

MINUTES

MONTANA SENATE 54th LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By CHAIRMAN GERRY DEVLIN, on March 2, 1995, at 8:00 a.m.

ROLL CALL

Members Present:

Sen. Gerry Devlin, Chairman (R)
Sen. Mike Foster, Vice Chairman (R)
Sen. Mack Cole (R)
Sen. Delwyn Gage (R)
Sen. Lorents Grosfield (R)
Sen. John G. Harp (R)
Sen. Dorothy Eck (D)
Sen. Barry "Spook" Stang (D)
Sen. Fred R. Van Valkenburg (D)

Members Excused: None

Members Absent: None

Staff Present: Jeff Martin, Legislative Council
Renée Podell, Committee Secretary

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

Committee Business Summary:

Hearing: SB 338
Executive Action: SB 138, SB 198, SB 161

HEARING ON SB 338

Opening Statement by Sponsor:

SEN. GREG JERGESON, SD 46, Chinook, commented many will be familiar with the concept of this bill. He explained in 1987, the legislature adopted a 24 month holiday for new oil and gas production in Montana on the state's severance tax. He said it was adopted as an incentive to encourage more production and exploration in the State of Montana. SEN. JERGESON stated there was a provision that the severance tax holiday would be eliminated if the price of West Texas crude went above a certain point. He explained during the Gulf War the West Texas crude did go up causing the holiday in Montana to be eliminated. SEN. JERGESON acknowledged SB 338 reinstates the holiday.

Proponents' Testimony:

Gail Abercrombie, Montana Petroleum Association, affirmed Canadian firms show interest with the incentive. She urged support of SB 338.

Pete Madison, Vice President Entec Oil Production, stated this is a win situation because incentives work.

Frank Haughton, Jr., Small Independent, representing Petroleum Landmen, disclosed it is his belief there exists in Montana the possibility of discovering large reserves. He explained the biggest obstacle in getting wells drilled in Montana is the tax burden imposed on producers. **Mr. Haughton** urged support stating SB 338 will put rigs back to work.

Jeff Hume, Continental Resources, stated this bill could double, perhaps triple oil activity in the state and move Montana in the front of oil production.

Chip Youlden, Vice President of Finance, J.N. Exploration and Production, professed passage of this bill would be a step up.

Tom Hauptman, President, KGH Production, said he is a native Montanan forced to go elsewhere to drill wells due to high taxes.

Jim Halverson, Oil and Gas in Coal Counties, presented a chart of what is happening in Montana due to average mill levies. **EXHIBIT 1.**

Patrick Montalben, President, MSR, Cutbank, Montana, and Northern Montana Oil and Gas Association, announced most of the association consists of stripper operators. He said SB 338 gives the incentive to go out and drill more wells.

Gloria Pladichuk, Richland Development, urged support for SB 338 stating the incentive will help economy.

Greg Oblander, Montana Power Company (MPC), Butte, announced the incentive to MPC will be to add more wells.

Bill Vaughey, Independent Explorer for Oil and Gas, Havre, commented this piece of legislation will yield a result very similar to what the horizontal bill did for Montana since its passage in the 1993 special session.

P. O'Reilly, explained she is working for three companies who have shut-in wells. She stated one company has 109 wells, another has 28, and another company has 63 wells that could be turned on if this bill is passed. **Ms. O'Reilly** remarked each company is inclined to turn the wells on. She urged support for SB 338.

David Owen, Montana Chamber of Commerce, urged support for this legislation.

SEN. LARRY TVEIT, SD 50, attested he has been a small royalty owner for 20 years. He commented the fiscal note speaks to losses but doesn't address the gains which are hundreds of jobs. SEN. TVEIT stated this is a tremendous incentive program and money can be made on this venture.

Robert L. Nance, President, Nance Petroleum Corporation, submitted written testimony. EXHIBIT 2.

Herb Vasseur, President, Montana Land and Mineral Owners Association, submitted written testimony. EXHIBIT 3.

Opponents' Testimony:

None

Informational Testimony:

None

Questions From Committee Members and Responses:

SEN. DOROTHY ECK asked Mr. Bender to comment on the fiscal note. Mr. Bender stated fiscal notes are controversial enough without getting into indirect effects.

SEN. ECK asked Ms. Abercrombie if there is a commitment from companies with this incentive as experienced by the horizontal well incentive. Ms. Abercrombie commented this is a little broader based but there is a positive feel with companies.

{Tape: 1; Side: B; Comments: Tape Turned}

SEN. ECK asked Ms. Abercrombie if larger wells in Eastern Montana could be opened again. Ms. Abercrombie stated it is feasible.

CHAIRMAN DEVLIN asked SEN. JERGESON if this bill is a continuation of the bill introduced in 1987. SEN. JERGESON stated "Yes, but there is no sunset".

SEN. MIKE FOSTER questioned Mr. Bender in regard to the fiscal note not containing any figures for new jobs and new production. Mr. Bender responded these figures are outside the department's planning horizon.

Closing by Sponsor:

SEN. JERGESON submitted a technical amendment at the request of the Department of Revenue declaring the amendment was designed to coordinate this bill with SB 412. EXHIBIT 4. He urged committee support for the bill with the coordination amendment.

EXECUTIVE ACTION ON SB 138

Motion: SEN. DELWYN GAGE MOVED THE FEBRUARY 1ST AMENDMENT (sb013801.ajm). MOTION CARRIED UNANIMOUSLY.

Motion/Vote: SEN. MIKE FOSTER MOVED SB 138 DO PASS AS AMENDED.

Discussion: SEN. ECK asked Jeff Martin if the amendments would do anything to the bill. Mr. Martin stated the amendments would actually decrease the fiscal impact because it would value all farm homesteads to the highest agricultural rate rather than value the surrounding land.

SEN. LORENTS GROSFIELD asked Judy Paynter, DOR, what the difference would be in the fiscal note. Ms. Paynter stated she needed to make a call to her office because she didn't have the information with her. She asked the committee if they would hold action on SB 138 until she returned with the information.

Motion: SEN. FOSTER MOVED TO WITHDRAW HIS MOTION.

EXECUTIVE ACTION ON SB 198

Motion/Vote: SEN. JOHN HARP MOVED TO AMEND SB 198 (sb019801.ajm). MOTION CARRIED UNANIMOUSLY.

Motion: SEN. FOSTER MOVED DO PASS AS AMENDED.

Discussion: SEN. FRED VAN VALKENBURG commented the bill establishes an advisory committee. He stated the advisory committee will cost \$50,000 to perform the study. SEN. VAN VALKENBURG said the purpose of the study will be to come up with another way of making sure that agricultural land is not taxed. He questioned why spend \$50,000 to find a way not to tax agricultural land.

SEN. GAGE acknowledged he agrees with SEN. VAN VALKENBURG and the advisory committee should be amended out of the bill.

Motion: SEN. HARP MOVED TO STRIKE SECTION 4, LINE 27 THROUGH PAGE 6, LINE 15, DELETING THE ADVISORY COMMITTEE LANGUAGE.

Discussion: SEN. ECK stated she opposes SEN. HARP'S amendment. She commented there are advantages to knowing what the productive capacity of the land is and taxing it on the capacity rather than what they actually do with it. SEN. ECK stressed \$50,000.00 isn't a lot.

SEN. HARP commented Montana State University is going to make sure that the number one industry in the state has all the information it needs to bring whatever interest they have to the legislature. He stated he would like to strike the section.

Vote: MOTION TO DELETE THE ADVISORY COMMITTEE LANGUAGE CARRIED 7 - 1 WITH SEN. ECK VOTING IN OPPOSITION.

Motion: SEN. FOSTER MOVED SB 198 DO PASS AS AMENDED.

Discussion: SEN. GROSFIELD affirmed contrary to SEN. VAN VALKENBURG'S remarks in regard to agricultural land not being taxed, it is indeed taxed.

SEN. ECK responded agricultural land is taxed, it just hasn't increased since the 50's or 60's, it stays revenue neutral.

SEN. VAN VALKENBURG stated the taxable valuation of all the non-agricultural land and property in Missoula County is approximately equal to the taxable valuation of all the agricultural land in the State of Montana right now.

SEN. GAGE reported he was disappointed in the interim proposal. He stated he worked considerably during the last session to get the amendment in the bill that would have water costs reviewed. SEN. GAGE commented more agricultural and irrigated land was found and the valuations were reduced by the values of the new irrigated land. He stated there is valuation there and those people who have water costs get nothing in this bill in regard to valuation of their land.

CHAIRMAN DEVLIN commented this bill says there is water costs.

SEN. GAGE said this doesn't have anything to do with water costs.

Vote: MOTION CARRIED 6 - 3 WITH SEN. ECK, SEN. STANG, AND SEN. VAN VALKENBURG VOTING IN OPPOSITION on roll call vote.

EXECUTIVE ACTION ON SB 138 CONTINUED

Discussion: CHAIRMAN DEVLIN asked Judy Paynter to comment on the information she had in regard to SB 138. Ms. Paynter responded Mr. Martin's explanation of the amendments were correct.

Motion/Vote: SEN. VAN VALKENBURG MOVED DO NOT PASS ON SB 138. He commented a deal is a deal and last session it was agreed that farmsteads were to come up to 3.86%, the same as everything else. He said it was part of the whole package of passing the agricultural tax revenue neutral issue.

SEN. FOSTER declared he disagrees with SEN. VAN VALKENBURG and acknowledged SEN. MESAROS pointed out a problem that relates to a lot of property tax problems. He used the example of a person who has run a ranch or farm all of his life and somebody next door puts in a subdivision and rancher's taxes go sky high. SEN. FOSTER stated it isn't fair to the farmer or rancher or the people in many counties that are experiencing tremendous growth.

SEN. ECK said she is sensitive to SEN. FOSTER'S concerns about this issue, however, there are a number of other bills that address the issue in a broader way. She commented she is concerned how the DOR has arrived at some of the assessments and that procedure needs to be reviewed.

SEN. STANG acknowledged the 3.86% was fair. He remarked the report from the DOR on the Cameron property showed the problem isn't the percent being used, the problem is the way the department is valuing its properties, and the legislature should be firm with the DOR. SEN. STANG stated a deal is a deal.

SEN. GROSFIELD commented he agrees with being firm with the DOR as suggested by SEN. STANG.

SEN. ECK said the committee needs to look at what kind of impact the bill will have on local levels.

{Tape: 1; Side: B; Approx. Counter: 36.5.}

CHAIRMAN DEVLIN commented a problem testified to in the hearing was the valuation of an acre of land under the barn being valued the same as an acre of land with a residence on it.

Mr. Wilke, DOR, stated that particular problem should not have happened. He said the problem will be corrected.

Ms. Paynter reported the one acre under the house is going to be valued at the highest rate regardless of what his land elsewhere is valued.

SEN. GAGE stressed the amendment does not state that.

Ms. Paynter explained there is one acre that is valued at the highest rate.

SEN. VAN VALKENBURG stated in response to CHAIRMAN DEVLIN'S comment regarding the testimony of one acre under the barn being valued high, this affected agricultural land all across the state and testimony was heard from only one or two people who complained.

Motion/Vote: QUESTION WAS CALLED ON THE MOTION OF SB 138 DO NOT PASS AS AMENDED. MOTION FAILED 6 - 3 WITH SEN. ECK, SEN. STANG, AND SEN. VAN VALKENBURG VOTING FOR THE MOTION on roll call vote. SEN. FOSTER MOVED SB 138 DO PASS AS AMENDED. MOTION CARRIED 6 - 3 WITH SEN. ECK, SEN. STANG, AND SEN. VAN VALKENBURG VOTING IN OPPOSITION on roll call vote.

EXECUTIVE ACTION ON SB 161


Motion: SEN. BARRY "SPOOK" STANG MOVED SB 161 DO PASS AS AMENDED.

Discussion: SEN. STANG commented the fiscal note (#3) shows some impact on local taxing jurisdictions which amounts to approximately \$3,000.00 per county. He stated most County Treasurer's and the Montana Association of Counties (MACo) agree that the ease and efficiency will make up for the cost.

Vote: MOTION CARRIED 8 - 1 WITH CHAIRMAN DEVLIN VOTING IN OPPOSITION.

ADJOURNMENT

Adjournment: 9:56 a.m.


GERRY DEVLIN, Chairman


RENEE J. PODELL, Secretary

GD/rp

**MONTANA SENATE
1995 LEGISLATURE
TAXATION COMMITTEE**

ROLL CALL

DATE March 2, 1995

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Presenting
Bill G. L.
arr. J. L.

Presenting
bill
8:15 arr

SENATE STANDING COMMITTEE REPORT

Page 1 of 1
March 2, 1995



MR. PRESIDENT:

We, your committee on Taxation having had under consideration SB 198 (first reading copy -- white), respectfully report that SB 198 be amended as follows and as so amended do pass.

Signed: 
Senator Gerry Devlin, Chair

That such amendments read:

1. Title, lines 8 through 10.
Strike: "ESTABLISHING" on line 8 through "LAND;" on line 10
2. Title, lines 11 and 12.
Strike: the second ", " on line 11
Insert: "AND"
Following: "APPLICABILITY DATES"
Strike: ", AND" on line 11 through "DATE" on line 12
3. Page 1, line 17.
Strike: "1994"
Insert: "1995 and 1996"
4. Page 5, line 27 through page 6, line 15.
Strike: section 4 in its entirety
Renumber: subsequent sections
5. Page 6, line 19.
Following: "3,"
Insert: "and"
Strike: "4"
Insert: "6"
6. Page 6, line 22.
Strike: "5"
Insert: "4"
7. Page 6, line 24.
Strike: "Retroactive applicability"
Insert: "Applicability"
8. Page 6, line 26.
Strike: "section"
Insert: "Section"
9. Page 6, line 28.
Strike: section 8 in its entirety


Amd. Coord.
 Sec. of Senate

491404SC.SPv

SENATE STANDING COMMITTEE REPORT

Page 1 of 1
March 2, 1995

MR. PRESIDENT:

We, your committee on Taxation having had under consideration SB 138 (first reading copy -- white), respectfully report that SB 138 be amended as follows and as so amended do pass..

Signed: 
Senator Gerry Devlin, Chair

That such amendments read:

1. Title, line 6.

Following: "15-6-134"

Insert: ", "

Strike: "AND"

Following: "15-7-202, "

Insert: "AND 15-7-206, "

2. Page 3, line 29 through page 4, line 1.

Strike: "land" on page 3, line 29 through "owner" on page 4, line 1

Insert: "land that is devoted to residential use or that is used for agricultural buildings and is included in or is contiguous to land under the same ownership that is classified as agricultural land must be classified as agricultural land, and the land must be valued as provided in 15-7-206"

3. Page 4.

Following: line 29

Insert: "Section 3. Section 15-7-206, MCA, is amended to read:

"15-7-206. Improvements on agricultural land. (1) In determining the total area of land actively devoted to agricultural use, there ~~shall be~~ is included the area of all land under barns, sheds, silos, cribs, greenhouses, and like structures, lakes, dams, ponds, streams, irrigation ditches, and like facilities.

(2) One acre of land beneath agricultural improvements on agricultural land, as described in 15-7-202(1)(c)(ii), is valued at the class with the highest productive value and production capacity of agricultural land." "

Renumber: subsequent section

-END-



Amd. Coord.
Sec. of Senate

491251SC.SPV

MONTANA SENATE
1995 LEGISLATURE
TAXATION COMMITTEE
ROLL CALL VOTE

DATE March 2, 1995 BILL NO. 30 198 NUMBER 1

MOTION: DPAA

NAME	AYE	NO
GERRY DEVLIN, CHAIRMAN	✓	
MACK COLE	✓	
DOROTHY ECK		✓
DELWYN GAGE	✓	
LORENTS GROSFIELD	✓	
JOHN HARP	✓	
BARRY "SPOOK" STANG		✓
FRED VAN VALKENBURG		✓
MIKE FOSTER, VICE CHAIRMAN	✓	
	6	3

DATE March 2, 1995 BILL NO. 138 NUMBER 1

[illegible]

SEN:1995
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MONTANA SENATE
1995 LEGISLATURE
TAXATION COMMITTEE
ROLL CALL VOTE

DATE March 2, 1995 BILL NO. SB 138 NUMBER 2

MOTION: *DPAA*

[illegible]

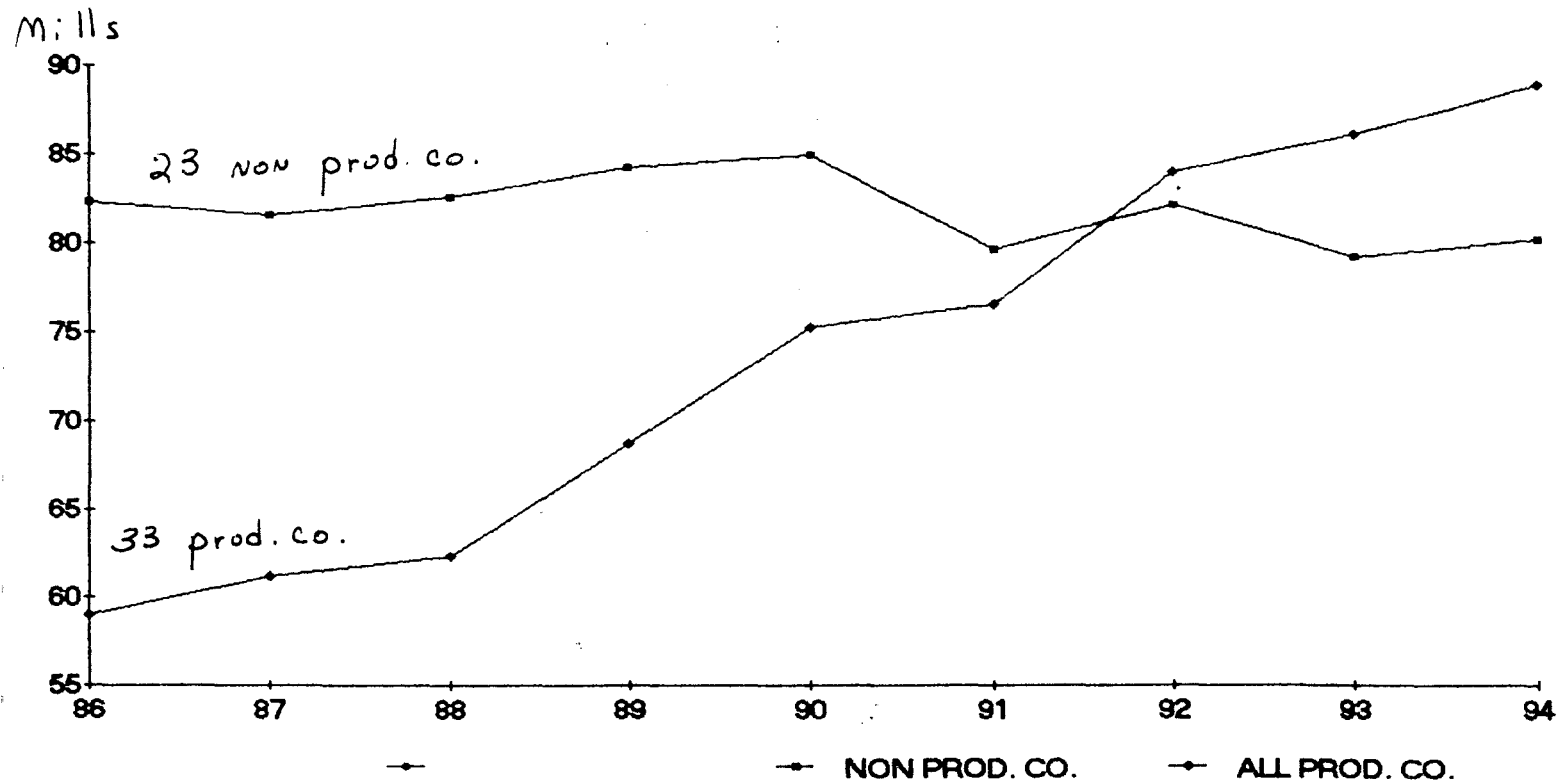
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SENATE TAXATION

DATE March 2, 1995BILL NO. 1BILL NO. SB 338

d-L



Average mill levies

SENATE TAXATION

DATE March 2, 1995EXHIBIT NO. 2BILL NO. SB 338

520 North 31st Street, Suite 500

P. O. Box 7168

Billings, Montana 59103-7168

(406)245-6248

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NANCE PETROLEUM CORPORATION

Robert L. Nance, President

March 1, 1995

The Honorable Senator Gerry Devlin, Chair
Senate Taxation Committee
Montana State Senate
Capitol Station
Helena, MT 59620-1706

VIA FAX 1(900)225-1600

Dear Senator Devlin:

I am writing this letter to urge your support of SB 338, the New Production Incentive Bill, which will be coming before your Committee on March 2, 1995.

I have been an independent oil producer in Montana for twenty-six years and have suffered through some very depressive times in this business. Montana has a great deal of potential for a successful energy future, despite some reports that the industry is about finished that are simply not true. The message our State sends to "Out of State" investors is very negative and any positive action, such as this, is helpful.

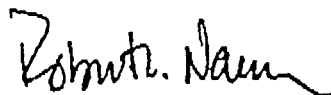
Montana reached a high of \$137 million in State and Local production tax receipts in 1984, today that number is approximately \$65 million \pm , that is over a 50% decrease. A lot, but not all, of this decline is due to decreased activity, any help and encouragement this State can give to this industry will, in the long run, bear fruit and stimulate our economy.

My company plans several deep (13,500 foot) wells in Eastern Montana this year. An incentive, such as proposed in SB 338, will have a major impact upon our plans to drill or not.

Thank you for your consideration to this important legislation.

Sincerely yours,

NANCE PETROLEUM CORPORATION



Robert L. Nance
President

RLN/jm



Montana Land and Mineral
Owners Association

P.O. Box 1301

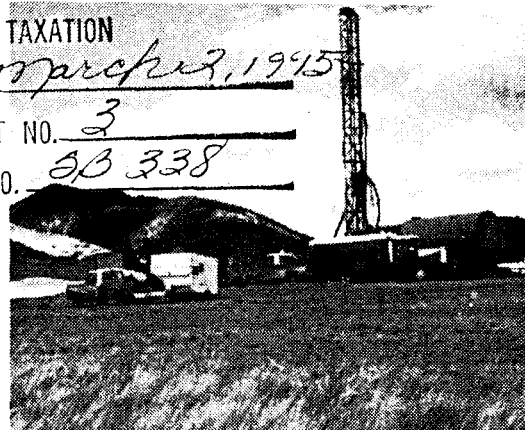
Havre, Montana 59501

SENATE TAXATION

DATE March 2, 1995

EXHIBIT NO. 3

BILL NO. SB 338



February 24, 1995

The Honorable Gerry Devlin
Chairman, Senate Taxation Committee
Montana State Senate
Capitol Station
Helena, MT 59620-1706

RE: SB 338 (Jergesen) Oil and Gas New Well Incentive

Dear Senator Devlin:

The Montana Land and Mineral Owners Association consists of approximately 170 members with mineral and surface acreage in Blaine, Chouteau, Hill, Liberty and Phillips Counties.

On behalf of the directors and members of the MLMOA, we are writing to indicate our support of SB 338 which promotes industry growth in the State of Montana.

Sincerely,

Herb Vasseur, President

HV:sn

**Amendments to Senate Bill 338
First Reading Copy**

**Prepared by Department of Revenue
3/1/95 5:17pm**

REASON FOR AMENDMENT: This amendment is designed to coordinate this bill with Senate Bill No. 412 [LC0975.01]

AMENDMENTS

1. Page 8, line 11.

Insert: "NEW SECTION. Section 3. Coordination instruction. If Senate Bill No. 412 is passed and approved then Senate Bill No. 412 is further amended as provided in subsection (1) and the distribution of revenue shall be modified as provided in subsection (2). If necessary the Code Commissioner shall correct all erroneous internal references within Senate Bill No. 412 cause by [this section.]

(1) Section 4 of Senate Bill No. 412 shall be further amended to reduce the tax rate for natural gas in subsection 2(b)(i) and 2(b)(ii) for the first 24 months of qualified production by 2.65% and the tax rate for oil in subsections 4(a)(ii)(A), 4(a)(ii)(B), 4(c)(i), 4(c)(ii), 4(d)(i)(B), 4(d)(ii)(B) and 4(e)(ii) be reduced by 5% for the first 24 months of qualified production.

(2) The department of revenue shall, by rule, change the formula under [section 18] for the distribution of taxes collected under [section 4] of Senate Bill 412. In recalculating the distribution rates for the revenue raised by Senate Bill No. 412, the department of revenue must determine the revised rate according to a formula that presumes that the reduction in the tax rate as set forth in [section 4] of Senate Bill No. 412 as introduced and as amended by [this section] is to be borne by the state and not local governments."

Renumber: subsequent sections.

DATE March 2, 1995

SENATE COMMITTEE ON Taxation

BILLS BEING HEARD TODAY: SB 338

Senator Ferguson

< ■ > PLEASE PRINT < ■ >

Check One

Name	Representing	Bill No.	Support	Oppose
Jeff Hume	Oil & Gas Resources	338	X	
FRANK B HAUGHTON Jr	Independent & MAPL	338	X	
GAIL ABERCROMBIE	MT Petroleum Assn	338	X	
Jim HALVERSON	OIL-GAS-COAL CO	338	X	
Tom HAUGHTMAN	INDEPENDENT	338	X	
SBROMIE ANDERSON	SITELL BOP INC	338	X	
Chip Youlden	IN Exploration & Production	338	X	
BILL VAUGHNEY	HAVERG INDEP. OIL & GAS PRODUCER	338	X	
Gina Paladichuk	Richland Development	338	X	
Gatrick M. Montalban	MSA NMOGA	338	X	
DENNIS IVERSON	NMOGA	11	✓	
Pat J O'Bell	Self & 3 fields	338	X	
David O'Brien	MT chamber	338	✓	
Larry Truett	Senate Dist 50	338	✓	

VISITOR REGISTER

PLEASE LEAVE PREPARED STATEMENT WITH COMMITTEE SECRETARY