NATURAL RESOURCES TAXES

BIENNIAL REPORT •THE MONTANA DEPARTMENT OF REVENUE

Montana Department of REVENUE

Overview of Natural Resource Taxes

Historically, Montana has relied on its store of natural resource wealth as a primary source of tax revenue. This section discusses the characteristics of each of the different natural resource taxes in Montana. Generally, natural resource taxes may be categorized as either severance/license taxes, or some form of ad valorem (property) taxes. Information provided includes tax rates, filing requirements, disposition of the tax, production tax incentives, and recent revenue collections.

Natural Resource Tax Collections - FY 2009 through FY 2012

State Natural Resource Tax Revenue	FY2009	FY2010	FY2011	FY2012
Coal Severance Tax	$48,126,761	$41,633,007	$51,782,415	$49,683,555
Coal Gross Proceeds*	$7,193,021	$7,711,376	$7,564,424	$9,087,054
Oil and Natural Gas Production (Severance Tax)	$110,002,141	$104,528,732	$109,206,049	$120,608,210
Oil and Natural Gas Production (Privilege & License Tax)	$2,026,637	$1,810,734	$1,963,032	$1,987,666
Metalliferous Mine License Tax	$7,885,424	$8,607,066	$10,653,330	$13,171,513
Metal Mines Gross Proceeds*	$3,256,373	$2,875,151	$1,096,356	$2,106,806
Miscellaneous Mine Net Proceeds*	$405,332	$404,166	$321,519	$392,736
Resource Indemnity & Groundwater Assessment Tax	$2,053,954	$1,711,844	$2,146,960	$2,343,678
Bentonite Production Tax	$532,575	$267,113	$410,025	$494,248
Total State Collections	**$181,482,218**	**$169,549,189**	**$185,144,111**	**$199,875,468**
Local Natural Severance Tax Revenue	**FY2009**	**FY2010**	**FY2011**	**FY2012**
Coal Severance Tax	$1,437,359	$2,544,427	$3,188,302	$3,059,072
Coal Gross Proceeds*	$7,265,833	$7,901,254	$8,138,728	$10,739,041
Oil and Natural Gas Production (Severance Tax)	$101,210,078	$95,231,171	$98,902,261	$84,294,424
Oil and Natural Gas Production (Privilege & License Tax)	$3,816,484	$3,413,916	$3,698,516	$3,754,061
Metalliferous Mine License Tax	$2,628,475	$2,868,909	$3,551,110	$4,390,504
Metal Mines Gross Proceeds*	$14,567,972	$10,089,003	$5,675,333	$9,817,065
Miscellaneous Mine Net Proceeds*	$1,207,044	$1,251,626	$939,840	$1,035,769
Bentonite Production Tax	$2,000,831	$994,473	$1,510,703	$1,805,171
Total Local Government Collections	**$134,134,076**	**$124,294,779**	**$125,604,792**	**$118,895,107**
Subtotals by Group	**FY2009**	**FY2010**	**FY2011**	**FY2012**
Coal Severance Tax	$49,564,120	$44,177,434	$54,970,717	$52,742,627
Coal Gross Proceeds*	$14,458,854	$15,612,630	$15,703,152	$19,826,095
Oil and Natural Gas Production (Total)	$217,055,339	$204,984,554	$213,769,858	$210,644,361
Metalliferous Mine License Tax	$10,513,899	$11,475,975	$14,204,440	$17,562,018
Metal Mines Gross Proceeds*	$17,824,346	$12,964,154	$6,771,689	$11,923,871
Miscellaneous Mine Net Proceeds*	$1,612,376	$1,655,792	$1,261,359	$1,428,505
Resource Indemnity & Groundwater Assessment Tax	$2,053,954	$1,711,844	$2,146,960	$2,343,678
Bentonite Production Tax	$2,533,406	$1,261,586	$1,920,729	$2,299,419
Total Collections	**$315,616,294**	**$293,843,968**	**$310,748,903**	**$318,770,575**

*Numbers represent the estimates based on taxpayer filing information and may not match state accounting records in all cases.

Coal, Oil, and Natural Gas State Tax Comparison

Individual states have different exemptions, deductions and tax bases for their natural resources. Their differences can make it very difficult to compare tax structures between states. In addition, differences between other taxes, such as sales tax and property tax, can skew the overall tax burden in a given state. With these issues in mind, the following table provides a brief description of taxes for coal and oil and gas producers in Montana and the neighboring states[1].

Marshall University Comparison of Sate Coal Taxes 2011				
State	Colorado	Montana	North Dakota	Wyoming
Real Property Tax: Active coal Property	Income Formula	Coal Gross Proceeds: 5%	No Tax Imposed	Income Formula
Real Property Tax: Reserve Coal property	Three Approaches to Market Value	No Tax Imposed	No Tax Imposed	No Tax Imposed
Property Tax: Personal Property	29% of actual Value	3% of market value	No Tax Imposed	Above ground equipment assessed at market value Underground equipment is untaxed
Severance Tax	$0.54 per ton after 300,000 tons produced each quarter	Surface: High BTU-15% of value Low BTU-10% of value Underground: High BTU-4% of value Low BTU-3% of value	$0.395 per ton	Surface: 7% of taxable value Underground: 3.75% of taxable value
Reclamation Tax or Fee	Fee: $25+$10 per acre Bond: $10,000 minimum	Surface: $0.09 per ton for lignite, else $0.315 per ton	Fee: $500+$10 per acre Bond: $10,000 minimum	No Tax Imposed

Title 39, Chapter 13 of Wyoming Statute
http://www.marshall.edu/cber/research/Coal%20State%20Compare.pdf

National Conference of State Legislatures Comparison of Oil and Natural Gas Tax Rates 2012		
State	**Type of Tax**	**Description of Tax Rates**
California	Oil and Gas Production Assessment	Rate determined annually by Department of Conservation
Colorado	Severance Tax	Two to five percent based on gross income for oil, gas, carbon dioxide and coal bed methane Four percent of gross proceeds on production exceeding 15,000 tons per day for oil shale
	Oil and Gas Conservation Levy	Maximum 1.5 mills/$1 of market value at wellhead
Idaho	Oil and Gas Production Tax	Maximum of five mills/bbl. of oil and five mills/50,000 cubic feet of gas
	Additional Oil and Gas Production Tax	Two percent of market value at site of production
Kansas	Severance Tax	Eight percent of gross value of oil and gas, less property tax credit of 3.67 percent
	Oil and Gas Conservation Tax	91 mills/bbl crude oil or petroleum marketed or used each month 12.9 mills/1,000 cubic feet of gas sold or marketed each month
Montana	Oil or Gas Conservation Tax	Maximum of 0.3 percent on the market value of each barrel of crude petroleum oil or 10,000 cubic feet of natural gas produced and sold
	Oil or Natural Gas Production Tax	Varies from 0.5 percent to 14.8 percent of market value according to the well and type of production
Nebraska	Oil and Gas Severance Tax	Three percent of value of nonstripper oil and natural gas
	Oil and Gas Conservation Tax	Two percent of value of stripper oil. Maximum of 15 mills/$1 of value at wellhead
Nevada	Oil and Gas Conservation Tax	$50/mills/bbl of oil and 50 mills/50,000 cubic feet of gas
North Dakota	Oil Gross Production Tax	Five percent of gross value at the well
	Gas Gross Production Tax	$0.04 per 1,000 cubic feet of gas produced. The rate is subject to a gas rate adjustment each fiscal year.
	Oil Extraction Tax	6.5 percent of gross value at the well. Exceptions exist for certain production volumes and incentives for enhanced recovery projects.
Ohio	Resource Severance Tax	$0.10/bbl of oil $0.025/1,000 cubic feet of natural gas
Oregon	Oil and Gas Production Tax	Six percent of gross value at well
South Dakota	Energy Minerals Severance Tax	4.5 percent of taxable value of all energy minerals
	Conservation Tax	2.4 mills of taxable value of all energy minerals
Utah	Oil and Gas Severance Tax	Three percent of value for the first $13 per barrel of oil and five percent if the value is $13.01 or higher Three percent of value for the first $1.50/mcf and five percent if the value is $1.51 or higher Four percent of taxable value of natural gas liquids
	Oil and Gas Conservation Fee	0.002 percent of market value at the wellhead
Wyoming	Severance Taxes	Six percent on crude oil, lease condensate or natural gas Four percent for stripper oil

MCF stands for 1,000 cubic feet; bbl stands for barrel
http://www.ncsl.org/issues-research/energyhome/oil-and-gas-severance-taxes.aspx

The Department of Revenue has also conducted extensive research on the difference between the oil and gas severance tax structures for Montana and North Dakota. This analysis found that if we assume prices stay at or above current levels, then Montana working interest owners generally have a lower overall tax rate over the life of the well relative to North Dakota working interest owners. For more information, please visit the following:

http://revenue.mt.gov/content/committees/legislative_interim_committee/Oil_and_Gas_Production_Tax_Comparison_MT_ND_Nov_2012.pdf

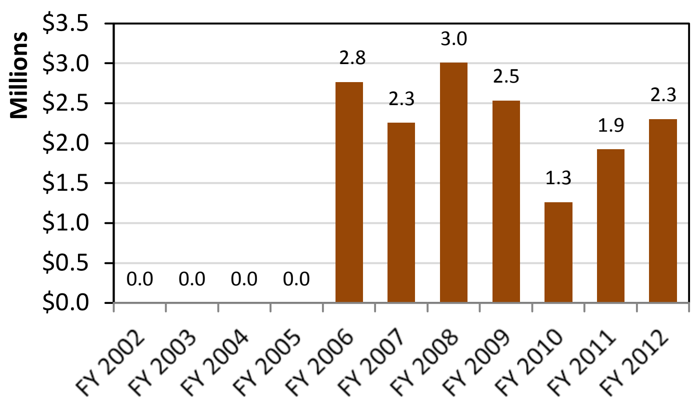
[1]Tax information was gatherd from a study conducted by Marshall University entilted "Taxation of Coal: A Comparative Analysis," and the oil and gas information was obtained from the National Conference of State Legislatures.

Bentonite Production Tax

Statute: Title 15, Chapter 39, MCA.

Bentonite Production Tax

Fiscal Year	Total Revenue
FY 2002	$0
FY 2003	$0
FY 2004	$0
FY 2005	$0
FY 2006	$2,765,743
FY 2007	$2,254,953
FY 2008	$3,004,137
FY 2009	$2,533,406
FY 2010	$1,261,586
FY 2011	$1,920,729
FY 2012	$2,299,419



Tax Rate

Prior to tax year 2005, bentonite was subject to the mines net proceeds tax similar to other miscellaneous minerals. Starting in tax year 2005, bentonite is taxed at rates prescribed in 15-39-101, MCA. For tax years starting after December 31, 2009, the rates are adjusted annually for inflation.

Filing and Payment of Tax

Producers are required to report production and pay taxes for semiannual periods ending June 30 and December 31. The report and tax are due within 45 days of the end of each semiannual period.

Bentonite Production Tax Rates

ProductionLevel	2011Tax($/Ton)	2012Tax($/Ton)
0-20,000 Tons	$0.00	$0.00
20,001-100,000 Tons	$1.60	$1.63
100,001-250,000 Tons	$1.54	$1.56
250,001-500,000 Tons	$1.43	$1.46
500,001-1,000,000 Tons	$1.28	$1.30
Over 1 Million Tons	$1.02	$1.04
Royalty Revenue	15%	

Distribution

The tax is distributed according to a statutory formula (15-39-110, MCA) that distributes the tax among state and local entities in a manner that approximates the distribution that had occurred under the net proceeds tax.

Distribution of Bentonite Tax

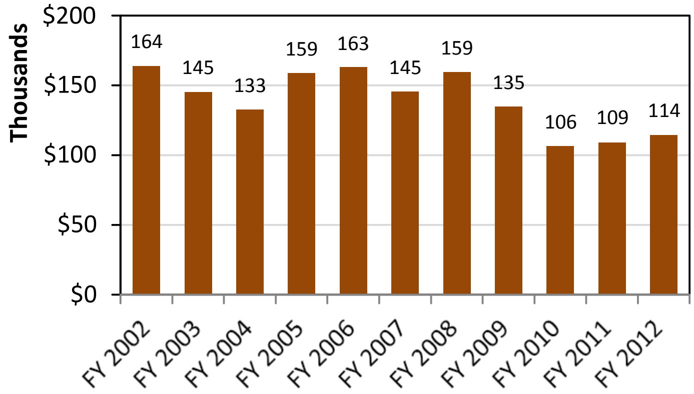
	FY2009	FY2010	FY2011	FY2012
General Fund	$482,705	$243,547	$376,168	$456,028
Counties with Production	$2,000,831	$994,473	$1,510,703	$1,805,171
University Millage	$49,871	$23,565	$33,857	$38,220

Cement and Gypsum Tax

Statute: Title 15; Chapter 59

Cement and Gypsum Tax

Fiscal Year	Total Revenue
FY 2002	$163,893
FY 2003	$145,126
FY 2004	$132,604
FY 2005	$158,974
FY 2006	$162,892
FY 2007	$145,346
FY 2008	$159,313
FY 2009	$134,695
FY 2010	$106,494
FY 2011	$109,064
FY 2012	$114,462



Tax Rate

Producers and importers of cement and cement products are required to pay a license tax of 22 cents per ton. Producers and importers of gypsum and gypsum products are required to pay five cents per ton. Before July 1, 1997, individuals retailing cement and gypsum products in Montana paid a license tax of 22 cents and 5 cents, respectively, for every ton that had not been paid for under any other law. The tax on retailers was repealed during the 1997 Legislative Session.

Cement and Gypsum Tax Rates

Product	TaxPerTon
Cement	22¢
Gypsum	5¢

Filing Requirements

Producers, manufacturers, and importers shall file quarterly statements showing the number of tons of cement or gypsum produced, manufactured, or imported into the state. The statements, along with the tax due, must be submitted within 30 days following the end of each calendar quarter.

Distribution

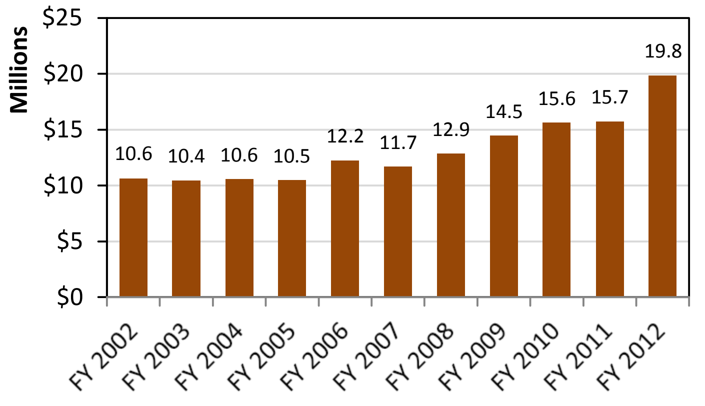
All proceeds from cement and gypsum taxes and licenses are deposited in the state general fund.

Coal Gross Proceeds Tax

Statute: Chapter 15, Section 23, Part 7

Coal Gross Proceeds

Fiscal Year	Total Revenue
FY 2002	$10,634,959
FY 2003	$10,443,545
FY 2004	$10,568,037
FY 2005	$10,498,787
FY 2006	$12,220,405
FY 2007	$11,690,801
FY 2008	$12,859,110
FY 2009	$14,458,854
FY 2010	$15,612,630
FY 2011	$15,703,152
FY 2012	$19,826,095



Tax Rate

State and local governments do not levy or assess any mills against the reported gross proceeds of coal. Instead a flat tax of five percent is levied against the value of the reported gross proceeds for most coal mines. With the passage of SB 266 in the 2011 Legislature, new and existing underground coal mines will be taxed at a rate of 2.5 percent of the gross proceeds.

Filing Requirements

On or before March 31 of every year, each person or firm engaged in mining coal must file a statement of gross yield for every mine operated in the preceding year. The producer must pay 50 percent of the taxes due on or before November 30; the remaining 50 percent is due on or before May 31 of the following year.

Distribution of Coal Gross Proceeds Tax

The revenue is proportionally distributed to the appropriate taxing jurisdictions in which production occurred based on the total number of mills levied in fiscal year 1990.

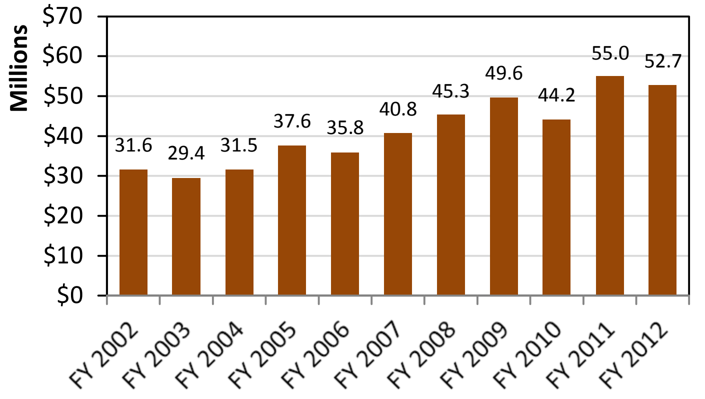
Coal Gross Proceeds Tax

Fiscal Year Tax Year	FY 2006 TY 2005	FY 2007 TY 2006	FY 2008 TY 2007	FY 2009 TY 2008	FY 2010 TY 2009	FY 2011 TY 2010	FY 2012 TY 2011
Tonsproduced	33,661,294	33,836,785	40,001,121	35,737,660	37,476,029	33,271,405	38,789,754
Gross Value	$352,744,456	$339,339,674	$368,099,711	$411,988,590	$442,865,255	$442,503,221	$546,490,686
GrossProceeds	$244,408,106	$233,816,020	$257,182,190	$289,177,075	$312,252,594	$314,063,017	$396,521,885
Tax	$12,220,405	$11,690,801	$12,859,110	$14,458,854	$15,612,630	$15,703,152	$19,826,095
LocalShare	$6,476,815	$6,196,125	$6,813,199	$7,265,833	$7,901,254	$8,138,728	$10,739,041
State Share	$5,743,590	$5,494,676	$6,045,910	$7,193,021	$7,711,376	$7,564,424	$9,087,054

Statute: Title 15; Chapter 35, MCA;
Article IX, Section 5, Montana Constitution.

Coal Severance Tax

Fiscal Year	Total Revenue
FY 2002	$31,614,049
FY 2003	$29,423,546
FY 2004	$31,544,681
FY 2005	$37,634,510
FY 2006	$35,821,524
FY 2007	$40,758,738
FY 2008	$45,331,870
FY 2009	$49,564,120
FY 2010	$44,177,434
FY 2011	$54,970,717
FY 2012	$52,742,627



Tax Rate

Surface mined coal is taxed at 15 percent of value if rated 7,000 British thermal units (BTU) per pound and over, and taxed at 10 percent of value if rated less than 7,000 BTU per pound. Coal mined underground is taxed at four percent if rated 7,000 BTU per pound and over, and is taxed at three percent if rated less than 7,000 BTU per pound. Coal mined using auger technology is taxed at 3.75 percent of value if rated under 7,000 BTU, and five percent of value if rated at or above 7,000 BTU.

Coal Severance Tax Rates

Heating Quality (BTU/lb)	Surface Mining	Auger Mining	Underground Mine
More Than 7,000 BTU	10%	3.75%	3%
Less Than 7,000 BTU	15%	5%	4%

Filing Requirements

Coal mine operators are required to file quarterly statements containing information sufficient to calculate the tax due. Tax payments are due at the time of filing (within 30 days following the close of each calendar quarter).

Distribution

There are many steps to the distribution of revenue generated from the coal severance tax. First, 50 percent of total severance tax revenue is deposited in the coal trust fund as described in article IX, section 5 of the Montana Constitution. This revenue must remain inviolate, or intact, unless appropriate by a ¾ majority of both houses of the legislature. There are currently five "sub-trusts" that make up the coal trust fund. These sub-trusts include the following:

Coal Tax Bond Fund
Treasure State Endowment Fund
Treasure State Endowment Regional Water Fund
The Big Sky Economic Development Fund
Coal Severance Tax Permanent Fund

All severance tax trust revenue is first deposited in the Coal Tax Bond Fund, however only a small portion is retained in the fund. This fund maintains a fund balance sufficient to meet interest payments of outstanding Coal Severance Tax Bonds. These bonds are used to provide loans for renewable resource projects. The fund balance in excess of the required amount is then deposited to the Treasure State Endowment Trust Fund (50 percent); the Treasure State Endowment Regional Water Trust Fund (25 percent); and the Big Sky Economic

Development Trust Fund (25 percent). Interest generated from the Treasure State Endowment Trust Fund is appropriated in HB 11; and used to fund grants for local infrastructure projects. Interest revenue generated from the Treasure State Endowment Regional Water Trust Fund is also appropriated in HB 11; and used to fund grants for local and regional water projects. The interest revenue from the Big Sky Economic Development Trust Fund is statutorily appropriated to the Department of Commerce for grants and loans to local governments for economic development purposes.

Any remaining trust fund severance tax revenue is distributed to the Coal Severance Tax Permanent Fund and interest revenue is deposited in the general fund. The following table shows the balance of each of these trust funds as of the end of FY 2012:

Coal Trust Fund Balances

Trust	FY 2012 Estiamted Ending Balance ($ millions)
Treasure State Endowment Trust	$221.575
Treasure State Regional Water Trust	$67.698
Big Sky Economic Development Trust	$63.673
Coal Permanente Trust	$552.922
Total	**$905.868**

Even though the interest from the Coal Severance Tax Permanent Trust Fund is deposited in the general fund, there are statutory appropriations allowing some of this interest revenue to be spent. However, these appropriations are set to expire at the end of FY 2019. The following table details these appropriations:

General Fund Coal Interest Earrings Statutory Appropriations

	FY 2013	FY 2014 - FY 2019
Cooperative Development Center	$65,000	$65,000
Growth Through Agriculture	$625,000	$1,250,000
Research and Commercialization	$1,275,000	$3,650,000
Department of Commerce		
Small Business Development Center	$125,000	$125,000
Small Business Innovative Research	$50,000	$50,000
Certified Development Corporations	$425,000	$425,000
MT Manufacturing Center at MSU	$200,000	$200,000
Export Trade Enhancement	$300,000	$300,000

Beginning in FY 2021, the Treasure State Endowment Trust Fund and the Treasure State Endowment Regional Water Trust Fund will no longer receive trust fund revenue and the Coal Severance Tax Permanent Trust Fund will receive 75 percent of the trust revenue distribution. Beginning in FY 2026, the Coal Severance Tax Permanent Trust Fund will receive all trust revenue in excess of the amount needed by the Coal Tax Bond Fund.

The 50 percent of the revenue that is not constitutionally allocated is deposited according to 15-35-108, MCA. The table to the right shows how this revenue is distributed in proportion to the total severance tax revenue.

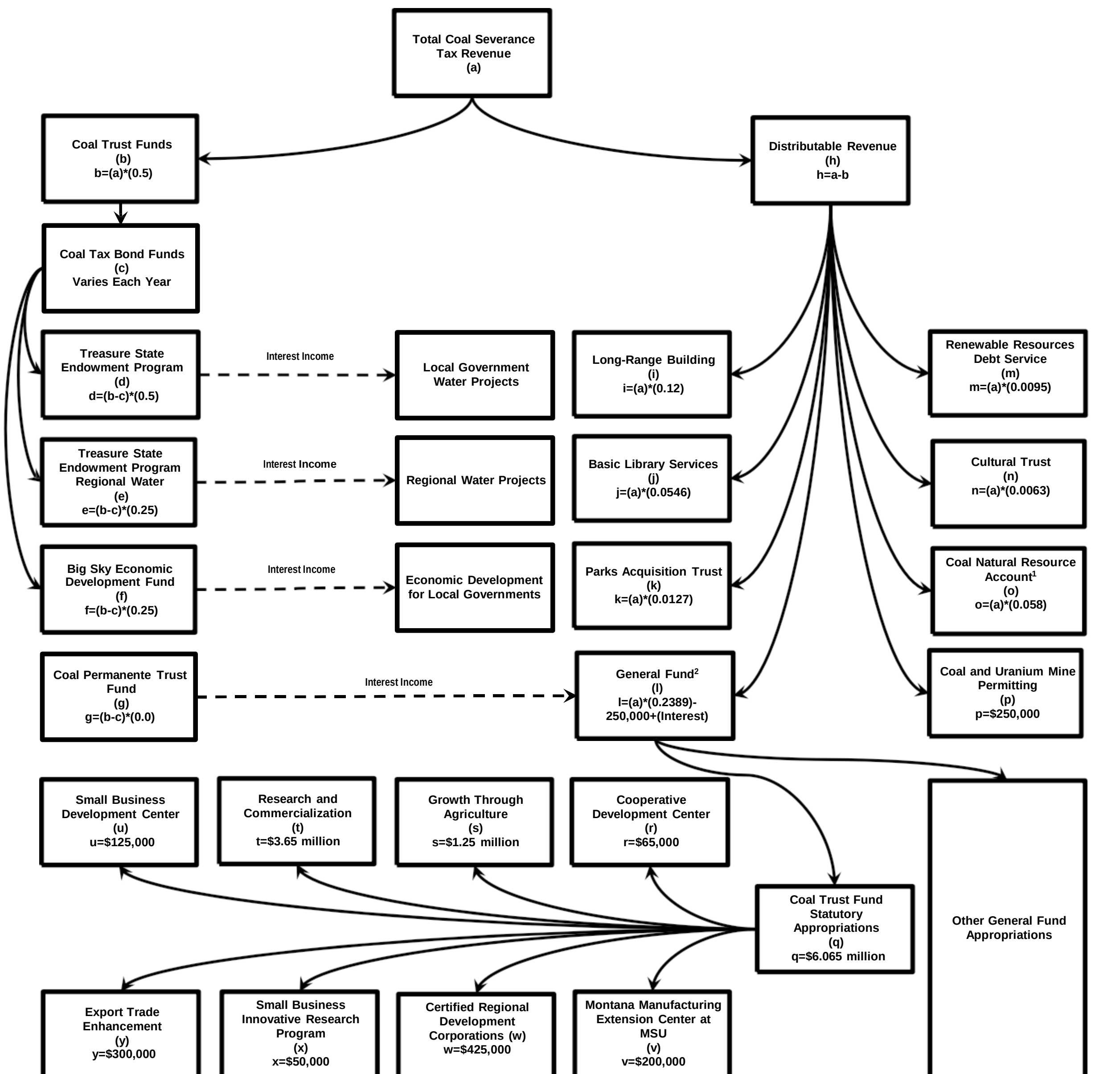
The chart on the following page illustrates the entire distribution of the coal severance tax revenue and the table at the bottom of the page details historic distributions of the coal severance tax revenue from the state accounting system.

Coal Severance Tax Revenue Distribution

Fund (Distribution)
CoalTrustFunds(50%)
Long Range Building Program (12%) Shared
Account(5.46%)
Park Acquisition Trust Fund (1.27%) Renewable
ResourceDebtService(0.95%)
Cultural and Aesthetic Projects (0.63%) Coal
NaturalResourceAccount(5.8%*)
Coal and Uranium Program ($250K) GeneralFund
(Remainder)

*Distribution reverts back to 2.9% starting October 1, 2013.

Coal Severance Tax Revenue Distribution FY 2014 - FY 2019



[1] Distribution to Coal Natural Resource Account falls to 2.9% on October 1, 2013.
[2] Distribution to the general fund increase to 26.79% less $250,000 on October 1, 2013.

Coal Severance Tax Revenue Distribution

Fund (Distribution)	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
CoalTrustFunds(50%)	$22,665,935	$24,782,060	$22,088,717	$27,485,358	$26,371,314
Long Range Building Program (12%)	$5,439,824	$5,947,694	$5,301,292	$6,596,486	$6,329,115
SharedAccount(5.46%)	$2,475,120	$2,706,201	$2,412,088	$3,001,401	$2,879,748
Park Acquisition Trust Fund (1.27%)	$575,715	$629,464	$561,053	$698,128	$669,831
RenewableResourceDebtService(0.95%)	$430,653	$470,859	$419,686	$522,222	$501,055
Cultural and Aesthetic Projects (0.63%)	$285,591	$312,254	$278,318	$346,316	$332,279
CoalNaturalResourceAccount(5.8%*)	$1,314,624	$1,437,359	$2,544,427	$3,188,302	$3,059,072
Coal and Uranium Program ($250K)	$250,000	$250,000	$250,000	$250,000	$250,000
GeneralFund(Remainder)	$11,894,408	$13,028,228	$10,321,853	$12,882,504	$12,350,214

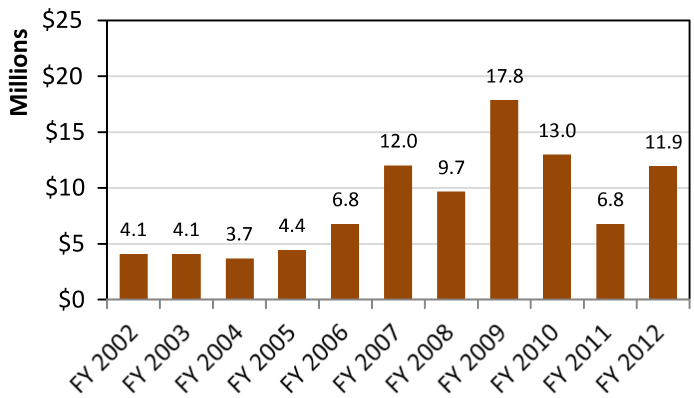
*Distribution reverts back to 2.9% starting October 1, 2013.

Metal Mines Gross Proceeds Tax (Class 2 Property)

Statute: Title 15, Chapter 23, Part 8

Metal Mines Gross Proceeds

Fiscal Year	Total Revenue
FY 2002	$4,055,232
FY 2003	$4,073,178
FY 2004	$3,686,568
FY 2005	$4,431,674
FY 2006	$6,773,309
FY 2007	$12,008,287
FY 2008	$9,668,903
FY 2009	$17,824,346
FY 2010	$12,964,154
FY 2011	$6,771,689
FY 2012	$11,923,871



Tax Rate

The value of severed gold, silver, copper, lead, or other metals from any mine located in Montana is considered class 2 property for property tax purposes and is assessed local and state mills. The taxable value of metal mines is equal to three percent of merchantable value.

Merchantable value is the annual gross proceeds from the sale of metals less certain deductions. Allowed deductions include: costs of transporting mineral product from mine to processor, basic treatment and refinery charges, quantity deductions, price deductions, interest, and penalty metal, impurity, and moisture deductions as specified by contract.

Filing Requirements

Metal mines tax reports must be filed by March 31 of each year, showing the total gross proceeds of metal mined during the preceding calendar year. By July 1 the department calculates the merchantable value by subtracting allowable deductions, and records the value in the property tax records. The mine producer must pay the half the property tax levied and assessed by November 30 and the other half by May 31 of the following year.

Metal Mines Gross Proceeds Tax (Class 2 Property)

Distribution of Metal Mines Gross Proceeds Tax:

The taxable value of metal mines gross proceeds is allocated to the local jurisdictions where the mine mouth is located. The mills of these local jurisdictions and statewide mills are levied against the taxable value.

Metal Mines Gross and Taxable Value of Production

Production Year	Fiscal Year	Gross Value	Taxable Value for Local Mill	Taxable Value for State Mill
2003	2005	371,610,080	$10,397,947	$10,429,314
2004	2006	500,601,123	$11,448,834	$14,213,853
2005	2007	703,845,238	$15,878,966	$21,106,498
2006	2008	925,815,385	$18,849,252	$25,068,597
2007	2009	1,161,919,543	$24,540,432	$32,019,240
2008	2010	1,033,960,651	$23,843,907	$28,307,630
2009	2011	843,431,234	$19,812,142	$23,205,010
2010	2012	1,117,009,632	$28,972,961	$31,295,298

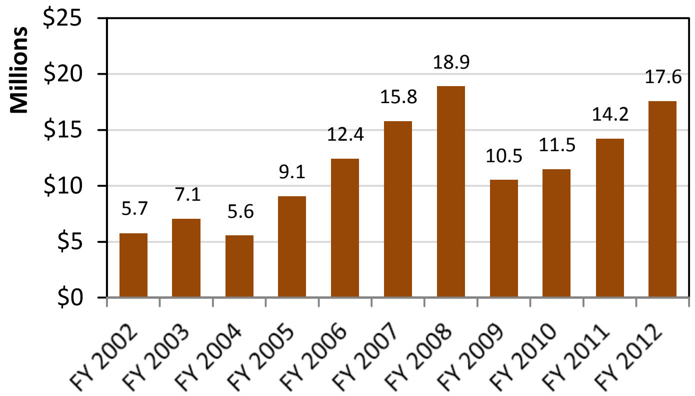
Gross Proceeds Property Taxes Assessed

Fiscal Year	State Share	Local Share	Total Property Tax
FY 2002	$1,114,767	$2,940,464	$4,055,232
FY 2003	$1,077,601	$2,995,576	$4,073,178
FY 2004	$888,757	$2,797,811	$3,686,568
FY 2005	$1,053,349	$3,378,324	$4,431,674
FY 2006	$1,325,860	$5,447,449	$6,773,309
FY 2007	$2,147,401	$9,860,885	$12,008,287
FY 2008	$1,913,103	$7,755,799	$9,668,903
FY 2009	$3,256,373	$14,567,972	$17,824,346
FY 2010	$2,875,151	$10,089,003	$12,964,154
FY 2011	$1,096,356	$5,675,333	$6,771,689
FY 2012	$2,106,806	$9,817,065	$11,923,871

Statute: Title 15, Chapter 37, Part 1

Metalliferous Mines License Tax

Fiscal Year	Total Revenue
FY 2002	$5,740,242
FY 2003	$7,055,900
FY 2004	$5,572,192
FY 2005	$9,076,338
FY 2006	$12,435,050
FY 2007	$15,774,412
FY 2008	$18,902,178
FY 2009	$10,513,899
FY 2010	$11,475,975
FY 2011	$14,204,440
FY 2012	$17,562,018



Tax Rate

Mining operations in which metal or gems are extracted are subject to the metalliferous mines license tax, which is based on the gross value of the product. The first $250,000 of gross value is exempt from taxation. Concentrate shipped to a smelter, mill, or reduction work is taxed at 1.81 percent of gross value. Gold, silver, or any platinum-group metal that is dore, bullion, or matte that is shipped to a refinery is taxed at 1.6 percent of gross value. Shipping and refining costs are deducted from revenue to determine gross value.

Metalliferous Mines Tax Rates

Tax Base*	Tax Rate	Exemptions
Dore/Bullion/Matte	1.60%	First $250,000
Concentrates	1.81%	First $250,000

*Excludes shipping and refining costs

Gross Value

The value to which the tax rate is applied is the monetary payment the mining company receives from the metal trader, smelter, roaster, or refinery. This is determined by multiplying the quantity of metal received by the metal trader, smelter, roaster, or refinery by the quoted price for the metal; then subtracting basic treatment and refinery charges, quantity deductions, price deductions, interest and penalty, metal impurity, and moisture deductions as specified by contract between the mining company and the receiving metal trader, smelter, roaster, or refinery. Deductions also are allowed for the cost of transportation from the mine or mill to the smelter, roaster, or refinery.

Copper, platinum, palladium, and gold account for over 75 percent of the gross value reported by metal mines taxpayers. The table on the following page shows the national quarterly price for these commodities since FY 2008. The variation in price over the years has had a large impact on the total amount of revenue the state has collected.

Select US Commodity Prices				
Quarter	Copper $/lb	Gold $/oz	Palladium $/oz	Platinum $/oz
2007Q3	$3.50	$681	$348	$1,290
2007Q4	$3.27	$788	$360	$1,450
2008Q1	$3.51	$924	$440	$1,861
2008Q2	$3.83	$896	$443	$2,027
2008Q3	$3.48	$885	$329	$1,536
2008Q4	$1.77	$798	$191	$865
2009Q1	$2.67	$868	$292	$1,367
2009Q2	$2.24	$874	$240	$1,155
2009Q3	$2.03	$939	$225	$1,074
2009Q4	$3.02	$1,099	$349	$1,391
2010Q1	$3.29	$1,109	$441	$1,561
2010Q2	$3.19	$1,195	$494	$1,630
2010Q3	$3.29	$1,228	$494	$1,553
2010Q4	$3.43	$1,228	$530	$1,612
2011Q1	$4.37	$1,388	$791	$1,792
2011Q2	$4.26	$1,508	$760	$1,784
2011Q3	$4.19	$1,538	$768	$1,784
2011Q4	$3.41	$1,681	$628	$1,529
2012Q1	$3.77	$1,689	$681	$1,600
2012Q2	$3.68	$1,652	$655	$1,554

Filing Requirements

Beginning in 2003, reports and payment of metal mines tax are due twice a year, on or before March 31, and August 15.

Distribution

Metalliferous mines license tax revenue is distributed to various entities in accordance with 15-37-117, MCA.

Metalliferous mines License Tax Distribution					
	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
General Fund (57%)	$10,774,242	$5,992,923	$6,541,391	$8,096,531	$10,010,350
Hard Rock Mining (2.5%)	$472,554	$262,847	$286,899	$355,111	$439,050
Hard Rock Debt Service (8.5%)	$1,606,685	$893,681	$975,458	$1,207,377	$1,492,772
Natural Resources Operations (7%)	$1,323,152	$735,973	$803,318	$994,311	$1,229,341
County Governments (25%)	$4,725,545	$2,628,475	$2,868,909	$3,551,110	$4,390,504

Micaceous Mines License Tax

Statute: Title 15, Chapter 37, Part 2

Tax Rate

Micaceous minerals are those that are generally classified as complex silicates, and include such minerals as vermiculite, perlite, kernite, and maconite. There have been no micaceous mines license tax collections since FY1990 because there has been no production. All proceeds from the micaceous mines license tax are deposited in the state general fund (15-37-200, MCA).

There is a tax of five cents per ton of concentrates mined, extracted, or produced.

Filing Requirements

Operators of micaceous mineral mines are required to file quarterly statements showing the number of tons of micaceous minerals mined. Quarterly returns, along with the accompanying tax payment, are due within 30 days following the end of each calendar quarter.

Distribution

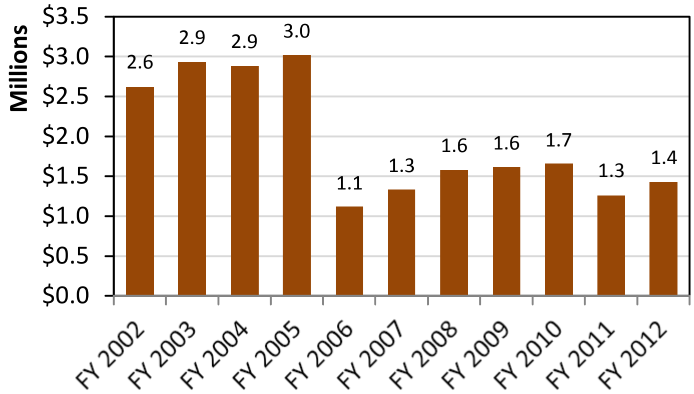
All proceeds from micaceous mines license tax are deposited in the state general fund.

Miscellaneous Mines Net Proceeds Tax (Class 1 Property)

Statute: Title 15, Chapter 23, Part 5

Miscellaneous Mines Net Proceeds Tax

Fiscal Year	Total Revenue
FY 2002	$2,618,325
FY 2003	$2,926,724
FY 2004	$2,882,114
FY 2005	$3,022,810
FY 2006	$1,120,030
FY 2007	$1,331,224
FY 2008	$1,582,585
FY 2009	$1,612,376
FY 2010	$1,655,792
FY 2011	$1,261,359
FY 2012	$1,428,505



Tax Rate

Severed products of mines except bentonite, coal, and metal are considered class 1 property for property tax purposes, and are levied statewide and local mills. Class 1 property includes, but is not limited to: talc, limestone, and vermiculite.

The value of the severed products is the annual net proceeds of mines and mining claims. The net proceeds of talc, vermiculite, limestone, and industrial garnets and byproducts are calculated by multiplying the number of tons mined by a statutorily defined value.

- Talc Value = $4.25 × 2011 price deflator ÷ 1989 price deflator
- Vermiculite Value = $27 × 2011 price deflator ÷ 1991 price deflator
- Limestone Value = $0.34 × 2011 price deflator ÷ 1992 price deflator
- Industrial Garnets Value = $20 × 2011 price deflator ÷ 1995 price deflator
- Byproducts of Industrial Garnets Value = Gross Revenue × 30%

For all other class 1 mined products, the value is the gross value less certain allowable deductions that account for the cost of mining.

Sand and gravel are exempt from mines net proceeds taxation. Producers of industrial garnets, travertine and building stone are exempt from mines net proceeds taxation on the first 1,000 tons of production.
Filing Requirements

Operators of micaceous mineral mines are required to file quarterly statements showing the number of tons of micaceous minerals mined. Quarterly returns, along with the accompanying tax payment, are due within 30 days following the end of each calendar quarter.

Filing Requirements:

Miscellaneous mines tax reports are due by March 31 of each year, showing the total gross proceeds of minerals mined during the preceding calendar year, and information on costs associated with the mining operation sufficient to allow calculation of the net proceeds from the operation. By July 1 the department calculates the net value by subtracting allowable deductions, and records the value in the property tax records. The mine producer must pay the half the property tax levied and assessed by November 30 and the other half by May 31 of the following year.

Miscellaneous Mines Net Proceeds Tax (Class 1 Property)

Distribution of Miscellaneous Mines Net Proceeds Tax

The taxable value of miscellaneous mines net proceeds is allocated to the local jurisdictions where the mine mouth is located. The mills of these local jurisdictions and statewide mills are levied against the taxable value.

Miscellaneous Mines Net Proceeds and Taxable Value

Production Year	Fiscal Year	Tons	Gross Value	Net Proceeds	Taxable Royalties	Taxable Value
2003	2005	2,453,053	$22,513,861	$7,319,184	$386,094	$7,705,278
2004	2006	3,332,252	$28,138,426	$7,619,183	$413,231	$8,032,414
2005	2007	2,303,771	$4,934,117	$2,694,716	$0	$2,694,716
2006	2008	2,447,104	$3,684,559	$3,669,586	$170,412	$3,839,998
2007	2009	2,511,456	$3,890,806	$3,890,806	$12,712	$3,903,518
2008	2010	2,348,914	$3,805,108	$3,803,109	$206,499	$4,009,608
2009	2011	1,945,885	$2,988,210	$2,986,933	$264,249	$3,251,182
2010	2012	2,192,645	$3,750,377	$3,748,676	$181,330	$3,930,006

Net Proceeds Property Taxes Assessed

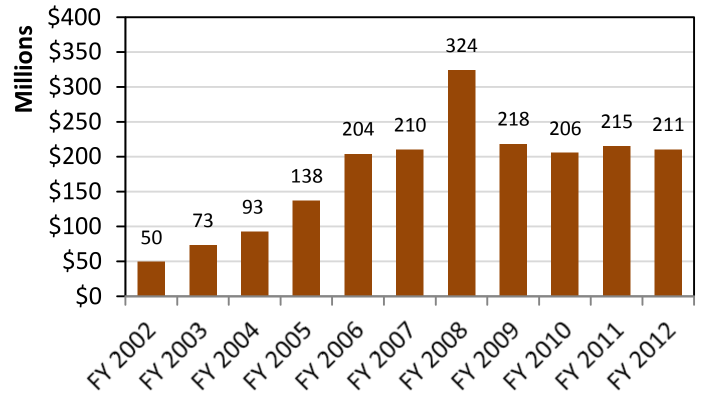
FiscalYear	StateShare	LocalShare	TotalPropertyTax
FY 2002	$792,093	$1,826,232	$2,618,325
FY 2003	$877,832	$2,048,891	$2,926,724
FY 2004	$788,609	$2,093,506	$2,882,114
FY 2005	$811,274	$2,211,536	$3,022,810
FY 2006	$272,116	$847,914	$1,120,030
FY 2007	$328,482	$1,002,742	$1,331,224
FY 2008	$387,840	$1,194,745	$1,582,585
FY 2009	$405,332	$1,207,044	$1,612,376
FY 2010	$404,166	$1,251,626	$1,655,792
FY 2011	$321,519	$939,840	$1,261,359
FY 2012	$392,736	$1,035,769	$1,428,505

Oil and Natural Gas Tax

Statute: Title 15, Chapter 36;
20-9-310, MCA; 20-9-317, MCA; and 20-9-318, MCA

Oil and Natural Gas Production Tax

Fiscal Year	Total Revenue
FY 2002	$50,303,611
FY 2003	$73,389,377
FY 2004	$92,676,049
FY 2005	$137,754,331
FY 2006	$203,681,078
FY 2007	$209,946,350
FY 2008	$324,311,269
FY 2009	$218,425,215
FY 2010	$206,286,268
FY 2011	$215,129,820
FY 2012	$210,644,361



Recent Legislative History

The 1995 Montana Legislature replaced all existing state and local extraction taxes on all oil and natural gas production with a single production tax based on the type of well and type of production, with additional incentives if prices fall below specified levels. This tax became effective January 1, 1996. The 1999 legislature further simplified the structure of oil and gas production tax rates. Effective January 1, 2000, the legislature consolidated tax rates, revised the definition of qualifying production, shortened incentive periods for qualifying production, and replaced pre - 1985 and post - 1985 categories with pre - 1999 and post - 1999. The pre - 1999 classification includes all wells drilled before January 1, 1999, while the post - 1999 classification refers to wells drilled on or after January 1, 1999. (15-36-304,MCA)

Total gross value is computed as the product of the total number of barrels (bbl) or thousand cubic feet (MCF) produced each quarter and the average wellhead value per barrel or thousand cubic feet. Producers are allowed to deduct any production that is used in the operation of the well.

Tax Rates

All taxable royalty owners of oil and natural gas production are taxed at a rate of 15.06 percent of the gross value of production. Royalties received by an Indian tribe from on-reservation oil production pursuant to a lease entered into under the Indian Mineral Leasing Act of 1938, and all governmental royalties, are exempt from taxation.

The regular production tax rates for the working interest of oil production is equal to 9.26 percent for wells drilled on or after January 1st 1999, and 12.76 percent for wells drilled before that time. However, there are also several additional tax rates to incentive production. New wells receive a tax *holiday* of 0.76 percent of the gross value. The holiday lasts for 12 months for vertical wells and 18 months for horizontal wells.

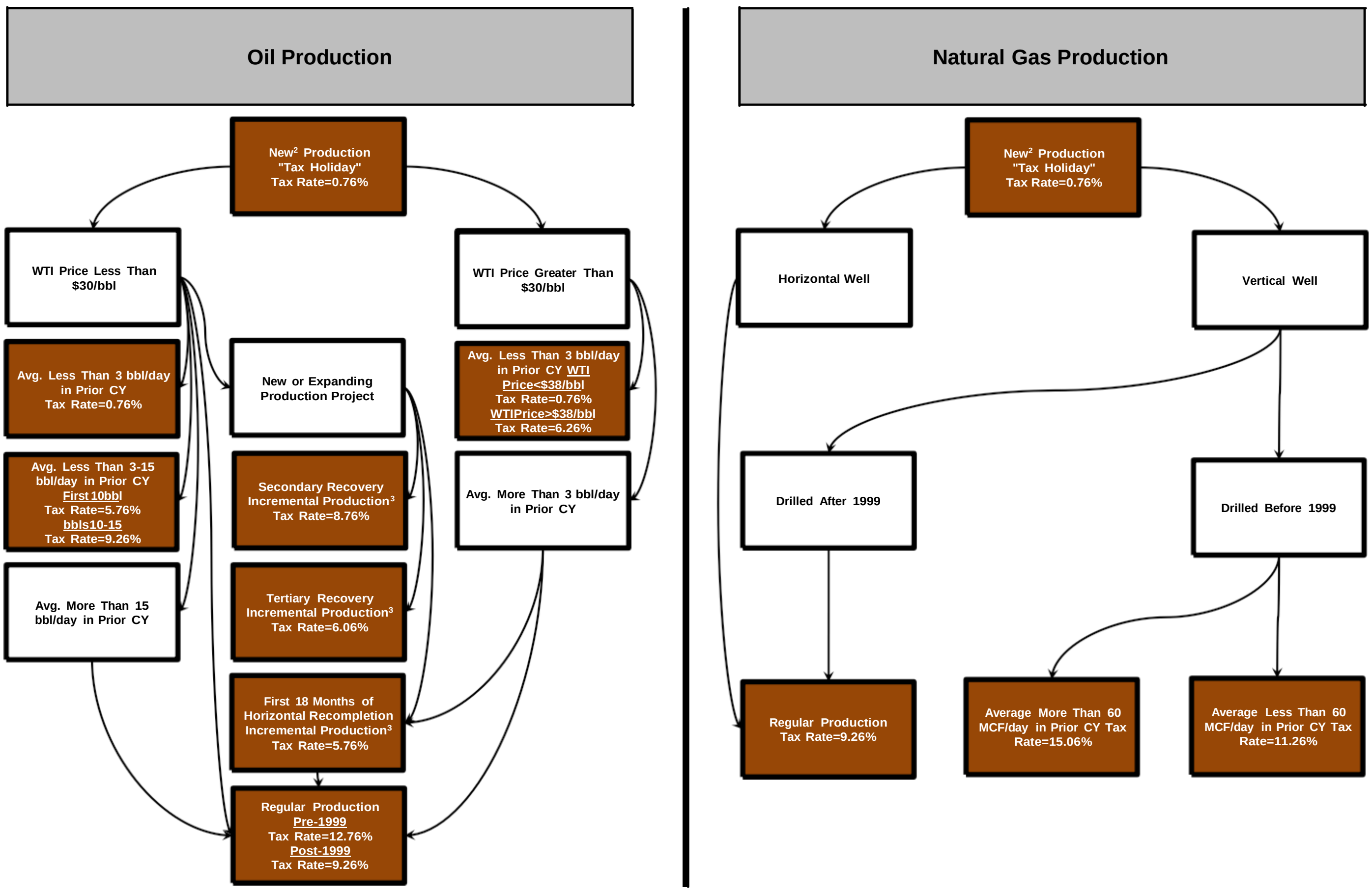
Additionally, incremental production from secondary and tertiary recovery projects may be taxed at preferential rates if the price of oil is below $30 per barrel. Recompleted horizontal wells are taxed at reduced rates regardless of the price of oil. Incremental production is additional production above an established production decline curve for a given well.

Low producing wells may be classified as stripper, or super-stripper wells and qualify for preferential tax rates. Wells producing less than an average of 15 barrels per day in the prior calendar year are classified as *stripper* wells. If the average price for West Texas Intermediate crude oil is below $30 per barrel, these wells are taxed at preferential rates of 5.76 percent for the first 10 barrels a day and 9.26 percent for all additional production. If the price of oil is above $30 a barrel, there is no reduced rate for stripper well production. If a well produces less than an average of three barrels a day in the prior calendar year, then it can qualifies as a *super-stripper* well. Production from super-stripper wells is taxed at preferential rate of 6.26 percent, and if the price of oil is below $38 per barrel the rate is further reduced to 0.76 percent.

Natural gas producers receive the same tax holiday for new wells, and regular production is taxed at a rate of 9.26 percent after that if the well was drilled on or after January 1st, 1999; 15.06 percent if drilled before.

Wells averaging less than 60,000 cubic feet (60 MCF) per day in the prior year can qualify as stripper wells, and qualify for a reduced tax rate of 11.26 percent if the well was drilled before 1999. The following table and chart illustrate how the varying tax rates apply in different scenarios:

Working Interest Oil and Natural Gas Severance Tax Rates[1]



¹Production tax rates include Board of Oil and Gas Conservation privilege and license tax and the Oil and Gas Natural Resources Account Tax.
²New vertical wells are less than 12 months old and new horizontal wells are less than 18 months old.
³Incremental production is production occurring in excess of the production decline rate.

Oil and Natural Gas Production Tax Rates

OIL-Working Interest	
Pre-1999 Wells (Regular Production)	12.76%
Post-1999 Wells (Regular Production)	9.26%
Incremental Production From Secondary Recovery†‡	8.76%
Incremental Production From Tertiary Recovery†‡	6.06%
Horizontally Recompleted Wells - First 18 Months	5.76%
Horizontally Completed Wells - First 18 Months	0.76%
Stripper Wells - First 10 Barrels Per Day†‡	5.76%
Stripper Wells - Production in Excess of 10 Barrels Per Day†‡	9.26%
Super Stripper Wells - Oil Under $38 Per Barrel‡	0.76%
Super Stripper Wells - Oil $38 Per Barrel Or Higher‡	6.26%
Vertically Completed Wells - First 12 Months	0.76%

NATURAL GAS- Working Interest	
Pre-1999 Wells (Regular Production)	15.06%
Post-1999 Wells (Regular Production)	9.26%
Horizontally Completed Wells	9.26%
Pre-1999 Wells Producing Less Than 60 MCF per Day	11.26%
The First 12 Months Of New Wells' Production	0.76%

† These rates apply if the price is under $30 per barrel. Otherwise, the regular production rates apply.
‡ Oil price is the price for West Texas Intermediate Crude Oil reported in the Wall Street Journal.
-Stripper wells produce 3-15 barrels per day.
-Super stripper wells produce less than 3 barrels per day.
-All rates include 0.26% to fund the operations of the Oil and Gas Conservation Division and the Oil and Natural Gas Natural Resource Fund that is distributed to producing counties.

ROYALTY INTERESTS 15.06%

The following table shows relevant summary information gathered from the tax returns of producers:

Montana Oil and Gas Production Statistics

Oil	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
Total Gross Value	$2,947,091,037	$1,819,039,667	$1,710,872,194	$1,976,195,292	$1,577,888,446
Volume (barrels)	33,765,547	30,083,467	26,211,857	24,586,654	18,129,352
TaxableRoyaltyValue	$384,329,345	$235,972,862	$221,457,327	$261,121,053	$212,254,919
Tax on Royalty Owners	$57,879,999	$35,537,513	$33,351,474	$39,324,831	$31,965,591
WorkingInterestValue	$2,487,618,336	$1,535,164,846	$1,442,517,901	$1,663,408,230	$1,325,444,993
Tax on the Working Interest Owners	$204,264,783	$137,027,778	$138,622,562	$150,877,377	$114,481,632
Total Tax*	**$262,144,782**	**$172,567,765**	**$171,974,036**	**$190,202,208**	**$146,447,223**
Gas					
TotalGrossValue	$780,502,722	$482,050,738	$319,807,108	$283,327,195	$168,696,617
Volume (MCF)	109,820,646	101,206,692	90,315,072	77,933,967	51,851,814
TaxableRoyaltyValue	$78,894,611	$51,715,925	$36,728,777	$33,012,983	$20,604,166
Tax on Royalty Owners	$11,881,529	$7,788,419	$5,531,355	$4,971,755	$3,102,987
WorkingInterestValue	$669,282,383	$407,706,214	$268,308,893	$236,885,058	$141,211,292
Tax on the Working Interest Owners	$48,836,055	$34,182,904	$24,849,167	$21,414,729	$13,015,139
Total Tax*	**$60,717,584**	**$41,971,322**	**$30,380,522**	**$26,386,485**	**$16,118,126**

*Total Tax revenue does not match data in the state accounting database due to accrual reversals and amended returns.

Filing Requirements

Oil and natural gas producers are required to file quarterly statements containing information sufficient to calculate the tax due. Tax payments are due within 60 days following the close of each calendar quarter.

Distribution

Prior to HB 748 (2003 Session) the distribution of oil and gas revenue was based primarily on property tax mill levies. After HB 748 the counties, schools and the state were each assigned a percentage of the severance tax revenue generated in their county they would receive.

The first distribution made is to the Board of Oil and Gas Conservation (BOGC) and the Oil and Gas Resource Account. The BOGC currently receives 0.09 percent of the gross value of all taxable production in the state. The board sets this rate and it cannot exceed three tenths of one percent, or 0.3 percent. The rate the Oil and Gas Natural Resource Account receives is dependent on the rate adopted by the BOGC and is currently 0.17 percent of the gross value of taxable production in the state. The remaining revenue is then distributed between the state and county governments. The specific allocation is dependent on which county the production occurred. For example, Fergus County receives 69.18 percent of the revenue from production occurring in the county (the largest county percentage of all the counties, while Rosebud receives the least, 39.33 percent). The remainder is distributed to the state, and the state portion is allocated as follows:

2.16 percent to the Natural Resource Projects State Special Revenue Account
2.02 percent to the Natural Resource Operations State Special Revenue Account
2.95 percent to the Orphan Share Account
2.65 percent to the University System
The remainder, 90.22 percent, is to be distributed to the general fund.

The county share of the revenue is distributed between elementary retirement funds, high school retirement funds, countywide transportation funds, school districts, community colleges, and county governments. The specific allocation between these entities is dependent on the county of production and the schedule in 15-36-332, MCA.

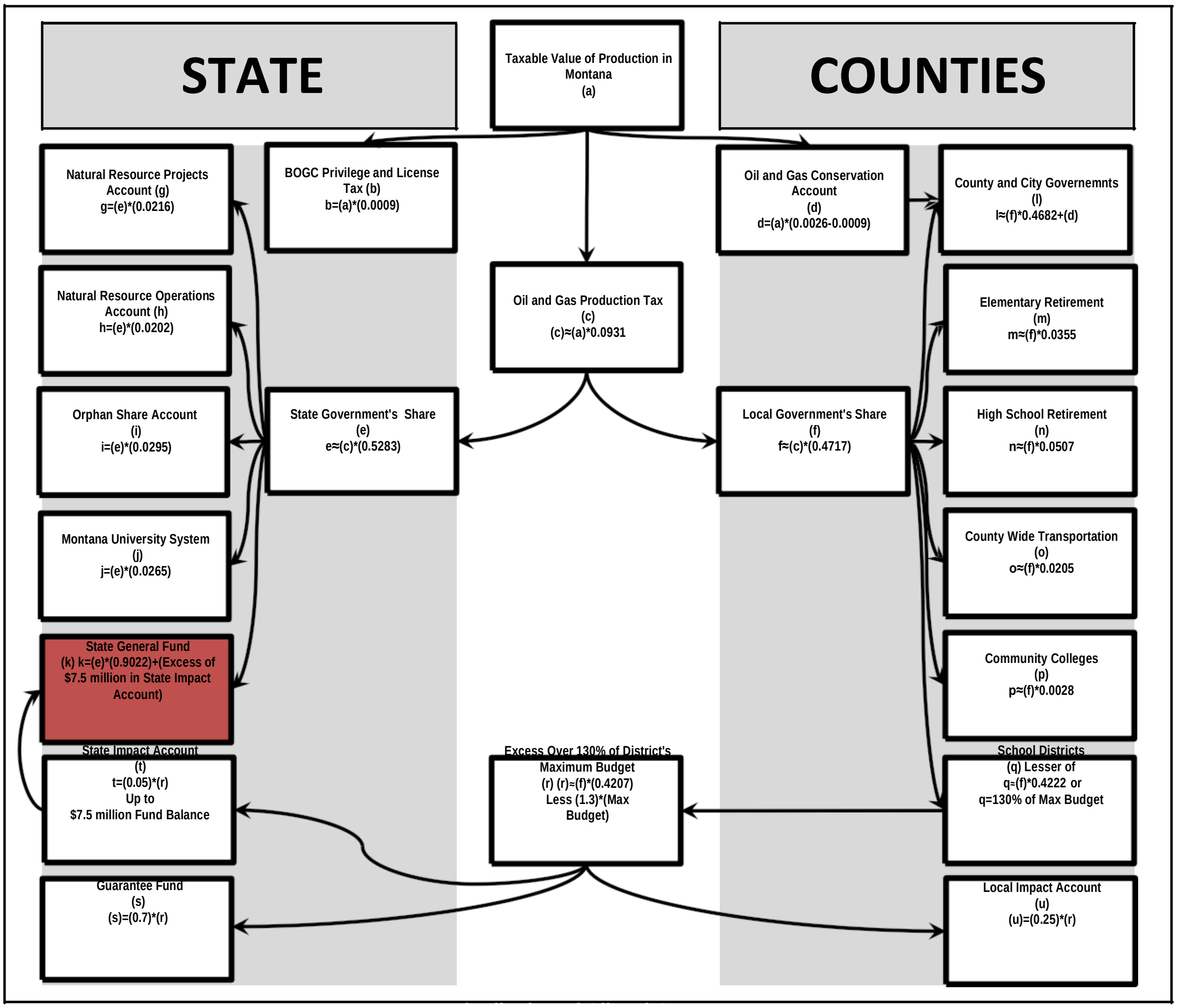
With the passage of SB 329 in the 2011 Session, any individual school district is only allowed to receive 130 percent of their maximum allowable budget. In FY 2012, any funds in excess of 130 percent of a district's budget are transferred to the State Guarantee Account. In FY 2013 through FY 2016, any revenue in excess of 130 percent of a district's maximum budget will be distributed as follows:

70 percent to the State Guarantee Account
5 percent to the State School Oil and Natural Gas Impact Account
20 percent to the County School Oil and Natural Gas Impact Account

The total balance in the State School Oil and Natural Gas Account cannot exceed $7.5 million, and any amount over $7.5 million is to be deposited in the State General Fund.

Oil and Natural Gas Tax

The state attempts to account for revenue in the time period it was generated. As a result, the state generally accrues the third and fourth quarters of the fiscal year. However, school districts and local governments generally record revenue when it was received, which is approximately two quarters after it was generated. SB 329 was enacted based on school fiscal years, and as a result some districts had revenue deposited into the State and County Impact Funds in FY 2012. The following flow chart illustrate the distribution of oil and gas revenue:



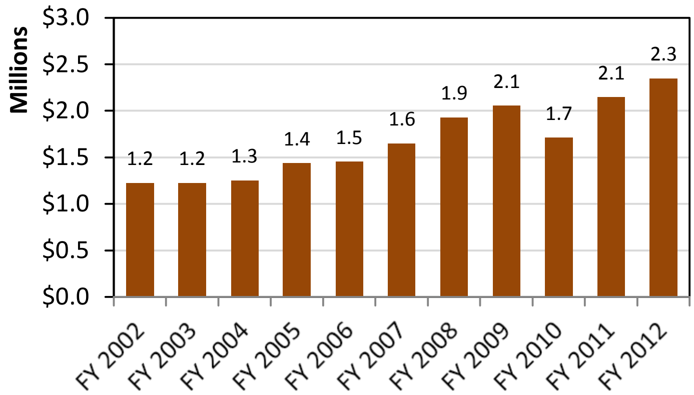
Distribution of Oil and Gas Tax

	FY2008	FY2009	FY2010	FY2011	FY2012
TotalRevenue	**$324,311,269**	**$218,425,215**	**$206,286,268**	**$215,129,820**	**$210,644,361**
BOGC	$3,370,798	$2,026,637	$1,810,734	$1,963,032	$1,987,666
Naturla Resource Account	$6,133,726	$3,816,484	$3,413,916	$3,698,516	$3,754,061
Remainder	**$314,806,745**	**$212,582,095**	**$201,061,618**	**$209,468,272**	**$204,902,634**
"County"Revenue	**$148,730,151**	**$101,210,078**	**$95,231,171**	**$98,902,261**	**$96,766,607**
Counties and Schools	$148,730,151	$101,210,078	$95,231,171	$98,902,261	$83,611,488
Guarantee Fund	$0	$0	$0	$0	$12,335,596
County Impact Fund	$0	$0	$0	$0	$682,935
State School Impact Fund	$0	$0	$0	$0	$136,587
"State"Revenue	**$166,076,594**	**$111,372,017**	**$105,830,447**	**$110,566,011**	**$108,136,027**
Natural Resources Projects	$2,382,410	$1,614,894	$1,534,541	$1,603,207	$2,335,738
Natural Resources Operations	$2,391,536	$1,614,894	$1,534,541	$1,603,207	$2,184,348
Orphan Share Fund	$4,921,820	$3,330,023	$3,164,330	$3,305,924	$3,190,013
University Millage	$4,362,257	$2,951,358	$2,804,507	$2,929,999	$2,865,605
General Fund	**$149,993,826**	**$100,490,971**	**$95,490,812**	**$99,763,712**	**$97,560,324**

Statute: Title 15, Chapter 38, Part 1

Resource Indemnity and Ground Water Assessment Tax

Fiscal Year	Total Revenue
FY 2002	$1,224,307
FY 2003	$1,225,611
FY 2004	$1,250,528
FY 2005	$1,436,378
FY 2006	$1,456,411
FY 2007	$1,646,917
FY 2008	$1,925,990
FY 2009	$2,053,954
FY 2010	$1,711,844
FY 2011	$2,146,960
FY 2012	$2,343,678



Tax Rates

The Resource Indemnity and Ground Water Assessment Tax (RIGWAT) was created to indemnify the citizens of Montana for the loss of long-term value resulting from the depletion of natural resource bases, and for environmental damage caused by mineral development. The tax is placed in a trust fund, which is managed by the state Board of Investments (15-38-101, MCA).

RIGWAT Tax Rate

Mineral	Tax Rate	Exemption	Mineral	Tax Rate	Exemption
Other*	0.5%	First$5,000	Vermiculite	2.0%	First$1,250
Talc	4.0%	First $625	Limestone	10.0%	First $250
Coal	0.4%	First$6,250	Garnets	1.0%	First$2,500

* Excludes oil, gas, and mines taxed under 15-37-104.

Exemptions

•Metal production subject to the metal mines license tax is exempt from RIGWAT.
•The 2003 legislature changed the distribution of oil and gas tax revenue to include the Orphan Share Account, and made oil and gas production subject to the oil and gas severance tax exempt from RIGWAT.
•Royalties received by an Indian Tribe, by the U.S. government as trustee for individual Indians, by the U.S. government, by the state of Montana, or by a county or municipality are exempt from RIGWAT.

Filing Requirements

All extractors and producers of minerals must file an annual statement showing the gross yield of product for each mineral mined. Metal producers are required to file on or before March 31. All other producers are required to file on or before the 60th day following the end of the calendar year.

Distribution

RIGWAT revenue is deposited to several special funds and accounts. The order and amount of proceeds deposited are as follows:
•An amount certified by the DEQuality is deposited to CERCLA match debt service fund.
• $366,000 is to be deposited in the groundwater assessment account.
• $150,000 is to be deposited in the water storage special revenue account at the each biennium.
• 25 percent of remaining revenue is distributed to the hazardous waste/CERCLA special revenue account.
• 25 percent of remaining revenue is distributed to the environmental quality protection fund.
• the remaining revenue is distributed to the natural resources projects fund.

RIGWAT Distribution

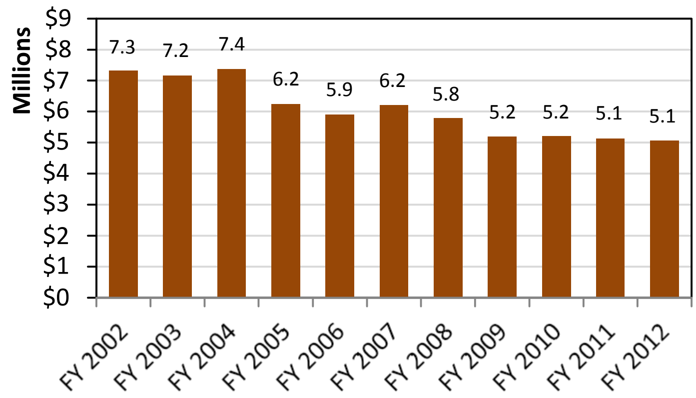
	FY 2009	FY 2010	FY 2011	FY 2012
CERCLA Debt Service	$271,938	$272,038	$274,338	$267,150
Ground Water Assement	$366,000	$366,000	$366,000	$366,000
Water Storage	$0	$150,000	$0	$150,000
Remainder	**$1,416,016**	**$923,806**	**$1,506,623**	**$1,560,528**
Hazardous Waste/CERCLA (25%)	$354,004	$230,952	$376,656	$390,132
Environmental Quality Protection (25%)	$354,004	$230,952	$376,656	$390,132
Natural Resources Projects (50%)	$708,008	$461,903	$753,311	$780,264

Resource Indemnity Trust Fund Interest

Statute: Title 15, Chapter 38, Part 2

Resource Indemnity Trust Fund Interest

Fiscal Year	Total Revenue
FY 2002	$7,320,563
FY 2003	$7,174,343
FY 2004	$7,380,241
FY 2005	$6,247,098
FY 2006	$5,915,562
FY 2007	$6,220,240
FY 2008	$5,800,855
FY 2009	$5,197,073
FY 2010	$5,212,968
FY 2011	$5,134,587
FY 2012	$5,063,566



Distribution

In fiscal year 2002 the resource indemnity trust fund reached $100 million. Net earnings, excluding unrealized gains and losses, and all tax receipts may be appropriated and expended by the legislature, so long as the balance of the trust is never less than $100 million. Interest from the resource indemnity trust is allocated in a two-stage process. First, several programs receive fixed allocations, and then the remaining funds are divided between four programs on a percentage basis. The following table shows these allocations.

Normally, $175,000 is distributed to the Environmental Contingency account in the first year of the biennium. However, if the unobligated cash balance is less than $750,000, then the account only receives the lesser or $175,000 and the difference between the balance and $750,000. This was the case in FY 2012.

Distribution of Resource Indemnity Trust Fund Interest

	FY 2009	FY 2010	FY 2011	FY 2012
Annual Distributions				
Natural Resource Projects	3,500,000	3,500,000	3,500,000	3,500,000
Ground Water Assessment	300,000	300,000	300,000	300,000
Fish, Wildlife, and Park	500,000	500,000	500,000	500,000
Biennial Distribution				
Oil and Gas Damage Mitigation	0	50,000	0	50,000
Water Storage	0	500,000	0	500,000
Environmental Contingency*	175,000	175,000	0	28,136
Remainder				
Natural Resource Operations (65%)	469,347	122,179	542,481	120,530
Hazardous Waste/CERCLA (26%)	187,739	48,872	216,993	48,212
Environmental Quality Protection (9%)	64,987	16,917	75,113	16,689

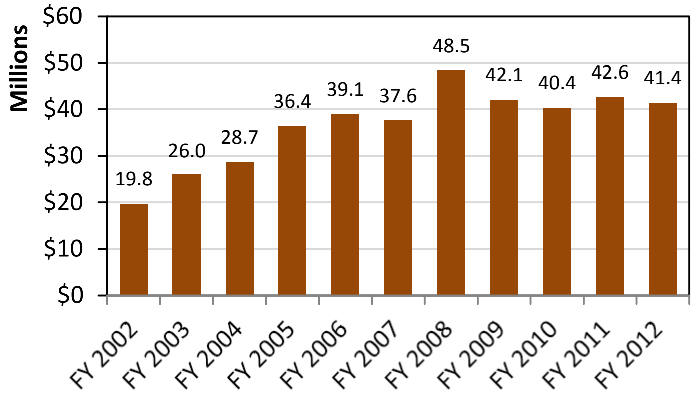
*SB 62 of the 2009 Legislature changed the distribution from and annual distribution to a biennial distribution.

U.S. Mineral Royalties

Statute: 30 USC, Sections 191
17-3-240, MCA

U.S. Mineral Royalties

Fiscal Year	Total Revenue
FY 2002	$19,772,193
FY 2003	$25,989,828
FY 2004	$28,736,303
FY 2005	$36,391,633
FY 2006	$39,071,469
FY 2007	$37,627,625
FY 2008	$48,518,078
FY 2009	$42,097,818
FY 2010	$40,383,725
FY 2011	$42,564,410
FY 2012	$41,409,246



The federal government generates royalties from leasing mineral rights on federal lands in the state. They share 49 percent of royalty revenue with the state, which was decreased from 50 percent in October of 2007.

The Montana Department of Revenue provides auditing and compliance services for the federal government for producers extracting minerals from federal lands within the state. The federal government reimburses the department for these services. In fiscal year 2009, the Department assessed $3,800,006 on behalf of the federal government and assessed $1,810,179 in FY 2010.

The Department of Revenue has a memorandum of understanding with the Department of Natural Resources and works to ensure producers extracting minerals from state lands are accurately paying their royalties.

Distribution

The state general fund receives 75 percent of the revenue, and the remaining 25 percent is allocated to counties with mining on federal land. The county share is distributed to county governments in proportion to the amount collected in each of the counties.

U.S. Mineral Royalty Distribution

	FY 2009	FY 2010	FY 2011	FY 2012
General Fund (75%)	$31,573,364	$30,287,794	$31,923,308	$31,056,935
Impacted Couinties (25%)	$10,524,455	$10,095,931	$10,641,102	$10,352,312