

HOUSE BILL NO. 657
INTRODUCED BY W. STAHL

A BILL FOR AN ACT ENTITLED: "AN ACT REQUIRING THE REVENUE AND TRANSPORTATION INTERIM COMMITTEE TO APPOINT A SUBCOMMITTEE TO CONDUCT A STUDY OF THE CLASSIFICATION, VALUATION, AND TAXATION OF OIL AND NATURAL GAS PROPERTY; PROVIDING AN APPROPRIATION; AND PROVIDING AN IMMEDIATE EFFECTIVE DATE."

WHEREAS, oil and natural gas production machinery and equipment, gathering lines, other related property, and transmission lines make up a significant portion of the property tax base of many taxing units in the state; and

WHEREAS, continuous oil and natural gas property that is operated in more than one county or more than one state has been centrally assessed, classified as class nine property under section 15-6-141, MCA, and taxed at 12% of its market value; and

WHEREAS, Omimex Canada Ltd. has been centrally assessed by the Montana Department of Revenue and classified as class nine property; and

WHEREAS, the Montana Supreme Court held in *Omimex Canada, Ltd. v. State, Department of Revenue* that the description of class nine property does not include the physical attributes of Omimex's property and that Omimex's property must be classified as class eight property and taxed at 3% of market value; and

WHEREAS, the overall effect of the Montana Supreme Court decision significantly reduces property tax collections by millions of dollars in counties and school districts across the state; and

WHEREAS, the Montana Supreme Court decision did not deal with constitutional issues raised by Omimex, including due process and equal protection; and

WHEREAS, the Montana Supreme Court decision is symptomatic of the uncertainty regarding the classification, valuation, and taxation of oil and natural gas property; and

WHEREAS, competing legislation has been introduced in the 61st Legislature to deal with the Supreme Court decision and other matters related to the classification, valuation, and taxation of oil and natural gas property; and

WHEREAS, any legislation, if enacted, may not resolve the ambiguity regarding the classification, valuation, and taxation of oil and natural gas property and may contain unintended consequences.

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

NEW SECTION. **Section 1. Interim study of taxation of oil and natural gas property.** (1) The revenue and transportation interim committee provided for in 5-5-227 shall conduct an interim study on the classification, valuation, and taxation of oil and natural gas property. The study must include:

(a) an overview of how oil and natural gas markets function, including the effects of state and federal regulatory policy on the operation of these markets;

(b) an inventory of the ownership of oil and natural gas property subject to central assessment or local assessment;

(c) a review of the department of revenue's policies, procedures, and practices for the valuation of locally assessed and centrally assessed oil and natural gas property;

(d) an analysis of the importance of oil and natural gas property to the property tax base of taxing jurisdictions, including the state;

(e) an analysis of state tax appeal board and court decisions affecting the classification, valuation, and taxation of oil and natural gas property;

(f) the development of an appropriate policy of taxing oil and natural gas property that takes into account the balance of the financial needs of taxing jurisdictions within the state and the equitable taxation of oil and natural gas property.

(2) (a) The revenue and transportation interim committee shall establish a subcommittee to conduct the study and report to the full committee. The subcommittee members must be appointed by the presiding officer of the committee in concurrence with the vice presiding officer. The subcommittee must include six members, three from each political party and three from each house, who are legislators appointed to the revenue and transportation interim committee.

(b) The subcommittee shall request the advice and assistance of private and public oil and natural gas associations, local governments and school districts, taxpayer groups, the department of revenue, and other entities the subcommittee considers appropriate.

(c) Any final recommendations and other work products that will be represented as being produced or endorsed by the revenue and transportation interim committee must be finally approved by the revenue and transportation interim committee.

(3) The revenue and transportation interim committee shall complete the study by September 15, 2010, and report its findings and recommendations to the 62nd legislature.

NEW SECTION. **Section 2. Appropriation.** There is appropriated from the general fund to the legislative services division \$20,000 for the biennium beginning July 1, 2009, for use by the revenue and transportation interim committee for the purposes provided in [section 1].

NEW SECTION. **Section 3. Effective date.** [This act] is effective on passage and approval.

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