

## **MINUTES**

### **MONTANA HOUSE OF REPRESENTATIVES 53rd LEGISLATURE - REGULAR SESSION**

#### **COMMITTEE ON TAXATION**

**Call to Order:** By **CHAIRMAN BOB GILBERT**, on January 29, 1993, at 9:00 a.m.

#### **ROLL CALL**

##### **Members Present:**

Rep. Bob Gilbert, Chairman (R)  
Rep. Mike Foster, Vice Chairman (R)  
Rep. Dan Harrington, Minority Vice Chairman (D)  
Rep. Shiell Anderson (R)  
Rep. John Bohlinger (R)  
Rep. Ed Dolezal (D)  
Rep. Jerry Driscoll (D)  
Rep. Jim Elliott (D)  
Rep. Gary Feland (R)  
Rep. Marian Hanson (R)  
Rep. Hal Harper (D)  
Rep. Chase Hibbard (R)  
Rep. Vern Keller (R)  
Rep. Ed McCaffree (D)  
Rep. Bea McCarthy (D)  
Rep. Tom Nelson (R)  
Rep. Scott Orr (R)  
Rep. Bob Raney (D)  
Rep. Bob Ream (D)  
Rep. Rolph Tunby (R)

**Members Excused:** Rep. Hal Harper (D)  
Rep. Chase Hibbard (R)

**Members Absent:** None

**Staff Present:** Lee Heiman, Legislative Council  
Jill Rohyans, Committee Secretary

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

##### **Committee Business Summary:**

Hearing: HB 300, HB 322, HB 326  
HB 325 Hearing Rescheduled at Request of Sponsor  
Executive Action: HB 300 Do Pass

HEARING ON HOUSE BILL 300Opening Statement by Sponsor:

REP. EMILY SWANSON, HD 79, Bozeman, said HB 300 was requested by the Department of Revenue to clarify provisions of the access fee charged for the 911 emergency number. It makes the refund of excess payment of the access fee uniform with other refund provisions in statute by moving the period from two years to five years.

Proponents' Testimony:

Charlotte Maharg, Bureau Chief, Income and Miscellaneous Tax Division, Department of Revenue (DOR), said the bill is basically an equalizer. It allows the taxpayer to apply for a refund within five years which is the same time the refund provision is available. This access fee refund was inadvertently left out of the legislation establishing the five year period last session.

Opponents' Testimony: None

Questions From Committee Members and Responses: None

Closing by Sponsor:

REP. SWANSON closed.

HEARING ON HOUSE BILL 322Opening Statement by Sponsor:

REP. GARY FELAND, HD 12, Shelby, said provisions of HB 28 from the 1987 session provided an exemption for stripper oil up to \$30 per barrel. However, there was no provision for reinstating the exemption if the price exceeded \$30 and then dropped back below that level. HB 322 puts that exemption in place. He said the bill also contains a change in the calculation of the price of crude oil which will be explained by Don Hoffman, Natural Resources Bureau Chief, Natural Resource and Corporation Tax Division of the Department of Revenue (DOR).

Proponents' Testimony:

Kneelon Teague, President, Northern Montana Oil and Gas Producers, expressed support for the bill.

Doug Abelin, Northern Montana Oil and Gas Producers, said the war in Iraq caused oil prices to reach \$45 for a very short period of time. This was a short term spike and the price has now dropped back below the \$30 a barrel level. However, there is no mechanism for reinstating the exemption and this bill puts such a mechanism into place.

Janelle Fallon, Montana Petroleum Association, said about half the oil wells in the state are stripper wells which produce about 12% of the oil in the state. If the wells are shut down it is too expensive to reopen them for the limited amount of resource produced. By keeping the wells operational for a few more years through favorable tax treatment, they will continue to generate local property taxes, net proceeds will be paid on production, and oil field service companies will be kept in business. These are high cost wells to maintain and reinstating the exemption will help guarantee their continued existence.

Opponents' Testimony: None

Informational Testimony:

Don Hoffman, DOR, presented proposed amendments to the committee, EXHIBIT #1, which tie the exemption threshold to the West Texas Intermediate Crude price. He noted the price of \$25 had been changed to \$28 in amendment #4 because historically the price of oil in Montana has lagged behind the price of West Texas Intermediate Crude by approximately \$3.00. The amendments will allow for the exemption to be either cancelled or reinstated based on quarterly averages of West Texas Intermediate Crude. If the price rises above \$28 in a quarter, the exemption will be cancelled for the following quarter. When it drops back below the \$28, the exemption will be reinstated for the following quarter. He said it will make the exemption much easier for DOR and the producers to administer.

Questions From Committee Members and Responses:

REP. MIKE FOSTER asked REP. FELAND if he approved of the proposed amendments. REP. FELAND said he was in full agreement with the amendments.

REP. JOHN BOHLINGER asked how many jobs would be involved if the stripper industry were to shut down due to the exemption not being replaced. Mr. Teague replied that of the entire work force, approximately 50%-60% of the jobs are directly related to the stripper production in some way, with the exception of the agricultural sector. He said the state receives its share of taxes right off the top. The state can't afford to lose the stripper industry and neither can the counties. The hi-line counties would be "broke" without the oil and gas industry.

REP. ED McCAFFREE asked Mr. Hoffman to explain the reason for striking the language in amendment #7. Mr. Hoffman said it applies to the computations on a statewide basis rather than a lease-by-lease or property-by-property basis. When the price rises to the \$28 threshold, everyone will be subject to the increase.

Closing by Sponsor:

REP. FELAND said the economic reasons for this bill are critically important to the hi-line area of the state. That area produces about 3,000 barrels of oil per day. The refineries process 7,000 barrels per day and are importing from Canada. He said the stripper production is so marginal, that even two or three dollars per barrel can make a significant difference in their continued operation.

HEARING ON HOUSE BILL 326Opening Statement by Sponsor:

REP. RED MENAHAN, HD 67, Anaconda, said HB 326 is a recreational land tax bill. He said proponents would explain the bill further in their testimony.

Proponents' Testimony:

Gene Vuckovich, League of Cities and Towns, and Montana Association of Counties, presented testimony in support of the bill. EXHIBIT 2

Edward Beaudette, Anaconda/Deer Lodge County Attorney, said last year there was a large sale of over 21,000 acres of land in Deer Lodge and Silver Bow counties. The land is located between Butte and Deer Lodge and was sold to a corporate group from Illinois. The land had previously been leased for a cattle operation and was used extensively by local people for hunting and fishing. Within the last year all hunting has been closed, and all access denied, even to neighbors who have surrounding agricultural lands. The plan is to put all the land into the hands of a guide and lease out hunting rights.

Trying to run cattle on a 20 acre parcel is non-productive and results in overgrazing the land which then becomes subject to knapweed and leafy spurge infestation. The ranchettes become a large financial burden to local governments due to weed control and provision of services to these essentially suburban developments. He said this is a prudent bill requiring that landowners would pay their fair share of taxes, which would pay for the services received from the county.

Opponents' Testimony:

John Youngberg, Montana Farm Bureau, said farmers and ranchers winter approximately 80% of the wildlife in Montana for no compensation at all. Leasing their property gives them a chance to recoup a small amount toward the degradation of the land. It also gives them control over the people who use the land. The logistics of monitoring the tax are impossible and have not been addressed in the bill. This can be called a tax bill, but it is

really a bill to control private property.

John Bloomquist, Montana Stockgrowers Association, presented testimony in opposition to the bill. EXHIBIT 3

Questions From Committee Members and Responses:

REP. ELLIOTT asked if opposition to the bill would be eliminated if the language in lines 6-10, on page 6, was stricken. Mr. Bloomquist said it would certainly help. That language is an important part of the organization's concern.

REP. SHIELL ANDERSON asked Mr. Beaudette how this bill would affect his office. Mr. Beaudette replied that the twenty acre ranchettes being subdivided from formerly open hunting and fishing land are subject to increased vandalism. Increased law enforcement costs and budgetary increases from knapweed control are but two of the problems which will affect county government.

REP. McCAFFREE said that this legislation, if passed, would affect everyone in the state. Eastern Montana and western Montana are two different worlds and there would be major repercussions in eastern Montana if the bill were to pass.

REP. MARIAN HANSON asked if bona fide ranch owners in eastern Montana, who have hunters in using their land for two weeks in the fall, would be subject to the provisions of the bill. REP. MENAHAN replied the DOR said it would be difficult to determine in those instances. However, in western Montana where large parcels are being closed and access denied to adjoining agricultural and forest service lands, problems are multiplying. The only people with access are those from out of state paying for the privilege of using the land for short-term recreation.

Closing by Sponsor:

REP. MENAHAN said he believes the problems can be resolved with the DOR, counties, and the public to make this a workable approach. He said game animals and forest service lands belong to everyone and there should be access to those areas.

HEARING ON HOUSE BILL 325

CHAIRMAN GILBERT announced that the hearing on HB 325, scheduled for this time, was postponed at the request of the sponsor.

EXECUTIVE ACTION ON HOUSE BILL 300

Motion/Vote: REP. BOB REAM MOVED HB 300 DO PASS. The motion carried unanimously.

ADJOURNMENT

Adjournment: The meeting adjourned at 11:15 a.m.



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BOB GILBERT, Chairman



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JILL ROHYANS, Secretary

BG/jdr

# HOUSE OF REPRESENTATIVES

TAXATION

COMMITTEE

ROLL CALL

DATE

1/29/93

NAME	PRESENT	ABSENT	EXCUSED
REP. GILBERT, CHAIRMAN	✓		
REP. FOSTER	✓		
REP. HARRINGTON	✓		
REP. ANDERSON	✓		
REP. BOHLINGER	✓		
REP. DOLEZAL	✓		
REP. DRISCOLL	✓		
REP. ELLIOTT	✓		
REP. FELAND	✓		
REP. HANSON	✓		
REP. HARPER			✓
REP. HIBBARD			✓
REP. KELLER	✓		
REP. McCAFFREE	✓		
REP. MCCARTHY	✓		
REP. NELSON	✓		
REP. ORR	✓		
REP. RANEY	✓		
REP. REAM	✓		
REP. TUNBY	✓		

HOUSE STANDING COMMITTEE REPORT

January 29, 1993

Page 1 of 1

Mr. Speaker: We, the committee on Taxation report that House Bill 300 (first reading copy -- white) do pass.

Signed: \_\_\_\_\_  
Bob Gilbert, Chair

Committee Vote:  
Yes     , No     .

2311173C.HSS



Amendments to House Bill 322  
First Reading Copy

Prepared by Department of Revenue  
(1/27/93)

1. Title, line 6.  
Following: "BARREL"  
Strike: "OF"  
Insert: "FOR WEST TEXAS INTERMEDIATE CRUDE"
2. Title, line 6.  
Following: "OIL"  
Strike: "RECEIVED"  
Insert: "AS REPORTED BY THE WALL STREET JOURNAL"
3. Title, lines 6.  
Following: "DURING"  
Strike: "A"  
Insert: "THE PRECEDING"
4. Title, lines 7.  
Following: "THAN"  
Strike: "\$25"  
Insert: "\$28"
5. Page 9, line 22.  
Following: "barrel"  
Strike: "received"  
Insert: "for West Texas intermediate crude oil as reported by the  
Wall Street Journal"
6. Page 9, line 22.  
Following: "during"  
Strike: "a"  
Insert: "the preceding calendar"
7. Page 9, line 22.  
Following: "quarter"  
Strike: "from production occurring on a lease or unitized area  
located in this state"
8. Page 9, line 24.  
Following: "than"  
Strike: "\$25"  
Insert: "\$28"

9. Page 9, line 25.

Following: "by"

Insert: "the department following the end of each calendar quarter by"

10. Page 10, line 1.

Following: "total"

Strike: "gross value of product received from all petroleum and other mineral or crude oil sold in the quarter from the lease or unitized area in which stripper production occurs by the number of barrels sold in the quarter from the lease or unitized area in which stripper production occurs"

Insert: "of the daily prices for West Texas intermediate crude oil reported by the Wall Street Journal during the preceding quarter by the total number of days that price was reported in the Wall Street Journal during that calendar quarter"

**Reason for Amendments:** As currently written this bill would be difficult to administer and could cause confusion among the operators. It would be difficult to determine when stripper oil is exempt for the state severance tax and when it is not exempt from the severance tax. A more definite, predictable, and uniform method for that determination is needed to prevent confusion. The bill might result in some operators paying state severance tax on stripper oil while other operators don't pay any tax.

Most operators make payments to royalty and working interests on a monthly basis. Generally, the operators deduct the interest owner's pro rata share of production taxes. As written this bill will make it difficult for the operators to calculate and deduct the tax on stripper wells from the monthly payments.

The amendments will cure these problems by basing the state severance tax on the price for West Texas intermediate crude oil during the preceding quarter. The price for West Texas Intermediate crude oil generally is \$3 more per barrel than Montana crude oil. Therefore, the possible suspension of the state severance tax exemption for stripping oil is based on \$28 rather than \$25 per barrel.

# ANACONDA-DEER LODGE COUNTY

Courthouse - 800 South Main

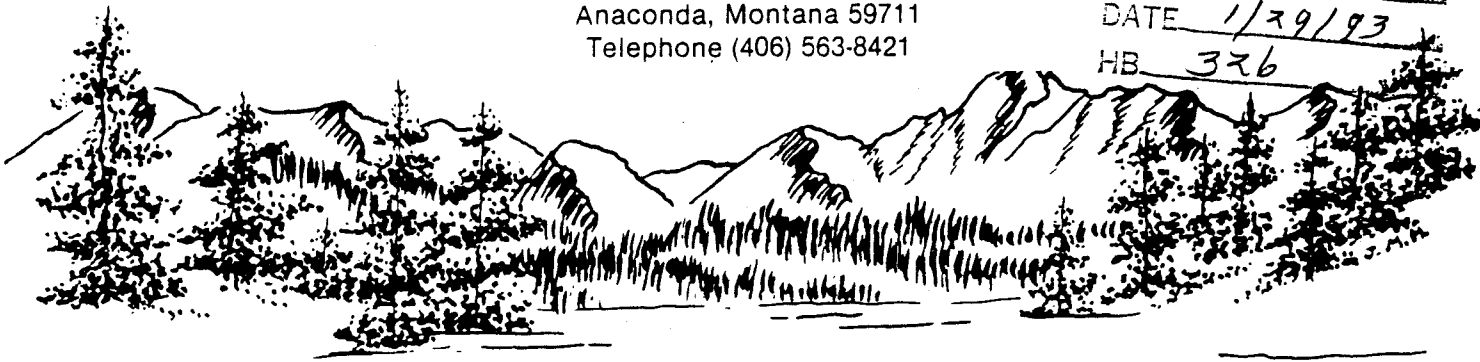
Anaconda, Montana 59711

Telephone (406) 563-8421

EXHIBIT 2

DATE 1/29/93

HB 326



Testimony on H.B. #326, presented by Gene Vuckovich, City/County Manager of Anaconda/Deer Lodge County before the House Taxation Committee on January 29, 1993.

Chairman Gilbert, Committee Members, for the record, I am Gene Vuckovich, 1st Vice President of the League of Cities and Towns, Member of the Executive Board of the Montana Association of Counties and as of February 1st, I will once again be City/County Manager of Anaconda/Deer Lodge County.

During the past twelve (12) years or more, most cities, towns and school districts in Montana have seen a steady eroding of their property tax base for one reason or another.

One reason is that more and more family ranches and farms that were historically and traditionally used solely for agricultural purposes has changed dramatically with the exodus of persons from cities and towns to suburban areas or onto 'ranchettes'. Most of these 'ranchettes' are used as homesite or recreational sites and not primarily for agricultural uses.

As you are all aware, property tax at the present time is the single most important source of revenue for cities, towns, counties and school districts.

Another issue is that large and sometime out-of-state corporations or individuals are purchasing many of Montana's prime ranches and farms and are turning said lands into private recreational areas that operate on a 'pay for use' bases such as private hunting, fishing, hiking, skiing, snowmobiling and other recreational uses. This has caused many Montana residents to be unable to enjoy the pleasures of Montana's great outdoors because of the expense involved.

Much of Montana's agricultural land that once was open to the public for hunting, fishing, etc. is now becoming increasingly scarce because the land is being leased for recreational purposes that bear a closer relationship to commercial land than to truly agricultural land.

EXHIBIT 2  
DATE 1/29/13  
HB 326

This legislation attempts to equalize the tax burden by attempting to address the issue of unequal taxation for those suburban homeowners with twenty (20) acres or more who do not use their land primarily for agriculture with those homeowners with less than twenty (20) acres. This legislation would also go a long way in helping Montanans enjoy what Montana has to offer by addressing the problem, perceived or real, that many wealthy out-of-state individuals are buying Montana and want to keep it as their own private playground.

I would urge your support of House Bill #326.

HOUSE BILL 326 AN ACT DEFINING RECREATIONAL LAND  
FOR PURPOSES OF TAXATION  
HOUSE TAXATION COMMITTEE  
JANUARY 29, 1993

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE, FOR THE RECORD MY NAME IS JOHN BLOOMQUIST, I AM AN ATTORNEY AND A SPECIAL ASSISTANT FOR THE MONTANA STOCKGROWERS ASSOCIATION. THE MONTANA STOCKGROWERS ASSOCIATION IS AN ORGANIZATION OF OVER 3,500 RANCHERS AND LANDOWNERS LOCATED THROUGHOUT MONTANA. I AM BEFORE YOU TODAY TESTIFYING IN OPPOSITION TO HOUSE BILL 326 ON BEHALF OF THE STOCKGROWERS AND THE MONTANA WOOLGROWERS ASSOCIATION.

THE EFFECT OF THIS LEGISLATION WILL BE TO RECLASSIFY AGRICULTURAL LANDS WHICH MAY BE LEASED FOR RECREATIONAL PURPOSES AS RECREATIONAL LAND FOR TAXATION PURPOSES. ALSO, ANY IMPROVEMENTS OF SUCH LANDS WOULD BE REMOVED FROM CLASS 2 // PROPERTY, AND TAXED AS CLASS 4 PROPERTY.

MANY MONTANA LANDOWNERS HAVE HAD TO RESORT TO LEASING LAND FOR CERTAIN RECREATIONAL PURPOSES SUCH AS HUNTING AND FISHING IN ORDER TO RECOUP CERTAIN LOSSES CAUSED ON PRIVATE LANDS BY GAME DEPRIVATION OF FORAGE. THESE OPERATIONS ARE BONA FIDE AGRICULTURAL LANDS. AS WILDLIFE NUMBERS IN MONTANA INCREASE AND ARE AT AN ALL TIME HIGH, THE IMPACTS ON PRIVATE PROPERTY LANDOWNERS IS BEING SIGNIFICANTLY FELT IN THE ABILITY OF LANDOWNERS TO MANAGE THEIR LANDS FOR AGRICULTURAL PURPOSES. MANY LANDOWNERS ARE LOSING INCOME DUE TO THE DEPRIVATION OF FORAGE CAUSED BY INCREASED WILDLIFE POPULATIONS.

TO PENALIZE A LANDOWNER THROUGH PROPERTY TAXATION POLICY FOR TRYING TO RECOUP LOSSES CAUSED BY A PUBLIC CONCERN, SUCH AS WILDLIFE, WOULD BE AN INEQUITABLE TREATMENT UNDER SOUND TAX POLICY. TAKING AGRICULTURAL LAND AND REDEFINING IT AS RECREATIONAL LAND, EVEN THOUGH THE OPERATION IS A BONA FIDE AGRICULTURAL OPERATION, IS NOT AN APPROPRIATE TREATMENT FOR SUCH LANDS.

FURTHERMORE, THE DEFINITION OF "RECREATIONAL LAND" STATES THAT THIS IS LAND

EXHIBIT 3  
DATE 1/29/93  
HB 326

REGULARLY USED FOR AGRICULTURAL PURPOSES BUT IS ALSO "LEASED" FOR RECREATIONAL PURPOSES. SUCH A DEFINITION IS OVERLY BROAD AND MAY INCLUDE A LANDOWNER WHO CHARGES AN ACCESS FEE FOR INDIVIDUALS TO HUNT AND FISH ON PRIVATE LAND IN AN EFFORT TO RECOUP LOSSES CAUSED BY ACCESS OR GAME DEPRIVATION. THIS INCOME IS ADEQUATELY COVERED IN THE INCOME TAX PROVISIONS OF STATE LAW AND FEDERAL LAW AND THIS IS AN INAPPROPRIATE MEANS TO PENALIZE A LANDOWNER FOR RECOUPMENT OF CERTAIN LOSSES BY PROPERTY TAX RECLASSIFICATION.

FOR THE REASONS SET FORTH, THE MONTANA STOCKGROWERS ASSOCIATION STRONGLY URGES A VOTE OF "DO NOT PASS" ON H.B. 326. THANK YOU FOR THE OPPORTUNITY TO TESTIFY.

HOUSE OF REPRESENTATIVES  
VISITOR'S REGISTER

HB 300  
HB 322

House Taxation COMMITTEE BILL NO. HB 325  
DATE 1/29/93 SPONSOR(S) Swanson, Zeland, Menahan  
~~HB 326~~

PLEASE PRINT

PLEASE PRINT

PLEASE PRINT

NAME AND ADDRESS	REPRESENTING	SUPPORT	OPPOSE
Gene Vuckovich	Ansonia/Deed Loan Co.	325 326	
Edward C. Brundage	Brundage DL Co.	325 326	
John Blomquist	MT Statutory Assn.		325 326
Doc Abelin	NORTH MONT OIL & GAS	322	
Chas. McHenry	DOR	300	
DAN WHITE	ARCO		325
John Youngberg	MT Farm Bureau		326
Deane W. Johnson	MT Outfitters & Guides		326
Russ Ritter	MT Resour. 325		X
Jamie Tallan	MT Petroleum	322 <del>325</del>	
Bob Barry	MAPP	325	
Stan Bradshaw	MT. Forest Unlimited	325 326	
Timothy Teague	No. Mont. O & G Assn.	322	

PLEASE LEAVE PREPARED TESTIMONY WITH SECRETARY. WITNESS STATEMENT FORMS  
ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.