EXHIBIT 3
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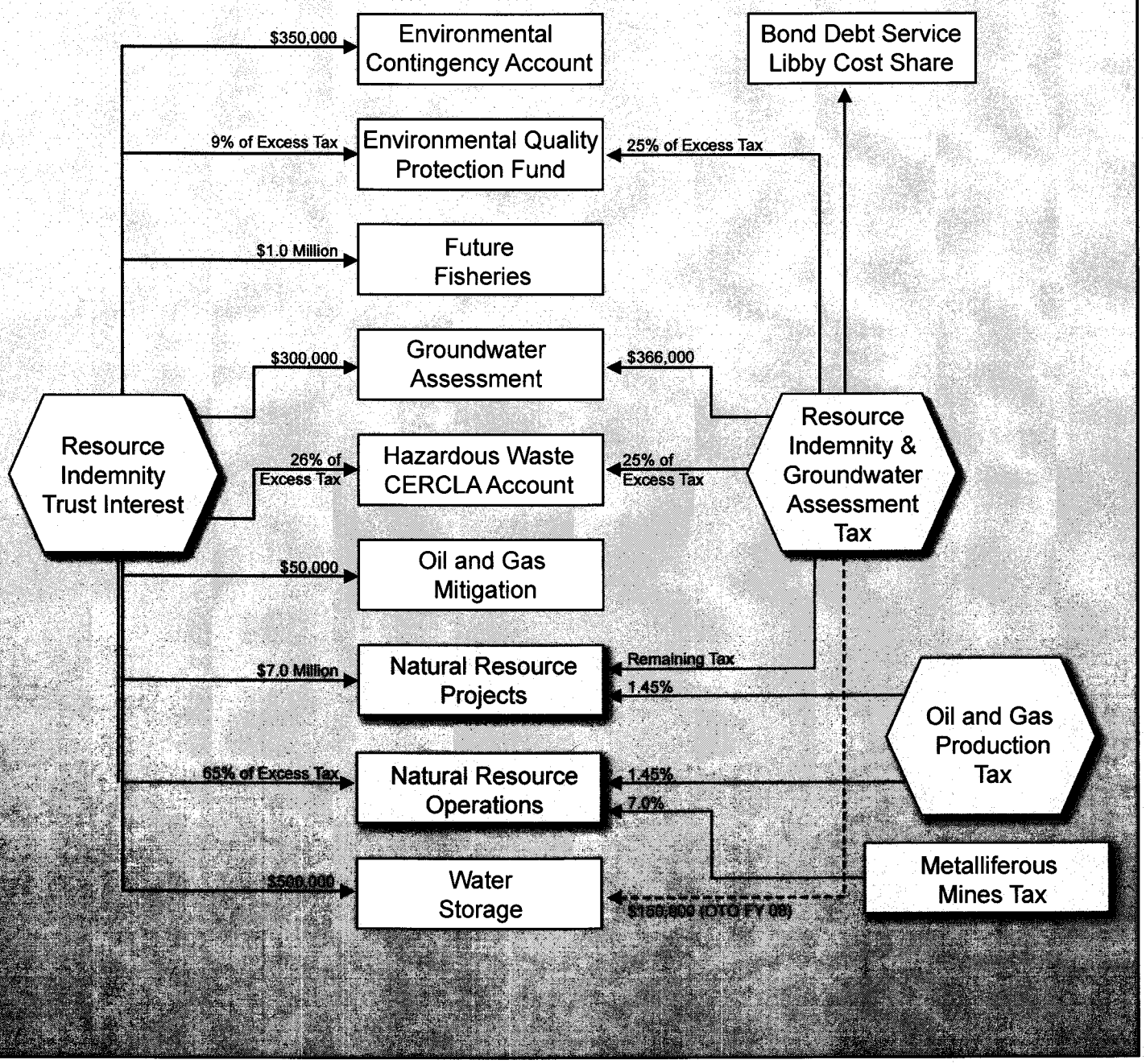
HB

Revenue Sources For Montana's Natural Resource Programs

- Resource Indemnity Trust Fund
- Resource Indemnity Groundwater Assessment Tax
- Oil and Natural Gas Production Tax
- Metalliferous Mines License Tax

Department of Natural Resources & Conservation
January 2009

Allocation of Funding Sources for Natural Resource Programs
2011 Biennium



ALLOCATION OF FUNDING SOURCES FOR NATURAL RESOURCE PROGRAMS

This summary describes the flow of revenue to natural resource project accounts in State government. Revenue sources and programs shown in bold are represented on the flow chart located at the beginning of this document.

REVENUE SOURCES

Title 15, Chapter 38, MCA, created a **Resource Indemnity Trust Fund** to indemnify the citizens of Montana for depletion of the state's natural resources and for environmental damage from mineral development. The trust was funded with proceeds from resource extraction taxes until the trust balance reached $100 million, which occurred in December 2001. Deposits to the resource indemnity trust fund ceased at that point, and the balance has remained at $100 million. Income from the trust fund is used to fund environmental and natural resource programs.

The **Resource Indemnity Groundwater Assessment Tax (RIGWA)** is a 0.5 percent tax of the gross value of the product of certain mineral mining. The tax was originally created in 1973. Mineral production, including coal, small metal mine production, talc, vermiculite, limestone, and other "*nonrenewable merchantable products extracted from the surface or subsurface of the state of Montana*" (15-38-103, MCA). Proceeds from the RIGWA tax go toward groundwater assessment, bond debt service for the Libby cost share, and various natural resource programs.

Oil and Gas Production Tax is distributed to counties affected by oil and natural gas production and to the natural resources state special revenue accounts. The 1995 Montana Legislature replaced all existing extraction taxes on all oil and natural gas production with a single production tax based on the type of well and type of production. Other programs funded by this tax include the coal bed methane protection account, the orphan share account, and the Montana University System state special revenue. This tax has been effective since January 1, 1996.

The Metalliferous Mines License Tax is levied on the owner of any mine extracting metals, and precious, or semiprecious gems. Proceeds are distributed to the state general fund, the hard-rock mining impact trust account, the hard-rock mining reclamation debt service fund, the natural resources operations state special revenue account, and to counties adversely affected by mining.

NATURAL RESOURCE PROGRAMS

The Natural Resource Projects State Special Revenue Account receives funding from Resource Indemnity Trust (RIT) interest earnings, RIGWA, and the Oil and Natural Gas Production Tax (85-1-604, MCA). This Account funds projects managed under the following two programs:

(1) The Renewable Resource Grant and Loan Program, created in 1993. The purpose of the grant program is to fund projects that conserve, develop, manage, and preserve water and other renewable resources. Projects include construction and rehabilitation of existing water supply systems and wastewater systems, educational efforts, feasibility studies, development of water storage, enhancement of renewable resources including recreation, reduction and advancement of agricultural chemical use, and improvement of water use efficiency (85-1-602, MCA).

(2) The Reclamation and Development Grants Program, established in 1987. Purposes of the program are: (1) to repair, reclaim, and mitigate environmental damage to public resources from nonrenewable resource extraction; and (2) to develop and ensure the quality of public resources for the benefit of all Montanans (90-2-1101, MCA). Projects have included plugging abandoned oil and gas wells, reclaiming mine sites, researching new technologies for mine waste cleanup, conducting groundwater studies to determine the extent of contamination, and cleaning up pesticide contamination.

The **Natural Resources Operations State Special Revenue Account** receives RIT interest earnings, and Oil and Natural Gas Production Tax proceeds, (90-2-1104, MCA). The revenues are used to fund administration of natural resource agencies, including the administration of the Renewable Resource Grant and Reclamation and Development Grants Programs, and state agency costs.

The **Groundwater Assessment Account** was created in 1991 (85-2-901 et seq., MCA) to fund a statewide groundwater assessment program that monitors the quantity and quality of the state's groundwater. The program is staffed by the Montana Bureau of Mines and Geology in Butte. An oversight committee reviews all expenditures, approves monitoring sites, prioritizes areas, coordinates information, and evaluates reports.

The **Environmental Contingency Account** was created in 1985 (75-1-1101 et seq., MCA). The Governor has the authority to approve expenditures from this account to meet unanticipated public needs. Specifically, the statute limits projects those that (1) support renewable resource development in communities that face an emergency or imminent need for the services or to prevent the failure of a project; (2) preserve vegetation, water, soil, fish, wildlife, or other renewable resources from an imminent physical threat or during an emergency, not including natural disasters or fire; (3) respond to an emergency or imminent threat to persons, property, or the environment caused by mineral development; and (4) fund the Environmental Quality Protection Fund. Each biennium, $350,000 of the RIT interest earnings is allocated to this account. Effective July 1, 2009, the balance in this account cannot exceed $750,000.

The **Oil and Gas Production Damage Mitigation Account** was created in 1989 (82-11-161, MCA). The Board of Oil and Gas Conservation may authorize payment for the cost of properly plugging a well and reclaiming and/or restoring a drill site or other drilling or producing area damaged by oil and gas operations. The site must be abandoned, and the responsible person either cannot be identified or refuses to correct the problem. Each biennium, $50,000 of the RIT interest earnings is allocated to this account. The balance in this account cannot exceed $200,000.

The **Water Storage State Special Revenue Account** was established in 1991 (85-1-631, MCA). The purpose of the account is to provide funding for projects that rehabilitate existing water storage facilities or develop new ones. Priority is given to high hazard, unsafe dams. Each biennium, $500,000 of RIT interest earnings is deposited into this account.

The **Hazardous Waste Federal Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) Account** is administered by the Department of Environmental Quality (75-10-601 et seq., MCA). This account receives 26 percent of remaining RIT interest earnings and 25% of excess RIGWA tax. The account was established in 1983 and used to make payments on CERCLA bonds, implement the Montana Hazardous Waste Act, and provide assistance in remedial actions under CERCLA.

The **Environmental Quality Protection Fund** was established in 1985 and is administered by the Department of Environmental Quality (DEQ) (75-10-704 et seq., MCA). This account receives 9 percent of the remaining RIT interest earnings and 25% of excess RIGWA tax. The purpose of this account is to provide funding for remedial actions taken by the DEQ in response to a release of hazardous or deleterious substances.

The **Future Fisheries Improvement Program** was created by the 1995 Legislature to restore essential habitats for the growth and propagation of wild fish population in lakes, rivers, and streams. In 1999, the Legislature expanded the program by adding funding from the RIT and directing a portion of the funding to projects that specifically enhance bull trout and cutthroat trout, with emphasis on mineral reclamation projects.