

MINUTES

MONTANA HOUSE OF REPRESENTATIVES 54th LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By CHAIRMAN CHASE HIBBARD, on March 30, 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. 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:

Rep. Rick Jore (R)

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: SB 358
SB 336
SB 412
SB 418

Executive Action: SB 418 - Concurred In
SB 412 - Discussion Only
SB 407 - Concurred In
SB 397 - Concurred In
SB 161 - Discussion Only

{Tape: 1; Side: A.}

HEARING ON SB 358

Opening Statement by Sponsor:

SEN. MIKE HALLIGAN, Senate District 34, Missoula, said the Legislature had passed a bill to provide a "private sector" approach to recycling which provided a tax credit to allow individuals to purchase equipment necessary for recycling. SB 358 would expand the existing statute to include a tax credit for equipment used for the treatment of contaminated soils. The bill would also extend the sunset on the bill for two years. **SEN. HALLIGAN** said the bill had been amended in the Senate to allow for a phase-in for the tax credit to minimize the fiscal note on the bill.

Proponents' Testimony:

Carl Schweitzer, Montana Contractors Association, said he had been involved in drafting the bill which would extend the sunset for the tax credit for an additional two years and adds the tax credit for equipment that is used for treatment of contaminated soils. He explained how the tax credit would be phased in. He also pointed out that the bill should be amended to clarify that the phase-in formula would apply to each piece of equipment purchased per year.

Jerry Vollmer, Mineral Specialties, Billings, said his company recycles the by-products generated by power plants. There are markets for the material and the Department of Natural Resources (DNRC) and the Department of Revenue (DOR) recognize that they have taken pollution and changed its form and location. It used to be in the air and, with the processes now available, it has been turned into a solid waste issue on the ground. His company has found that bi-ash is useful as a construction material replacing Portland cement and concrete. They have been able to take advantage of the existing law by purchasing equipment to store the product in. The price of the equipment is between \$15,000 and \$20,000. They hope the sunset will be removed from the existing law and retained on the equipment that is being added to the law. He said a two-year sunset was reasonable.

Russ Ritter, Envirocon, Missoula, stood in support of the legislation. He said he had been told by the DOR that it would be wise for Envirocon to come to the Legislature and request a special provision in the law to cover the equipment used in removing or sterilizing contaminated soil because the present statute would not apply. He described some of the activities Envirocon had been involved in. This legislation, if passed, would be beneficial, not only to his company but also to the State of Montana in addressing some of its environmental problems from the past.

Mike Stevenson, President, Envirocon, Missoula, appeared as a proponent of the bill based on the fact that it would be an inducement for investment in equipment which would result in Montana taking care of its own problems and creating jobs. Montana could demonstrate to the rest of the country that the state has a willingness to work out its own problems. He asked for the Committee's serious consideration of the bill.

Mick Robinson, DOR, said the Department had determined that the equipment described in the bill was not included under the current statute and the bill presents an appropriate extension of the statute. He agreed that the amendments put on in the senate were also appropriate.

Opponents' Testimony:

None.

Questions From Committee Members and Responses:

REP. SWANSON requested a description of the equipment and asked if the equipment represented a large capital investment. **Mr. Stevenson** said it could cost as much as a million dollars because it is specialized and high tech. He explained that the equipment stabilizes the soil and renders it non-hazardous by means of heat or special reagents. It involves sophisticated mixing apparatus which monitors the water content. The soil is "washed," removing and recovering heavy metals and minimizing the amount of waste to be deposited. The bulk of the material is clean soil when the process is completed. Many high technology processes may be used depending on the situation. The hazardous waste remaining, which is tremendously reduced in volume, is shipped out of state for deposit or incineration.

{Tape: 1; Side: B.}

REP. ELLIOTT asked if the company could depreciate the equipment in addition to receiving a tax credit. **Mr. Chenoweth, DOR,** said they could.

REP. HARPER asked if anything, such as a backhoe, used to collect the contaminated soil would be eligible for the tax credit. **Mr. Chenoweth** said the bill carefully defines the specialized equipment that would qualify. The backhoe would not qualify.

REP. ARNOTT asked **Mr. Vollmer** how much he had received in tax credits since the original legislation was passed. **Mr. Vollmer** said that on a few occasions he had been able to get tax credits for a silo and equipment to transport the ash. This equipment had a value of approximately \$30,000 and the tax credit has been helpful. He said he would like to see the sunset removed from the current legislation. However, he said he would agree that the two-year sunset for the new equipment being added was a good idea.

REP. BOHLINGER asked if the company would have made the investments which have created jobs and cleaned up the environment if it had not received the tax credit. **Mr. Stevenson** said it would be on a job specific basis. If the options were to "dig and haul" they would probably do that before they made a large investment in other equipment. **Mr. Vollmer** said that to say they would not make the investment without the credit was unrealistic but the tax credit states clearly that Montana intends to do something about environmental problems without "regulating people to death." For a small businessman, it could very well be the deciding factor.

REP. NELSON inquired about the useful life of the equipment. **Mr. Stevenson** said technology is advancing on a yearly basis and a piece of equipment would have little value following the ten-year depreciation period. Because the equipment is specialized and directed at the environmental industry, it would also have little salvage value.

REP. NELSON asked if government regulations which change rapidly contribute to the early obsolescence of equipment. **Mr. Stevenson** said there is encouragement from the Environmental Protection Agency and the Department of Energy to find new technology to take care of problems rather than using currently available technology so there is a real incentive in the private sector to come up with new technology.

REP. SOMERVILLE asked if companies from outside Montana were competing for the business. **Mr. Stevenson** said they were and they already own the necessary equipment.

Closing by Sponsor:

SEN. HALLIGAN said that when he originally sponsored the legislation, it was to make Montana the leader in the recycling technology area. The bill will encourage meaningful, long-term, high-paying jobs and fit well within the Montana University and Vo-Tech system. It encourages a partnership with the private sector. Cleaning Montana's environment was the intent. He said monitoring was an important tool and he would prefer to see the sunset reconsidered in five years rather than in two. He encouraged the Committee to pass the bill.

HEARING ON 336

Opening Statement by Sponsor:

SEN. TOM BECK, Senate District 28, Deer Lodge, said the original intent of the bill was to return the authority for setting grazing fees to the Legislature. To his surprise, he got it through the Committee and through the Senate. In his opinion, the State Land Board has been neglecting its duties. He said he had prepared an amendment which would leave the issue in the

hands of the State Land Board and if they recommend rate changes, the Legislature would have an opportunity to give legislative approval. EXHIBIT 1. He explained his frustration with the current system. He said there was an Advisory Committee for the purpose of making recommendations to the State Land Board to set grazing fees, recreational rates and cabin site rates but nothing had been done.

Proponents' Testimony:

REP. LARRY GRINDE, House District 94, Lewistown, agreed that the amendments to the bill were important. They would solve the problems that will have to be faced in the future. He hoped the State Land Board and the Legislature could work as a team. In order to provide for fair competition, grazing fees for state land will have to move upward.

{Tape: 2; Side: A.}

Jim Peterson, Advisory Committee Member, said the Advisory Committee had been set up to represent all user segments and was approved by every member of the Land Board. The Committee met twelve times to put together a tremendous amount of information and had recommended surface use fees to the Land Board prior to the November 8 election. The Land Board decided that they would make their decisions after the election. They met in December to consider the recommendations and, during a 15-minute discussion, arbitrarily adjusted one of the fees downward. Following the period for public comment and hearings, there were further delays. He agreed with Sen. Beck that the bill was introduced out of frustration. After the bill passed the Senate, several people asked whether the bill was the right thing to do. As of March, the Land Board was still delaying any action on the Committee's recommendations. He stated that the Land Board had not accepted its responsibility and have not worked within the system. In an effort to make the system work, the bill is being amended to give the primary responsibility to the Land Board. He said all user service fees are set by formula. The recreation fee is currently set at \$5 and there was concern in the Senate about setting the fee statutorily because it might not be constitutional. The bill would allow the Land Board to review the fees during the next two years and make recommendations to the Legislature. He encouraged support of the bill.

Lorna Frank, Montana Farm Bureau, spoke in support of the bill because there is a need to promote balance between the Land Board and the Legislature.

Keith Bales, Montana Stockgrowers Association, rose in support of the bill as amended. The responsibility for the proper management of state lands does lie with the Land Board but the problem has been that they have not given much time or consideration to what would be best for the long term trust or

the proper fees. The bill would make the Land Board do a better job as stewards of the trust.

John Bloomquist, Montana Stockgrowers Association, provided technical testimony on the amendments to the bill. He submitted a letter of testimony in support of the bill from Bill Donald. EXHIBIT 2. He encouraged approval of the amendments and passage of the bill.

Chris Mehus, Montana Association of State Grazing Districts, said several members of the Association hold state land leases. He asked for the Committee's support of the bill.

Candace Torgerson, Montana Cattlemens Association, spoke in support of the amendments and the bill.

REP. ALVIN ELLIS, House District 23, Red Lodge, said he was testifying in his own behalf as a user of six sections of state grazing land. He said he was in favor of the bill. Grazing lands are not producing as much revenue as they should and the bill would go a long way towards optimizing the revenue.

Opponents' Testimony:

Jim Richard, Montana Wildlife Federation, said the Advisory Committee had made a recommendation to raise the recreation fee from \$5 to \$25, a 500% increase. The State Land Board, in its rulemaking, reduced the fee to \$10. When the recreationist pays \$5 under the current fee structure, the average person would probably use state lands five or six times a year. When the agricultural community pays their \$4.61, they have the right to graze a range cow for 30 days. A range cow averages 1,000 pounds and it eats 30 pounds of dry forage every day. In a month's time, that range cow and calf consume 900 pounds of grass. The \$5 the recreationist pays for what he does on state land is not consumptive compared to the consumption of half a ton of grass. The value the agriculturist gets is outstanding compared to what the recreationist gets. The Advisory Committee recommended that the grazing fee be raised from \$4.10 to \$5.19, an increase of approximately 20% at the same time the recreationist fee was raised to \$25. The State Land Board acted wisely in recognizing that the recommended recreational fee was preposterous and, in his opinion, the proposed legislation was punitive and vindictive.

Tony Schoonen, State Lands Coalition and the Skyline Sportsmen, said he agreed with the Montana Wildlife Federation that the State Land Board had acted fairly. It is an independent, well-educated group, including the Governor, and none have cabin sites or state leases so there would be no conflict of interest. However, it is an entirely different story with the Legislature. The bill, as introduced, was unconstitutional, and had nothing to do with grazing fees to provide revenue for the schools. There is a definite conflict interest when at least 25 or 30

Legislators have state leases. He distributed copies of a chart listing 1994 Department of State Lands Farm Program Payments. EXHIBIT 3. He pointed out that all taxpayers are paying for these subsidies, not just the lessees, and that is why the Land Board should listen to all Montana citizens. The five members of the Land Board are not in agriculture and can make better decisions than the Legislature can.

Questions From Committee Members and Responses:

REP. MURDOCK asked if Mr. Richard was aware of how many acres it took to graze a cow. Mr. Richard replied that the average was about four acres per animal unit per month or 48 acres per year. REP. MURDOCK said she did not lease state land but in her area people lease by the acre rather than by the animal.

REP. HARPER referred to the testimony that the fees should be raised. He asked if the fees were too low at the present time. REP. ELLIS replied that, in his opinion, the fees are inadequate and he did not think the recreational fees were adequate either.

{Tape: 2; Side: B.}

REP. HARPER said it seemed the bill would make it more difficult to raise fees. REP. ELLIS said it is easier to take a difficult position when you can "pass the buck."

REP. HANSON said she was one of the Legislators with a "conflict of interest." She asked, if the fees were too low, how the stockgrower could justify investment in the livestock that eat 900 pounds of grass a month and what the return on the investment would be when the recreationalist has a hiking boot and a gun or fish pole for his investment. REP. ELLIS said both uses were consumptive. The primary recreation use is access to game animals and he pointed out that he is leasing some of his land out for other people's livestock and he receives substantially more than \$4.67 per animal. REP. HANSON asked if Rep. Ellis provided fences, salt and other services for the private lessee. REP. ELLIS said he did not provide anything but fencing and the lessee provided everything else at a price substantially over the state grazing fee.

REP. ELLIOTT said changes are taking place in Montana and in his part of the country it is becoming a more urban society and people are moving into the state who are not interested in agriculture. Because of this, he thought the bill might represent a dangerous precedent because these people may be more highly represented in the Legislature in the future and it might have the opposite effect on legislation. SEN. BECK responded that it might be true but he expected the Legislature to use good common sense on all issues. He said agriculture is not the only issue addressed in the bill as it affects recreational fees and cabin site fees as well.

REP. REAM asked if he understood correctly that the recreational fee was the only recommendation the Land Board did not accept.

SEN. BECK said the Land Board has not accepted any of the recommendations because they were waiting to see what the Legislature would do. He said he wished they would have done something because this bill would not have had any affect on what they do now.

REP. REAM said there are differences between western Montana and eastern Montana and in the western part of the state, a \$25 fee might be appropriate but where there is a mixture of federal, state and private industrial land, the situation is different. Going from \$5 to \$25 was a big jump and he thought the whole issue was being "blown out of proportion" by going to legislative approval as a reaction to the Land Board not going along with the Advisory Committee's recommendations. **REP. BECK** said the Senate had a lengthy discussion of constitutionality and they talked about whether the grazing fee was fair. The grazing fee is fairly easy to set based on the cattle market and it is up for competitive bid every ten years. The recreational fee is volatile and he said he did not know how to put a reasonable figure on it. Everyone would pay the same and one person would use it once and another person would use it 100 times. If the land is used daily, \$25 is a pretty good bargain, and \$10 was a reasonable fee. The cabin site fee is reasonable. However, the recreationalists will "come unglued" if the fee goes to \$25.

CHAIRMAN HIBBARD asked what the recommendations were on fees other than the recreational fees. **Mr. Richard** replied that the minimum grazing fee was to be raised from \$4.10 to \$5.19 and he did not know what they had recommended on cabin sites. **CHAIRMAN HIBBARD** asked how Mr. Richard felt about the recommendation on raising the grazing fee. **Mr. Richard** replied that it was an excellent rate for the livestock industry and he saw the raise as a positive move. However, the \$5.19 fee is still below what it should be for privilege of grazing on state land. **CHAIRMAN HIBBARD** asked how Mr. Richard felt about the current process being used with an Advisory Committee making recommendations. **Mr. Richard** stated that he did not think the Advisory Committee was well balanced in its makeup. However, it was formed under a governmental process and he did not wish to comment further.

CHAIRMAN HIBBARD said he remembered the legislation quite well from the previous session. He said he had great hope that the process would serve the state school trust and all interested parties in a fair and equitable manner. He said he was beginning to sense some of the frustration as well because something had "broken down" somewhere. He asked for comments on why the Land Board had not made final recommendations and why the process had not worked. **Mr. Richard** said he was not in a position to speak for the State Land Board. He said in his opinion the process broke down prior to the time it got to the State Land Board. His frustration was that the Advisory Council did not recommend fees

which truly represent market value which was what the previous legislation had directed.

CHAIRMAN HIBBARD asked who staffed the Land Board. **Bud Clinch** explained that the Land Board is comprised of the five highest elected officials and as Commissioner of State Lands, he represented the staff. Each of the Land Board Members has a staff person involved in all deliberations of the Board. The Department of State Lands does the "leg work," the Commission does the hearings and makes recommendations, and the Land Board acts on the recommendations. **CHAIRMAN HIBBARD** stated that the bill is before the Committee because it had been two years and nothing had happened. He asked why the process had not worked. **Mr. Clinch** said he and his staff shared the frustration. Since the issue of recreational use surfaced, there have been 31 hearings around the state. They have gained no ground whatsoever. They have dedicated a substantial amount of staff time and resources and have staffed and organized the Advisory Council.

Closing by Sponsor:

SEN. BECK said the discussion is related to market value and if three appraisers appraise a house, they will all come up with different values and that is the problem with fees for use of state lands. The federal government has a standard that ties the fees to actual market and he did not know if the Land Board had considered that option. He said his intent was to get the message out that something had to be done. He suggested giving another two years to see what can be done.

{Tape: 3; Side: A.}

HEARING ON SB 412

Opening Statement by Sponsor:

SEN. LOREN GROSFIELD, Senate District 13, Big Timber, opened the hearing by stating that SB 412 would revise and simplify the tax on oil and gas production and provides that the revenue from the tax is distributed under current law. The bill would consolidate 28 different rates into five. He said technical amendments would be presented during executive action.

Proponents' Testimony:

Don Hoffman, Natural Resources Bureau, DOR, explained that the bill deals with the complexities of the current taxing system, keeping everyone in the same revenue position. He said that explanation of the current system is sent to new oil and gas producers in a seven-page letter. He said that some returns are filed quarterly and payment is due with the return, some are filed quarterly and payment is due annually, some are filed quarterly and payment is due one year after the filing of the

return which makes it confusing for the Department and the taxpayers. As an example, he presented a letter which pointed out the confusion. EXHIBIT 4. He advised that about a year ago the Department decided it was time to look at the system and they contacted members of the industry, both major industries and independents, and asked them if there was any interest in pursuing the issue in the 1995 session. They then began a process of meeting with the industry, royalty owners, county commissioners, school superintendents, and the Office of Public Instruction to discuss all the issues. Fifteen meetings were held and SB 412 was the result. **Mr. Hoffman** pointed out that the bill is a statewide tax simplification bill which creates the Montana Oil and Gas Production Tax, replacing the net proceeds tax, the local government severance tax, the RITT as a separate filing, and the privilege and license tax. SB 412 is a compromise and a consensus of the issues on which all participants agreed as a working group. **Mr. Hoffman** then reviewed the bill in depth and provided information illustrating how the rates were determined. EXHIBITS 5 and 6. Under the bill the first returns will be due May 31, 1996, and **Mr. Hoffman** explained how the accelerated tax payments would be dealt with because it could present a tax flow problem for the oil companies. He said the accelerated payment schedule was also a concern to counties and schools and the bill provides that, for county purposes, the money can be placed in an accelerated oil and gas fund and the money would come from the local government severance tax to be used as the county commissioners see fit for anything that is not subject to I-105 limitations. The schools can place the money in any budget fund or miscellaneous fund which would allow them the flexibility to use the money without any affect on mill levies.

In support of the bill, **Mr. Hoffman** presented written testimony on behalf of **Fred Olson, Vice President, Montana Land and Mineral Owners Association**. EXHIBIT 7.

Dave Johnson, President, Montana Petroleum Association, spoke in favor of SB 412. A copy of his testimony is attached. EXHIBIT 8.

Jerome Anderson, Shell Western Exploration and Production, Inc., said he had approached the DOR's proposal with reservation. They now support the legislation.

{Tape: 3; Side: B.}

Jim Halvorsen, Association of Oil, Gas and Coal Counties, spoke in support of the bill.

Gloria Paladichuk, Richland Development Corporation, said that as a former county treasurer and county commissioner, she had experienced the frustration of trying to understand the oil and gas tax process. She urged the Committee to pass the bill.

Stan Kaleczyc, Meridian Oil Company, said his company is in favor of the bill because it would provide administrative simplification, maintains the current rate for primary production and it retains the incentives passed during the last special session that have proven to be successful and has stimulated new development in the state.

Gail Abercrombie, Executive Director, Montana Petroleum Association, presented a letter from Association member **Curtis D. Jundt** expressing support for SB 412. EXHIBIT 9.

Alyse Grant, Montana Power Company, said one of her primary responsibilities is to file and submit natural gas production tax reports. She said the intent of the bill was not to provide any tax breaks or additional protection by participating in the drafting of the bill. The present system is time-consuming, costly and confusing. She encouraged the Committee to support the bill.

Patrick Montalban, President, MSR and Vice President of the Northern Montana Oil and Gas Association, said they were proponents of the simplification bill and believe it is one of the more important bills to affect the oil and gas industry in the last 15 years. The burden of keeping track of the numerous taxes is hard on the small independents because of the administrative costs. He thanked the Governor's Office and the DOR for initiating the study group that resulted in SB 412. He said everyone got together, formed a unified group and agreed that it was a very positive process. He said the small independents wanted simplification of taxes, more current payment schedules and the one-year exemption for the drilling of new wells. He said this is an important bill for the industry because it makes common sense. He complimented the Committee on the work it had done so far in the session and asked for the Committee's support of SB 412.

SEN. LARRY TVEIT, Senate District 48, Fairview, testified in support of SB 412. He said a lot of work had been done in putting the bill together and it would benefit the school districts and counties and would be good for the industry.

Dennis Burr, Montana Taxpayers Association, offered strong support for the bill.

REP. JIM ELLIOTT, House District 72, Trout Creek, said he would support the bill because he supports simplification of tax reporting.

Opponents' Testimony:

None.

Questions From Committee Members and Responses:

REP. STORY asked for an explanation of the account the schools and counties would be putting their money in. SEN. GROSFIELD said the money that would result from the acceleration of payments would be deposited in an account which is outlined in Section 19 of the bill. The section also describes exactly how the money would be distributed.

REP. HANSON asked if there would be "winners and losers" under the proposal. Mr. Hoffman said that the way the bill is drafted, there would not be any losers and the counties would be the winners because they would get the accelerated payments. The companies would be winners because it does away with the payment delay. It also eases the administrative burden for the DOR and the companies.

REP. ARNOTT asked if the money would be sent back to the counties in the proportion it was collected. Mr. Hoffman said the money that goes back to the counties and schools would be distributed under a statutory formula that would not be changed under this bill. The formula was adopted into law in 1989 as part of the school equalization package.

In response to questions from REP. REAM, Mr. Hoffman again explained how the rates had been determined and how assumptions were arrived at. He said there were coordination instructions in the other bills being heard before the Committee which tell the Council and the Legislature how they will be brought into the table. If the other bills pass, they won't affect this bill in any way.

Closing by Sponsor:

SEN. GROSFIELD reminded the Committee again that the bill was complex and dealt with a lot of areas but it would simplify a lot of areas. It is a worthwhile bill and does not do anything to change what was done in the special session. He asked the Committee to pass the bill.

{Tape: 4; Side: A.}

HEARING ON SB 418Opening Statement by Sponsor:

SEN. DEL GAGE, Senate District 43, Cut Bank, advised that SB 418 was a bill that originated in the Senate Tax Committee. It was brought to the Committee's attention that an individual had a problem with the Department of Revenue because the federal code had a rule that says that if a benefit is not received from a particular deduction that results in a refund, the refund is not taxable. The bill would revise the taxability of tax benefit items for Montana individual income tax purposes, incorporating

the federal tax benefit law relating to the recovery of amounts deducted in a prior tax year, and disallow deductions for expenses associated with the production of exempt or excludable income.

Proponents' Testimony:

Jeff Miller, DOR, spoke in support of the bill. It will add integrity and understandability to the tax system.

Joe Shevlin, Montana Society of CPA's, encouraged the Committee to support this bill because it is fair and takes care of some inequities.

Opponents' Testimony:

None.

Questions From Committee Members and Responses:

REP. REAM asked why the fiscal note would not apply. **Mr. Miller** replied that it was because of the amendment that appears on page 4 of the bill. **REP. REAM** asked if this would have any impact on the individual taxpayer's federal income tax return. **Mr. Miller** said it would not. He said the situation was brought up by a Montana citizen who overpaid state withholding in another state and California gave them a refund. Because they reduced their federal taxable income by deducting all the withheld state income tax in Montana, it was required to be part of their gross income in the state, yet it had nothing to do with Montana income in the previous year. This bill was the logical result.

REP. ELLIOTT asked if it would have anything to do with depreciable property. **Mr. Miller** said he could not see that it would.

Closing by Sponsor:

SEN. GAGE asked for the Committee's concurrence in the bill because it clarifies some things that people have wondered about for a long time.

EXECUTIVE ACTION ON SB 418

Motion:

REP. HARPER MOVED THAT SB 418 BE CONCURRED IN.

Discussion:

There was no discussion on the motion.

Vote:

On a voice vote, the motion passed unanimously.

EXECUTIVE ACTION ON SB 412

Motion:

REP. ROSE MOVED THAT SB 412 BE CONCURRED IN.

Discussion:

REP. REAM said another bill would be coming before the Committee and he wondered how that bill would fit with SB 412.

Mr. Heiman advised that all the other bills have coordinating instructions to SB 412 and make it easy to understand the relationship. This bill will stand whether the other bills are passed or not.

REP. ELLIOTT said it would affect the fiscal note. Mr. Heiman explained that the fiscal impact is determined independently and when the bill is codified by the Council, it will be coordinated with this bill.

REP. ELLIOTT requested that action on this bill be postponed until Sen. Jergeson's bill is heard.

REP. REAM asked Judy Paynter of the DOR to prepare a table including columns for the stripper bill and the Jergeson bill which would show the fiscal impact on one chart. Ms. Paynter said she could provide that information.

REP. ROSE WITHDREW HIS MOTION.

CHAIRMAN HIBBARD announced that further action would be delayed until SB 313 had been heard before the Committee.

EXECUTIVE ACTION ON SB 407

Motion:

REP. ARNOTT MOVED THAT SB 407 BE CONCURRED IN.

Discussion:

There was no discussion on the bill.

Motion/Vote:

On a voice vote, the motion passed unanimously.

EXECUTIVE ACTION ON SB 397Motion:

REP. SWANSON MOVED THAT SB 397 BE CONCURRED IN.

Discussion:

REP. SWANSON read a short letter from a Bozeman HRDC official which clarified that two homes are leased from HUD for \$1 per year for homeless families. The letter states, "the condition of the lease is that no rent may be charged and therefore all maintenance and operation expenses are paid by the community, United Way and local churches. Since 1991, 17 families have been helped. The taxes amount to \$4,000 a year and, without this bill, they will have to shut the shelters down. They are the only shelters in Bozeman for homeless families."

Vote:

On a voice vote, the motion passed 16 - 3.

EXECUTIVE ACTION ON SB 161Motion:

REP. SOMERVILLE MOVED THAT SB 161 BE CONCURRED IN.

Discussion:

REP. ORR suggested an amendment that would strike "one cubic centimeter" and insert "or less." EXHIBIT 10. REP. ORR said there is no such thing as a one cubic centimeter motorcycle.

REP. HARPER asked if it was worth the paperwork to amend the bill and send it back to the Senate. REP. ORR said the question had come up in the Committee and he hadn't thought about sending it back to the Senate. He said he did not have any strong feelings about it one way or the other but he did not think there would be any problem with it in the Senate Tax Committee.

Motion/Vote:

REP. ORR MOVED THE AMENDMENT BE ADOPTED. On a voice vote, the motion passed unanimously.

Discussion:

REP. REAM said the Senate had apparently amended the bill by cutting the fee for motorcycles under 600 cc in half and he wondered why. REP. WENNEMAR said Sen. Stang had indicated that the original numbers had generated excess money and the fee proposed in the bill would have been greater than what they were

paying and he wanted to keep the revenue within a certain range.

Discussion followed on the relationship of rates between the different categories of motorcycles.

REP. HANSON said Senator Stang had good reasons for setting the rates in the bill and she would like to leave them as they are.

REP. HARPER said a lot of smaller bikes are not being licensed and more people would be encouraged to license them if the fee was smaller.

REP. STORY said he thought the problem was that the bottom category should have been divided to separate the street bikes from all other smaller bikes.

REP. ELLIOTT agreed that there should be another class.

{Tape: 4; Side: B.}

CHAIRMAN HIBBARD said Sen. Stang had said they had used the "flip a coin" technique in setting the rates and it would be possible to make changes but he doubted they would be that significant.

REP. SWANSON said the amendment wasn't about the fees, it was about the fiscal note, and she had a question about whether the bikes would be excluded from the local option tax under the bill.

CHAIRMAN HIBBARD said they would be excluded because the bill establishes a fee, not a tax.

REP. RYAN suggested that the bill should be postponed because of the number of questions about fees.

CHAIRMAN HIBBARD agreed and postponed further action on the bill until Wednesday, April 5.

ADJOURNMENT

Adjournment: 11:55 a.m.



CHASE HIBBARD, Chairman



DONNA GRACE, Secretary

CH/dg

HOUSE OF REPRESENTATIVES

Taxation

ROLL CALL

DATE *March 30, 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	✓		



HOUSE STANDING COMMITTEE REPORT

March 30, 1995

Page 1 of 1

Mr. Speaker: We, the committee on Taxation report that Senate Bill 418 (third reading copy -- blue) be concurred in.

Signed: Chase Hibbard
Chase Hibbard, Chair

Carried by: Rep. Arnott

Committee Vote:
Yes 19, No 0.

731305SC.Hbk



HOUSE STANDING COMMITTEE REPORT

March 30, 1995

Page 1 of 1

Mr. Speaker: We, the committee on **Taxation** report that **Senate Bill 407** (third reading copy -- blue) be concurred in.

Signed: Chase Hibbard
Chase Hibbard, Chair

Carried by: Rep. Ohs

Committee Vote:
Yes 19, No 0.

731307SC.Hbk



HOUSE STANDING COMMITTEE REPORT

March 30, 1995

Page 1 of 1

Mr. Speaker: We, the committee on **Taxation** report that **Senate Bill 397** (third reading copy -- blue) be concurred in.

Signed: _____

A handwritten signature in cursive script, reading "Chase Hibbard", is written over a horizontal line.

Chase Hibbard, Chair

Carried by: Rep. Swanson

Committee Vote:

Yes 16, No 3.

731306SC.Hbk

Proxy

SB 397

No

SB 407

yes

SB 409

yes

SB 161

yes

Daniel Fuchs

Amendments to Senate Bill No. 336
Third Reading Copy

Requested by Sen. Beck
For the Committee on Taxation

Prepared by Doug Sternberg
March 29, 1995

1. Title, line 4.
Strike: "SETTING"
Insert: "REQUIRING THAT ANY CHANGE IN CERTAIN"
2. Title, line 5.
Following: "LANDS"
Strike: "BY STATUTE, RATHER THAN BY RULE OF THE BOARD OF LAND COMMISSIONERS"
Insert: "BE APPROVED BY THE LEGISLATURE PRIOR TO IMPLEMENTATION"
3. Title, line 6.
Strike: "ESTABLISHING" through "LEVELS;"
4. Title, line 7.
Following: "SECTIONS"
Insert: "77-1-106,"
5. Title, line 8.
Strike: "77-6-302, 77-6-305, 77-6-306,"
6. Title, line 9.
Strike: "SECTIONS 77-1-106, AND"
Insert: "SECTION"
7. Page 1, line 13.
Insert: "Section 1. Section 77-1-106, MCA, is amended to read:
"77-1-106. Setting Recommendation of rates or fees --
~~rules.~~ (1) In ~~setting recommending to the legislature~~ the lease rental rates or fees for the use of state lands and cabin sites, the board shall consider the impact of the uses on the school trust asset, lessee expenses for management, water development, weed control, fire control, the term of the lease, the production capabilities, the conditions on the lease payment, and any other required expenses reasonably borne by the lessee. In ~~setting recommending~~ cabin site lease rates, the board shall consider expenses that are commonly incurred by the lessees to preserve the value of the state land or to provide services commonly provided by private lessors in the area.
(2) All lease rental rates and fees established recommended by the board under 77-1-208, 77-1-802, ~~77-6-202~~, 77-6-501, 77-6-502, and 77-6-507 must consider the trust asset and be in the best interests of the state with regard to the long-term productivity of the school trust lands, while optimizing the return to the school trust.
(3) ~~The board shall comply with Title 2, chapter 4, part 3,~~
in setting Recommendations for changes in rental rates and

license fees pursuant to 77-1-208, 77-1-802, ~~77-6-202~~, 77-6-501, 77-6-502, and 77-6-507 are subject to the approval of the legislature after consideration of rate and fee recommendations by the board. If a recommended rate or fee change is approved by the legislature, the rate or fee is considered to be adopted and the change is effective beginning with the following lease year. If a recommended rate or fee change is rejected by the legislature, the rate or fee is considered not adopted and remains at the level set prior to the proposed change."

Renummer: subsequent sections

8. Page 1, line 16.

Following: "~~council,~~"

Strike: "set"

Insert: "establish, pursuant to 77-1-106(3),"

9. Page 1, line 17.

Following: "~~value~~"

Insert: "based on full market value"

Following: "site"

Strike: "subject to a license or lease in effect on January 1, 1988,"

Following: "and"

Insert: "and"

10. Page 1, line 19.

Strike: "be 3.5% of the"

Insert: "attain full market value based on"

11. Page 1, line 20.

Strike: "or \$150, whichever is greater"

12. Page 1, line 25.

Following: "shall"

Strike: "set"

Insert: "establish, pursuant to 77-1-106(3),"

13. Page 2, line 11.

Following: "~~appeal.~~"

Insert: "The recommendation procedure set forth in 77-1-106(3) should establish provisions for notice, public comment, and public hearing."

14. Page 2, lines 15 through 19.

Following: "~~value~~" on line 15

Strike: remainder of line 15 through "77-1-808" on line 19

Insert: "must attain full market value and be established pursuant to 77-1-106"

15. Page 2, line 22.

Strike: "Proceeds collected under subsection (1)(a)"

Insert: "Except as provided in subsection (2)(b), license fees"

16. Page 2, lines 26 and 27.

Strike: "Proceeds" on line 26 through "dealers," on line 27

Insert: "Two dollars from the fee for each license, less 50 cents to be returned to the license dealer as a commission,"

17. Page 2, lines 28 and 29.

Following: "77-1-808" on line 28

Strike: "remainder of line 28 through "use" on line 29

18. Page 3, line 6.

Following: "~~required~~"

Insert: "-- full market value required"

19. Page 3, line 10.

Following: "~~council~~."

Insert: "The board shall establish a minimum bid at the rate applicable for lease renewals pursuant to 77-6-205(1)."

20. Page 3, line 24.

Strike: "provided by law"

Insert: "recommended by the board and approved by the legislature"

21. Page 4, line 17 through page 5, line 25.

Strike: sections 6 through 8 in their entirety

Renumber: subsequent sections

22. Page 6, line 1.

Strike: "raises"

Insert: "approves a raise in"

23. Page 6, line 14.

Strike: "six"

Insert: "a factor recommended by the board and approved by the legislature"

24. Page 6, line 22.

Following: "~~77-1-106~~."

Insert: "(5) In recommending the rental rate described in subsection (2), the board shall consider applicable elements that include but are not limited to those set forth in 77-1-106."

25. Page 6, line 30.

Following: "[Section"

Strike: "1"

Insert: "2"

26. Page 7, line 3.

Strike: "2"

Insert: "4"

27. Page 7, line 5.

Insert: "(4) Until the rate changes are adopted pursuant to [section 1], the board shall renew grazing leases that are not competitively bid and cabin site leases at the rate provided in Rule 26.3.166, Administrative Rules of Montana,

as it existed on [the effective date of this act]."

28. Page 7, line 4.

Strike: "9"

Insert: "5"

Strike: "10"

Insert: "6"

29. Page 7, line 6.

Strike: "Sections 77-1-106 and"

Insert: "Section"



CAYUSE LIVESTOCK CO.

P.O. Box 248 • Melville, MT 59055

EXHIBIT

2

DATE

3/30/95

#

SB 336



W. H. Donald III - (406) 537-4495

FAX (406) 537-4495

William H. Donald - (406) 537-4423

Paul O. Hawks - (406) 537-4452

Representative Chase Hibbard
Chairman, House Taxation Committee
Montana State House of Representatives
Capitol Station
Helena, MT 59620

March 30, 1995

RE: Testimony in support of SB 336 with the Beck Amendment

My name is Bill Donald. I am a State Trust Land lessee, a trustee of Sweet Grass County High School, a member of the Land Board's ad hoc committee on recreational access and a member of the State Lands Recreational Use Advisory Council.

This bill initiates a change in the manner in which fees are set for state land uses. The first question one must ask is what benefit does it have over the status quo. There are two main issues when considering these fees: fairness to the users and market value into the Trust. I feel SB 336, with Senator Beck's amendment, will assure both the schools of Montana and the users of State Trust Lands, the fees for those uses will be set in a fair manner at true market value. The mechanism it utilizes to meet this end is that of checks and balances. It forces the Land Board to recommend fees that have a justifiable basis. With 150 legislators voting on the fees we can be assured they will be scrutinized before they are ever enacted.

If I have learned nothing else in the last couple years of dealing with State Land issues it is that the public demands to be thoroughly heard out. This bill enhances the public's opportunity for input by providing a public forum at the Land Board stage and again during the legislative stage.

It is probably a sign of the times that when changes in State Trust Land fees are being considered the political pressure has become too great for the five member Land Board to bear all by themselves. They have been sending signals that more shoulders are needed to bear the political burden of this volatile, important issue. Those signals include procrastinating for many different reasons and waiting to see if this legislature will offer any help. This bill provides that help.

For these reasons I support this change in the status quo as a lessee, a school board trustee and a parent. I hope you will support it also.

Thank you for considering my testimony.




EXHIBIT 3DATE 3/30/95

1994 DSL Farm Program Payments (94CCCPAY.WK4B)

33650/50

COUNTY	TOTAL TRUST		1994 DEFICIENCY		1994 CRP		93 Payments	
	ACRES	AG ACRES	CRP ACRES	Wheat	Feed Grain	County Total	Deficiency	CRP
BEAVERHEAD	332,357	3,789.41	0	\$0	\$0	\$5,706	\$5,706.00	\$0.00
BIG HORN	87,794	2,677.48	0	\$2,254	\$626	\$0	\$2,880.00	\$4,517.00
BLAINE	181,370	17,313.44	2,739	\$17,609	\$2,230	\$36,777	\$56,616.00	\$28,885.00
BROADWATER	23,805	2,377.69	646	\$3,036	\$824	\$7,664	\$11,524.00	\$5,763.00
CARBON	41,220	1,220.12	210	\$654	\$0	\$2,088	\$2,742.00	\$734.00
CARTER	142,719	6,107.89	934	\$1,489	\$24	\$4,317	\$5,830.00	\$2,560.00
CASCADE	77,242	14,459.36	1,414	\$18,623	\$9,962	\$25,051	\$53,636.00	\$43,766.00
CHOUTEAU	267,224	83,415.90	7,911	\$157,905	\$77,558	\$103,112	\$338,575.00	\$391,377.00
CUSTER	140,821	7,179.10	1,129	\$4,538	\$1,960	\$8,524	\$15,022.00	\$10,338.00
DANIELS	220,716	114,988.18	42,142	\$92,102	\$13,970	\$381,801	\$487,873.00	\$182,102.00
DAWSON	87,470	16,794.20	3,968	\$17,485	\$3,884	\$37,052	\$58,421.00	\$36,390.00
DEER LODGE	7,881	114.20	0	\$331	\$62	\$0	\$393.00	\$507.00
FALLON	67,416	10,849.80	2,505	\$8,406	\$1,475	\$27,052	\$36,933.00	\$14,685.00
FERGUS	155,421	16,306.40	1,723	\$20,201	\$8,301	\$18,675	\$47,177.00	\$41,229.00
FLATHEAD	130,144	736.91	0	\$2,831	\$809	\$0	\$3,640.00	\$5,352.00
GALLATIN	51,516	9,784.28	158	\$10,733	\$7,762	\$15,507	\$34,002.00	\$26,067.00
GARFIELD	166,472	5,459.66	1,762	\$1,908	\$729	\$14,367	\$17,004.00	\$5,543.00
GLACIER	8,339	2,719.80	0	\$1,842	\$3,176	\$0	\$5,018.00	\$6,157.00
GOLDEN VALLEY	48,602	3,555.98	593	\$1,293	\$605	\$5,465	\$7,363.00	\$3,922.00
GRANITE	21,063	266.00	0	\$0	\$0	\$0	\$0.00	\$955.00
HILL	155,864	65,418.73	9,287	\$104,020	\$24,283	\$115,595	\$243,898.00	\$206,803.00
JEFFERSON	32,150	1,878.34	31	\$0	\$0	\$312	\$312.00	\$0.00
JUDITH BASIN	98,472	20,802.53	1,326	\$21,840	\$17,209	\$15,179	\$54,228.00	\$58,375.00
LAKE	55,154	20.70	0	\$0	\$0	\$0	\$0.00	\$0.00
LEWIS & CLARK	133,878	3,402.16	227	\$15,748	\$329	\$2,957	\$19,034.00	\$23,068.00
LIBERTY	86,578	29,520.25	6,883	\$38,122	\$11,630	\$66,331	\$116,083.00	\$80,413.00
LINCOLN	65,316	0.00	0	\$0	\$0	\$0	\$0.00	\$0.00
MADISON	126,647	4,409.10	468	\$4,921	\$321	\$257	\$5,499.00	\$5,447.00
McCONE	94,559	20,066.51	2,612	\$20,345	\$4,700	\$20,619	\$45,664.00	\$39,644.00
MEAGHER	90,077	3,279.20	163	\$530	\$3,117	\$1,696	\$5,343.00	\$4,900.00
MINERAL	21,960	15.00	0	\$0	\$0	\$0	\$0.00	\$0.00
MISSOULA	73,942	0.00	0	\$0	\$0	\$0	\$0.00	\$0.00
MUSSELSHELL	76,324	5,064.00	1,026	\$1,372	\$445	\$10,858	\$12,675.00	\$3,144.00
PARK	33,405	2,893.56	595	\$812	\$654	\$6,956	\$8,422.00	\$1,849.00
PETROLEUM	64,110	5,173.58	925	\$0	\$0	\$8,779	\$8,779.00	\$0.00
PHILLIPS	189,426	14,444.04	1,655	\$14,506	\$1,924	\$19,719	\$36,149.00	\$28,691.00
PONDERA	57,423	25,547.20	1,462	\$54,795	\$35,282	\$11,876	\$101,953.00	\$129,507.00
POWDER RIVER	140,813	2,438.90	416	\$1,022	\$52	\$6,682	\$7,756.00	\$1,924.00
POWELL	56,792	2,267.98	0	\$0	\$0	\$0	\$0.00	\$0.00
PRAIRIE	76,699	9,702.59	1,291	\$5,982	\$1,079	\$12,455	\$19,516.00	\$11,985.00
RAVALLI	29,464	367.20	7	\$240	\$11	\$77	\$328.00	\$389.00
RICHLAND	81,678	11,359.00	2,582	\$10,929	\$3,840	\$26,837	\$41,606.00	\$27,019.00
ROOSEVELT	20,233	5,151.31	1,214	\$6,029	\$1,163	\$10,723	\$17,915.00	\$12,021.00
ROSEBUD	178,032	8,821.78	966	\$6,529	\$848	\$16,008	\$23,385.00	\$12,346.00
SANDERS	62,985	411.00	0	\$0	\$0	\$0	\$0.00	\$0.00
SHERIDAN	45,147	14,811.06	5,082	\$12,896	\$2,284	\$56,452	\$71,632.00	\$24,500.00
SILVER BOW	13,234	9.00	0	\$0	\$0	\$0	\$0.00	\$0.00
STILLWATER	46,522	7,120.73	1,241	\$7,199	\$2,554	\$12,108	\$21,861.00	\$14,005.00
SWEET GRASS	47,091	1,449.10	0	\$0	\$0	\$0	\$0.00	\$0.00
TETON	103,903	15,729.22	2,419	\$25,772	\$8,564	\$46,646	\$80,982.00	\$52,476.00
TOOLE	100,070	25,487.81	3,941	\$37,535	\$15,104	\$57,113	\$109,752.00	\$82,632.00
TREASURE	37,394	1,097.86	551	\$753	\$365	\$5,512	\$6,630.00	\$2,242.00
VALLEY	214,682	29,447.42	10,771	\$26,495	\$7,014	\$111,126	\$144,635.00	\$56,949.00
WHEATLAND	73,434	8,080.10	520	\$2,807	\$1,919	\$4,468	\$9,194.00	\$6,256.00
WIBAUX	33,159	7,145.96	1,430	\$8,310	\$1,321	\$14,704	\$24,335.00	\$18,130.00
YELLOWSTONE	79,038	9,134.50	1,982	\$13,655	\$2,201	\$25,834	\$41,690.00	\$27,538.00
TOTALS	5,155,247	682,083	128,907	\$806,404.00	\$282,170.00	\$1,381,037.00	\$2,469,611.00	\$1,743,102.00
AVERAGE	92,058	12,180	2,302	\$14,400.07	\$5,038.75	\$24,661.38	\$44,100.20	\$31,126.82

NOTE: THE AGRICULTURAL ACRES INCLUDE HAY AND HAY WHEN CUT ACRES.

276,306 41,910 769,602

EXHIBIT 4
DATE 3/30/95
~~HB~~ SB 412

February 24, 1995

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

RECEIVED
MAR 1 1995
DEPARTMENT OF REVENUE

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

Oil Production Tax Rate Simplification

DATE 3/30/95
HB SB 112

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 = 6.7%

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 = 16.6% : 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.

Grand Total	16,864,201	\$249,303,479	13.57%	13.52%	33,839,353	33,701,745	(\$137,609)
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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 in effect under the simplified rate structure •

EXHIBIT 56DATE 3/30/93HBSB 412**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

<u>Production Type</u>	<u>Local</u>	<u>State</u>	<u>Combined</u>	<u>Percent To State</u>
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	<u>2,148,681</u>	<u>599,840</u>	<u>2,748,522</u>	<u>21.82%</u>
Total Gas	\$10,338,495	\$1,732,570	\$12,071,066	14.35%

<u>Production Type</u>	<u>Local</u>	<u>State</u>	<u>Combined</u>	<u>Percent To State</u>
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	<u>3,336,246</u>	<u>2,716,657</u>	<u>6,052,903</u>	<u>44.88%</u>
Total Oil	\$16,750,295	\$11,954,952	\$28,705,247	41.65%

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)	1,950,052	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	452,432	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)
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EXHIBIT 7DATE 3/30SB 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."

Mr. Don Hoffman

Page 2

March 9, 1995

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 Olson
Vice President

FO:sn

cc: Herb Vasseur, MLMOA President



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

EXHIBIT 8
DATE 3/30/95
~~SB~~ SB 412
100 S. Last Chance Gulch, Suite 2B
Post Office Box 1186
Helena, Montana 59624-1186

Gail Abercrombie
Executive Director

Telephone (406) 442-7582
FAX (406) 443-7291

TESTIMONY

David A. Johnson
President
Montana Petroleum Association

SB 412 GENERALLY REVISING TAXATION OF OIL AND NATURAL GAS

March 30, 1995
House Taxation 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 MPA members and asked for a meeting in early April to broach the subject, we 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 for each class of production, the working interest owner, who expends the capital to explore and develop the drilling prospect, should not have a tax rate higher 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 primary 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 and investors. Montana already has a poor reputation in the oil and gas community for its high tax rates, and the impression lingers of a 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. Amendments, however, were adopted in the Senate. MPA members reviewed the changes and did not protest them, deeming their impact minor. The

Montana Petroleum Association

SB 412

Page 3

most concern with adoption of the amendments was the setting of precedence for further rate manipulations with more magnitude of impact. We would look very much askance at any such efforts.

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 as it is before you today.



WILLISTON BASIN

INTERSTATE PIPELINE COMPANY
A Subsidiary of MDU Resources Group, Inc.

Suite 300
200 North Third Street
Bismarck, ND 58501
(701) 221-1200

EXHIBIT 9
DATE 3/30/95
~~HB~~ SB 412

Direct Dial No.
(701) 221-1259

March 28, 1995

To: The House Taxation Committee
Montana House of Representatives


RE: SB 412 - Oil and Gas Production Tax Simplification Bill

Williston Basin Interstate Pipeline Company (Williston Basin), one of the largest gas well operators in the State of Montana, and its producing division, WBI Gas Services Co. (WGS), would like to express our support for SB 412. As part of an industry and Department of Revenue effort during 1994, our company was actively involved in the development of a somewhat more simplified production tax structure brought before you now as SB 412. While Williston Basin actually stands to pay slightly more taxes as a result of SB 412, it was viewed by the company's management as a trade-off toward gaining a somewhat more simplified and efficient application of production taxation in the State of Montana.

Williston Basin and WGS also produce gas in the State of North Dakota. While SB 412 has a long way to go to match the ease and simplicity of North Dakota's flat four cents per thousand cubic foot tax rate, Williston Basin remains confident that the Montana Legislature will do the right thing for the State and the Oil and Gas Industry, by passage of SB 412.

Thank you for your time and consideration in this matter.

Respectfully,



Curtis D. Jundt
Director of Gas Services
WBI Gas Services Co.

EXHIBIT 10
DATE 3/30/95
~~HB~~ SB 161

Amendments to Senate Bill No. 161
Third Reading Copy

Requested by Rep. Orr
For the Committee on Taxation

Prepared by Lee Heiman
March 21, 1995

1. Page 1, line 17.
Strike: "from 1 cubic centimeter to"

2. Page 1, line 18.
Following: "centimeters"
Insert: "or less"

HOUSE OF REPRESENTATIVES

VISITOR'S REGISTER

Location _____ COMMITTEE _____ BILL NO. SB 358
 DATE 3/30/95 SPONSOR(S) Sen. Halligan

PLEASE PRINT

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NAME AND ADDRESS	REPRESENTING	BILL	OPPOSE	SUPPORT
Jim PALADICHUK	m. p. u.			✓
Russ Ritter	Envirocon			✓
MIKE STEVENSON	ENVIROCON			✓

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EXHIBIT
DATE
HB

HOUSE OF REPRESENTATIVES

VISITOR'S REGISTER

Taxation COMMITTEE SB 336
DATE 3/30/95 SPONSOR(S) Sen. Beck

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NAME AND ADDRESS	REPRESENTING	BILL	OPPOSE	SUPPORT
<u>Jim Richard</u>	<u>MT. Wildlife Fed</u>		<u>X</u>	
<u>Jim Plummer</u>	<u>MT. Stockgrowers</u>			<u>X</u>
<u>Kath Bales</u>	<u>MT Stockgrowers</u>			<u>X</u>
<u>Donna Torger</u>	<u>MT. Cattle Women</u>	<u>SB 336</u>		<u>X</u>
<u>Tony Schoon</u>	<u>state lands Coalition</u> <u>Skyline 2 Acres</u>	<u>SB 336</u>	<u>X</u>	
<u>Larry Volkmur</u>	<u>Mineral Specialists</u>	<u>358</u>		<u>X</u>
<u>William Leslie</u>	<u>Mineral Specialists</u>	<u>358</u>		
<u>Lorna Frank</u>	<u>MT. Farm Bureau</u>	<u>336</u>		<u>X</u>
<u>Chris Melus</u>	<u>MASGD</u>	<u>336</u>		<u>✓</u>
<u>Alvin Ellis Jr</u>	<u>Self</u>	<u>336</u>		<u>✓</u>
<u>John Bloomquist</u>	<u>MT. Stockgrowers</u>	<u>336</u>		<u>✓</u>
<u>Larry Torger</u>		<u>336</u>		

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HOUSE OF REPRESENTATIVES
VISITOR REGISTER

Taxation COMMITTEE SB 412
DATE 3/30/95 SPONSOR(S) Sen. Grosfield
PLEASE PRINT PLEASE PRINT PLEASE PRINT

NAME AND ADDRESS	REPRESENTING	SUPPORT	OPPOSE
Gloria Paladichuk	Richland Development	X	
JIM HALVERSON	ASSN- OIL-GAS-COAL CO.	X	
ALYSE GRANT	MONTANA POWER	X	
DAVID A JOHNSON	MT. PETROLEUM ASSOC	X	
DON HOFFMAN	DEPT. of REVENUE	X	
Jerome Cuddeback	State Auditor	X	
Jim PALADICHUK	M. D. U. Resources	L	
Patricia M. Monteban	MSR + NMOGA	✓	
Karl Abercrombie	MT Petroleum Assoc	✓	
DENNIS IVERSON	NMOGA	✓	
Larry Trickett	State Senate 50	✓	
SEAN KAWCZAK	MONTANAN OIL	✓	

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HOUSE OF REPRESENTATIVES

VISITOR'S REGISTER

Vocation COMMITTEE _____ BILL NO. SB 418
DATE 3/30/95 SPONSOR(S) Sen. Sage

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NAME AND ADDRESS	REPRESENTING	BILL	OPPOSE	SUPPORT
Joseph F. Sheulin	MONTANA SOCIETY OF CPAs	418		X
Jeff Miller	DOR	SB418		✓

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