

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 54th LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN CHASE HIBBARD**, on January 5, 1995, at 8:00 a.m.

ROLL CALL

Members Present:

Rep. Chase Hibbard, Chairman (R)
Rep. Marian W. Hanson, Vice Chairman (Majority) (R)
Rep. Robert R. "Bob" Ream, Vice Chairman (Minority) (D)
Rep. Peggy Arnott (R)
Rep. John C. Bohlinger (R)
Rep. Jim Elliott (D)
Rep. Daniel C. Fuchs (R)
Rep. Hal Harper (D)
Rep. Rick Jore (R)
Rep. Judy Murdock (R)
Rep. Thomas E. Nelson (R)
Rep. Scott J. Orr (R)
Rep. Bob Raney (D)
Rep. John "Sam" Rose (R)
Rep. William M. "Bill" Ryan (D)
Rep. Roger Somerville (R)
Rep. Robert R. Story, Jr. (R)
Rep. Emily Swanson (D)
Rep. Jack Wells (R)
Rep. Kenneth Wennemar (D)

Members Excused: None

Members Absent: None

Staff Present: Lee Heiman, Legislative Council
Donna Grace, Committee Secretary

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

Committee Business Summary:

Hearing: None
Executive Action: None

In response to a request from the Members of the Taxation Committee, **John Tubbs, Bureau Chief, Resource Development Bureau, Department of Natural Resources and Conservation**, appeared before the committee to explain the flow of funds for the resource

indemnity and groundwater assessment tax (RIGWAT) and the Resource Indemnity Trust interest earnings. EXHIBIT 1

REP. RANEY commented that Montana has had a tax on mineral production in place since 1973 and the original purpose of the tax was to mitigate environmental impacts. He noted that it was unfair to the extraction industries that the tax monies were not being used for the original purpose. **REP. NELSON** and **SEN. GROSFIELD** shared these concerns and called attention to the amount of RIGWAT funds being used for administration in the DNRC budget.

Mr. Tubbs answered questions from Committee Members relative to the RIGWAT and the Trust Fund.

Don Hoffman, DOR, continued with the education program, discussing coal gross proceeds tax, net proceeds tax and local government severance taxes. **Mr. Hoffman** furnished information requested on the previous day relative to statewide average oil prices. EXHIBIT 2

For the benefit of new Committee Members, **SEN. VANVALKENBERG** explained net and gross proceeds tax.

Judy Paynter, DOR Principal Tax Administrator, advised the Committee that later in the session **SENATOR GROSFIELD** would be introducing a bill to simplify the natural resources tax system. She said that at the present time it is a very complicated process.

Lynn Chenoweth, Corporation License Tax Bureau Chief, gave a brief overview of corporate tax returns which are filed by all regular corporations and S-corporations. Total corporate tax paid in FY 1994 was \$60,589,859.


CHAIRMAN HIBBARD announced that the educational session would continue at 8:00 a.m. on Friday, January 6. At 10:00 a.m. the Committee will conduct hearings on HB 32 and HB 38.

ADJOURNMENT

Adjournment: 10:25 a.m.



CHASE HIBBARD, Chair



DONNA GRACE, Secretary

CH/dg

HOUSE OF REPRESENTATIVES

Taxation

ROLL CALL

DATE Jan 5, 1995

NAME	PRESENT	ABSENT	EXCUSED
Rep. Chase Hibbard, Chairman	✓		
Rep. Marian Hanson, Vice Chairman, Majority	✓		
Rep. Bob Ream, Vice Chairman, Minority	✓		
Rep. Peggy Arnott	✓		
Rep. John Bohlinger	✓		
Rep. Jim Elliott	✓		
Rep. Daniel Fuchs	✓		
Rep. Hal Harper	✓		
Rep. Rick Jore	✓		
Rep. Judy Rice Murdock	✓		
Rep. Tom Nelson	✓		
Rep. Scott Orr	✓		
Rep. Bob Raney	✓		
Rep. Sam Rose	✓		
Rep. Bill Ryan	✓		
Rep. Roger Somerville	✓		
Rep. Robert Story	✓		
Rep. Emily Swanson	✓		
Rep. Jack Wells	✓		
Rep. Ken Wennemar	✓		

RIGWA TAX

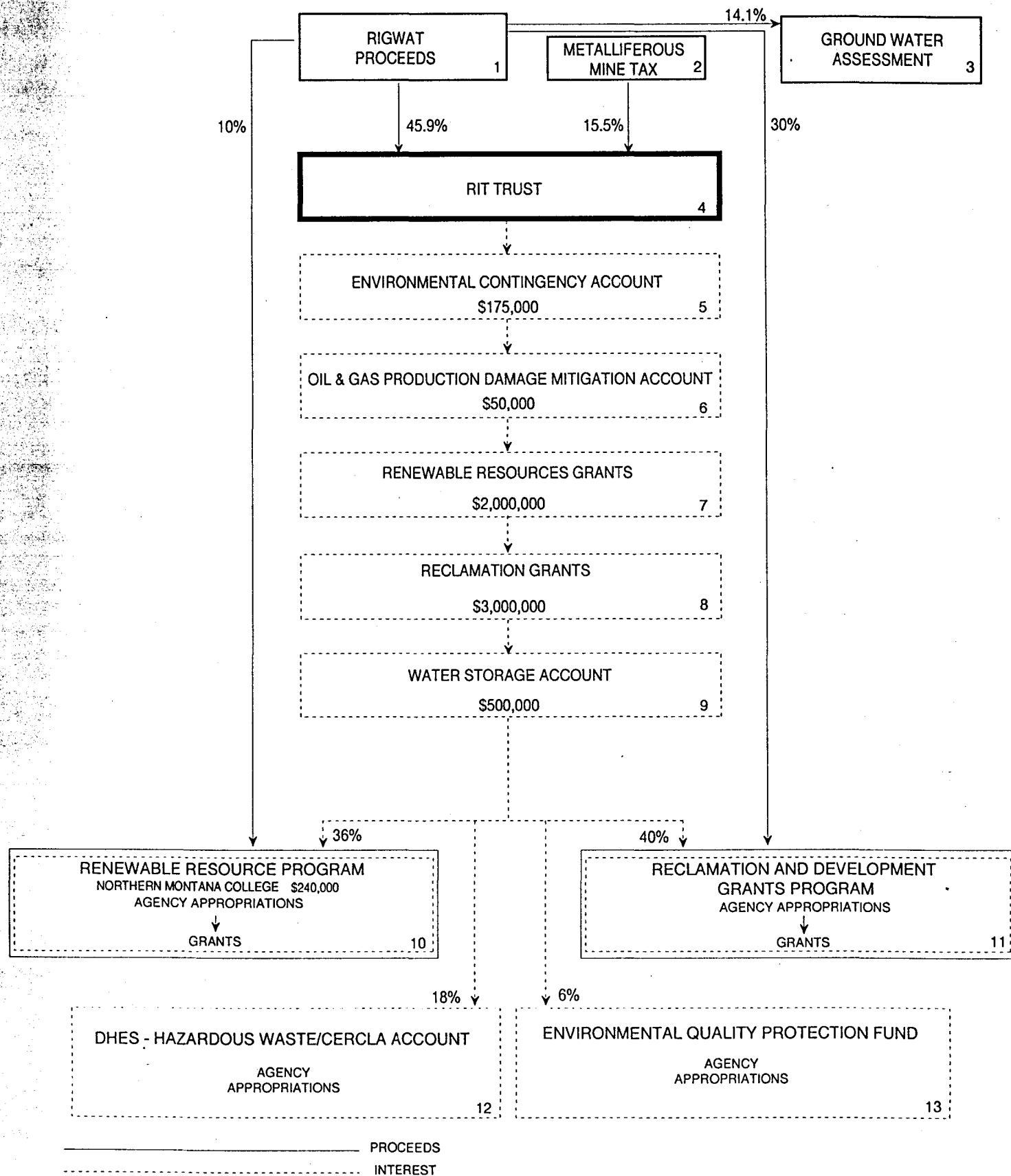
Flow of Funds for the RIGWAT and RIT Trust Interest Earnings
FY 96-97

Source: Department of Natural Resources and Conservation
Phone #444-6667

Ray Beck, Administrator
Anna Miller, Financial Advisor
John Tubbs, Bureau Chief

EXHIBIT 1
DATE 1/5/95
HB

ALLOCATION OF RIT PROCEEDS AND INTEREST 1997 Biennium



- 1 The Resource Indemnity Ground Water Assessment Tax (RIGWAT) ~~is~~ is a 0.5 percent tax of the gross value of the product of all mineral mining. The tax was originally created in 1973. Mineral production including oil, natural gas, coal, metals (gold, silver, copper, lead), talc, vermiculite, limestone and other "nonrenewable merchantable products extracted from the surface or subsurface of the state of Montana (15-38-103) are taxed. The purpose of the tax is to "protect and restore the environment from damages resulting from mineral development; to support a variety of development programs that benefit the economy of the state and the lives of Montana Citizens; and to assess the state's ground water resources." (15-38-102, MCA)
- 2 The Metalliferous Mine Tax is a tax on "annual gross value of product" of all metal mine production or precious or semiprecious gem or stone production (15-37-101 et. seq.). The tax rate is 1.81 percent of the annual gross value over \$250,000 for concentrate shipped to a smelter, mill, or reduction work (15-37-103, MCA). For gold silver or any platinum-group metal that is dore, bullion, or matte and that is shipped to a refinery, the tax rate is 1.6 percent of the annual gross value over \$250,000 (15-37-103, MCA). A 15.5 percent portion of the metalliferous mine tax is deposited into the RIT trust. The remaining 84.5 percent is distributed to several areas including the general fund, a hard-rock mining impact trust, and impacted counties.
- 3 The Ground Water Assessment Account was created in 1991 (85-2-901 et. seq., MCA). The purpose of the account is to fund a statewide ground water assessment program that will monitor quantity and quality of the state's ground water. The statute allocates 14.1 percent or a maximum of \$666,000 per year of the RIGWAT proceeds to this account. The program is staffed by the Bureau of Mines and Geology in Butte. An oversight committee reviews all expenditures, approves monitoring sites, prioritizes areas, coordinates information, and evaluates reports.
- 4 The Resource Indemnity Tax trust was created in 1973. RIGWAT (45.9%) and Metalliferous Mine Tax (15.5%) proceeds are deposited into the trust. Prior to 1991, 100 percent of the RIGWAT proceeds were deposited into the trust. No funds that are deposited into the trust can be spent until the total deposits exceed \$100 million. This protection is provided in Article IX, Section 2 of the Montana constitution. Trust fund proceeds are invested and the interest earnings are distributed to several natural resource programs.
- 5 The Environmental Contingency Account was created in 1985 (75-1-1101 et. seq., MCA). The Governor has the authority to approve expenditures from this account to meet unanticipated public needs. Specifically, the statute limits projects to the following objectives: (a) to support renewable resource

development projects in communities that face an emergency or imminent need for the services or to prevent the failure of a project; (b) to preserve vegetation, water, soil, fish, wildlife, or other renewable resources from an imminent physical threat or during an emergency, not including natural disasters or fire; to respond to an emergency or imminent threat to persons, property, or the environment caused by mineral development; and to fund the environmental quality protection fund. Each biennium \$175,000 of the RIT trust interest earnings are allocated to this account. The balance in this account cannot exceed \$750,000.

- 6 The Oil and Gas Production Damage Mitigation Account was created in 1989 (85-2-161, MCA). The Board of Oil and Gas Conservation may authorize the payment for the cost of properly plugging a well and either reclaiming and/or restoring a drill site or other drilling or producing areas damaged by oil and gas operations. The site must be abandoned and the responsible person either cannot be identified or refuses to correct the problem. Each biennium \$50,000 of the RIT trust interest earnings are allocated to this account. The balance in this account cannot exceed \$200,000.
- 7 Renewable Resource Grants receive \$2 million in RIT trust interest earnings. The Renewable Resource Grant and Loan program was created in 1993 by combining the Renewable Resource Development program and the Water Development program. The Renewable Resource Development program was originally established in 1975. The Water Development program was originally established in 1981. The purpose of the grant program is to fund projects that conserve, develop, manage, and preserve water and other renewable resources. The program provides preference to projects that support the state water plan. Projects include construction and rehabilitation of existing water supply systems and waste water systems, educational efforts, feasibility studies, development of water storage, enhancement of renewable resources including recreation, reduction and advancement of agricultural chemical use, and improvement of water use efficiency (85-1-602, MCA).
- 8 The Reclamation Development Grants Program was originally established in 1987. The purposes of the program are to: (a) repair, reclaim, and mitigate environmental damage to public resources from nonrenewable resource extraction; and (b) to develop and ensure the quality of public resources for the benefit of all Montanans (90-2-1101, MCA). Projects have ranged from plugging abandoned oil and gas wells, reclaiming mine sites, non-point source pollution control projects, researching new technologies for mine waste clean-up, conducting ground water studies to determine the extent of contamination, and cleaning up pesticide contamination. A minimum of \$3 million of RIT trust interest earnings are allocated for these grants.

- 9 The Water Storage Account was established in 1991 (85-1-701 et. seq., MCA). The purpose of the account is to provide funding for projects that rehabilitate existing water storage facilities or develop new ones. Priority is given to high hazard, unsafe dams. Each biennium \$500,000 of RIT trust interest earnings are deposited into this account. Currently, the only project to receive water storage account funding is the rehabilitation of the state owned dam on the Tongue River in eastern Montana.
- 10 The Renewable Resource grant and loan Program state special revenue account receives 36 percent of the remaining interest earnings from the RIT trust and 10 percent of the RIGWAT proceeds. This special revenue account also receives revenue from state water projects, excess deposits in the renewable resource debt service account, and other administrative fees. The revenues are used to fund natural resource agency projects and administration including DNRC, Governor's Office, Water Court and the State Library.
- 11 The Reclamation and Development Grant Program state special revenue account receives 40 percent of the remaining RIT trust interest earnings and 30 percent of the RIGWAT proceeds. The revenues are used to fund natural resource agency projects and administration including DNRC, DSL, State Library, and EQC.
- 12 The Hazardous Waste CERCLA Account is administered by the Department of Health and Environmental Sciences. (CERCLA stands for the federal Comprehensive Environmental Response, Compensation, and Liability Act). This account receives 18 percent of the remaining RIT trust interest earnings. The account was established in 1983 and is to be used to make payments on CERCLA bonds, implementation of the Montana Hazardous Waste Act, and to provide assistance in remedial action under CERCLA.
- 13 The Environmental Quality Protection Fund was established in 1985 and is administered by the Department of Health and Environmental Sciences. This account receives 6 percent of the remaining RIT trust interest earnings. The purpose of this account is to provide funding for remedial actions taken by the department in response to a release of hazardous or deleterious substances.

RIGWAT PROCEEDS, RIT TRUST INTEREST EARNINGS, AND EXPENDITURES
1997 Biennium

RIGWAT PROCEEDS PROJECTIONS	RIGWAT Proceeds	Metal Mine Tax Proceeds	Deposits To RIT Trust	Trust Balance
FY 95	\$2,979,674	\$797,469	\$2,463,107	\$91,776,719
FY 96	3,041,004	872,800	2,268,621	94,045,340
FY 97	3,030,203	823,029	2,213,892	96,259,232

RIT TRUST INTEREST EARNINGS PROJECTIONS	FY96	FY97	TOTAL
	7,760,370	7,881,869	15,642,239

TOTAL 1995 BIENNIUM ALLOCATION OF RIT INTEREST EARNINGS	\$15,642,239
Environmental Contingency Account	\$175,000
Oil & Gas Production Damage Mitigation Account	50,000
Renewable Resource Grant & Loan Program	2,000,000
Reclamation & Development Grants	3,000,000
Water Storage Account	500,000
TOTAL BIENNIAL APPROPRIATIONS	5,725,000
AMOUNT AVAILABLE FOR FURTHER DISTRIBUTION	9,917,239

Distribution of Remaining Interest Earnings

Account	Renewable Resource	Reclamation & Development	Hazardous Waste/ CERCLA	Environmental Quality Protection	TOTAL
Percent Distribution of RITT Interest	36%	40%	18%	6%	100%

Beginning Balance	\$572,226	\$212,524	\$968,414	\$841,669	\$2,594,833
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Revenues					
RIT Interest	\$3,570,206	\$3,966,896	\$1,785,103	\$595,034	\$9,917,239
RIGWAT Proceeds	607,121	1,821,362			\$2,428,483
Debt Service Sweep (04011 and 04008)	919,444				919,444
RRD Loan Repayments	238,900				238,900
Interest (STIP)			120,000	120,000	240,000
Cost Recoveries			514,000	1,237,000	1,751,000
Administrative Fees	10,000				10,000
State Owned Project Revenue	459,290				459,290

Total Funds Available	\$6,377,187	\$6,000,782	\$3,387,517	\$2,793,703	\$18,559,189
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Appropriation					
Montana State University, Havre	240,000				240,000
DNRC Centralized Services Division	875,245	154,001			1,029,247
DNRC Conservation and Resource Development	649,931	1,185,566			1,835,497
DNRC Water Resources Division	1,737,971	2,051,709			3,789,680
Reserved Water Rights Compact Commission	131,638	534,516			666,154
DNRC State Water Projects	1,690,000				1,690,000
DSL Reclamation Division		2,082,177			2,082,177
DSL Central Management		78,085			78,085
DHES Environmental Division			3,415,016	2,802,350	6,217,366
DHES Radon		50,000			
Governor's Office -- Flathead Basin Commission	80,082				80,082
Water Court	1,024,296				1,024,296
State Library	322,007	285,036			607,043
Environmental Quality Council		28,083			28,083
Pay Plan					0

Total Appropriations	\$6,751,170	\$6,449,174	\$3,415,016	\$2,802,350	\$19,367,710
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Projected Biennium Ending Balance	(\$373,983)	(\$448,391)	(\$27,499)	(\$8,647)	
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Potential Allocation of Metal Mines Tax	\$169,583	\$508,749			
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Projected Balance with Allocation of Metal Mine Tax	(\$204,400)	\$60,357	(\$27,499)	(\$8,647)	
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STATEWIDE AVERAGE PRICES
SOURCE: OIL AND GAS SEVERANCE TAX SYSTE UPDATED 1/5/95
OPERATOR PRODUCTION SUMMARY

QTR	BBL'S	VALUE	AVG. PRICE	MCF'S	VALUE	AVG. PRICE
6/87	6,198,153	\$102,585,408	\$16.551	6,927,638	\$11,889,534	\$1.716
9/87	6,164,304	\$110,072,360	\$17.856	7,695,225	\$13,874,522	\$1.803
12/87	6,173,208	\$102,747,032	\$16.644	13,126,759	\$24,723,638	\$1.883
3/88	5,729,107	\$84,192,384	\$14.696	12,581,865	\$23,543,204	\$1.871
FY88	24,264,772	\$399,597,184	\$16.468	40,331,487	\$74,030,898	\$1.836
6/88	5,805,965	\$88,311,459	\$15.210	8,645,319	\$13,989,856	\$1.618
9/88	5,903,099	\$77,502,237	\$13.129	9,404,296	\$14,143,057	\$1.504
12/88	5,447,888	\$66,579,328	\$12.221	15,611,537	\$26,920,443	\$1.724
3/89	5,141,085	\$81,753,459	\$15.902	13,280,171	\$23,844,533	\$1.795
FY89	22,298,037	\$314,146,483	\$14.089	46,941,323	\$78,897,889	\$1.681
6/89	5,280,207	\$94,108,363	\$17.823	9,654,951	\$15,197,418	\$1.574
9/89	5,267,504	\$87,603,377	\$16.631	9,800,351	\$15,977,654	\$1.630
12/89	5,044,514	\$89,822,658	\$17.806	14,024,425	\$29,104,268	\$2.075
3/90	4,899,781	\$93,513,892	\$19.085	12,051,563	\$22,740,384	\$1.887
FY90	20,492,006	\$365,048,290	\$17.814	45,531,290	\$83,019,724	\$1.823
6/90	4,846,819	\$73,728,854	\$15.212	10,315,061	\$16,231,988	\$1.574
9/90	4,764,492	\$110,345,009	\$23.160	10,669,962	\$17,609,603	\$1.650
12/90	4,794,679	\$138,073,849	\$28.797	12,961,413	\$25,612,153	\$1.976
3/91	4,762,043	\$88,108,269	\$18.502	12,841,850	\$22,898,624	\$1.783
FY91	19,168,033	\$410,255,982	\$21.403	46,788,286	\$82,352,368	\$1.760
6/91	4,878,772	\$85,613,263	\$17.548	11,712,643	\$19,347,655	\$1.652
9/91	4,935,037	\$88,714,032	\$17.976	10,573,024	\$16,076,851	\$1.521
12/91	4,817,669	\$88,612,238	\$18.393	12,949,300	\$21,621,224	\$1.670
3/92	4,632,983	\$72,436,934	\$15.635	14,148,785	\$22,074,049	\$1.560
FY92	19,264,461	\$335,376,467	\$17.409	49,383,752	\$79,119,779	\$1.602
6/92	4,573,627	\$81,154,665	\$17.744	11,781,850	\$17,831,304	\$1.513
9/92	4,547,780	\$83,294,970	\$18.316	10,470,906	\$16,913,879	\$1.615
12/92	4,482,176	\$76,846,922	\$17.145	13,957,298	\$24,926,006	\$1.786
3/93	4,264,488	\$69,949,794	\$16.403	14,272,751	\$24,129,401	\$1.691
FY93	17,868,071	\$311,246,351	\$17.419	50,482,805	\$83,800,590	\$1.660
6/93	4,352,561	\$70,114,927	\$16.109	12,580,493	\$22,362,280	\$1.778
9/93	4,426,867	\$61,799,328	\$13.960	10,891,507	\$19,649,501	\$1.804
12/93	4,282,938	\$54,266,899	\$12.670	14,210,969	\$24,853,166	\$1.749
3/94	4,019,088	\$44,593,644	\$11.095	13,462,943	\$22,986,613	\$1.707
FY94	17,081,454	\$230,774,797	\$13.510	51,145,912	\$89,851,559	\$1.757
6/94	4,049,784	\$58,147,086	\$14.358	11,043,159	\$17,610,692	\$1.595
9/94			ERR			ERR
12/94			ERR			ERR
3/95			ERR			ERR
FY95	4,049,784	\$58,147,086	\$14.358	11,043,159	\$17,610,692	\$1.595

HOUSE OF REPRESENTATIVES
VISITOR REGISTER

Tax

COMMITTEE

BILL NO.

DATE *1/5/95*

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NAME AND ADDRESS	REPRESENTING	SUPPORT	OPPOSE
<i>John Tubbs</i>	<i>DORE</i>		

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ARE AVAILABLE IF YOU CARE TO SUBMIT WRITTEN TESTIMONY.