

\*\*\*\* Bill No. \*\*\*\*

Introduced By \*\*\*\*\*

By Request of the \*\*\*\*\*

A Bill for an Act entitled: "An Act clarifying and separating revenue streams to the oil, gas, and coal natural resource account; specifically earmarking the coal tax distribution for the coal board for local impact grants; amending sections 15-35-108, 15-36-304, 15-36-331, 15-36-332, and 90-6-1001, MCA; and providing an effective date."

Be it enacted by the Legislature of the State of Montana:

**Section 1.** Section 15-35-108, MCA, is amended to read:

**"15-35-108. (Temporary) Disposal of severance taxes.**

Severance taxes collected under this chapter must, in accordance with the provisions of 17-2-124, be allocated as follows:

(1) Fifty percent of total coal severance tax collections is allocated to the trust fund created by Article IX, section 5, of the Montana constitution. The trust fund money must be deposited in the fund established under 17-6-203(6) and invested by the board of investments as provided by law.

(2) The amount of 12% of coal severance tax collections is allocated to the long-range building program account established in 17-7-205.

(3) The amount of 5.46% must be credited to an account in the state special revenue fund to be allocated by the legislature

**Unofficial Draft Copy**

As of: September 19, 2008 (10:42am)

LC0270

for provision of basic library services for the residents of all counties through library federations and for payment of the costs of participating in regional and national networking, conservation districts, and the Montana Growth Through Agriculture Act. Expenditures of the allocation may be made only from this account. Money may not be transferred from this account to another account other than the general fund. Any unreserved fund balance at the end of each fiscal year must be deposited in the general fund.

(4) The amount of 1.27% must be allocated to a permanent fund account for the purpose of parks acquisition or management. Income from this permanent fund account, excluding unrealized gains and losses, must be appropriated for the acquisition, development, operation, and maintenance of any sites and areas described in 23-1-102.

(5) The amount of 0.95% must be allocated to the debt service fund type to the credit of the renewable resource loan debt service fund.

(6) The amount of 0.63% must be allocated to a trust fund for the purpose of protection of works of art in the capitol and for other cultural and aesthetic projects. Income from this trust fund account, excluding unrealized gains and losses, must be appropriated for protection of works of art in the state capitol and for other cultural and aesthetic projects.

(7) The amount of 2.9% must be credited to the ~~oil, gas,~~ and coal natural resource account established in 90-6-1001(2).

(8) After the allocations are made under subsections (2)

**Unofficial Draft Copy**

As of: September 19, 2008 (10:42am)

LC0270

through (7), \$250,000 for the fiscal year must be credited to the coal and uranium mine permitting and reclamation program account established in 82-4-244.

(9) (a) Subject to subsection (9) (b), all other revenue from severance taxes collected under the provisions of this chapter must be credited to the general fund of the state.

(b) The interest income from \$140 million of the coal severance tax permanent fund that is deposited in the general fund is statutorily appropriated, as provided in 17-7-502, on an annual basis as follows:

(i) \$65,000 to the cooperative development center;

(ii) \$1.25 million for the growth through agriculture program provided for in Title 90, chapter 9;

(iii) \$3.65 million to the research and commercialization state special revenue account created in 90-3-1002;

(iv) to the department of commerce:

(A) \$125,000 for a small business development center;

(B) \$50,000 for a small business innovative research program;

(C) \$425,000 for certified regional development corporations;

(D) \$200,000 for the Montana manufacturing extension center at Montana state university-Bozeman; and

(E) \$300,000 for export trade enhancement. (Terminates June 30, 2010--sec. 6, Ch. 481, L. 2003.)

**15-35-108. (Effective July 1, 2010) Disposal of severance taxes.** Severance taxes collected under this chapter must, in

**Unofficial Draft Copy**

As of: September 19, 2008 (10:42am)

LC0270

accordance with the provisions of 17-2-124, be allocated as follows:

(1) Fifty percent of total coal severance tax collections is allocated to the trust fund created by Article IX, section 5, of the Montana constitution. The trust fund money must be deposited in the fund established under 17-6-203(6) and invested by the board of investments as provided by law.

(2) The amount of 12% of coal severance tax collections is allocated to the long-range building program account established in 17-7-205.

(3) The amount of 5.46% must be credited to an account in the state special revenue fund to be allocated by the legislature for provision of basic library services for the residents of all counties through library federations and for payment of the costs of participating in regional and national networking, conservation districts, and the Montana Growth Through Agriculture Act. Expenditures of the allocation may be made only from this account. Money may not be transferred from this account to another account other than the general fund. Any unreserved fund balance at the end of each fiscal year must be deposited in the general fund.

(4) The amount of 1.27% must be allocated to a permanent fund account for the purpose of parks acquisition or management. Income from this permanent fund account, excluding unrealized gains and losses, must be appropriated for the acquisition, development, operation, and maintenance of any sites and areas described in 23-1-102.

**Unofficial Draft Copy**

As of: September 19, 2008 (10:42am)

LC0270

(5) The amount of 0.95% must be allocated to the debt service fund type to the credit of the renewable resource loan debt service fund.

(6) The amount of 0.63% must be allocated to a trust fund for the purpose of protection of works of art in the capitol and for other cultural and aesthetic projects. Income from this trust fund account, excluding unrealized gains and losses, must be appropriated for protection of works of art in the state capitol and for other cultural and aesthetic projects.

(7) The amount of 2.9% must be credited to the ~~oil, gas,~~ and coal natural resource account established in 90-6-1001(2).

(8) After the allocations are made under subsections (2) through (7), \$250,000 for the fiscal year must be credited to the coal and uranium mine permitting and reclamation program account established in 82-4-244.

(9) All other revenue from severance taxes collected under the provisions of this chapter must be credited to the general fund of the state."

{*Internal References to 15-35-108:*

2-17-805	17-7-205	17-7-502	17-7-502
22-2-301	22-2-304	22-2-321	23-1-108
76-15-530	82-4-244	90-6-1001	}

**Section 2.** Section 15-36-304, MCA, is amended to read:

**"15-36-304. Production tax rates imposed on oil and natural gas -- exemption.** (1) The production of oil and natural gas is taxed as provided in this section. The tax is distributed as provided in 15-36-331 and 15-36-332.

**Unofficial Draft Copy**

As of: September 19, 2008 (10:42am)

LC0270

(2) Natural gas is taxed on the gross taxable value of production based on the type of well and type of production according to the following schedule for working interest and nonworking interest owners:

Working      Nonworking

Interest      Interest

(a) (i) first 12 months of qualifying production 0.5% 14.8%

(ii) after 12 months:

(A) pre-1999 wells 14.8%      14.8%

(B) post-1999 wells      9%      14.8%

(b) stripper natural gas pre-1999 wells      11%      14.8%

(c) horizontally completed well production:

(i) first 18 months of qualifying production      0.5% 14.8%

(ii) after 18 months      9%      14.8%

(3) The reduced tax rates under subsection (2) (a) (i) on production for the first 12 months of natural gas production from a well begins following the last day of the calendar month immediately preceding the month in which natural gas is placed in a natural gas distribution system, provided that notification has been given to the department.

(4) The reduced tax rate under subsection (2) (c) (i) on production from a horizontally completed well for the first 18 months of production begins following the last day of the calendar month immediately preceding the month in which natural gas is placed in a natural gas distribution system, provided that notification has been given to the department.

(5) Oil is taxed on the gross taxable value of production

**Unofficial Draft Copy**

As of: September 19, 2008 (10:42am)

LC0270

based on the type of well and type of production according to the following schedule for working interest and nonworking interest owners:

Working      Nonworking  
Interest      Interest

(a) primary recovery production:

(i) first 12 months of qualifying production      0.5% 14.8%

(ii) after 12 months:

(A) pre-1999 wells 12.5%      14.8%

(B) post-1999 wells      9%      14.8%

(b) stripper oil production:

(i) first 1 through 10 barrels a day production      5.5% 14.8%

(ii) more than 10 barrels a day production      9.0% 14.8%

(c) (i) stripper well exemption production      0.5% 14.8%

(ii) stripper well bonus production      6.0% 14.8%

(d) horizontally completed well production:

(i) first 18 months of qualifying production      0.5% 14.8%

(ii) after 18 months:

(A) pre-1999 wells 12.5%      14.8%

(B) post-1999 wells      9%      14.8%

(e) incremental production:

(i) new or expanded secondary recovery production      8.5%  
14.8%

(ii) new or expanded tertiary production      5.8% 14.8%

(f) horizontally recompleted well:

(i) first 18 months      5.5% 14.8%

(ii) after 18 months:

**Unofficial Draft Copy**

As of: September 19, 2008 (10:42am)

LC0270

(A) pre-1999 wells 12.5% 14.8%

(B) post-1999 wells 9% 14.8%

(6) (a) The reduced tax rates under subsection (5) (a) (i) for the first 12 months of oil production from a well begins following the last day of the calendar month immediately preceding the month in which oil is pumped or flows, provided that notification has been given to the department.

(b) (i) The reduced tax rates under subsection (5) (d) (i) on oil production from a horizontally completed well for the first 18 months of production begins following the last day of the calendar month immediately preceding the month in which oil is pumped or flows if the well has been certified as a horizontally completed well to the department by the board.

(ii) The reduced tax rate under subsection (5) (f) (i) on oil production from a horizontally recompleted well for the first 18 months of production begins following the last day of the calendar month immediately preceding the month in which oil is pumped or flows if the well has been certified as a horizontally recompleted well to the department by the board.

(c) Incremental production is taxed as provided in subsection (5) (e) only if the average price for each 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 a barrel in a calendar quarter as determined in subsection (6) (d), then incremental production from pre-1999 wells and from post-1999 wells is taxed at the rate imposed on primary recovery

**Unofficial Draft Copy**

As of: September 19, 2008 (10:42am)

LC0270

production under subsections (5) (a) (ii) (A) and (5) (a) (ii) (B), respectively, for production occurring in that quarter, other than exempt stripper well production.

(d) (i) Stripper well exemption production is taxed as provided in subsection (5) (c) (i) only if the average price for a barrel of oil as reported in the Wall Street Journal for west Texas intermediate crude oil during a calendar quarter is less than \$38 a barrel. If the price of oil is equal to or greater than \$38 a barrel, there is no stripper well exemption tax rate and oil produced from a well that produces 3 barrels a day or less is taxed as stripper well bonus production.

(ii) Stripper well bonus production is subject to taxation as provided in subsection (5) (c) (ii) only if the average price for a barrel of oil as reported in the Wall Street Journal for west Texas intermediate crude oil during a calendar quarter is equal to or greater than \$38 a barrel.

(e) For the purposes of subsections (6) (c) and (6) (d), the average price for each 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.

(7) (a) The tax rates imposed under subsections (2) and (5) on working interest owners and nonworking interest owners must be adjusted to include the total of the privilege and license tax adopted by the board of oil and gas conservation pursuant to 82-11-131 and the derived rate for the oil, and gas, ~~and coal~~

**Unofficial Draft Copy**

As of: September 19, 2008 (10:42am)

LC0270

natural resource distribution account as determined under subsection (7) (b).

(b) The total of the privilege and license tax and the tax for the oil, ~~and gas, and coal~~ natural resource distribution account established in 90-6-1001(1) may not exceed 0.3%. The base rate for the tax for oil, ~~and gas, and coal~~ natural resource distribution account funding is 0.08%, but when the rate adopted pursuant to 82-11-131 by the board of oil and gas conservation for the privilege and license tax:

(i) exceeds 0.22%, the rate for the tax to fund the oil, ~~and gas, and coal~~ natural resource distribution account is equal to the difference between the rate adopted by the board of oil and gas conservation and 0.3%; or

(ii) is less than 0.18%, the rate for the tax to fund the oil, ~~and gas, and coal~~ natural resource distribution account is equal to the difference between the rate adopted by the board of oil and gas conservation and 0.26%.

(c) The board of oil and gas conservation shall give the department at least 90 days' notice of any change in the rate adopted by the board. Any rate change of the tax to fund the oil, ~~and gas, and coal~~ natural resource distribution account is effective at the same time that the board of oil and gas conservation rate is effective.

(8) Any interest in production owned by the state or a local government is exempt from taxation under this section."

{*Internal References to 15-36-304:*  
15-36-303      15-36-332 }

**Section 3.** Section 15-36-331, MCA, is amended to read:

**"15-36-331. Distribution of taxes.** (1) (a) For each calendar quarter, the department shall determine the amount of tax, late payment interest, and penalties collected under this part.

(b) For the purposes of distribution of oil and natural gas production taxes to county and school district taxing units under 15-36-332 and to the state, the department shall determine the amount of oil and natural gas production taxes paid on production in the taxing unit.

(2) (a) The amount of oil and natural gas production taxes collected for the privilege and license tax pursuant to 82-11-131 must be deposited, in accordance with the provisions of 17-2-124, in the state special revenue fund for the purpose of paying expenses of the board, as provided in 82-11-135.

(b) The amount of the tax allocated in 15-36-304(7)(b) for the oil, ~~and gas, and coal~~ natural resource distribution account established in 90-6-1001(1) must be deposited in the account.

(3) (a) For each tax year, the amount of oil and natural gas production taxes determined under subsection (1)(b) is allocated to each county according to the following schedule:

Big Horn	45.05%
Blaine	58.39%
Carbon	48.27%
Chouteau	58.14%
Custer	69.53%

# Unofficial Draft Copy

As of: September 19, 2008 (10:42am)

LC0270

Daniels	50.81%
Dawson	47.79%
Fallon	41.78%
Fergus	69.18%
Garfield	45.96%
Glacier	58.83%
Golden Valley	58.37%
Hill	64.51%
Liberty	57.94%
McCone	49.92%
Musselshell	48.64%
Petroleum	48.04%
Phillips	54.02%
Pondera	54.26%
Powder River	60.9%
Prairie	40.38%
Richland	47.47%
Roosevelt	45.71%
Rosebud	39.33%
Sheridan	47.99%
Stillwater	53.51%
Sweet Grass	61.24%
Teton	46.1%
Toole	57.61%
Valley	51.43%
Wibaux	49.16%
Yellowstone	46.74%

**Unofficial Draft Copy**

As of: September 19, 2008 (10:42am)

LC0270

All other counties 50.15%

(b) The oil and natural gas production taxes allocated to each county must be deposited in the state special revenue fund and transferred to each county for distribution, as provided in 15-36-332.

(4) The department shall, in accordance with the provisions of 17-2-124, distribute the state portion of oil and natural gas production taxes remaining after the distributions pursuant to subsections (2) and (3) as follows:

(a) for each fiscal year through the fiscal year ending June 30, 2011, to be distributed as follows:

(i) 1.23% to the coal bed methane protection account established in 76-15-904;

(ii) 1.45% to the natural resources projects state special revenue account established in 15-38-302;

(iii) 1.45% to the natural resources operations state special revenue account established in 15-38-301;

(iv) 2.99% to the orphan share account established in 75-10-743;

(v) 2.65% to the state special revenue fund to be appropriated to the Montana university system for the purposes of the state tax levy as provided in 20-25-423; and

(vi) all remaining proceeds to the state general fund;

(b) for fiscal years beginning after June 30, 2011, to be distributed as follows:

(i) 2.16% to the natural resources projects state special revenue account established in 15-38-302;

**Unofficial Draft Copy**

As of: September 19, 2008 (10:42am)

LC0270

(ii) 2.02% to the natural resources operations state special revenue account established in 15-38-301;

(iii) 2.95% to the orphan share account established in 75-10-743;

(iv) 2.65% to the state special revenue fund to be appropriated to the Montana university system for the purposes of the state tax levy as provided in 20-25-423; and

(v) all remaining proceeds to the state general fund."

{*Internal References to 15-36-331:*

15-36-304	15-36-332	15-36-332	15-36-332
15-38-301	15-38-302	75-10-743	76-15-904
82-11-135	90-6-1001	}	

**Section 4.** Section 15-36-332, MCA, is amended to read:

**"15-36-332. Distribution of taxes to taxing units -- appropriation.** (1) (a) By the dates referred to in subsection (6), the department shall distribute oil and natural gas production taxes allocated under 15-36-331(3) to each eligible county.

(b) By the dates referred to in subsection (6), the department shall distribute the amount deposited in the oil, and gas, ~~and coal~~ natural resource distribution account under 15-36-331(2) (b) as provided in subsection (8).

(2) (a) Each county treasurer shall distribute the amount of oil and natural gas production taxes designated under subsection (1) (a), including the amounts referred to in subsection (2) (b), to the countywide elementary and high school retirement funds, countywide transportation funds, and eligible

# Unofficial Draft Copy

As of: September 19, 2008 (10:42am)

LC0270

school districts according to the following schedule:

	Elementary Retirement	High School Retirement	Countywide Transportation	School Districts
Big Horn	14.81%	10.36%	2.99%	26.99%
Blaine	5.86%	2.31%	2.71%	24.73%
Carbon	3.6% 6.62%	1.31%		49.18%
Chouteau	8.1% 4.32%	3.11%		23.79%
Custer	6.9% 3.4%	1.19%		31.25%
Daniels	0 7.77%	3.92%		48.48%
Dawson	5.53%	2.5% 1.11%		35.6%
Fallon	0 7.63%	1.24%		42.58%
Fergus	7.88%	4.84%	2.08%	53.25%
Garfield	4.04%	3.13%	5.29%	26.19%
Glacier	11.2%	4.87%	3.01%	46.11%
Golden Valley	0 11.52%	2.77%		54.65%
Hill	6.7% 4.07%	1.59%		49.87%
Liberty	4.9% 4.56%	1.15%		35.22%
McCone	4.18%	3.19%	2.58%	43.21%
Musselshell	5.98%	4.07%	3.53%	32.17%
Petroleum	0 11.92%	4.59%		55.48%
Phillips	0.43%	6.6% 1.08%		41.29%
Pondera	6.96%	5.06%	1.94%	45.17%
Powder River	3.96%	2.97%	4.57%	22.25%
Prairie	0 8.88%	1.63%		36.9%
Richland	4.1% 3.92%	2.26%		43.77%
Roosevelt	9.93%	7.37%	2.74%	40.94%
Rosebud	3.87%	2.24%	1.05%	72.97%

**Unofficial Draft Copy**

As of: September 19, 2008 (10:42am)

LC0270

Sheridan	0	3.39%	2.22%	47.63%	
Stillwater		6.87%	4.86%	1.63%	41.16%
Sweet Grass		6.12%	6.5%	2.4%	37.22%
Teton		6.88%	8.19%	3.8%	29.43%
Toole		2.78%	4.78%	1.3%	43.56%
Valley		2.26%	12.61%	4.63%	41.11%
Wibaux	0	4.1%	0.77%	31.46%	
Yellowstone		7.98%	4.56%	1.07%	52.77%
All other counties		3.81%	7.84%	1.81%	41.04%

(b) (i) The county treasurer shall distribute 9.8% of the Custer County share to the countywide community college district in Custer County.

(ii) The county treasurer shall distribute 14.5% of the Dawson County share to the countywide community college district in Dawson County.

(3) The remaining oil and natural gas production taxes for each county must be used for the exclusive use and benefit of the county, including districts within the county established by the county.

(4) (a) The county treasurer shall distribute oil and natural gas production taxes to school districts in each county referred to in subsection (2) as provided in subsections (4) (b) through (4) (d).

(b) The amount distributed to each K-12 district within the county is equal to oil and natural gas production taxes in the county multiplied by the ratio that oil and natural gas production taxes attributable to oil and natural gas production

**Unofficial Draft Copy**

As of: September 19, 2008 (10:42am)

LC0270

in the K-12 school district bear to total oil and natural gas production taxes attributable to total oil and natural gas production in the county and multiply that amount by the school district percentage figure for the county referred to in subsection (2) (a).

(c) For the amount to be distributed to each elementary school district and to each high school district under subsection (4) (d), the department shall first determine the amount of oil and natural gas taxes in the high school district that is attributable to oil and natural gas production in each elementary school district that is located in whole or in part within the exterior boundaries of a high school district and multiply that amount by the school district percentage figure for the county referred to in subsection (2) (a).

(d) (i) The amount distributed to each elementary school district that is located in whole or in part within the exterior boundaries of a high school district is equal to the amount determined in subsection (4) (c) multiplied by the ratio that the total mills of the elementary school district bear to the sum of the total mills of the elementary school district and the total mills of the high school district.

(ii) The amount distributed to the high school district is equal to the amount determined in subsection (4) (c) multiplied by the ratio that the total mills of the high school district bear to the sum of the total mills of each elementary school district referred to in subsection (4) (c) and the total mills of the high school district.

**Unofficial Draft Copy**

As of: September 19, 2008 (10:42am)

LC0270

(5) (a) Oil and natural gas production taxes calculated for each school district under subsections (4)(b) through (4)(d) must be distributed to each school district in the relative proportion of the mill levy for each fund.

(b) If a distribution under subsection (5)(a) exceeds the total budget for a school district fund, the board of trustees of an elementary or high school district may reallocate the excess to any budgeted fund of the school district.

(6) The department shall remit the amounts to be distributed in this section to the county treasurer by the following dates:

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

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

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

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

**Unofficial Draft Copy**

As of: September 19, 2008 (10:42am)

LC0270

(7) The department shall provide to each county by May 31 of each year the amount of gross taxable value represented by all types of production taxed under 15-36-304 for the previous calendar year multiplied by 60%. The resulting value must be treated as taxable value for county classification purposes under 7-1-2111.

(8) The department shall distribute the funds received under 15-36-331(2)(b) to counties based on county oil and gas production. Of the distribution to a county, one-third must be distributed to the county government and two-thirds must be distributed to incorporated cities and towns within the county. If there is more than one incorporated city or town within the county, the city and town allocation must be distributed to the cities and towns based on their relative populations.

(9) The distributions to taxing units and to counties and incorporated cities and towns under this section are statutorily appropriated, as provided in 17-7-502, from the state special revenue fund."

{*Internal References to 15-36-332:*

7-1-2111	15-36-304	15-36-315	15-36-315
15-36-315	15-36-315	15-36-331	15-36-331
17-7-502	}		

**Section 5.** Section 90-6-1001, MCA, is amended to read:

**"90-6-1001. Oil, gas, and coal natural resource account accounts.** (1) There is an oil, and gas, ~~and coal~~ natural resource distribution account in the state special revenue fund. The collections allocated to the account from ~~15-35-108(7)~~ and

**Unofficial Draft Copy**

As of: September 19, 2008 (10:42am)

LC0270

~~15-36-331(2)(b)~~ 15-36-304(7)(b) must be deposited in the account to be used as provided in subsections (8) and (9) of 15-36-332.

(2) There is a coal natural resource account in the state special revenue fund. The collections allocated to the account from 15-35-108(7) must be deposited in the account. The money in the account is allocated to the coal board provided for in 2-15-1821, and may be used only for local impact grants provided for in 90-6-205 through 90-6-207, and costs related to the administration of the grant awards."

{Internal References to 90-6-1001:

15-35-108      15-35-108      15-36-331 }

NEW SECTION.    **Section 6. {standard} Effective date.** [This act] is effective July 1, 2009.

- END -

{Name :        Lee Heiman  
Title :        Staff Attorney  
Agency:       Montana Legislative Services  
Phone :        (406) 444-3064  
E-Mail:        lheiman@mt.gov}