MINUTES

MONTANA SENATE
54th LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN GERRY DEVLIN**, on March 10, 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: **SEN. DOROTHY ECK**

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 383, SB 412
Executive Action: None

HEARING ON SB 412

Opening Statement by Sponsor:

SEN. LORENTS GROSFIELD, SD 13, Big Timber, stated SB 412 is a result of a long drawn out process of getting several people together and reviewing oil and gas taxation laws. He affirmed this legislation generally revises taxation of oil and gas, simplifying the tax structure. **SEN. GROSFIELD** acknowledged Section 2 summarizes the whole purpose of the bill. He stated SB 412 provides an incentive to pay the accelerated portion of the taxes in 1995. He reported there are some errors in the fiscal note and affirmed the correct totals. **SEN. GROSFIELD** said this bill takes 27 different tax rates and reduces them to five rates for oil and five rates for gas. He reported all filing regulations have been standardized on a quarterly basis. **SEN. GROSFIELD** attested this bill has no effect on SB 18 which was passed during the Special Session in regard to horizontal drilling.

Proponents' Testimony:

Don Hoffman, Bureau Chief, Department of Revenue, expressed the confusing manner in which newcomers to the state learn about gas and oil taxation laws. **Mr. Hoffman** presented a copy of a letter from a taxpayer who asked for a waiver of penalty fees because the filing date was unclear. **EXHIBIT 1.** He presented a handout titled "Oil Production Tax Rate Simplification", **EXHIBIT 2**; a handout titled "State Oil and Gas Production Taxes as a Percent of Total Production Taxes", **EXHIBIT 3**; and a "Timeline for Acceleration of LGST and Implementation of New Combined Oil and Gas Production Tax", **EXHIBIT 4. Mr. Hoffman** presented written testimony from **Fred Olson, Vice President, Montana Land and Mineral Owners Association. EXHIBIT 5.**

David Johnson, President, of the Montana Petroleum Association and Montana Vice President, of the Rocky Mountain Oil and Gas Association, presented written testimony. **EXHIBIT 6.**

Jerome Anderson, Shell Western Exploration and Production, Inc., declared he echoes the comments made by **Mr. Johnson.** He urged support for the simplification process existing in this bill.

Dennis Burr, Montana Taxpayers Association, stressed full support for SB 412.

Patrick M. Montalban, Vice President, Northern Montana Oil and Gas Association, stated representatives from schools, counties, royalty owners, gas and oil majors and independents met to put this legislation together. He explained when it came to simplification of taxes in the State of Montana his association asked for one basic tax for one stripper well, for simplification of tax payments, and for a 12 month exemption on the drilling of new wells. **Mr. Montalban** urged support for SB 412.

SEN. LARRY TVEIT, SD 50, Fairview, commented he supports SB 412 with an amendment, which he previously discussed with the sponsor of the bill. He acknowledged the amendment hasn't been drafted at this time, however, it will be presented for executive action. **SEN. TVEIT** stated this is a fair proposal.

Madalyn Quinlan, Office of Public Instruction (OPI), stated OPI doesn't take a position on the tax rates in this bill, however, OPI staff attended the meetings and helped draft SB 412. She remarked the one time monies that come to the districts from calendar 1995 can be used for miscellaneous funds.

Stanley Kaleczyc, Meridan Oil Company, commented the administrative simplification in this bill is long overdue. He stated the bill as presently drafted maintains the incentives on horizontal production, and for primary producers the bill maintains the status quo with respect to rates. He urged support for SB 412.

Jim Paladichuk, W. D. Resources (W.B.I.P.), acknowledged he supports the remarks made by **Mr. Anderson** and **Mr. Johnson.**

Alyse Grant, Montana Power Company (MPC), Butte, stated MPC was involved in the preliminary draft discussions. She attested it was MPC's intent to simplify and make more efficient a tax structure that was proven to be time consuming, confusing, costly, and burdensome. She reported SB 412 accomplished that goal.

Patty O'Reilly, Independent from Shelby, Montana, announced it will be a delight to fill out one form. She urged support for SB 412.

Sue Olson, President, Montana Association of Oil, Gas and Coal Counties, and a Musselshell County Commissioner, attested the association supports SB 412. She stated the association was involved in the evolution of this bill since last summer. She said it will provide some much needed additional revenues to the counties.

Jim Halverson, Association of Oil, Gas, and Coal Counties, declared support for SB 412, however, he had one exception, which will be clarified in SB 383.

Warren E. Johnson, Richland County Commissioner, submitted written testimony. **EXHIBIT 7.**

Garth Owens, Vice President, H & G Drilling, urged passage of SB 412.

{Tape: 1; Side: B; Comments: Turn Tape.}

Dean Harmon, Roosevelt County Commissioner, voiced support for SB 412.

Gordon Kampen, Sheridan County Commissioner, wished to go on record in support of SB 412.

Clair Moxley, Blaine County Commissioner, professed support for SB 412.

Don Rieger, Fallon County Commissioner, declared support for SB 412.

Gloria Paladichuk, Richland Development, commented she strongly supports SB 412.

<u>Opponents' Testimony</u>:

Larry G. Schuster, Attorney representing the interests of Powder River County and Rosebud County, Bighorn County, and Phillips County, commented this legislation is not favorable toward the counties he represents. He submitted written testimony. **EXHIBIT 8.**

Bill Rappold, Chairman Pondera County Commissioners, submitted written testimony in opposition to SB 412. **EXHIBIT 9.**

Wayne Stahl, Phillips County Commissioner, declared the splitting of SB 412 and SB 383 was not good.

Mark Pinkerton, Rosebud County Commissioner, attested opposition to SB 412.

<u>Informational Testimony</u>:

None

<u>Questions From Committee Members and Responses</u>:

SEN. DELWYN GAGE questioned **Mr. Hoffman** in regard to Page 21, Line 16 asking why 6% of taxable value of the county is added to taxable value January 1st of each year. **Mr. Hoffman** stated it is current law. **SEN. GAGE** asked **Mr. Hoffman** why this particular language is in the bill. **Mr. Hoffman** commented he would research the reasoning for the language and report back to him.

SEN. GAGE asked **Mr. Schuster** if his opposition to the bill is primarily centered around the conversion from the net gross tax to the flat tax. **Mr. Schuster** stated in essence it isn't his complete position, however, there is opposition to the flat tax.

SEN. MIKE FOSTER asked **Ms. Grant** what will be the impact in the company if this bill is adopted in regard to layoffs of employees. **Ms. Grant** commented she probably isn't the right person to answer the question.

SEN. JOHN HARP asked **Mr. Robinson** what was done differently in project 1995. **Mr. Robinson** stated the DOR is in the middle of litigation in regard to previous legislation that was passed, and a lot of the work done in the 1995 issue was basically "what if scenarios". **Mr. Robinson** stated the DOR perceives the issue in the litigation goes back to the net proceeds to the local government severance tax. **Mr. Robinson** acknowledged the litigation deals with whether the legislature has the authority to move from the net proceeds to a flat tax. **SEN. HARP** asked **Mr. Robinson** how anyone can look at working papers, before legislation is drafted, and make the statement that the DOR is not acting in good faith. **Mr. Robinson** stated in looking at all of the activity there is a lot of information provided that is not DOR information in terms of how it applies to different businesses. He attested projected data is a different issue, however, if there is a particular request for historical data the DOR will provide it into the record for that particular lawsuit.

SEN. BARRY "SPOOK" STANG asked **Mr. Robinson** what happens if the committee deals with **SEN. TVEIT'S** amendments and the percentages of the bill is changed. **Mr. Robinson** said the DOR tried to maintain revenue neutrality throughout the process. He stated the amendments are not necessary because this is a consensus compromise package.

SEN. GAGE asked **Mr. Robinson** to share with the committee where the whole thrust for starting this project came from. **Mr. Robinson** said the initial contact came from the DOR in terms of determining if there was interest in moving forward on a simplification process. He asked **Mr. Hoffman** to respond. **Mr. Hoffman** commented the first contact was an informal one at a Montana Power meeting in 1993, in Billings.

CHAIRMAN DEVLIN asked **Mr. Hoffman** how the reporting dates got so fragmented. **Mr. Hoffman** remarked his analysis would be that it was tinkered with all along the line.

Closing by Sponsor:

SEN. GROSFIELD declared SB 412 is a simplification bill going from 27 rates down to 5 rates for oil and 5 for gas. He explained **SEN. TVEIT'S** amendments would change it to 5 for gas and 6 for oil. He urged the committee to think seriously before changing rates. **SEN. GROSFIELD** said the opponents who spoke on SB 412 were really opponents to HB 28 (Special Session, 1989).

HEARING ON SB 383

Opening Statement by Sponsor:

SEN. LARRY TVEIT, SD 50, Fairview, explained SB 383 was part of SB 412 before they were separated into two different bills. He stated SB 383 pertains to distribution of the energy dollars between the counties. He said there are winners and losers. **SEN. TVEIT** commented a technical amendment is needed and will be distributed before executive action.

Proponents' Testimony:

Jim Halverson, Association of Oil, Gas and Coal Counties, presented a value distribution chart. **EXHIBIT 10. Mr. Halverson** submitted an amendment. **EXHIBIT 11.**

Sue M. Olson, President, Montana Association of Oil, Gas and Coal Counties, stated SB 383 has been a very controversial bill among the counties. She said it is essential this bill run in concert with SB 412, because it will give the loser counties the additional revenue from the accelerated payment to supplement their mill levies without having to raise their taxes. **Ms. Olson** commented the unit value concept was flawed when it was initiated. She urged support for SB 383. **Ms. Olson** spoke on behalf of **Musselshell County** stating this county is a loser county under this bill, however, they feel they are giving back to counties what they have taken from them for the last six years. She announced **Musselshell County** urges support for this bill. **Ms. Olson** acknowledged she speaks on behalf of **Valley County**. She stated **Valley County** wishes to go on record in support of SB 383.

Mick Robinson, Director, Department of Revenue (DOR), stated in terms of discussing simplification of oil and gas, most county commissioners and school officials see the unit value method as more complicated. He said the liability method has a more direct relationship in terms of the activity within a particular county. **Mr. Robinson** acknowledged this is seen as a fairness issue. He reported the reason for the bills being separated is due to the impact on counties.

Dennis Burr, Montana Taxpayers Association, offered support for SB 383. He stated this is a good time to change, otherwise, the inequities will get so great, change will be forced.

Gloria Paladichuk, Richland Development, submitted written testimony. **EXHIBIT 12.**

Clair Moxley, Blaine County Commissioner, Member of the Association of Oil, Gas and Coal Counties Board, stated SB 383 will provide badly needed correction for distribution.

Dean Harmon, Rosebud County Commissioner, commented Rosebud County is a loser in this bill, however, the commission supports SB 383.

Gordon Kampen, Sheridan County Commissioner, declared Sheridan County is a loser in this bill, however, the commission is in support of SB 383.

{Tape: 2; Side: 1; Comments: Insert Tape 2.}

Frank Loehding, Bainville County Superintendent of Schools, affirmed support for SB 383.

Warren Johnson, Richland County Commissioner, commented much discussion about this bill has been about winner and loser counties. He stated in order to be a winner under SB 383 a county would have to have been a loser in 1989. He reported Richland County has had significant loss of revenue. **Mr. Johnson** presented written testimony. **(SEE EXHIBIT 7).**

Opponents' Testimony:

Don Rieger, Fallon County Commissioner, submitted written testimony. **EXHIBIT 13.**

Carl Knudsen, Superintendent of Schools in Saco, spoke in opposition of SB 383 stating now is not the time to change.

Wayne Stahl, Phillips County Commissioner, stated opposition to SB 383 based on the rate change to stripper wells due to the reduction in production. He asked the committee not to remove the tax break on stripper wells, and to determine which ones truly are stripper wells.

Bill Rappold, Pondera County Commission, presented written testimony. **(SEE EXHIBIT 9).**

Carter Christiansen, Superintendent of Schools in Plenna, stressed no matter which distribution is used the unnamed county in example one is still going to generate approximately 2½ to 3 times the barrels of oil, more than any other county on the list generates. He explained when generating 2½ times the amount of production there will probably be 2½ times the amount of taxes.

SEN. DELWYN GAGE, SD 43, Cut Bank, spoke in opposition to SB 383.

Informational Testimony:

None

Questions From Committee Members and Responses:

SEN. STANG asked **Mr. Robinson** if he could provide the committee with a print-out on the unit value versus the liability. **Mr. Robinson** said he would provide the information.

SEN. GAGE asked **Mr. Halverson** if the numbers on the handout he presented represented mills. **Mr. Halverson** stated it is the county mill levies taken from the DOR revenue report. **SEN. GAGE** commented part of the graph was not a unit value system and asked **Mr. Halverson** to comment. **Mr. Halverson** stated, "Yes, from 1986 - 1989".

SEN. GAGE asked **Mr. Johnson** how much it costs for the county to provide services to the oil and gas industry. **Mr. Johnson** commented he couldn't immediately come up with a dollar amount. He stated in his district there has been three cement bridges which were basically broken down from the oil industry.

SEN. GAGE asked **Mr. Knudsen** to give a run down on why he had to come up with $100 mills after a flat tax. **Mr. Knudsen** responded the taxable value in his district in 1989 was $15 million. He stated the change from gross proceeds to flat tax generated

$390,000.00 of flat tax money to replace the mills that used to be levied on the $15 million.

SEN. FRED VAN VALKENBURG asked **Mr. Robinson** if he had done any work on a fiscal note for this bill. **Mr. Robinson** stated there is a fiscal note for SB 412.

Closing by Sponsor:

SEN. TVEIT said there is a issue of fairness in this bill. He questioned what constitutes an emergency. He acknowledged pre-1985 reductions are being dealt with. **SEN. TVEIT** reported there is a loss of $269,000.00 to the university system.

ADJOURNMENT

Adjournment: 10:35 a.m.

Sen Gerry Devlin

GERRY DEVLIN, Chairman

Renée J. Podell

RENEE J. PODELL, Secretary

GD/rp

MONTANA SENATE
1995 LEGISLATURE
TAXATION COMMITTEE

ROLL CALL DATE March 10, 1995

NAME	PRESENT	ABSENT	EXCUSED
MACK COLE	✓		
DELWYN GAGE	✓		
LORENTS GROSFIELD	✓		
JOHN HARP	✓		
DOROTHY ECK		✓	
BARRY "SPOOK" STANG	✓		
FRED VAN VALKENBURG	✓		
MIKE FOSTER, VICE CHAIRMAN	✓		
GERRY DEVLIN, CHAIRMAN	✓		

SEN:1995
wp.rollcall.man
CS-09

SENATE TAXATION
DATE March 10, 1995
EXHIBIT NO. 1
BILL NO. SB 412

February 24, 1995

RECEIVED
MAR 1 1995
DEPARTMENT OF REVENUE

State of Montana
Natural Resource &
Corporate Tax Division
Helena, MT 59620-2701

ATTN: Cheryl

Dear Cheryl:

In regards to the enclosed Notice of Delinquent Natural Gas Severance and Natural Gas Privilege & License tax due, I would like to offer the following explanation for late payment. I would also like to request that you please waive the penalties and/or interest assessed.

In October, 1994 I took over the data processing and gas tax reporting duties from a previous employee. I have never worked specifically with reporting these types of taxes to the state and only had two weeks training to assume the duties of a large system. I made a calendar list of all due dates for tax reports early in October so I would not miss any filings. And, I have filed all reports on time. However, I mistakenly thought the tax computed on this particular report was to be paid at a later date (with the 4th quarter return) as is indicated on the bottom of Form NG-1. This seemed logical at the time since several other reports are sent without payment and the state or county creates a statement to be paid anywhere from 60 days to 1 year later, as in the case of LGST Tax Reports.

Since receiving notice of late payment I have reviewed all tax reports due to make sure which ones require payment with the report. I don't want this to happen again!

rg/wp/22495

SENATE TAXATION
DATE March 10, 1995
EXHIBIT NO. 2
SB418

Oil Production Tax Rate Simplification

Working Interest "OLD" = 14.1%

Current Production Type	Production	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
LGST-Working Interest	10,126,548	$149,700,759	14.10%	14.10%	$21,107,807	$21,107,807	$0

W.I. "NEW" = 12.7% : 12-Month = 5.7%

Current Production Type	Production	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
Net Proceeds-Working Interest	2,199,268	32,511,775	12.70%	12.70%	$4,128,995	$4,128,995	$0
Net Proceeds (Exempt) Working Interest	423,443	6,259,759	5.70%	5.70%	$356,806	$356,806	$0
Total Production and Effective Tax Rates	2,622,711	$38,771,534	11.57%	11.57%	$4,485,802	$4,485,802	$0

STRIPPER = 11.0% : 12-Month = 5.7%

Current Production Type	Production	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
LGST-Working Interest	1,820,818	$26,917,152	10.70%	11.00%	$2,880,135	$2,960,887	$80,751
Net Proceeds Working Interest	400,340	5,918,219	12.70%	11.00%	$751,614	$651,004	($100,610)
Net Proceeds (Exempt) Working Interest	77,081	1,139,483	5.70%	5.70%	$64,951	$64,951	$0
Total Production and Effective Tax Rates	2,298,238	$33,974,855	10.88%	10.82%	$3,696,700	$3,676,841	($19,858)

ROYALTY = 16.5% : No 12-Month

Current Production Type	Production	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
LGST NWI	1,478,734	$21,860,125	18.20%	16.50%	$3,978,543	$3,606,921	($371,622)
Net Proceeds NWI	276,107	4,081,694	12.70%	16.50%	$518,375	$673,479	$155,104
Net Proceeds (Exempt) NWI	61,862	914,513	5.70%	16.50%	$52,127	$150,895	$98,767
Total Production and Effective Tax Rates	1,816,704	$26,856,331	16.94%	16.50%	$4,549,045	$4,431,295	($117,750)

INCENTIVES

All current law horizontal and enhanced recovery tax incentives remain unchanged.

	Production	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
Grand Total	**16,864,201**	**$249,303,479**	**13.57%**	**13.52%**	**33,839,353**	**33,701,745**	**($137,609)**

ASSUMPTIONS:

• Production is CY1993 • 89% of Net Proceeds production is working interest and 11% is non-working interest • 84.6% of total production would qualify as regular and 15.4% as stripper production •

• Assumed price per barrel (all oil) is $14.783 • 4.2% of total production is non-taxable royalties • The 12-month holiday on new production is included under the simplified rate structure •

Natural Gas Tax Rate Simplification

Working Interest "Old" = 18.75%

Current Production Type (Regular)	Production	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
LGST Working Interest	11,165,202	$19,550,269	18.60%	18.75%	$3,636,350	$3,665,675	$29,325

W.I. "New" = 15.35% : 12-Month = 3.35%

Current Production Type (Regular)	Production	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
Net Proceeds Working Interest	6,866,905	12,023,951	15.35%	15.35%	1,845,676	1,845,676	$0
Net Proceeds (Exempt) Working Interest	1,943,703	3,403,424	3.35%	3.35%	114,015	114,015	$0
Total	8,810,608	$15,427,375	12.70%	12.70%	1,959,691	1,959,691	$0

STRIPPER=11.2% : 12-Month =3.35%

Current Production Type	Production	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
LGST-Working Interest (St. Sev. Taxable)	1,729,138	$3,027,721	12.29%	11.20%	$372,107	$339,105	($33,002)
LGST-Working Interest (St. Sev. Exempt)	11,779,753	20,626,347	10.70%	11.20%	2,207,019	2,310,151	103,132
Net Proceeds-Working Interest (St Sev Taxable)	1,011,281	1,770,753	14.29%	11.20%	253,041	198,324	(54,716)
Net Proceeds-Working Interest (St Sev Exempt)	6,889,352	12,063,255	12.70%	11.20%	1,532,033	1,351,085	(180,949)
Net Proceeds (Exempt) W.I. (St. Sev. Taxable)	286,247	501,218	2.29%	3.35%	11,478	16,791	5,313
Net Proceeds (Exempt) W.I. (St. Sev. Exempt)	1,950,057	3,414,550	0.70%	3.35%	23,902	114,387	90,486
Total	23,645,827	$41,403,844	10.63%	10.46%	$4,399,580	$4,329,843	($69,737)

ROYALTY=15.00% : No 12-Month

Current Production Type	Production	Gross Value	Current Rate	Proposed Rate	Current Liability	Proposed Liability	Difference
LGST- Non-Working Interest Regular	1,802,920	$3,156,913	18.60%	15.00%	$587,186	$473,537	($113,649)
LGST-NWI Stripper (St. Sev. Taxable)	188,188	329,517	17.54%	15.00%	57,797	49,428	(8,370)
LGST-NWI Stripper (St. Sev. Exempt)	1,282,030	2,244,835	15.95%	15.00%	358,051	336,725	(21,326)
Net Proceeds-NWI Regular	909,884	1,593,207	15.35%	15.00%	244,557	238,981	(5,576)
Net Proceeds-NWI Stripper (St. Sev. Taxable)	133,998	234,630	14.29%	15.00%	33,529	35,194	1,666
Net Proceeds-NWI Stripper (St. Sev. Exempt)	912,859	1,598,415	12.70%	15.00%	202,999	239,762	36,764
Exempt NP - NWI Regular	257,546	450,963	3.35%	15.00%	15,107	67,645	52,537
Exempt NP- NWI Stripper (St. Sev. Taxable)	37,929	66,413	2.29%	15.00%	1,521	9,962	8,441
Exempt NP- NWI Stripper (St. Sev. Exempt)	258,388	452,437	0.70%	15.00%	3,167	67,866	64,699
Total	5,783,741	$10,127,331	14.85%	15.00%	$1,503,914	$1,519,100	$15,185

Grand Total	**49,405,379**	**$86,508,818**	**13.29%**	**13.26%**	**$11,499,535**	**$11,474,309**	**($25,226)**

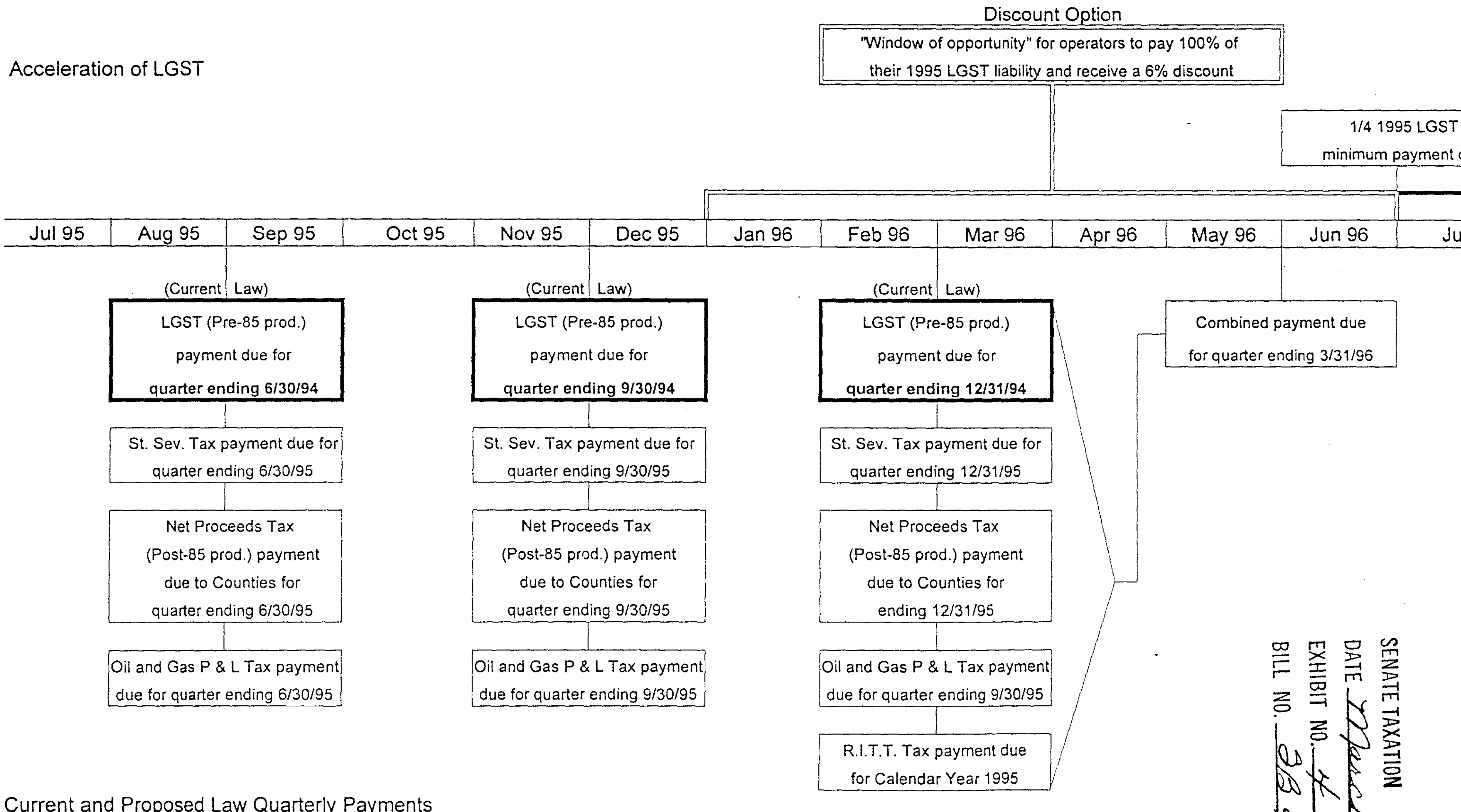
State Oil and Gas Production Taxes As A Percent of Total Production Taxes

(Method Used To Determine Project-95 Across-the-board State/Local Distribution Percentages)
CY1993 Base Projected to CY1996

Production Type	Local	State	Combined	Percent To State
LGST Royalty Regular Gas	$434,525	$95,453	$529,979	18.01%
LGST Regular Gas	2,790,790	613,059	3,403,849	18.01%
LGST Royalty Stripper Gas	396,420	18,725	415,146	4.51%
LGST Regular Stripper Gas	2,710,391	195,244	2,905,635	6.72%
Net Proceeds Royalty Stripper Gas	135,311	9,704	145,016	6.69%
Net Proceeds Regular Stripper Gas	1,373,824	82,470	1,456,293	5.66%
Net Proceeds Royalty Regular Gas	348,552	118,075	466,627	25.30%
Net Proceeds Regular Gas	2,148,681	599,840	2,748,522	21.82%
Total Gas	$10,338,495	$1,732,570	$12,071,066	14.35%

Production Type	Local	State	Combined	Percent To State
LGST Royalty Regular Oil	$1,789,206	$815,878	$2,605,085	31.32%
LGST Regular Oil	9,698,587	6,581,184	16,279,771	40.43%
LGST Royalty Stripper Oil	339,130	154,643	493,774	31.32%
LGST Stripper Oil	1,017,197	1,159,604	2,176,801	53.27%
Net Proceeds Royalty Stripper Oil	19,160	16,847	36,007	46.79%
Net Proceeds Stripper Oil	123,867	100,863	224,730	44.88%
Net Proceeds Royalty Regular Oil	426,902	409,275	836,177	48.95%
Net Proceeds Regular Oil	3,336,246	2,716,657	6,052,903	44.88%
Total Oil	$16,750,295	$11,954,952	$28,705,247	41.65%

TIMELINE FOR ACCELERATION O

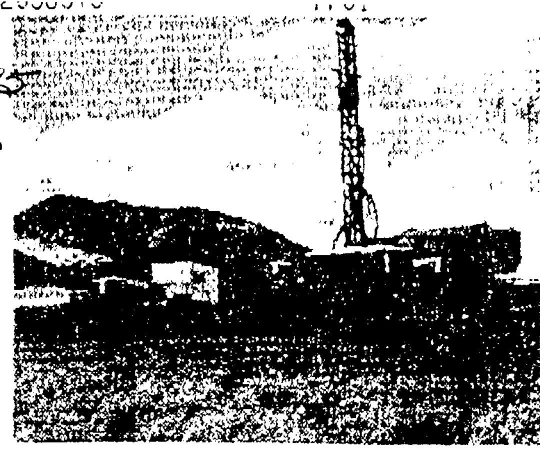


SENATE TAXATION
DATE March 10
EXHIBIT NO. 4
BILL NO. SB 412

SENATE TAXATION
DATE March 10, 1995
5
BILL NO. SB 412

Montana Land and Mineral Owners Association

P.O. Box 1301
Havre, Montana 59501



March 9, 1995

Mr. Don Hoffman
Bureau Chief
Natural Resources Bureau
Mitchell Building
Helena, MT 59620

Dear Mr. Hoffman:

The following is being submitted for testimony at the legislative hearing concerning SB 412.

The Montana Land and Mineral Owners Association consists of approximately 160 members from Hill, Blaine, Chouteau, Liberty and Phillips Counties and has been in existence for over 20 years.

The vast majority of production in our area is natural gas with only a small amount of oil production. Because of this our knowledge of oil production and taxation is limited, thus this testimony will deal only with the natural gas portion of SB 412.

On behalf of the directors and members of the MLMOA, we strongly support this proposal for the following reasons:

1. Royalty owners will have only one tax rate which will make their royalty statements much easier to understand and keep straight.

2. The bill creates a stripper category for "new production" which should encourage increased exploration.

3. The proposed tax structure would not seem so menacing to out-of-state producers interested in expanding into Montana.

4. All taxes will be filed on a single quarterly tax return.

5. All categories would remain "revenue neutral."

Our association feels that this proposal was a good idea to start with and has been supported by industry and royalty owners alike. We wish to commend the Department of Revenue for their efforts.

In closing I ask for your support of SB 412 in its current form.

Thank you for your consideration.

Sincerely,

Fred S. Olson

Fred Olson
Vice President

FO:sn

cc: Herb Vasseur, MLMOA President

MONTANA PETROLEUM ASSOCIATION
A Division of the
Rocky Mountain Oil and Gas Association

SENATE TAXATION
DATE March 10, 1995
EXHIBIT NO. 6
BILL NO. SB 412

33 Last Chance Gulch, Suite 2B
Post Office Box 1186
Helena, Montana 59624-1186
Telephone (406) 442-7582
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Gail Abercrombie
Executive Director

TESTIMONY

David A. Johnson
President
Montana Petroleum Association

SB 412
GENERALLY REVISING TAXATION OF OIL AND NATURAL GAS

March 10, 1995
Senate Natural Resources Committee

Mr. Chairman, members of the Committee, I am David Johnson, president of the Montana Petroleum Association and Montana vice president of the Rocky Mountain Oil and Gas Association.

Tax simplification of oil and gas production taxes had been a topic brought up in our association's discussions of long range planning. However, as of last winter, we had not focused on details nor aimed to pursue simplification in the 1995 session. But, when the Department of Revenue contacted our association and asked for a meeting in early April to broach the subject, MPA members responded.

The initial proposals for oil and gas tax rates which the Department put on the table at that meeting certainly prompted discussion -- discussion that sounded more like protest. We left the meeting with a high level of doubt, but we told the Department that we would look at possible rate scenarios and would be available for further discussions..

Although tax simplification had not been in our near term agenda, it was thought that, given the cooperative posture of the Department, this was an opportunity that should not be dismissed.

As the Department staff has reviewed for you, the meetings were numerous, eventually broad-based and far flung. In addition to the public meetings, our members met via conference calls to run various tax rates with their mixes of production -- old and new, primary and stripper, working and royalty production. It was a laborious process. Our members were dedicated to finding and unifying behind a consensus position. We had to find what rates each company could live with and identify the principles and practicalities upon which to base the consensus.

One of the principles of highest priority dealt not with the rates but with the standardization of production reporting and payment of the taxes. The variety of dates for reporting and payment defy any efforts for efficiencies in administration. Efficiencies in government and corporate affairs are desirable and necessary.

Another principle was that the working interest owner, which expends the capital to explore and develop the drilling prospect, should have a lower rate of taxation than the royalty interest owner, who does not risk capital.

A third principle was that the composite tax rate for new production should not be any higher than it currently is. Early on in running the numbers, it was found that to consolidate old and new production into one rate and maintain revenue neutrality, the rate arrived at would have to be higher than is currently levied against new production. That would send a very bad signal to operators. Montana already has a poor reputation in the oil and gas community for its high tax rate and the government's seeming disinclination to attract oil and gas activities to the state. To up the tax rate on new production would reinforce that reputation.

The tax rates in Senate Bill 412 have been communicated to MPA members and analyzed by those members who were active through the months of deliberation. From the beginning of the process, we expressed concern among ourselves and eventually to the Department, that bringing an oil and gas tax rate bill before the legislature would make the rates vulnerable to predation. Assurances were shared among the tax simplification participants and given by the governor that the rates in the legislation would be a consensus position and shifting or increasing rates in the legislative process to benefit one group of participants over the others would not be condoned.

EXHIBIT 6
DATE 3-10-95
SB 412

Taxes on oil and gas production, whether they be in Montana or a neighboring state, are never simple. Given the parameters we were working with, Senate Bill 412 is a good product. One of its best assets is the standardization of the production reporting and tax payments.

The Montana Petroleum Association supports Senate Bill 412.

SENATE TAXATION
DATE March 10, 1995
EXHIBIT NO. 7
BILL NO. SB 412 & SB 383

TESTIMONY FOR SB 412 AND 383

MEMBERS OF COMMITTEE

I AM HERE TO SPEAK IN SUPPORT OF SB 412 THE SIMPLIFICATION BILL AND SB 383 THE DISTRIBUTION BILL PRESENTED TO THIS COMMITTEE FOR REVIEW.

AS A ROYALTY OWNER, I CAN CLEARLY SEE HOW SB 412 WILL CLARIFY THE TAX ASSESSMENTS FOR OIL AND GAS IN OUR STATE. WHEN AN OBVIOUS ERROR OCCURED ON THE TAXES COLLECTED BY THE OPERATOR OF THE WELL OF WHICH I AM A PARTICIPANT, WE CONTACTED THE COMPANY INVOLVED AND ASKED THEM TO EXPLAIN HOW THE TAXES WERE ASSESSED. WE WERE UNABLE TO FIND SOMEONE WHO WAS WILLING OR PERHAPS ABLE TO CLARIFY THE ASSESSED TAXES ON OUR OIL INCOME. WE DID RECEIVE AN ADJUSTMENT BUT HAVE YET TO RECEIVE AN EXPLANATION OF HOW THE WELL WAS TAXED.

IN SUPPORT OF SB 383

AS A COMMISSIONER OF RICHLAND COUNTY, I WOULD LIKE TO ADDRESS THE NEGATIVE IMPACT OF THE CURRENT LGST UNIT VALUE SYSTEM AS IT PERTAINS TO OUR COUNTY.

BRIEFLY, SINCE THE THE ENACTMENT OF THE LGST LEGISLATION RICHLAND COUNTY HAS HAD A SIGNIFICANT LOSS IN REVENUE. THE EFFECT OF THIS REVENUE LOSS HAS BEEN THE DWINDLING OF THE COUNTY RESOURCES AT AN ALARMING RATE. THIS HAS BEEN FELT THE MOST IN OUR ROADAND BRIDGE DEPARTMENTS WHICH ARE LOCKED IN AT THE MAXIMUM MILL LEVIES OF 20 AND 10 RESPECTIVELY.

THIS SERIOUS DEPLETION HAS CAUSED A STEADY DOWNWARD SPIRAL FOR THE COUNTY SINCE IT WAS ACCOMPANIED BY A STEADY DECREASE IN THE TAXABLE VALUE OF PROPERTY. SINCE I HAVE BEEN COMMISSIONER RICHLAND COUNTY HAS HAD TO CUT BUDGETS BY APPROXIMATELY $200,000/YEAR AT THE SAME TIME COSTS HAVE BEEN INCREASING.

RICHLAND COUNTY HAS 172 BRIDGES TO MAINTAIN ALONG WITH 1200 MILES OF ROADS. THE OIL BOOM WHICH WAS A PART OF THE 70'S AND EARLY 80'S HAS LEFT A DEMAND ON THE COUNTY FOR CONTINUED BRIDGE REPLACEMENTS AND ROAD MAINTENANCE. THE COUNTY HAS BEEN FORCED TO REPLACE MANY BRIDGES ON COLLECTOR ROUTES DUE TO THE HEAVY LOAD DEMANDS OF THE OIL INDUSTRY. MANY OF THESE BRIDGES WOULD NOT HAVE BEEN REPLACED IN ROUTINE CIRCUMSTANCES. WE ARE STILL FORCED TO CONTINUALLY UPGRADE BRIDGES AND ROADS TO SERVICE THE OIL AND GAS INDUSTRY WHILE MANY OF OR OUR POORER BRIDGES DO NOT GET REPLACED DUE TO LACK OF FUNDING. MANY OF OUR ROADS HAVE ALSO HAD TO BE UPGRADED FOR YEAR AROUND ALL WEATHER STATUS. WHILE THIS HAS BEEN BENEFICIAL TO SOME TAXPAYERS WHO LIVE AROUND THE WELL SITES, OTHERS HAVE HAD TO MAKE DO SINCE THERE WAS NOT ENOUGH MONEY TO GO AROUND.

AS YOU CAN SEE, RICHLAND COUNTY IS LEFT WITH AN INDUSTRY WHICH STILL DEMANDS CONSIDERABLE SERVICE, BUT WE ARE ALL A PART OF A DWINDLING POT OF MONEY WHICH MAKES UP THOSE FUNDS IN THE LGST.

I WOULD LIKE TO ADDRESS BRIEFLY WITH IMPACT TO OUR COUNTY GOVERNMENT THIS LOST REVENUE HAS GENERATED SINCE FISCAL YEAR 89-90.

THE FIRST YEAR, 90-91, THE MILLS WERE INCREASED 22.14 WHICH COST THE TAXPAYERS APPROXIMATELY $464,362. ALONG WITH THIS INCREASE THERE WAS AN OVERALL REDUCTION OF EXPENDITURES OF $153,153 FOR A NET LOSS TO THE TAXPAYERS OF RICHLAND COUNTY $617,515.

THE FOLLOWING BUDGET YEARS SHOW A DECREASE IN EXPENDITURES OF 167,774 FOR 91-92, $174,216 FOR 92-93, $257,752 FOR 93-94 FINALLY STABILIZING AT A REDUCTION OF $3221 IN THE 94-95 BUDGET.

ALONG WITH THESE REDUCTIONS TO APPROPRIATIONS $120,000 WAS TRIMMED OFF OF CASH RESERVES WHICH LEAVES THE COUNTY WITH RESERVES OF ONLY 6.6% OF TOTAL APPROPRIATIONS. THE 89-90 YEAR HAD RESERVES AT 7.9% OF TOTAL APPROPRIATIONS.

HOW HAVE WE HAD TO COPE TO KEEP OUR TAXES IN LINE SINCE THE 89-90 FISCAL YEAR? LAYOFFS, POSTPONING MAINTENANCE, NOT ROLLING OVER VEHICLES WHEN THEY SHOULD BE, AND NOT FILLING POSITIONS WHEN THEY ARE VACANT.

THE PURPOSE OF THIS TESTIMONY IS ONLY TO SHOW THE COMMITTEE THAT RICHLAND COUNTY HAS SUFFERED A SIGNIFICANT LOSS UNDER THE CURRENT LGST PROVISIONS AND OUR GAIN FROM GOING TO A TAX LIABILITY DISTRIBUTION SYSTEM WILL ONLY PARTIALLY COMPENSATE US FOR LOST REVENUES.

THE COMMITTEE IS ALSO REMINDED THAT ALL OTHER TAXING JURISDICTIONS IN RICHLAND COUNTY WHICH RECEIVE REVENUE FROM THE LGST FUNDS HAVE ALSO BEEN NEGATIVELY IMPACTED.

SUBMITTED BY

WARREN E. JOHNSON
RICHLAND COUNTY COMMISSIONER

SENATE TAXATION
DATE March 10, 1995
EXHIBIT NO. 8
BILL NO. SB 412

TESTIMONY AND EXHIBITS OF ROSEBUD, POWDER RIVER, BIG HORN AND PHILLIPS COUNTIES IN OPPOSITION TO

THE MONTANA OIL AND NATURAL GAS PRODUCTION ACT OF 1995 (Senate Bill 412)

The original of this document is stored at the Historical Society at 225 North Roberts Street, Helena, MT 59620-1201. The phone number is 444-2694.

Larry G. Schuster
Attorney at Law
1200 32nd Street South
No. 42
Great Falls, Montana 59405

TO: SENATOR GERRY DEVLIN, CHAIRMAN
SENATE TAXATION COMMITTEE

MARCH 10, 1995

SENATE TAXATION
DATE March 10, 1995
EXHIBIT NO. 9
BILL NO. SB 412 & SB 383

FM: BOARD OF COUNTY COMMISSIONERS
PONDERA COUNTY, MONTANA

SB: SENATE BILLS # 383 AND # 412

PONDERA COUNTY HAS REVIEWED THE ABOVE REFERENCED PIECES OF LEGISLATION AND WISHES TO GO "ON RECORD" AS OPPOSED TO THEIR PASSAGE. OUR REASONS ARE AS FOLLOWS:

SENATE BILL 412

A. SECTION 16 - RULEMAKING AUTHORITY

DEPARTMENT OF REVENUE HAS NOT SERVED OUR COUNTY IN THE COLLECTION OF OIL AND GAS REVENUE. THEY HAVE ENTERED INTO AGREEMENTS WITH DELINQUENT PRODUCERS WHICH HAVE RESULTED IN COLLECTION OF 40 CENTS ON THE DOLLAR OR LESS. GIVING TOTAL CONTROL OF A REVENUE SOURCE TO A DEPARTMENT WITH NO "CHECKS OR BALANCES" WILL LEAVE COUNTY GOVERNMENTS WITH LITTLE VALID INFORMATION ON WHICH TO BASE BUDGETS OR ANTICIPATE DELINQUENT COLLECTIONS.

RULEMAKING AUTHORITY AND NEGOTIATIONS SHOULD BE SHARED BETWEEN THE DEPARTMENT OF REVENUE AND THE TAXING JURISDICTIONS AFFECTED.
OR
RULES ADOPTED BY THE DEPARTMENT ARE SUBJECT TO THE APPROVAL OF THE AFFECTED TAXING JURISDICTIONS. NO TAX ASSESSMENT MAY BE ADJUSTED BY THE DEPARTMENT OF REVENUE WITHOUT THE APPROVAL OF THE AFFECTED TAXING JURISDICTIONS.

B. SECTION 9 - RECORD OF PRODUCT

THE DEPARTMENT OF REVENUE USED TO SHARE OWNERSHIP AND PRODUCTION RECORDS WITH OUR COUNTY. WHEN WE IDENTIFIED PRODUCERS WHO WERE NOT REPORTING TO REVENUE WE CEASED RECEIVING THE REPORTS.

PROVIDE COUNTIES WITH PRODUCTION RECORDS AND OWNERSHIP INFORMATION.

SENATE BILL 383

A. THERE IS NO "CHECK AND BALANCE" TO ALLOW THE COUNTIES TO VERIFY AMOUNTS RECEIVED ARE, IN FACT, THE AMOUNTS DUE.

PROVIDE COUNTIES WITH FISCAL INFORMATION WHICH WILL ALLOW FOR VERIFICATION OF TAXES CHARGED VERSES THOSE ACTUALLY COLLECTED.

BY ALLOWING COUNTIES TO RETAIN OR SHARE CONTROL OVER THE TAXATION OF ASSETS WITHIN THE COUNTY THE LEGISLATION COULD BECOME ACCEPTABLE.

BOARD OF COUNTY COMMISSIONERS
PONDERA COUNTY, MONTANA

Bill Rappold
BILL RAPPOLD CHAIRMAN

Bob Hovde
BOB HOVDE MEMBER

1-A

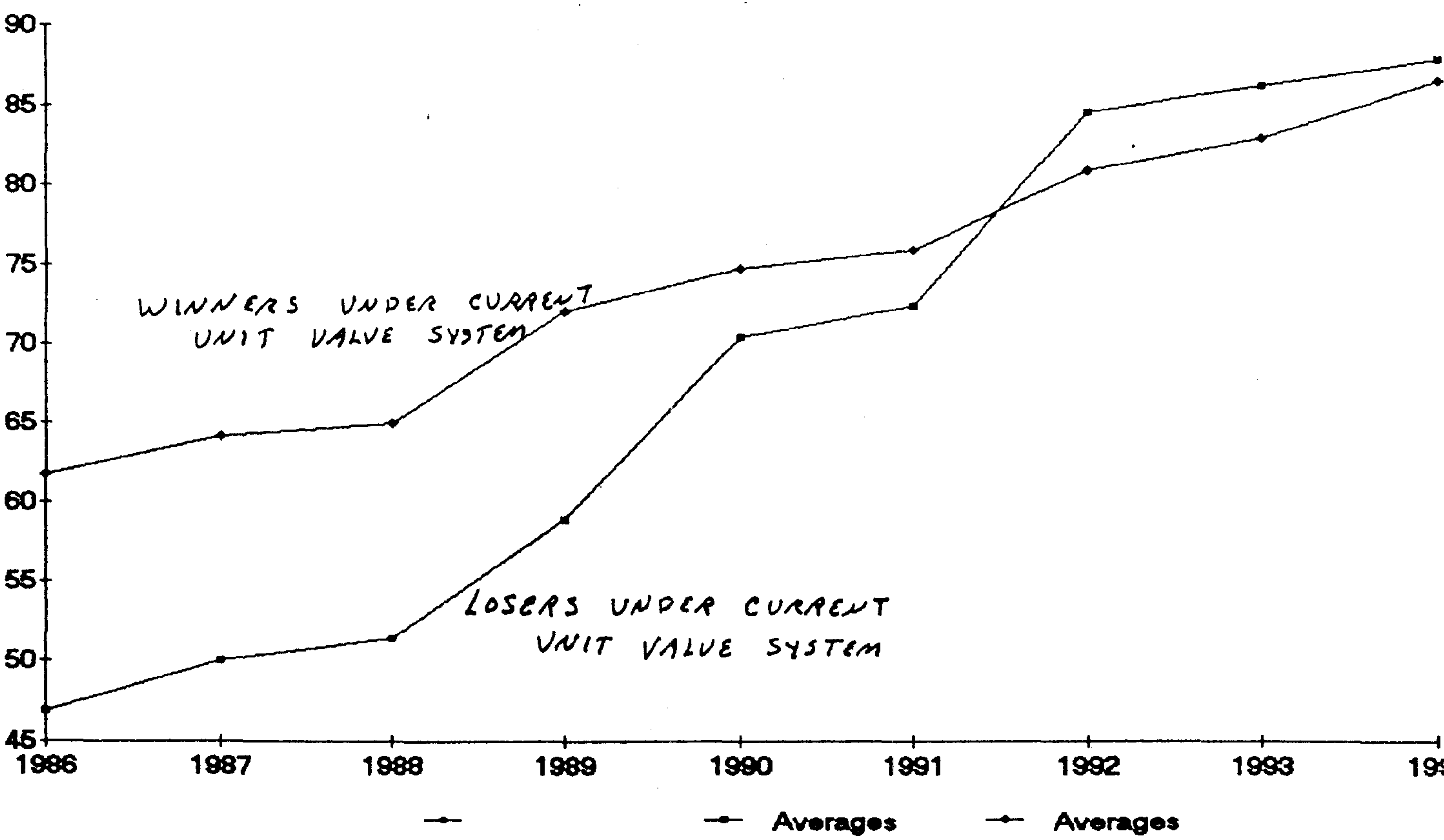
SENATE TAXATION
DATE March 10, 1995
EXHIBIT NO. 10
BILL NO. SB 383

Winners and losers under unit value distribution system based on 1996 estimated production
Garfield County is listed as a loser under 1996 production estimates

County		1986	1987	1988	1989	1990	1991	1992	1993	1994
Big Horn	A	34.39	33.54	40.21	41.79	62.48	47.93	62.64	31.06	32.07
Blaine	A	51.24	51.88	55.40	65.29	66.14	75.04	74.19	67.12	73.85
Chouteau	A	73.09	72.32	81.54	81.74	75.87	87.20	90.30	92.30	92.22
Garfield	A	75.00	70.60	74.30	78.95	104.55	108.04	111.85	121.89	99.85
Golden Valley	A	56.48	56.15	55.22	52.16	51.81	53.56	55.02	58.53	57.97
Powder River	A	34.47	59.42	34.47	59.91	126.53	122.65	151.15	158.48	163.21
Prairie	A	84.12	80.05	106.39	108.14	111.80	110.82	112.78	117.66	111.82
Richland	A	30.32	38.28	36.59	39.66	61.80	61.78	64.98	64.85	57.86
Rosebud	A	11.75	11.34	7.91	7.23	7.46	11.26	17.78	16.29	18.22
Sheridan	A	30.84	32.04	28.84	51.74	36.79	37.09	57.86	65.12	94.91
Toole	A	40.79	40.61	44.64	57.60	72.65	83.06	98.39	86.64	96.10
Valley	A	44.48	55.16	59.30	58.67	60.04	66.70	66.63	66.21	67.23
Wibaux	A	42.27	49.00	44.26	62.84	77.63	76.01	135.84	174.55	177.39
Carter	NO LGST									
Daniels	NO LGST									
Sweetgrass	NO LGST									
Carbon	B	57.23	54.17	57.35	54.01	59.14	76.02	76.63	69.41	75.27
Custer	B	81.79	80.75	93.98	84.63	93.22	94.58	95.99	93.52	101.15
Dawson	B	76.14	76.39	76.73	83.12	86.46	87.34	102.61	103.82	106.45
Fallon	B	17.40	21.98	17.39	83.44	28.23	28.23	46.48	49.97	58.61
Fergus	B	75.01	73.11	74.45	72.74	74.10	80.60	80.95	80.45	79.95
Glacier	B	64.63	69.15	63.64	61.40	44.84	68.36	78.52	98.38	117.05
Hill	B	57.07	62.98	71.08	72.74	72.71	72.14	73.53	73.57	76.68
Liberty	B	56.03	55.39	55.39	62.98	86.40	84.51	88.71	91.91	89.16
McCone	B	93.64	95.73	102.62	109.29	116.29	117.23	122.49	117.84	115.62
Musselshell	B	48.28	63.83	54.52	95.38	89.46	71.46	89.35	103.79	105.83
Petroleum	B	21.75	23.50	21.75	48.20	78.45	84.70	83.50	57.55	58.43
Phillips	B	46.20	45.95	42.35	28.88	44.48	43.60	43.63	47.76	52.28
Pondera	B	88.78	96.48	88.68	90.98	90.61	83.49	84.22	97.20	107.30
Roosevelt	B	44.54	44.18	44.18	52.01	60.61	57.14	63.60	75.73	71.74
Stillwater	B	74.55	74.34	74.32	74.85	75.43	75.43	75.43	75.43	75.43
Teton	B	74.26	79.12	89.21	74.28	90.63	91.34	93.01	105.55	107.98
Yellowstone	B	72.18	74.14	78.18	76.44	79.44	74.96	76.76	68.37	72.46
Averages	B	61.73	64.19	65.05	72.08	74.74	75.95	80.91	82.96	86.55

		1986	1987	1988	1989	1990	1991	1992	1993	1994
Averages	A	46.86	50.03	51.47	58.90	70.40	72.40	84.57	86.21	87.90
Averages	B	61.73	64.19	65.05	72.08	74.74	75.95	80.91	82.96	86.55

1-B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WINNERS UNDER CURRENT UNIT VALUE SYSTEM
LOSERS UNDER CURRENT UNIT VALUE SYSTEM
Averages
Averages

EXHIBIT 10
DATE 3-10-95
SB 383

2-A

Winners and losers under unit value distribution system based on 1993 actual production
Garfield County is liisted as a winner based on actual 1993 production

County		1986	1987	1988	1989	1990	1991	1992	1993	1994
Big Horn	A	34.39	33.54	40.21	41.79	62.48	47.93	62.64	31.06	32.07
Blaine	A	51.24	51.88	55.40	65.29	66.14	75.04	74.19	67.12	73.85
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Golden Valley	A	56.48	56.15	55.22	52.16	51.81	53.56	55.02	58.53	57.97
Powder River	A	34.47	59.42	34.47	59.91	126.53	122.65	151.15	158.48	163.21
Prairie	A	84.12	80.05	106.39	108.14	111.80	110.82	112.78	117.66	111.82
Richland	A	30.32	38.28	36.59	39.66	61.80	61.78	64.98	64.85	57.86
Rosebud	A	11.75	11.34	7.91	7.23	7.46	11.26	17.78	16.29	18.22
Sheridan	A	30.84	32.04	28.84	51.74	36.79	37.09	57.86	65.12	94.91
Toole	A	40.79	40.61	44.64	57.60	72.65	83.06	98.39	86.64	96.10
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Wibaux	A	42.27	49.00	44.26	62.84	77.63	76.01	135.84	174.55	177.39
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Custer	B	81.79	80.75	93.98	84.63	93.22	94.58	95.99	93.52	101.15
Dawson	B	76.14	76.39	76.73	83.12	86.46	87.34	102.61	103.82	106.45
Fallon	B	17.40	21.98	17.39	83.44	28.23	28.23	46.48	49.97	58.61
Fergus	B	75.01	73.11	74.45	72.74	74.10	80.60	80.95	80.45	79.95
Garfield	B	75.00	70.60	74.30	78.95	104.55	108.04	111.85	121.89	99.85
Glacier	B	64.63	69.15	63.64	61.40	44.84	68.36	78.52	98.38	117.05
Hill	B	57.07	62.98	71.08	72.74	72.71	72.14	73.53	73.57	76.68
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Musselshell	B	48.28	63.83	54.52	95.38	89.46	71.46	89.35	103.79	105.83
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Phillips	B	46.20	45.95	42.35	28.88	44.48	43.60	43.63	47.76	52.28
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Stillwater	B	74.55	74.34	74.32	74.85	75.43	75.43	75.43	75.43	75.43
Teton	B	74.26	79.12	89.21	74.28	90.63	91.34	93.01	105.55	107.98
Yellowstone	B	72.18	74.14	78.18	76.44	79.44	74.96	76.76	68.37	72.46

		1986	1987	1988	1989	1990	1991	1992	1993	1994
Averages	A	44.51	48.32	49.56	57.23	67.56	69.43	82.30	83.23	86.90
Averages	B	62.47	64.54	65.56	72.46	76.39	77.73	82.63	85.12	87.29

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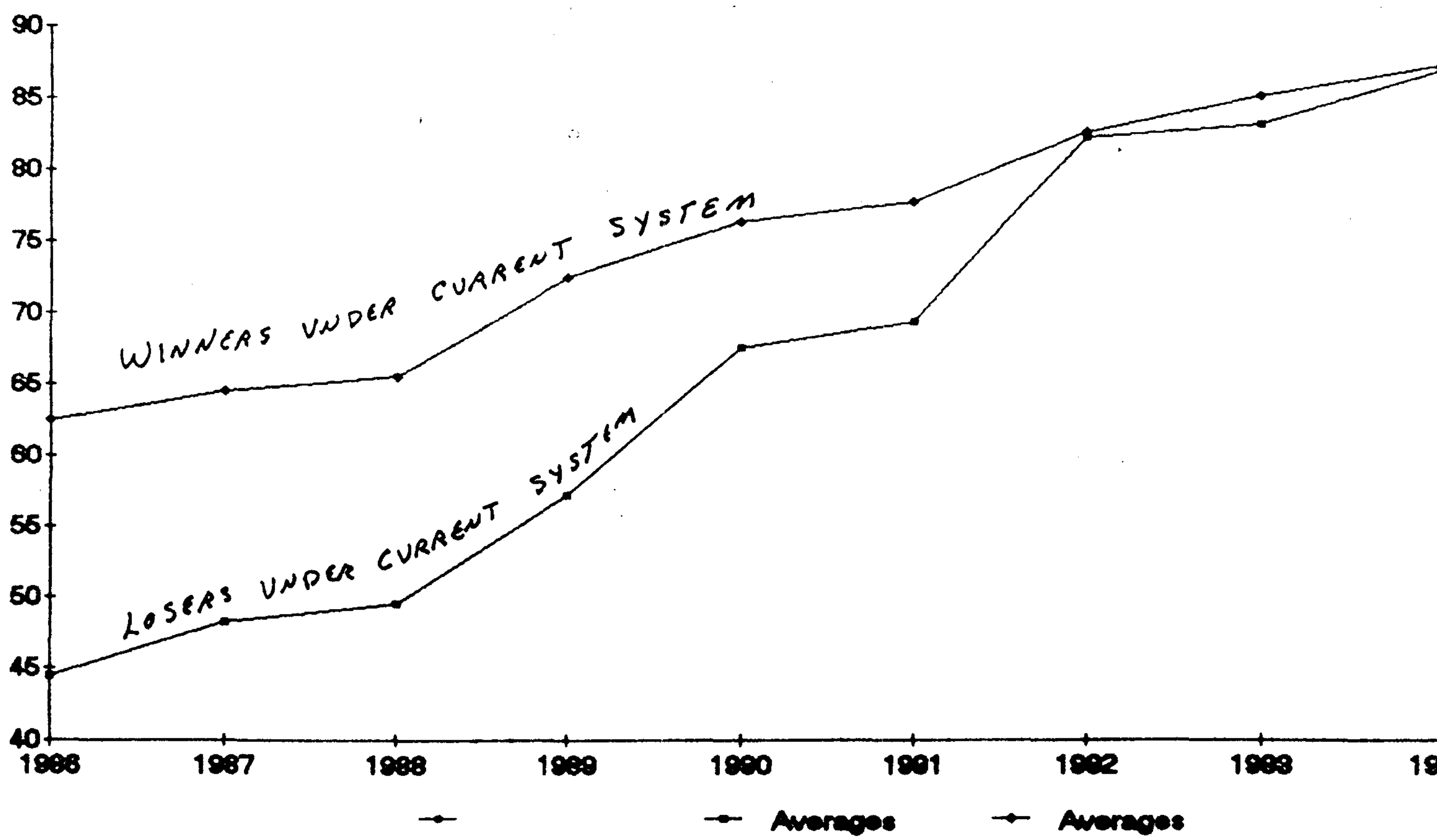
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WINNERS UNDER CURRENT SYSTEM
LOSERS UNDER CURRENT SYSTEM
1986
1987
1988
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1990
1991
1992
1993
Averages
Averages

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3

	Unit Value	Liability	Diff. From	
Richland	$477,363	$618,550	$141,186	
Blaine	$475,780	$572,251	$96,471	
Wibaux	$191,236	$245,171	$53,935	
Sheridan	$387,892	$425,558	$37,667	LOSERS under unit
Powder River	$97,730	$121,560	$23,830	value dist. system
Valley	$56,798	$76,723	$19,925	
Rosebud	$12,032	$29,152	$17,120	
Toole	$253,975	$269,657	$15,682	
Big Horn	$4,062	$8,093	$4,031	
Chouteau	$50,290	$51,672	$1,382	
Prairie	$6,188	$6,556	$368	
Garfield	$12,231	$12,555	$324	
Golden Valley	$3,442	$3,576	$134	
Carter	$0	$0	$0	
Daniels	$0	$0	$0	
Sweetwater	$0	$0	$0	
Yellowstone	$3,389	$3,358	($31)	
Fergus	$1,609	$814	($795)	
Petroleum	$9,550	$8,740	($810)	
Teton	$27,184	$25,906	($1,278)	
Stillwater	$18,090	$11,786	($6,305)	
Custer	$11,169	$4,039	($7,131)	
McCone	$20,379	$11,135	($9,244)	
Musselshell	$198,610	$188,378	($10,232)	WINNERS under unit
Roosevelt	$325,758	$311,110	($14,649)	value dist. system
Liberty	$174,976	$155,172	($19,804)	
Phillips	$313,043	$292,934	($20,109)	
Dawson	$84,313	$59,185	($25,128)	
Total	$5,926,500	$5,895,223	($31,277)	
Pondera	$108,355	$69,515	($38,841)	
Carbon	$283,101	$243,291	($39,811)	
Hill	$270,184	$203,177	($67,007)	
Fallon	$1,707,562	$1,618,327	($89,235)	
Glacier	$340,206	$247,285	($92,921)	

SENATE TAXATION
DATE March 10, 1995
EXHIBIT NO. 11
BILL NO. SB 383

AMENDMENT TO SB383

Sec. 2
Sub. Sec. 8 (D)
Page 3
Line 20
After: in subsection~~s~~ (8)
Strike: (C)
Add: (B)

Explanation - Distribution of post 85 production is already covered in (C). 8 (D) refers to distribution of pre 85 production and therefor this reference should be to 8 (B) instead of 8 (C) as that is the subsection that applies.

SENATE TAXATION
DATE March 10, 1995
EXHIBIT NO. 12
BILL NO. SB 412

March 10, 1995

Mr. Chairman and members of the Senate Taxation Committee. For the record, my name is Gloria Paladichuk and a resident of Helena. I'm representing Richland Development from Richland County. Previous to moving to Helena, I served 16 years in county government -- 10 years as Richland County Treasurer, and the last 6 years as Richland County Commissioner.

I rise in support of SB 383. I would like to point out to the committee the reasons, in my opinion, why the present system is flawed and in need of change. I will give you examples of three counties.

The first example involves a major oil and gas producing county. Following the Special Legislative Session in 1989, this county delayed their final budget process and held a Special Election on, I believe, October 3 of that year for a one-time only emergency request. This locked their county into a higher unit value than the Legislature considered when forming the LGST pot based on 1988 oil and gas production and setting the rates for the industry to pay. A pool was established based on 1988 production and 1989 mills. The school voted levies were completed and counties were in the final stages. This major producing county through their emergency levy increased their county taxes 380%. This was just like a bulldozer dozing a hole in the pool of revenue and a substantial amount of dollars just gushed out. This county's general fund increased 447% from 3.6 mills to 19.7 and then down to 4.4 the following year; the road increased 309% from 5,8 to 23.7 and down to 7.05 mills; and the hospital fund increased 884% from 2.5 to 24.6 and then down to 1.5 mills. A formula using the 1989-90 budgets determined the LGST that counties were to receive in subsequent years, with no means EVER for adjustments. The Special Election was for an emergency budget levy, an emergency road levy, and a fire district emergency levy. A total of $1,121,000 was transferred to capital project funds the fiscal year following the Special Election. Slightly over $2 million has been transferred to capital project funds from FY90 to FY 94. In FY 92, this county levied zero mills in the general, poor, hospital, clinic, emergency medical & ambulance and cemetery funds. In FY 93, they levied zero mills in the road, poor, bridge, weed and hospital funds. Even though this county had a one-time only emergency request which included building a 10-room addition onto their nursing home and hospital remodeling, the present LGST distribution system forwards revenue to this county based on 1989 mills forever as long as there is oil and gas production in this county for pre-1985 wells.

Example No. 2, which is Richland County, is just the opposite of the previous example. A county-wide hospital district was created by vote in 1990 for operation of a nursing home and long-term care facility.

The Montana code provides hospital districts to be able to collect revenue on each dollar of taxable valuation within the district boundaries. Our hospital district is a county-wide district. However, Richland County's nursing home does not share in any proceeds of LGST. The system is structured that if you didn't mill for it in

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1989, you will not receive any revenue ever. Just one year too late in creating the Richland County Hospital District.

On the other hand, the county in example 1 no longer needs revenue to keep building 10 additional rooms but the formula is such that since they milled for it in 1989, they will be receiving it for all subsequent years, as long as there is oil and gas production in their county.

We feel this is discriminatory against our senior citizen nursing home residents who are not able to be here to speak on their own behalf.

Article VIII, Section 10, of the Montana Constitution makes it mandatory for the Legislature to set debt limits. In reading the transcript of the Constitutional Convention, there was considerable debate with reference to debt limits. An amendment to put the % limit into the constitution rather than leaving the percentage up to the Legislature failed by only a few votes.

It is clear the Montana Constitution charged the Legislature with limiting debt of local governments to keep them solvent. But the LGST does just the opposite in some cases. The Department of Revenue sets the taxable value, which includes oil and gas production, according to law, and then takes the oil and gas revenue that goes with that valuation away from 13 counties. This could drive small counties to bankruptcy. The valuation determines the class of county, the amount of pay for elected officials, and bonding limits.

My third example is Wibaux County with a 256% mill increase since the LGST went into effect and yet $53,835 of oil and gas dollars are leaving Wibaux County each year which equates to 13 mills in Wibaux.

I found it interesting that the Local Government Committee of the Constitutional Convention considered leaving the matter of county boundaries entirely to the Legislature but decided to leave that with the people of the affected counties, and further stated in the report that counties may consolidate because of high tax bills and insufficient local government services but stressed any change must be approved by the counties concerned. The present unit value distribution system is taking government revenue from 13 counties, and driving the tax bills higher. We believe this is not in compliance with the intent of the Montana Constitution. In fact I'm not sure what the boundaries are in 13 counties -- revenue is going clear across the state.

The LGST unit value penalized counties holding down mill levies and rewarded counties for increasing levies -- the more the mills were increased, the greater the reward. It is our belief the present system is illegal, discriminatory and unconstitutional.

I ask that the committee look at a larger picture. If you compare mills on the charts handed out, Glacier County should be adjusted 15 mills as in the base year (1989), PILT dollars were used in the levied funds and the last 3 or 4 years, these funds have been banked in an account which balance is over $1 million which equates to 15 mills in Glacier County each year. This decision by the County Commissioners drove mills up in Glacier County.

We want to keep this out of the courts. We are before you today asking that the distribution be changed to a liability based system. We would be pleased if you look favorably on this bill and urge your "Do Pass Recommendation" on SB 383. Thank you. I have the documents available for committee review with regards to the figures I used.

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BILL NO. SB 383

-Mr. Chairman-
-Members of the Committee-

For the record I'm Don Rieger, County Commissioner of Fallon County. I rise as an opponent to SB 383. I feel my colleagues have forgotten the original intent of the flat tax rate. Remember all the different rates under the net proceeds system! In order for the producers to be taxed according to the same rate and still stay somewhat revenue neutral, thus 8.4% was to become the effective tax rate. Again to somewhat bring the taxing jurisdictions to a neutrality the unit value formula was initiated. This caused the taxing jurisdictions to somewhat stay neutral in the sense that every barrel of oil had a unit value established and the return back to these taxing jurisdicitons was based on production times the unit value. Those of us that had a tax rate higher than 8.4% naturally had higher unit value rates. Those that had a tax rate less than 8.4% would have a lower unit value rate. You are now asked by these taxing jurisdictions to increase their tax rate to 8.4%, while those of us that were higher at our local level will take severe reductions to the 8.4%. Thus, the revenue neutrality that was originally established will forever be gone.

In fairness to all taxing jurisdicitons, if the liability method is to be reinstated then we must go back to the original taxing jurisdiction rates of approximately 4-22%, not the flat rate of 8.4%.

DATE March 10, 1995

SENATE COMMITTEE ON Taxation

BILLS BEING HEARD TODAY: SB 383 Senator Tveit
SB 412 Senator Grosfield

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Check One

Name	Representing	Bill No.	Support	Oppose
Pete Sherwood	Self	412		X
Gordon Kampen	Sheridan Co.	412 & 383	✓	
Gail Abercrombie	MT Petroleum Assn	412	✓	
DAVE JOHNSON	MT PETRO ASSOC	412	✓	
CLAIR MOXLEY	BLAINE CO.	412/383	✓	
Carter Christiansen	Plevna Schools	412 383	✓	✓
JIM HALVERSON	ASSN OIL-GAS-COAL CO	412 383	✓	
Dean Harmon	Roos. Co.	412 383	✓	
Don Rieger	Fallon Co.	412 383	✓	✓
Gloria Paladichuk	Richland Development	383 412	✓ ✓	
Sue M Olson	Mt. Assoc of Oil, Gas Coal Ctys	412 383	✓	
Larry G. Schuster	Powder River County Rosebud County			✓
	Big Horn County Phillips County			✓
Jim PALAdichuk	W.B.J.P.	SB-412	✓	

VISITOR REGISTER

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REGISTER F10

DATE March 10, 1995

SENATE COMMITTEE ON ~~SB 412~~

BILLS BEING HEARD TODAY: SB 383 Senator Tveit
SB 412 Senator Grosfield

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Check One

Name	Representing	Bill No.	Support	Oppose
Frank Loehding	Bainville School	383	X	
Ken Alison	Fairview School	383	X	
[illegible] N. Kallevig	Sidney Schools	383	X	
WARREN E. JOHNSON	RICHLAND COUNTY	412 383	X X	
Patrick M. Montalban	MSA + NMOGA	412	✓	
JEROME ANDERSEN	SHBLL EXP INC	412	✓	
ALYSE GRANT	MPC	412	✓	
Greg Oblander	MT Power	412	✓	
[illegible]	Self	412	X	
Nanette Bertelotti	Self	412	✓	
Mark Fickett	Self	412	✓	
Don Hoffman	DOR	412	✓	
Bill Roppold	Pondera Co.	383		✓
" "	" "	412		✓

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DATE March 10, 1995

SENATE COMMITTEE ON Taxation

BILLS BEING HEARD TODAY: SB 383 Senator Tveit SB 412 Senator Grosfield

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Check One

Name	Representing	Bill No.	Support	Oppose
Dennis Burr	MONTAX	383/412	✓	
Mylan L Ayres	Compass Energy	383/412	✓	
[illegible]	H & C Drilling	383/412	✓	
Carl Knudsen	SoCo Schools	383/412		✓
MADALYN QUINLAN	OPI			

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