MINUTES

MONTANA SENATE
56th LEGISLATURE - REGULAR SESSION

COMMITTEE ON TAXATION

Call to Order: By **CHAIRMAN GERRY DEVLIN**, on March 18, 1999 at 8:00 A.M., in Room 413/415 Capitol.

ROLL CALL

Members Present:
Sen. Gerry Devlin, Chairman (R)
Sen. Bob DePratu, Vice Chairman (R)
Sen. John C. Bohlinger (R)
Sen. Dorothy Eck (D)
Sen. E. P. "Pete" Ekegren (R)
Sen. Jon Ellingson (D)
Sen. Alvin Ellis Jr.(R)
Sen. Bill Glaser (R)
Sen. Barry "Spook" Stang (D)

Members Excused: None

Members Absent: None

Staff Present: Sandy Barnes, Committee Secretary
Lee Heiman, Legislative Branch

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

Committee Business Summary:
Hearing(s) & Date(s) Posted: SB 529, 3/15/1999; SB 530, 3/15/1999
Executive Action: None

HEARING ON SB 529

Sponsor: **SENATOR GREG JERGESON, SD 46, CHINOOK**

Proponents: **Janet Kelly, Custer County**
Lance Melton, Montana Schools Boards Association
Gordon Morris, Montana Association of Counties
Ron deYong, Montana Farmers Union

Eric Feaver, Montana Education Association
Loran Frazier, School Administrators of Montana
Sen. Dorothy Eck, SD 15, Bozeman
Jani McCall, City of Billings
Rep. Toni Hagener, HD 90, Havre

Opponents: None

Opening Statement by Sponsor:

SEN. GREG JERGESON, SD 46, Chinook, said **SB 529** is a Constitutional amendment which would require 100 votes to be put on the ballot for consideration by the public. This amendment prohibits the legislature from enacting a change in taxation which would shift the burden onto local governments and school districts without replacement revenue being provided.

Proponents' Testimony:

Janet Kelly, Custer County Commissioner, said this bill recognizes the importance of preserving and protecting our local governments' ability to maintain and provide services to the people who live in their communities. She urged support for this legislation. She provided a letter of support from the County Board of Commissioners of Yellowstone County, **EXHIBIT(tas61a01).**

Lance Melton, General Counsel, Montana School Boards Association, said his organization supports **SB 529.** He said this is sensible legislation which provides some teeth to laws already in place on unfunded mandates. He said shifts in taxation policy that result in less money to do continued obligations in the law has the same effect as asking the local governments to do more without any money. He provided a copy of the 1995 legislation which prevents even the introduction of legislation that imposes a new mandate without funding, **EXHIBIT(tas61a02).** He said this legislation is important and should be placed before the voters for addition to the Constitution.

Gordon Morris, Director, Montana Association of Counties, said that the legislature does little that does not directly or indirectly impact local governments, and this amendment addresses that situation and gives the voters an opportunity to vote on those issues.

Ron deYong, Montana Farmers Union, said that responsible taxation requires that if state taxes are reduced, those revenue losses to local governments and schools must be made up. Montana does need a Constitutional amendment that guarantees that if state taxes are reduced, those lost revenues to local governments and school district are made up by the state. He urged support.

Eric Feaver, Montana Education Association, said this is a great idea, and he urged passage.

Loran Frazier, School Administrators of Montana, said his organization also supports this bill. He said that it is the belief of the School Administrators that these problems arise because of problems with our present tax structure, and if some restructuring takes place this legislative session, this Constitutional amendment may not be necessary; however, if it does not, it is badly needed.

SEN. DOROTHY ECK, SD 15, Bozeman, said this is an appropriate Constitutional amendment and should be passed.

Jani McCall, City of Billings, said they also urge strong support of this bill.

REP. TONI HAGENER, HD 90, Havre, said it is important that the legislature have a clear understanding of exactly what happens with local governments and schools, and this would prevent mandating without funding.

Opponents' Testimony: None

Questions from Committee Members and Responses:

SEN. ELLIS, referring to **SB 333** in which the counties were saved $26 million in maintenance of blacktop highways, asked whether this could reflect on losses that may go to local governments and asked how **Mr. Melton** envisioned this working. **Mr. Melton** said that if, in fact, a bill is passed that saves counties a certain amount of money, it was his opinion that could be balanced against losses created. **SEN. ELLIS** asked if that argument could be used to defend the legislature's actions should they be challenged, and **Mr. Melton** said that the only difference he sees in this legislation is that the legislature would have to guarantee that those funds would be free to be used for those purposes that had lost funding.

SEN. ELLIS asked the same question of **Gordon Morris. Mr. Morris** clarified that **SB 333**, in fact, relieves the counties of responsibility for maintenance on state secondary roads, but that the funding goes with the program to the state, so there is no money that stays with the counties.

CHAIRMAN DEVLIN asked, however, if it was not a savings to the county, when they are charged with maintaining those roads presently, and **Mr. Morris** said that the funding for that will go with the program to the state. **CHAIRMAN DEVLIN** asked if that was enough money to do that job adequately for the counties, and **Mr. Morris** said it is not enough money for the counties to do it, and it is, likewise, not enough for the state to do it.

SEN. GLASER asked, then, if the legislature does some sort of incentive program such as Venture Star, whether that means that the state will have to pick up the potential loss that the local governments would have because that industry came and was a cost to the county. **Mr. Morris** said that in his opinion the bill says that a mandate has to have revenue implications in terms of losing money or causing a shift. Venture Star, for instance, does not result in changes in the current tax mix, so it is an ongoing legislation that would not have any impacts.

SEN. GLASER said that part of the objection he has been hearing about **SB 260** is that it trims future revenue, and he asked if future revenue that was trimmed to current levels would be covered by this amendment. **Mr. Morris** said in comparing **SB 260** to Venture Star, what Venture Star is doing is putting something on the ground that is not going to be taxed, so it does not change anything by virtue of being added to the tax rolls. On the other hand, **SB 260** changes the revenue structure for counties that has been in place for quite a few years and does have significant implications.

SEN. DEPRATU asked if this bill would prevent the reduction in size of government, should it be necessary, and **SEN. JERGESON** said it would not prevent the state legislature from shrinking the size of state government. It would prevent the legislature from making that decision for local governments, but would not prevent the local decision-makers from making that decision.

SEN. DEPRATU then asked about federal monies that flow through that might be no longer available to the state to pass through to local governments, and whether the state would have to make those up on a local level. **SEN. JERGESON** said this bill speaks to tax changes, and flow-through of federal dollars is not a tax change, it is an appropriation and allocation issue.

SEN. ECK asked if this is something that could be tallied as legislation passes through. She wondered how it would be handled at the end of a legislative session, whether it would be done one bill at a time or through a final reimbursement bill. **SEN. JERGESON** said it would probably be best to do it one bill at a time; however, if there was a final reimbursement bill, it would have to be coordinated with the bills that specifically change a taxation measure.

SEN. ECK then asked **Mr. Morris** if MACo has a tally list of all the bills that cost the counties money, and **Mr. Morris** said they do. **SEN. ECK** said that would be helpful for the committee to have.

SEN. ELLIS asked if this Constitutional amendment would make **SB 100** unconstitutional, and **Mr. Melton** said he did not think so. He said this talks about shifts in taxation policy at the state level that result in less local government revenues, and **SB 100** actually increases the funding for schools on a local level with less commitment from the local taxpayers than there was under prior law. **SEN. ELLIS** asked if the House amendments would change that, and **Mr. Melton** said that there is nothing in the BASE funding for schools in the House version that would make it any harder or requires a greater local effort than last session.

SEN. ELLINGSON asked if **SEN. JERGESON** would respond to the concerns raised by **SEN. GLASER** regarding the applicability of this to a Venture Star situation and also the applicability of this Constitutional amendment to the situation if the state legislature caps the revenue at existing levels but by making that change prevents previously permissible increases that might be due to inflation or other factors. **SEN. JERGESON** said that he did not think this would apply to caps because it talks about reductions in revenue. It would apply to circumstance where a revenue source is reduced, and the state would be required to come up with a replacement revenue for that.

CHAIRMAN DEVLIN said that one of the biggest problems that local governments have had is the implementation of **I-105**, and he asked if there was a way that referendums and initiatives could be included in this, along with legislative action, because the biggest harm presently to local governments is **I-105**. **SEN. JERGESON** said there is no doubt that **I-105** has harmed local governments, but he would be reluctant to change that through this amendment.

SEN. STANG said he views **I-105** as having nothing to do with this bill because it was not a tax shift from the state to local governments. **SEN. JERGESON** said this bill is related to the issue of tax shifting of the burden to local levels.

SEN. DEPRATU, referring to the "windfalls" involved with vehicle taxes, said that there have been instances where local governments have become used to using those "windfall" funds, and when the legislature corrects the situation that caused that windfall, it becomes a hardship for local governments. He wondered if this bill would make the state responsible for backfilling that. **SEN. JERGESON** said he had not looked at the numbers in that instance, but he would suspect that what local governments did with that so-called "windfall" was backfill the revenue losses that they had experienced as a result of actions of the legislature reducing other revenue sources.

SEN. STANG referred to **SEN. DEPRATU'S** comments regarding a "windfall" to local governments, and he asked whether there really was a "windfall" because of the caps on school districts, or was it passed back as a reduction to local taxpayers. **SEN. JERGESON** said there is no way under current law where school districts can experience a windfall because they have to get approval for any amount over what the state mandates that they spend. He said there is a BASE budget that the state says every district in the state has to spend, and anything over that is subject to the voter approval.

SEN. STANG asked the same question of **Mr. Morris**, and whether local governments got a big windfall or if it had passed back through to the taxpayers, and **Mr. Morris** said the budgetary requirements for counties are different than schools, and if there was, in fact, a windfall in vehicle tax revenues, that would have to be carried forward into the next year and be used as cash available for re-appropriation and thereby indirectly reducing the levies. He said this money cannot be spent, it has to be used for re-appropriation and reducing levies.

SEN. ECK said she thought the committee had heard testimony that there was not, in fact, a "windfall," that it worked out to be a "wash." **Mr. Morris** said that he agreed that when the depreciation schedules were developed, they were developed from a statewide perspective and assumed revenue neutrality.

SEN. ELLIS said that some of the proponents had alluded to tax reform in a major measure, and he wondered if this Constitutional amendment might appear to be forcing tax reform. **SEN. JERGESON** said that this bill does not force any particular tax to be imposed as replacement revenue. That would be a decision of the legislative policymakers.

Closing by Sponsor:

SEN. JERGESON said this bill would go a long way toward establishing a trust of the legislature by the voting public.

HEARING ON SB 530

Sponsor: SENATOR AL BISHOP, SD 9, BILLINGS

Proponents: **Walter Webb, Shell Western E&P**
Robert Fisher, Ballard Petroleum
Tom Hauptman, Billings
Jeff White, Continental Resources
Terry Holzwarth, Nance Petroleum, Williston
Leo Heath, Montana Power Company
Karla MacCatherine, JN Oil & Gas
Ron Santi, Williston Basin Pipeline
Jerome Anderson, Shell Oil Company
Patrick Montalban, Northern Montana Oil & Gas Association
Gail Abercrombie, Montana Petroleum Association

Opponents: **Tom Daubert, Montana Association of Oil, Gas & Coal Counties**

Informational Testimony: **Brian Smith, Department of Revenue**

Opening Statement by Sponsor:

SEN. AL BISHOP, SD 9, Billings, said that **SB 530** is comprised of two elements addressing oil and gas production rates. It simplifies the 44 tax rates in current statute and reduces them to 12, and it establishes a competitive tax rate for attracting oil and gas exploration and investment in Montana.

Proponents' Testimony:

Walter Webb, Tax Advisor, Shell Western E&P Company, Houston, Texas, and Chairman, Tax Committee of the Montana Petroleum Association, said **SB 530** is the industry's product of a study group begun in 1997. He provided a handout entitled "Montana Oil & Gas Production Tax Rates," **EXHIBIT(tas61a03).** He said this table shows all the rates that apply to oil and gas taxes presently. He said the present system of 44 taxes is complex and onerous for the taxpayers and the collectors. It was concluded that a new tax structure was needed that was simplified, that corrected some inequities in existing rates, and which provided realistic and competitive rates for future production of oil and gas in Montana.

Mr. Webb then distributed a handout entitled "O/G Production Tax Simplification and Competitiveness," which reflects the rates demonstrated in **SB 530**, **EXHIBIT(tas61a04).** It is the industry's opinion that **SB 530** reduces the classification and rates from 44 to 12, it maintains existing incentives for secondary and tertiary production, it provides incentives for new wells drilled after January 1999, it corrects inequities in royalty owners' and gas producers' tax rates, it provides faster receipts of tax revenues to local jurisdictions, it decreases administrative and compliance burdens, it provides a more reasonable and equitable distribution of revenues to tax jurisdictions and makes the tax structure more competitive with other producing states.

Mr. Webb said this is a major overhaul of the tax structure. He distributed an analysis of what the impact of **SB 530** would be, **EXHIBIT(tas61a05)**. The first page of the handout dealt with the current rates, the second page dealt with rates proposed as of 7/98 under **SB 530**, and the last pages showed rates proposed as of 7/98 under **SB 523**.

Robert Fisher, Ballard Petroleum, Billings, said he supports **SB 530**. He said his company has been in business in Montana for 30 years. They employ 28 people in their Billings office, and their payroll on an annual basis is approximately $2 million. He distributed a five-page handout, **EXHIBIT(tas61a06)**. The first page showed a natural gas tax comparison with other states in the region. He said the average well has a life of 15 years, while a marginal well has a life of 10 years. He said the first chart shows the Pondera Oil Field and the projected economic limit on this field currently. The second chart is an example of a stripper oil well, and showed the extended life of five years that this bill would make possible. The last two charts show the total taxes on the project life. He said this industry is crucial to Montana, and he urged support of **SB 530**.

Tom Hauptman, Independent Oil and Gas Producer, Billings, distributed a handout of a letter from **Mr. Hauptman** to **CHAIRMAN DEVLIN** with attachments, **EXHIBIT(tas61a07)**. He said that the oil and gas industry is in a great depression. He said 15 years ago there were almost 4,600 drilling rigs in Montana, and now there are 534 rigs. He said, however, that the second page of the handout reflects the average annual rotary rig count by state in the Rocky Mountain Region, and he said there is a direct correlation between the highest taxes and the amount of rig activity. He said Montana needs to be competitive, and he urged support of **SB 530**.

Jeff White, Continental Resources, provided written testimony in favor of **SB 530**, **EXHIBIT(tas61a08)**. He said this bill will provide the necessary difference to allow Continental Resources to expand their operations in Montana. Without it, these projects will continue to rank at the lower tier of their investment consideration and may very well expire. He encouraged consideration of this tax simplification and incentive bill.

Terry Holzwarth, Nance Petroleum Corporation, said they employ 16 people in their offices in Billings and operate almost exclusively in the Williston Basin. They produce 2500 barrels a day, and are the third largest oil producer in the state of Montana. He told the committee that in 1998 they paid close to $900,000 in severance taxes. He said he hoped this committee would support **SB 530**.

Leo Heath, Montana Power Company, Butte, said he is the manager of oil and gas operations in Montana. He said last year alone, MPC invested $20 million in drilling for new oil and gas production in the U.S., yet less than $1 million was invested in Montana, even though they have more lands under lease in Montana than in any other state. The reasons for that disparity are that they make their decisions based on economic principles. There are more opportunities for profit and profit margins in other places. **SB 530** will provide incentives for oil and gas companies to do exploration in Montana.

Karla MacCatherine, JN Oil and Gas, said that they are operating in an environment where prices are at a 25-year low. To remain competitive in this environment, they must look closely at cost issues relating to price and tax sensitivity. **SB 530** is a step towards Montana's competitiveness in attracting both new oil and gas business and sustaining current interests in the state. This bill will provide a more feasible economic scenario for Montana prospects. In addition, the economic benefits will be returned to the state through the creation or continuance of jobs which will generate additional revenue. She provided a written statement from G. K. Nelson, President and Chief Executive Officer of JN Oil and Gas, **EXHIBIT(tas61a09)**.

Ron Santi, Williston Basin Interstate Pipeline Company, Billings, said his company has actively participated in the Petroleum Association's tax committee and supports **SB 530**, with one exception. As a gas producer, they would prefer a tax rate for pre-1999 production which is equal to the oil producers' rate.

Jerome Anderson, Shell Oil Company, said Shell Oil Company produces approximate one-third of the crude produced in Montana, and is the largest producer in the state. He said they urge support of **SB 530**.

Patrick Montalban, Northern Montana Oil and Gas Association, said his organization represents the stripper operators of northern

Montana. He said **SB 530** is strictly about fairness, and the ability to be competitive in the state of Montana. He said this tax simplification process started in 1995. The Department of Revenue got the industry together to see if something couldn't be done about the industry tax structure. He said there are presently 44 different taxes paid by the industry. **SB 530** simplifies the tax process for the oil and gas industry and makes Montana competitive.

Gail Abercrombie, Montana Petroleum Association, said this bill is designed to create a rethinking about oil and gas taxes and the distribution of the taxes. She provided a handout, **EXHIBIT(tas61a10)**, which on the first page showed crude oil prices, which are definitely on a downward trend. She also distributed a two-page handout which demonstrated the distribution of revenues to counties, **EXHIBIT(tas61a11)**; a sheet entitled "Oil and Gas production Tax Revenue Collections," and "Proposed Montana Tax Structure," **EXHIBIT(tas61a12)**; and letters in support of **SB 530** from Chris Malan, Flying J Oil & Gas Inc., **EXHIBIT(tas61a13)**, Jeri O'Neil, Montana Power Gas Company, **EXHIBIT(tas61a14)**, James C. Sullins, North American Resources Company, **EXHIBIT(tas61a15)**, Wayne Ewert, Geophysical Consultant, **EXHIBIT(tas61a16)**, and an e-mail from Wayne Freisatz, Sunburst Consulting, **EXHIBIT(tas61a17)**.

The committee also received faxed letters from Eric Johnson, President, Montana Geological Society, **EXHIBIT(tas61a18)**, and Jack E. King, Hancock Enterprises, **EXHIBIT(tas61a19)**, both in support of
SB 530.

<u>Opponents' Testimony</u>:

Tom Daubert, Montana Association of Oil, Gas & Coal Counties, said this is an association whose members are the 33 counties which are home to oil, gas or coal development, primarily all of eastern Montana. He said his organization is very appreciative of the work that has been done on this proposal and the effort to minimize the effect on counties, but they reluctantly oppose **SB 530** because there is no Fiscal Note available at this point, and it is impossible to know what this will do to counties. He suggested that the committee wait until more information is available before taking action.

<u>Informational Testimony</u>:

Brian Smith, Department of Revenue, said he wanted to clarify a few points. He said the Department of Revenue is in favor of simplification of this complex process of oil and gas taxes. He said the industry wanted simplification, but they also wanted competitive rates for future production; counties wanted to be held revenue neutral, as a minimum; the Department was told they could not negotiate any part of a package that dealt with a revenue loss in the current biennium, and so none of the parties involved could ever agree on one final package that worked. He said there are a couple different pieces of legislation being introduced to deal with this. One of those is **SB 523**, which is a part of the Governor's tax package, and is not dissimilar from **SB 530**, except it has replacement revenue. He said he is still working on the Fiscal Note and it will be available in the next few days.

Questions from Committee Members and Responses:

SEN. STANG asked **Mr. Fisher** why this tax rate would expand a project's life. **Mr. Fisher** referred the committee to Exhibit 6, and explained that the Pondera field is basically a stripper field which has been producing since the 1930s. It is an oil-skimming operation, moving 98% saltwater and skimming 2% oil. He said that if oil prices continue the way they are, his company will realize about $20,000 in actual net profit. This type of tax rate reduction will extend the life of a marginal field. He said these types of fields are very sensitive to commodity prices and taxation. If the taxation is reduced, the life of a field is extended.

SEN. STANG said that explained the stripper fields, but he wondered how this bill would provide for new drilling and new wells, and **Mr. Fisher**, again referring to Exhibit 6, pointed out that this is a real-life example. He said taxes in Colorado are approximately 6%, while Montana's are almost 15%. He said the basic tax rate really affects the economics of a well over the life of the well. He said taxes in Montana are just too high.

SEN. STANG asked if local taxes and other taxes are taken into consideration when the effective tax rate is figured, or just the rate that the state charges, and **Mr. Fisher** answered that everything is built into their figures.

SEN. ELLINGSON said he agrees that Montana needs to be competitive with our neighboring states, but he wondered how far Montana has to go to be competitive. He wondered what kind of data could be provided to the committee that would make them aware of exactly what needs to be done in regard to taxes to accomplish that without going too far. **Mr. Fisher** said that the third page of Exhibit 6 shows a graph which assumes a 7.5% nominal income tax rate. He said the curve does not change. It shows that between 5% and 10% is where the state is maximizing their tax table. He said that there is a study that compares all of the states' tax burdens. **SEN. ELLINGSON** said he would like to see that study.

Perry Pierce, Director, State Government Affairs, Burlington Resources Oil and Gas Company, distributed a summary of a study that was conducted of a number of oil and gas tax systems, **EXHIBIT(tas61a20)**. He said there are eleven states which are listed on the third page. The fourth page of the study is a bar graph indicating effective oil tax rates. The next bar graph illustrates the effective gas tax rates, and it shows Montana has the highest. **Mr. Pierce** said in creating this study, they assumed a multi-well project, they assumed that that project was done in each of these states, they applied a decline rate, they applied some oil and gas forecast assumptions, and then took all of the tax rates that they could find and applied those over an assumed 20-year life of the project. Out of that came the results demonstrated in the summary provided. He said the study clearly shows that Montana's oil and natural gas rates are in the very highest regimes of producing states in the nation, and that has a negative impact on investment and activity in the state of Montana.

SEN. ELLINGSON asked **Mr. Pierce** if they could provide the committee these kinds of charts showing what kind of impact there would be on Montana's competitiveness if this bill were to be introduced. **Mr. Pierce** said it is possible, but he did not know how long that would take. He said they would try to provide that.

SEN. BOHLINGER referred to the study circulated by **Mr. Hauptman** that showed rig activity around the country, and indicated that this clearly indicates there has not been as much activity in Montana as compared to neighboring states. He wondered if there was any reason to assume that the reason there is not as much oil and gas production in Montana is because the oil field ends at the border. **Mr. Hauptman** said that Wyoming is one of the top five producers in the country, North Dakota has one-half of the Williston Basin, and Montana has opportunities throughout the state. **SEN. DEVLIN** asked how many rigs are working in North Dakota presently, and **Mr. Hauptman** said there is one getting ready to start up in North Dakota, and Montana has two. **SEN. BOHLINGER** said that some of the information shows 11 rigs working in North Dakota, and **Mr. Hauptman** said that was an annual report.

SEN. ECK asked whether removing mills through a sales tax would have an impact on this industry, and what kind of an impact that sales tax might have. **Mr. Pierce** said that in almost all jurisdictions which produce oil and gas, sales taxes are not applied to oil and gas production when it is first sold. They are replaced by severance taxes. All of the initial expenditures in terms of goods, not services, would be subject to the sales tax. In a number of states in the initial year there are very high sales tax numbers, and those taxes have been calculated into the results of this study. If a sales tax were adopted in Montana, the initial investment in goods would in all likelihood be subject to that sales tax.

SEN. ECK said the legislature has provided incentives over the years, but there has been some question of whether **SB 530** provides incentives for any new technology. **Ms. Abercrombie** said the group tried to be very judicious in this bill, and there are those who think it does not go far enough, but they are aware of the fiscal impact to local governments and they did not reduce those rates the simplification process because they were aware of the economic impacts.

SEN. ELLIS said that proponents of this legislation have indicated that this is a front-loaded cause to Montana but a net gain for Montana if this change is enacted because of income taxes, production taxes and the possibility of new development, and he asked if the study distributed by **Mr. Pierce** assessed how long it takes before the gain exceeds the cost. **Mr. Fisher** said that no one can guess what the commodity prices will be. However, his information shows that Montana would lose $5,000 in severance taxes from now until 2001 but would gain back about $80,000 on other taxes. However, that gain takes about two years at a 5% income tax. He said that definitely within five years that money would come back to the state, probably before that.

SEN. ELLIS asked **Mr. Pierce** to respond to the same question. **Mr. Pierce** said he could not provide any additional information about the relative cost of the legislation, the relative benefits from the legislation and how long it takes to balance that. He said he attempted to take a static, momentary look at the 11 tax systems that he studied and tried to gauge their effective impacts.

SEN. STANG asked if the effective tax rate was the only reason for the rig count or whether there are other circumstances. **Mr. Hauptman** said that in comparing North Dakota and Montana, that is the overwhelming reason. **SEN. STANG** said, looking at the 11 states involved in the study, that it appears that a lot of it has to do with the basin itself. **Mr. Hauptman** said that Texas is the leading producer in the country. He said, therefore, that that comparison is not as good as comparing Montana to North Dakota.

SEN. STANG asked how many acres are located in the Williston Basin in North Dakota versus how many acres are located in Montana, and **Mr. Hauptman** said that the state line basically splits the Williston Basin 50/50.

SEN. ELLINGSON, referring to page 4 of his handout, asked **Mr. Fisher** if this project life was a stripper well or an average well, and **Mr. Fisher** said that this is an actual project in the Pondera field. **SEN. ELLINGSON** asked if the Pondera field consisted of both stripper wells and average wells, and **Mr. Fisher** said there are wells currently in Pondera that are not classified as stripper wells. **SEN. ELLINGSON** asked if he could provide that kind of an analysis based on an average well as opposed to stripper wells, and **Mr. Fisher** said he could do that.

SEN. ELLINGSON asked how Montana analyzes competition with other states in terms of tax structure, and if Montana is not competitive, how do we get to that competitive place without giving up more tax revenue than needed. **Mr. Smith** said this is a very complicated issue and he would not have the time to put anything together for this committee. In regards to the study, it is very well done, but it does not take into account everything, and there are assumptions made in order to compare states which differ for every well, and every location.

SEN. DEVLIN asked **Mr. White** if he had other information about the split of the Williston Basin, and **Mr. White** drew a diagram on the blackboard explaining that split. He said that Montana is $100,000 more expensive on a typical well than a well in North Dakota. He said an average well might run 20 years in Montana and in North Dakota it will run 25 years because of the economics. He said a well's production declines but the costs pretty well remain consistent, and that demonstrates how the life of a well is extended.

SEN. GLASER asked about reducing local revenues and noted that the trade-off is state revenues. He wondered how local governments could be made whole. **Mr. Smith** said some of the proponents had said there would be increases in income taxes. He said there is no part of the bill which would reimburse local governments for lost revenues, and both the state and local governments will see a reduction in revenues. **SEN. GLASER** asked if there was some way to use that potential income tax, and **Mr. Smith** said that any figures based on that would be very arbitrary.

Closing by Sponsor:

SEN. BISHOP said that conceptually Montana favors this type of legislation and he urged support.

NOTE: After the hearing, the committee was provided a faxed letter to Jane Jelinski, Assistant Director of the Montana Association of Counties, from the Board of Commissioners of Carbon County in Red Lodge in favor of **SB 529, EXHIBIT(tas61a21).**

ADJOURNMENT

Adjournment: 10:25 A.M.

____
SEN. GERRY DEVLIN, Chairman

____
SANDY BARNES, Secretary

GD/SB

EXHIBIT(tas61aad)