of America

Compiled by: Montana Petroleum Association
Helena, Montana
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INDEPENDENT

WEDNESDAY AFTERNOON
February 18, 1987
Helena, Montana
Vol. 43 No. 89

Single copy 35¢

'Long gas lines will return'

WASHINGTON (AP) — Americans will face long lines for gasoline in two to five years unless new domestic oil fields are developed, Interior Secretary Donald P. Hodel predicted today.

Hodel, appearing on the NBC-TV "Today" show, said an energy crisis similar to the one that gripped the country in 1973-74 after OPEC imposed an oil embargo is "almost a certainty" if depressed domestic production does not pick up.

The crisis will strike "within two to five years, and the reason for that is the dramatic reduction in American production of oil."

"We've lost over 800,000 barrels a day of production in the United States," Hodel said. "Our imports are approaching a million barrels a day more than they were just a year ago."

About 39 percent of the oil used in the United States is imported. Hodel said this is a larger percentage than was the case in 1973.

What's causing the problem, he said, is cheap foreign oil.

Although he acknowledged that low prices have aided motorists and helped fuel the economic recovery, he said the country ought to enjoy cheap gasoline while it lasts because it won't be around for very long.

"The more we count on" low prices, "the more likely it is that we'll be in gas lines sooner rather than later."

SENATE TAXATION
EXHIBIT NO. 6
DATE 3-3-87
BILL NO. S.B. 383

MONTANA DRILLING RIG COUNT BY WEEK

WEEK OF		1987	1986	1985
February	20	5	19	17
	13	5	18	20
	6	6	19	18
January	30	7	21	33
	23	3	23	26
	16	5	28	30
	9	8	27	33
	2	12	25	31
December	19		10	22
	12		9	21
	5		15	25
November	26		12	23
	21		12	23
	14		12	21
	7		9	19
October	31		9	16
	24		10	17
	17		9	19
	10		5	14
	3		5	18
September	26		5	27
	19		3	20
	12		2	19
	5		NA	NA
August	29		6	20
	22		5	18
	15		4	24
	8		5	27
	1		3	28
July	25		2	28
	18		2	31
	11		0	32
	3		NA	NA
June	27		5	27
	19		6	21
	12		7	22
	5		7	20
May	29		6	20
	22		5	20
	15		7	25
	8		8	23
	1		7	22
April	24		7	19
	17		10	19
	10		11	19
	3		12	22
March	26		13	23
	20		11	25
	13		12	25
	6		14	23
February	27		18	19

from: Montana Oil Journal

compiled by Montana Petroleum Association

SENATE TAXATION
EXHIBIT NO. 6
DATE 3-3-87
BILL NO. S.B. 383

Testimony in Opposition to Senate Bill 66 and Senate Bill 383

Presented by Hershel M. Robbins, Representing the Association of Oil, Gas, and Coal Counties.

March 3, 1987 before Senate Taxation Committee

Mr. Chairman and Members of the Committee:

I am Hershel Robbins, representing the Association of Oil,Gas and Coal Counties and I rise in opposition to Senate Bill 66 and Senate Bill 383 that are both being heard in committee this morning. I will at this time for the record just oppose S.B. 66 but will present my full testimony in opposition during the hearing on SB 383 which will apply to both bills.

The counties represented in our association do certainly support the concept of increased oil production in our state. The problem is not in increasing the production but one of inflicting a two year moratorium on the net proceeds tax that would just be another burden on county government that they can't afford at this time. The revenues already lost in the form of federal and state entitlements coupled with this further erosion is just too much to bear at this time of shrinking revenues.

This bill leaves several problems unresolved that are important to the counties revenue figures such as what if an oil well has been abandoned or plugged does the reopening of this well constitute new production and therefore not subject to the net proceeds tax? And in the event of a sudden escalation in the price of oil then how would the counties make up the revenues lost on this price increase under the moratorium period as proposed in this bill. My association feels the counties just can't absorb these losses and therefore we go on record in opposition to SB66 and SB383 and ask the committee to give it their full consideration.

SENATE TAXATION
EXHIBIT NO. 7
DATE 3-3-87
BILL NO. SB 383

AMENDMENTS TO SB 381

1. Title, line 4.
Following: "ON"
Strike: "REAL"
Insert: "CLASS 4 AND CLASS 12"

2. Page 1, line 10.
Following: "value."
Strike: "Land"
Insert: "Real estate"
Following: "improvements"
Insert: ", as defined in 15-1-101,"
Following: "under"
Strike: remainder of line 10 through "6" on line 11
Insert: "15-6-134 or 15-6-142"

7062b/c:JEANNE\WP:jj

SENATE TAXATION
EXHIBIT NO. 8
DATE 3-3-87
BILL NO. SB-381