

MINUTES

MONTANA SENATE 52nd LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By Senator Mike Halligan, Chairman, on April 3, 1991, at 8:00 a.m.

ROLL CALL

Members Present:

Mike Halligan, Chairman (D)
Dorothy Eck, Vice Chairman (D)
Robert Brown (R)
Steve Doherty (D)
Delwyn Gage (R)
John Harp (R)
Francis Koehnke (D)
Gene Thayer (R)
Thomas Towe (D)
Van Valkenburg (D)
Bill Yellowtail (D)

Members Excused: None

Staff Present: Jeff Martin (Legislative Council).

Please Note: These are summary minutes. Testimony and discussion are paraphrased and condensed.

Announcements/Discussion: None

HEARING ON HOUSE BILL 982

Presentation and Opening Statement by Sponsor:

Representative O'Keefe, District 45, said the bill does two things. It returns tax law to the net and gross proceeds tax on oil, gas and coal as it was in 1989. It also sets the schedules for the foundation program at 3% and 3% for the next biennium. He said the bill is about tax policy and tax fairness. While the proceeds on coal tax increase by 37% over the flat tax, under current law the coal tax will decrease from 25.5% to 22.3% even if this bill passes. The bill can easily be a part of a tax break package for the oil, gas and coal industries.

Proponents' Testimony:

Nancy Keenan, Superintendent of Public Instruction, presented her testimony in support of the bill (Exhibit #1). She reviewed Exhibits #2, #3, and #4 with the committee regarding comparisons of oil, gas, and coal tax revenue over a span of years as it relates to school funding.

Eric Feaver, President, Montana Education Association, said his association has been unhappy with the flat tax since it was implemented. They are still trying to unravel the problems it has caused. Education is an endangered industry. This bill is the only one which includes the foundation program schedules. If this does not pass, he noted, homeowners will have to pay more and more and they are getting tired of more taxes, even for education which they have traditionally supported in this state. He noted the bill does not tax retirement benefits.

Terri Minnow, Montana Federation of Teachers, expressed strong support for the bill and said it is extremely important to the future of Montana schools.

Opponents' Testimony:

Chuck Cox, Unocal, Cutbank, presented his testimony in opposition to the bill (Exhibit #5).

Patrick Montalbin, President, MSR Exploration Ltd., presented his testimony in opposition to the bill (Exhibit #6).

Larry Salmonsens, Westmoreland Coal Miner, said he opposed the bill on the basis of jobs and mining costs. He presented several pieces of material regarding employment statistics and production (Exhibit #7).

Duane Ankney, a coal miner from Colstrip representing SOS, said he opposes any additional tax which affects the sale of coal and the impacts on the workforce.

Larry Brown, Coal Miner from Forsyth, a businessman in Colstrip and Forsyth, and also representing Forsyth Chamber of Commerce, said businesses and jobs will be adversely affected by this bill. He noted the business community has been on the upswing and jobs have increased since 1989 when the flat tax was enacted. He wondered why we should be concerned about having a well educated workforce when we have no jobs for them.

Shelly Boeckel, Big Horn County Commissioners, expressed opposition to the bill.

Gloria Paladichuk, Richland County Commissioners, said net proceeds is the most unstable of all taxes. She said they have never had to refund flat taxes as opposed to the refund dilemma the net proceeds tax presents. She said the state should be doing all they can to support the gas and oil industry rather than trying to drive them out. She submitted a letter from Lynette Hintze, Executive Director, Richland County Economic Development Corporation (Exhibit #8). ,

Tom Hopgood, Air Transport Association, said the airline industry has been suffering record losses and does not need any more strikes against them. He urged the committee to oppose the bill.

William T. Ballard, President, Balcron Oil, presented his testimony in opposition to the bill (Exhibit #9).

Walt Webb, Tax Manager, Shell Western E & P, and Tax Chairman of the Tax Committee of the Montana Petroleum Association, presented his testimony in opposition to the bill citing the information contained in Exhibit #10.

Janelle Fallon, Executive Director, Montana Petroleum Association, presented written testimony from many opponents who did not have time to present their testimony (Exhibits #11 -#17).

Questions From Committee Members:

Senator Yellowtail said he has a constituent whose taxes increased 83% as a result of HB 28. He asked Mr. Webb why he thinks that is fair.

Mr. Webb replied his increase was 75%.

Senator Yellowtail said this rancher was hit with the 40 mills the oil companies were not hit with and the rancher had no royalties or mineral interests - no connection with oil whatsoever.

Senator Doherty asked Mr. Brown if his taxes had increased in the last two years.

Mr. Brown said they had increased by 35% on production.

Senator Doherty asked if he felt that was fair.

Mr. Brown replied he would rather pay the 40 mills and keep his business.

Senator Towe the tax does not affect new oil.

Mr. Cox said it does affect new oil as the net proceeds is changed every two years. New wells are contingent on old wells generating income and profit that can be reinvested in new well exploration.

Senator Towe said this legislation does not affect any wells after 1985.

Mr. Ballard said this bill will reduce investment capital for new wells. The cash flow for new wells comes from old wells.

Senator Gage asked Rep. O'Keefe if an 8.4% local government severance tax is not a fair share on old oil, why is a 7% net proceeds tax on new oil fair?

Rep. O'Keefe said he would have to refer the question to Senator Towe.

Senator Halligan said the question would be addressed in executive session.

Senator Harp asked what affect the bill has on old coal versus new coal.

Rep. O'Keefe replied that there is an increase in the net and gross proceeds but combined with the coal severance decrease there is an overall decrease. The coal industry will save \$13 million a year with the severance tax going down to 15%. This bill will regain \$4.5 million of that \$13 million. There is an overall decrease for coal of \$8.5 million.

April 3, 1991

Page 5 of 5

Closing by Sponsor:

Rep. O'Keefe said it was not his intention to target railroads and airlines, therefore Section 34 was stricken in the House. Three other bills are addressing this issue and it can be dealt with better by one of those methods.

He said this bill only affects old production. There are incentives for oil and gas and a tax holiday in the bill. This bill helps the little oil and gas producer and in a lot of counties this is the oil and gas industry base for the county. He said he is disappointed that there is only "3 and 3" for education in the bill. He would have preferred the 4.3 and 4.8 as originally proposed. He urged the committee to pass the bill.

ADJOURNMENT

Adjournment At: 9:00 a.m.



SENATOR MIKE HALLIGAN, Chairman

JILL D. ROHYANS, Secretary

MH/jdr

ROLL CALL

SENATE TAXATION COMMITTEE

DATE 4/3/91

52nd LEGISLATIVE SESSION

NAME	PRESENT	ABSENT	EXCUSED
SEN. HALLIGAN	X		
SEN. ECK	X		
SEN. BROWN	X		
SEN. DOHERTY	X		
SEN. GAGE	X		
SEN. HARP	X		
SEN. KOEHNKE	X		
SEN. THAYER	X		
SEN. TOWE	X		
SEN. VAN VALKENBURG	X		
SEN. YELLOWTAIL	X		

Each day attach to minutes.

COMMITTEE ON

DATE

4/3/91

Senate Legislation

HB 982

VISITORS' REGISTER

NAME	REPRESENTING	BILL #	Check One	
			Support	Oppose
James Anderson	Shell Western Exp HP	982		✓
Janella Fallon	Mt Petroleum	982		—
Walter West	Shell Western Exp	982		✓
W. J. Julloch	Meridian Oil Inc	982		✓
W. W. Ballard	Balcran Oil	982		✓
Larry Salmonson	Coal Miners	982		✓
Ken Shultz	Coal Miners	982		✓
W. M. Vaughan	Self	982		✓
Larry (Kore)	Coal Miners	982		✓
Ken Brin	Coal Miner	982		✓
Joe Novario	Coal Miner SOS			
REV MANUEL	CENEX	982		✓
Kay Foster	Business Chamber	982		✓
Kenneth L. Wilborn	Etech	982		✓
Joe M. Olson	Muskegon County Comm	982		✓
Robert Schlegel	Roosevelt - Comm	982		✓
Ward Harnage	Chevron Corporation	982		✓
John A. Alstad	TOKE COUNTY COMM	982		✓
Perry Minow	MFT	982		
Tooke Wilks	MAPP	982	✓	
Clara Paladino	Richland Co - Comm	982		✓
Mike Stoen	Mt Oil Gas & Coal Co.	982		X
Donald Ruge	Mt Oil Coal & Gas Comtee	982		✓
William J. Smith	Fallon Cr Comm.	982		X
Donald Harnage	Poulsen River Co. Comm	982		✓
John L. Branch	Branch Oil & Gas	982		X

(Please leave prepared statement with Secretary)

DATE 3 April 91

DATE 2 April 77
COMMITTEE ON Senate Judiciary Legislation

VISITORS' REGISTER

[illegible]

(Please leave prepared statement with Secretary)

4-3-71

DATE _____
Senate taxation

VISITORS' REGISTER

[illegible]

(Please leave prepared statement with Secretary)

The Office of Public Instruction



Nancy Keenan
State Superintendent

SENATE TAXATION
EXHIBIT NO. 1
DATE 4/3/91
BILL NO. HB 982
State Capitol
Helena, Montana 59620
(406) 444-3095

Testimony of House Bill 982 (O'Keefe)
Senate Taxation
April 3, 1991

As you will recall, in my State of Education address I talked about the need for funding our state's education system at a level that provides Montana students with the skills that they will need to compete in the job market of the 21st century. I also talked about the need for all taxpayers to share in the rising cost of education. I support House Bill 982 because it addresses both of these concerns by providing inflationary increases in our public school foundation schedules and by bringing oil, gas, and coal production back into the property tax base.

The cost of school district general fund budgets rose by 4.7 percent from last year to this year. A school district's general fund budget funds the district's instructional programs and its general operating budget. These budgets rose by 4.7 percent because the residents of Montana believe in our school system and understand the importance of funding education as an investment in the future of our kids, our communities, and our nation. We can expect that general fund budgets will grow by another 4 percent in fiscal 1992 and again in fiscal 1993 because local voters want to maintain the quality of our present instructional programs and are willing to fund their schools at a level that keeps pace with inflation. A 4 percent increase in school district general fund budgets is will cost the taxpayers in Montana roughly a \$23 million in fiscal 1992. Another 4 percent increase in fiscal 1993 will cost these same taxpayers \$46 million over what they are paying in the current school year.

If the state does not provide an inflationary increase for its share of public school funding, its share being the foundation program, then the local taxpayers will bear not only their local share plus inflation on that local share, but they will also have to bear the inflationary costs that the state does not cover through the foundation program. So, in order to protect the oil, gas and coal industry against tax increases this year, next year, and in future years, we are asking the local taxpayers, the homeowner, the farmer, the rancher, and the main street business to carry the burden.

How much money are we talking about in this 40 mill levy for schools? We are talking about \$13-13.5 million per year. For coal producers 40 mills equates to a 13 cent increase per ton or a 1.8 percent increase. For oil producers, we are talking about a 38

cent increase per barrel of oil or a 1.6 percent price increase. For gas producers, 40 mills equates to a 4 cent increase in the price per MCF or a 2.14 percent increase in natural gas prices.

There has been extensive discussion in the Montana legislature about the appropriate tax level for energy producers. We passed "incentives" in the 1985 and 1987 legislative sessions to encourage oil production in Montana. What was the result? The result has been a steady decline in oil production in Montana as the figures from the Board of Oil and Gas Conservation indicate. The production figures for Montana serve to remind us that, tax incentives or not, energy production in this state is determined by the international market for oil, gas and coal. The price of oil goes up on the international market, and oil production goes up with it. As our recent experience in the Persian Gulf has shown us, the price of oil can easily fluctuate by a dollar or five dollars per day. How can we expect that a 38 cent increase in the cost per barrel of oil in Montana is going to affect oil production when the day to day swings in the international oil market are so much greater than the taxes that we are imposing here in Montana?

We hear from the energy industry that they want stability and predictability in the state tax system. They had a fair amount of both under the net and gross proceeds systems. The net proceeds tax was first imposed on oil production in Montana in 1921. That taxation system remained in place for 68 years before the legislature decided, in the very difficult special session in 1989, to get rid of the net proceeds system of taxation. Under the net proceeds system, oil and gas producers understood how they would be assessed and they also understood that they would be subject to the same property tax increases that every other taxpayer in their communities were subject to. While their taxes were not constant, they were predictable in that they generally reflected some rate of inflation in financing local governments and schools.

We need to have a tax system that allows for changes in technology and encourages investment in new technology. I believe that the net proceeds system does more to encourage investment than does the flat tax system. The net proceeds system allows producers to deduct production costs from the gross value of oil and gas production to compute the taxable value. While defenders of the oil and gas industry are fond of telling us that they pay on 100 percent of value, the committee needs to understand that they will pay on 100 percent of net proceeds after the production costs have been deducted. By allowing producers to deduct the costs of production, the net proceeds system encourages or at least does nothing to discourage capital investments.

During this session, legislation has been proposed to encourage production by reducing the state severance tax rate (from 5 to 4 percent) and cutting the local government severance tax rate in half for oil produced from secondary recovery projects (a process of flooding the wells with water or gas to increase the pressure) and from horizontally drilled wells. If we were still

under a net proceeds system, oil producers could deduct the cost of these capital investments, and the tax would be imposed on the net revenue remaining. The legislature would not and should not be involved in setting tax rates based on the kind of production technology used. We tax ranchers per head of livestock. Can you imagine if we varied the rate on livestock based on the kind of barn that they were housed in or timber based on the kind of saws that are used. Why not have a tax system that allows the deduction of production costs and lets the producers chose the most efficient means of production?

Under the net proceeds system, the less productive stripper wells have lower net proceeds relative to the gross value of production. Because of this lower profit margin, they automatically receive a lower effective tax rate. A benefit of the net proceeds tax is that it compensates for various production costs without having to have several different tax rates as we do with the local government severance tax.

Finally, I want to talk about our kids. We as policy makers have to accept that we compete in an international market place. Just as our energy producers are competing against middle eastern oil and Australian coal production, so our children will be competing for jobs and industry against Japanese, European, and Soviet workers in the next century. It is imperative that we provide our students with skills for the future. It takes money to do so and it means that all of Montana's taxpayers contribute toward that tax effort to make it successful. I urge you to pass House Bill 982.

OIL TAXES IN MONTANA - A COMPARISONHOUSE BILL 892

	<u>1992</u>	<u>1993</u>
<u>CURRENT TAX:</u>		
Oil Severance Tax	\$1.08	\$1.06 per barrel
Local Government Sev. Tax	1.68	1.83
Total	\$2.76	\$2.89 per barrel
As a percentage of the price	13.4%	13.4%

TAX UNDER HB 892:

Oil Severance Tax	\$1.08	\$1.06 per barrel
Net Proceeds	1.907	2.077
40 mills	.40	.44
Total	\$3.387	\$3.577 per barrel
As a percentage of the price	15.68%	16.85%

TAX IN NEIGHBORING STATES:

North Dakota	11.5%	(9% for wells after April 28, 1987)
Wyoming	12.5%	

TAX IN MONTANA - NEW OIL:

Montana new oil	\$1.08	\$1.06 per barrel
Flat Tax (1985 act)	1.51	1.49
Total	\$2.59	\$2.55 per barrel
As a percentage of the price	12%	12%

NOTE: The above figures are State wide averages. Local prices and mill levies will vary. The numbers are arrived at by dividing the total projected tax (from the revenue estimating resolution - HJR 24) into the total estimated production (from HJR 24). Due to conversion from calendar year to fiscal year, the dollar amounts may not exactly match the percentages.

Thomas E. Towe
March 22, 1991

TABLE 1
Fiscal Impact
Repeal Local Government Severance Tax
and Gross Proceeds
(In Millions)

	Fiscal 1992	Fiscal 1993	Biennium
Oil	\$28.910	\$30.252	\$ 59.162
Gas	7.754	7.541	15.295
Coal	12.901	12.689	25.590
Total	\$49.565	\$50.482	\$100.047

Proposed Law

TABLE 3
Estimated Net and Gross Proceed Taxes
(In Millions)

	Tax Fiscal 1992	Tax Fiscal 1993	Tax Biennium 1992-93	40 Mills Fiscal 1992	40 Mills Fiscal 1993	40 Mills Biennium 1992-93
Oil	\$32.802	\$34.324	\$ 67.126	\$ 6.817	\$ 7.133	\$13.950
Gas	8.585	8.350	16.935	1.732	1.684	3.416
Coal	12.680	12.472	25.152	4.644	4.568	9.212
Total	\$54.067	\$55.146	\$109.213	\$13.193	\$13.385	\$26.578

Revenue Impact of Net and Gross Proceeds
(without the 40 mills)

OIL
Table 3 \$67.126
Table 1 59.162
\$ 7.964

GAS
Table 3 \$16.935
Table 1 15.295
\$ 1.640

COAL
Table 3 \$25.152
Table 1 25.590
(\$.438)

TOTAL
Table 3 \$109.213
Table 1 100.047
\$ 9.166

Oil Production in Montana

Calendar Years 1980 through 1989

Production
in Millions
of Barrels

35,000,000

30,000,000

25,000,000

20,000,000

1981- Oil severance tax rate @ 5%

1983- Oil severance tax rate @ 6%

1985- Oil severance tax rate @ 5%
Tertiary recovery projects reduced to 2.5%

Stripper wells taxed reduced to 3%
New production taxed @ 7%

1987- 24-month tax holiday from the oil severance tax for
new production and exemption of the first 5 barrels of
stripper production.

12-month tax holiday from net proceeds taxes
for new production.

1989- Eliminated the net proceeds tax.
LGST rates set @ 8.4% for regular oil and 4.2% for stripper wells.

SENATE TAXATION

EXHIBIT NO. 4

DATE 4/3/91

SEN. NO. HX 982

1980 1981 1982 1983 1984 1985 1986 1987 1988 1989

House Bill 982 (O'Keefe)
March 18, 1991

Fiscal 1993 Estimates

	40 Mills Revenue	- - - Tax Year 1992 - - - Estimated Production	Estimated Price	Tax Per Unit
Coal	\$4,644,000	34,473,000	\$7.36	\$0.13
Oil	\$6,817,000	17,809,000	\$23.73	\$0.38
Gas	\$1,732,000	45,622,000	\$1.77	\$0.04
Total	\$13,193,000			

* Price and Production Estimates are from House Joint Resolution 24

Oil Production and Price Data for Montana
Calendar Years 1980 through 1990

	Oil Production (Barrels)	Average Price
1980	29,583,804	\$22.25
1981	30,813,411	\$34.32
1982	30,917,311	\$31.31
1983	29,665,280	\$28.80
1984	30,079,819	\$28.07
1985	29,850,417	\$25.24
1986	27,164,630	\$13.52
1987	25,104,049	\$16.63
1988	23,317,456	\$13.84
1989	20,969,292	\$17.10
1990	19,809,988	----

Sources: Production Data, Oil and Gas Conservation Division,
 Department of Natural Resources and Conservation

 Average Price Data, State Severance Tax Returns,
 Montana Department of Revenue

WITNESS STATEMENT

To be completed by a person testifying or a person who wants their testimony entered into the record.

Dated this 3 day of APRIL, 1991.

Name: CHARLES D. COX

Address: 101 1ST AVE S.E.
CUT BANK, MT

Telephone Number: 873-5502 (Home) 873-4416

Representing whom?

UNOCAL

Appearing on which proposal?

HB 982

Do you: Support? Amend? Oppose? X

Comments:

FURTHER TAXATION OF THE OIL & GAS BUSINESS
COULD RESULT IN THE END OF ALL FUTURE
INVESTMENT BY UNOCAL IN THE STATE
OF MONTANA.

UNOCAL 76

Calculation Record

SENATE TAXATION

EXHIBIT NO. 5

DATE 4/3/91

BILL NO. HB 982

PREPARED BY

CHECKED BY

DATE

PAGE

OF

SUBJECT

W/O/A/F/E NO

GOOD MORNING. MY NAME IS CHUCK COX AND I AM THE PRODUCTION SUPERINTENDENT FOR UNOCAL IN COT BANK. I WOULD LIKE TO ADDRESS A FEW COMMENTS TO THE VERY POSSIBLE CONSEQUENCES THAT COULD RESULT FROM AN INCREASE IN TAXATION TO THE OIL & GAS INDUSTRY, AND/OR THE RETURN TO A NET PROCEEDS TAX, AS IT RELATES TO UNOCAL'S PRESENT AND FUTURE OPERATIONS IN MONTANA.

AS MANY OF YOU ARE AWARE, UNOCAL IS ABOUT TO EMBARK ON THE FIRST MAJOR DEVELOPMENT OF OIL AND GAS IN NORTHWEST MONTANA ~~FOR~~ IN THE LAST TWENTY YEARS. TWENTY YEARS.

THIS DEVELOPMENT COULD MEAN THE INFLOX OF SOME 38 MILLION DOLLARS INTO THE ECONOMY OF MONTANA, AND THE ESTABLISHMENT OF A NEW TAX BASE TO SUPPORT ON GOING STATE AND LOCAL PROGRAMS.

UNOCAL 76

SUBJECT	PREPARED BY	CHECKED BY	DATE	PAGE OF
				W/O/A/F/E NO

OPERATE UNDER MORE ~~FAVORABLE~~ FAVORABLE TAX STRUCTURES. IF WE IN MONTANA CAN NOT COMPLETE WITH OTHER BRANCHES OF THE COMPANY THEN UNOCAL WILL CEASE TO INVEST IN MONTANA, WHICH WILL EVENTUALLY LEAD TO THE LOSS OF UNOCAL'S CONTRIBUTION TO MONTANA'S TAX BASE. IF YOU STRANGLE THE GOOSE YOU WILL LOSE THE GOLDEN EGGS.

ON A PERSONAL NOTE I WOULD LIKE TO SAY THAT ALTHOUGH I AM NOT A NATIVE MONTANAN, I HAVE GROWN TO LOVE THIS STATE IN THE YEAR AND A HALF I HAVE LIVED HERE. I WANT TO STAY HERE, BUT I CANT WITHOUT A JOB. AND WITHOUT UNOCAL I HAVE NO JOB, AS IS THE CASE FOR 18 OTHER UNOCAL EMPLOYEES IN GT BANK. PLEASE CONSIDER THE LONG TERM CONSEQUENCES THAT COULD RESULT FROM THE PASSAGE OF HB 982 OR ANY OTHER BILL WHICH WOULD FURTHER BURDEN THE MINERAL EXPLORATION

INDUSTRIES IN MONTANA. THANK YOU

UNOCAL 76

PREPARED BY

CHECKED BY

DATE

PAGE

OF

SUBJECT

W/O/A/E NO

THIS PROJECT, BECAUSE OF ^{THE} MAGNITUDE OF CAPITAL DOLLARS THAT WILL BE REQUIRED TO DEVELOPE IT, HAD TO HAVE THE APPROVAL OF OUR EXECUTIVE COMMITTEE. ~~WE~~ ^{IN MONTANA} WE HAD TO COMPETE WITH ^{FOR THIS MONEY} EVERY OTHER BRANCH OF THE COMPANY, BRANCHES OF THE COMPANY WHICH OPERATE DOMESTICALLY, AND INTERNATIONALLY, IN TAX CLIMATES MUCH MORE FAVORABLE TO OIL & GAS EXPLORATION.

~~THE ONLY WAY~~

~~ONE OF THE MOST IMPORTANT FACTORS IN THE~~

ONE OF THE MOST IMPORTANT FACTORS, OR SELLING POINT TO THIS PROJECT, WAS THE STABLE ^{TAX RATE, EVEN THOUGH IT} ~~WAS THE~~

HIGHEST ^{OF ANY} ~~IN THE~~ STATE IN THE LOWER 48. ^{AND, ALTHOUGH,}

~~UNOCAL~~ UNOCAL HAS COMMITTED HUNDREDS OF THOUSANDS OF DOLLARS AND EXTENSIVE MAN HOURS TO DEVELOP THIS PROJECT. ANY CHANGE IN ^{THE} TAXATION RATE COULD ^{MANAGEMENT}

JEOPARDIZE THIS PROJECT. UNOCAL WOULD NOT BE AFRAID TO PULL THE PLUG. AND CUT THEIR LOSSES.

UNOCAL 76

SUBJECT	PREPARED BY	CHECKED BY	DATE	PAGE OF
	W O / A F E NO			

ONE OF THE MOST IMPORTANT FACTORS WHICH CONVINCED ~~THE~~ UNOCAL'S MANAGEMENT TO INVEST IN MONTANA WAS THE STABLE TAX RATE, EVEN THOUGH IT IS THE HIGHEST IN THE LOWER 48. BUT UNOCAL IS ALWAYS EVALUATING ONGOING PROJECTS, AND ALTHOUGH UNOCAL HAS INVESTED HUNDREDS OF THOUSANDS OF DOLLARS AND EXTENSIVE MAN HOURS IN DEVELOPING THIS PROJECT, ANY CHANGE IN THE TAXATION RATE COULD JEOPARDIZE THIS PROJECT. UNOCAL'S MANAGEMENT WOULD NOT HESITATE TO PULL THE PLUG ON THIS PROJECT IF IT THOUGHT IT COULD SPEND ITS MONEY BETTER SOMEWHERE ELSE.

UNOCAL 76

SUBJECT

PREPARED BY

CHECKED BY

DATE

PAGE
OF

WO/AFE NO

BECAUSE OF THE PROPOSED
CHANGES TO MONTANA'S TAX STRUCTURE

POSSIBLY

NOT ONLY DOES MONTANA STAND TO LOSE THIS
NEW DEVELOPMENT, BUT IT COULD LOSE ~~FUTURE~~
ANY ~~THE~~ FURTHER INVESTMENT BY UNOCAL
IN OUR EXISTING OPERATIONS. WITHOUT
FURTHER INVESTMENTS IN CURRENT OPERATIONS
WE IN CUT BANK CAN ONLY PRODUCE EXISTING
WELLS, AND THOSE WELLS ARE DECLINING AND
HAVE A FINITE LIFE. THIS MEANS A
DECREASING AND FINALLY NON-EXISTANT
TAX BASE.

~~IF YOU STRANGLE THE GOOSE YOU WILL
LOSE THE GOOSE EGGS.~~

IN CLOSING I WOULD LIKE TO RE-ITERATE
A FEW POINTS. MAJOR DEVELOPMENT PROJECTS
REQUIRE MAJOR INVESTMENT FROM MAJOR
COMPANIES SUCH AS UNOCAL. WITHIN MAJOR
COMPANIES OF ANY KIND, THERE IS COMPETITION
FOR CAPITAL DOLLARS WITH OTHER
PORTIONS OF THE COMPANY WHICH MAY

UNOCAL CREDIT IMPACT & TAX BASE

WITNESS STATEMENT

To be completed by a person testifying or a person who wants their testimony entered into the record.

Dated this 3 day of April, 1991.

Name: Patrick M. Montalban

Address: P.O. Box 250

Cut Bank NH.

Telephone Number: 406 873-2235

Representing whom?

MSR Exploration Ltd.

Appearing on which proposal?

HB 982

Do you: Support? Amend? Oppose? X

Comments:

We have to stop changing the tax
structure for the Oil + Gas industry every
Two years! Oil Companies, Managers and Oil People
cannot budget long term investments on short
term tax structures!! Let's stay with GST
and give the flat tax a chance! Also
don't forget the backbone of the oil industry
in the USA and Montana is the "Stripper Production"
Don't Tax them out of production! Large well
Large Tax Small Well Small Tax!!

Montalban

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

- ①. Name + MSR + Number Wells (30 wells) ~~300~~ We Oppose 9p2
- ② P. Geologist Not Major oil or Gas
- ③ Old Oil Fields + Overthrust Belt. (Jim Elliot)
Lots of oil for Independents
- ④ Consisting on Taxation
Change over last 6 years
- ⑤ Large Well Large Tax, Small well, Small Tax 16.50 / 16! Now
384 makes a difference
- ⑥ Wife Teacher: No change!!
- ⑦ Thank you

64 news of Not
Provided
Deductions changed
last 10 years
Secretary (costs)
Not allowed

SARPY CREEK MINE
MONTHLY TONNAGE

DATE TAXATION
EXHIBIT NO. 7
DATE 4/3/91
HB 982

YEAR	January	February	March	April	May	June	July	August	September	October	November	December	Total
1974	182,498	147,773	331,659	331,928	423,954	323,730	134,503	207,999	196,220	300,087	320,350	298,560	1,457,719
1975	244,313	302,658	302,468	298,437	341,122	360,273	467,165	386,228	314,268	400,012	394,442	343,871	4,047,528
1976	187,850	201,832	453,638	512,543	454,378	411,425	341,073	394,031	435,485	408,021	315,747	340,266	4,083,894
1977	237,394	174,983	417,214	553,967	551,880	417,098	407,097	544,973	470,398	314,437	239,986	224,794	4,530,078
1978	187,100	169,454	403,085	492,054	690,748	522,064	584,611	491,836	397,991	385,282	430,993	192,590	4,554,221
1979	318,008	361,808	363,388	417,317	312,789	465,548	569,872	564,526	524,293	511,985	282,725	213,003	4,905,262
1980	234,908	297,006	250,236	470,309	460,249	498,915	438,336	499,805	489,487	394,317	224,804	166,457	4,424,829
1981	146,024	191,583	254,753	316,230	377,953	388,077	417,796	418,026	387,504	601,683	408,368	259,632	4,167,629
1982	145,714	125,014	165,752	296,040	330,339	404,801	383,450	404,901	461,385	500,188	491,685	159,676	3,868,945
1983	153,812	170,555	170,770	288,822	267,181	287,657	370,102	422,992	468,286	522,011	348,638	149,900	3,620,726
1984	171,248	171,035	235,858	299,555	334,596	377,480	441,700	399,271	239,821	194,375	140,546	86,825	3,112,310
1985	145,505	123,032	123,937	123,562	176,681	146,598	128,446	200,228	235,726	235,645	210,000	189,276	2,038,636
1986	117,730	58,881	46,956	105,516	94,323	131,386	119,398	95,642	167,513	251,044	322,792	299,117	1,810,298
1987	214,647	283,817	190,032	236,421	351,798	203,174	363,971	290,239	324,297	323,662	240,585	295,237	3,317,880
1988	270,425	150,209	57,001	328,691	422,970	445,731	445,788	459,796	358,167	312,184	405,794	318,008	3,974,764
1989	370,953	382,486	190,464	512,757	383,469	407,894	298,747	340,464	343,128	413,329	513,106	340,854	4,497,651
1990	374,957	407,149	226,255										1,008,361
1991													

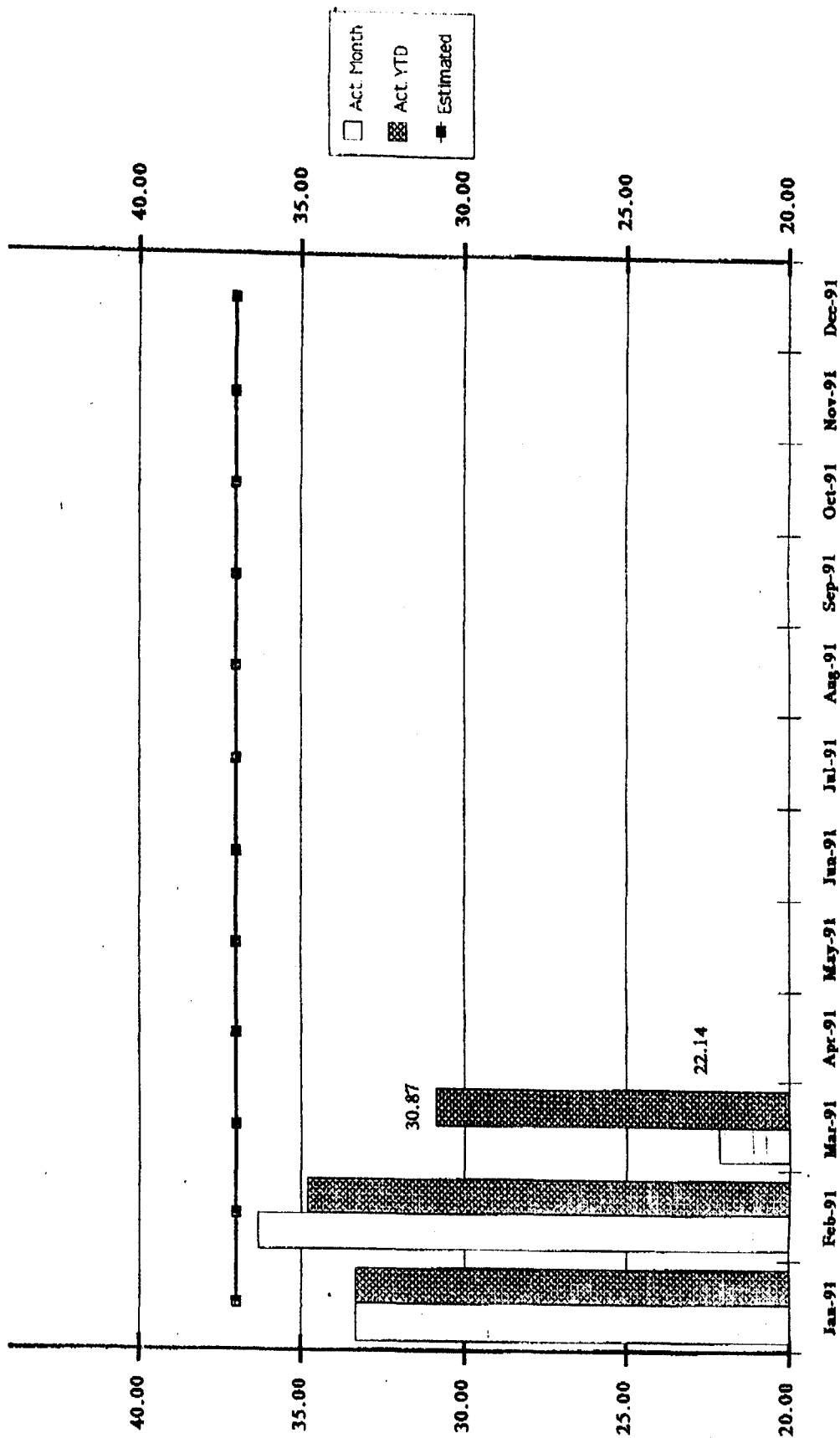
Job Total 64,142,284

Minimum Month	117,730	58,881	46,956	105,516	94,323	131,386	119,398	95,642	167,513	194,375	140,546	86,825	782,106
Maximum Month	374,957	407,149	453,638	553,967	690,748	522,064	584,611	564,526	524,293	601,683	513,106	343,871	4,947,808
Average	217,829	218,781	246,086	349,009	373,402	361,991	367,896	387,738	369,016	380,845	333,396	244,184	3,576,030

To: Larry Salmons

Sarpy Creek Tons Per Man Hour

Mar-91



CLIMATE TAXATION

EXHIBIT NO. 7

DATE 4/3/91

BALE NO. 48983

SENATE TAXATION

EXHIBIT NO

DATE

BILL NO.

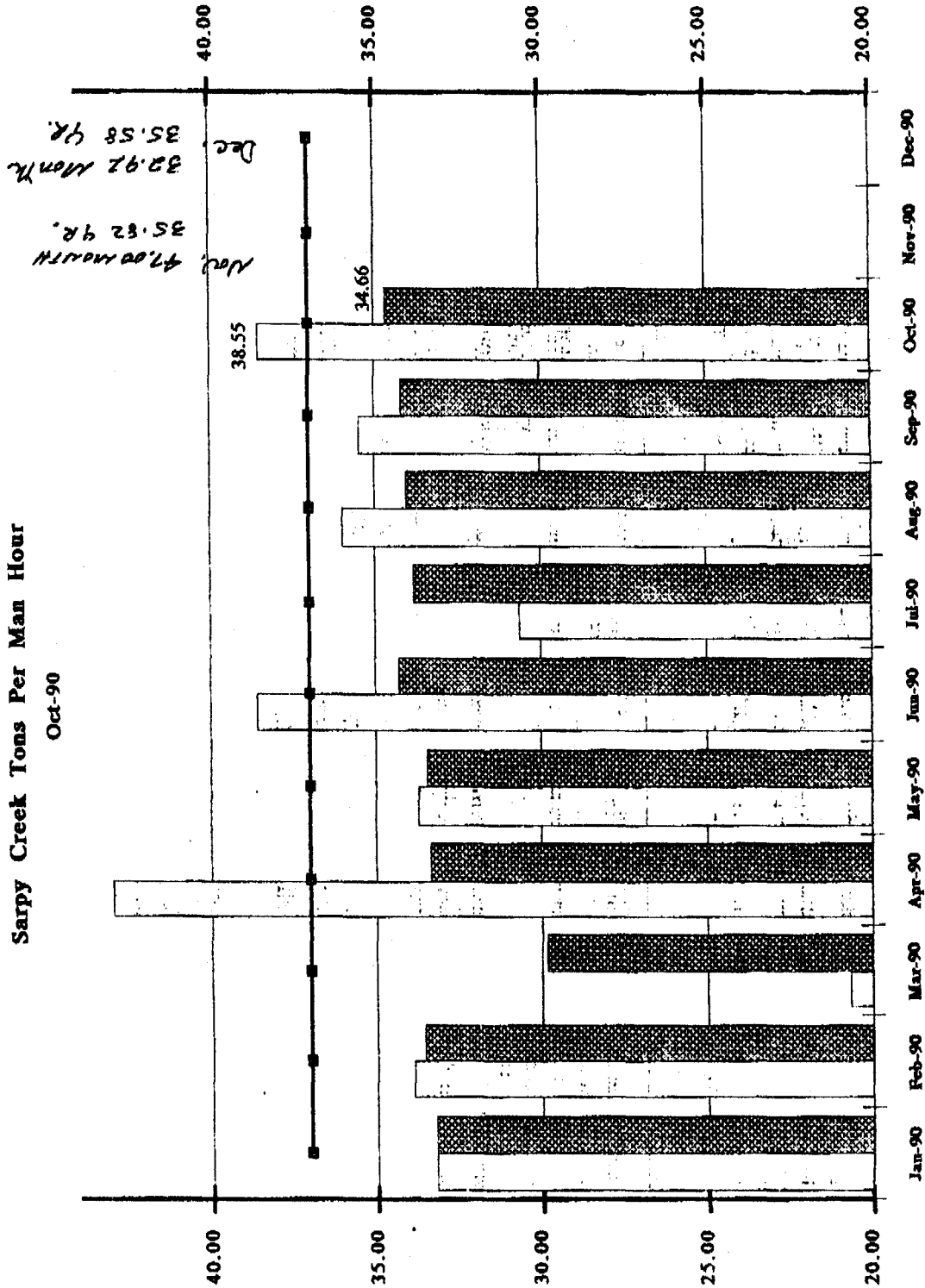
4/3/91

HB 982

To: Larry Salmons

Sarpy Creek Tons Per Man Hour

Oct-90



In February of 1987 the Absaloka Mine had a total craft workforce of 110 people. 7
 In 1986 the mine had shipped 2,038,636 tons and 1,810,298 tons in 1987 and 4/3/91
 all time low since the mine has been in production. BILL NO. 115982

The following eleven people were working at the mine on February 1987:

- 1 Tony L. Stark
- 2 Ramon Rios
- 3 John S. Betts
- 4 David P. Camden
- 5 Douglas M. Stewart
- 6 Larry J. Salmonsens
- 7 Floyd Case
- 8 Duane Steiger
- 9 Robert T. Watson
- 10 Donald C. Weigand
- 11 Robert J. Russell

The following people were hired back after February of 1987:

Hire back Date

- 12 WALTER W. HALEY
- 13 BRUCE WHITE
- 14 CHARLES PATRICH
- 15 DEAN M. BARNES
- 16 RAPHAEL CHAVEZ
- 17 JIMMY L. TUSHKA
- 18 BREWSTER PRETTYONTOT
- 19 JERRY L. METCALF
- 20 CLINTON V. GRAHAM
- 21 GEORGE H. PEASE, JR
- 22 REUBEN STEWART
- 23 JUELL D. DAVISSON
- 24 KENNETH BRIEN
- 25 MICHAEL E. GUST
- 26 MARVIN B. DAWES
- 27 DENNIS R. STEFFAN
- 28 MELVIN PRETTY PAINT

30-Mar-87

30-Mar-87

30-Mar-87

30-Mar-87

30-Mar-87

30-Mar-87

30-Mar-87

30-Mar-87

2-Apr-87

2-Apr-87

10-Apr-87

10-Apr-87

10-Apr-87

10-Apr-87

10-Apr-87

10-Apr-87

10-Apr-87

29 FLOYD WEISSER	10-Apr-87
30 DELMER WHITMAYER	27-Apr-87
31 CHRISTIAN L. SMITH	27-Apr-87
32 BYRON D. DAWES	27-Jul-87
33 LEON B. FLATMOUTH	6-Jul-87
34 CLINTON LAFORGE	6-Jul-87
35 ALVIN SUKO	6-Jul-87
36 DONALD WATSON	21-Oct-87
37 JESS HILL	21-Oct-87
38 MICHAEL HILL	21-Oct-87
39 STEVEN L. SCHINDLER	8-Feb-88
40 CHARLES VANDERSLOOT	8-Feb-88
41 SHANE FORNEY	1-Feb-88
42 ROBERT STOPS	8-Feb-88
43 ADRIAN BIRD	21-Mar-88
44 CHARLES HAUKAAS	6-Feb-89
45 JAMES AUSK	13-Mar-89
46 RANDY REAL BIRD	6-Feb-89
47 NORMAN MORRISON	13-Mar-89
48 GUTHRIE G. BIRD	6-Feb-89
49 FLOYD M. LINK	13-Mar-89
50 LEO W. HARMON	13-Mar-89
51 PAUL SCHUMACHER	13-Mar-89
52 HAROLD PRETTY WEASEL	13-Mar-89
53 JOE PANTOJA	13-Mar-89
54 STEVEN W. KERN	13-Mar-89
55 ISACC SHANE	13-Mar-89
56 VICTOR PITTSCH	12-Jun-89
57 LAWRENCE BIG HAIR	13-Mar-89
58 GERALD R. HARRIS	5-Jul-89
59 AL D. TAKES THE HORSE	5-Jul-89
60 ROBIN WHITE BEAR	6-Jul-89
61 Iran J. Stewart	26-Nov-90
62 Darrell T. Pretty Weasel	26-Nov-90
63 Byron Bird	26-Nov-90
64 Larry M. Whiteman	3-Dec-90
65 Victor Pretty Paint	3-Dec-90

four more Thursday
Apr 14th

GREATER RICHLAND COUNTY

**Economic
Development**
Corp.

123 West Main, Sidney, Montana 59270 — Telephone: (406) 482-4679

SENATE TAXATION

EXHIBIT NO. 8

DATE 4/2/91

BILL NO. HB 982

Senator Mike Halligan
Senate Taxation Committee
Montana State Legislature
Helena, Montana

Dear Senator Halligan,

Please submit the following testimony into the record, in
OPPOSITION of HB 982:

Mr. Chairman and Senate Taxation Committee Members,

My name is Lynnette Hintze, and I work as executive director for the Greater Richland County Economic Development Corporation. Our county is located in the Williston Oil Basin, and there has been considerable oil and gas activity here in years gone by. If Montana's tax climate was more favorable, there would still be considerable oil and gas activity here. A good case in point is that on March 22 of this year, Montana had 4 oil rigs runnings--North Dakota had 15. Last year North Dakota completed 67 horizontal holes, while Montana's portion of the Williston Basin completed 2. The reason for this disparity is because North Dakota has lower taxes on oil and gas than Montana does.

We strongly **OPPOSE** HB 982, on the grounds that this legislation would be disastrous for Richland County. It would force many, many stripper wells with marginal production to shut down, and could also affect the Knife River Coal Mine at Savage, which supplies coal exclusively to the Montana-Dakota Utilities power plant at Sidney. If the mine were to close, the economic impact on the county would be severe, but it would be devastating to the small community of Savage.

Another factor to consider is the collection method of the flat tax versus the net proceeds method. The flat tax is easier to collect, and offers more stability to counties simply because they know exactly what the tax will be. There were many mistakes made under the old net proceeds method because of the difficult collection process.

This bill would be very harmful to areas like Richland County. Frankly, eastern Montana counties like Richland County are sick and tired of being drained financially to support western Montana programs. The western part of the state has so many more resources to draw from than does the eastern portion of the state. We need an equitable tax climate to stimulate more oil and gas activity. According to the Bureau of Business and Economic Research at the University of Montana, a drilling increase of 10 wells would generate about \$1.6 million in added labor and income in the oil and gas industry. When secondary labor income is also considered, that increase in drilling activity of 10 wells would have an ultimate effect on labor income in Montana of nearly \$4 million.

The economic survival of eastern Montana is at stake. Please vote No on HB 982. Thank you.

SENATE TAXATION COMMITTEE

HOUSE BILL 982

TESTIMONY BY W. W. BALLARD

4-3-91

Passage of House Bill 982 would be absolutely devastating to the Montana Oil and Gas Industry. If the fiscal note is correct, this bill raises taxes on an already crippled industry by 30% and comes at a time when price shocks similar to those of 1986 are a strong possibility.

Montana independents generally reinvest 100% of their production income in new drilling ventures. Balcron, for example, over the last four years, invested 117% of its net production income in new wells. The tax increase associated with this bill further reduces ours and other independent's ability to drill new wells, and inasmuch as most new wells in Montana are drilled by independents, exploratory drilling in this state will decrease even more.

In addition to reduction of reinvestment dollars by tax increase, net income is further reduced by significant increases in accounting costs associated with administration of net proceeds taxes. This bill will also require additional manpower for audit purposes, which increases state costs as well.

With less income for drilling, fewer jobs will be available in the industry. The accompanying chart shows employment trends from 1984 through 1990. All jobs included in these numbers are high paying and it would seem to be good government policy to help reverse those trends rather than guaranteeing a continued drop in employment, which HB 982 does, if passed!

With less income from existing production, less money is available for lease bonuses and rentals paid to Montana mineral owners. Income from these sources has helped thousands of Montana farmers and ranchers through troubled times brought on by drought and low farm prices. Passage of this bill not only harms the oil and gas industry, but it also removes access to much needed sources of income from a group of people who need it most!

A second chart is presented which shows production trends from 1978 through 1990. Note that Montana's oil production was relatively stable at around 30 million barrels per year from 1978 to 1985. Because of a decrease in wells drilled, we now produce less than 20 million barrels per year, and this has cost the state over 100 million dollars in lost tax revenue.

Senate Taxation Committee
House Bill 982
Testimony by W. W. Ballard
4-3-91
Page 2

Proponents of this bill point to additional money for schools and other services if the bill becomes law, but the state will take tremendous losses in the long run from the decreased production and decreased employment that will inevitably result.

In summary, this Bill is a disincentive that will result in decreased drilling activity, decreased employment, decreased money for schools, premature plugging of wells, less lease money for farmers and ranchers and accelerated production declines. I urge you to keep the net proceeds method of taxation where it presently is and VOTE NO on HB 982.

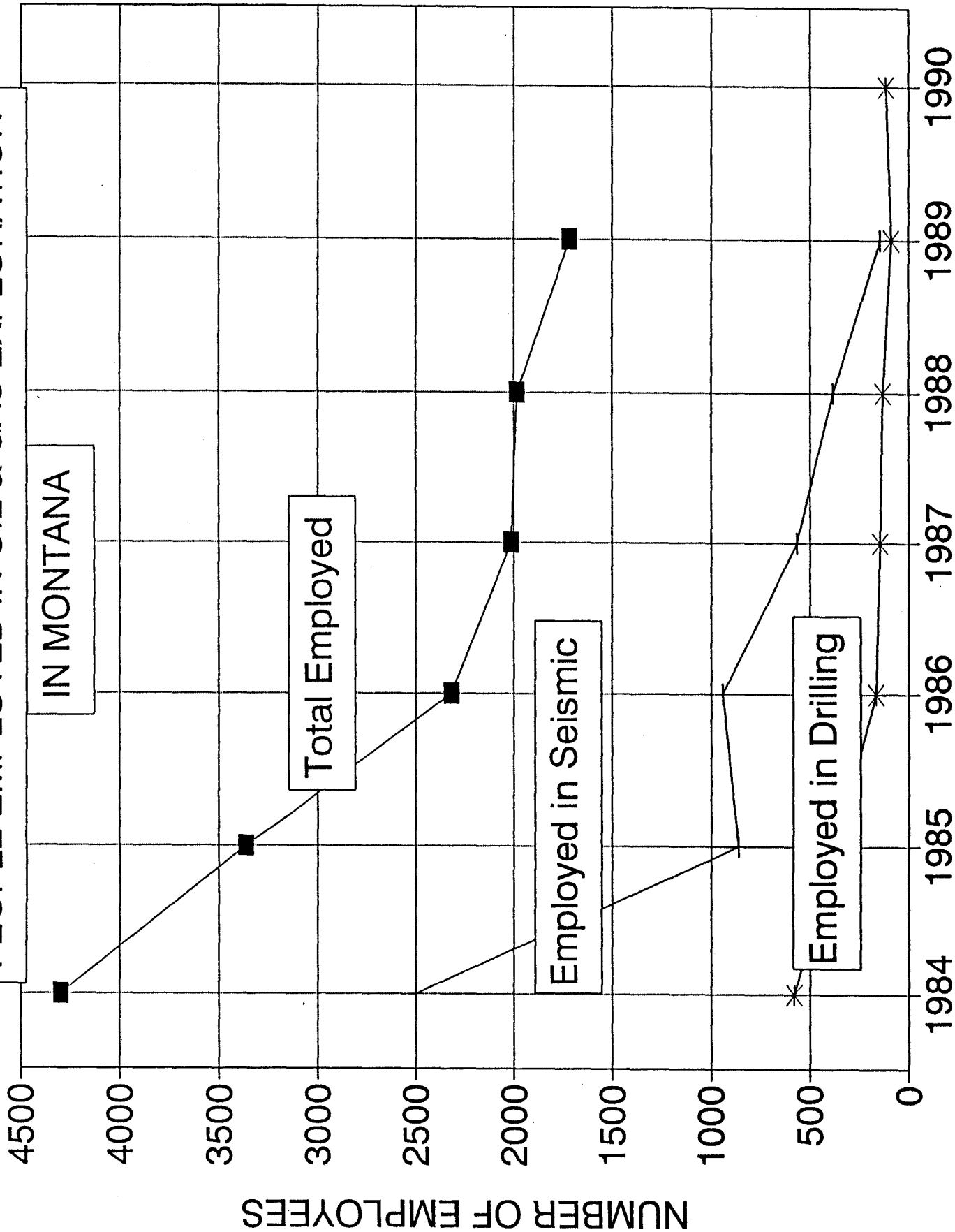
PEOPLE EMPLOYED IN OIL & GAS EXPLORATION

IN MONTANA

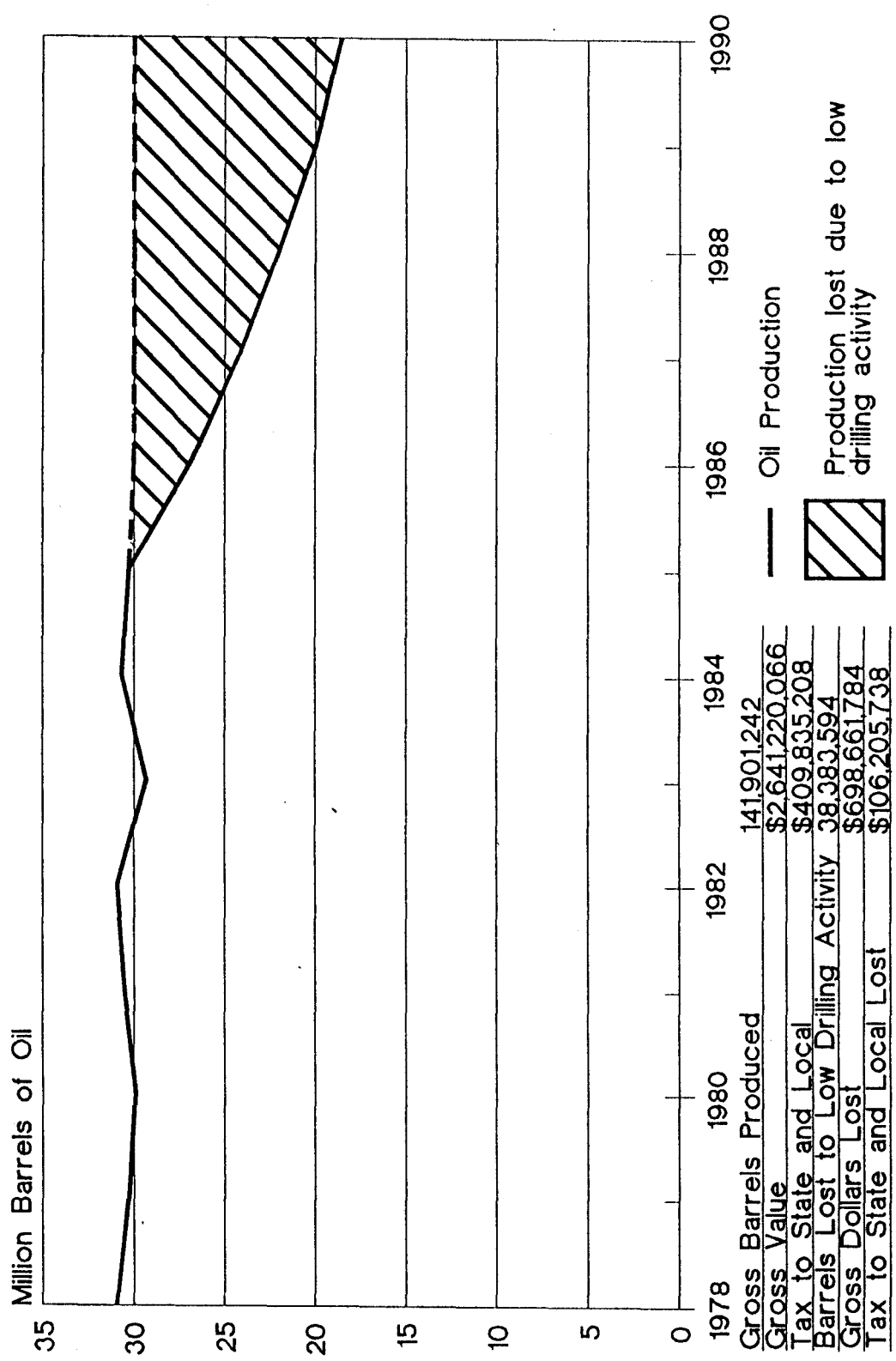
Total Employed

Employed in Seismic

Employed in Drilling



Ex. 4.1



1985 thru 1990

1978	1980	1982	1984	1986	1988	1990
Gross Barrels Produced			141901242			
Gross Value			\$2,641,220,066			
Tax to State and Local			\$409,835,208			
Barrels Lost to Low Drilling Activity			38,383,594			
Gross Dollars Lost			\$698,661,784			
Tax to State and Local Lost			\$106,205,738			

HB 982
 OIL & GAS INDUSTRY FISCAL ANALYSIS

ASSUMPTIONS:

1. Oil Prices (Montana) average \$20/bbl for '91 Production;
\$21/bbl for '92
2. Gas Prices (Montana) average \$1.50/mcf for '91 Production;
\$1.61/mcf for '92
3. Total "old" oil volumes projected to be 16,324,810 bbls for
'91; 15,182,070 bbls for '92.
4. Total "old" gas volumes projected to be 39,330,000 mcf's for
'91; 37,363,500 mcf's for '92.
5. Average mill levy (including the 40 mills increase) used to
calculate taxes under net proceeds is 221.79

1991:

	<u>LGST</u>	<u>Net Proceeds</u>	<u>Increase</u>
Oil	\$27.198 mm	\$37.297 mm	\$10.099 mm
Gas	<u>7.860 mm</u>	<u>9.229 mm</u>	<u>1.369 mm</u>
	35.058 mm	46.526	11.468 mm
	HB 982 est.		<u>13.272 mm</u>
			(1.804) mm

1992:

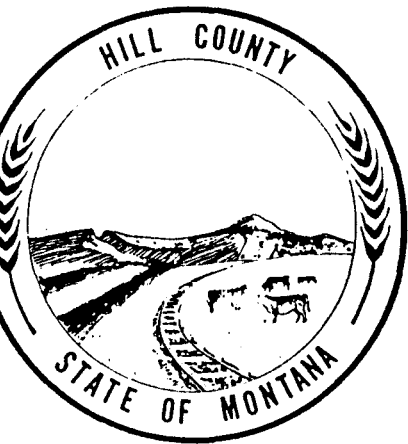
	<u>LGST</u>	<u>Net Proceeds</u>	<u>Increase</u>
Oil	\$26.559 mm	\$36.649 mm	\$10.090 mm
Gas	<u>8.015 mm</u>	<u>9.375 mm</u>	<u>1.360 mm</u>
	34.574 mm	46.024 mm	11.450 mm
	HB 982 est.		<u>13.698 mm</u>
			(2.248) mm

EFFECTIVE RATES OF TAX *

<u>Oil:</u>	<u>LGST</u>	<u>Net Proceeds</u>	<u>% Inc.</u>
Reg. Producer	8.4%	10.67%	27.0%
Stripper Producer	4.2%	6.86%	63.3%
Royalty Owner	12.5%	22.10%	76.8%
<u>Gas:</u>			
Reg. Producer	15.25%	15.75%	3.3%
Stripper Producer	10.00%	13.15%	31.5%
Royalty Owner	15.25%	22.18%	45.4%

*Actual Rate of Tax Expressed as a Percentage of Gross Revenue

Montana Petroleum Association, April, 1991



COUNTY OF HILL

STATE OF MONTANA
Havre, Montana 59501

SENATE TAXATION

EXHIBIT NO. 11
DATE 4/3/91
BILL NO. HB 982

Nora Nelson, Chairman
Kathy Bessette, Commissioner
Lloyd Wolery, Commissioner
[406]265-5481 Ext. 27

April 2, 1991

Mr. Chairman and Members of the Senate Taxation Committee:

As members of an Oil and Gas County, we, the Board of Hill County Commissioners, vehemently oppose House Bill 982 or any legislation which restricts oil and gas exploration in our County or our State.

We feel that we need to promote this industry rather than hinder production.

There may be a few detriments to killing this bill, but it is our opinion that the long range benefits in opposition far out weigh any negatives.

We urge you to oppose HB 982.

Sincerely,

Nora Nelson
Nora Nelson, Chairman

Kathy Bessette
Kathy Bessette, Commissioner

Lloyd Wolery
Lloyd Wolery, Commissioner

W. M. VAUGHEY, JR.

P.O. BOX 46
HAVRE, MONTANA 59501-0046

(406) 265-5421

April 1, 1991

SENATE TAXATION

EXHIBIT NO. 13

DATE 4/3/91

BILL NO. HB 982

The Honorable Mike Halligan, Chairman
Senate Taxation Committee
Montana State Senate
Capitol Station
Helena, MT 59620

RE: Testimony in opposition to House Bill 982

Dear Senator Halligan:

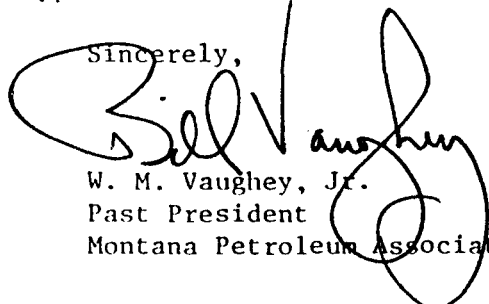
It is with sadness that I come before you to testify in opposition to HB 982. I have devoted the great majority of my adult years to exploration for gas and oil here in Montana. Through the middle and late 1980's, I saw our legislature pass a suite of measures which in a marked way served to encourage investment of the petroleum exploration dollar in Montana.

The sadness I feel originates from the fact that House Bill 982 in one fell swoop would undo all the good that was accomplished during the '85-'87 and '89 legislatures.

There are no winners with this bill. The producing counties as well as the landowner associations of the state have come out in sharp opposition to this measure in the House. Undoubtedly that is why the bill passed that body by only one vote.

If the 1991 legislature is interested in seeing the petroleum potential of our state evaluated and realized, House Bill 982 must be defeated. I urge your committee members to vote in opposition to this ill-conceived measure.

Sincerely,



W. M. Vaughey, Jr.
Past President
Montana Petroleum Association

WMV/blp

✓cc: Balance of Members of the Senate Taxation Committee

SENATE TAXATION

EXHIBIT NO. 13

DATE 4/3/91

BILL NO. HB 982

Mr. Chairman, and members of the Taxation Committee,

My name is Gerald Himelspace. I am a Powder River County Commissioner, I have served 6 years and was currently elected to a second term. I own and operate a ranch in Powder River County and pay property taxes.

Also, I am a Director on the Oil, Gas and Coal Counties Board and I serve on the Board of Directors of Montana Association of Counties and am District # 3 Chairman of MACO.

I am present here this 3rd day of April, 1991 to go on record opposing House Bill 982.

Powder River County has only a oilfield subject to net and gross proceeds. We have no current coal developement. We have no railroads or airlines.

In reading the fiscal note for H.B. 982, the effect on oil and gas counties would decrease local government revenues by \$740,807.

We were adversely affected by H.B. 28, the school funding bill passed in the 1989 special Legislative session. Our 1990 - 1991 levies reflect the largest increases in the state. And we now have the second highest county levy in the state.

As Powder River County Commissioners we feel we cannot impose more increases on property tax to pick up the decrease of local government revenues in H.B. 982.

We support leaving the flat tax oil fee in place. How can you support changeing taxing structures every two years and expect business' to stay in Montana.

We support giving the flat tax oil fee time to develop and enhance furture oil and gas fields.

Thank you, Mr. Chairmand and members of the Committee.

CURTIS C. MOXLEY
Commissioner

ARTHUR KLEINJAN
Commissioner

KEITH BENSON
Commissioner

LUCILLE T. OEHMCKE
Clerk and Recorder

SHIRLEY GRUBB
Treasurer

SHELLIE MC MASTER
Assessor

R.G. OEHMCKE
Justice of Peace



SENATE TAXATION
EXHIBIT NO. 15
DATE 4/3/91
BILL NO. HB 982
LEONARD H. LANGEN
District Judge
KAY O'BRIEN JOHNSON
Clerk of Court District #17
DONALD A. RANSTROM
County Attorney
JOHN W. HARRINGTON
Sheriff and Public Administrator
CAROL L. ELLIOT
Superintendent of Schools
MARVIN A. EDWARDS
Coroner
B.W. MC GUIRE
Justice of Peace

BLAINE COUNTY

Chinook, Montana 59523

April 1, 1991

Mr. Chairman and Members of the
Senate Taxation Committee

The Blaine County Commissioners are writing this testimony
in opposition of House Bill 982.

We are the major gas producing county on the Hi-Line. In 1984, gas and oil made up 70% of our valuation of \$44 million plus, and in 1990 gas and oil is about 45% of \$27 million. This is a combination of price decline and production decline. With these statistics, it is of utmost importance that Blaine County continue to support drilling activity on the Hi-Line.

This bill would bring us a small increase in revenue on the short term due to it's structure. We should look at a long term plan which will encourage exploration and production. It is not in the best interest of the taxpayers to kill one of the few remaining industries that Montana has.

In closing, we urge you to kill this bill.

BLAINE COUNTY COMMISSIONERS

Curtis C. Moxley Chr.
Arthur Kleinjan Comm.
Keith L. Benson Comm.

JERRY L. BRANCH. PRESIDENT
BRANCH OIL & GAS, SHELBY, Montana.

SENATE TAXATION
EXHIBIT NO. 15

DATE

4/3/91

BILL NO.

HB 982

I. INTRODUCTION

1. Name, affiliation, profession.
2. Strictly a Montana Corp for 25 years.

II. HISTORY OF OLD NET PROCEEDS LAW & EFFECTS

1. Net Proceeds is what the name implies: $\text{Gross Proceeds} - \text{Deductions} = \text{Taxable Value}$.
2. Net Proceeds was not an effective workable tax method. It allowed the opportunity for cheating & misinterpretation from both sides.
3. A few companies took advantage of deductions & the DOR under the Schumaker Admin. allowed bureaucratic mischief.
4. A host of promotional audits in 1984 resulted in lawsuits, & controversy.
5. These audits disallowed established deductions, & ignored

State statutes - going back 10 years.

8. These audits had massive Subsid liabilities.

9. The controversy destroyed industry's confidence in Montana.

III, RESULTS OF THE NET PROCEEDS CONTROVERSY

1. Majority of Oil & Gas Companies pulled out of Montana - the few left curtailed exploration drastically

2. Tax \$- from Oil & gas decreased by 30% in the last years

3. Wyoming & N. Dakota = mini boom Montana - 3 rigs running today.

VI THE FLAT TAX

1. Last Session, the legislature replaced the old NPT w/ the Flat Tax. Backed by both the DER & industry.

2. It was revenue neutral & left no room for mischief from either side.

3. Greatly limits audits, lawsuits
& controversy - it saved the state
money.

4. It has started to renew industry
confidence in Montana.

IV, THEN WHY IS THIS BILL

BEING SUBMITTED? ASK YOURSELF

- we know {
1. The old net proceeds tax did not work
 2. The new flat tax is working.
 3. So why are we trying to fix something that's not broken?
 4. Even worse we breaking something that is working.

V, The VOTERS OF MONTANA

1. The Voters Of Montana - want a legislature that works & votes for the good of Montana as a whole
2. The Voters Of Montana - are not stupid & do not want Montana hamstrung by Partisan Politics.
3. The Voters Of Montana - do not want an extended session caused by political football.

4. The Voters Of Montana do not want a political super bowl in Helena when they are the pigskin & every body loses.

5. The Voters Of Montana - realize that rabid partisan politics is simply white collar sabotage.

6. The voters Of Montana - ask to you, as their representative, ~~not~~ ~~consider~~ ~~you~~ to place the loyalty to your state beyond the loyalty of your party on this bill.



OIL AND GAS PRODUCERS

JERRY CROFT, PRESIDENT

PETROLEUM CO.

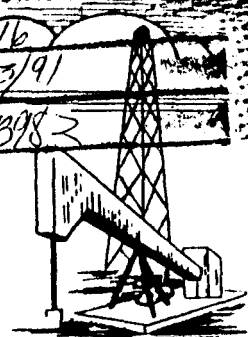
PETROLEUM CENTER BUILDING
214 NO. CENTRAL AVE.
P.O. BOX 397
CUT BANK, MONTANA 59427
TELEPHONE (406) 873-5547
FAX (406) 873-5549

SENATE TAXATION

EXHIBIT NO. 16

DATE 4/3/91

BILL NO. HB 983



April 2, 1991

Senate Taxation Committee
52nd Legislature
Helena, Mt.

Re: House Bill # 982

Ladies and Gentlemen:

I want to relate to you what is happening all along the hi-line area of northern Montana. It is a perfect example of the effects of increasing taxes.

Last fall the Canadian Government enacted a general sales tax. This has been a wonderful thing for merchants and retailers in Northern Montana. Each day countless Canadians drive to Montana to shop. This tax is driving out shoppers that have the opportunity to shop elsewhere.

You have to believe that any oil and gas exploration company with offices outside the state of Montana has not only the opportunity but also the inclination to invest or spend their exploration dollars elsewhere. To attract these dollars you have to do more than just meet the competition- you must beat the competition.

As a direct result of taxation policy we see capital fleeing the state. Because of this the tax burden on those remaining here grows ever larger. Our school systems educate fewer students at a higher cost and mostly for the benefit of other states.

Please do not pass this bill.

Thank you for the opportunity to comment.

Sincerely,


Jerry Croft

"THE ABILITY COMPANY".

Oil and Gas Production in Montana, Louisiana, North Dakota, Oklahoma, Texas



OIL AND GAS PRODUCERS

JERRY CROFT, PRESIDENT

PETROLEUM CO.

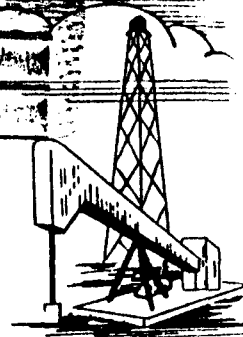
SENATE TAXATION

EXHIBIT NO. 17

NO.

HB 982

PETROLEUM CENTER BUILDING
214 NO. CENTRAL AVE.
P.O. BOX 397
CUT BANK, MONTANA 59427
TELEPHONE (406) 873-5547
FAX (406) 873-5549



April 3, 1991

Senate Taxation Committee
52nd Legislature
Helena, MT

RE: House Bill #982

My name is Danny Murphy and I am the Vice President of Croft Petroleum Co. in Cut Bank, Montana. I am here to express my opposition to HB#982 which would reimpose the net proceeds tax on oil and gas production.

The net proceeds tax has been a very unfair and complicated tax due primarily to its high susceptibility to interpretation by the taxing authorities. I would suspect that over the past several years that the Department of Revenue has been in conflict with oil companies over this issue more often than not.

Although the LGST does not afford the breaks to marginal wells that the net proceeds tax did, it does avoid most conflict because it is a percentage of proceeds which cannot be disputed and it still collects a higher tax when prices are up and lower when prices are down, very much like the net proceeds tax did.

The adoption of the LGST was a step in the right direction, simplifying the taxing process, when it seems that most recent changes just complicated the process. I think that if you asked the Department of Revenue personnel you would find that the LGST is much simpler and fairer.

Please don't take a step backward by reimposing the net proceeds tax. Give it your NO vote!

Thank you for your time.

A handwritten signature in dark ink that reads "Daniel J. Murphy". The signature is fluid and cursive, with a long, sweeping underline.

Daniel J. Murphy

Vice President/Treasurer

"THE ABILITY COMPANY".

Oil and Gas Production in Montana, Louisiana, North Dakota, Oklahoma, Texas

BROWNING, KALECZYC, BERRY & HOVEN, P.C.

ATTORNEYS AT LAW

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April 4, 1991

Hon. Mike Halligan
Chairman, Senate Taxation Committee
Capitol Station
Helena, MT 59620

Re: House Bill 982

Dear Senator Halligan:

As you know, because of time constraints all witnesses who desired to testify at the hearing held by your Committee on Wednesday, April 3 concerning HB 982 were unable to make an oral presentation to that committee. One of those who had planned but was unable to testify because of the time limitation was Mr. William Tulloch, Tax Manager of Meridian Oil Company. Subsequent to the hearing, Mr. Tulloch prepared the enclosed testimony which we request be made part of the record of the hearing.

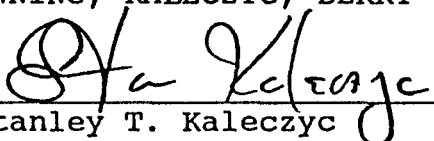
We are providing copies of this letter and enclosure to the members and staff of your Committee.

Thank you for your cooperation in making this testimony part of the hearing record.

Sincerely,

BROWNING, KALECZYC, BERRY & HOVEN, P.C.

By


Stanley T. Kaleczyc

/jrh

Enclosure

cc: Committee Members (w/enc.)

Statement of William H. Tulloch
Tax Manager, Meridian Oil Inc.
In Opposition to House Bill 982
April 3, 1991

Based on my 14 years of experience in matters related to the taxation of oil and gas (including a number of years of experience with Net Proceeds Tax and Local Government Severance Tax (LGST) in Montana), it is my considered conclusion that a return to Net Proceeds taxation of "old" (pre-1985) production in Montana will not generate the levels of increase in oil and gas tax revenues that have been estimated by either the Department of Revenue or the Office of the Legislative Fiscal Analyst.

The basis for this conclusion is predicated on the primary difference between computing taxable value under Net Proceeds versus LGST.

The overriding consideration that must be kept in mind is that in both instances we are dealing with "old" (pre-1985) production which is experiencing steady rates of decline in production volumes each year. This is the inescapable, irreversible nature of producing oil and gas wells. And, at the same time that production is declining, the level of operating expenses remains constant (at best) and generally tends to increase based on inflationary cost factors and additional costs to operators in their efforts to maintain a reasonable level of production (i.e., workovers, fracturing and chemical stimulation techniques).

Therefore, in the absence of a substantial upward movement in the price of oil and gas (which is not projected by any reasonable authority for the foreseeable future), we are left with a steady decline in the revenue stream and a static or increasing level of lifting costs, resulting in a steadily declining taxable value.

It can, of course, be argued that declining revenues as a result of declining production will occur whether taxable value is based on either gross or net proceeds or LGST. However, under Net Proceeds computations the negative effect on revenues is accelerated due to the introduction into the formula of the deductibility of operating expenses which remain constant or may increase while production declines.

Moreover, because operating expense data has not been collected for the last five years, no one has the benefit of accurately knowing the current level of deductible costs that will be used by operators in computing the current taxable value under Net Proceeds. Rather, the best estimates of revenue have been based on projections of levels of operating costs that applied over two years ago.

In the case of Meridian Oil, as with other operators, even two years ago when we last reported under Net Proceeds on these "old" wells, there were numerous instances in which certain producing wells bore zero dollars (\$0.00) taxable value. This will again be the case if there is a return to Net Proceeds; and, in fact, as production has continued to decline and expenses increase during the past two years, we have every reason to expect that even more producing wells will fall into this category.

During the last year under Net Proceeds (1989 tax year based on 1988 production) Meridian Oil paid taxes on its operated properties that averaged 4.44 percent of gross revenues on oil and 10.65 percent of gross revenues on gas. With the changeover to LGST, these same wells are paying taxes at the rates of 8.40 percent and 15.25 percent, respectively.

Even though local millage rates average 122 percent of the rates that applied in 1989 (220 mills versus 180 mills), today's higher mill levies applied to our taxable value under a return to Net Proceeds will not generate tax revenues anywhere close to the tax revenues currently generated under the LGST methodology.

We therefore wish to state for the record and in the interest of generating a "fair share" level of funding for education and other governmental revenue requirements from the oil and gas industry in Montana that a return to net and gross proceeds may not generate the predictable revenue stream at the level which the proponents of HB 982 are seeking. We urge you not to return to Net Proceeds on "old" production.

WITNESS STATEMENT

To be completed by a person testifying or a person who wants their testimony entered into the record.

Dated this 3RD day of April, 1991.

Name: STEPHEN PALMBUSH

Address: 338 4th Ave SE.

Cnt Bank MT 59421

Telephone Number: 406-873-2235

Representing whom?

MSR EXPLORATION

Appearing on which proposal?

H.B. 982

Do you: Support? Amend? Oppose? L

Comments:

THIS IS BAD LEGISLATION. IT CONTINUES
THE ANTI-BUSINESS BIAS IN MONTANA.
IT ALSO CONFIRMS THE INSTABILITY ~~IA~~, AND
THE LACK OF ANY TAX POLICY MUCH LESS
BALANCED TAX POLICY IN MONTANA!

MONTANA NEEDS MORE PEOPLE TO PAY TAXES.
PEOPLE REQUIRE JOBS. THE CREATION OF JOBS
REQUIRES CAPITAL INVESTMENT, WHICH REQUIRES A
RETURN ON INVESTMENT. THERE IS NO EASY WAY TO
RAISE TAXES ON A RAPIDLY DWINDLING POPULATION. OUR
COMPANY CAN NOT PASS TAXES TO PURCHASERS OF OIL AND
SHAREHOLDERS WILL SEEK OPPORTUNITIES ELSEWHERE IF THIS CONTINUES!

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

GOOD MORNING LADIES & GENTLEMEN.
I AM JOHN ALSTAD - TOOLE COUNTY
COMMISSIONER - AND WE ARE OPPOSED
TO HB 982.

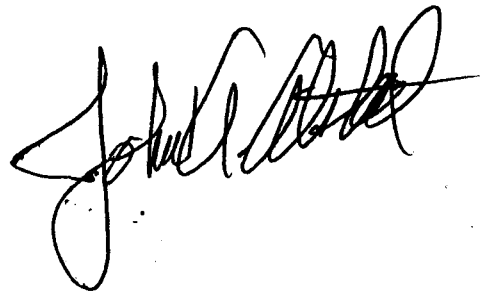
THE NET PROCEEDS TAX WILL
REINSTATE THE PROBLEMS THAT WERE
GOTTEN RID OF WITH THE LGST.

ONE OF THE PROBLEMS THAT WAS
SOLVED WITH THE ~~THE LGST~~ LGST WAS
THE TIME LAG WAS REDUCED FROM
18 MONTHS TO QUARTERLY. (EX: ^{\$40} OIL PD WITH
_{\$30})

ANOTHER PROBLEM SOLVED WAS
NO MORE SUPPLEMENTAL ASSESSMENTS
BECAUSE OF DISAGREEMENTS BETWEEN
THE PRODUCER & THE DEPT OF REVENUE
OUR COUNTY HAS PRODUCERS BEING AUDITED
THAT PRODUCED OIL & GAS IN 1977 & 1978.
THEY SHOULD HAVE BEEN AUDITED IN
A MUCH MORE TIMELY MANNER & NOT
10 TO 14 YEARS AFTER THE EXTRACTION
MANY OF THESE PRODUCERS HAVE SOLD
OUT & LEFT THE STATE. OTHERS HAVE
DIED & THEIR ESTATES CLOSED ACCORDING
TO MONTANA LAW. THIS SUPPLEMENTAL
ASSESSMENT ALSO LEAVES AN IMPENDING
CLOUD OVER THE PROPOSED SALE OF AN

OIL OR GAS LEASE BECAUSE CLEAR TITLE MAY BE UNAVAILABLE. THIS COULD BE THE DEATH KNOEL FOR A SMALL COMPANY IN OUR COUNTY THAT MAY BE LOOKING FOR FRESH CAPITAL TO KEEP IT VIABLE.

PROBABLY THE BIGGEST PROBLEM TOOLE COUNTY HAS WITH HB982 IS THAT IT WILL PROBABLY KILL OFF THE KEVIN-SUNBURST OILFIELD, WITH ITS $5\frac{1}{2}$ BBL PER WELL PER DAY PRODUCTION. WITH THE INCREASED TAXES THIS BILL WILL IMPOSE ON MARGINAL PRODUCERS, THEY WILL CEASE OPERATIONS, AND IN MANY CASES, WALK OFF & LEAVE BECAUSE THEY WON'T BE ABLE TO PLUG & ABANDON THEIR PRODUCTION. EITHER THE STATE OR COUNTIES WILL INHERIT THESE WELLS WITH ALL OF THEIR INHERANT LIABILITIES. OUR COUNTY WILL NOT-NOR WILL IT CONSIDER-OPERATING THESE OIL & GAS LEASES BECAUSE OF THE LIABILITIES INVOLVED.



WITNESS STATEMENT

To be completed by a person testifying or a person who wants their testimony entered into the record.

Dated this 3 day of APRIL, 1991.

Name: W.W. BALLARD

Address: BOX 21017 BILLINGS, MT 59109

Telephone Number: 257-7860

Representing whom?

BALCRON OIL

Appearing on which proposal?

HB 782

Do you: Support? Amend? Oppose? X

Comments:

WRITTEN & ORAL TESTIMONY

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

WITNESS STATEMENT

To be completed by a person testifying or a person who wants their testimony entered into the record.

Dated this 3 day of April, 1991.

Name: Colon Paladuk

Address: S. Luey m1

Telephone Number: 482-2023^H - 482-1706 CW

Representing whom?

Richland County Commissioner

Appearing on which proposal?

HB 982

Do you: Support? _____ Amend? _____ Oppose? X

Comments:

[illegible]

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY

WITNESS STATEMENT

To be completed by a person testifying or a person who wants their testimony entered into the record.

Dated this 3 day of April, 1991.

Name: Terry Minow

Address: MT Education of Teachers

Telephone Number: _____

Representing whom?

Appearing on which proposal?

HB 982

Do you: Support? ☒ Amend? ☐ Oppose? ☐

Comments:

PLEASE LEAVE ANY PREPARED STATEMENTS WITH THE COMMITTEE SECRETARY