

SENATE BILL NO. 18

INTRODUCED BY HALLIGAN, GILBERT, TVEIT, PIPINICH,
MCCLERNAN, REA, JERGSON, FELAND, BOHLINGER, BRUSKI-MAUS,
HOCKETT, TUNBY, KOEHNKE, BACHINI, HARP, BROWN, SWYSGOOD,
M. HANSON, SWIFT, GRINDE, DEVLIN, SAYLES, SPRING, FOSTER,
STOVALL, J. JOHNSON, WEEDING, H. S. HANSON, TASH,
WAGNER, BIRD, SIMON

IN THE SENATE

NOVEMBER 30, 1993	INTRODUCED AND REFERRED TO COMMITTEE ON TAXATION.
	FIRST READING.
DECEMBER 4, 1993	COMMITTEE RECOMMEND BILL DO PASS AS AMENDED. REPORT ADOPTED.
DECEMBER 6, 1993	PRINTING REPORT.
	SECOND READING, DO PASS.
	ENGROSSING REPORT.
	THIRD READING, PASSED. AYES, 41; NOES, 9.
DECEMBER 7, 1993	TRANSMITTED TO HOUSE.

IN THE HOUSE

DECEMBER 7, 1993	INTRODUCED AND REFERRED TO COMMITTEE ON TAXATION.
	FIRST READING.
DECEMBER 11, 1993	COMMITTEE RECOMMEND BILL BE CONCURRED IN AS AMENDED. REPORT ADOPTED.
	SECOND READING, CONCURRED IN.
	THIRD READING, CONCURRED IN. AYES, 83; NOES, 16.
DECEMBER 13, 1993	RETURNED TO SENATE WITH AMENDMENTS.

IN THE SENATE

DECEMBER 14, 1993

RECEIVED FROM HOUSE.

SECOND READING, AMENDMENTS
CONCURRED IN.

THIRD READING, AMENDMENTS
CONCURRED IN.

SENT TO ENROLLING.

REPORTED CORRECTLY ENROLLED.

1 *Sen. Paul*
2 *Sen. Seavate*
3 *Sen. Billie*
4 *Sen. Seavate*
5 *Sen. Seavate*
6 *Sen. Seavate*
7 *Sen. Seavate*
8 *Sen. Seavate*
9 *Sen. Seavate*
10 *Sen. Seavate*
11 *Sen. Seavate*
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22 *Sen. Seavate*
23 *Sen. Seavate*
24 *Sen. Seavate*
25 *Sen. Seavate*

INTRODUCED BY *Sen. Seavate*
A BILL FOR AN ACT ENTITLED: "AN ACT PROVIDING REDUCED NET
PROCEEDS TAX RATES AND REDUCED SEVERANCE TAX RATES ON THE
INCREMENTAL PRODUCTION OF OIL FROM ENHANCED RECOVERY
PROJECTS THAT BEGIN AFTER DECEMBER 31, 1993, AND BEFORE
JANUARY 1, 2002; EXEMPTING FROM NET PROCEEDS TAXATION FOR A
PERIOD OF 18 MONTHS THE PRODUCTION OF OIL FROM HORIZONTALLY
COMPLETED WELLS; REQUIRING THAT THE BOARD OF OIL AND GAS
CONSERVATION APPROVE ENHANCED RECOVERY PROJECTS IN ORDER FOR
THE PROJECTS TO QUALIFY FOR THE REDUCED TAX RATES; AMENDING
SECTIONS 7-1-2111, 7-7-2101, 7-7-2203, 7-14-2524, 7-14-2525,
7-16-2327, 15-6-208, 15-23-601, 15-23-602, 15-23-603,
15-23-607, 15-23-612, 15-23-613, 15-36-101, 20-9-141,
20-9-331, 20-9-333, AND 20-10-144, MCA; AND PROVIDING AN
IMMEDIATE EFFECTIVE DATE AND AN APPLICABILITY DATE."

STATEMENT OF INTENT

A statement of intent is required for this bill because
the board of oil and gas conservation is authorized to
approve and certify production decline rates for the purpose
of determining incremental production from enhanced recovery
projects as provided in this bill.

The department of revenue has adopted rules for

determining incremental production from tertiary production
based on production decline rates. It is the intent of this
legislation that the determination of incremental production
is more appropriately a function of the board of oil and gas
conservation because the board already has comprehensive
statutory authority over oil and gas exploration and
development activities in Montana.

The legislature intends that the board of oil and gas
conservation shall, in consultation with the department of
revenue, adopt rules setting forth the methodology by which
the board may approve new or expanded secondary and tertiary
recovery projects. The rules must include the method for
establishing the rate of decline in production in the
existing level of development in a project area. For a
secondary or tertiary recovery project for which initial
approval is sought, the rules must include the method for
establishing the rate of decline in production from existing
primary or secondary recovery operations in a proposed
project area. In addition, the rules must include the method
for determining the level of production from existing wells
in a project area in order to establish the level of
incremental production that qualifies for the tax incentive
rates provided in this bill.

A statement of intent is also required for this bill
because the department of revenue is granted rulemaking

authority for determining the allocation of incremental production from enhanced recovery projects to production that is subject to net proceeds taxation and to production that is subject to the local government severance tax. The allocation must be based on the ratio of production from wells drilled before July 1, 1985, in a project area that qualifies for a reduced tax rate on incremental production to production from wells drilled after June 30, 1985, in the project area that qualifies for a reduced tax rate on incremental production.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 15-6-208, MCA, is amended to read:

"15-6-208. Mineral exemptions. (1) One-half of the contract sales price of coal sold by a coal producer who extracts less than 50,000 tons of coal in a calendar year is exempt from taxation.

(2) Metal mines producing less than 20,000 tons of ore in a taxable year are exempt from property taxation on one-half of the merchantable value.

(3) (a) New production, as defined in 15-23-601, is exempt from taxation for the first 12 months of production as provided in 15-23-612.

(b) Production from horizontally completed wells, as defined in 15-23-601, is exempt from taxation for the first

18 months of production as provided in 15-23-612.

(4) The first 1,000 tons of travertine and building stone extracted from a mine in a tax year are exempt from property taxation."

Section 2. Section 15-23-601, MCA, is amended to read:

"15-23-601. Definitions. As used in this part, the following definitions apply:

(1) "Board" means the board of oil and gas conservation.

(2) "Enhanced recovery project" means the use of any process, other than primary recovery, for the displacement of oil from the earth and includes the use of an immiscible, miscible, chemical, thermal, or biological process.

~~(1)~~(3) "Excise tax" means the windfall profit tax on domestic crude oil imposed by Title I of the federal Crude Oil Windfall Profit Tax Act of 1980, as enacted or as amended.

(4) "Existing enhanced recovery project" means an enhanced recovery project that began development before January 1, 1994.

(5) "Expanded enhanced recovery project" or "expansion" means the addition of injection wells or production wells, the change of injection pattern, or other operating changes to an existing enhanced recovery project that results in the recovery of oil that would not otherwise be recovered. The

1 project must be developed after December 31, 1993, and
 2 before January 1, 2002.

3 (6) "Horizontal drain hole" means that portion of a
 4 well bore with 70 degrees to 110 degrees deviation from the
 5 vertical and a horizontal projection within the common
 6 source of supply, as that term is defined by the board, that
 7 exceeds 100 feet.

8 (7) "Horizontally completed well" means:

9 (a) a well with one or more horizontal drain holes; and

10 (b) any other well classified by the board as a
 11 horizontally completed well.

12 (8) "Incremental production" means the volume of
 13 petroleum or mineral or crude oil produced by a new enhanced
 14 recovery project or by an expanded enhanced recovery project
 15 in excess of the production decline rate established before:

16 (a) the expansion of an existing enhanced recovery
 17 project; or

18 (b) the commencement of a new enhanced recovery
 19 project. In the case of a project that had no taxable
 20 production prior to the commencement of an enhanced recovery
 21 project, incremental production means all production of
 22 petroleum or mineral or crude oil from the enhanced recovery
 23 project.

24 (9) "New enhanced recovery project" means an enhanced
 25 recovery project that began development after December 31,

1 1993, and before January 1, 2002.

2 (10) The term "new production" "New production" means
 3 the production of natural gas, petroleum, or other crude or
 4 mineral oil from any well that was drilled after June 30,
 5 1985, or that has not produced natural gas, petroleum, or
 6 other crude or mineral oil during the 5 years immediately
 7 preceding the first month of qualified new production.

8 (11) The terms "operator" "Operator" and "producer"
 9 mean any person who engages in the business of drilling for,
 10 extracting, or producing any natural gas, petroleum, or
 11 other crude or mineral oil.

12 (12) "Primary recovery" means the displacement of oil
 13 from the earth into the well bore by means of the natural
 14 pressure of the oil reservoir and includes artificial lift.

15 (13) "Production decline rate" means the projected rate
 16 of future oil production, extrapolated by a method approved
 17 by the board, that must be determined for a project area
 18 before the commencement of a new enhanced recovery project
 19 or expanded enhanced recovery project. The approved
 20 production decline rate must be certified in writing by the
 21 board. The board shall identify the project area and shall
 22 specify the projected rate of future oil production by
 23 calendar year and by calendar quarter within each year. The
 24 certified rate of future oil production must be used to
 25 determine the volume of incremental production that

1 qualifies for the tax rate imposed under 15-23-607(2)(c).
 2 (14) "Production from horizontally completed wells"
 3 means natural gas, petroleum, or other crude or mineral oil
 4 produced from a horizontally completed well that is drilled
 5 or recompleted after December 31, 1993, and before January
 6 1, 2002.
 7 (15) "Secondary recovery project" means an enhanced
 8 recovery project that is not a tertiary recovery project. A
 9 secondary recovery project must be approved by the board as
 10 provided in 15-36-101(1)(c).
 11 (16) "Tertiary recovery project" means an enhanced
 12 recovery project that meets each of the following
 13 requirements:
 14 (a) The project must be approved as a tertiary recovery
 15 project by the board. The approval may be extended only
 16 after notice and hearing in accordance with Title 2, chapter
 17 4.
 18 (b) The property to be affected by the project must be
 19 adequately delineated according to the specifications
 20 required by the board.
 21 (c) The project must involve the application of one or
 22 more tertiary recovery methods that can reasonably be
 23 expected to result in an increase, determined by the board
 24 to be significant in light of all the facts and
 25 circumstances, in the amount of crude oil that may

1 potentially be recovered. For purposes of this part,
 2 tertiary recovery methods include but are not limited to:
 3 (i) miscible fluid displacement;
 4 (ii) steam drive injection;
 5 (iii) micellar/emulsion flooding;
 6 (iv) in situ combustion;
 7 (v) polymer augmented water flooding;
 8 (vi) cyclic steam injection;
 9 (vii) alkaline or caustic flooding;
 10 (viii) carbon dioxide water flooding;
 11 (ix) immiscible carbon dioxide displacement; or
 12 (x) any other method approved by the board as a
 13 tertiary recovery method.
 14 (17) The term "well" includes "Well" means each
 15 single well or group of wells, including dry wells, in one
 16 field or production unit and under the control of one
 17 operator or producer."
 18 **Section 3.** Section 15-23-602, MCA, is amended to read:
 19 **"15-23-602. Statement of sales proceeds on new or**
 20 **incremental production.** (1) As provided in subsection (2),
 21 **each operator or producer of new production or incremental**
 22 **production of natural gas, petroleum, or other crude or**
 23 **mineral oil and each operator or producer of new production**
 24 **of natural gas shall make-out complete and deliver to the**
 25 **department of revenue a statement of the gross sales**

1 proceeds of new production of natural gas, petroleum, or
 2 other crude or mineral oil and the incremental production of
 3 petroleum or other crude or mineral oil from each well owned
 4 or worked by the person. The gross sales proceeds must be
 5 determined by multiplying the units of production sold from
 6 the well times the royalty unit value of that production at
 7 the well. The statement must be in the form prescribed by
 8 the department and must be verified by the oath of the
 9 operator or producer or the manager, superintendent, agent,
 10 president, or vice-president of the corporation,
 11 association, or partnership. The statement must show the
 12 following:

13 (a) the name and address of the operator, together with
 14 a list in duplicate of the names and addresses of any
 15 persons owning or claiming any royalty interest in the
 16 production from the well or the proceeds derived from the
 17 sale of the production, and the amount paid or yielded as
 18 royalty to each of those persons during the period covered
 19 by the statement;

20 (b) the description and location of the well;

21 (c) the number of cubic feet of natural gas, barrels of
 22 petroleum or other crude or mineral oil sold from the well
 23 during the period covered by the statement; and

24 (d) the gross sales proceeds in dollars and cents or,
 25 in the case of sales between parties not acting at arm's

1 length, the greater of the gross sales proceeds from or the
 2 fair market value of the products sold.

3 (2) Each operator having new production or incremental
 4 production as those terms are defined in 15-23-601 shall, on
 5 or before the last day of the months of October, January,
 6 April, and July, make--out complete and deliver to the
 7 department of revenue a statement of the gross sales
 8 proceeds of the new production or incremental production
 9 from each well owned or worked by the person during the
 10 preceding calendar quarter. The statement must be in the
 11 form prescribed by the department and verified as provided
 12 in subsection (1). The statement must show the information
 13 required in subsections (1)(a) through (1)(d)."

14 **Section 4.** Section 15-23-603, MCA, is amended to read:

15 "15-23-603. Net proceeds -- how computed. (1) As
 16 provided in subsection (2), the department of revenue shall
 17 calculate and compute from the returns the gross sales
 18 proceeds of the product yielded from the well for the year
 19 covered by the statement and shall calculate the net
 20 proceeds of the well yielded to the producer, which net
 21 proceeds are determined by subtracting from the gross sales
 22 proceeds of the well all royalty paid in cash by the
 23 operator or producer and the gross value of all royalty
 24 apportioned in kind by the operator or producer determined
 25 by using as the value of a barrel of oil or a cubic foot of

gas the average selling price for the calendar year of a barrel of oil or a cubic foot of gas from the well out of which the royalty was paid.

(2) For new production or for incremental production, net proceeds are the equivalent of the gross sales proceeds, without deduction for excise taxes, of the product yielded from the well for the quarter covered by the statement, except that in computing the total number of barrels of petroleum and other mineral or crude oil or cubic feet of natural gas produced, there must be deducted so much of the product as is used in the operation of the well from which the petroleum or other mineral or crude oil or natural gas is produced for pumping the petroleum or other mineral or crude oil or natural gas from the well to a tank or pipeline.

(3) In the statement of sales proceeds required under 15-23-602 for lease or unitized areas from which new production or incremental production and other production have been sold, the number of barrels of new production or incremental production of oil or cubic feet of new production of gas must be segregated from and stated separately from the number of barrels of other production of oil or cubic feet of other production of gas."

Section 5. Section 15-23-607, MCA, is amended to read:

"15-23-607. County assessors to compute taxes. (1)

Immediately after the board of county commissioners has fixed tax levies on the second Monday in August, the county assessor shall, subject to the provisions of 15-23-612, compute the taxes on net proceeds, as provided in subsection subsections (2) and (3) of this section, and royalty assessments and shall deliver the book to the county treasurer on or before September 15. The county treasurer shall proceed to give full notice of the assessments to the operator and shall collect the taxes as provided by law.

(2) For new production and incremental production, as those terms are defined in 15-23-601, the county assessor may not levy or assess any mills against the value of the new production or incremental production, but shall instead levy a tax as follows:

(a) for new production of petroleum or other mineral or crude oil, 7% of net proceeds, as described in 15-23-603(2); or

(b) for new production of natural gas, 12% of net proceeds, as described in 15-23-603(2); or

(c) (i) for incremental production that is classified as secondary recovery from new enhanced recovery projects, as defined in 15-23-601, and for incremental production that is classified as secondary recovery from expanded enhanced recovery projects, as defined in 15-23-601, 5% of net proceeds, as described in 15-23-603(2); or

(ii) for incremental production that is classified as tertiary recovery from new enhanced recovery projects, as defined in 15-23-601, and for incremental production that is classified as tertiary recovery from expanded enhanced recovery projects, as defined in 15-23-601, 3.3% of net proceeds, as described in 15-23-603(2).

(3) For purposes of this section:

(a) incremental production from a new enhanced recovery project qualifies for the tax rate imposed in subsection (2)(c)(i) or (2)(c)(ii) if, before the project begins development, the board approves the project and designates the area to be affected by the project.

(b) the incremental production from an expanded enhanced recovery project qualifies for the tax rate imposed in subsection (2)(c)(i) or (2)(c)(ii) if, before the expansion begins, the board approves the expansion and designates the area to be affected by the expansion.

{3}(4) The amount of tax levied in subsections (2)(a), and (2)(b), and (2)(c), divided by the appropriate tax rate and multiplied by 60%, must be treated as taxable value for county bonding purposes.

{4}(5) The operator or producer is liable for the payment of the taxes that, except as provided in 15-16-121, are payable by and must be collected from the operators in the same manner and under the same penalties as provided for

the collection of taxes upon net proceeds of mines. However, the operator may at ~~his~~ the operator's option withhold from the proceeds of royalty interest, either in kind or in money, an estimated amount of the tax to be paid by ~~him~~ the operator upon the royalty or royalty interest. After the withholding, any deviation between the estimated tax and the actual tax may be accounted for by adjusting subsequent withholdings from the proceeds of royalty interests."

Section 6. Section 15-23-612, MCA, is amended to read:

"15-23-612. Certain natural gas, petroleum, or other crude or mineral oil **exempt**. (1) New production, as defined in 15-23-601, is exempt from the net proceeds tax imposed by this part for the first 12 months following the last day of the calendar month immediately preceding the month in which:

(a) natural gas is placed into a natural gas distribution system; or

(b) production for sale from a crude oil or mineral oil well is pumped or flows.

(2) After the expiration of the 12-month exemption period provided for in subsection (1), new production of natural gas, petroleum, or other crude or mineral oil is subject to net proceeds tax imposed by this part.

(3) Production from horizontally completed wells, as defined in 15-23-601, is exempt from the net proceeds tax imposed by this part for the first 18 months following the

last day of the calendar month immediately preceding the month in which:

(a) natural gas is placed into a natural gas distribution system; or

(b) production for sale from a crude oil or mineral oil well is pumped or flows.

(4) After the expiration of the 18-month exemption period provided for in subsection (3), production from horizontally completed wells, as defined in 15-23-601, is subject to net proceeds taxes imposed by this part.

~~(3)~~(5) Notwithstanding the provisions of subsections (1) ~~and--(2)~~ through (4), all reporting requirements under the net proceeds tax remain in effect."

Section 7. Section 15-23-613, MCA, is amended to read:

"15-23-613. Disposition of new and incremental production taxes. The county treasurer shall credit all taxes on new production and incremental production, as provided for in 15-23-607, in the relative proportions required by the levies for state, county, school district, and municipal purposes in the same manner as property taxes were distributed in the year preceding the budget year."

NEW SECTION. **Section 8. Rules.** The department of revenue shall adopt rules to ensure that incremental production of oil from enhanced recovery projects is allocated to production that is subject to net proceeds

taxation and to production that is subject to the local government severance tax.

Section 9. Section 15-36-101, MCA, is amended to read:

"15-36-101. Definitions and rate of tax -- state severance tax -- local government severance tax -- assessment of nonworking interest owner -- exemption. (1) Every person engaging in or carrying on the business of producing petroleum, other mineral or crude oil, or natural gas within this state or engaging in or carrying on the business of owning, controlling, managing, leasing, or operating within this state any well or wells from which any merchantable or marketable petroleum, other mineral or crude oil, or natural gas is extracted or produced shall, except as provided in 15-36-121, each year when engaged in or carrying on the business in this state pay to the department of revenue a state severance tax for deposit in the general fund of the state of Montana plus a local government severance tax in lieu of a tax on net proceeds for replacement of property taxes formerly levied on net proceeds. Except as provided in subsection (3), the state severance tax and the local government severance tax are as follows:

(a) except as provided in subsections (1)(b), ~~(1)(c)~~, ~~and (1)(d)~~, through (1)(f), a 5% state severance tax on the gross taxable value of all the petroleum and other mineral

1 or crude oil produced by the person, plus the local
 2 government severance tax of 8.4% on the gross taxable value,
 3 as defined in subsection (6)(a)(ii), of all the petroleum
 4 and other mineral or crude oil produced by the person, other
 5 than new production, from each lease or unit; but in
 6 determining the amount of the state severance tax and local
 7 government severance tax, there must be excluded from
 8 consideration all petroleum or other crude or mineral oil
 9 produced and used by the person during the year in
 10 connection with the person's operations in prospecting for,
 11 developing, and producing the petroleum or crude or mineral
 12 oil;

13 (b) a 2.65% state severance tax on the gross taxable
 14 value of all natural gas produced by the person, plus the
 15 local government severance tax of 15.25% on the gross
 16 taxable value, as defined in subsection (6)(a)(ii), of all
 17 natural gas produced by the person, other than new
 18 production, from each lease or unit; but in determining the
 19 amount of the state severance tax and the local government
 20 severance tax, there must be excluded from consideration all
 21 gas produced and used by the person during the year in
 22 connection with the person's operations in prospecting for,
 23 developing, and producing the gas or petroleum or crude or
 24 mineral oil; and there must also be excluded from
 25 consideration all gas, including carbon dioxide gas,

1 recycled or reinjected into the ground;

2 (c) a 3% state severance tax on the gross taxable value
 3 of the incremental production of petroleum and other mineral
 4 or crude oil produced from a secondary recovery project
 5 commenced or expanded after December 31, 1993, and before
 6 January 1, 2002, plus the local government severance tax of
 7 5% on the gross taxable value, as defined in subsection
 8 (6)(a)(ii), of the incremental petroleum and other mineral
 9 or crude oil produced by the person, other than new
 10 production, from each lease or unit in a secondary recovery
 11 project commenced or expanded after December 31, 1993, and
 12 before January 1, 2002. For purposes of this section, a
 13 secondary recovery project must meet each of the following
 14 requirements:

15 (i) The project must be approved as a secondary
 16 recovery project by the board. The approval may be extended
 17 only after notice and hearing in accordance with Title 2,
 18 chapter 4.

19 (ii) The property to be affected by the project must be
 20 adequately delineated according to the specifications
 21 required by the board.

22 (iii) The project must involve the application of
 23 secondary recovery methods that can reasonably be expected
 24 to result in an increase, determined by the board to be
 25 significant in light of all the facts and circumstances, in

1 the amount of petroleum or mineral or crude oil that may
 2 potentially be recovered. For purposes of this section,
 3 secondary recovery methods include but are not limited to:

4 (A) the injection of water into the producing formation
 5 for the purposes of maintaining pressure in that formation
 6 or for the purpose of increasing the flow of petroleum or
 7 mineral or crude oil from the producing formation to a
 8 producing well bore; or

9 (B) any other method approved by the board as a
 10 secondary recovery method.

11 ~~(c)~~(d) a 2.5% state severance tax on the gross taxable
 12 value of the incremental petroleum and other mineral or
 13 crude oil produced by the person, plus the local government
 14 severance tax of 5% on the gross taxable value, as defined
 15 in subsection (6)(a)(ii), of the incremental petroleum and
 16 other mineral or crude oil produced by the person, other
 17 than new production, from each lease or unit in a tertiary
 18 recovery project after July 1, 1985. For purposes of this
 19 section, a tertiary recovery project must meet each of the
 20 following requirements:

21 (i) the The project must be approved as a tertiary
 22 recovery project by the board of oil and gas conservation.
 23 The approval may be extended only after notice and hearing
 24 in accordance with Title 2, chapter 4.

25 (ii) the The property to be affected by the project must

1 be adequately delineated according to the specifications
 2 required by the board; ~~and.~~

3 (iii) ~~the~~ The project must involve the application of
 4 one or more tertiary recovery methods that can reasonably be
 5 expected to result in an increase, determined by the board
 6 to be significant in light of all the facts and
 7 circumstances, in the amount of crude oil which that may
 8 potentially be recovered. For purposes of this section,
 9 tertiary recovery methods include but are not limited to:

10 (A) miscible fluid displacement;

11 (B) steam drive injection;

12 (C) micellar/emulsion flooding;

13 (D) in situ combustion;

14 (E) polymer augmented water flooding;

15 (F) cyclic steam injection;

16 (G) alkaline or caustic flooding;

17 (H) carbon dioxide water flooding;

18 (I) immiscible carbon dioxide displacement; or

19 (J) any other method approved by the ~~department~~ board
 20 as a tertiary recovery method.

21 (e) a 2% state severance tax on the gross taxable value
 22 of the incremental petroleum and other mineral or crude oil
 23 produced by the person, plus the local government severance
 24 tax of 3.3% on the gross taxable value, as defined in
 25 subsection (6)(a)(ii), of the incremental petroleum and

1 other mineral or crude oil produced by the person, other
 2 than new production, from each lease or unit in a tertiary
 3 recovery project commenced or expanded after December 31,
 4 1993, and before January 1, 2002. The tertiary recovery
 5 project must meet the requirements of subsections (1)(d)(i)
 6 through (1)(d)(iii).

7 (d)(f) a 5% local government severance tax on the gross
 8 taxable value, as defined in subsection (6)(a)(ii), of all
 9 petroleum and other mineral or crude oil produced by the
 10 person other than new production produced by a stripper
 11 well, as defined in subsection (7).

12 (2) For purposes of this section, the term "incremental
 13 petroleum and other mineral or crude oil" means the amount
 14 of oil, as determined by the board, to be in excess of what
 15 would have been produced by primary and secondary methods.
 16 The determination arrived at by the board must be made only
 17 after notice and hearing and shall specify through the life
 18 of a tertiary project, calendar year by calendar year, the
 19 combined amount of primary and secondary production that
 20 must be used to establish the incremental production from
 21 each lease or unit in a tertiary recovery project.

22 (2) For purposes of this section, the following
 23 definitions apply:

24 (a) "Board" means the board of oil and gas
 25 conservation.

1 (b) "Enhanced recovery project" means the use of any
 2 process for the displacement of oil from the earth other
 3 than primary recovery and includes the use of an immiscible,
 4 miscible, chemical, thermal, or biological process.

5 (c) "Existing enhanced recovery project" means an
 6 enhanced recovery project that began development before
 7 January 1, 1994.

8 (d) "Expanded enhanced recovery project" or "expansion"
 9 means the addition of injection wells or production wells,
 10 the change of injection pattern, or other operating changes
 11 to an existing enhanced recovery project that will result in
 12 the recovery of oil that would not otherwise be recovered.

13 (e) "Incremental production" means:

14 (i) the volume of oil produced by an expanded enhanced
 15 recovery project in excess of the production decline rate
 16 established under the conditions existing before:

17 (A) expansion of the existing enhanced recovery
 18 project; or

19 (B) commencing a new enhanced recovery project; or

20 (ii) in the case of any project that had no taxable
 21 production prior to commencing the enhanced recovery
 22 project, all production of petroleum or mineral or crude oil
 23 from the enhanced recovery project.

24 (f) "New enhanced recovery project" means an enhanced
 25 recovery project that began development after December 31,

1993, and before January 1, 2002.

(g) "Operator" or "producer" means the person responsible for the actual physical operation of an enhanced recovery project.

(h) "Primary recovery" means the displacement of oil from the earth into the well bore by means of the natural pressure of the oil reservoir and includes artificial lift.

(i) "Production decline rate" means the projected rate of future oil production, extrapolated by a method approved by the board, that must be determined for a project area prior to commencing a new or expanded secondary recovery project. The approved production decline rate must be certified in writing by the board. The board shall identify the project area and shall specify the projected rate of future oil production by calendar year and by calendar quarter within each year. The certified rate of future oil production must be used to determine the volume of incremental production that qualifies for the tax rate imposed under subsection (1)(c) or (1)(e).

(j) "Secondary recovery project" means an enhanced recovery project that is not a tertiary recovery project.

(k) "Tertiary recovery project" means an enhanced recovery project using a tertiary recovery method described in subsection (1)(d)(iii).

(3) (a) A local government severance tax is imposed on

the gross value paid in cash or apportioned in kind to a nonworking interest owner by the operator or producer of extracted marketable petroleum, other mineral or crude oil, or natural gas subject to local government severance taxes imposed under this chapter. The local government severance tax on nonworking interest owners is computed at the following rates:

(i) 12.5% on the gross value paid in cash or apportioned in kind to a nonworking interest owner by the operator or producer of extracted marketable petroleum and other mineral or crude oil;

(ii) 15.25% on the gross value paid in cash or apportioned in kind to a nonworking interest owner by the operator or producer of extracted or marketable natural gas.

(b) The amounts paid or apportioned in kind to nonworking interest owners are exempt from the local government severance taxes imposed under 15-36-121(2) and under subsections (1)(a) through (1)(d) (1)(f) of this section.

(4) Nothing in this part may be construed as requiring laborers or employees hired or employed by any person to drill any oil or natural gas well or to work in or about any oil or natural gas well or prospect or explore for or do any work for the purpose of developing any petroleum, other mineral or crude oil, or natural gas to pay the severance

1 tax, nor may work done or the drilling of a well or wells
 2 for the purpose of prospecting or exploring for petroleum,
 3 other mineral or crude oil, or natural gas or for the
 4 purpose of developing them be considered to be the engaging
 5 in or carrying on of the business. If, in the doing of any
 6 work, in the drilling of any oil or natural gas well, or in
 7 prospecting, exploring, or development work, any
 8 merchantable or marketable petroleum, other mineral or crude
 9 oil, or natural gas in excess of the quantity required by
 10 the person for carrying on the operation is produced
 11 sufficient in quantity to justify the marketing of the
 12 petroleum, other mineral or crude oil, or natural gas, the
 13 work, drilling, prospecting, exploring, or development work
 14 is considered to be the engaging in and carrying on of the
 15 business of producing petroleum, other mineral or crude oil,
 16 or natural gas within this state within the meaning of this
 17 section.

18 (5) Every person required to pay the state or local
 19 government severance tax under this section shall pay the
 20 tax in full for the person's own account and for the account
 21 of each of the other owner-or owners of the gross proceeds
 22 in value or in kind of all the marketable petroleum or other
 23 mineral or crude oil or natural gas extracted and produced,
 24 including an owner or owners of working interest, royalty
 25 interest, overriding royalty interest, carried working

1 interest, net proceeds interest, production payments, and
 2 all other interest or interests owned or carved out of the
 3 total gross proceeds in value or in kind of the extracted
 4 marketable petroleum or other mineral or crude oil or
 5 natural gas, except that any of the interests that are owned
 6 by the federal, state, county, or municipal governments are
 7 exempt from taxation under this chapter. Unless otherwise
 8 provided in a contract or lease, the pro rata share of any
 9 royalty owner or owners will be deducted from any
 10 settlements under the lease or leases or division of
 11 proceeds orders or other contracts.

12 (6) For purposes of this section, the following
 13 definitions apply:

14 (a) (i) "Gross taxable value", for the purpose of
 15 computing the state severance tax, means the gross value of
 16 the product as determined in 15-36-103.

17 (ii) "Gross taxable value", for the purpose of computing
 18 the local government severance tax, means the gross value of
 19 the product as determined in 15-36-103 less the gross value
 20 paid in cash or apportioned in kind to a nonworking interest
 21 owner by the operator or producer of extracted marketable
 22 petroleum, other mineral or crude oil, or natural gas.

23 (b) "Nonworking interest owner" means any interest
 24 owner who does not share in the development and operation
 25 costs of the lease or unit.

1 (7) For the purposes of this section, "stripper well"
 2 means a well that produces less than 10 barrels a day,
 3 determined by dividing the amount of production from a lease
 4 or unitized area for the year prior to the current calendar
 5 year by the number of producing wells in the lease or
 6 unitized area and by dividing the resulting quotient by
 7 365."

8 **Section 10.** Section 7-1-2111, MCA, is amended to read:

9 "7-1-2111. Classification of counties. (1) For the
 10 purpose of regulating the compensation and salaries of all
 11 county officers, not otherwise provided for, and for fixing
 12 the penalties of officers' bonds, the counties of this state
 13 must be classified according to that percentage of the true
 14 and full valuation of the property in the counties upon
 15 which the tax levy is made, except for vehicles subject to
 16 taxation under 61-3-504(2), as follows:

17 (a) first class--all counties having a taxable
 18 valuation of \$50 million or over;

19 (b) second class--all counties having a taxable
 20 valuation of more than \$30 million and less than \$50
 21 million;

22 (c) third class--all counties having a taxable
 23 valuation of more than \$20 million and less than \$30
 24 million;

25 (d) fourth class--all counties having a taxable

1 valuation of more than \$15 million and less than \$20
 2 million;

3 (e) fifth class--all counties having a taxable
 4 valuation of more than \$10 million and less than \$15
 5 million;

6 (f) sixth class--all counties having a taxable
 7 valuation of more than \$5 million and less than \$10 million;

8 (g) seventh class--all counties having a taxable
 9 valuation of less than \$5 million.

10 (2) As used in this section, taxable valuation means
 11 the taxable value of taxable property in the county as of
 12 the time of determination plus:

13 (a) that portion of the taxable value of the county on
 14 December 31, 1981, attributable to automobiles and trucks
 15 having a rated capacity of three-quarters of a ton or less;

16 (b) that portion of the taxable value of the county on
 17 December 31, 1989, attributable to automobiles and trucks
 18 having a rated capacity of more than three-quarters of a ton
 19 but less than or equal to 1 ton;

20 (c) the amount of ~~interim-production-and~~ new production
 21 and incremental production taxes levied, as provided in
 22 15-23-607, divided by the appropriate tax rates described in
 23 15-23-607(2)(a), or (2)(b), or (2)(c) and multiplied by 60%;

24 (d) the amount of value represented by new production
 25 or production from horizontally completed wells exempted

from tax as provided in 15-23-612 multiplied by 60%, plus the value of any other production occurring after December 31, 1988, multiplied by 60%; and

(e) 6% of the taxable value of the county on January 1 of each tax year."

Section 11. Section 7-7-2101, MCA, is amended to read:

"7-7-2101. Limitation on amount of county indebtedness.

(1) ~~No A~~ county may not become indebted in any manner or for any purpose to an amount, including existing indebtedness, in the aggregate exceeding 23% of the total of the taxable value of the property therein in the county subject to taxation, plus the amount of ~~interim-production-and~~ new production and incremental production taxes levied divided by the appropriate tax rates described in 15-23-607(2)(a), or (2)(b), or (2)(c) and multiplied by 60%, plus the amount of value represented by new production and production from horizontally completed wells exempted from tax as provided in 15-23-612 multiplied by 60%, plus the value of any other production occurring after December 31, 1988, multiplied by 60%, as ascertained by the last assessment for state and county taxes previous to the incurring of the indebtedness.

(2) ~~No A~~ county may not incur indebtedness or liability for any single purpose to an amount exceeding \$500,000 without the approval of a majority of the electors ~~thereof~~ of the county voting at an election to be provided by law,

except as provided in 7-21-3413 and 7-21-3414.

(3) ~~Nothing--in--this~~ This section ~~shall~~ does not apply to the acquisition of conservation easements as set forth in Title 76, chapter 6."

Section 12. Section 7-7-2203, MCA, is amended to read:

"7-7-2203. Limitation on amount of bonded indebtedness.

(1) Except as provided in subsections (2) through (4), ~~no a~~ county may not issue general obligation bonds for any purpose ~~which that~~, with all outstanding bonds and warrants except county high school bonds and emergency bonds, will exceed 11.25% of the total of the taxable value of the property therein in the county, plus the amount of ~~interim production-and~~ new production and incremental production taxes levied divided by the appropriate tax rates described in 15-23-607(2)(a), or (2)(b), or (2)(c) and multiplied by 60%, plus the amount of value represented by new production and production from horizontally drilled wells exempted from tax as provided in 15-23-612 multiplied by 60%, plus the value of any other production occurring after December 31, 1988, multiplied by 60%, to be ascertained by the last assessment for state and county taxes prior to the proposed issuance of bonds.

(2) In addition to the bonds allowed by subsection (1), a county may issue bonds ~~which that~~, with all outstanding bonds and warrants, will not exceed 27.75% of the total of

1 the taxable value of the property in the county subject to
 2 taxation, plus the amount of ~~interim-production-and~~ new
 3 production and incremental production taxes levied divided
 4 by the appropriate tax rates described in 15-23-607(2)(a),
 5 or (2)(b), or (2)(c) and multiplied by 60%, plus the amount
 6 of value represented by new production and production from
 7 horizontally completed wells exempted from tax as provided
 8 in 15-23-612 multiplied by 60%, when necessary to do so,
 9 plus the value of any other production occurring after
 10 December 31, 1988, multiplied by 60% for the purpose of
 11 acquiring land for a site for county high school buildings
 12 and for erecting or acquiring buildings ~~thereon on the site~~
 13 and furnishing and equipping the ~~same~~ buildings for county
 14 high school purposes.

15 (3) In addition to the bonds allowed by subsections (1)
 16 and (2), a county may issue bonds for the construction or
 17 improvement of a jail ~~which~~ that will not exceed 12.5% of
 18 the taxable value of the property in the county subject to
 19 taxation.

20 (4) The limitation in subsection (1) does not apply to
 21 refunding bonds issued for the purpose of paying or retiring
 22 county bonds lawfully issued prior to January 1, 1932, or to
 23 bonds issued for the repayment of tax protests lost by the
 24 county."

25 **Section 13.** Section 7-14-2524, MCA, is amended to read:

1 **"7-14-2524. Limitation on amount of bonds issued --**
 2 **excess void.** (1) Except as otherwise provided in 7-7-2203,
 3 7-7-2204, and this section, a county may not issue bonds
 4 that, with all outstanding bonds and warrants except county
 5 high school bonds and emergency bonds, will exceed 11.25% of
 6 the total of the taxable value of the property in the
 7 county, plus the amount of ~~interim--production--and~~ new
 8 production and incremental production taxes levied divided
 9 by the appropriate tax rates described in 15-23-607(2)(a),
 10 or (2)(b), or (2)(c) and multiplied by 60%, plus the amount
 11 of value represented by new production and production from
 12 horizontally completed wells exempted from tax as provided
 13 in 15-23-612 multiplied by 60%, plus the value of any other
 14 production occurring after December 31, 1988, multiplied by
 15 60%. The taxable property and the amount of ~~interim~~
 16 ~~production-and~~ new production and incremental production
 17 taxes levied must be ascertained by the last assessment for
 18 state and county taxes prior to the issuance of the bonds.
 19 (2) A county may issue bonds that, with all outstanding
 20 bonds and warrants except county high school bonds, will
 21 exceed 11.25% but will not exceed 22.5% of the total of the
 22 taxable value of the property, plus the amount of ~~interim~~
 23 ~~production--and~~ new production and incremental production
 24 taxes levied divided by the appropriate tax rates described
 25 in 15-23-607(2)(a), or (2)(b), or (2)(c) and multiplied by

60%, plus the amount of value represented by new production and production from horizontally completed wells exempted from tax as provided in 15-23-612 multiplied by 60%, plus the value of any other production occurring after December 31, 1988, multiplied by 60% when necessary for the purpose of replacing, rebuilding, or repairing county buildings, bridges, or highways that have been destroyed or damaged by an act of God or by a disaster, catastrophe, or accident.

(3) The value of the bonds issued and all other outstanding indebtedness of the county, except county high school bonds, may not exceed 22.5% of the total of the taxable value of the property within the county, plus the amount of ~~interim--production--and~~ new production and incremental production taxes levied divided by the appropriate tax rates described in 15-23-607(2)(a), or (2)(b), or (2)(c) and multiplied by 60%, plus the amount of value represented by new production and production from horizontally completed wells exempted from tax as provided in 15-23-612 multiplied by 60%, plus the value of any other production occurring after December 31, 1988, multiplied by 60%, as ascertained by the last preceding general assessment."

Section 14. Section 7-14-2525, MCA, is amended to read:

"7-14-2525. Refunding agreements and refunding bonds authorized. (1) Whenever the total indebtedness of a county

exceeds 22.5% of the total of the taxable value of the property therein, plus the amount of ~~interim-production-and~~ new production and incremental production taxes levied divided by the appropriate tax rates described in 15-23-607(2)(a), or (2)(b), or (2)(c) and multiplied by 60%, plus the amount of value represented by new production and production from horizontally completed wells exempted from tax as provided in 15-23-612 multiplied by 60%, plus the value of any other production occurring after December 31, 1988, multiplied by 60%, and the board determines that the county is unable to pay the indebtedness in full, the board may:

(a) negotiate with the bondholders for an agreement whereby the bondholders agree to accept less than the full amount of the bonds and the accrued unpaid interest thereon in satisfaction thereof of the bonds;

(b) enter into such the agreement;

(c) issue refunding bonds for the amount agreed upon.

(2) These bonds may be issued in more than one series, and each series may be either amortization or serial bonds.

(3) The plan agreed upon between the board and the bondholders shall must be embodied in full in the resolution providing for the issue issuance of the bonds."

Section 15. Section 7-16-2327, MCA, is amended to read:

"7-16-2327. Indebtedness for park purposes. (1) Subject

to the provisions of subsection (2), a county park board, in addition to powers and duties now given under law, has the power and duty to contract an indebtedness in behalf of a county, upon the credit thereof of the county, for the purposes of 7-16-2321(1) and (2).

(2) (a) The total amount of indebtedness authorized to be contracted in any form, including the then-existing indebtedness, must may not at any time exceed 13% of the total of the taxable value of the taxable property in the county, plus the amount of ~~interim--production--and~~ new production and incremental production taxes levied divided by the appropriate tax rates described in 15-23-607(2)(a), or (2)(b), or (2)(c) and multiplied by 60%, plus the amount of value represented by new production and production from horizontally completed wells exempted from tax as provided in 15-23-612, plus the value of any other production occurring after December 31, 1988, multiplied by 60%, ascertained by the last assessment for state and county taxes previous to the incurring of the indebtedness.

(b) No-money Money may not be borrowed on bonds issued for the purchase of lands and improving same the land for any such purpose until the proposition has been submitted to the vote of those qualified under the provisions of the state constitution to vote at such the election in the affected county ~~affected-thereby~~ and a majority vote is cast

in favor thereof of the bonds."

Section 16. Section 20-9-141, MCA, is amended to read:

"20-9-141. **Computation of general fund net levy requirement by county superintendent.** (1) The county superintendent shall compute the levy requirement for each district's general fund on the basis of the following procedure:

(a) Determine the funding required for the district's final general fund budget less the sum of direct state aid and the special education allowable cost payment for the district by totaling:

(i) the district's nonisolated school BASE budget requirement to be met by a district levy as provided in 20-9-303; and

(ii) any general fund budget amount adopted by the trustees of the district under the provisions of 20-9-308 and 20-9-353, including any additional funding for a general fund budget that exceeds the maximum general fund budget.

(b) Determine the money available for the reduction of the property tax on the district for the general fund by totaling:

(i) general fund balance reappropriated, as established under the provisions of 20-9-104; and

(ii) amounts received in the last fiscal year for which revenue reporting was required for each of the following

1 sources:

2 (A) tuition payments for out-of-district pupils under
3 the provisions of 20-5-321 through 20-5-323;

4 (B) revenue from property taxes and fees imposed under
5 23-2-517, 23-2-803, 61-3-504(2), 61-3-521, 61-3-537, and
6 67-3-204;

7 (C) net proceeds taxes for new production and
8 incremental production, as defined in 15-23-601;

9 (D) revenue from local government severance taxes as
10 provided in 15-36-112;

11 (E) revenue from coal gross proceeds under 15-23-703;

12 (F) interest earned by the investment of general fund
13 cash in accordance with the provisions of 20-9-213(4);

14 (G) revenue from corporation license taxes collected
15 from financial institutions under the provisions of
16 15-31-702; and

17 (H) any other revenue received during the school fiscal
18 year that may be used to finance the general fund, excluding
19 any guaranteed tax base aid.

20 (c) Notwithstanding the provisions of subsection (2),
21 subtract the money available to reduce the property tax
22 required to finance the general fund that has been
23 determined in subsection (1)(b) from any general fund budget
24 amount adopted by the trustees of the district, up to the
25 BASE budget amount, to determine the general fund BASE

1 budget levy requirement.

2 (d) Subtract any amount remaining after the
3 determination in subsection (1)(c) from any additional
4 funding requirement to be met by an over-BASE budget amount,
5 a district levy as provided in 20-9-303, and any additional
6 financing as provided in 20-9-353 to determine any
7 additional general fund levy requirements.

8 (2) The county superintendent shall calculate the
9 number of mills to be levied on the taxable property in the
10 district to finance the general fund levy requirement for
11 any amount that does not exceed the BASE budget amount for
12 the district by dividing the amount determined in subsection
13 (1)(c) by the sum of:

14 (a) the amount of guaranteed tax base aid that the
15 district will receive for each mill levied, as certified by
16 the superintendent of public instruction; and

17 (b) the taxable valuation of the district divided by
18 1,000.

19 (3) The net general fund levy requirement determined in
20 subsections (1)(c) and (1)(d) must be reported to the county
21 commissioners on the fourth Monday of August by the county
22 superintendent as the general fund net levy requirement for
23 the district, and a levy must be set by the county
24 commissioners in accordance with 20-9-142."

25 **Section 17.** Section 20-9-331, MCA, is amended to read:

1 *20-9-331. Basic county tax and other revenues for
2 county equalization of the elementary district BASE funding
3 program. (1) The county commissioners of each county shall
4 levy an annual basic tax of 33 mills on the dollar of the
5 taxable value of all taxable property within the county,
6 except for property subject to a tax or fee under 23-2-517,
7 23-2-803, 61-3-504(2), 61-3-521, 61-3-537, and 67-3-204, for
8 the purposes of local and state BASE funding program
9 support. The revenue collected from this levy must be
10 apportioned to the support of the elementary BASE funding
11 programs of the school districts in the county and to the
12 state special revenue fund, state equalization aid account,
13 in the following manner:

14 (a) In order to determine the amount of revenue raised
15 by this levy ~~which~~ that is retained by the county, the sum
16 of the estimated revenue identified in subsection (2) must
17 be subtracted from the total of the BASE funding programs of
18 all elementary districts of the county.

19 (b) If the basic levy and other revenue prescribed by
20 this section produce more revenue than is required to repay
21 a state advance for county equalization, the county
22 treasurer shall remit the surplus funds to the state
23 treasurer for deposit to the state special revenue fund,
24 state equalization aid account, immediately upon occurrence
25 of a surplus balance and each subsequent month thereafter,

1 with any final remittance due no later than June 20 of the
2 fiscal year for which the levy has been set.

3 (2) The revenue realized from the county's portion of
4 the levy prescribed by this section and the revenue from the
5 following sources must be used for the equalization of the
6 elementary BASE funding program of the county as prescribed
7 in 20-9-335, and a separate accounting must be kept of the
8 revenue by the county treasurer in accordance with
9 20-9-212(1):

10 (a) the portion of the federal Taylor Grazing Act funds
11 distributed to a county and designated for the common school
12 fund under the provisions of 17-3-222;

13 (b) the portion of the federal flood control act funds
14 distributed to a county and designated for expenditure for
15 the benefit of the county common schools under the
16 provisions of 17-3-232;

17 (c) all money paid into the county treasury as a result
18 of fines for violations of law, except money paid to a
19 justice's court, and the use of which is not otherwise
20 specified by law;

21 (d) any money remaining at the end of the immediately
22 preceding school fiscal year in the county treasurer's
23 accounts for the various sources of revenue established or
24 referred to in this section;

25 (e) any federal or state money distributed to the

1 county as payment in lieu of property taxation, including
2 federal forest reserve funds allocated under the provisions
3 of 17-3-213;

4 (f) gross proceeds taxes from coal under 15-23-703;

5 (g) net proceeds taxes for new production and
6 incremental production, as defined in 15-23-601, and local
7 government severance taxes on any other production occurring
8 after December 31, 1988; and

9 (h) anticipated revenue from property taxes and fees
10 imposed under 23-2-517, 23-2-803, 61-3-504(2), 61-3-521,
11 61-3-537, and 67-3-204."

12 **Section 18.** Section 20-9-333, MCA, is amended to read:

13 "20-9-333. Basic special levy and other revenues for
14 county equalization of high school district BASE funding
15 program. (1) The county commissioners of each county shall
16 levy an annual basic special tax for high schools of 22
17 mills on the dollar of the taxable value of all taxable
18 property within the county, except for property subject to a
19 tax or fee under 23-2-517, 23-2-803, 61-3-504(2), 61-3-521,
20 61-3-537, and 67-3-204, for the purposes of local and state
21 BASE funding program support. The revenue collected from
22 this levy must be apportioned to the support of the BASE
23 funding programs of high school districts in the county and
24 to the state special revenue fund, state equalization aid
25 account, in the following manner:

1 (a) In order to determine the amount of revenue raised
2 by this levy ~~which~~ that is retained by the county, the sum
3 of the estimated revenue identified in subsection (2) must
4 be subtracted from the sum of the county's high school
5 tuition obligation and the total of the BASE funding
6 programs of all high school districts of the county.

7 (b) If the basic levy and other revenue prescribed by
8 this section produce more revenue than is required to repay
9 a state advance for county equalization, the county
10 treasurer shall remit the surplus funds to the state
11 treasurer for deposit to the state special revenue fund,
12 state equalization aid account, immediately upon occurrence
13 of a surplus balance and each subsequent month thereafter,
14 with any final remittance due no later than June 20 of the
15 fiscal year for which the levy has been set.

16 (2) The revenue realized from the county's portion of
17 the levy prescribed in this section and the revenue from the
18 following sources must be used for the equalization of the
19 high school BASE funding program of the county as prescribed
20 in 20-9-335, and a separate accounting must be kept of the
21 revenue by the county treasurer in accordance with
22 20-9-212(1):

23 (a) any money remaining at the end of the immediately
24 preceding school fiscal year in the county treasurer's
25 accounts for the various sources of revenue established in

1 this section;

2 (b) any federal or state money distributed to the
3 county as payment in lieu of property taxation, including
4 federal forest reserve funds allocated under the provisions
5 of 17-3-213;

6 (c) gross proceeds taxes from coal under 15-23-703;

7 (d) net proceeds taxes for new production and
8 incremental production, as defined in 15-23-601, and local
9 government severance taxes on any other production occurring
10 after December 31, 1988; and

11 (e) anticipated revenue from property taxes and fees
12 imposed under 23-2-517, 23-2-803, 61-3-504(2), 61-3-521,
13 61-3-537, and 67-3-204."

14 **Section 19.** Section 20-10-144, MCA, is amended to read:

15 "20-10-144. **Computation of revenue and net tax levy**
16 **requirements for district transportation fund budget.** Before
17 the fourth Monday of July and in accordance with 20-9-123,
18 the county superintendent shall compute the revenue
19 available to finance the transportation fund budget of each
20 district. The county superintendent shall compute the
21 revenue for each district on the following basis:

22 (1) The "schedule amount" of the preliminary budget
23 expenditures that is derived from the rate schedules in
24 20-10-141 and 20-10-142 must be determined by adding the
25 following amounts:

1 (a) the sum of the maximum reimbursable expenditures
2 for all approved school bus routes maintained by the
3 district (to determine the maximum reimbursable expenditure,
4 multiply the applicable rate per bus mile by the total
5 number of miles to be traveled during the ensuing school
6 fiscal year on each bus route approved by the county
7 transportation committee and maintained by such the
8 district); plus

9 (b) the total of all individual transportation per diem
10 reimbursement rates for the district as determined from the
11 contracts submitted by the district multiplied by the number
12 of pupil-instruction days scheduled for the ensuing school
13 attendance year; plus

14 (c) any estimated costs for supervised home study or
15 supervised correspondence study for the ensuing school
16 fiscal year; plus

17 (d) the amount budgeted on the preliminary budget for
18 the contingency amount permitted in 20-10-143, except if the
19 amount exceeds 10% of the total of subsections (1)(a),
20 (1)(b), and (1)(c) or \$100, whichever is larger, the
21 contingency amount on the preliminary budget must be reduced
22 to the limitation amount and used in this determination of
23 the schedule amount; plus

24 (e) any estimated costs for transporting a child out of
25 district when the child has mandatory approval to attend

1 school in a district outside the district of residence.

2 (2) (a) The schedule amount determined in subsection
3 (1) or the total preliminary transportation fund budget,
4 whichever is smaller, is divided by 2 and is used to
5 determine the available state and county revenue to be
6 budgeted on the following basis:

7 (i) one-half is the budgeted state transportation
8 reimbursement, except that the state transportation
9 reimbursement for the transportation of special education
10 pupils under the provisions of 20-7-442 must be 50% of the
11 schedule amount attributed to the transportation of special
12 education pupils; and

13 (ii) one-half is the budgeted county transportation fund
14 reimbursement and must be financed in the manner provided in
15 20-10-146.

16 (b) When the district has a sufficient amount of cash
17 for reappropriation and other sources of district revenue,
18 as determined in subsection (3), to reduce the total
19 district obligation for financing to zero, any remaining
20 amount of district revenue and cash reappropriated must be
21 used to reduce the county financing obligation in subsection
22 (2)(a)(ii) and, if the county financing obligations are
23 reduced to zero, to reduce the state financial obligation in
24 subsection (2)(a)(i).

25 (c) The county revenue requirement for a joint

1 district, after the application of any district money under
2 subsection (2)(b), must be prorated to each county
3 incorporated by the joint district in the same proportion as
4 the ANB of the joint district is distributed by pupil
5 residence in each county.

6 (3) The total of the money available for the reduction
7 of property tax on the district for the transportation fund
8 must be determined by totaling:

9 (a) anticipated federal money received under the
10 provisions of Title I of Public Law 81-874 or other
11 anticipated federal money received in lieu of that federal
12 act;

13 (b) anticipated payments from other districts for
14 providing school bus transportation services for the
15 district;

16 (c) anticipated payments from a parent or guardian for
17 providing school bus transportation services for a child;

18 (d) anticipated or reappropriated interest to be earned
19 by the investment of transportation fund cash in accordance
20 with the provisions of 20-9-213(4);

21 (e) anticipated or reappropriated revenue from property
22 taxes and fees imposed under 23-2-517, 23-2-803,
23 61-3-504(2), 61-3-521, 61-3-537, and 67-3-204;

24 (f) anticipated revenue from coal gross proceeds under
25 15-23-703;

1 (g) anticipated net proceeds taxes for new production
2 and incremental production, as defined in 15-23-601, and
3 local government severance taxes on any other production
4 occurring after December 31, 1988;

5 (h) anticipated transportation payments for
6 out-of-district pupils under the provisions of 20-5-320
7 through 20-5-324;

8 (i) any other revenue anticipated by the trustees to be
9 earned during the ensuing school fiscal year that may be
10 used to finance the transportation fund; and

11 (j) any fund balance available for reappropriation as
12 determined by subtracting the amount of the end-of-the-year
13 fund balance earmarked as the transportation fund operating
14 reserve for the ensuing school fiscal year by the trustees
15 from the end-of-the-year fund balance in the transportation
16 fund. The operating reserve may not be more than 20% of the
17 final transportation fund budget for the ensuing school
18 fiscal year and is for the purpose of paying transportation
19 fund warrants issued by the district under the final
20 transportation fund budget.

21 (4) The district levy requirement for each district's
22 transportation fund must be computed by:

23 (a) subtracting the schedule amount calculated in
24 subsection (1) from the total preliminary transportation
25 budget amount; and

1 (b) subtracting the amount of money available to reduce
2 the property tax on the district, as determined in
3 subsection (3), from the amount determined in subsection
4 (4)(a).

5 (5) The transportation fund levy requirements
6 determined in subsection (4) for each district must be
7 reported to the county commissioners on the fourth Monday of
8 August by the county superintendent as the transportation
9 fund levy requirements for the district, and the levy must
10 be made by the county commissioners in accordance with
11 20-9-142."

12 NEW SECTION. Section 20. Codification instruction.
13 [Section 8] is intended to be codified as an integral part
14 of Title 15, chapter 23, part 6, and the provisions of Title
15 15, chapter 23, part 6, apply to [section 8].

16 NEW SECTION. Section 21. Severability. If a part of
17 [this act] is invalid, all valid parts that are severable
18 from the invalid part remain in effect. If a part of [this
19 act] is invalid in one or more of its applications, the part
20 remains in effect in all valid applications that are
21 severable from the invalid applications.

22 NEW SECTION. Section 22. Effective date --
23 applicability. [This act] is effective on passage and
24 approval and applies to oil production from new or expanded
25 enhanced recovery projects and to tax years that begin after

LC 0083/01

1 December 31, 1993.

-End-

STATE OF MONTANA - FISCAL NOTE
Form BD-15

In compliance with a written request, there is hereby submitted a Fiscal Note for SB0018, as introduced.

DESCRIPTION OF PROPOSED LEGISLATION:

An act providing reduced net proceeds tax rates and reduced severance tax rates on the incremental production of oil from enhanced recovery projects that begin after December 31, 1993, and before January 1, 2003; exempting from net proceeds taxation for a period of 18 months the production of oil from horizontally completed wells; requiring that the Board of Oil and Gas Conservation approve enhanced recovery projects in order for the projects to qualify for the reduced tax rates; and providing for an immediate effective date and an applicability date.

ASSUMPTIONS:

1. The data necessary to determine the impact of the proposed legislation is not available (MDOR).

FISCAL IMPACT:

Expenditures:

The proposed legislation will not have a significant impact on Department expenditures.

Revenues:

Net proceeds and severance tax revenues from existing production will not be impacted by the proposed legislation.

EFFECT ON LOCAL REVENUES:

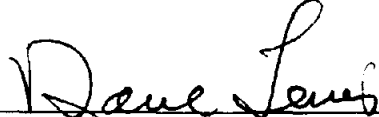
The local government impact from net proceeds tax revenues cannot be determined given the available information.


LONG-RANGE EFFECTS OF PROPOSED LEGISLATION:

Impacts to future revenues will depend upon the amount of new production resulting from the proposed tax incentives.

TECHNICAL NOTE:

The title of the bill states that oil production from horizontal wells is exempt from the net proceeds tax for the first 18 months of production. The proposed legislation exempts both oil and natural gas production from the net proceeds tax for the first 18 months of production from horizontally drilled wells.

 12-1
DAVE LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning


MIKE HALLIGAN, PRIMARY SPONSOR DATE
Fiscal Note for SB0018, as introduced

SB 18

APPROVED BY COMMITTEE
ON TAXATION

SENATE BILL NO. 18

INTRODUCED BY HALLIGAN, GILBERT, TVEIT, PIPINICH,

MCCLERNAN, REA, JERGESON, FELAND, BOHLINGER, BRUSKI-MAUS,

HOCKETT, TUNBY, KOEHNKE, BACHINI, HARP, BROWN, SWYSGOOD,

M. HANSON, SWIFT, GRINDE, DEVLIN, SAYLES, SPRING, FOSTER,

STOVALL, J. JOHNSON, WEEDING, H. S. HANSON, TASH,

WAGNER, BIRD, SIMON

A BILL FOR AN ACT ENTITLED: "AN ACT PROVIDING REDUCED NET
PROCEEDS TAX RATES AND REDUCED SEVERANCE TAX RATES ON THE
INCREMENTAL PRODUCTION OF OIL FROM ENHANCED RECOVERY
PROJECTS THAT BEGIN AFTER DECEMBER 31, 1993, AND BEFORE
JANUARY 1, 2002; PROVIDING THAT INCREMENTAL PRODUCTION FROM
ENHANCED RECOVERY PROJECTS IS TAXED AT EXISTING HIGHER RATES
IN CALENDAR QUARTERS IN WHICH THE PRICE PER BARREL OF OIL IS
EQUAL TO OR GREATER THAN \$30; EXEMPTING FROM NET PROCEEDS
TAXATION FOR A PERIOD OF 18 MONTHS THE PRODUCTION OF OIL
FROM HORIZONTALLY COMPLETED WELLS; REQUIRING THAT THE BOARD
OF OIL AND GAS CONSERVATION APPROVE ENHANCED RECOVERY
PROJECTS IN ORDER FOR THE PROJECTS TO QUALIFY FOR THE
REDUCED TAX RATES; REQUIRING THAT THE BOARD ESTABLISH A FEE
SCHEDULE TO DEFRAY THE EXPENSES FOR REVIEWING PROPOSED
ENHANCED RECOVERY PROJECTS; AMENDING SECTIONS 7-1-2111,
7-7-2101, 7-7-2203, 7-14-2524, 7-14-2525, 7-16-2327,
15-6-208, 15-23-601, 15-23-602, 15-23-603, 15-23-607,

15-23-612, 15-23-613, 15-36-101, 20-9-141, 20-9-331,
20-9-333, AND 20-10-144, MCA; AND PROVIDING AN IMMEDIATE
EFFECTIVE DATE AND AN APPLICABILITY DATE."

STATEMENT OF INTENT

A statement of intent is required for this bill because
the board of oil and gas conservation is authorized to
approve and certify production decline rates for the purpose
of determining incremental production from enhanced recovery
projects as provided in this bill.

The department of revenue has adopted rules for
determining incremental production from tertiary production
based on production decline rates. It is the intent of this
legislation that the determination of incremental production
is more appropriately a function of the board of oil and gas
conservation because the board already has comprehensive
statutory authority over oil and gas exploration and
development activities in Montana.

The legislature intends that the board of oil and gas
conservation shall, in consultation with the department of
revenue, adopt rules setting forth the methodology by which
the board may approve new or expanded secondary and tertiary
recovery projects. The rules must include the method for
establishing the rate of decline in production in the
existing level of development in a project area. For a

secondary or tertiary recovery project for which initial approval is sought, the rules must include the method for establishing the rate of decline in production from existing primary or secondary recovery operations in a proposed project area. In addition, the rules must include the method for determining the level of production from existing wells in a project area in order to establish the level of incremental production that qualifies for the tax incentive rates provided in this bill.

THE BOARD OF OIL AND GAS CONSERVATION IS REQUIRED TO ESTABLISH BY RULE A FEE SCHEDULE TO DEFRAY THE EXPENSES ASSOCIATED WITH REVIEWING APPLICATIONS FOR ENHANCED RECOVERY PROJECTS. THE FEE SCHEDULE ADOPTED BY THE BOARD MUST TAKE INTO ACCOUNT THE COMPLEXITY OF PROCESSING THE APPLICATION.

A statement of intent is also required for this bill because the department of revenue is granted rulemaking authority for determining the allocation of incremental production from enhanced recovery projects to production that is subject to net proceeds taxation and to production that is subject to the local government severance tax. The allocation must be based on the ratio of production from wells drilled before July 1, 1985, in a project area that qualifies for a reduced tax rate on incremental production to production from wells drilled after June 30, 1985, in the project area that qualifies for a reduced tax rate on

incremental production.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 15-6-208, MCA, is amended to read:

"15-6-208. Mineral exemptions. (1) One-half of the contract sales price of coal sold by a coal producer who extracts less than 50,000 tons of coal in a calendar year is exempt from taxation.

(2) Metal mines producing less than 20,000 tons of ore in a taxable year are exempt from property taxation on one-half of the merchantable value.

(3) (a) New production, as defined in 15-23-601, is exempt from taxation for the first 12 months of production as provided in 15-23-612.

(b) Production from horizontally completed wells, as defined in 15-23-601, is exempt from taxation for the first 18 months of production as provided in 15-23-612.

(4) The first 1,000 tons of travertine and building stone extracted from a mine in a tax year are exempt from property taxation."

Section 2. Section 15-23-601, MCA, is amended to read:

"15-23-601. Definitions. As used in this part, the following definitions apply:

(1) "Board" means the board of oil and gas conservation.

(2) "Enhanced recovery project" means the use of any process, other than primary recovery, for the displacement of oil from the earth and includes the use of an immiscible, miscible, chemical, thermal, or biological process.

~~(2)~~(3) "Excise tax" means the windfall profit tax on domestic crude oil imposed by Title I of the federal Crude Oil Windfall Profit Tax Act of 1980, as enacted or as amended.

(4) "Existing enhanced recovery project" means an enhanced recovery project that began development before January 1, 1994.

(5) "Expanded enhanced recovery project" or "expansion" means the addition of injection wells or production wells, the change of injection pattern, or other operating changes to an existing enhanced recovery project that results in the recovery of oil that would not otherwise be recovered. The project must be developed after December 31, 1993, and before January 1, 2002.

(6) "Horizontal drain hole" means that portion of a well bore with 70 degrees to 110 degrees deviation from the vertical and a horizontal projection within the common source of supply, as that term is defined by the board, that exceeds 100 feet.

(7) "Horizontally completed well" means:

(a) a well with one or more horizontal drain holes; and

(b) any other well classified by the board as a horizontally completed well.

(8) "Incremental production" means the volume of petroleum or mineral or crude oil produced by a new enhanced recovery project, BY A WELL IN PRIMARY RECOVERY RECOMPLETED AS A HORIZONTALLY COMPLETED WELL, or by an expanded enhanced recovery project in excess of the production decline rate established before:

(a) the expansion of an existing enhanced recovery project; or

(b) the commencement of a new enhanced recovery project. In the case of a project that had no taxable production prior to the commencement of an enhanced recovery project, incremental production means all production of petroleum or mineral or crude oil from the enhanced recovery project; OR

(C) THE COMMENCEMENT OF THE RECOMPLETION OF A WELL AS A HORIZONTALLY COMPLETED WELL.

(9) "New enhanced recovery project" means an enhanced recovery project that began development after December 31, 1993, and before January 1, 2002.

~~(2)~~(10) The term "new production" "New production" means the production of natural gas, petroleum, or other crude or mineral oil from any well that was drilled after June 30, 1985, or that has not produced natural gas, petroleum, or

other crude or mineral oil during the 5 years immediately preceding the first month of qualified new production.

~~†3†(11) The--terms--"operator"~~ "Operator" and "producer" mean any person who engages in the business of drilling for, extracting, or producing any natural gas, petroleum, or other crude or mineral oil.

(12) "Primary recovery" means the displacement of oil from the earth into the well bore by means of the natural pressure of the oil reservoir and includes artificial lift.

(13) "Production decline rate" means the projected rate of future oil production, extrapolated by a method approved by the board, that must be determined for a project area before the commencement of a new enhanced recovery project, OF A RECOMPLETION OF A WELL AS A HORIZONTALLY COMPLETED WELL, or OF AN expanded enhanced recovery project. The approved production decline rate must be certified in writing TO THE DEPARTMENT OF REVENUE by the board. ~~The IN~~ THAT CERTIFICATION, THE board shall identify the project area and shall specify the projected rate of future oil production by calendar year and by calendar quarter within each year. The certified rate of future oil production must be used BY THE DEPARTMENT to determine the volume of incremental production that qualifies for the tax rate imposed under 15-23-607(2)(c).

(14) "Production from horizontally completed wells"

means natural gas, petroleum, or other crude or mineral oil produced from a horizontally completed well that is drilled or recompleted after December 31, 1993, and before January 1, 2002.

(15) "Secondary recovery project" means an enhanced recovery project that is not a tertiary recovery project. A secondary recovery project must be approved by the board as provided in 15-36-101(1)(c).

(16) "Tertiary recovery project" means an enhanced recovery project that meets each of the following requirements:

(a) The project must be ~~approved~~ CERTIFIED as a tertiary recovery project TO THE DEPARTMENT by the board. The ~~approval~~ CERTIFICATION may be extended only after notice and hearing in accordance with Title 2, chapter 4.

(b) The property to be affected by the project must be adequately delineated IN THE CERTIFICATION according to the specifications required by the board.

(c) The project must involve the application of one or more tertiary recovery methods that can reasonably be expected to result in an increase, determined by the board to be significant in light of all the facts and circumstances, in the amount of crude oil that may potentially be recovered. For purposes of this part, tertiary recovery methods include but are not limited to:

- 1 (i) miscible fluid displacement;
- 2 (ii) steam drive injection;
- 3 (iii) micellar/emulsion flooding;
- 4 (iv) in situ combustion;
- 5 (v) polymer augmented water flooding;
- 6 (vi) cyclic steam injection;
- 7 (vii) alkaline or caustic flooding;
- 8 (viii) carbon dioxide water flooding;
- 9 (ix) immiscible carbon dioxide displacement; or
- 10 (x) any other method approved by the board as a
- 11 tertiary recovery method.

12 ~~†4†~~(17) ~~The--term--"well"--includes~~ "Well" means each
 13 single well or group of wells, including dry wells, in one
 14 field or production unit and under the control of one
 15 operator or producer."

16 **Section 3.** Section 15-23-602, MCA, is amended to read:

17 "15-23-602. Statement of sales proceeds on new or
 18 incremental production. (1) As provided in subsection (2),
 19 each operator or producer of new production or incremental
 20 production of ~~natural--gas,~~ petroleum, or other crude or
 21 mineral oil and each operator or producer of new production
 22 of natural gas shall ~~make-out complete~~ and deliver to the
 23 department of revenue a statement of the gross sales
 24 proceeds of new production of natural gas, petroleum, or
 25 other crude or mineral oil and the incremental production of

1 petroleum or other crude or mineral oil from each well owned
 2 or worked by the person. The gross sales proceeds must be
 3 determined by multiplying the units of production sold from
 4 the well times the royalty unit value of that production at
 5 the well. The statement must be in the form prescribed by
 6 the department and must be verified by the oath of the
 7 operator or producer or the manager, superintendent, agent,
 8 president, or vice-president of the corporation,
 9 association, or partnership. The statement must show the
 10 following:

11 (a) the name and address of the operator, together with
 12 a list in duplicate of the names and addresses of any
 13 persons owning or claiming any royalty interest in the
 14 production from the well or the proceeds derived from the
 15 sale of the production, and the amount paid or yielded as
 16 royalty to each of those persons during the period covered
 17 by the statement;

18 (b) the description and location of the well;

19 (c) the number of cubic feet of natural gas, barrels of
 20 petroleum or other crude or mineral oil sold from the well
 21 during the period covered by the statement; and

22 (d) the gross sales proceeds in dollars and cents or,
 23 in the case of sales between parties not acting at arm's
 24 length, the greater of the gross sales proceeds from or the
 25 fair market value of the products sold.

(2) Each operator having new production or incremental production as those terms are defined in 15-23-601 shall, on or before the last day of the months of October, January, April, and July, ~~make--out~~ complete and deliver to the department of revenue a statement of the gross sales proceeds of the new production or incremental production from each well owned or worked by the person during the preceding calendar quarter. The statement must be in the form prescribed by the department and verified as provided in subsection (1). The statement must show the information required in subsections (1)(a) through (1)(d)."

Section 4. Section 15-23-603, MCA, is amended to read:

"15-23-603. Net proceeds -- how computed. (1) As provided in subsection (2), the department of revenue shall calculate and compute from the returns the gross sales proceeds of the product yielded from the well for the year covered by the statement and shall calculate the net proceeds of the well yielded to the producer, which net proceeds are determined by subtracting from the gross sales proceeds of the well all royalty paid in cash by the operator or producer and the gross value of all royalty apportioned in kind by the operator or producer determined by using as the value of a barrel of oil or a cubic foot of gas the average selling price for the calendar year of a barrel of oil or a cubic foot of gas from the well out of

which the royalty was paid.

(2) For new production or for incremental production, net proceeds are the equivalent of the gross sales proceeds, without deduction for excise taxes, of the product yielded from the well for the quarter covered by the statement, except that in computing the total number of barrels of petroleum and other mineral or crude oil or cubic feet of natural gas produced, there must be deducted so much of the product as is used in the operation of the well from which the petroleum or other mineral or crude oil or natural gas is produced for pumping the petroleum or other mineral or crude oil or natural gas from the well to a tank or pipeline.

(3) In the statement of sales proceeds required under 15-23-602 for lease or unitized areas from which new production or incremental production and other production have been sold, the number of barrels of new production or incremental production of oil or cubic feet of new production of gas must be segregated from and stated separately from the number of barrels of other production of oil or cubic feet of other production of gas."

Section 5. Section 15-23-607, MCA, is amended to read:

"15-23-607. County assessors to compute taxes. (1) Immediately after the board of county commissioners has fixed tax levies on the second Monday in August, the county

1 assessor shall, subject to the provisions of 15-23-612,
2 compute the taxes on net proceeds, as provided in subsection
3 subsections (2) and (3) of this section, and royalty
4 assessments and shall deliver the book to the county
5 treasurer on or before September 15. The county treasurer
6 shall proceed to give full notice of the assessments to the
7 operator and shall collect the taxes as provided by law.

8 (2) For new production and incremental production, as
9 those terms are defined in 15-23-601, the county assessor
10 may not levy or assess any mills against the value of the
11 new production or incremental production, but shall instead
12 levy a tax as follows:

13 (a) for new production of petroleum or other mineral or
14 crude oil, 7% of net proceeds, as described in 15-23-603(2);

15 or

16 (b) for new production of natural gas, 12% of net
17 proceeds, as described in 15-23-603(2); or

18 (c) (i) EXCEPT AS PROVIDED IN SUBSECTION (4), for
19 incremental production that is classified as secondary
20 recovery from new enhanced recovery projects, as defined in
21 15-23-601, and for incremental production that is classified
22 as secondary recovery from expanded enhanced recovery
23 projects, as defined in 15-23-601, 5% of net proceeds, as
24 described in 15-23-603(2); or

25 (ii) for incremental production that is classified as

1 tertiary recovery from new enhanced recovery projects, as
2 defined in 15-23-601, and for incremental production that is
3 classified as tertiary recovery from expanded enhanced
4 recovery projects, as defined in 15-23-601, 3.3% of net
5 proceeds, as described in 15-23-603(2).

6 (3) For purposes of this section:

7 (a) incremental production from a new enhanced recovery
8 project qualifies for the tax rate imposed in subsection
9 (2)(c)(i) or (2)(c)(ii) if, before the project begins
10 development, the board approves the project and designates
11 the area to be affected by the project.

12 (b) the incremental production from an expanded
13 enhanced recovery project qualifies for the tax rate imposed
14 in subsection (2)(c)(i) or (2)(c)(ii) if, before the
15 expansion begins, the board approves the expansion and
16 designates the area to be affected by the expansion.

17 (4) (A) INCREMENTAL PRODUCTION FROM A NEW ENHANCED
18 RECOVERY PROJECT IS SUBJECT TO THE TAX RATE IMPOSED IN
19 SUBSECTION (2)(C)(I) OR (2)(C)(II) IF THE AVERAGE PRICE PER
20 BARREL OF OIL AS REPORTED IN THE WALL STREET JOURNAL FOR
21 WEST TEXAS INTERMEDIATE CRUDE OIL DURING A CALENDAR QUARTER
22 IS LESS THAN \$30 A BARREL. IF THE PRICE OF OIL IS EQUAL TO
23 OR GREATER THAN \$30 PER BARREL IN A CALENDAR QUARTER AS
24 DETERMINED IN SUBSECTION (5), INCREMENTAL PRODUCTION FROM A
25 NEW ENHANCED RECOVERY PROJECT IS TAXED AS PROVIDED IN

SUBSECTION (2)(A) FOR PRODUCTION OCCURRING IN THAT QUARTER.

(B) INCREMENTAL PRODUCTION FROM AN EXPANDED ENHANCED RECOVERY PROJECT IS SUBJECT TO THE TAX RATE IMPOSED IN SUBSECTION (2)(C)(I) OR (2)(C)(II) IF THE AVERAGE PRICE PER BARREL OF OIL AS REPORTED IN THE WALL STREET JOURNAL FOR WEST TEXAS INTERMEDIATE CRUDE OIL DURING A CALENDAR QUARTER IS LESS THAN \$30 A BARREL. IF THE PRICE OF OIL IS EQUAL TO OR GREATER THAN \$30 PER BARREL IN A CALENDAR QUARTER AS DETERMINED IN SUBSECTION (5), INCREMENTAL PRODUCTION FROM AN EXPANDED ENHANCED RECOVERY PROJECT IS TAXED AS PROVIDED IN SUBSECTION (2)(A) FOR PRODUCTION OCCURRING IN THAT QUARTER.

(5) FOR THE PURPOSES OF SUBSECTIONS (4)(A) AND (4)(B), THE AVERAGE PRICE PER BARREL MUST BE COMPUTED BY DIVIDING THE SUM OF THE DAILY PRICE FOR WEST TEXAS INTERMEDIATE CRUDE OIL AS REPORTED IN THE WALL STREET JOURNAL FOR THE CALENDAR QUARTER BY THE NUMBER OF DAYS IN THE QUARTER.

(3)+(4)(6) The amount of tax levied in subsections (2)(a), and (2)(b), and (2)(c), divided by the appropriate tax rate and multiplied by 60%, must be treated as taxable value for county bonding purposes.

(4)+(5)(7) The operator or producer is liable for the payment of the taxes that, except as provided in 15-16-121, are payable by and must be collected from the operators in the same manner and under the same penalties as provided for the collection of taxes upon net proceeds of mines. However,

the operator may at ~~his~~ the operator's option withhold from the proceeds of royalty interest, either in kind or in money, an estimated amount of the tax to be paid by ~~him~~ the operator upon the royalty or royalty interest. After the withholding, any deviation between the estimated tax and the actual tax may be accounted for by adjusting subsequent withholdings from the proceeds of royalty interests."

Section 6. Section 15-23-612, MCA, is amended to read:

"15-23-612. Certain natural gas, petroleum, or other crude or mineral oil exempt. (1) New production, as defined in 15-23-601, is exempt from the net proceeds tax imposed by this part for the first 12 months following the last day of the calendar month immediately preceding the month in which:

(a) natural gas is placed into a natural gas distribution system; or

(b) production for sale from a crude oil or mineral oil well is pumped or flows.

(2) After the expiration of the 12-month exemption period provided for in subsection (1), new production of natural gas, petroleum, or other crude or mineral oil is subject to net proceeds tax imposed by this part.

(3) ~~Production~~ NEW PRODUCTION from horizontally completed wells, as defined in 15-23-601, is AND INCREMENTAL PRODUCTION FROM WELLS RECOMPLETED AS HORIZONTALLY COMPLETED WELLS ARE exempt from the net proceeds tax imposed by this

part for the first 18 months following the last day of the calendar month immediately preceding the month in which:

~~(a) natural gas is placed into a natural gas distribution system; or~~

~~(b) production for sale from a crude oil or mineral oil well is pumped or flows.~~

(4) After the expiration of the 18-month exemption period provided for in subsection (3), production from horizontally completed wells, as defined in 15-23-601, is subject to net proceeds taxes imposed by this part.

~~(3)(5)~~ Notwithstanding the provisions of subsections (1) ~~and~~ ~~(2)~~ through (4), all reporting requirements under the net proceeds tax remain in effect."

Section 7. Section 15-23-613, MCA, is amended to read:

"15-23-613. Disposition of new and incremental production taxes. The county treasurer shall credit all taxes on new production and incremental production, as provided for in 15-23-607, in the relative proportions required by the levies for state, county, school district, and municipal purposes in the same manner as property taxes were distributed in the year preceding the budget year."

NEW SECTION. **Section 8.** Rules. The department of revenue shall adopt rules to ensure that incremental production of oil from enhanced recovery projects is allocated to production that is subject to net proceeds

taxation and to production that is subject to the local government severance tax.

Section 9. Section 15-36-101, MCA, is amended to read:

"15-36-101. Definitions and rate of tax -- state severance tax -- local government severance tax -- assessment of nonworking interest owner -- exemption. (1) Every person engaging in or carrying on the business of producing petroleum, other mineral or crude oil, or natural gas within this state or engaging in or carrying on the business of owning, controlling, managing, leasing, or operating within this state any well or wells from which any merchantable or marketable petroleum, other mineral or crude oil, or natural gas is extracted or produced shall, except as provided in 15-36-121, each year when engaged in or carrying on the business in this state pay to the department of revenue a state severance tax for deposit in the general fund of the state of Montana plus a local government severance tax in lieu of a tax on net proceeds for replacement of property taxes formerly levied on net proceeds. Except as provided in subsection (3), the state severance tax and the local government severance tax are as follows:

(a) except as provided in subsections (1)(b) ~~and~~ ~~(1)(c)~~ ~~and~~ ~~(1)(d)~~ through (1)(f), a 5% state severance tax on the gross taxable value of all the petroleum and other mineral

or crude oil produced by the person, plus the local government severance tax of 8.4% on the gross taxable value, as defined in subsection ~~(6)(a)(iii)~~ (8)(A)(II), of all the petroleum and other mineral or crude oil produced by the person, other than new production, from each lease or unit; but in determining the amount of the state severance tax and local government severance tax, there must be excluded from consideration all petroleum or other crude or mineral oil produced and used by the person during the year in connection with the person's operations in prospecting for, developing, and producing the petroleum or crude or mineral oil;

(b) a 2.65% state severance tax on the gross taxable value of all natural gas produced by the person, plus the local government severance tax of 15.25% on the gross taxable value, as defined in subsection ~~(6)(a)(iii)~~ (8)(A)(II), of all natural gas produced by the person, other than new production, from each lease or unit; but in determining the amount of the state severance tax and the local government severance tax, there must be excluded from consideration all gas produced and used by the person during the year in connection with the person's operations in prospecting for, developing, and producing the gas or petroleum or crude or mineral oil; and there must also be excluded from consideration all gas, including carbon

dioxide gas, recycled or reinjected into the ground;

(c) EXCEPT AS PROVIDED IN SUBSECTION (4)(A), a 3% state severance tax on the gross taxable value of the incremental production of petroleum and other mineral or crude oil produced from a secondary recovery project commenced or expanded after December 31, 1993, and before January 1, 2002, plus the local government severance tax of 5% on the gross taxable value, as defined in subsection ~~(6)(a)(iii)~~ (8)(A)(II), of the incremental petroleum and other mineral or crude oil produced by the person, other than new production, from each lease or unit in a secondary recovery project commenced or expanded after December 31, 1993, and before January 1, 2002. For purposes of this section, a secondary recovery project must meet each of the following requirements:

(i) The project must be approved CERTIFIED as a secondary recovery project TO THE DEPARTMENT by the board. The approval CERTIFICATION may be extended only after notice and hearing in accordance with Title 2, chapter 4.

(ii) The property to be affected by the project must be adequately delineated according to the specifications required by the board.

(iii) The project must involve the application of secondary recovery methods that can reasonably be expected to result in an increase, determined by the board to be

significant in light of all the facts and circumstances, in the amount of petroleum or mineral or crude oil that may potentially be recovered. For purposes of this section, secondary recovery methods include but are not limited to:

(A) the injection of water into the producing formation for the purposes of maintaining pressure in that formation or for the purpose of increasing the flow of petroleum or mineral or crude oil from the producing formation to a producing well bore; or

(B) any other method approved by the board as a secondary recovery method.

~~(c)(d)~~ a 2.5% state severance tax on the gross taxable value of the incremental petroleum and other mineral or crude oil produced by the person, plus the local government severance tax of 5% on the gross taxable value, as defined in subsection ~~(6)(a)(iii)~~ (8)(A)(II), of the incremental petroleum and other mineral or crude oil produced by the person, other than new production, from each lease or unit in a tertiary recovery project after July 1, 1985. For purposes of this section, a tertiary recovery project must meet each of the following requirements:

(i) the The project must be approved as a tertiary recovery project by the board of oil and gas conservation. The approval may be extended only after notice and hearing in accordance with Title 2, chapter 4.

(ii) the The property to be affected by the project must be adequately delineated according to the specifications required by the board; and.

(iii) the The project must involve the application of one or more tertiary recovery methods that can reasonably be expected to result in an increase, determined by the board to be significant in light of all the facts and circumstances, in the amount of crude oil which that may potentially be recovered. For purposes of this section, tertiary recovery methods include but are not limited to:

(A) miscible fluid displacement;

(B) steam drive injection;

(C) micellar/emulsion flooding;

(D) in situ combustion;

(E) polymer augmented water flooding;

(F) cyclic steam injection;

(G) alkaline or caustic flooding;

(H) carbon dioxide water flooding;

(I) immiscible carbon dioxide displacement; or

(J) any other method approved by the department board as a tertiary recovery method.

(e) EXCEPT AS PROVIDED IN SUBSECTION (4)(B), a 2% state severance tax on the gross taxable value of the incremental petroleum and other mineral or crude oil produced by the person, plus the local government severance tax of 3.5% on

the gross taxable value, as defined in subsection ~~(6)(a)(iii)~~ (8)(A)(II), of the incremental petroleum and other mineral or crude oil produced by the person, other than new production, from each lease or unit in a tertiary recovery project commenced or expanded after December 31, 1993, and before January 1, 2002. The tertiary recovery project must meet the requirements of subsections (1)(d)(i) through (1)(d)(iii).

~~(d)(f)~~ a 5% local government severance tax on the gross taxable value, as defined in subsection ~~(6)(a)(iii)~~ (8)(A)(II), of all petroleum and other mineral or crude oil produced by the person other than new production produced by a stripper well, as defined in subsection (7).

~~(2)--For purposes of this section, the term "incremental petroleum and other mineral or crude oil" means the amount of oil as determined by the board, to be in excess of what would have been produced by primary and secondary methods. The determination arrived at by the board must be made only after notice and hearing and shall specify through the life of a tertiary project, calendar year by calendar year, the combined amount of primary and secondary production that must be used to establish the incremental production from each lease or unit in a tertiary recovery project.~~

(2) For purposes of this section, the following definitions apply:

(a) "Board" means the board of oil and gas conservation.

(b) "Enhanced recovery project" means the use of any process for the displacement of oil from the earth other than primary recovery and includes the use of an immiscible, miscible, chemical, thermal, or biological process.

(c) "Existing enhanced recovery project" means an enhanced recovery project that began development before January 1, 1994.

(d) "Expanded enhanced recovery project" or "expansion" means the addition of injection wells or production wells, the change of injection pattern, or other operating changes to an existing enhanced recovery project that will result in the recovery of oil that would not otherwise be recovered.

(e) "Incremental production" means:

(i) the volume of oil produced BY EITHER A WELL IN PRIMARY RECOVERY RECOMPLETED AS A HORIZONTALLY COMPLETED WELL OR by an expanded enhanced recovery project, WHICH VOLUME OF PRODUCTION IS in excess of the production decline rate established under the conditions existing before:

(A) THE COMMENCEMENT OF THE RECOMPLETION OF A WELL AS A HORIZONTALLY COMPLETED WELL;

~~(A)(B)~~ expansion of the existing enhanced recovery project; or

~~(B)(C)~~ commencing a new enhanced recovery project; or

(ii) in the case of any project that had no taxable production prior to commencing the enhanced recovery project, all production of petroleum or mineral or crude oil from the enhanced recovery project.

(f) "New enhanced recovery project" means an enhanced recovery project that began development after December 31, 1993, and before January 1, 2002.

(g) "Operator" or "producer" means the person responsible for the actual physical operation of an enhanced recovery project.

(h) "Primary recovery" means the displacement of oil from the earth into the well bore by means of the natural pressure of the oil reservoir and includes artificial lift.

(i) "Production decline rate" means the projected rate of future oil production, extrapolated by a method approved by the board, that must be determined for a project area prior to commencing a new or expanded secondary recovery project OR THE RECOMPLETION OF A WELL AS A HORIZONTALLY COMPLETED WELL. The approved production decline rate must be certified in writing TO THE DEPARTMENT OF REVENUE by the board. The IN THAT CERTIFICATION, THE board shall identify the project area and shall specify the projected rate of future oil production by calendar year and by calendar quarter within each year. The certified rate of future oil production must be used to determine the volume of

incremental production that qualifies for the tax rate imposed under subsection (1)(c) or (1)(e).

(j) "Secondary recovery project" means an enhanced recovery project that is not a tertiary recovery project.

(k) "Tertiary recovery project" means an enhanced recovery project using a tertiary recovery method described in subsection (1)(d)(iii).

(3) (a) A local government severance tax is imposed on the gross value paid in cash or apportioned in kind to a nonworking interest owner by the operator or producer of extracted marketable petroleum, other mineral or crude oil, or natural gas subject to local government severance taxes imposed under this chapter. The local government severance tax on nonworking interest owners is computed at the following rates:

(i) 12.5% on the gross value paid in cash or apportioned in kind to a nonworking interest owner by the operator or producer of extracted marketable petroleum and other mineral or crude oil;

(ii) 15.25% on the gross value paid in cash or apportioned in kind to a nonworking interest owner by the operator or producer of extracted or marketable natural gas.

(b) The amounts paid or apportioned in kind to nonworking interest owners are exempt from the local government severance taxes imposed under 15-36-121(2) and

under subsections (1)(a) through ~~(1)(d)~~ (1)(f) of this section.

(4) (A) INCREMENTAL PRODUCTION FROM A SECONDARY RECOVERY PROJECT IS SUBJECT TO THE TAX RATE IMPOSED IN SUBSECTION (1)(C) IF THE AVERAGE PRICE PER BARREL OF OIL AS REPORTED IN THE WALL STREET JOURNAL FOR WEST TEXAS INTERMEDIATE CRUDE OIL DURING A CALENDAR QUARTER IS LESS THAN \$30 A BARREL. IF THE PRICE OF OIL IS EQUAL TO OR GREATER THAN \$30 PER BARREL IN A CALENDAR QUARTER AS DETERMINED IN SUBSECTION (5), INCREMENTAL PRODUCTION FROM A SECONDARY RECOVERY PROJECT IS TAXED AS PROVIDED IN SUBSECTION (1)(A) FOR PRODUCTION OCCURRING IN THAT QUARTER.

(B) INCREMENTAL PRODUCTION FROM A TERTIARY RECOVERY PROJECT IS SUBJECT TO THE TAX RATE IMPOSED IN SUBSECTION (1)(E) IF THE AVERAGE PRICE PER BARREL OF OIL AS REPORTED IN THE WALL STREET JOURNAL FOR WEST TEXAS INTERMEDIATE CRUDE OIL DURING A CALENDAR QUARTER IS LESS THAN \$30 A BARREL. IF THE PRICE OF OIL IS EQUAL TO OR GREATER THAN \$30 PER BARREL IN A CALENDAR QUARTER AS DETERMINED IN SUBSECTION (5), INCREMENTAL PRODUCTION FROM A TERTIARY RECOVERY PROJECT IS TAXED AS PROVIDED IN SUBSECTION (1)(D) FOR PRODUCTION OCCURRING IN THAT QUARTER.

(5) FOR THE PURPOSES OF SUBSECTIONS (4)(A) AND (4)(B), THE AVERAGE PRICE PER BARREL MUST BE COMPUTED BY DIVIDING THE SUM OF THE DAILY PRICE FOR WEST TEXAS INTERMEDIATE CRUDE

OIL AS REPORTED IN THE WALL STREET JOURNAL FOR THE CALENDAR QUARTER BY THE NUMBER OF DAYS IN THE QUARTER.

~~(4)~~(6) Nothing in this part may be construed as requiring laborers or employees hired or employed by any person to drill any oil or natural gas well or to work in or about any oil or natural gas well or prospect or explore for or do any work for the purpose of developing any petroleum, other mineral or crude oil, or natural gas to pay the severance tax, nor may work done or the drilling of a well or wells for the purpose of prospecting or exploring for petroleum, other mineral or crude oil, or natural gas or for the purpose of developing them be considered to be the engaging in or carrying on of the business. If, in the doing of any work, in the drilling of any oil or natural gas well, or in prospecting, exploring, or development work, any merchantable or marketable petroleum, other mineral or crude oil, or natural gas in excess of the quantity required by the person for carrying on the operation is produced sufficient in quantity to justify the marketing of the petroleum, other mineral or crude oil, or natural gas, the work, drilling, prospecting, exploring, or development work is considered to be the engaging in and carrying on of the business of producing petroleum, other mineral or crude oil, or natural gas within this state within the meaning of this section.

1 †5†(7) Every person required to pay the state or local
 2 government severance tax under this section shall pay the
 3 tax in full for the person's own account and for the account
 4 of each of the other owner-or owners of the gross proceeds
 5 in value or in kind of all the marketable petroleum or other
 6 mineral or crude oil or natural gas extracted and produced,
 7 including an owner or owners of working interest, royalty
 8 interest, overriding royalty interest, carried working
 9 interest, net proceeds interest, production payments, and
 10 all other interest or interests owned or carved out of the
 11 total gross proceeds in value or in kind of the extracted
 12 marketable petroleum or other mineral or crude oil or
 13 natural gas, except that any of the interests that are owned
 14 by the federal, state, county, or municipal governments are
 15 exempt from taxation under this chapter. Unless otherwise
 16 provided in a contract or lease, the pro rata share of any
 17 royalty owner or owners will be deducted from any
 18 settlements under the lease or leases or division of
 19 proceeds orders or other contracts.

20 †6†(8) For purposes of this section, the following
 21 definitions apply:

22 (a) (i) "Gross taxable value", for the purpose of
 23 computing the state severance tax, means the gross value of
 24 the product as determined in 15-36-103.

25 (ii) "Gross taxable value", for the purpose of computing

1 the local government severance tax, means the gross value of
 2 the product as determined in 15-36-103 less the gross value
 3 paid in cash or apportioned in kind to a nonworking interest
 4 owner by the operator or producer of extracted marketable
 5 petroleum, other mineral or crude oil, or natural gas.

6 (b) "Nonworking interest owner" means any interest
 7 owner who does not share in the development and operation
 8 costs of the lease or unit.

9 †7†(9) For the purposes of this section, "stripper
 10 well" means a well that produces less than 10 barrels a day,
 11 determined by dividing the amount of production from a lease
 12 or unitized area for the year prior to the current calendar
 13 year by the number of producing wells in the lease or
 14 unitized area and by dividing the resulting quotient by
 15 365."

16 **Section 10.** Section 7-1-2111, MCA, is amended to read:

17 "7-1-2111. Classification of counties. (1) For the
 18 purpose of regulating the compensation and salaries of all
 19 county officers, not otherwise provided for, and for fixing
 20 the penalties of officers' bonds, the counties of this state
 21 must be classified according to that percentage of the true
 22 and full valuation of the property in the counties upon
 23 which the tax levy is made, except for vehicles subject to
 24 taxation under 61-3-504(2), as follows:

25 (a) first class--all counties having a taxable

1 valuation of \$50 million or over;

2 (b) second class--all counties having a taxable
3 valuation of more than \$30 million and less than \$50
4 million;

5 (c) third class--all counties having a taxable
6 valuation of more than \$20 million and less than \$30
7 million;

8 (d) fourth class--all counties having a taxable
9 valuation of more than \$15 million and less than \$20
10 million;

11 (e) fifth class--all counties having a taxable
12 valuation of more than \$10 million and less than \$15
13 million;

14 (f) sixth class--all counties having a taxable
15 valuation of more than \$5 million and less than \$10 million;

16 (g) seventh class--all counties having a taxable
17 valuation of less than \$5 million.

18 (2) As used in this section, taxable valuation means
19 the taxable value of taxable property in the county as of
20 the time of determination plus:

21 (a) that portion of the taxable value of the county on
22 December 31, 1981, attributable to automobiles and trucks
23 having a rated capacity of three-quarters of a ton or less;

24 (b) that portion of the taxable value of the county on
25 December 31, 1989, attributable to automobiles and trucks

1 having a rated capacity of more than three-quarters of a ton
2 but less than or equal to 1 ton;

3 (c) the amount of ~~interim-production-and~~ new production
4 and incremental production taxes levied, as provided in
5 15-23-607; divided by the appropriate tax rates described in
6 15-23-607(2)(a), or (2)(b), or (2)(c) and multiplied by 60%;

7 (d) the amount of value represented by new production
8 or production from horizontally completed wells exempted
9 from tax as provided in 15-23-612 multiplied by 60%, plus
10 the value of any other production occurring after December
11 31, 1988, multiplied by 60%; and

12 (e) 6% of the taxable value of the county on January 1
13 of each tax year."

14 **Section 11.** Section 7-7-2101, MCA, is amended to read:

15 **"7-7-2101. Limitation on amount of county indebtedness.**

16 (1) ~~No A~~ county may not become indebted in any manner or for
17 any purpose to an amount, including existing indebtedness,
18 in the aggregate exceeding 23% of the total of the taxable
19 value of the property therein in the county subject to
20 taxation, plus the amount of ~~interim-production-and~~ new
21 production and incremental production taxes levied divided
22 by the appropriate tax rates described in 15-23-607(2)(a),
23 or (2)(b), or (2)(c) and multiplied by 60%, plus the amount
24 of value represented by new production and production from
25 horizontally completed wells exempted from tax as provided

in 15-23-612 multiplied by 60%, plus the value of any other production occurring after December 31, 1988, multiplied by 60%, as ascertained by the last assessment for state and county taxes previous to the incurring of the indebtedness.

(2) No A county may not incur indebtedness or liability for any single purpose to an amount exceeding \$500,000 without the approval of a majority of the electors thereof of the county voting at an election to be provided by law, except as provided in 7-21-3413 and 7-21-3414.

(3) ~~Nothing--in--this~~ This section ~~shall~~ does not apply to the acquisition of conservation easements as set forth in Title 76, chapter 6."

Section 12. Section 7-7-2203, MCA, is amended to read:

"7-7-2203. Limitation on amount of bonded indebtedness.

(1) Except as provided in subsections (2) through (4), no a county may not issue general obligation bonds for any purpose which that, with all outstanding bonds and warrants except county high school bonds and emergency bonds, will exceed 11.25% of the total of the taxable value of the property therein in the county, plus the amount of ~~interim production-and~~ new production and incremental production taxes levied divided by the appropriate tax rates described in 15-23-607(2)(a), or (2)(b), or (2)(c) and multiplied by 60%, plus the amount of value represented by new production and production from horizontally drilled COMPLETED wells

exempted from tax as provided in 15-23-612 multiplied by 60%, plus the value of any other production occurring after December 31, 1988, multiplied by 60%, to be ascertained by the last assessment for state and county taxes prior to the proposed issuance of bonds.

(2) In addition to the bonds allowed by subsection (1), a county may issue bonds which that, with all outstanding bonds and warrants, will not exceed 27.75% of the total of the taxable value of the property in the county subject to taxation, plus the amount of ~~interim--production--and~~ new production and incremental production taxes levied divided by the appropriate tax rates described in 15-23-607(2)(a), or (2)(b), or (2)(c) and multiplied by 60%, plus the amount of value represented by new production and production from horizontally completed wells exempted from tax as provided in 15-23-612 multiplied by 60%, when necessary to do so, plus the value of any other production occurring after December 31, 1988, multiplied by 60% for the purpose of acquiring land for a site for county high school buildings and for erecting or acquiring buildings thereon on the site and furnishing and equipping the same buildings for county high school purposes.

(3) In addition to the bonds allowed by subsections (1) and (2), a county may issue bonds for the construction or improvement of a jail which that will not exceed 12.5% of

1 the taxable value of the property in the county subject to
2 taxation.

3 (4) The limitation in subsection (1) does not apply to
4 refunding bonds issued for the purpose of paying or retiring
5 county bonds lawfully issued prior to January 1, 1932, or to
6 bonds issued for the repayment of tax protests lost by the
7 county."

8 **Section 13.** Section 7-14-2524, MCA, is amended to read:

9 "7-14-2524. Limitation on amount of bonds issued --
10 excess void. (1) Except as otherwise provided in 7-7-2203,
11 7-7-2204, and this section, a county may not issue bonds
12 that, with all outstanding bonds and warrants except county
13 high school bonds and emergency bonds, will exceed 11.25% of
14 the total of the taxable value of the property in the
15 county, plus the amount of ~~interim--production--and~~ new
16 production and incremental production taxes levied divided
17 by the appropriate tax rates described in 15-23-607(2)(a),
18 or (2)(b), or (2)(c) and multiplied by 60%, plus the amount
19 of value represented by new production and production from
20 horizontally completed wells exempted from tax as provided
21 in 15-23-612 multiplied by 60%, plus the value of any other
22 production occurring after December 31, 1988, multiplied by
23 60%. The taxable property and the amount of ~~interim~~
24 ~~production--and~~ new production and incremental production
25 taxes levied must be ascertained by the last assessment for

1 state and county taxes prior to the issuance of the bonds.

2 (2) A county may issue bonds that, with all outstanding
3 bonds and warrants except county high school bonds, will
4 exceed 11.25% but will not exceed 22.5% of the total of the
5 taxable value of the property, plus the amount of ~~interim~~
6 ~~production-and~~ new production and incremental production
7 taxes levied divided by the appropriate tax rates described
8 in 15-23-607(2)(a), or (2)(b), or (2)(c) and multiplied by
9 60%, plus the amount of value represented by new production
10 and production from horizontally completed wells exempted
11 from tax as provided in 15-23-612 multiplied by 60%, plus
12 the value of any other production occurring after December
13 31, 1988, multiplied by 60% when necessary for the purpose
14 of replacing, rebuilding, or repairing county buildings,
15 bridges, or highways that have been destroyed or damaged by
16 an act of God or by a disaster, catastrophe, or accident.

17 (3) The value of the bonds issued and all other
18 outstanding indebtedness of the county, except county high
19 school bonds, may not exceed 22.5% of the total of the
20 taxable value of the property within the county, plus the
21 amount of ~~interim--production--and~~ new production and
22 incremental production taxes levied divided by the
23 appropriate tax rates described in 15-23-607(2)(a), or
24 (2)(b), or (2)(c) and multiplied by 60%, plus the amount of
25 value represented by new production and production from

1 horizontally completed wells exempted from tax as provided
 2 in 15-23-612 multiplied by 60%, plus the value of any other
 3 production occurring after December 31, 1988, multiplied by
 4 60%, as ascertained by the last preceding general
 5 assessment."

6 **Section 14.** Section 7-14-2525, MCA, is amended to read:

7 "7-14-2525. Refunding agreements and refunding bonds
 8 authorized. (1) Whenever the total indebtedness of a county
 9 exceeds 22.5% of the total of the taxable value of the
 10 property therein, plus the amount of ~~interim-production--and~~
 11 new production and incremental production taxes levied
 12 divided by the appropriate tax rates described in
 13 15-23-607(2)(a), or (2)(b), or (2)(c) and multiplied by 60%,
 14 plus the amount of value represented by new production and
 15 production from horizontally completed wells exempted from
 16 tax as provided in 15-23-612 multiplied by 60%, plus the
 17 value of any other production occurring after December 31,
 18 1988, multiplied by 60%, and the board determines that the
 19 county is unable to pay the indebtedness in full, the board
 20 may:

21 (a) negotiate with the bondholders for an agreement
 22 whereby the bondholders agree to accept less than the full
 23 amount of the bonds and the accrued unpaid interest thereon
 24 in satisfaction thereof of the bonds;

25 (b) enter into such the agreement;

1 (c) issue refunding bonds for the amount agreed upon.

2 (2) These bonds may be issued in more than one series,
 3 and each series may be either amortization or serial bonds.

4 (3) The plan agreed upon between the board and the
 5 bondholders ~~shall~~ must be embodied in full in the resolution
 6 providing for the ~~issue~~ issuance of the bonds."

7 **Section 15.** Section 7-16-2327, MCA, is amended to read:

8 "7-16-2327. Indebtedness for park purposes. (1) Subject
 9 to the provisions of subsection (2), a county park board, in
 10 addition to powers and duties now given under law, has the
 11 power and duty to contract an indebtedness in behalf of a
 12 county, upon the credit thereof of the county, for the
 13 purposes of 7-16-2321(1) and (2).

14 (2) (a) The total amount of indebtedness authorized to
 15 be contracted in any form, including the then-existing
 16 indebtedness, must may not at any time exceed 13% of the
 17 total of the taxable value of the taxable property in the
 18 county, plus the amount of ~~interim--production--and~~ new
 19 production and incremental production taxes levied divided
 20 by the appropriate tax rates described in 15-23-607(2)(a),
 21 or (2)(b), or (2)(c) and multiplied by 60%, plus the amount
 22 of value represented by new production and production from
 23 horizontally completed wells exempted from tax as provided
 24 in 15-23-612, plus the value of any other production
 25 occurring after December 31, 1988, multiplied by 60%,

1 ascertained by the last assessment for state and county
2 taxes previous to the incurring of the indebtedness.

3 (b) ~~No--money~~ Money may not be borrowed on bonds issued
4 for the purchase of lands and improving ~~same~~ the land for
5 any ~~such~~ purpose until the proposition has been submitted to
6 the vote of those qualified under the provisions of the
7 state constitution to vote at ~~such~~ the election in the
8 affected county ~~affected-thereby~~ and a majority vote is cast
9 in favor thereof of the bonds."

10 **Section 16.** Section 20-9-141, MCA, is amended to read:

11 "20-9-141. Computation of general fund net levy
12 requirement by county superintendent. (1) The county
13 superintendent shall compute the levy requirement for each
14 district's general fund on the basis of the following
15 procedure:

16 (a) Determine the funding required for the district's
17 final general fund budget less the sum of direct state aid
18 and the special education allowable cost payment for the
19 district by totaling:

20 (i) the district's nonisolated school BASE budget
21 requirement to be met by a district levy as provided in
22 20-9-303; and

23 (ii) any general fund budget amount adopted by the
24 trustees of the district under the provisions of 20-9-308
25 and 20-9-353, including any additional funding for a general

1 fund budget that exceeds the maximum general fund budget.

2 (b) Determine the money available for the reduction of
3 the property tax on the district for the general fund by
4 totaling:

5 (i) general fund balance reappropriated, as established
6 under the provisions of 20-9-104; and

7 (ii) amounts received in the last fiscal year for which
8 revenue reporting was required for each of the following
9 sources:

10 (A) tuition payments for out-of-district pupils under
11 the provisions of 20-5-321 through 20-5-323;

12 (B) revenue from property taxes and fees imposed under
13 23-2-517, 23-2-803, 61-3-504(2), 61-3-521, 61-3-537, and
14 67-3-204;

15 (C) net proceeds taxes for new production and
16 incremental production, as defined in 15-23-601;

17 (D) revenue from local government severance taxes as
18 provided in 15-36-112;

19 (E) revenue from coal gross proceeds under 15-23-703;

20 (F) interest earned by the investment of general fund
21 cash in accordance with the provisions of 20-9-213(4);

22 (G) revenue from corporation license taxes collected
23 from financial institutions under the provisions of
24 15-31-702; and

25 (H) any other revenue received during the school fiscal

1 year that may be used to finance the general fund, excluding
2 any guaranteed tax base aid.

3 (c) Notwithstanding the provisions of subsection (2),
4 subtract the money available to reduce the property tax
5 required to finance the general fund that has been
6 determined in subsection (1)(b) from any general fund budget
7 amount adopted by the trustees of the district, up to the
8 BASE budget amount, to determine the general fund BASE
9 budget levy requirement.

10 (d) Subtract any amount remaining after the
11 determination in subsection (1)(c) from any additional
12 funding requirement to be met by an over-BASE budget amount,
13 a district levy as provided in 20-9-303, and any additional
14 financing as provided in 20-9-353 to determine any
15 additional general fund levy requirements.

16 (2) The county superintendent shall calculate the
17 number of mills to be levied on the taxable property in the
18 district to finance the general fund levy requirement for
19 any amount that does not exceed the BASE budget amount for
20 the district by dividing the amount determined in subsection
21 (1)(c) by the sum of:

22 (a) the amount of guaranteed tax base aid that the
23 district will receive for each mill levied, as certified by
24 the superintendent of public instruction; and

25 (b) the taxable valuation of the district divided by

1 1,000.

2 (3) The net general fund levy requirement determined in
3 subsections (1)(c) and (1)(d) must be reported to the county
4 commissioners on the fourth Monday of August by the county
5 superintendent as the general fund net levy requirement for
6 the district, and a levy must be set by the county
7 commissioners in accordance with 20-9-142."

8 **Section 17.** Section 20-9-331, MCA, is amended to read:

9 "20-9-331. **Basic county tax and other revenues for**
10 **county equalization of the elementary district BASE funding**
11 **program.** (1) The county commissioners of each county shall
12 levy an annual basic tax of 33 mills on the dollar of the
13 taxable value of all taxable property within the county,
14 except for property subject to a tax or fee under 23-2-517,
15 23-2-803, 61-3-504(2), 61-3-521, 61-3-537, and 67-3-204, for
16 the purposes of local and state BASE funding program
17 support. The revenue collected from this levy must be
18 apportioned to the support of the elementary BASE funding
19 programs of the school districts in the county and to the
20 state special revenue fund, state equalization aid account,
21 in the following manner:

22 (a) In order to determine the amount of revenue raised
23 by this levy which that is retained by the county, the sum
24 of the estimated revenue identified in subsection (2) must
25 be subtracted from the total of the BASE funding programs of

1 all elementary districts of the county.

2 (b) If the basic levy and other revenue prescribed by
3 this section produce more revenue than is required to repay
4 a state advance for county equalization, the county
5 treasurer shall remit the surplus funds to the state
6 treasurer for deposit to the state special revenue fund,
7 state equalization aid account, immediately upon occurrence
8 of a surplus balance and each subsequent month thereafter,
9 with any final remittance due no later than June 20 of the
10 fiscal year for which the levy has been set.

11 (2) The revenue realized from the county's portion of
12 the levy prescribed by this section and the revenue from the
13 following sources must be used for the equalization of the
14 elementary BASE funding program of the county as prescribed
15 in 20-9-335, and a separate accounting must be kept of the
16 revenue by the county treasurer in accordance with
17 20-9-212(1):

18 (a) the portion of the federal Taylor Grazing Act funds
19 distributed to a county and designated for the common school
20 fund under the provisions of 17-3-222;

21 (b) the portion of the federal flood control act funds
22 distributed to a county and designated for expenditure for
23 the benefit of the county common schools under the
24 provisions of 17-3-232;

25 (c) all money paid into the county treasury as a result

1 of fines for violations of law, except money paid to a
2 justice's court, and the use of which is not otherwise
3 specified by law;

4 (d) any money remaining at the end of the immediately
5 preceding school fiscal year in the county treasurer's
6 accounts for the various sources of revenue established or
7 referred to in this section;

8 (e) any federal or state money distributed to the
9 county as payment in lieu of property taxation, including
10 federal forest reserve funds allocated under the provisions
11 of 17-3-213;

12 (f) gross proceeds taxes from coal under 15-23-703;

13 (g) net proceeds taxes for new production and
14 incremental production, as defined in 15-23-601, and local
15 government severance taxes on any other production occurring
16 after December 31, 1988; and

17 (h) anticipated revenue from property taxes and fees
18 imposed under 23-2-517, 23-2-803, 61-3-504(2), 61-3-521,
19 61-3-537, and 67-3-204."

20 **Section 18.** Section 20-9-333, MCA, is amended to read:

21 "20-9-333. Basic special levy and other revenues for
22 county equalization of high school district BASE funding
23 program. (1) The county commissioners of each county shall
24 levy an annual basic special tax for high schools of 22
25 mills on the dollar of the taxable value of all taxable

1 property within the county, except for property subject to a
 2 tax or fee under 23-2-517, 23-2-803, 61-3-504(2), 61-3-521,
 3 61-3-537, and 67-3-204, for the purposes of local and state
 4 BASE funding program support. The revenue collected from
 5 this levy must be apportioned to the support of the BASE
 6 funding programs of high school districts in the county and
 7 to the state special revenue fund, state equalization aid
 8 account, in the following manner:

9 (a) In order to determine the amount of revenue raised
 10 by this levy which that is retained by the county, the sum
 11 of the estimated revenue identified in subsection (2) must
 12 be subtracted from the sum of the county's high school
 13 tuition obligation and the total of the BASE funding
 14 programs of all high school districts of the county.

15 (b) If the basic levy and other revenue prescribed by
 16 this section produce more revenue than is required to repay
 17 a state advance for county equalization, the county
 18 treasurer shall remit the surplus funds to the state
 19 treasurer for deposit to the state special revenue fund,
 20 state equalization aid account, immediately upon occurrence
 21 of a surplus balance and each subsequent month thereafter,
 22 with any final remittance due no later than June 20 of the
 23 fiscal year for which the levy has been set.

24 (2) The revenue realized from the county's portion of
 25 the levy prescribed in this section and the revenue from the

1 following sources must be used for the equalization of the
 2 high school BASE funding program of the county as prescribed
 3 in 20-9-335, and a separate accounting must be kept of the
 4 revenue by the county treasurer in accordance with
 5 20-9-212(1):

6 (a) any money remaining at the end of the immediately
 7 preceding school fiscal year in the county treasurer's
 8 accounts for the various sources of revenue established in
 9 this section;

10 (b) any federal or state money distributed to the
 11 county as payment in lieu of property taxation, including
 12 federal forest reserve funds allocated under the provisions
 13 of 17-3-213;

14 (c) gross proceeds taxes from coal under 15-23-703;

15 (d) net proceeds taxes for new production and
 16 incremental production, as defined in 15-23-601, and local
 17 government severance taxes on any other production occurring
 18 after December 31, 1988; and

19 (e) anticipated revenue from property taxes and fees
 20 imposed under 23-2-517, 23-2-803, 61-3-504(2), 61-3-521,
 21 61-3-537, and 67-3-204."

22 **Section 19.** Section 20-10-144, MCA, is amended to read:
 23 "20-10-144. Computation of revenue and net tax levy
 24 requirements for district transportation fund budget. Before
 25 the fourth Monday of July and in accordance with 20-9-123,

1 the county superintendent shall compute the revenue
2 available to finance the transportation fund budget of each
3 district. The county superintendent shall compute the
4 revenue for each district on the following basis:

5 (1) The "schedule amount" of the preliminary budget
6 expenditures that is derived from the rate schedules in
7 20-10-141 and 20-10-142 must be determined by adding the
8 following amounts:

9 (a) the sum of the maximum reimbursable expenditures
10 for all approved school bus routes maintained by the
11 district (to determine the maximum reimbursable expenditure,
12 multiply the applicable rate per bus mile by the total
13 number of miles to be traveled during the ensuing school
14 fiscal year on each bus route approved by the county
15 transportation committee and maintained by such the
16 district); plus

17 (b) the total of all individual transportation per diem
18 reimbursement rates for the district as determined from the
19 contracts submitted by the district multiplied by the number
20 of pupil-instruction days scheduled for the ensuing school
21 attendance year; plus

22 (c) any estimated costs for supervised home study or
23 supervised correspondence study for the ensuing school
24 fiscal year; plus

25 (d) the amount budgeted on the preliminary budget for

1 the contingency amount permitted in 20-10-143, except if the
2 amount exceeds 10% of the total of subsections (1)(a),
3 (1)(b), and (1)(c) or \$100, whichever is larger, the
4 contingency amount on the preliminary budget must be reduced
5 to the limitation amount and used in this determination of
6 the schedule amount; plus

7 (e) any estimated costs for transporting a child out of
8 district when the child has mandatory approval to attend
9 school in a district outside the district of residence.

10 (2) (a) The schedule amount determined in subsection
11 (1) or the total preliminary transportation fund budget,
12 whichever is smaller, is divided by 2 and is used to
13 determine the available state and county revenue to be
14 budgeted on the following basis:

15 (i) one-half is the budgeted state transportation
16 reimbursement, except that the state transportation
17 reimbursement for the transportation of special education
18 pupils under the provisions of 20-7-442 must be 50% of the
19 schedule amount attributed to the transportation of special
20 education pupils; and

21 (ii) one-half is the budgeted county transportation fund
22 reimbursement and must be financed in the manner provided in
23 20-10-146.

24 (b) When the district has a sufficient amount of cash
25 for reappropriation and other sources of district revenue,

1 as determined in subsection (3), to reduce the total
 2 district obligation for financing to zero, any remaining
 3 amount of district revenue and cash reappropriated must be
 4 used to reduce the county financing obligation in subsection
 5 (2)(a)(ii) and, if the county financing obligations are
 6 reduced to zero, to reduce the state financial obligation in
 7 subsection (2)(a)(i).

8 (c) The county revenue requirement for a joint
 9 district, after the application of any district money under
 10 subsection (2)(b), must be prorated to each county
 11 incorporated by the joint district in the same proportion as
 12 the ANB of the joint district is distributed by pupil
 13 residence in each county.

14 (3) The total of the money available for the reduction
 15 of property tax on the district for the transportation fund
 16 must be determined by totaling:

17 (a) anticipated federal money received under the
 18 provisions of Title I of Public Law 81-874 or other
 19 anticipated federal money received in lieu of that federal
 20 act;

21 (b) anticipated payments from other districts for
 22 providing school bus transportation services for the
 23 district;

24 (c) anticipated payments from a parent or guardian for
 25 providing school bus transportation services for a child;

1 (d) anticipated or reappropriated interest to be earned
 2 by the investment of transportation fund cash in accordance
 3 with the provisions of 20-9-213(4);

4 (e) anticipated or reappropriated revenue from property
 5 taxes and fees imposed under 23-2-517, 23-2-803,
 6 61-3-504(2), 61-3-521, 61-3-537, and 67-3-204;

7 (f) anticipated revenue from coal gross proceeds under
 8 15-23-703;

9 (g) anticipated net proceeds taxes for new production
 10 and incremental production, as defined in 15-23-601, and
 11 local government severance taxes on any other production
 12 occurring after December 31, 1988;

13 (h) anticipated transportation payments for
 14 out-of-district pupils under the provisions of 20-5-320
 15 through 20-5-324;

16 (i) any other revenue anticipated by the trustees to be
 17 earned during the ensuing school fiscal year that may be
 18 used to finance the transportation fund; and

19 (j) any fund balance available for reappropriation as
 20 determined by subtracting the amount of the end-of-the-year
 21 fund balance earmarked as the transportation fund operating
 22 reserve for the ensuing school fiscal year by the trustees
 23 from the end-of-the-year fund balance in the transportation
 24 fund. The operating reserve may not be more than 20% of the
 25 final transportation fund budget for the ensuing school

fiscal year and is for the purpose of paying transportation fund warrants issued by the district under the final transportation fund budget.

(4) The district levy requirement for each district's transportation fund must be computed by:

(a) subtracting the schedule amount calculated in subsection (1) from the total preliminary transportation budget amount; and

(b) subtracting the amount of money available to reduce the property tax on the district, as determined in subsection (3), from the amount determined in subsection (4)(a).

(5) The transportation fund levy requirements determined in subsection (4) for each district must be reported to the county commissioners on the fourth Monday of August by the county superintendent as the transportation fund levy requirements for the district, and the levy must be made by the county commissioners in accordance with 20-9-142."

NEW SECTION. SECTION 20. FEES FOR PROCESSING APPLICATIONS. (1) THE BOARD SHALL ESTABLISH A FEE SCHEDULE TO DEFRAY THE EXPENSES INCURRED FOR PROCESSING AN APPLICATION FROM AN OPERATOR OR PRODUCER OF OIL SEEKING APPROVAL OF A NEW OR EXPANDED ENHANCED RECOVERY PROJECT, AS DEFINED IN 15-23-601 OR 15-36-101. THE FEE MUST BE PAID BY

THE OWNER OR OPERATOR SEEKING APPROVAL OF THE PROJECT.

(2) THE BOARD SHALL, BY RULE, DETERMINE THE AMOUNT OF THE FEE BASED ON THE COMPLEXITY OF PROCESSING THE APPLICATION.

NEW SECTION. SECTION 21. REPORTS BY BOARD OF OIL AND GAS CONSERVATION TO REVENUE OVERSIGHT COMMITTEE. THE BOARD OF OIL AND GAS CONSERVATION SHALL REPORT AT LEAST ONCE A YEAR TO THE REVENUE OVERSIGHT COMMITTEE REGARDING THE IMPLEMENTATION OF [THIS ACT]. THE REPORTS MUST INCLUDE BUT ARE NOT LIMITED TO INFORMATION REGARDING:

(1) THE METHODS USED TO DETERMINE PRODUCTION DECLINE RATES;

(2) RULES ADOPTED TO IMPLEMENT [THIS ACT];

(3) THE NUMBER OF ENHANCED RECOVERY PROJECTS COMPLETED OR ANTICIPATED TO BE COMPLETED IN A YEAR; AND

(4) THE NUMBER OF HORIZONTAL WELLS COMPLETED OR ANTICIPATED TO BE COMPLETED IN A YEAR AND THE METHOD OF RECOVERY FROM THE HORIZONTAL WELLS.

NEW SECTION. Section 22. Codification instruction. (1) [Section 8] is intended to be codified as an integral part of Title 15, chapter 23, part 6, and the provisions of Title 15, chapter 23, part 6, apply to [section 8].

(2) [SECTION 20] IS INTENDED TO BE CODIFIED AS AN INTEGRAL PART OF TITLE 82, CHAPTER 11, PART 1, AND THE PROVISIONS OF TITLE 82, CHAPTER 11, PART 1, APPLY TO

1 [SECTION 20].

2 NEW SECTION. Section 23. Severability. If a part of
3 [this act] is invalid, all valid parts that are severable
4 from the invalid part remain in effect. If a part of [this
5 act] is invalid in one or more of its applications, the part
6 remains in effect in all valid applications that are
7 severable from the invalid applications.

8 NEW SECTION. Section 24. Effective date --
9 applicability. [This act] is effective on passage and
10 approval and applies to oil production from new or expanded
11 enhanced recovery projects and to tax years that begin after
12 December 31, 1993.

-End-

SENATE BILL NO. 18

INTRODUCED BY HALLIGAN, GILBERT, TVEIT, PIPINICH,
MCCLERNAN, REA, JERGESON, FELAND, BOHLINGER, BRUSKI-MAUS,
HOCKETT, TUNBY, KOEHNKE, BACHINI, HARP, BROWN, SWYSGOOD,
M. HANSON, SWIFT, GRINDE, DEVLIN, SAYLES, SPRING, FOSTER,
STOVALL, J. JOHNSON, WEEDING, H. S. HANSON, TASH,
WAGNER, BIRD, SIMON

A BILL FOR AN ACT ENTITLED: "AN ACT PROVIDING REDUCED NET
PROCEEDS TAX RATES AND REDUCED SEVERANCE TAX RATES ON THE
INCREMENTAL PRODUCTION OF OIL FROM ENHANCED RECOVERY
PROJECTS THAT BEGIN AFTER DECEMBER 31, 1993, AND BEFORE
JANUARY 1, 2002; PROVIDING THAT INCREMENTAL PRODUCTION FROM
ENHANCED RECOVERY PROJECTS IS TAXED AT EXISTING HIGHER RATES
IN CALENDAR QUARTERS IN WHICH THE PRICE PER BARREL OF OIL IS
EQUAL TO OR GREATER THAN \$30; EXEMPTING FROM NET PROCEEDS
TAXATION FOR A PERIOD OF 18 MONTHS THE PRODUCTION OF OIL
FROM HORIZONTALLY COMPLETED WELLS; REQUIRING THAT THE BOARD
OF OIL AND GAS CONSERVATION APPROVE ENHANCED RECOVERY
PROJECTS IN ORDER FOR THE PROJECTS TO QUALIFY FOR THE
REDUCED TAX RATES; REQUIRING THAT THE BOARD ESTABLISH A FEE
SCHEDULE TO DEFRAY THE EXPENSES FOR REVIEWING PROPOSED
ENHANCED RECOVERY PROJECTS; AMENDING SECTIONS 7-1-2111,
7-7-2101, 7-7-2203, 7-14-2524, 7-14-2525, 7-16-2327,
15-6-208, 15-23-601, 15-23-602, 15-23-603, 15-23-607,

THERE ARE NO CHANGES IN THIS BILL
AND WILL NOT BE REPRINTED. PLEASE
REFER TO YELLOW COPY FOR COMPLETE TEXT.



December 10, 1993

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HOUSE STANDING COMMITTEE REPORT

December 10, 1993

Page 1 of 4

Mr. Speaker: We, the committee on **Taxation** report that **Senate Bill 18** (third reading copy -- blue) be concurred in as amended.

Signed: _____

Bob Gilbert
Bob Gilbert, Chair

And, that such amendments read:

Carried by: Rep. Gilbert

1. Page 5, line 13.
Following: "production wells."
Insert: "the recompletion of existing wells as horizontally completed wells,"
2. Page 5, line 14.
Following: "of"
Insert: "an"
3. Page 8, line 1
Strike: "natural gas."
Following: "petroleum"
Strike: "L"
4. Page 9, line 17.
Following: "new"
Insert: "production, production from horizontally completed wells,"
5. Page 9, line 19.
Page 11, lines 1 and 6.
Page 12, lines 16 and 17.
Page 13, lines 8 and 11.
Page 17, line 17.
Page 33, line 21.
Page 34, line 11.
Page 35, lines 16 and 24.

- Page 36, lines 6 and 21.
Page 37, line 11.
Page 38, line 19.
Page 40, line 15.
Page 44, line 13.
Page 46, line 15.
Page 50, line 9.
Following: "production"
Insert: ", production from horizontally completed wells,"
6. Page 9, line 25.
Following: "oil"
Insert: ", production from horizontally completed wells,"
7. Page 12, line 2.
Following: "production"
Insert: ", for production from horizontally completed wells,"
8. Page 15, line 16.
Page 28, line 2.
Following: "DAYS"
Insert: "on which the price was reported"
9. Page 16, line 22.
Strike: "NEW PRODUCTION"
Insert: "Production"
10. Page 17, line 15.
Following: "of"
Insert: "taxes on"
Following: "new"
Insert: "production, production from horizontally completed wells,"
11. Page 17, line 16.
Strike: "taxes"
12. Page 32, line 3.
Following: "of"
Insert: "taxes levied on"
Following: "production"
Insert: ", production from horizontally completed wells,"
13. Page 32, line 4.
Strike: "taxes levied"
14. Page 32, line 20.
Following: "of"

Committee Vote:
Yes __, No __.

101549SC.Hlh

SB 18

HOUSE

December 10, 1993
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Insert: "taxes levied on"

15. Page 32, line 21.
Following: "production"
Insert: ", production from horizontally completed wells,"
Strike: "taxes levied"

16. Page 33, line 20.
Following: "of"
Insert: "taxes levied on"

17. Page 33, line 22.
Strike: "taxes levied"

18. Page 34, line 10.
Following: "of"
Insert: "taxes levied on"

19. Page 34, line 11.
Strike: "taxes levied"

20. Page 35, line 15.
Following: "of"
Insert: "taxes levied on"

21. Page 35, line 16.
Strike: "taxes levied"

22. Page 35, line 23.
Following: "of"
Insert: "taxes levied on"

23. Page 35, line 25.
Strike: "taxes levied"

24. Page 36, line 5.
Following: "of"
Insert: "taxes levied on"

25. Page 36, line 7.
Strike: "taxes levied"

26. Page 36, line 21.
Following: "of"
Insert: "taxes levied on"

27. Page 36, line 22.
Strike: "taxes levied"

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28. Page 37, line 10.
Following: "of"
Insert: "taxes levied on"

29. Page 37, line 11.
Strike: "taxes levied"

30. Page 38, line 18.
Following: "of"
Insert: "taxes levied on"

31. Page 38, line 19.
Strike: "taxes levied"

-END-

SENATE BILL NO. 18

INTRODUCED BY HALLIGAN, GILBERT, TVEIT, PIPINICH,

MCCLERNAN, REA, JERGSON, FELAND, BOHLINGER, BRUSKI-MAUS,

HOCKETT, TUNBY, KOEHNKE, BACHINI, HARP, BROWN, SWYSGOOD,

M. HANSON, SWIFT, GRINDE, DEVLIN, SAYLES, SPRING, FOSTER,

STOVALL, J. JOHNSON, WEEDING, H. S. HANSON, TASH,

WAGNER, BIRD, SIMON

A BILL FOR AN ACT ENTITLED: "AN ACT PROVIDING REDUCED NET
PROCEEDS TAX RATES AND REDUCED SEVERANCE TAX RATES ON THE
INCREMENTAL PRODUCTION OF OIL FROM ENHANCED RECOVERY
PROJECTS THAT BEGIN AFTER DECEMBER 31, 1993, AND BEFORE
JANUARY 1, 2002; PROVIDING THAT INCREMENTAL PRODUCTION FROM
ENHANCED RECOVERY PROJECTS IS TAXED AT EXISTING HIGHER RATES
IN CALENDAR QUARTERS IN WHICH THE PRICE PER BARREL OF OIL IS
EQUAL TO OR GREATER THAN \$30; EXEMPTING FROM NET PROCEEDS
TAXATION FOR A PERIOD OF 18 MONTHS THE PRODUCTION OF OIL
FROM HORIZONTALLY COMPLETED WELLS; REQUIRING THAT THE BOARD
OF OIL AND GAS CONSERVATION APPROVE ENHANCED RECOVERY
PROJECTS IN ORDER FOR THE PROJECTS TO QUALIFY FOR THE
REDUCED TAX RATES; REQUIRING THAT THE BOARD ESTABLISH A FEE
SCHEDULE TO DEFRAY THE EXPENSES FOR REVIEWING PROPOSED
ENHANCED RECOVERY PROJECTS; AMENDING SECTIONS 7-1-2111,
7-7-2101, 7-7-2203, 7-14-2524, 7-14-2525, 7-16-2327,
15-6-208, 15-23-601, 15-23-602, 15-23-603, 15-23-607,

15-23-612, 15-23-613, 15-36-101, 20-9-141, 20-9-331,
20-9-333, AND 20-10-144, MCA; AND PROVIDING AN IMMEDIATE
EFFECTIVE DATE AND AN APPLICABILITY DATE."

STATEMENT OF INTENT

A statement of intent is required for this bill because
the board of oil and gas conservation is authorized to
approve and certify production decline rates for the purpose
of determining incremental production from enhanced recovery
projects as provided in this bill.

The department of revenue has adopted rules for
determining incremental production from tertiary production
based on production decline rates. It is the intent of this
legislation that the determination of incremental production
is more appropriately a function of the board of oil and gas
conservation because the board already has comprehensive
statutory authority over oil and gas exploration and
development activities in Montana.

The legislature intends that the board of oil and gas
conservation shall, in consultation with the department of
revenue, adopt rules setting forth the methodology by which
the board may approve new or expanded secondary and tertiary
recovery projects. The rules must include the method for
establishing the rate of decline in production in the
existing level of development in a project area. For a

secondary or tertiary recovery project for which initial approval is sought, the rules must include the method for establishing the rate of decline in production from existing primary or secondary recovery operations in a proposed project area. In addition, the rules must include the method for determining the level of production from existing wells in a project area in order to establish the level of incremental production that qualifies for the tax incentive rates provided in this bill.

THE BOARD OF OIL AND GAS CONSERVATION IS REQUIRED TO ESTABLISH BY RULE A FEE SCHEDULE TO DEFRAY THE EXPENSES ASSOCIATED WITH REVIEWING APPLICATIONS FOR ENHANCED RECOVERY PROJECTS. THE FEE SCHEDULE ADOPTED BY THE BOARD MUST TAKE INTO ACCOUNT THE COMPLEXITY OF PROCESSING THE APPLICATION.

A statement of intent is also required for this bill because the department of revenue is granted rulemaking authority for determining the allocation of incremental production from enhanced recovery projects to production that is subject to net proceeds taxation and to production that is subject to the local government severance tax. The allocation must be based on the ratio of production from wells drilled before July 1, 1985, in a project area that qualifies for a reduced tax rate on incremental production to production from wells drilled after June 30, 1985, in the project area that qualifies for a reduced tax rate on

incremental production.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 15-6-208, MCA, is amended to read:

"15-6-208. Mineral exemptions. (1) One-half of the contract sales price of coal sold by a coal producer who extracts less than 50,000 tons of coal in a calendar year is exempt from taxation.

(2) Metal mines producing less than 20,000 tons of ore in a taxable year are exempt from property taxation on one-half of the merchantable value.

(3) (a) New production, as defined in 15-23-601, is exempt from taxation for the first 12 months of production as provided in 15-23-612.

(b) Production from horizontally completed wells, as defined in 15-23-601, is exempt from taxation for the first 18 months of production as provided in 15-23-612.

(4) The first 1,000 tons of travertine and building stone extracted from a mine in a tax year are exempt from property taxation."

Section 2. Section 15-23-601, MCA, is amended to read:

"15-23-601. Definitions. As used in this part, the following definitions apply:

(1) "Board" means the board of oil and gas conservation.

(2) "Enhanced recovery project" means the use of any process, other than primary recovery, for the displacement of oil from the earth and includes the use of an immiscible, miscible, chemical, thermal, or biological process.

(3) "Excise tax" means the windfall profit tax on domestic crude oil imposed by Title I of the federal Crude Oil Windfall Profit Tax Act of 1980, as enacted or as amended.

(4) "Existing enhanced recovery project" means an enhanced recovery project that began development before January 1, 1994.

(5) "Expanded enhanced recovery project" or "expansion" means the addition of injection wells or production wells, THE RECOMPLETION OF EXISTING WELLS AS HORIZONTALLY COMPLETED WELLS, the change of AN injection pattern, or other operating changes to an existing enhanced recovery project that results in the recovery of oil that would not otherwise be recovered. The project must be developed after December 31, 1993, and before January 1, 2002.

(6) "Horizontal drain hole" means that portion of a well bore with 70 degrees to 110 degrees deviation from the vertical and a horizontal projection within the common source of supply, as that term is defined by the board, that exceeds 100 feet.

(7) "Horizontally completed well" means:

(a) a well with one or more horizontal drain holes; and
(b) any other well classified by the board as a horizontally completed well.

(8) "Incremental production" means the volume of petroleum or mineral or crude oil produced by a new enhanced recovery project, BY A WELL IN PRIMARY RECOVERY RECOMPLETED AS A HORIZONTALLY COMPLETED WELL, or by an expanded enhanced recovery project in excess of the production decline rate established before:

(a) the expansion of an existing enhanced recovery project; or

(b) the commencement of a new enhanced recovery project. In the case of a project that had no taxable production prior to the commencement of an enhanced recovery project, incremental production means all production of petroleum or mineral or crude oil from the enhanced recovery project; OR

(C) THE COMMENCEMENT OF THE RECOMPLETION OF A WELL AS A HORIZONTALLY COMPLETED WELL.

(9) "New enhanced recovery project" means an enhanced recovery project that began development after December 31, 1993, and before January 1, 2002.

(10) The term "new-production" "New production" means the production of natural gas, petroleum, or other crude or mineral oil from any well that was drilled after June 30,

1985, or that has not produced natural gas, petroleum, or other crude or mineral oil during the 5 years immediately preceding the first month of qualified new production.

(3)(11) The--terms--"operator" "Operator" and "producer" mean any person who engages in the business of drilling for, extracting, or producing any natural gas, petroleum, or other crude or mineral oil.

(12) "Primary recovery" means the displacement of oil from the earth into the well bore by means of the natural pressure of the oil reservoir and includes artificial lift.

(13) "Production decline rate" means the projected rate of future oil production, extrapolated by a method approved by the board, that must be determined for a project area before the commencement of a new enhanced recovery project, OF A RECOMPLETION OF A WELL AS A HORIZONTALLY COMPLETED WELL, or OF AN expanded enhanced recovery project. The approved production decline rate must be certified in writing TO THE DEPARTMENT OF REVENUE by the board. The IN THAT CERTIFICATION, THE board shall identify the project area and shall specify the projected rate of future oil production by calendar year and by calendar quarter within each year. The certified rate of future oil production must be used BY THE DEPARTMENT to determine the volume of incremental production that qualifies for the tax rate imposed under 15-23-607(2)(c).

(14) "Production from horizontally completed wells" means ~~natural-gas~~, petroleum, or other crude or mineral oil produced from a horizontally completed well that is drilled or recompleted after December 31, 1993, and before January 1, 2002.

(15) "Secondary recovery project" means an enhanced recovery project that is not a tertiary recovery project. A secondary recovery project must be approved by the board as provided in 15-36-101(1)(c).

(16) "Tertiary recovery project" means an enhanced recovery project that meets each of the following requirements:

(a) The project must be approved CERTIFIED as a tertiary recovery project TO THE DEPARTMENT by the board. The ~~approval~~ CERTIFICATION may be extended only after notice and hearing in accordance with Title 2, chapter 4.

(b) The property to be affected by the project must be adequately delineated IN THE CERTIFICATION according to the specifications required by the board.

(c) The project must involve the application of one or more tertiary recovery methods that can reasonably be expected to result in an increase, determined by the board to be significant in light of all the facts and circumstances, in the amount of crude oil that may potentially be recovered. For purposes of this part,

tertiary recovery methods include but are not limited to:

(i) miscible fluid displacement;

(ii) steam drive injection;

(iii) micellar/emulsion flooding;

(iv) in situ combustion;

(v) polymer augmented water flooding;

(vi) cyclic steam injection;

(vii) alkaline or caustic flooding;

(viii) carbon dioxide water flooding;

(ix) immiscible carbon dioxide displacement; or

(x) any other method approved by the board as a

tertiary recovery method.

(17) The term "well" includes "Well" means each single well or group of wells, including dry wells, in one field or production unit and under the control of one operator or producer."

Section 3. Section 15-23-602, MCA, is amended to read:

"15-23-602. Statement of sales proceeds on new PRODUCTION, PRODUCTION FROM HORIZONTALLY COMPLETED WELLS, or incremental production. (1) As provided in subsection (2), each operator or producer of new production, PRODUCTION FROM HORIZONTALLY COMPLETED WELLS, or incremental production of natural gas, petroleum, or other crude or mineral oil and each operator or producer of new production of natural gas shall ~~make-out~~ complete and deliver to the department of

revenue a statement of the gross sales proceeds of new production of natural gas, petroleum, or other crude or mineral oil, PRODUCTION FROM HORIZONTALLY COMPLETED WELLS, and the incremental production of petroleum or other crude or mineral oil from each well owned or worked by the person.

The gross sales proceeds must be determined by multiplying the units of production sold from the well times the royalty unit value of that production at the well. The statement must be in the form prescribed by the department and must be verified by the oath of the operator or producer or the manager, superintendent, agent, president, or vice-president of the corporation, association, or partnership. The statement must show the following:

(a) the name and address of the operator, together with a list in duplicate of the names and addresses of any persons owning or claiming any royalty interest in the production from the well or the proceeds derived from the sale of the production, and the amount paid or yielded as royalty to each of those persons during the period covered by the statement;

(b) the description and location of the well;

(c) the number of cubic feet of natural gas, barrels of petroleum or other crude or mineral oil sold from the well during the period covered by the statement; and

(d) the gross sales proceeds in dollars and cents or,

in the case of sales between parties not acting at arm's length, the greater of the gross sales proceeds from or the fair market value of the products sold.

(2) Each operator having new production, PRODUCTION FROM HORIZONTALLY COMPLETED WELLS, or incremental production as those terms are defined in 15-23-601 shall, on or before the last day of the months of October, January, April, and July, ~~make--out~~ complete and deliver to the department of revenue a statement of the gross sales proceeds of the new production, PRODUCTION FROM HORIZONTALLY COMPLETED WELLS, or incremental production from each well owned or worked by the person during the preceding calendar quarter. The statement must be in the form prescribed by the department and verified as provided in subsection (1). The statement must show the information required in subsections (1)(a) through (1)(d)."

Section 4. Section 15-23-603, MCA, is amended to read:

"15-23-603. Net proceeds -- how computed. (1) As provided in subsection (2), the department of revenue shall calculate and compute from the returns the gross sales proceeds of the product yielded from the well for the year covered by the statement and shall calculate the net proceeds of the well yielded to the producer, which net proceeds are determined by subtracting from the gross sales proceeds of the well all royalty paid in cash by the

operator or producer and the gross value of all royalty apportioned in kind by the operator or producer determined by using as the value of a barrel of oil or a cubic foot of gas the average selling price for the calendar year of a barrel of oil or a cubic foot of gas from the well out of which the royalty was paid.

(2) For new production, FOR PRODUCTION FROM HORIZONTALLY COMPLETED WELLS, or for incremental production, net proceeds are the equivalent of the gross sales proceeds, without deduction for excise taxes, of the product yielded from the well for the quarter covered by the statement, except that in computing the total number of barrels of petroleum and other mineral or crude oil or cubic feet of natural gas produced, there must be deducted so much of the product as is used in the operation of the well from which the petroleum or other mineral or crude oil or natural gas is produced for pumping the petroleum or other mineral or crude oil or natural gas from the well to a tank or pipeline.

(3) In the statement of sales proceeds required under 15-23-602 for lease or unitized areas from which new production, PRODUCTION FROM HORIZONTALLY COMPLETED WELLS, or incremental production and other production have been sold, the number of barrels of new production, PRODUCTION FROM HORIZONTALLY COMPLETED WELLS, or incremental production of

oil or cubic feet of new production of gas must be segregated from and stated separately from the number of barrels of other production of oil or cubic feet of other production of gas."

Section 5. Section 15-23-607, MCA, is amended to read:

"15-23-607. County assessors to compute taxes. (1) Immediately after the board of county commissioners has fixed tax levies on the second Monday in August, the county assessor shall, subject to the provisions of 15-23-612, compute the taxes on net proceeds, as provided in subsection subsections (2) and (3) of this section, and royalty assessments and shall deliver the book to the county treasurer on or before September 15. The county treasurer shall proceed to give full notice of the assessments to the operator and shall collect the taxes as provided by law.

(2) For new production, PRODUCTION FROM HORIZONTALLY COMPLETED WELLS, and incremental production, as those terms are defined in 15-23-601, the county assessor may not levy or assess any mills against the value of the new production, PRODUCTION FROM HORIZONTALLY COMPLETED WELLS, or incremental production, but shall instead levy a tax as follows:

(a) for new production of petroleum or other mineral or crude oil, 7% of net proceeds, as described in 15-23-603(2);
or

(b) for new production of natural gas, 12% of net

proceeds, as described in 15-23-603(2); or

(c) (i) EXCEPT AS PROVIDED IN SUBSECTION (4), for incremental production that is classified as secondary recovery from new enhanced recovery projects, as defined in 15-23-601, and for incremental production that is classified as secondary recovery from expanded enhanced recovery projects, as defined in 15-23-601, 5% of net proceeds, as described in 15-23-603(2); or

(ii) for incremental production that is classified as tertiary recovery from new enhanced recovery projects, as defined in 15-23-601, and for incremental production that is classified as tertiary recovery from expanded enhanced recovery projects, as defined in 15-23-601, 3.3% of net proceeds, as described in 15-23-603(2).

(3) For purposes of this section:

(a) incremental production from a new enhanced recovery project qualifies for the tax rate imposed in subsection (2)(c)(i) or (2)(c)(ii) if, before the project begins development, the board approves the project and designates the area to be affected by the project.

(b) the incremental production from an expanded enhanced recovery project qualifies for the tax rate imposed in subsection (2)(c)(i) or (2)(c)(ii) if, before the expansion begins, the board approves the expansion and designates the area to be affected by the expansion.

1 (4) (A) INCREMENTAL PRODUCTION FROM A NEW ENHANCED
2 RECOVERY PROJECT IS SUBJECT TO THE TAX RATE IMPOSED IN
3 SUBSECTION (2)(C)(I) OR (2)(C)(II) IF THE AVERAGE PRICE PER
4 BARREL OF OIL AS REPORTED IN THE WALL STREET JOURNAL FOR
5 WEST TEXAS INTERMEDIATE CRUDE OIL DURING A CALENDAR QUARTER
6 IS LESS THAN \$30 A BARREL. IF THE PRICE OF OIL IS EQUAL TO
7 OR GREATER THAN \$30 PER BARREL IN A CALENDAR QUARTER AS
8 DETERMINED IN SUBSECTION (5), INCREMENTAL PRODUCTION FROM A
9 NEW ENHANCED RECOVERY PROJECT IS TAXED AS PROVIDED IN
10 SUBSECTION (2)(A) FOR PRODUCTION OCCURRING IN THAT QUARTER.
11 (B) INCREMENTAL PRODUCTION FROM AN EXPANDED ENHANCED
12 RECOVERY PROJECT IS SUBJECT TO THE TAX RATE IMPOSED IN
13 SUBSECTION (2)(C)(I) OR (2)(C)(II) IF THE AVERAGE PRICE PER
14 BARREL OF OIL AS REPORTED IN THE WALL STREET JOURNAL FOR
15 WEST TEXAS INTERMEDIATE CRUDE OIL DURING A CALENDAR QUARTER
16 IS LESS THAN \$30 A BARREL. IF THE PRICE OF OIL IS EQUAL TO
17 OR GREATER THAN \$30 PER BARREL IN A CALENDAR QUARTER AS
18 DETERMINED IN SUBSECTION (5), INCREMENTAL PRODUCTION FROM AN
19 EXPANDED ENHANCED RECOVERY PROJECT IS TAXED AS PROVIDED IN
20 SUBSECTION (2)(A) FOR PRODUCTION OCCURRING IN THAT QUARTER.
21 (5) FOR THE PURPOSES OF SUBSECTIONS (4)(A) AND (4)(B),
22 THE AVERAGE PRICE PER BARREL MUST BE COMPUTED BY DIVIDING
23 THE SUM OF THE DAILY PRICE FOR WEST TEXAS INTERMEDIATE CRUDE
24 OIL AS REPORTED IN THE WALL STREET JOURNAL FOR THE CALENDAR
25 QUARTER BY THE NUMBER OF DAYS ON WHICH THE PRICE WAS

1 REPORTED IN THE QUARTER.

2 ~~(3)~~~~(4)~~~~(6)~~ The amount of tax levied in subsections
3 (2)(a), and (2)(b), and (2)(c), divided by the appropriate
4 tax rate and multiplied by 60%, must be treated as taxable
5 value for county bonding purposes.

6 ~~(4)~~~~(5)~~~~(7)~~ The operator or producer is liable for the
7 payment of the taxes that, except as provided in 15-16-121,
8 are payable by and must be collected from the operators in
9 the same manner and under the same penalties as provided for
10 the collection of taxes upon net proceeds of mines. However,
11 the operator may at ~~his~~ the operator's option withhold from
12 the proceeds of royalty interest, either in kind or in
13 money, an estimated amount of the tax to be paid by ~~him~~ the
14 operator upon the royalty or royalty interest. After the
15 withholding, any deviation between the estimated tax and the
16 actual tax may be accounted for by adjusting subsequent
17 withholdings from the proceeds of royalty interests."

18 **Section 6.** Section 15-23-612, MCA, is amended to read:

19 "15-23-612. Certain natural gas, petroleum, or other
20 crude or mineral oil exempt. (1) New production, as defined
21 in 15-23-601, is exempt from the net proceeds tax imposed by
22 this part for the first 12 months following the last day of
23 the calendar month immediately preceding the month in which:
24 (a) natural gas is placed into a natural gas
25 distribution system; or

(b) production for sale from a crude oil or mineral oil well is pumped or flows.

(2) After the expiration of the 12-month exemption period provided for in subsection (1), new production of natural gas, petroleum, or other crude or mineral oil is subject to net proceeds tax imposed by this part.

(3) Production NEW---PRODUCTION PRODUCTION from horizontally completed wells, as defined in 15-23-601, is AND INCREMENTAL PRODUCTION FROM WELLS RECOMPLETED AS HORIZONTALLY COMPLETED WELLS ARE exempt from the net proceeds tax imposed by this part for the first 18 months following the last day of the calendar month immediately preceding the month in which:

(a)--natural--gas--is--placed--into--a--natural--gas distribution system; or

(b) production for sale from a crude oil or mineral oil well is pumped or flows.

(4) After the expiration of the 18-month exemption period provided for in subsection (3), production from horizontally completed wells, as defined in 15-23-601, is subject to net proceeds taxes imposed by this part.

(3)(5) Notwithstanding the provisions of subsections (1) and--(2) through (4), all reporting requirements under the net proceeds tax remain in effect."

Section 7. Section 15-23-613, MCA, is amended to read:

"15-23-613. Disposition of TAXES ON new PRODUCTION, PRODUCTION FROM HORIZONTALLY COMPLETED WELLS, and incremental production taxes. The county treasurer shall credit all taxes on new production, PRODUCTION FROM HORIZONTALLY COMPLETED WELLS, and incremental production, as provided for in 15-23-607, in the relative proportions required by the levies for state, county, school district, and municipal purposes in the same manner as property taxes were distributed in the year preceding the budget year."

NEW SECTION. **Section 8.** Rules. The department of revenue shall adopt rules to ensure that incremental production of oil from enhanced recovery projects is allocated to production that is subject to net proceeds taxation and to production that is subject to the local government severance tax.

Section 9. Section 15-36-101, MCA, is amended to read:

"15-36-101. Definitions and rate of tax -- state severance tax -- local government severance tax -- assessment of nonworking interest owner -- exemption. (1) Every person engaging in or carrying on the business of producing petroleum, other mineral or crude oil, or natural gas within this state or engaging in or carrying on the business of owning, controlling, managing, leasing, or operating within this state any well or wells from which any merchantable or marketable petroleum, other mineral or crude

oil, or natural gas is extracted or produced shall, except as provided in 15-36-121, each year when engaged in or carrying on the business in this state pay to the department of revenue a state severance tax for deposit in the general fund of the state of Montana plus a local government severance tax in lieu of a tax on net proceeds for replacement of property taxes formerly levied on net proceeds. Except as provided in subsection (3), the state severance tax and the local government severance tax are as follows:

(a) except as provided in subsections (1)(b) through (1)(f), a 5% state severance tax on the gross taxable value of all the petroleum and other mineral or crude oil produced by the person, plus the local government severance tax of 8.4% on the gross taxable value, as defined in subsection (6)(a)(iii) (8)(A)(II), of all the petroleum and other mineral or crude oil produced by the person, other than new production, from each lease or unit; but in determining the amount of the state severance tax and local government severance tax, there must be excluded from consideration all petroleum or other crude or mineral oil produced and used by the person during the year in connection with the person's operations in prospecting for, developing, and producing the petroleum or crude or mineral oil;

(b) a 2.65% state severance tax on the gross taxable value of all natural gas produced by the person, plus the local government severance tax of 15.25% on the gross taxable value, as defined in subsection (6)(a)(iii) (8)(A)(II), of all natural gas produced by the person, other than new production, from each lease or unit; but in determining the amount of the state severance tax and the local government severance tax, there must be excluded from consideration all gas produced and used by the person during the year in connection with the person's operations in prospecting for, developing, and producing the gas or petroleum or crude or mineral oil; and there must also be excluded from consideration all gas, including carbon dioxide gas, recycled or reinjected into the ground;

(c) EXCEPT AS PROVIDED IN SUBSECTION (4)(A), a 3% state severance tax on the gross taxable value of the incremental production of petroleum and other mineral or crude oil produced from a secondary recovery project commenced or expanded after December 31, 1993, and before January 1, 2002, plus the local government severance tax of 5% on the gross taxable value, as defined in subsection (6)(a)(iii) (8)(A)(II), of the incremental petroleum and other mineral or crude oil produced by the person, other than new production, from each lease or unit in a secondary recovery project commenced or expanded after December 31, 1993, and

1 before January 1, 2002. For purposes of this section, a
 2 secondary recovery project must meet each of the following
 3 requirements:

4 (i) The project must be approved CERTIFIED as a
 5 secondary recovery project TO THE DEPARTMENT by the board.
 6 The approval CERTIFICATION may be extended only after notice
 7 and hearing in accordance with Title 2, chapter 4.

8 (ii) The property to be affected by the project must be
 9 adequately delineated according to the specifications
 10 required by the board.

11 (iii) The project must involve the application of
 12 secondary recovery methods that can reasonably be expected
 13 to result in an increase, determined by the board to be
 14 significant in light of all the facts and circumstances, in
 15 the amount of petroleum or mineral or crude oil that may
 16 potentially be recovered. For purposes of this section,
 17 secondary recovery methods include but are not limited to:

18 (A) the injection of water into the producing formation
 19 for the purposes of maintaining pressure in that formation
 20 or for the purpose of increasing the flow of petroleum or
 21 mineral or crude oil from the producing formation to a
 22 producing well bore; or

23 (B) any other method approved by the board as a
 24 secondary recovery method.

25 (d) a 2.5% state severance tax on the gross taxable

1 value of the incremental petroleum and other mineral or
 2 crude oil produced by the person, plus the local government
 3 severance tax of 5% on the gross taxable value, as defined
 4 in subsection ~~(6)(a)(iii)~~ (8)(A)(II), of the incremental
 5 petroleum and other mineral or crude oil produced by the
 6 person, other than new production, from each lease or unit
 7 in a tertiary recovery project after July 1, 1985. For
 8 purposes of this section, a tertiary recovery project must
 9 meet each of the following requirements:

10 (i) the The project must be approved as a tertiary
 11 recovery project by the board of oil and gas conservation.
 12 The approval may be extended only after notice and hearing
 13 in accordance with Title 2, chapter 4.

14 (ii) the The property to be affected by the project must
 15 be adequately delineated according to the specifications
 16 required by the board; and.

17 (iii) the The project must involve the application of
 18 one or more tertiary recovery methods that can reasonably be
 19 expected to result in an increase, determined by the board
 20 to be significant in light of all the facts and
 21 circumstances, in the amount of crude oil which that may
 22 potentially be recovered. For purposes of this section,
 23 tertiary recovery methods include but are not limited to:

24 (A) miscible fluid displacement;

25 (B) steam drive injection;

1 (C) micellar/emulsion flooding;
 2 (D) in situ combustion;
 3 (E) polymer augmented water flooding;
 4 (F) cyclic steam injection;
 5 (G) alkaline or caustic flooding;
 6 (H) carbon dioxide water flooding;
 7 (I) immiscible carbon dioxide displacement; or
 8 (J) any other method approved by the department board
 9 as a tertiary recovery method.

10 (e) EXCEPT AS PROVIDED IN SUBSECTION (4)(B), a 2% state
 11 severance tax on the gross taxable value of the incremental
 12 petroleum and other mineral or crude oil produced by the
 13 person, plus the local government severance tax of 3.3% on
 14 the gross taxable value, as defined in subsection (6)(a)(iii)
 15 (8)(A)(II), of the incremental petroleum and other mineral
 16 or crude oil produced by the person, other than new
 17 production, from each lease or unit in a tertiary recovery
 18 project commenced or expanded after December 31, 1993, and
 19 before January 1, 2002. The tertiary recovery project must
 20 meet the requirements of subsections (1)(d)(i) through
 21 (1)(d)(iii).

22 (d)(f) a 5% local government severance tax on the gross
 23 taxable value, as defined in subsection (6)(a)(iii)
 24 (8)(A)(II), of all petroleum and other mineral or crude oil
 25 produced by the person other than new production produced by

1 a stripper well, as defined in subsection (7).

2 ~~(2) For purposes of this section, the term "incremental~~
 3 ~~petroleum and other mineral or crude oil" means the amount~~
 4 ~~of oil, as determined by the board, to be in excess of what~~
 5 ~~would have been produced by primary and secondary methods.~~
 6 ~~The determination arrived at by the board must be made only~~
 7 ~~after notice and hearing and shall specify through the life~~
 8 ~~of a tertiary project, calendar year by calendar year, the~~
 9 ~~combined amount of primary and secondary production that~~
 10 ~~must be used to establish the incremental production from~~
 11 ~~each lease or unit in a tertiary recovery project.~~

12 (2) For purposes of this section, the following
 13 definitions apply:

14 (a) "Board" means the board of oil and gas
 15 conservation.

16 (b) "Enhanced recovery project" means the use of any
 17 process for the displacement of oil from the earth other
 18 than primary recovery and includes the use of an immiscible,
 19 miscible, chemical, thermal, or biological process.

20 (c) "Existing enhanced recovery project" means an
 21 enhanced recovery project that began development before
 22 January 1, 1994.

23 (d) "Expanded enhanced recovery project" or "expansion"
 24 means the addition of injection wells or production wells,
 25 the change of injection pattern, or other operating changes

1 to an existing enhanced recovery project that will result in
 2 the recovery of oil that would not otherwise be recovered.

3 (e) "Incremental production" means:

4 (i) the volume of oil produced BY EITHER A WELL IN
 5 PRIMARY RECOVERY RECOMPLETED AS A HORIZONTALLY COMPLETED
 6 WELL OR by an expanded enhanced recovery project, WHICH
 7 VOLUME OF PRODUCTION IS in excess of the production decline
 8 rate established under the conditions existing before:

9 (A) THE COMMENCEMENT OF THE RECOMPLETION OF A WELL AS A
 10 HORIZONTALLY COMPLETED WELL;

11 +A+(B) expansion of the existing enhanced recovery
 12 project; or

13 +B+(C) commencing a new enhanced recovery project; or

14 (ii) in the case of any project that had no taxable
 15 production prior to commencing the enhanced recovery
 16 project, all production of petroleum or mineral or crude oil
 17 from the enhanced recovery project.

18 (f) "New enhanced recovery project" means an enhanced
 19 recovery project that began development after December 31,
 20 1993, and before January 1, 2002.

21 (g) "Operator" or "producer" means the person
 22 responsible for the actual physical operation of an enhanced
 23 recovery project.

24 (h) "Primary recovery" means the displacement of oil
 25 from the earth into the well bore by means of the natural

1 pressure of the oil reservoir and includes artificial lift.

2 (i) "Production decline rate" means the projected rate
 3 of future oil production, extrapolated by a method approved
 4 by the board, that must be determined for a project area
 5 prior to commencing a new or expanded secondary recovery
 6 project OR THE RECOMPLETION OF A WELL AS A HORIZONTALLY
 7 COMPLETED WELL. The approved production decline rate must be
 8 certified in writing TO THE DEPARTMENT OF REVENUE by the
 9 board. The IN THAT CERTIFICATION, THE board shall identify
 10 the project area and shall specify the projected rate of
 11 future oil production by calendar year and by calendar
 12 quarter within each year. The certified rate of future oil
 13 production must be used to determine the volume of
 14 incremental production that qualifies for the tax rate
 15 imposed under subsection (1)(c) or (1)(e).

16 (j) "Secondary recovery project" means an enhanced
 17 recovery project that is not a tertiary recovery project.

18 (k) "Tertiary recovery project" means an enhanced
 19 recovery project using a tertiary recovery method described
 20 in subsection (1)(d)(iii).

21 (3) (a) A local government severance tax is imposed on
 22 the gross value paid in cash or apportioned in kind to a
 23 nonworking interest owner by the operator or producer of
 24 extracted marketable petroleum, other mineral or crude oil,
 25 or natural gas subject to local government severance taxes

imposed under this chapter. The local government severance tax on nonworking interest owners is computed at the following rates:

(i) 12.5% on the gross value paid in cash or apportioned in kind to a nonworking interest owner by the operator or producer of extracted marketable petroleum and other mineral or crude oil;

(ii) 15.25% on the gross value paid in cash or apportioned in kind to a nonworking interest owner by the operator or producer of extracted or marketable natural gas.

(b) The amounts paid or apportioned in kind to nonworking interest owners are exempt from the local government severance taxes imposed under 15-36-121(2) and under subsections (1)(a) through ~~(1)(d)~~ (1)(f) of this section.

(4) (A) INCREMENTAL PRODUCTION FROM A SECONDARY RECOVERY PROJECT IS SUBJECT TO THE TAX RATE IMPOSED IN SUBSECTION (1)(C) IF THE AVERAGE PRICE PER BARREL OF OIL AS REPORTED IN THE WALL STREET JOURNAL FOR WEST TEXAS INTERMEDIATE CRUDE OIL DURING A CALENDAR QUARTER IS LESS THAN \$30 A BARREL. IF THE PRICE OF OIL IS EQUAL TO OR GREATER THAN \$30 PER BARREL IN A CALENDAR QUARTER AS DETERMINED IN SUBSECTION (5), INCREMENTAL PRODUCTION FROM A SECONDARY RECOVERY PROJECT IS TAXED AS PROVIDED IN SUBSECTION (1)(A) FOR PRODUCTION OCCURRING IN THAT QUARTER.

(B) INCREMENTAL PRODUCTION FROM A TERTIARY RECOVERY PROJECT IS SUBJECT TO THE TAX RATE IMPOSED IN SUBSECTION (1)(E) IF THE AVERAGE PRICE PER BARREL OF OIL AS REPORTED IN THE WALL STREET JOURNAL FOR WEST TEXAS INTERMEDIATE CRUDE OIL DURING A CALENDAR QUARTER IS LESS THAN \$30 A BARREL. IF THE PRICE OF OIL IS EQUAL TO OR GREATER THAN \$30 PER BARREL IN A CALENDAR QUARTER AS DETERMINED IN SUBSECTION (5), INCREMENTAL PRODUCTION FROM A TERTIARY RECOVERY PROJECT IS TAXED AS PROVIDED IN SUBSECTION (1)(D) FOR PRODUCTION OCCURRING IN THAT QUARTER.

(5) FOR THE PURPOSES OF SUBSECTIONS (4)(A) AND (4)(B), THE AVERAGE PRICE PER BARREL MUST BE COMPUTED BY DIVIDING THE SUM OF THE DAILY PRICE FOR WEST TEXAS INTERMEDIATE CRUDE OIL AS REPORTED IN THE WALL STREET JOURNAL FOR THE CALENDAR QUARTER BY THE NUMBER OF DAYS ON WHICH THE PRICE WAS REPORTED IN THE QUARTER.

~~(4)(6)~~ Nothing in this part may be construed as requiring laborers or employees hired or employed by any person to drill any oil or natural gas well or to work in or about any oil or natural gas well or prospect or explore for or do any work for the purpose of developing any petroleum, other mineral or crude oil, or natural gas to pay the severance tax, nor may work done or the drilling of a well or wells for the purpose of prospecting or exploring for petroleum, other mineral or crude oil, or natural gas or for

1 the purpose of developing them be considered to be the
 2 engaging in or carrying on of the business. If, in the doing
 3 of any work, in the drilling of any oil or natural gas well,
 4 or in prospecting, exploring, or development work, any
 5 merchantable or marketable petroleum, other mineral or crude
 6 oil, or natural gas in excess of the quantity required by
 7 the person for carrying on the operation is produced
 8 sufficient in quantity to justify the marketing of the
 9 petroleum, other mineral or crude oil, or natural gas, the
 10 work, drilling, prospecting, exploring, or development work
 11 is considered to be the engaging in and carrying on of the
 12 business of producing petroleum, other mineral or crude oil,
 13 or natural gas within this state within the meaning of this
 14 section.

15 ~~†5†~~(7) Every person required to pay the state or local
 16 government severance tax under this section shall pay the
 17 tax in full for the person's own account and for the account
 18 of each of the other ~~owner-or~~ owners of the gross proceeds
 19 in value or in kind of all the marketable petroleum or other
 20 mineral or crude oil or natural gas extracted and produced,
 21 including an owner or owners of working interest, royalty
 22 interest, overriding royalty interest, carried working
 23 interest, net proceeds interest, production payments, and
 24 all other interest or interests owned or carved out of the
 25 total gross proceeds in value or in kind of the extracted

1 marketable petroleum or other mineral or crude oil or
 2 natural gas, except that any of the interests that are owned
 3 by the federal, state, county, or municipal governments are
 4 exempt from taxation under this chapter. Unless otherwise
 5 provided in a contract or lease, the pro rata share of any
 6 royalty owner or owners will be deducted from any
 7 settlements under the lease or leases or division of
 8 proceeds orders or other contracts.

9 ~~†6†~~(8) For purposes of this section, the following
 10 definitions apply:

11 (a) (i) "Gross taxable value", for the purpose of
 12 computing the state severance tax, means the gross value of
 13 the product as determined in 15-36-103.

14 (ii) "Gross taxable value", for the purpose of computing
 15 the local government severance tax, means the gross value of
 16 the product as determined in 15-36-103 less the gross value
 17 paid in cash or apportioned in kind to a nonworking interest
 18 owner by the operator or producer of extracted marketable
 19 petroleum, other mineral or crude oil, or natural gas.

20 (b) "Nonworking interest owner" means any interest
 21 owner who does not share in the development and operation
 22 costs of the lease or unit.

23 ~~†7†~~(9) For the purposes of this section, "stripper
 24 well" means a well that produces less than 10 barrels a day,
 25 determined by dividing the amount of production from a lease

1 or unitized area for the year prior to the current calendar
2 year by the number of producing wells in the lease or
3 unitized area and by dividing the resulting quotient by
4 365."

5 **Section 10.** Section 7-1-2111, MCA, is amended to read:

6 "7-1-2111. Classification of counties. (1) For the
7 purpose of regulating the compensation and salaries of all
8 county officers, not otherwise provided for, and for fixing
9 the penalties of officers' bonds, the counties of this state
10 must be classified according to that percentage of the true
11 and full valuation of the property in the counties upon
12 which the tax levy is made, except for vehicles subject to
13 taxation under 61-3-504(2), as follows:

14 (a) first class--all counties having a taxable
15 valuation of \$50 million or over;

16 (b) second class--all counties having a taxable
17 valuation of more than \$30 million and less than \$50
18 million;

19 (c) third class--all counties having a taxable
20 valuation of more than \$20 million and less than \$30
21 million;

22 (d) fourth class--all counties having a taxable
23 valuation of more than \$15 million and less than \$20
24 million;

25 (e) fifth class--all counties having a taxable

1 valuation of more than \$10 million and less than \$15
2 million;

3 (f) sixth class--all counties having a taxable
4 valuation of more than \$5 million and less than \$10 million;

5 (g) seventh class--all counties having a taxable
6 valuation of less than \$5 million.

7 (2) As used in this section, taxable valuation means
8 the taxable value of taxable property in the county as of
9 the time of determination plus:

10 (a) that portion of the taxable value of the county on
11 December 31, 1981, attributable to automobiles and trucks
12 having a rated capacity of three-quarters of a ton or less;

13 (b) that portion of the taxable value of the county on
14 December 31, 1989, attributable to automobiles and trucks
15 having a rated capacity of more than three-quarters of a ton
16 but less than or equal to 1 ton;

17 (c) the amount of TAXES LEVIED ON interim--production
18 and new production, PRODUCTION FROM HORIZONTALLY COMPLETED
19 WELLS, and incremental production taxes-levied, as provided
20 in 15-23-607, divided by the appropriate tax rates described
21 in 15-23-607(2)(a), or (2)(b), or (2)(c) and multiplied by
22 60%;

23 (d) the amount of value represented by new production
24 or production from horizontally completed wells exempted
25 from tax as provided in 15-23-612 multiplied by 60%, plus

the value of any other production occurring after December 31, 1988, multiplied by 60%; and

(e) 6% of the taxable value of the county on January 1 of each tax year."

Section 11. Section 7-7-2101, MCA, is amended to read:

"7-7-2101. Limitation on amount of county indebtedness.

(1) No A county may not become indebted in any manner or for any purpose to an amount, including existing indebtedness, in the aggregate exceeding 23% of the total of the taxable value of the property therein in the county subject to taxation, plus the amount of TAXES LEVIED ON interim production-and new production, PRODUCTION FROM HORIZONTALLY COMPLETED WELLS, and incremental production taxes-levied divided by the appropriate tax rates described in 15-23-607(2)(a), or (2)(b), or (2)(c) and multiplied by 60%, plus the amount of value represented by new production and production from horizontally completed wells exempted from tax as provided in 15-23-612 multiplied by 60%, plus the value of any other production occurring after December 31, 1988, multiplied by 60%, as ascertained by the last assessment for state and county taxes previous to the incurring of the indebtedness.

(2) No A county may not incur indebtedness or liability for any single purpose to an amount exceeding \$500,000 without the approval of a majority of the electors thereof

of the county voting at an election to be provided by law, except as provided in 7-21-3413 and 7-21-3414.

(3) ~~Nothing-in-this~~ This section ~~shall~~ does not apply to the acquisition of conservation easements as set forth in Title 76, chapter 6."

Section 12. Section 7-7-2203, MCA, is amended to read:

"7-7-2203. Limitation on amount of bonded indebtedness.

(1) Except as provided in subsections (2) through (4), no a county may not issue general obligation bonds for any purpose which that, with all outstanding bonds and warrants except county high school bonds and emergency bonds, will exceed 11.25% of the total of the taxable value of the property therein in the county, plus the amount of TAXES LEVIED ON interim-production-and new production, PRODUCTION FROM HORIZONTALLY COMPLETED WELLS, and incremental production taxes-levied divided by the appropriate tax rates described in 15-23-607(2)(a), or (2)(b), or (2)(c) and multiplied by 60%, plus the amount of value represented by new production and production from horizontally drilled COMPLETED wells exempted from tax as provided in 15-23-612 multiplied by 60%, plus the value of any other production occurring after December 31, 1988, multiplied by 60%, to be ascertained by the last assessment for state and county taxes prior to the proposed issuance of bonds.

(2) In addition to the bonds allowed by subsection (1),

1 a county may issue bonds which that, with all outstanding
 2 bonds and warrants, will not exceed 27.75% of the total of
 3 the taxable value of the property in the county subject to
 4 taxation, plus the amount of TAXES LEVIED ON interim
 5 production-and new production, PRODUCTION FROM HORIZONTALLY
 6 COMPLETED WELLS, and incremental production taxes-levied
 7 divided by the appropriate tax rates described in
 8 15-23-607(2)(a), or (2)(b), or (2)(c) and multiplied by 60%,
 9 plus the amount of value represented by new production and
 10 production from horizontally completed wells exempted from
 11 tax as provided in 15-23-612 multiplied by 60%, when
 12 necessary to do so, plus the value of any other production
 13 occurring after December 31, 1988, multiplied by 60% for the
 14 purpose of acquiring land for a site for county high school
 15 buildings and for erecting or acquiring buildings thereon on
 16 the site and furnishing and equipping the same buildings for
 17 county high school purposes.

18 (3) In addition to the bonds allowed by subsections (1)
 19 and (2), a county may issue bonds for the construction or
 20 improvement of a jail which that will not exceed 12.5% of
 21 the taxable value of the property in the county subject to
 22 taxation.

23 (4) The limitation in subsection (1) does not apply to
 24 refunding bonds issued for the purpose of paying or retiring
 25 county bonds lawfully issued prior to January 1, 1932, or to

1 bonds issued for the repayment of tax protests lost by the
 2 county."

3 **Section 13.** Section 7-14-2524, MCA, is amended to read:

4 "7-14-2524. Limitation on amount of bonds issued --
 5 excess void. (1) Except as otherwise provided in 7-7-2203,
 6 7-7-2204, and this section, a county may not issue bonds
 7 that, with all outstanding bonds and warrants except county
 8 high school bonds and emergency bonds, will exceed 11.25% of
 9 the total of the taxable value of the property in the
 10 county, plus the amount of TAXES LEVIED ON interim
 11 production-and new production, PRODUCTION FROM HORIZONTALLY
 12 COMPLETED WELLS, and incremental production taxes-levied
 13 divided by the appropriate tax rates described in
 14 15-23-607(2)(a), or (2)(b), or (2)(c) and multiplied by 60%,
 15 plus the amount of value represented by new production and
 16 production from horizontally completed wells exempted from
 17 tax as provided in 15-23-612 multiplied by 60%, plus the
 18 value of any other production occurring after December 31,
 19 1988, multiplied by 60%. The taxable property and the amount
 20 of TAXES LEVIED ON interim-production-and new production,
 21 PRODUCTION FROM HORIZONTALLY COMPLETED WELLS, and
 22 incremental production taxes-levied must be ascertained by
 23 the last assessment for state and county taxes prior to the
 24 issuance of the bonds.

25 (2) A county may issue bonds that, with all outstanding

bonds and warrants except county high school bonds, will exceed 11.25% but will not exceed 22.5% of the total of the taxable value of the property, plus the amount of TAXES LEVIED ON interim-production-and new production, PRODUCTION FROM HORIZONTALLY COMPLETED WELLS, and incremental production taxes--levied divided by the appropriate tax rates described in 15-23-607(2)(a), or (2)(b), or (2)(c) and multiplied by 60%, plus the amount of value represented by new production and production from horizontally completed wells exempted from tax as provided in 15-23-612 multiplied by 60%, plus the value of any other production occurring after December 31, 1988, multiplied by 60% when necessary for the purpose of replacing, rebuilding, or repairing county buildings, bridges, or highways that have been destroyed or damaged by an act of God or by a disaster, catastrophe, or accident.

(3) The value of the bonds issued and all other outstanding indebtedness of the county, except county high school bonds, may not exceed 22.5% of the total of the taxable value of the property within the county, plus the amount of TAXES LEVIED ON interim--production--and new production, PRODUCTION FROM HORIZONTALLY COMPLETED WELLS, and incremental production taxes--levied divided by the appropriate tax rates described in 15-23-607(2)(a), or (2)(b), or (2)(c) and multiplied by 60%, plus the amount of

value represented by new production and production from horizontally completed wells exempted from tax as provided in 15-23-612 multiplied by 60%, plus the value of any other production occurring after December 31, 1988, multiplied by 60%, as ascertained by the last preceding general assessment."

Section 14. Section 7-14-2525, MCA, is amended to read:

"7-14-2525. Refunding agreements and refunding bonds authorized. (1) Whenever the total indebtedness of a county exceeds 22.5% of the total of the taxable value of the property therein, plus the amount of TAXES LEVIED ON interim production--and new production, PRODUCTION FROM HORIZONTALLY COMPLETED WELLS, and incremental production taxes--levied divided by the appropriate tax rates described in 15-23-607(2)(a), or (2)(b), or (2)(c) and multiplied by 60%, plus the amount of value represented by new production and production from horizontally completed wells exempted from tax as provided in 15-23-612 multiplied by 60%, plus the value of any other production occurring after December 31, 1988, multiplied by 60%, and the board determines that the county is unable to pay the indebtedness in full, the board may:

(a) negotiate with the bondholders for an agreement whereby the bondholders agree to accept less than the full amount of the bonds and the accrued unpaid interest thereon

in satisfaction thereof of the bonds;

(b) enter into such the agreement;

(c) issue refunding bonds for the amount agreed upon.

(2) These bonds may be issued in more than one series, and each series may be either amortization or serial bonds.

(3) The plan agreed upon between the board and the bondholders ~~shall~~ must be embodied in full in the resolution providing for the ~~issue~~ issuance of the bonds."

Section 15. Section 7-16-2327, MCA, is amended to read:

"7-16-2327. Indebtedness for park purposes. (1) Subject to the provisions of subsection (2), a county park board, in addition to powers and duties now given under law, has the power and duty to contract an indebtedness in behalf of a county, upon the credit thereof of the county, for the purposes of 7-16-2321(1) and (2).

(2) (a) The total amount of indebtedness authorized to be contracted in any form, including the then-existing indebtedness, ~~must~~ may not at any time exceed 13% of the total of the taxable value of the taxable property in the county, plus the amount of TAXES LEVIED ON interim production--and new production, PRODUCTION FROM HORIZONTALLY COMPLETED WELLS, and incremental production taxes--levied divided by the appropriate tax rates described in 15-23-607(2)(a), or (2)(b), or (2)(c) and multiplied by 60%, plus the amount of value represented by new production and

production from horizontally completed wells exempted from tax as provided in 15-23-612, plus the value of any other production occurring after December 31, 1988, multiplied by 60%, ascertained by the last assessment for state and county taxes previous to the incurring of the indebtedness.

(b) ~~No-money~~ Money may not be borrowed on bonds issued for the purchase of lands and improving ~~same~~ the land for any such purpose until the proposition has been submitted to the vote of those qualified under the provisions of the state constitution to vote at such the election in the affected county ~~affected-thereby~~ and a majority vote is cast in favor ~~thereof~~ of the bonds."

Section 16. Section 20-9-141, MCA, is amended to read:

"20-9-141. Computation of general fund net levy requirement by county superintendent. (1) The county superintendent shall compute the levy requirement for each district's general fund on the basis of the following procedure:

(a) Determine the funding required for the district's final general fund budget less the sum of direct state aid and the special education allowable cost payment for the district by totaling:

(i) the district's nonisolated school BASE budget requirement to be met by a district levy as provided in 20-9-303; and

(ii) any general fund budget amount adopted by the trustees of the district under the provisions of 20-9-308 and 20-9-353, including any additional funding for a general fund budget that exceeds the maximum general fund budget.

(b) Determine the money available for the reduction of the property tax on the district for the general fund by totaling:

(i) general fund balance reappropriated, as established under the provisions of 20-9-104; and

(ii) amounts received in the last fiscal year for which revenue reporting was required for each of the following sources:

(A) tuition payments for out-of-district pupils under the provisions of 20-5-321 through 20-5-323;

(B) revenue from property taxes and fees imposed under 23-2-517, 23-2-803, 61-3-504(2), 61-3-521, 61-3-537, and 67-3-204;

(C) net proceeds taxes for new production, PRODUCTION FROM HORIZONTALLY COMPLETED WELLS, and incremental production, as defined in 15-23-601;

(D) revenue from local government severance taxes as provided in 15-36-112;

(E) revenue from coal gross proceeds under 15-23-703;

(F) interest earned by the investment of general fund cash in accordance with the provisions of 20-9-213(4);

(G) revenue from corporation license taxes collected from financial institutions under the provisions of 15-31-702; and

(H) any other revenue received during the school fiscal year that may be used to finance the general fund, excluding any guaranteed tax base aid.

(c) Notwithstanding the provisions of subsection (2), subtract the money available to reduce the property tax required to finance the general fund that has been determined in subsection (1)(b) from any general fund budget amount adopted by the trustees of the district, up to the BASE budget amount, to determine the general fund BASE budget levy requirement.

(d) Subtract any amount remaining after the determination in subsection (1)(c) from any additional funding requirement to be met by an over-BASE budget amount, a district levy as provided in 20-9-303, and any additional financing as provided in 20-9-353 to determine any additional general fund levy requirements.

(2) The county superintendent shall calculate the number of mills to be levied on the taxable property in the district to finance the general fund levy requirement for any amount that does not exceed the BASE budget amount for the district by dividing the amount determined in subsection (1)(c) by the sum of:

(a) the amount of guaranteed tax base aid that the district will receive for each mill levied, as certified by the superintendent of public instruction; and

(b) the taxable valuation of the district divided by 1,000.

(3) The net general fund levy requirement determined in subsections (1)(c) and (1)(d) must be reported to the county commissioners on the fourth Monday of August by the county superintendent as the general fund net levy requirement for the district, and a levy must be set by the county commissioners in accordance with 20-9-142."

Section 17. Section 20-9-331, MCA, is amended to read:

"20-9-331. Basic county tax and other revenues for county equalization of the elementary district BASE funding program. (1) The county commissioners of each county shall levy an annual basic tax of 33 mills on the dollar of the taxable value of all taxable property within the county, except for property subject to a tax or fee under 23-2-517, 23-2-803, 61-3-504(2), 61-3-521, 61-3-537, and 67-3-204, for the purposes of local and state BASE funding program support. The revenue collected from this levy must be apportioned to the support of the elementary BASE funding programs of the school districts in the county and to the state special revenue fund, state equalization aid account, in the following manner:

(a) In order to determine the amount of revenue raised by this levy which that is retained by the county, the sum of the estimated revenue identified in subsection (2) must be subtracted from the total of the BASE funding programs of all elementary districts of the county.

(b) If the basic levy and other revenue prescribed by this section produce more revenue than is required to repay a state advance for county equalization, the county treasurer shall remit the surplus funds to the state treasurer for deposit to the state special revenue fund, state equalization aid account, immediately upon occurrence of a surplus balance and each subsequent month thereafter, with any final remittance due no later than June 20 of the fiscal year for which the levy has been set.

(2) The revenue realized from the county's portion of the levy prescribed by this section and the revenue from the following sources must be used for the equalization of the elementary BASE funding program of the county as prescribed in 20-9-335, and a separate accounting must be kept of the revenue by the county treasurer in accordance with 20-9-212(1):

(a) the portion of the federal Taylor Grazing Act funds distributed to a county and designated for the common school fund under the provisions of 17-3-222;

(b) the portion of the federal flood control act funds

distributed to a county and designated for expenditure for the benefit of the county common schools under the provisions of 17-3-232;

(c) all money paid into the county treasury as a result of fines for violations of law, except money paid to a justice's court, and the use of which is not otherwise specified by law;

(d) any money remaining at the end of the immediately preceding school fiscal year in the county treasurer's accounts for the various sources of revenue established or referred to in this section;

(e) any federal or state money distributed to the county as payment in lieu of property taxation, including federal forest reserve funds allocated under the provisions of 17-3-213;

(f) gross proceeds taxes from coal under 15-23-703;

(g) net proceeds taxes for new production, PRODUCTION FROM HORIZONTALLY COMPLETED WELLS, and incremental production, as defined in 15-23-601, and local government severance taxes on any other production occurring after December 31, 1988; and

(h) anticipated revenue from property taxes and fees imposed under 23-2-517, 23-2-803, 61-3-504(2), 61-3-521, 61-3-537, and 67-3-204."

Section 18. Section 20-9-333, MCA, is amended to read:

"20-9-333. Basic special levy and other revenues for county equalization of high school district BASE funding program. (1) The county commissioners of each county shall levy an annual basic special tax for high schools of 22 mills on the dollar of the taxable value of all taxable property within the county, except for property subject to a tax or fee under 23-2-517, 23-2-803, 61-3-504(2), 61-3-521, 61-3-537, and 67-3-204, for the purposes of local and state BASE funding program support. The revenue collected from this levy must be apportioned to the support of the BASE funding programs of high school districts in the county and to the state special revenue fund, state equalization aid account, in the following manner:

(a) In order to determine the amount of revenue raised by this levy which that is retained by the county, the sum of the estimated revenue identified in subsection (2) must be subtracted from the sum of the county's high school tuition obligation and the total of the BASE funding programs of all high school districts of the county.

(b) If the basic levy and other revenue prescribed by this section produce more revenue than is required to repay a state advance for county equalization, the county treasurer shall remit the surplus funds to the state treasurer for deposit to the state special revenue fund, state equalization aid account, immediately upon occurrence

of a surplus balance and each subsequent month thereafter, with any final remittance due no later than June 20 of the fiscal year for which the levy has been set.

(2) The revenue realized from the county's portion of the levy prescribed in this section and the revenue from the following sources must be used for the equalization of the high school BASE funding program of the county as prescribed in 20-9-335, and a separate accounting must be kept of the revenue by the county treasurer in accordance with 20-9-212(1):

(a) any money remaining at the end of the immediately preceding school fiscal year in the county treasurer's accounts for the various sources of revenue established in this section;

(b) any federal or state money distributed to the county as payment in lieu of property taxation, including federal forest reserve funds allocated under the provisions of 17-3-213;

(c) gross proceeds taxes from coal under 15-23-703;

(d) net proceeds taxes for new production, PRODUCTION FROM HORIZONTALLY COMPLETED WELLS, and incremental production, as defined in 15-23-601, and local government severance taxes on any other production occurring after December 31, 1988; and

(e) anticipated revenue from property taxes and fees

imposed under 23-2-517, 23-2-803, 61-3-504(2), 61-3-521, 61-3-537, and 67-3-204."

Section 19. Section 20-10-144, MCA, is amended to read:

"20-10-144. Computation of revenue and net tax levy requirements for district transportation fund budget. Before the fourth Monday of July and in accordance with 20-9-123, the county superintendent shall compute the revenue available to finance the transportation fund budget of each district. The county superintendent shall compute the revenue for each district on the following basis:

(1) The "schedule amount" of the preliminary budget expenditures that is derived from the rate schedules in 20-10-141 and 20-10-142 must be determined by adding the following amounts:

(a) the sum of the maximum reimbursable expenditures for all approved school bus routes maintained by the district (to determine the maximum reimbursable expenditure, multiply the applicable rate per bus mile by the total number of miles to be traveled during the ensuing school fiscal year on each bus route approved by the county transportation committee and maintained by such the district); plus

(b) the total of all individual transportation per diem reimbursement rates for the district as determined from the contracts submitted by the district multiplied by the number

1 of pupil-instruction days scheduled for the ensuing school
2 attendance year; plus

3 (c) any estimated costs for supervised home study or
4 supervised correspondence study for the ensuing school
5 fiscal year; plus

6 (d) the amount budgeted on the preliminary budget for
7 the contingency amount permitted in 20-10-143, except if the
8 amount exceeds 10% of the total of subsections (1)(a),
9 (1)(b), and (1)(c) or \$100, whichever is larger, the
10 contingency amount on the preliminary budget must be reduced
11 to the limitation amount and used in this determination of
12 the schedule amount; plus

13 (e) any estimated costs for transporting a child out of
14 district when the child has mandatory approval to attend
15 school in a district outside the district of residence.

16 (2) (a) The schedule amount determined in subsection
17 (1) or the total preliminary transportation fund budget,
18 whichever is smaller, is divided by 2 and is used to
19 determine the available state and county revenue to be
20 budgeted on the following basis:

21 (i) one-half is the budgeted state transportation
22 reimbursement, except that the state transportation
23 reimbursement for the transportation of special education
24 pupils under the provisions of 20-7-442 must be 50% of the
25 schedule amount attributed to the transportation of special

1 education pupils; and

2 (ii) one-half is the budgeted county transportation fund
3 reimbursement and must be financed in the manner provided in
4 20-10-146.

5 (b) When the district has a sufficient amount of cash
6 for reappropriation and other sources of district revenue,
7 as determined in subsection (3), to reduce the total
8 district obligation for financing to zero, any remaining
9 amount of district revenue and cash reappropriated must be
10 used to reduce the county financing obligation in subsection
11 (2)(a)(ii) and, if the county financing obligations are
12 reduced to zero, to reduce the state financial obligation in
13 subsection (2)(a)(i).

14 (c) The county revenue requirement for a joint
15 district, after the application of any district money under
16 subsection (2)(b), must be prorated to each county
17 incorporated by the joint district in the same proportion as
18 the ANB of the joint district is distributed by pupil
19 residence in each county.

20 (3) The total of the money available for the reduction
21 of property tax on the district for the transportation fund
22 must be determined by totaling:

23 (a) anticipated federal money received under the
24 provisions of Title I of Public Law 81-874 or other
25 anticipated federal money received in lieu of that federal

1 act;

2 (b) anticipated payments from other districts for

3 providing school bus transportation services for the

4 district;

5 (c) anticipated payments from a parent or guardian for

6 providing school bus transportation services for a child;

7 (d) anticipated or reappropriated interest to be earned

8 by the investment of transportation fund cash in accordance

9 with the provisions of 20-9-213(4);

10 (e) anticipated or reappropriated revenue from property

11 taxes and fees imposed under 23-2-517, 23-2-803,

12 61-3-504(2), 61-3-521, 61-3-537, and 67-3-204;

13 (f) anticipated revenue from coal gross proceeds under

14 15-23-703;

15 (g) anticipated net proceeds taxes for new production,

16 PRODUCTION FROM HORIZONTALLY COMPLETED WELLS, and

17 incremental production, as defined in 15-23-601, and local

18 government severance taxes on any other production occurring

19 after December 31, 1988;

20 (h) anticipated transportation payments for

21 out-of-district pupils under the provisions of 20-5-320

22 through 20-5-324;

23 (i) any other revenue anticipated by the trustees to be

24 earned during the ensuing school fiscal year that may be

25 used to finance the transportation fund; and

1 (j) any fund balance available for reappropriation as

2 determined by subtracting the amount of the end-of-the-year

3 fund balance earmarked as the transportation fund operating

4 reserve for the ensuing school fiscal year by the trustees

5 from the end-of-the-year fund balance in the transportation

6 fund. The operating reserve may not be more than 20% of the

7 final transportation fund budget for the ensuing school

8 fiscal year and is for the purpose of paying transportation

9 fund warrants issued by the district under the final

10 transportation fund budget.

11 (4) The district levy requirement for each district's

12 transportation fund must be computed by:

13 (a) subtracting the schedule amount calculated in

14 subsection (1) from the total preliminary transportation

15 budget amount; and

16 (b) subtracting the amount of money available to reduce

17 the property tax on the district, as determined in

18 subsection (3), from the amount determined in subsection

19 (4)(a).

20 (5) The transportation fund levy requirements

21 determined in subsection (4) for each district must be

22 reported to the county commissioners on the fourth Monday of

23 August by the county superintendent as the transportation

24 fund levy requirements for the district, and the levy must

25 be made by the county commissioners in accordance with

20-9-142."

NEW SECTION. SECTION 20. FEES FOR PROCESSING APPLICATIONS. (1) THE BOARD SHALL ESTABLISH A FEE SCHEDULE TO DEFRAY THE EXPENSES INCURRED FOR PROCESSING AN APPLICATION FROM AN OPERATOR OR PRODUCER OF OIL SEEKING APPROVAL OF A NEW OR EXPANDED ENHANCED RECOVERY PROJECT, AS DEFINED IN 15-23-601 OR 15-36-101. THE FEE MUST BE PAID BY THE OWNER OR OPERATOR SEEKING APPROVAL OF THE PROJECT.

(2) THE BOARD SHALL, BY RULE, DETERMINE THE AMOUNT OF THE FEE BASED ON THE COMPLEXITY OF PROCESSING THE APPLICATION.

NEW SECTION. SECTION 21. REPORTS BY BOARD OF OIL AND GAS CONSERVATION TO REVENUE OVERSIGHT COMMITTEE. THE BOARD OF OIL AND GAS CONSERVATION SHALL REPORT AT LEAST ONCE A YEAR TO THE REVENUE OVERSIGHT COMMITTEE REGARDING THE IMPLEMENTATION OF [THIS ACT]. THE REPORTS MUST INCLUDE BUT ARE NOT LIMITED TO INFORMATION REGARDING:

(1) THE METHODS USED TO DETERMINE PRODUCTION DECLINE RATES;

(2) RULES ADOPTED TO IMPLEMENT [THIS ACT];

(3) THE NUMBER OF ENHANCED RECOVERY PROJECTS COMPLETED OR ANTICIPATED TO BE COMPLETED IN A YEAR; AND

(4) THE NUMBER OF HORIZONTAL WELLS COMPLETED OR ANTICIPATED TO BE COMPLETED IN A YEAR AND THE METHOD OF RECOVERY FROM THE HORIZONTAL WELLS.

NEW SECTION. Section 22. Codification instruction. (1)

[Section 8] is intended to be codified as an integral part of Title 15, chapter 23, part 6, and the provisions of Title 15, chapter 23, part 6, apply to [section 8].

(2) [SECTION 20] IS INTENDED TO BE CODIFIED AS AN INTEGRAL PART OF TITLE 82, CHAPTER 11, PART 1, AND THE PROVISIONS OF TITLE 82, CHAPTER 11, PART 1, APPLY TO [SECTION 20].

NEW SECTION. Section 23. Severability. If a part of [this act] is invalid, all valid parts that are severable from the invalid part remain in effect. If a part of [this act] is invalid in one or more of its applications, the part remains in effect in all valid applications that are severable from the invalid applications.

NEW SECTION. Section 24. Effective date -- applicability. [This act] is effective on passage and approval and applies to oil production from new or expanded enhanced recovery projects and to tax years that begin after December 31, 1993.

-End-