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Senate BILL NO. 387

INTRODUCED BY Bishop

Century

A BILL FOR AN ACT ENTITLED: "AN ACT GENERALLY REVISING OIL AND NATURAL GAS PRODUCTION TAXES; PROVIDING REDUCED TAX RATES ON OIL AND NATURAL GAS PRODUCTION FROM CERTAIN WELLS DRILLED AFTER DECEMBER 31, 1997; CLARIFYING THE DISTRIBUTION OF OIL AND NATURAL GAS PRODUCTION TAXES; ALLOWING THE DEPARTMENT OF REVENUE TO REVISE, BY RULE, THE DISTRIBUTION OF OIL AND NATURAL GAS PRODUCTION TAXES UNDER CERTAIN CONDITIONS; CLARIFYING THE TAX RATE IMPOSED ON INCREMENTAL PRODUCTION FROM OIL WELLS WHEN THE PRICE OF OIL IS EQUAL TO OR GREATER THAN \$30 A BARREL; AMENDING SECTIONS 7-1-2111, 7-7-2101, 7-7-2203, 7-14-2524, 7-14-2525, 7-16-2327, 15-1-501, 15-36-303, 15-36-304, 15-36-324, AND 82-11-135, MCA; AND PROVIDING A DELAYED EFFECTIVE DATE AND AN APPLICABILITY DATE."

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

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

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

- (a) first class--all counties having a taxable valuation of \$50 million or ~~over~~ more;
- (b) second class--all counties having a taxable valuation of ~~more than~~ \$30 million or more and less than \$50 million;
- (c) third class--all counties having a taxable valuation of ~~more than~~ \$20 million or more and less than \$30 million;
- (d) fourth class--all counties having a taxable valuation of ~~more than~~ \$15 million or more and less than \$20 million;
- (e) fifth class--all counties having a taxable valuation of ~~more than~~ \$10 million or more and less than \$15 million;

1 (f) sixth class--all counties having a taxable valuation of ~~more than~~ \$5 million or more and less than
2 \$10 million;

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

4 (2) As used in this section, ~~taxable valuation~~ "taxable valuation" means the taxable value of taxable
5 property in the county as of the time of determination plus:

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

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

11 (c) the value provided by the department of revenue under 15-36-324~~(10)~~(17); and

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

13
14 **Section 2.** Section 7-7-2101, MCA, is amended to read:

15 **"7-7-2101. Limitation on amount of county indebtedness.** (1) A county may not become indebted
16 in any manner or for any purpose ~~to~~ in an amount, including existing indebtedness, in the aggregate
17 exceeding 23% of the total of the taxable value of the property in the county subject to taxation, plus the
18 value provided by the department of revenue in 15-36-324~~(10)~~(17), as ascertained by the last assessment
19 for state and county taxes previous to the incurring of the indebtedness, plus, for indebtedness to be
20 incurred during fiscal year 1997, an additional 11% of the taxable value of class eight property within the
21 county for tax year 1995, for indebtedness to be incurred during fiscal year 1998, an additional 22% of
22 the taxable value of class eight property within the county for tax year 1995, and for indebtedness to be
23 incurred during fiscal years 1999 through 2008, an additional 33% of the taxable value of class eight
24 property within the county for tax year 1995, in each case of class eight property, multiplied by 23%.

25 (2) A county may not incur indebtedness or liability for any single purpose to an amount exceeding
26 \$500,000 without the approval of a majority of the electors of the county voting at an election to be
27 provided by law, except as provided in 7-21-3413 and 7-21-3414.

28 (3) This section does not apply to the acquisition of conservation easements as set forth in Title
29 76, chapter 6."

30

1 **Section 3.** Section 7-7-2203, MCA, is amended to read:

2 **"7-7-2203. Limitation on amount of bonded indebtedness.** (1) Except as provided in subsections
3 (2) through (4), a county may not issue general obligation bonds for any purpose that, with all outstanding
4 bonds and warrants except county high school bonds and emergency bonds, will exceed 11.25% of the
5 total of the taxable value of the property in the county, plus the value provided by the department of
6 revenue under ~~15-36-324(10)~~(17), to be ascertained by the last assessment for state and county taxes prior
7 to the proposed issuance of bonds, plus, for general obligation bonds to be issued during fiscal year 1997,
8 an additional 11% of the taxable value of class eight property within the county for tax year 1995, for
9 general obligation bonds to be issued during fiscal year 1998, an additional 22% of the taxable value of
10 class eight property within the county for tax year 1995, and for general obligation bonds to be issued
11 during fiscal years 1999 through 2008, an additional 33% of the taxable value of class eight property
12 within the county for tax year 1995, in each case of class eight property, multiplied by 11.25%.

13 (2) In addition to the bonds allowed by subsection (1), a county may issue bonds that, with all
14 outstanding bonds and warrants, will not exceed 27.75% of the total of the taxable value of the property
15 in the county subject to taxation, plus the value provided by the department of revenue under
16 ~~15-36-324(10)~~(17), when necessary to do so, to be ascertained by the last assessment for state and
17 county taxes, plus, for bonds to be issued during fiscal year 1997, an additional 11% of the taxable value
18 of class eight property within the county for tax year 1995, for bonds to be issued during fiscal year 1998,
19 an additional 22% of the taxable value of class eight property within the county for tax year 1995, and for
20 bonds to be issued during fiscal years 1999 through 2008, an additional 33% of the taxable value of class
21 eight property within the county for tax year 1995, in each case of class eight property, multiplied by
22 27.75%, for the purpose of acquiring land for a site for county high school buildings and for erecting or
23 acquiring buildings on the site and furnishing and equipping the buildings for county high school purposes.

24 (3) In addition to the bonds allowed by subsections (1) and (2), a county may issue bonds for the
25 construction or improvement of a jail that will not exceed 12.5% of the taxable value of the property in the
26 county subject to taxation, plus the adjustments permitted by 7-7-2101.

27 (4) The limitation in subsection (1) does not apply to refunding bonds issued for the purpose of
28 paying or retiring county bonds lawfully issued prior to January 1, 1932, or to bonds issued for the
29 repayment of tax protests lost by the county."
30

1 **Section 4.** Section 7-14-2524, MCA, is amended to read:

2 **"7-14-2524. Limitation on amount of bonds issued -- excess void.** (1) Except as otherwise
3 provided in 7-7-2203, 7-7-2204, and this section, a county may not issue bonds that, with all outstanding
4 bonds and warrants except county high school bonds and emergency bonds, will exceed 11.25% of the
5 total of the taxable value of the property in the county, plus the value provided by the department of
6 revenue under 15-36-324~~(10)~~(17). The taxable property and the amount of taxes levied on new production,
7 production from horizontally completed wells, and incremental production must be ascertained by the last
8 assessment for state and county taxes prior to the issuance of the bonds.

9 (2) A county may issue bonds that, with all outstanding bonds and warrants except county high
10 school bonds, will exceed 11.25% but will not exceed 22.5% of the total of the taxable value of the
11 property, plus the value provided by the department of revenue under 15-36-324~~(10)~~(17) when necessary
12 for the purpose of replacing, rebuilding, or repairing county buildings, bridges, or highways that have been
13 destroyed or damaged by an act of God or by a disaster, catastrophe, or accident.

14 (3) The value of the bonds issued and all other outstanding indebtedness of the county, except
15 county high school bonds, may not exceed 22.5% of the total of the taxable value of the property within
16 the county, plus the value provided by the department of revenue under 15-36-324~~(10)~~(17), as ascertained
17 by the last preceding general assessment."

18

19 **Section 5.** Section 7-14-2525, MCA, is amended to read:

20 **"7-14-2525. Refunding agreements and refunding bonds authorized.** (1) Whenever the total
21 indebtedness of a county exceeds 22.5% of the total of the taxable value of the property ~~therein in the~~
22 county, plus the value provided by the department of revenue under 15-36-324~~(10)~~(17), and the board
23 determines that the county is unable to pay the indebtedness in full, the board may:

24 (a) negotiate with the bondholders for an agreement ~~whereby~~ under which the bondholders agree
25 to accept less than the full amount of the bonds and the accrued unpaid interest in satisfaction of the
26 bonds;

27 (b) enter into the agreement;

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

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

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

3

4 **Section 6.** Section 7-16-2327, MCA, is amended to read:

5 **"7-16-2327. Indebtedness for park purposes.** (1) Subject to the provisions of subsection (2), a
6 county park board, in addition to powers and duties now given under law, may contract an indebtedness
7 in behalf of a county, upon the credit of the county, in order to carry out its powers and duties.

8 (2) (a) The total amount of indebtedness authorized to be contracted in any form, including the
9 then-existing indebtedness, may not at any time exceed 13% of the total of the taxable value of the taxable
10 property in the county, plus the value provided by the department of revenue under 15-36-324~~(10)~~(17),
11 ascertained by the last assessment for state and county taxes previous to the incurring of the indebtedness.

12 (b) Money may not be borrowed on bonds issued for the purchase of lands and improving the land
13 for any purpose until the proposition has been submitted to the vote of those qualified under the provisions
14 of the state constitution to vote at the election in the affected county and a majority vote is cast in favor
15 of the bonds."

16

17 **Section 7.** Section 15-1-501, MCA, is amended to read:

18 **"15-1-501. Disposition of money from certain designated license and other taxes.** (1) The state
19 treasurer shall deposit to the credit of the state general fund in accordance with the provisions of
20 subsection (6) all money received from the collection of:

21 (a) fees from driver's licenses, motorcycle endorsements, and duplicate driver's licenses as
22 provided in 61-5-121;

23 (b) electrical energy producer's license taxes under chapter 51;

24 (c) liquor license taxes under Title 16;

25 (d) telephone company license taxes under chapter 53; and

26 (e) inheritance and estate taxes under Title 72, chapter 16.

27 (2) All money received from the collection of income taxes under chapter 30 of this title must, in
28 accordance with the provisions of subsection (6), be deposited as follows:

29 (a) 91.3% of the taxes to the credit of the state general fund;

30 (b) 8.7% of the taxes to the credit of the debt service account for long-range building program

1 bonds as described in 17-5-408; and

2 (c) all interest and penalties to the credit of the state general fund.

3 (3) All money received from the collection of corporation license and income taxes under chapter
4 31 of this title, except as provided in 15-31-702, must, in accordance with the provisions of subsection
5 (6), be deposited as follows:

6 (a) 89.5% of the taxes to the credit of the state general fund;

7 (b) 10.5% of the taxes to the credit of the debt service account for long-range building program
8 bonds as described in 17-5-408; and

9 (c) all interest and penalties to the credit of the state general fund.

10 (4) The department of revenue shall also deposit to the credit of the state general fund all money
11 received from the collection of license taxes and fees and all net revenue and receipts from all other sources
12 under the operation of the Montana Alcoholic Beverage Code.

13 (5) Oil and natural gas production taxes allocated under ~~15-36-324(7)(a)~~ 12(a) and 14(a) must
14 be deposited in the general fund.

15 (6) Notwithstanding any other provision of law, the distribution of tax revenue must be made
16 according to the provisions of the law governing allocation of the tax that were in effect for the period in
17 which the tax revenue was recorded for accounting purposes. Tax revenue must be recorded as prescribed
18 by the department of administration, pursuant to 17-1-102(2) and (5), in accordance with generally
19 accepted accounting principles.

20 (7) All refunds of taxes must be attributed to the funds in which the taxes are currently being
21 recorded. All refunds of interest and penalties must be attributed to the funds in which the interest and
22 penalties are currently being recorded."

23

24 **Section 8.** Section 15-36-303, MCA, is amended to read:

25 **"15-36-303. Definitions.** As used in this part, the following definitions apply:

26 (1) "Board" means the board of oil and gas conservation provided for in 2-15-3303.

27 (2) "Department" means department of revenue provided for in 2-15-1301~~2~~.

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

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

3 (5) "Expanded enhanced recovery project" or "expansion" means the addition of injection wells
4 or production wells, the recompletion of existing wells as horizontally completed wells, the change of an
5 injection pattern, or other operating changes to an existing enhanced recovery project that will result in the
6 recovery of oil that would not otherwise be recovered. The project must be developed after December 31,
7 1993, and before January 1, 2002.

8 (6) "Gross taxable value", for the purpose of computing the oil and natural gas production tax,
9 means the gross value of the product as determined in 15-36-305.

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

13 (8) "Horizontally completed well" means:

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

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

16 (9) "Incremental production" means:

17 (a) the volume of oil produced by a new enhanced recovery project, by a well in primary recovery
18 recompleted as a horizontally completed well, or by an expanded enhanced recovery project, which volume
19 of production is in excess of the production decline rate established under the conditions existing before:

20 (i) the commencement of the recompletion of a well as a horizontally completed well;

21 (ii) expansion of the existing enhanced recovery project; or

22 (iii) commencing a new enhanced recovery project; or

23 (b) in the case of any project that had no taxable production prior to commencing the enhanced
24 recovery project, all production of oil from the enhanced recovery project.

25 (10) "Natural gas" or "gas" means natural gas and other fluid hydrocarbons, other than oil,
26 produced at the wellhead.

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

29 (12) "Nonworking interest owner" means any interest owner who does not share in the exploration,
30 development, and operation costs of the lease or unit, except for production taxes.

1 (13) "Oil" means crude petroleum or mineral oil and other hydrocarbons, regardless of gravity, that
2 are produced at the wellhead in liquid form and that are not the result of condensation of gas after it leaves
3 the wellhead.

4 (14) "Operator" or "producer" means a person who produces oil or natural gas within this state or
5 who owns, controls, manages, leases, or operates within this state any well or wells from which any
6 marketable oil or natural gas is extracted or produced.

7 (15) "Post-1985 well" means an oil or natural gas well drilled after June 30, 1985, other than
8 horizontally completed or recompleted oil wells drilled after December 31, 1993, that produces oil or natural
9 gas or a well that has not produced oil or natural gas during the 5 years immediately preceding the first
10 month of qualifying as a post-1985 well.

11 (16) "Post-1997 well" means an oil well or natural gas well drilled after December 31, 1997, other
12 than horizontally completed or recompleted oil wells, that produces oil or natural gas or a well that has not
13 produced oil or natural gas during the 5 years immediately preceding the first month of qualifying as a
14 post-1997 well.

15 ~~(16)~~(17) "Pre-1985 well" means an oil or natural gas well that was drilled before July 1, 1985.

16 ~~(17)~~(18) "Primary recovery" means the displacement of oil from the earth into the well bore by
17 means of the natural pressure of the oil reservoir and includes artificial lift.

18 ~~(18)~~(19) "Production decline rate" means the projected rate of future oil production, extrapolated
19 by a method approved by the board, that must be determined for a project area prior to commencing a new
20 or expanded enhanced recovery project or the recompletion of a well as a horizontally completed well. The
21 approved production decline rate must be certified in writing to the department by the board. In that
22 certification, the board shall identify the project area and shall specify the projected rate of future oil
23 production by calendar year and by calendar quarter within each year. The certified rate of future oil
24 production must be used to determine the volume of incremental production that qualifies for the tax rate
25 imposed under 15-36-304(4)(d).

26 ~~(19)~~(20) "Qualifying production" means the first 24 months of production of oil or natural gas from
27 ~~any~~ a post-1985 well drilled after March 31, 1995, a post-1997 well, or ~~from~~ a well that has not produced
28 oil or natural gas during the 5 years immediately preceding the first month of qualifying production.
29 Qualifying production does not include oil production from a horizontally recompleted well.

30 ~~(20)~~(21) "Secondary recovery project" means an enhanced recovery project, other than a tertiary

1 recovery project, that commenced or was expanded after December 31, 1993, and before January 1, 2002,
2 and meets each of the following requirements:

3 (a) The project must be certified as a secondary recovery project to the department by the board.
4 The certification may be extended only after notice and hearing in accordance with Title 2, chapter 4.

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

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

11 (i) the injection of water into the producing formation for the purposes of maintaining pressure in
12 that formation or for the purpose of increasing the flow of oil from the producing formation to a producing
13 well bore; or

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

15 ~~(21)~~(22) "Stripper exemption" means the first 3 barrels a day for petroleum and other mineral or
16 crude oil produced by a stripper well if the average price per barrel of oil as reported in the Wall Street
17 Journal for west Texas intermediate crude oil during a calendar quarter is less than \$30 a barrel. If the price
18 of oil is equal to or greater than \$30 a barrel in a calendar quarter, there is no stripper exemption in that
19 quarter. The average price per barrel is computed by dividing the sum of the daily price for west Texas
20 intermediate crude oil as reported in the Wall Street Journal for the calendar quarter by the number of days
21 on which the price was reported in the quarter.

22 ~~(22)~~(23) "Stripper natural gas" means the natural gas produced from any well that produces less
23 than 60,000 cubic feet of natural gas a day during the calendar year immediately preceding the current
24 year. Production must be determined by dividing the amount of production from a lease or unitized area for
25 the year immediately preceding the current calendar year by the number of producing wells in the lease or
26 unitized area and by dividing the resulting quotient by 365.

27 ~~(23)~~(24) "Stripper oil" means the oil produced from any well that produces less than 10 barrels a
28 day for the calendar year immediately preceding the current year. Production must be determined by
29 dividing the amount of production from a lease or unitized area for the year immediately preceding the
30 current calendar year by the number of producing wells in the lease or unitized area and by dividing the

1 resulting quotient by 365.

2 ~~(24)~~(25) "Tertiary recovery project" means an enhanced recovery project, other than a secondary
3 recovery project, using a tertiary recovery method that meets the following requirements:

4 (a) The project must be certified as a tertiary recovery project to the department by the board. The
5 certification may be extended only after notice and hearing in accordance with Title 2, chapter 4.

6 (b) The property to be affected by the project must be adequately delineated in the certification
7 according to the specifications required by the board.

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

12 (i) miscible fluid displacement;

13 (ii) steam drive injection;

14 (iii) micellar/emulsion flooding;

15 (iv) in situ combustion;

16 (v) polymer augmented water flooding;

17 (vi) cyclic steam injection;

18 (vii) alkaline or caustic flooding;

19 (viii) carbon dioxide water flooding;

20 (ix) immiscible carbon dioxide displacement; or

21 (x) any other method approved by the board as a tertiary recovery method.

22 ~~(25)~~(26) "Well" or "wells" means a single well or a group of wells in one field or production unit
23 and under the control of one operator or producer.

24 ~~(26)~~(27) "Working interest owner" means the owner of an interest in an oil or natural gas well or
25 wells who bears any portion of the exploration, development, and operating costs of the well or wells."
26

27 **Section 9.** Section 15-36-304, MCA, is amended to read:

28 **"15-36-304. Production tax rates imposed on oil and natural gas.** (1) The production of oil and
29 natural gas is taxed as provided in this section. The tax is distributed as provided in 15-36-324.

30 (2) Natural gas is taxed on the gross taxable value of production based on the type of well and

1 type of production according to the following schedule for working interest and nonworking interest
 2 owners:

	Working	Nonworking
	Interest	Interest
5 (a) pre-1985 wells	18.55%	14.8%
6 (b) post-1985 wells		
7 (i) first 12 months of qualifying		
8 production	0.5%	14.8%
9 (ii) next 12 months of qualifying		
10 production	12.5%	14.8%
11 (iii) after 24 months	15.15%	14.8%
12 <u>(c) post-1997 wells</u>		
13 <u>(i) first 12 months of qualifying</u>		
14 <u>production</u>	<u>0.5%</u>	<u>14.8%</u>
15 <u>(ii) next 12 months of qualifying</u>		
16 <u>production</u>	<u>5.5%</u>	<u>14.8%</u>
17 <u>(iii) after 24 months</u>	<u>8.15%</u>	<u>14.8%</u>
18 (d) stripper natural gas,		
19 pre-1985, and post-1985, wells		
20 and post-1997 wells	11%	14.8%

21 (3) The reduced tax rates under subsections (2)(b)(i), ~~and (2)(b)(ii)~~, ~~(2)(c)(i)~~, and ~~(2)(c)(ii)~~ on
 22 production for the first 24 months of natural gas production from a post-1985 well and from a post-1997
 23 well begin following the last day of the calendar month immediately preceding the month in which natural
 24 gas is placed in a natural gas distribution system, provided that notification has been given to the
 25 department.

26 (4) Oil is taxed on the gross taxable value of production based on the type of well and type of
 27 production according to the following schedule for working interest and nonworking interest owners:

	Working	Nonworking
	Interest	Interest
28 (a) primary recovery production		

1	(i) pre-1985 wells	13.9%	16.9%
2	(ii) post-1985 wells		
3	(A) first 12 months of qualifying		
4	production	0.5%	14.8%
5	(B) next 12 months of qualifying		
6	production	7.5%	14.8%
7	(C) after 24 months	12.5%	14.8%
8	<u>(iii) post-1997 wells</u>		
9	<u>(A) first 12 months of qualifying</u>		
10	<u>production</u>	<u>0.5%</u>	<u>14.8%</u>
11	<u>(B) next 12 months of qualifying</u>		
12	<u>production</u>	<u>5.5%</u>	<u>14.8%</u>
13	<u>(C) after 24 months</u>	<u>8.5%</u>	<u>14.8%</u>
14	(b) stripper oil production		
15	(i) pre-1985 wells	10.5%	16.9%
16	(ii) post-1985 wells	10.5%	14.8%
17	<u>(iii) post-1997 wells</u>	<u>8.5%</u>	<u>14.8%</u>
18	### (iv) stripper exemption production		
19	(A) pre-1985 wells	5.5%	16.9%
20	(B) post-1985 wells	5.5%	14.8%
21	<u>(C) post-1997 wells</u>	<u>5.5%</u>	<u>14.8%</u>
22	(c) (i) horizontally completed well production		
23	## (A) first 18 months of qualifying		
24	production	0.5%	5.5%
25	## (B) next 6 months of qualifying		
26	production	7.5%	12.5%
27	### (C) after 24 months	12.5%	12.5%
28	<u>(ii) post-1997 horizontally completed well production</u>		
29	<u>(A) first 18 months of qualifying</u>		
30	<u>production</u>	<u>0.5%</u>	<u>5.5%</u>

1	<u>(B) next 6 months of qualifying production</u>	<u>5.5%</u>	<u>12.5%</u>
2	<u>(C) after 24 months</u>	<u>8.5%</u>	<u>12.5%</u>
3	(d) incremental production		
4	(i) new or expanded secondary recovery production		
5	(A) pre-1985 well	8.5%	16%
6	(B) post-1985 well	8.5%	10.5%
7	<u>(C) post-1997 well</u>	<u>8.5%</u>	<u>10.5%</u>
8	(ii) new or expanded tertiary production		
9	(A) pre-1985 well	5.8%	15%
10	(B) post-1985 well	5.8%	9.5%
11	<u>(C) post-1997 well</u>	<u>5.8%</u>	<u>9.5%</u>
12	(e) horizontally recompleted well		
13	(i) first 18 months	5.5%	5.5%
14	(ii) after 18 months	12.5%	12.5%
15	<u>(iii) post-1997 well after 18 months</u>	<u>8.5%</u>	<u>12.5%</u>

16 (5) (a) The reduced tax rates under subsections (4)(a)(ii)(A) and (4)(a)(ii)(B) and under subsections
 17 (4)(a)(iii)(A) and (4)(a)(iii)(B) for the first 24 months of oil production from a post-1985 well and from a
 18 post-1997 well begin following the last day of the calendar month immediately preceding the month in
 19 which oil is pumped or flows, provided that notification has been given to the department.

20 (b) (i) The reduced tax rates under ~~subsection (4)(e)(i)~~ subsections (4)(c)(i)(A), and (4)(c)(ii)
 21 (4)(c)(i)(B), (4)(c)(ii)(A), and (4)(c)(ii)(B) on oil production from a horizontally completed well for the first 24
 22 months of production begin following the last day of the calendar month immediately preceding the month
 23 in which oil is pumped or flows, provided that the well has been certified as a horizontally completed well
 24 to the department by the board.

25 (ii) The reduced tax rate under subsection (4)(e)(i) on oil production from a horizontally recompleted
 26 well for the first 18 months of production begins following the last day of the calendar month immediately
 27 preceding the month in which oil is pumped or flows, provided that the well has been certified as a
 28 horizontally recompleted well to the department by the board.

29 (c) Incremental production is taxed as provided in subsection (4)(d) if the average price per barrel
 30 of oil as reported in the Wall Street Journal for west Texas intermediate crude oil during a calendar quarter

1 is less than \$30 a barrel. If the price of oil is equal to or greater than \$30 a barrel in a calendar quarter as
 2 determined in subsection (5)(d), then incremental production from pre-1985 wells, post-1985 wells, and
 3 post-1997 wells is taxed at the rate imposed on primary recovery production under ~~subsection~~ subsections
 4 (4)(a)(i), (4)(a)(ii)(C), and (4)(a)(iii)(C), respectively, for production occurring in that quarter.

5 (d) For the purposes of subsection (5)(c), the average price per barrel must be computed by
 6 dividing the sum of the daily price for west Texas intermediate crude oil as reported in the Wall Street
 7 Journal for the calendar quarter by the number of days on which the price was reported in the quarter.

8 (6) The tax rates imposed under subsections (2) and (4) on working interest owners and
 9 nonworking interest owners must be adjusted to include the privilege and license tax adopted by the board
 10 of oil and gas conservation pursuant to 82-11-131."

11
 12 **Section 10.** Section 15-36-324, MCA, is amended to read:

13 **"15-36-324. Distribution of taxes -- rules.** (1) For each calendar quarter, the department of
 14 revenue shall determine the amount of tax, late payment interest, and penalty collected under this part. For
 15 purposes of distribution of the taxes to county and school taxing units, the department shall determine the
 16 amount of oil and natural gas production taxes paid on production from pre-1985 wells, post-1985 wells,
 17 and horizontally drilled wells located in the taxing unit.

18 (2) Except as provided in subsections (3) ~~and (4), through (8),~~ oil production taxes must be
 19 distributed as follows:

20 (a) The amount equal to ~~41.6%~~ 39.3% of the oil production taxes, including late payment interest
 21 and penalty, collected under this part must be distributed as provided in subsection ~~(7)~~ (12).

22 (b) The remaining ~~58.4%~~ 60.7% of the oil production taxes, plus accumulated interest earned on
 23 the amount allocated under this subsection (2)(b), must be deposited in the agency fund in the state
 24 treasury and transferred to the county and school taxing units for distribution as provided in subsection ~~(8)~~
 25 (15).

26 (3) ~~(a)~~ The amount equal to 100% of the oil production taxes, including late payment interest and
 27 penalty, collected from working interest owners on production from post-1985 wells occurring during the
 28 first 12 months of production must be distributed as provided in subsection ~~(7)~~ (13).

29 (b) (i) The amount equal to 10.25% of the oil production taxes, including late payment interest
 30 and penalty, collected from working interest owners on production from post-1985 wells occurring during

1 the next 12 months of production must be distributed as provided in subsection (13).

2 (ii) The remaining 89.75% of the oil production taxes, plus accumulated interest earned on the
3 amount allocated under this subsection (3)(b), must be deposited in the agency fund in the state treasury
4 and transferred to the county and school taxing units for distribution as provided in subsection (15).

5 (4) (a) The amount equal to 100% of the oil production taxes, including late payment interest and
6 penalty, collected from working interest owners on production from post-1997 wells occurring during the
7 first 12 months of production must be distributed as provided in subsection (13).

8 (b) (i) The amount equal to 13.8% of the oil production taxes, including late payment interest and
9 penalty, collected from working interest owners on production from post-1985 wells occurring during the
10 next 12 months of production must be distributed as provided in subsection (13).

11 (ii) The remaining 86.2% of the oil production taxes, plus accumulated interest earned on the
12 amount allocated under this subsection (4)(b), must be deposited in the agency fund in the state treasury
13 and transferred to the county and school taxing units for distribution as provided in subsection (15).

14 (5) (a) The amount equal to 100% of the oil production taxes, including late payment interest and
15 penalty, collected under this part on production from horizontally ~~drilled~~ completed wells ~~and on the~~
16 incremental production from horizontally ~~recompleted~~ wells occurring during the first 18 months of
17 production must be distributed as provided in subsection ~~(7)~~ (13).

18 (b) (i) The amount equal to 10.25% of the oil production taxes, including late payment interest
19 and penalty, collected from working interest owners on production from horizontally completed wells
20 occurring during the next 6 months of production must be distributed as provided in subsection (13).

21 (ii) The remaining 89.75% of the oil production taxes, plus accumulated interest earned on the
22 amount allocated under this subsection (5)(b), must be deposited in the agency fund in the state treasury
23 and transferred to the county and school taxing units for distribution as provided in subsection (15).

24 (6) The amount equal to 100% of the oil production taxes, including late payment interest and
25 penalty, collected under this part on the incremental production from horizontally recompleted wells
26 occurring during the first 18 months of production must be distributed as provided in subsection (12).

27 (7) (a) The amount equal to 100% of the oil production taxes, including late payment interest and
28 penalty, collected under this part on production from horizontally completed post-1997 wells occurring
29 during the first 18 months of production must be distributed as provided in subsection (13).

30 (b) (i) The amount equal to 13.8% of the oil production taxes, including late payment interest and

1 penalty, collected from working interest owners on production from horizontally completed post-1997 wells
 2 occurring during the next 6 months of production must be distributed as provided in subsection (13).

3 (ii) The remaining 86.2% of the oil production taxes, plus accumulated interest earned on the
 4 amount allocated under this subsection (7)(b), must be deposited in the agency fund in the state treasury
 5 and transferred to the county and school taxing units for distribution as provided in subsection (15).

6 (8) (a) The amount equal to 13.8% of the oil production taxes, including late payment interest and
 7 penalty, collected from working interest owners on stripper exemption production from pre-1985 wells,
 8 post-1985 wells, and post-1997 wells must be distributed as provided in subsection (13).

9 (b) The remaining 86.2% of the oil production taxes, plus accumulated interest earned on the
 10 amount allocated under this subsection (8)(b), must be deposited in the agency fund in the state treasury
 11 and transferred to the county and school taxing units for distribution as provided in subsection (15).

12 ~~(5)(9)~~ Except as provided in ~~subsection (6)~~ subsections (10) and (11), natural gas production taxes
 13 must be allocated as follows:

14 (a) The amount equal to ~~14.6%~~ 14% of the natural gas production taxes, including late payment
 15 interest and penalty, collected under this part must be distributed as provided in subsection ~~(7)~~ (14).

16 (b) The remaining ~~86.4%~~ 86% of the natural gas production taxes, plus accumulated interest
 17 earned on the amount allocated under this subsection ~~(5)(b)~~ (9)(b), must be deposited in the agency fund
 18 in the state treasury and transferred to the county and school taxing units for distribution as provided in
 19 subsection ~~(8)~~ (15).

20 ~~(6)(10)~~ (a) The amount equal to 100% of the natural gas production taxes, including late payment
 21 interest and penalty, collected from working interest owners under this part on production from post-1985
 22 wells occurring during the first 12 months of production must be distributed as provided in subsection ~~(7)~~
 23 (13).

24 (b) (i) The amount equal to 6.25% of the natural gas production taxes, including late payment
 25 interest and penalty, collected from working interest owners on production from post-1985 wells occurring
 26 during the next 12 months of production must be distributed as provided in subsection (13).

27 (ii) The remaining 93.75% of the natural gas production taxes, plus accumulated interest earned
 28 on the amount allocated under this subsection (10)(b), must be deposited in the agency fund in the state
 29 treasury and transferred to the county and school taxing units for distribution as provided in subsection
 30 (15).

1 (11) (a) The amount equal to 100% of the natural gas production taxes, including late payment
2 interest and penalty, collected from working interest owners under this part on production from post-1997
3 wells occurring during the first 12 months of production must be distributed as provided in subsection (13).

4 (b) (i) The amount equal to 13.8% of the natural gas production taxes, including late payment
5 interest and penalty, collected from working interest owners on production from post-1997 wells occurring
6 during the next 12 months of production must be distributed as provided in subsection (13).

7 (ii) The remaining 86.2% of the natural gas production taxes, plus accumulated interest earned on
8 the amount allocated under this subsection (11)(b), must be deposited in the agency fund in the state
9 treasury and transferred to the county and school taxing units for distribution as provided in subsection
10 (15).

11 ~~(7)(12)~~ The department shall, in accordance with the provisions of 15-1-501~~(6)~~, distribute the state
12 portion of oil and natural gas production taxes specified in subsections (2)(a) and (6), including late
13 payment interest and penalty collected, as follows:

14 (a) ~~85%~~ 86.21% to the state general fund;

15 (b) ~~4.3%~~ 5.17% to the state special revenue fund for the purpose of paying expenses of the board
16 as provided in 82-11-135; and

17 (c) ~~40.7%~~ 8.62% to be distributed as provided by 15-38-106(2).

18 (13) The department shall distribute the state portion of oil and natural gas production taxes
19 specified in subsections (3)(a), (3)(b)(i), (4)(a), (4)(b)(i), (5)(a), (5)(b)(i), (7)(a), (7)(b)(i), (8)(a), (10)(a),
20 (10)(b)(i), (11)(a), and (11)(b)(ii), including late payment interest and penalty collected, as follows:

21 (a) 37.5% to the state special revenue fund for the purpose of paying expenses of the board as
22 provided in 82-11-135; and

23 (b) 62.5% to be distributed as provided by 15-38-106(2).

24 (14) The department shall, in accordance with the provisions of 15-1-501, distribute the state
25 portion of natural gas production taxes specified in subsection (9)(a) of this section, including late payment
26 interest and penalty collected, as follows:

27 (a) 76.8% to the state general fund;

28 (b) 8.7% to the state special revenue fund for the purpose of paying expenses of the board as
29 provided in 82-11-135; and

30 (c) 14.5% to be distributed as provided by 15-38-106(2).

1 ~~(8)(15)~~ (a) For the purpose of distribution of the oil and natural gas production taxes from pre-1985
2 wells, the department shall each calendar quarter adjust the unit value determined under 15-36-323
3 according to the ratio that the oil and natural gas production taxes from pre-1985 wells collected during
4 the calendar quarter for which the distribution occurs plus penalties and interest on delinquent oil and
5 natural gas production taxes from pre-1985 wells bears to the total liability for the oil and natural gas
6 production taxes from pre-1985 wells for the quarter for which the distribution occurs. The amount of oil
7 and natural gas production taxes distributions must be calculated and distributed as follows:

8 (ii) By the dates referred to in subsection ~~(9)~~ (16), the department shall calculate and distribute to
9 each eligible county the amount of oil and natural gas production taxes from pre-1985 wells for the quarter,
10 determined by multiplying the unit value, as adjusted in this subsection ~~(8)(a)~~ (15)(a), by the units of
11 production on which oil and natural gas production taxes from pre-1985 wells were owed for the calendar
12 quarter for which the distribution occurs.

13 (ii) Any amount by which the total tax liability exceeds or is less than the total distributions
14 determined in subsection ~~(8)(a)~~ (15)(a) must be calculated and distributed in the following manner:

15 (A) The excess amount or shortage must be divided by the total distribution determined for that
16 period to obtain an excess or shortage percentage.

17 (B) The excess percentage must be multiplied by the distribution to each taxing unit, and this
18 amount must be added to the distribution to each respective taxing unit.

19 (C) The shortage percentage must be multiplied by the distribution to each taxing unit, and this
20 amount must be subtracted from the distribution to each respective taxing unit.

21 (b) Except as provided in subsection ~~(8)(a)~~ (15)(c), the county treasurer shall distribute the money
22 received under subsection ~~(9)~~ (16) from pre-1985 wells to the taxing units that levied mills in fiscal year
23 1990 against calendar year 1988 production in the same manner that all other property tax proceeds were
24 distributed during fiscal year 1990 in the taxing unit, except that a distribution may not be made to a
25 municipal taxing unit.

26 (c) The board of county commissioners of a county may direct the county treasurer to reallocate
27 the distribution of oil and natural gas production tax money that would have gone to a taxing unit, as
28 provided in subsection ~~(8)(b)~~ (15)(b), to another taxing unit or taxing units, other than an elementary school
29 or high school, within the county under the following conditions:

30 (i) The county treasurer shall first allocate the oil and natural gas production taxes to the taxing

1 units within the county in the same proportion that all other property tax proceeds were distributed in the
2 county in fiscal year 1990.

3 (ii) If the allocation in subsection ~~(8)(e)(i)~~ (15)(c)(i) exceeds the total budget for a taxing unit, the
4 commissioners may direct the county treasurer to allocate the excess to any taxing unit within the county.

5 (d) The board of trustees of an elementary or high school district may reallocate the oil and natural
6 gas production taxes distributed to the district by the county treasurer under the following conditions:

7 (i) The district shall first allocate the oil and natural gas production taxes to the budgeted funds
8 of the district in the same proportion that all other property tax proceeds were distributed in the district in
9 fiscal year 1990.

10 (ii) If the allocation under subsection ~~(8)(d)(i)~~ (15)(d)(i) exceeds the total budget for a fund, the
11 trustees may allocate the excess to any budgeted fund of the school district.

12 (e) For all production from post-1985 wells, post-1997 wells, and horizontally drilled wells
13 completed after December 31, 1993, the county treasurer shall distribute oil and natural gas production
14 taxes received under subsections (2)(b), (3)(b)(ii), (4)(b)(ii), and (5)(b)(ii), and (7)(b)(ii) between county and
15 school taxing units in the relative proportions required by the levies for state, county, and school district
16 purposes in the same manner as property taxes were distributed in the preceding fiscal year.

17 (f) The allocation to the county in subsection ~~(8)(e)~~ (15)(e) must be distributed by the county
18 treasurer in the relative proportions required by the levies for county taxing units and in the same manner
19 as property taxes were distributed in the preceding fiscal year.

20 (g) The money distributed in subsection ~~(8)(e)~~ (15)(e) that is required for the county mill levies for
21 school district retirement obligations and transportation schedules must be deposited to the funds
22 established for these purposes.

23 (h) The oil and natural gas production taxes distributed under subsection ~~(8)(b)~~ (15)(b) that are
24 required for the 6-mill university levy imposed under 20-25-423 and for the county equalization levies
25 imposed under 20-9-331 and 20-9-333, as those sections read on July 1, 1989, must be remitted by the
26 county treasurer to the state treasurer.

27 (i) The oil and natural gas production taxes distributed under subsection ~~(8)(e)~~ (15)(e) that are
28 required for the 6-mill university levy imposed under 20-25-423, for the county equalization levies imposed
29 under 20-9-331 and 20-9-333, and for the state equalization aid levy imposed under 20-9-360 must be
30 remitted by the county treasurer to the state treasurer.

1 (j) The amount of oil and natural gas production taxes remaining after the treasurer has remitted
 2 the amounts determined in subsections ~~(8)(h)~~ (15)(h) and ~~(8)(i)~~ (15)(i) is for the exclusive use and benefit
 3 of the county and school taxing units.

4 ~~(9)(16)~~ The department shall remit the amounts to be distributed in subsection ~~(8)~~ (15) to the
 5 county treasurer by the following dates:

6 (a) On or before August 1 of each year, the department shall remit to the county treasurer oil and
 7 natural gas production tax payments received for the calendar quarter ending March 31 of the current year.

8 (b) On or before November 1 of each year, the department shall remit to the county treasurer oil
 9 and natural gas production tax payments received for the calendar quarter ending June 30 of the current
 10 year.

11 (c) On or before February 1 of each year, the department shall remit to the county treasurer oil and
 12 natural gas production tax payments received for the calendar quarter ending September 30 of the previous
 13 year.

14 (d) On or before May 1 of each year, the department shall remit to the county treasurer oil and
 15 natural gas production tax payments received for the calendar quarter ending December 31 of the previous
 16 calendar year.

17 ~~(10)(17)~~ The department shall provide to each county by May 31 of each year the amount of gross
 18 taxable value represented by all types of production taxed under 15-36-304 for the previous calendar year
 19 multiplied by 60%. The resulting value must be treated as taxable value for county classification purposes
 20 and for county bonding purposes.

21 (18) (a) In the event that the board revises the privilege and license tax pursuant to 82-11-131,
 22 the department shall, by rule, change the formula under this section for distribution of taxes collected under
 23 15-36-304. The revised formula must provide for the distribution of taxes in an amount equal to the rate
 24 adopted by the board for the expenses of the board.

25 (b) Before the department adopts a rule pursuant to subsection (18)(a), it shall present the
 26 proposed rule to the revenue oversight committee."

27
 28 **Section 11.** Section 82-11-135, MCA, is amended to read:

29 **"82-11-135. Money earmarked for board expenses.** The state treasurer shall deposit all money
 30 collected under 15-36-324~~(7)(b)~~ (12)(b), (13)(a), and (14)(b) and under this chapter in the state special

1 revenue fund. The money must be used for the purpose of paying all expenses of the board and for no
2 other purpose. The board shall use the money subject to biennial appropriations by the legislature. Income
3 and interest from investment of the board's ~~moneys~~ money in the state special revenue fund must be
4 credited to the board."

5

6 **NEW SECTION.** **Section 12. Effective date.** [This act] is effective January 1, 1998.

7

8 **NEW SECTION.** **Section 13. Applicability.** [This act] applies to the payment, collection, and
9 distribution of taxes on oil and natural gas production occurring after December 31, 1997.

10

-END-

STATE OF MONTANA - FISCAL NOTE

Fiscal Note for SB0387, as introduced

DESCRIPTION OF PROPOSED LEGISLATION: An act generally revising oil and natural gas production taxes; providing reduced tax rates on oil and natural gas production from certain wells drilled after December 31, 1997; clarifying the distribution of oil and natural gas production taxes; allowing the Department of Revenue to revise, by rule, the distribution of oil and natural gas production taxes under certain conditions; clarifying the tax rate imposed on incremental production from oil wells when the price of oil is equal to or greater than \$30 a barrel; and providing a delayed effective date and an applicability date.

ASSUMPTIONS:

1. Average price of natural gas is \$1.13 per MCF in FY99 (HJR2).
2. Average price of crude oil is \$17.93 per barrel in FY99 (HJR2).

FISCAL IMPACT:

Expenditures: (General Fund)

The proposed legislation would result in a one-time administrative cost of \$38,849 in FY98 in order to modify the programming of the Oil and Gas Production Tax computer system. Furthermore, the proposed legislation would result in an ongoing annual cost of \$2,000 to provide for the keypunching of the additional data.

Revenues:

The data necessary to estimate the total impact of the proposed legislation is not available. However, assuming estimated FY99 production prices, tax impacts per 1,000 units of new production after 1997 can be calculated.

In future years, the proposed legislation would result in the approximate loss of \$717 in tax revenue per 1,000 barrels of new post-1997 oil produced. This loss is distributed \$282 to state government and \$435 to local governments.

In future years, the proposed legislation would result in the approximate loss of \$79 in tax revenue per 1,000 MCFs (thousand cubic feet) of new post-1997 natural gas produced. This loss is distributed \$48 to state government and \$31 to local governments.

Dave Lewis 3-7-97
DAVE LEWIS, BUDGET DIRECTOR DATE
Office of Budget and Program Planning

Al Bishop 3-7-97
AL BISHOP, PRIMARY SPONSOR DATE

Fiscal Note for SB0387, as introduced

SB 387