

1999 SENATE FINANCE AND TAXATION
SB 2379

1999 SENATE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB2379

Senate Finance and Taxation Committee

Conference Committee

Hearing Date February 1, 1999

Tape Number	Side A	Side B	Meter #
1	x		0-1273
Committee Clerk Signature <i>Shula Wald</i>			

Minutes:

SENATOR URLACHER opened the hearing on SB2379: A BILL RELATING TO A SALES AND USE TAX EXEMPTION FOR REPAIR AND REPLACEMENT PARTS FOR MACHINERY AND EQUIPMENT USED FOR OIL AND GAS PRODUCTION OR EXPLORATION.

SENATOR LYSON testified in favor of SB2379. This bill would just give sales tax relief for parts need for the oil wells in operation, and it will keep the pumps pumping some of the marginal wells that will fall by the wayside if they don't receive some type of relief.

JIM HARTFORD, Pool Company, stated the company is affected by the activity in the area so he cut the budget by 1/3 so the company is looking at around 10 million dollars gross revenue each year. Our world has been cut in half in the last year's time. We were a 235 man operation in 1997 and this has dropped to 150 now which may drop to 135. We will be merging with

Nabors. We provide services to keep wells on line and to save sales tax on the parts would be extremely helpful. With the oil and gas prices being what they are, we have to be able to minimize our costs in keeping them operational.

SENATOR WARDNER asked if people are moving out of the area to other jobs with the movement of B.J. Hughes.

JIM HARTFORD responded B.J. Hughes offered those people elsewhere, and it is very probable most of them won't be back. 1/3 of the people we have put out of employment have probably found work and the other 2/3 haven't and probably won't for some time. Once they leave the area, you never get them back.

SENATOR URLACHER asked what percentage of your overall input budget would this affect.

JIM HARTFORD replied in terms of the producer, on the order of about 25-30% of his total costs. In terms of Pool Co., which we are affected by this, our repair and maintenance side runs about 15-25% of our daily operation, so we would see reductions on those items.

SENATOR STENEHJEM asked how many wells would still be in operation or drilling if there was a sales tax exemption on the materials.

JIM HARTFORD replied it may affect probably nearly 1/3 of the wells in the state that would fall into that category. This type of an approach might benefit at least 1/2 of those. With 3,000 to 3500 wells in the state, 1,000 to 1,400 are nonproductive. We might affect 600-700 of those wells to keep them on line.

LOWELL RIDGEWAY, ND Petroleum Council testified in support of SB2379. 1/3 of the cost to drill a well in ND is subject to sales tax. This bill only applies to the sale and repair of

replacement parts, and feel it should apply to all goods and services and supplies used in the drilling and drilling operations such as the mud and the chemicals. There should be an emergency clause put on this bill to make it effective immediately, because with this bill becoming effective July 1, the operators may not be here next July to take advantage of this.

SENATOR CHRISTMANN asked what the bill number of the one you had last week and how do they compare.

LOWELL RIDGEWAY responded the bill was the stripper well bill, SB2332. That was the 5% production tax cut in half on the stripper well and this bill is for sales tax.

SENATOR URLACHER closed the hearing on SB2379.

DISCUSSION - 2-10-99. SEN. CHRISTMANN MADE A MOTION TO DO PASS AND SEN. WARDNER SECONDED. CARRIER SEN WARDNER. REFERRED TO APPROPRIATIONS..

SEN. STENEHJEM MOVED TO RECONSIDER ACTIONS. ALL IN FAVOR 7 Y 0 N. WE HAVE TO ATTACH AN EMERGENCY CLAUSE. VOTE 7 Y 0 N IN FAVOR TO THE EMERGENCY CLAUSE. THE MOTION TO ACCEPT THE CLAUSE MADE BY SEN. CHRISTMANN AND SECONDED BY SEN. WARDNER. SEN CHRISTMANN MADE A MOTION TO RECONSIDER ACTION AND SECONDED BY SEN. KINNOIN. 4Y 0 N . JOHN WALSTAD WAS ASKED TO EXPLAIN THE EMERGENCY CLAUSE, OR PUT AN AMENDMENT ON TO CHANGE THE DATE. JUNE 20 - JUNE 30. IF THIS LINGERS TAX DEPT. WILL HAVE A PROBLEM IF DATE IS NOT CHANGED. SO IN THIS CASE AN EMERGENCY CLAUSE IS NOT NEEDED. A MOTION TO DO PASS AS AMENDED

Page 4
Senate Finance and Taxation Committee
Bill/Resolution Number Sb 2379
Hearing Date February 1, 1999

WAS MADE BY SEN. CHRISTMANN AND SECONDED BY SEN KINNOIN. VOTE 7 Y O

N O ABSENT.

FISCAL NOTE

(Return original and 14 copies)

Bill/Resolution No.: SB 2379

Amendment to: _____

Requested by Legislative Council

Date of Request: 1/25/99

1. Please estimate the fiscal impact (in dollar amounts) of the above measure for state general or special funds, counties, cities, and school districts. Please provide breakdowns, if appropriate, showing salaries and wages, operating expenses, equipment, or other details to assist in the budget process. In a word processing format, add lines or space as needed or attach a supplemental sheet to adequately address the fiscal impact of the measure.

Narrative: If enacted, SB 2379 is expected to reduce revenues by \$1,676,000 in the 1999-2001 biennium.

2. **State** fiscal effect in dollar amounts:

	1997-99 Biennium		1999-2001 Biennium		2001-03 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			-\$1,542,000	-\$134,000		
Expenditures						


3. What, if any, is the effect of this measure on the budget for your agency or department:

- a. For rest of 1997-99 biennium: _____
(Indicate the portion of this amount included in the 1999-2001 executive budget:)
- b. For the 1999-2001 biennium: _____
(Indicate the portion of this amount included in the 1999-2001 executive budget:)
- c. For the 2001-03 biennium: _____

4. **County, city, and school district** fiscal effect in dollar amounts:

1997-99 Biennium			1999-2001 Biennium			2001-03 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

If additional space is needed
attach a supplemental sheet.

Signed: 

Typed Name: Kathryn L. Strombeck

Department: Tax

Date Prepared: January 29, 1999

Phone Number: 328-3402

Date: 2-10-99
Roll Call Vote #: 1

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2379

Senate Senate Finance and Taxation Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken No Pass

Motion Made By Sen Christmann Seconded By Sen. Wardner

Senators	Yes	No	Senators	Yes	No
SENATOR URLACHER	✓				
SENATOR CHRISTMANN	✓				
SENATOR SCHOBINGER	✓				
SENATOR STENEHJEM	✓				
SENATOR WARDNER	✓				
SENATOR KINNOIN	✓				
SENATOR KROEPLIN	✓				

Total (Yes) 7 No 0

Absent _____

Floor Assignment Sen Wardner

If the vote is on an amendment, briefly indicate intent:

Date: 2-10-99
Roll Call Vote #: 2

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2379

Senate Senate Finance and Taxation Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass w/ Emergency Clause

Motion Made By Sen. Stenehjem Seconded By Sen. Schobinger

Senators	Yes	No	Senators	Yes	No
SENATOR URLACHER	✓				
SENATOR CHRISTMANN	✓				
SENATOR SCHOBINGER	✓				
SENATOR STENEHJEM	✓				
SENATOR WARDNER	✓				
SENATOR KINNOIN	✓				
SENATOR KROEPLIN	✓				

Total (Yes) 7 No 0

Absent _____

Floor Assignment Sen. Wardner

If the vote is on an amendment, briefly indicate intent:

PROPOSED AMENDMENTS TO SENATE BILL NO. 2379

Page 1, line 12, replace "20" with "30"

Renumber accordingly

Date: 2-10-99
Roll Call Vote #: 3

1999 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2379

Senate Senate Finance and Taxation Committee

Subcommittee on _____
or
 Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass w/ Amend

Motion Made By Sen. Christmann Seconded By Sen. Kinnoin

Senators	Yes	No	Senators	Yes	No
SENATOR URLACHER	✓				
SENATOR CHRISTMANN	✓				
SENATOR SCHOBINGER	✓				
SENATOR STENEHJEM	✓				
SENATOR WARDNER	✓				
SENATOR KINNOIN	✓				
SENATOR KROEPLIN	✓				

Total (Yes) 7 No 0

Absent _____

Floor Assignment Sen Wardner

If the vote is on an amendment, briefly indicate intent:

REPORT OF STANDING COMMITTEE (410)
February 11, 1999 1:50 p.m.

Module No: SR-28-2599
Carrier: Wardner
Insert LC: 90802.0102 Title: .0200

REPORT OF STANDING COMMITTEE

SB 2379: Finance and Taxation Committee (Sen. Urlacher, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** and **BE REREFERRED** to the **Appropriations Committee** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2379 was placed on the Sixth order on the calendar.

Page 1, line 12, replace "20" with "30"

Renumber accordingly

1999 HOUSE FINANCE AND TAXATION

SB 2379

1999 HOUSE STANDING COMMITTEE MINUTES

BILL/RESOLUTION NO. SB 2379

House Finance and Taxation Committee

Conference Committee

Hearing Date March 8, 1999

Tape Number	Side A	Side B	Meter #
1		x	2.3
Committee Clerk Signature <i>Jamie Stein</i>			

Minutes:

REP. BELTER Opened the hearing.

SEN. STAN LYSON, DIST. 1, WILLISTON, Introduced the bill. I don't know if everybody realizes how bad the oil fields are in North Dakota. A bill like this could keep some of these wells pumping.

DAVE BARTENHAGEN, WILLISTON, Testified in support of the bill. Stated he is employed by Amerada Hess Corporation in Williston. The oil industry has been my sole source of income for the past twenty one years. The current state of the oil industry is as bad as I have ever seen it. You may never see the unemployment statistics reflecting this as the people keep leaving the state, so it is not reflected. The U-Haul in Williston has a backlog of sixty or seventy units, because of that many people trying to get out of town. The reaction of the oil producers at Amerado Hess is that oil producers are battening down for the long haul. The work over activity

is almost nil. If active wells require any investment, they are being shut down. Stripper wells are only kept operating to keep from having to incur an investment to rekindle production. No rigs, minimal activity, barebones operations. What good does sales tax do during times like this. That five or six percent saving to the operators, may make a difference between doing the work, waiting, or just giving up and saying let's plug it and go home. You say what is the implication in sales tax loss. There is nothing to compare it to. The current situation and low activity level, how do you compare small activity or no activity. There won't be zero activity, there are enough larger wells to keep things going, but without a serious increase in oil prices, there sure won't be much.

REP. BELTER There are some other sales tax exemptions that are being asked for on a competitive nature, one group came in and said they need a sales tax exemption because the businessmen over in Minnesota, there is no sales tax in Minnesota, none in Montana, and consequently, our industry can't compete - in asking for this exemption, is there something that you are competing with in other states?

DAVE BARTENHAGEN North Dakota crude oil is at a lower price, there is a little bit of competitive atmosphere there. Our operating costs here are higher because we are deeper, etc. As far as a direct competitive incentive, probably not. It is strictly business existence.

REP. RENNERFELDT There is no sales tax in Montana, if you would be buying parts there.

DAVE BARTENHAGEN If we buy parts in Montana, we still pay useage tax because they are used in North Dakota.

REP. RENNERFELDT Can you remember when and if we have ever had oil prices such as these in the state of North Dakota or the United States?

DAVE BARTENHAGEN No, it predates me. I started in 1976 working on the end of a shovel doing summer work, then in 1978 came to work permanently. In 1986, we thought things got really bad, some price dips there, thirteen years later, it is amazing, the prices we have now.

REP. RENNERFELDT What percentage do you think will be shut down?

DAVE BARTENHAGEN I hesitate to answer that.

REP. SCHMIDT When you buy a bit, you wouldn't get an exemption there, but when they repair it, what does it cost?

DAVE BARTENHAGEN I really don't have those figures.

LOWELL RIDGEWAY, NORTH DAKOTA PETROLEUM COUNCIL Testified in support of the bill. Amerada Hess made the discovery well in 1951 in Tioga, they have traditionally been the state's largest oil producer until the last couple of years when Bjornson Resources replaced them, the point is, Amerada Hess has a tremendous investment in the state of North Dakota and has been here through the good times and bad times. This bill provides a sales tax exemption on the repair of replacement parts. It is certainly a step in the right direction, but as we advocated on the house side, we think it should apply to all the goods and materials involved in drilling a well. We guesstimated last year, on the wells drilled in North Dakota, we know that one third of the cost of drilling a well is subject to the state's sales tax, on average. Last year, calendar year, 1998, we spent about 1.3 million dollars in sales tax. The fiscal note has advanced on the Senate side, for one and a half million dollars in -----revenues (couldn't understand) and one hundred thirty four thousand in -----funds ??? You asked about the competition on sales tax.

What you are considering today in North Dakota is nothing unique to the state of North Dakota.

This has been considered in every oil producing state. Montana is in the process of having

severance tax incentives. Every oil producing state is considering some type of help for the industry.

REP. BELTER You made a comment about one third of the cost of drilling and sales tax due

LOWELL RIDGEWAY One third of the cost to drill a well in North Dakota, is subject to state's sales tax. We tracked this for years, in 1981, which was a big year, there were 834 wells drilled, the average cost to drill a well in 1981, in North Dakota, was 1.1 million dollars, so a third of that is subject to sales tax.

RUTH STEFONOWICZ, NORTH DAKOTA EDUCATION ASSOCIATION, Testified in opposition of the bill, because of the tax deduction. The last time education had a boom was in 1981-82, when teachers ranged thirtyeth in salaries.

REP. GROSZ You have opposed the last three bills, are you opposed to the other bills still floating around too?

RUTH STEFONOWICZ I did oppose those bills too.

REP. RENNERFELDT If we don't get help to oil and ag, our schools are going to suffer more because of the loss of population, we will get less dollars.

RUTH STEFONOWICZ Personally, I agree with that. The only solution I see, is to increase income tax.

With no further testimony, the hearing was closed.

COMMITTEE ACTION 3-9-99, Tape #2, Side A, Meter #24.2

REP. CLARK Made a motion for a DO NOT PASS.

REP. GRANDE Second the motion. MOTION CARRIED

12 Yes 2 No 1 Absent

Page 5
House Finance and Taxation Committee
Bill/Resolution Number Sb 2379
Hearing Date ~~March 8, 1999~~

3-9-99

REP. MICKELSON Was given the floor assignment.

Please type or use black pen to complete

Date 3-9-99
Roll call vote # 1

1999 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2379

House HOUSE FINANCE & TAX Committee

Subcommittee on _____ } Identify or check where appropriate
 Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Not Pass

Motion Made By Rep. Clark Seconded By Rep. Grande

Representatives	Yes	No	Representatives	Yes	No
BELTER	✓		WINRICH	✓	
RENNERFELDT		✓			
CLARK	✓				
FROELICH	A				
GRANDE	✓				
GROSZ	✓				
HERBEL	✓				
KROEBER	✓				
MICKELSON	✓				
NICHOLAS	✓				
RENNER		✓			
SCHMIDT	✓				
WARNER	✓				
WIKENHEISER	✓				

Total 12 2
(Yes) (No)

Absent 1
Floor Assignment Rep. Mickelson

If the vote is on an amendment, briefly indicate intent:

DO NOT USE HIGHLIGHTER ON ANY FORMS

REPORT OF STANDING COMMITTEE (410)
March 9, 1999 4:09 p.m.

Module No: HR-42-4384
Carrier: Mickelson
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

SB 2379, as engrossed: Finance and Taxation Committee (Rep. Belter, Chairman)
recommends **DO NOT PASS** (12 YEAS, 2 NAYS, 1 ABSENT AND NOT VOTING).
Engrossed SB 2379 was placed on the Fourteenth order on the calendar.