

# MICROFILM DIVIDER

OMB/RECORDS MANAGEMENT DIVISION  
SFN 2053 (2/85) 5M



ROLL NUMBER

DESCRIPTION

10444

2007 HOUSE FINANCE AND TAXATION

HB 1044

# 2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1044 A

## House Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: January 10, 2007

Recorder Job Number: 859-41min 3sec

Committee Clerk Signature *Mickie Schmidt*

Minutes:

**Chairman Belter:** We'll call the committee back to order. We'll open the hearing on 1044.

**Vice Chairman Drovdal: (See attachment #1)** One of the things I'd like to mention for the committee's information is that there are two taxes in effect in Oil & Gas production at this time. One is the 5% reduction tax and the other is a 6-1/2% extraction tax, which has a trigger on it and is in effect at this time, so the total tax that the citizens and the producers at ND pay on oil revenue is 11-1/2%, when it comes out of the ground. This deals with only the 5%. The formula as it is set up right now, the first 20% of that 5% goes into special funds that the Legislature has determined. This does not change that 20%. It adjusts only the 80% remaining, that production tax. In 1981, the State received about 62% of the dollars that were accumulated of the production tax. In 2004-2006, they were receiving 75% and of course the County share has gone down, so we have not allowed the Counties to continue with the pace of keeping these roads up. The roads with oil well productions, you build a well over here and you have to build up to the road to meet some of those high steps that you have on the interstate, because these are heavy duty trucks. Then you have to service that well and that rig moves on to another well, so you have to build another road up to same section plus maintain that road, so it just keeps accumulating, the cost of gravel, wages, your equipment and all your

services. This Bill addresses that so that they will be able to receive additional dollars to help cover those costs. Because of technology the oil field has expanded somewhat and with new Counties coming on, they don't have a lot of production, but the costs are there. The roads still have to be done, so a proportion of the production, their costs are even more outlandish to their local citizens. It's great to have the production and they do a great job but if you don't have mineral interests, it is costing you some money. This is a way to recover in lieu of dollars. This is probably the only place in the State that is getting in lieu of dollars. These oil wells, when they drill, they have no idea what the value is so they can't put property tax on and besides the oil producing wells are not owned by the oil company, it's owned by the farmer. We do the in lieu of dollars to help cover that.

**Brad Bekkedahl, Williston City Commissioner, & President of the ND Association of Oil & Gas Producing Counties: (See attachment #2)**

**Vicky Steiner, Association Executive Director of ND Association of Oil & Gas Producing Counties: (See attachment #2, #3 & #4)** if you take a look at the formula on the chart, there are two taxes. If you look in terms of dollars, fiscal year 2006, both the 5% & the 6-1/2% oil tax brought in 166 million dollars. The gross production tax brought the Counties on their particular share received on the 5% was 26 million dollars. They also received 2.5 million out of this energy impact fund, making it 28.5 million total dollars. The total dollars out of both taxes was 166 million. In a nutshell, it would take 5.9 million a year to give to the Counties right off the top tier of the formula. 14 Counties will benefit from this. Of that 166 million, instead of 26 million, it would have been another 5.9 million on top of that 26 million. You're actually moving some of the money that goes to the State general fund and moving 5.9 million here to the Counties share.

**Chairman Belter:** How did you derive on what increase you thought you needed for impact fund? What mechanism or formula did you use?

**Vicky Steiner:** Which fund? The 5.9?

**Chairman Belter:** The purchasing power?

**Vicky Steiner:** we had a study done with NDSU on how much the State share had grown and how ours had increased and they were worried about it, and so we asked them to study it, and we have that study for you. That was passed out and it's on the back sheet and you can see it's about a 25% increase. We should have had an inflation factor.

**Representative Weiler:** I think that I'm missing only one piece of this and in the fiscal note, below section B, section 1. So the Counties are making out on this. They're getting more money. Who's taking the HIT? I believe it's under other funds but what is that number?

**Vicky Steiner:** I'm assuming the Tax Dept. can furnish you that, but it would be general funds. This is the existing one right here. The general fund gets 25%. You're not going to get that in a general fund, it will be 0.

**Representative Weiler:** My question is under the fiscal note; under revenues it says that there's an 11.8 million other funds locks. That's not true, it's more general funds.

**Vicky Steiner:** I'm assuming that they consider this other funding, where else would it come from? It's either going to the State or its going to the County.

**Representative Froseth:** If you go down further on the fiscal note, there's a paragraph that says that HB 1044 is expected to reduce the permanent oil tax trust fund and increase County revenues by an estimated 11.8 million in the 07-09 biennium. What if we don't get the 72 million?

**Vicky Steiner:** That is basically a percentage, so when times are up, it's a 5% gross production tax. The State will receive more, we all go with it. We all go up and we all come down. This is just smoothing a little bit more up front for the Counties.

**Brad Bekkedahl:** The first 71 million goes to the general fund and is capped at that level and all the excess goes into gas tax fund. I would like to explain the study that was completed for Chairman Belter. **(Refer to attachment #3, page 4)**

**Chairman Belter:** Any questions? Any other testimony in support of HB1044?

**Brad Bekkedahl:** At this time, we have representatives from some of our Counties and they would like to speak and we'll keep this short as we can.

**Carroll Gjovik, Director of Dunn County Jobs Development Authority: (See attachment #5)** Dunn County is here today to ask you for a little help. We're a County rich in amenities such as gas, oil, coal, water, land, however we lack dollars to take care of our roads; especially the active roads to the oil and gas wells. We have about 867 total County miles. About 175 of these roads are taking a beating daily with large truck traffic. They are indicated in red on the map. There are blowouts, wash board conditions making travel dangerous and uncomfortable. These roads were built in the 40's and 50's for small truck farms and equipment. Today the roads are being traveled on by large heavy farm and ranch equipment and also by numerous large trucks going to the wells. Some of these roads have over 200 trucks or vehicles traveling on them daily. These roads were not made for that. We have a budget for over 2 million dollars for 2007 in Dunn County. That's a 30% increase over last year. That will only scratch the surface of what really should be done. The Counties are not able to support the staff, the equipment, or the supplies that are needed to take care of the job, and to provide the safety that we need on our County roads. There are pictures and information in the booklet I handed out.

**Representative Froseth:** Dunn County is a relatively small County, have you calculated what Dunn County's share of the extra 11.8 million?

**Brad Bekkedahl:** The number for Dunn County, the increase that they would see per year is 350 thousand dollars under the estimate. So roughly 700 thousand dollars.

**Representative Headland:** Do you also in Dunn County have a mill levy for folks?

**Carroll Gjovik:** Yes.

**Representative Headland:** How many mills?

**Reinhard Hauck, Dunn County Auditor:** (See attachment #6) we're at 40.05 mills for roads.

**Reinhard Hauck:** Refer to attachment #6.

**Arlo Borud, Mountrail County Commissioner:** (See attachment #7)

**Bob Indvik, Road Superintendent for Bottineau County:** (See attachment #8)

**Ron Ness, President of the ND Petroleum Council:** These issues are real. We need good roads and this is a reasonable inflationary aspect that should be supported.

**Chairman Belter:** We were talking with Marathon Oil and they were talking about looking at 300 new wells. What Counties would those 300 new wells go in?

**Ron Ness:** Marathon is just one of many companies with interest. They have over 200,000 acres laced in a number of these Counties. Most are focused in Dunn County. EOG was here last week and they are focusing in Mountrail County. There's a new area of oil and gas activity further east than we have experienced before.

**Brad Bekkedahl:** We recognize that we need more than is requested by this change. We have a Needs Assessment Survey booklet that we will pass out. (See attachment #9)

**Chairman Belter:** Is there any other support? Any other opposition on HB 1044? Any neutral testimony on HB 1044? If not, we will close the hearing on HB1044.

# 2007 HOUSE STANDING COMMITTEE MINUTES

## Bill/Resolution No. 1044 B

### House Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: February 2, 2007

Recorder Job Number: 2668

Committee Clerk Signature

*Mickie Schmielt*

Minutes:

**Chairman Belter:** Let's open the hearing on 1044.

**Vice Chairman Drovdal:** I Move a Do Pass.

**Representative Brandenburg:** I second it.

**Chairman Belter:** Is there any discussion?

**Representative Owens:** Could you run over that for me?

**Vice Chairman Drovdal:** The current law says the first 20% of production tax; it doesn't deal at all with extraction tax, goes to special funds. That stays the way it is. As the money starts coming in and above that, the first million dollars currently, 75% goes to the rural subsidies and 25% goes to the State. Under this Bill, 100% of that first million would go to the rural subsidies. T Of the 2<sup>nd</sup> million, under current law, 50% goes to each place. Under this Bill, 75% and 25% of the next million dollars, it would be 50-50, where currently it's 75%-25%. The next million dollars would be at 25%-75% going to the State and after that it would all go to the State. It does not change the cap that's currently in place. There's two Counties of the oil production tax that will not get any revenue whatsoever, Bowman & McKenzie, and yet they're the one's that brought it forward because they're the one's that know what the problems are in the newer

and lower producing Counties and they realize that the help that they need on the cost of impact of oil production.

**Representative Owens:** If I recall correctly, the problem here is by the time this tax gets to the new Counties that are under production the roads are already torn up?

**Vice Chairman Drovdal:** As was testified on, it's paid out by the production in those Counties. They need the help and their production is lower to start with and we need to give them a little bit more revenue to start with. The damage to those roads as the trucks are coming in and going out and they'll never get rid of that.

**Representative Froelich:** I'm in support of this Bill, but I've been hearing things about the education funding formula, and they're going to take from the oil and gas Counties and coal Counties because of the revenue that's being generated. Have you thought about this?

**Vice Chairman Drovdal:** This brings in about 11.8 million dollars biannually and according to my County they say they will take about 8.8 million dollars out of those Counties, through the back doors of the net gain. Not all 7.8 go to the schools. The only money affected in the Governors corner would be the percentage that goes to schools and I don't have that percentage.

**Representative Froelich:** We could in essence make these schools whole again.

**Vice Chairman Drovdal:** No, because not all of this money goes to the schools. That's a whole new ballot that we're still fighting on the other side.

**Representative Pinkerton:** Is this sunset at all? Is this Bill forever until it is changed?

**Vice Chairman Drovdal:** This changes the formula that's in the Code and until we readdress it again, we could have asked for a set amount but then we would have to come back every two years and debate it again.

**Representative Pinkerton:** The destruction of the roads happens only when there is a lot of expiration going on, once they go into production there's not near as much destruction to the roads.

**Vice Chairman Drovdal:** The major starts right away when you bring in these 40-50 trucks to set it and then 40-50 trucks to take it down and move it to another sight. But after that's done, you have service to that. It's on a continuous basis until they come around with a pipeline and hook you into it, and then you might start getting some relief on these roads. That's usually down the road several years and it depends on how far out these wells are going.

**Representative Pinkerton:** Could you live with this Bill if it had a clause on it, like six years on it?

**Vice Chairman Drovdal:** If you could guarantee me that the production is going to quit exploring for oil in six years. The oil starts dropping down as it did before this last boom hit, the revenue was going down automatically.

**Representative Pinkerton:** If we sunset it back to the old formula after 8-10 years?

**Vice Chairman Drovdal:** Some of the discussion was because of the prices and the caps, the percentage the State has gone from 63% up to 75% of the total revenue and it's also making up for the inflation dollars that we've been losing over the years. The argument was that it's time to adjust the formula to the new dollar figure. I would resist a sunset clause.

**Chairman Belter:** We have a motion for a Do Pass and rerefered to Appropriations. Will the clerk read the roll? 13-y, 0-n, 1-absent. Rep. Drovdal will carry the Bill. We will close the hearing on HB1044.

**FISCAL NOTE**  
**Requested by Legislative Council**  
03/26/2007

Amendment to:           Engrossed  
                                  HB 1044

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
<b>Revenues</b>				(\$5,900,000)		
<b>Expenditures</b>						
<b>Appropriations</b>						

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
			\$5,900,000					

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

Engr. HB 1044 with Senate Amendments changes the distribution formula for oil and gas gross production tax, increasing the county share to 100 percent for the first \$1 million of revenue from oil production in each county. The change in distribution first becomes effective in FY 09.

**B. Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 of the bill allows counties to receive the first \$1 million of gross production tax revenues from the 4/5's share of the tax, and adds a top distributional tier for counties with gross production revenues in excess of \$3 million per year.

Section 2 prevents the changing of the state general fund cap, thereby allowing the negative fiscal effect to impact the permanent oil tax trust fund.

Section 3 delays the effective date until FY 09.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

Engr. HB 1044 with Senate Amendments is expected to reduce revenues in the permanent oil tax trust fund and increase counties' revenues by an estimated \$5.9 million in the 2007-09 biennium.

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

<b>Name:</b>	Kathryn L. Strombeck	<b>Agency:</b>	Office of Tax Commissioner
<b>Phone Number:</b>	328-3402	<b>Date Prepared:</b>	03/26/2007

**FISCAL NOTE**  
**Requested by Legislative Council**  
03/14/2007

Amendment to:           Engrossed  
                                  HB 1044

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues				(\$11,800,000)		
Expenditures						
Appropriations						

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
			\$11,800,000					

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

Engr. HB 1044 with Senate Amendments changes the distribution formula for oil and gas gross production tax, increasing the county share to 100 percent for the first \$1 million of revenue from oil production in each county.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 of the bill allows counties to receive the first \$1 million of gross production tax revenues from the 4/5's share of the tax, and adds a top distributional tier for counties with gross production revenues in excess of \$3 million per year.

Section 2 prevents the changing of the state general fund cap, thereby allowing the negative fiscal effect to impact the permanent oil tax trust fund.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

Engr. HB 1044 with Senate Amendments is expected to reduce revenues in the permanent oil tax trust fund and increase counties' revenues by an estimated \$11.8 million in the 2007-09 biennium.

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

<b>Name:</b>	Kathryn L. Strombeck	<b>Agency:</b>	Office of Tax Commissioner
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Phone Number: 328-3402

Date Prepared: 03/14/2007

**FISCAL NOTE**  
**Requested by Legislative Council**  
02/14/2007

Amendment to: HB 1044

**1A. State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
<b>Revenues</b>				(\$11,800,000)		
<b>Expenditures</b>						
<b>Appropriations</b>						

**1B. County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
			\$11,800,000					

**2A. Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

Engr. HB 1044 changes the distribution formula for oil and gas gross production tax, increasing the county share for the first \$1 million of revenue from oil production in each county.

**B. Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 of the bill allows counties to receive the first \$1 million of gross production tax revenues from the 4/5's share of the tax, and adds a top distributional tier for counties with revenues in excess of \$3 million per year.

Section 2 prevents the changing of the state general fund cap, thereby allowing the negative fiscal effect to impact the permanent oil tax trust fund.

**3. State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

**A. Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

Engr. HB 1044 is expected to reduce revenues in the permanent oil tax trust fund and increase counties' revenues by an estimated \$11.8 million in the 2007-09 biennium.

**B. Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

**C. Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

<b>Name:</b>	Kathryn L. Strombeck	<b>Agency:</b>	Office of Tax Commissioner
<b>Phone Number:</b>	328-3402	<b>Date Prepared:</b>	02/16/2007

# FISCAL NOTE

Requested by Legislative Council

01/10/2007

**REVISION**

Bill/Resolution No.: HB 1044

**1A. State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
<b>Revenues</b>			(\$11,800,000)			
<b>Expenditures</b>						
<b>Appropriations</b>						

**1B. County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
			\$11,800,000					

**2A. Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1044 changes the distribution formula for oil and gas gross production tax, increasing the county share for the first \$1 million of revenue from oil production in each county.

**B. Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 of the bill allows counties to receive the first \$1 million of gross production tax revenues from the 4/5's share of the tax, and adds a top distributional tier for counties with revenues in excess of \$3 million per year.

**3. State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

**A. Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

HB 1044 is expected to reduce state general fund revenues and increase counties' revenues by an estimated \$11.8 million in the 2007-09 biennium.

**NOTE:** This fiscal note has been revised to reflect NDCC 57-51.1-07.2, which implies that HB 1044 reduces the state general fund biennial cap from \$71 million to an amount estimated to be \$59.2 million for the 2007-09 biennium. HB 1044 reduces state general fund revenues and reduces the statutory general fund cap by \$11.8 million. Under this code section, the permanent oil tax trust fund is held constant by distributional changes such as those contained in this bill.

**B. Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

**C. Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

<b>Name:</b>	Kathryn L. Strombeck	<b>Agency:</b>	Office of Tax Commissioner
<b>Phone Number:</b>	328-3402	<b>Date Prepared:</b>	01/10/2007

**FISCAL NOTE**  
**Requested by Legislative Council**  
12/26/2006

Bill/Resolution No.: HB 1044

1A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2005-2007 Biennium		2007-2009 Biennium		2009-2011 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
<b>Revenues</b>				(\$11,800,000)		
<b>Expenditures</b>						
<b>Appropriations</b>						

1B. **County, city, and school district fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

2005-2007 Biennium			2007-2009 Biennium			2009-2011 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
			\$11,800,000					

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

HB 1044 changes the distribution formula for oil and gas gross production tax, increasing the county share for the first \$1 million of revenue from oil production in each county.

B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 of the bill allows counties to receive the first \$1 million of gross production tax revenues from the 4/5's share of the tax, and adds a top distributional tier for counties with revenues in excess of \$3 million per year.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

HB 1044 is expected to reduce permanent oil tax trust fund revenues and increase counties' revenues by an estimated \$11.8 million in the 2007-09 biennium.

B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

<b>Name:</b>	Kathryn L. Strombeck	<b>Agency:</b>	Office of Tax Commissioner
<b>Phone Number:</b>	328-3402	<b>Date Prepared:</b>	01/05/2007

Date: 2-1-07  
Roll Call Vote #: 1044

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO.

House \_\_\_\_\_ Finance & Tax \_\_\_\_\_ Committee

Check here for Conference Committee

Legislative Council Amendment  
Number \_\_\_\_\_

Action Taken Do Pass + rereferred to Approps

Motion Made By Rep. Drovdal Seconded By Rep. Brandenburg

Representatives	Yes	No	Representatives	Yes	No
Chairman Belter	✓		Rep. Froelich	✓	
Vice Chairman Drovdal	✓		Rep. Kelsh	✓	
Rep. Brandenburg	✓		Rep. Pinkerton	✓	
Rep. Froseth	✓		Rep. Schmidt	✓	
Rep. Grande			Rep. Vig	✓	
Rep. Headland	✓				
Rep. Owens	✓				
Rep. Weiler	✓				
Rep. Wrangham	✓				

Total (Yes) 13 No 0

Absent 1

Floor Assignment Rep. Drovdal

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

**REPORT OF STANDING COMMITTEE**

**HB 1044: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO PASS and BE REREFERRED to the Appropriations Committee (13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). HB 1044 was rereferred to the Appropriations Committee.**

2007 HOUSE APPROPRIATIONS

HB 1044

# 2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1044

House Appropriations Committee

Check here for Conference Committee

Hearing Date: February 7, 2007

Recorder Job Number: 3085

Committee Clerk Signature 

Minutes:

**Chm. Svedjan** opened the hearing on HB 1044 (Ref. 4:35).

**Rep. Drovdal** distributed testimony in support of HB 1044 (Attachments A and B). HB 1044 addresses the formula and the production tax that goes back to the counties. Rep. Drovdal reviewed the formula.

**Chm. Svedjan** asked Rep. Drovdal to review the formula now and what it will be with HB 1044 (Ref. 6:55).

<b>Rep. Drovdal:</b>	Currently	With HB 1004
The first one million –	75% to county	100%
Second million	50% to county	75%
Third million	25% to county	50%
Fourth million	100% goes to the state	25%

The current cap stays in place with HB 1044.

**Chm. Svedjan** asked Rep. Drovdal to explain the cap. You said Bowman County is at the cap already. What's that cap?

**Rep. Drovdal:** That cap is \$4.1 million. This bill does not increase the cap.

**Rep. Wald moved a Do Pass.**

**Rep. Drovdal:** When this bill came to our committee, it had a fiscal note that was incorrect. We found out later that it affected the \$71 million. Without this amendment, it reduces that down to \$59 million. I have an amendment that we wanted to put on, but we ran out of time so that this bill would not affect this \$71 million.

**Chm. Svedjan:** Rep. Wald would you withdraw your motion?

**Rep. Wald:** I will.

**Rep. Drovdal** distributed amendment .0101 (Attachment C).

**Rep. Wald motioned to adopt amendment .0101. Rep. Skarphol seconded the motion.**

**Chm. Svedjan:** This amendment keeps the \$71 million threshold, where the first \$71 million flows into the general fund; thereafter it flows into the permanent oil tax trust fund.

**Rep. Drovdal:** That's correct.

**Rep. Monson:** By putting this amendment on would eliminate any effect – the fiscal note would go to zero.

**Rep. Drovdal:** The fiscal note would go against the permanent oil and tax trust fund. It would still be the same fiscal note.

**Rep. Carlson:** The future fiscal effect upon this will be a permanent change to the distribution. Is that a fairly accurate number for future bienniums that we'll be taking \$11.9 million out of the permanent oil tax trust fund?

**Rep. Drovdal:** It depends on the price of crude oil and production.

**Rep. Kroeber:** If we do not reach the \$71 million, then this would be immaterial?

**Rep. Drovdal:** No. The money is taken out at the very beginning so if the prices go down then it would reduce the amount in the general fund.

**Chm. Svedjan:** Just to be clear, the amendment takes the \$11 million out of the permanent oil and tax trust fund. If we had a year or years where we didn't reach the \$71 million threshold that goes into the general fund first, are you saying then that this \$11 million would come out of the general fund?

**Rep. Drovdal:** It would be less than \$11 million because this would also go down as the revenue went down.

**Chm. Svedjan:** But whatever that amount is, it would come out of the general fund in the event we didn't reach the threshold.

**Rep. Wald:** The monies are directly related to oil revenue. It would have no impact on the general fund. So if we had \$8 oil it still would not come out of the general fund. It's only oil revenue produced on the first five percent that's been on the books since about 1951 or 1952.

**Rep. Kempenich:** We're just dealing with one side of the equation when we're looking at the general fund. Everybody's going to take less if the price of oil drops.

**Rep. Nelson:** How many counties would be affected by this change in legislation?

**Rep. Drovdal:** It would affect fifteen counties.

**Rep. Skarphol** made a substitute motion to include all the aspects of .0101 but sunset the provision of this bill in two years so where we have to revisit it that would give us time to do an analysis on the overall effect. **Rep. Klein** seconded the motion. The motion carried by a voice vote.

**Rep. Skarphol** motioned a Do Pass as Amended. **Rep. Kerzman** seconded the motion.

The motion carried by a roll call vote of 24 ayes, 0 nays and 0 absent and not voting.

**Rep. Skarphol** was designated to carry the bill.

## 2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1044

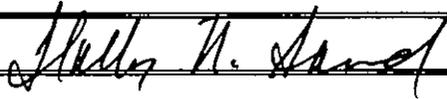
House Appropriations Committee

Check here for Conference Committee

Hearing Date: February 9, 2007

Recorder Job Number: 3327

Committee Clerk Signature



Minutes:

**Chm. Svedjan** opened the hearing on HB 1044.

**Rep. Skarphol:** It was my intention when I proposed the sunset to sunset the bill, not just the provisions of the deduction. In the event that it passed the Senate in that form, in two years we would have to reconsider the formula change that was being proposed. In talking with Legislative Council, there was a mistake in how the sunset was drafted. I propose that in lieu of .0102, we amend the bill with .0103.

**Rep. Skarphol** motioned to reconsider HB 1044. **Rep. Thoreson** seconded the motion.

**The motion carried by a voice vote.**

**Rep. Skarphol** motioned to adopt amendment .0103. **Rep. Kempenich** seconded the motion. **The motion carried by a voice vote and the amendment was adopted.**

**Rep. Skarphol** motioned a Do Pass as Amended. **Rep. Wald** seconded the motion.

**Rep. Glasheim:** I will have to vote against this in protection of the general fund. The money is pouring out and we need to keep something for 2009.

**The Do Pass as Amended motion carried by a roll call vote of 20 ayes, 1 nay and 3 absent and not voting. Rep. Skarphol was designated to carry the bill.**

Date: 2/7/07  
 Roll Call Vote #: 1

**2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES**  
**BILL/RESOLUTION NO. 1044**

House Appropriations Full Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken No Pass - withdrawn

Motion Made By Wald Seconded By \_\_\_\_\_

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan					
Vice Chairman Kemperich					
Representative Wald			Representative Aarsvold		
Representative Monson			Representative Gulleason		
Representative Hawken					
Representative Klein					
Representative Martinson					
Representative Carlson			Representative Glassheim		
Representative Carlisle			Representative Kroeber		
Representative Skarphol			Representative Williams		
Representative Thoreson					
Representative Pollert			Representative Ekstrom		
Representative Bellew			Representative Kerzman		
Representative Kreidt			Representative Metcalf		
Representative Nelson					
Representative Wieland					

Total (Yes) \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

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

*Attach. C*

70243.0101  
Title.

Prepared by the Legislative Council staff for  
Representative Drovdal  
January 16, 2007

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1044

Page 1, line 2, after the semicolon insert "to provide for application;"

Page 6, after line 21, insert:

**"SECTION 2. APPLICATION.** Notwithstanding the provisions of section 57-51.1-07.2, the director of the budget may not consider the enactment of this Act to be an amendment of the distribution formula under chapter 57-51 and the director of the budget may not adjust the seventy-one million dollar amount under section 57-51.1-07.2 due to enactment of this Act."

Renumber accordingly

Date: 2/7/07  
 Roll Call Vote #: 2

**2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES**  
**BILL/RESOLUTION NO. 1044**

House Appropriations Full Committee

Check here for Conference Committee

Legislative Council Amendment Number 90243.0101

Action Taken Adopt amendment 0101

Motion Made By Wald Seconded By Skarphol

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan					
Vice Chairman Kempenich					
Representative Wald			Representative Aarsvold		
Representative Monson			Representative Gulleson		
Representative Hawken					
Representative Klein					
Representative Martinson					
Representative Carlson			Representative Glassheim		
Representative Carlisle			Representative Kroeber		
Representative Skarphol			Representative Williams		
Representative Thoreson					
Representative Pollert			Representative Ekstrom		
Representative Bellew			Representative Kerzman		
Representative Kreidt			Representative Metcalf		
Representative Nelson					
Representative Wieland					

Total (Yes) \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

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

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1044

Page 1, line 2, replace "and" with "to provide for application;"

Page 1, line 3, after "date" insert "; and to provide an expiration date"

Page 6, after line 21, insert:

**"SECTION 2. APPLICATION.** Notwithstanding the provisions of section 57-51.1-07.2, the director of the budget may not consider the enactment of this Act to be an amendment of the distribution formula under chapter 57-51 and the director of the budget may not adjust the seventy-one million dollar amount under section 57-51.1-07.2 due to enactment of this Act."

Page 6, line 22, after "DATE" insert "- EFFECTIVE DATE"

Page 6, line 23, after the period insert "Section 2 of this Act is effective through June 30, 2009, and is thereafter ineffective."

Renumber accordingly

*Substitute Motion*

Date: 2/7/07  
Roll Call Vote #: 3

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 1044

House Appropriations Full Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Adopt amendment that adds sunset to Amend. 0101

Motion Made By Shepherd Seconded By Klein

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan					
Vice Chairman Kempenich					
Representative Wald			Representative Aarsvold		
Representative Monson			Representative Gulleson		
Representative Hawken					
Representative Klein					
Representative Martinson					
Representative Carlson			Representative Glassheim		
Representative Carlisle			Representative Kroeber		
Representative Skarphol			Representative Williams		
Representative Thoreson					
Representative Pollert			Representative Ekstrom		
Representative Bellew			Representative Kerzman		
Representative Kreidt			Representative Metcalf		
Representative Nelson					
Representative Wieland					

Total (Yes) \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

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

*Voic Vote - carries*

Date: 2/7/07  
 Roll Call Vote #: 4

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
 BILL/RESOLUTION NO. 1044

House Appropriations Full Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken DP as amended

Motion Made By Skarphol Seconded By Robert Kerzman

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan	✓				
Vice Chairman Kempenich	✓				
Representative Wald	✓		Representative Aarsvoid	✓	
Representative Monson	✓		Representative Gulleson	✓	
Representative Hawken	✓				
Representative Klein	✓				
Representative Martinson	✓				
Representative Carlson	✓		Representative Glassheim	✓	
Representative Carlisle	✓		Representative Kroeber	✓	
Representative Skarphol	✓		Representative Williams	✓	
Representative Thoreson	✓				
Representative Pollert	✓		Representative Ekstrom	✓	
Representative Bellew	✓		Representative Kerzman	✓	
Representative Kreidt	✓		Representative Metcalf	✓	
Representative Nelson	✓				
Representative Wieland	✓				

Total (Yes) 24 No 0

Absent 0

Floor Assignment Skarphol

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

Date: 2/9/07  
 Roll Call Vote #: ①

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
 BILL/RESOLUTION NO. 1044

House Appropriations Full Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Reconsiders ~~HB~~ HB 1044

Motion Made By Skarphol Seconded By Thoreson

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan					
Vice Chairman Kempenich					
Representative Waid			Representative Aarsvoid		
Representative Monson			Representative Gulleason		
Representative Hawken					
Representative Klein					
Representative Martinson					
Representative Carlson			Representative Glassheim		
Representative Carlisle			Representative Kroeber		
Representative Skarphol			Representative Williams		
Representative Thoreson					
Representative Pollert			Representative Ekstrom		
Representative Bellew			Representative Kerzman		
Representative Kreidt			Representative Metcalf		
Representative Nelson					
Representative Wieland					

Total (Yes) \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

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

*Vote - carries*

VR  
2/12/07

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1044

Page 1, line 2, replace the second "and" with "to provide for application;"

Page 1, line 3, after "date" insert "; and to provide an expiration date"

Page 6, after line 21, insert:

**"SECTION 2. APPLICATION.** Notwithstanding the provisions of section 57-51.1-07.2, the director of the budget may not consider the enactment of this Act to be an amendment of the distribution formula under chapter 57-51 and the director of the budget may not adjust the seventy-one million dollar amount under section 57-51.1-07.2 due to enactment of this Act."

Page 6, line 22, after "DATE" insert "- EXPIRATION DATE"

Page 6, line 23, after "2007" insert ", and before August 1, 2009, and is thereafter ineffective"

Renumber accordingly

Date: 2/9/07  
 Roll Call Vote #: (2)

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES  
 BILL/RESOLUTION NO. 1044

House Appropriations Full Committee

Check here for Conference Committee

Legislative Council Amendment Number 70243.0103

Action Taken Adopt 70243.0103

Motion Made By Skarphol Seconded By Kempnich

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan					
Vice Chairman Kempnich					
Representative Wald			Representative Aarsvold		
Representative Monson			Representative Gulleson		
Representative Hawken					
Representative Klein					
Representative Martinson					
Representative Carlson			Representative Glassheim		
Representative Carlisle			Representative Kroeber		
Representative Skarphol			Representative Williams		
Representative Thoreson					
Representative Pollert			Representative Ekstrom		
Representative Bellew			Representative Kerzman		
Representative Kreidt			Representative Metcalf		
Representative Nelson					
Representative Wieland					

Total (Yes) \_\_\_\_\_ No \_\_\_\_\_

Absent \_\_\_\_\_

Floor Assignment \_\_\_\_\_

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

*Voice Vote - Carries*

Date: 2/9/07  
 Roll Call Vote #: (3)

**2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES**  
**BILL/RESOLUTION NO. 1044**

House Appropriations Full Committee

Check here for Conference Committee

Legislative Council Amendment Number 70243. 0103

Action Taken Do Pass as amended 0103

Motion Made By Skarphol Seconded By Wald

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan	✓				
Vice Chairman Kempenich	✓				
Representative Wald	✓		Representative Aarsvold	✓	
Representative Monson	✓		Representative Guleson	✓	
Representative Hawken	✓				
Representative Klein	✓				
Representative Martinson	✓				
Representative Carlson	✓		Representative Glassheim		✓
Representative Carlisle	✓		Representative Kroeber	✓	
Representative Skarphol	✓		Representative Williams	✓	
Representative Thoreson	✓				
Representative Pollert	✓		Representative Ekstrom	✓	
Representative Bellew	✓		Representative Kerzman	✓	
Representative Kreidt	✓		Representative Metcalf	✓	
Representative Nelson	✓				
Representative Wieland	✓				

Total (Yes) 20 No 1

Absent 3

Floor Assignment Skarphol

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

**REPORT OF STANDING COMMITTEE**

**HB 1044: Appropriations Committee (Rep. Svedjan, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (20 YEAS, 1 NAY, 3 ABSENT AND NOT VOTING). HB 1044 was placed on the Sixth order on the calendar.**

Page 1, line 2, replace the second "and" with "to provide for application;"

Page 1, line 3, after "date" insert "; and to provide an expiration date"

Page 6, after line 21, insert:

**"SECTION 2. APPLICATION.** Notwithstanding the provisions of section 57-51.1-07.2, the director of the budget may not consider the enactment of this Act to be an amendment of the distribution formula under chapter 57-51 and the director of the budget may not adjust the seventy-one million dollar amount under section 57-51.1-07.2 due to enactment of this Act."

Page 6, line 22, after "DATE" insert "- EXPIRATION DATE"

Page 6, line 23, after "2007" insert ", and before August 1, 2009, and is thereafter ineffective"

Renumber accordingly

2007 SENATE FINANCE AND TAXATION

HB 1044

## 2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. **HB 1044**

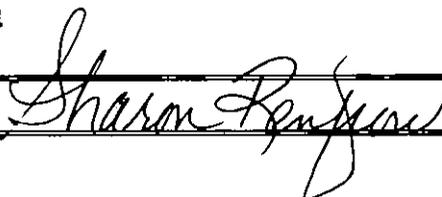
Senate Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: March 5, 2007

Recorder Job Number: # 4384

Committee Clerk Signature



Minutes:

**Sen. Urlacher:** called the committee to order and opened the hearing on HB 1044.

**Rep. Drovdal:** appeared as prime sponsor with written testimony. (See attached)

**Sen. Triplett:** you requested that we remove the sunset clause, are you interpreting that the sunset clause that if it stays in place that it would simply revert back to the current formula if the sunset is left in place?

**Answer:** the sunset clause was put on in actual to say in 2 years the whole bill doesn't work and there'd be no tax at all. We would prefer not to sunset so we don't have to revisit every 2 years.

**Sen. Oehlke:** we had a bill in here that passed that was relative to extra money for counties for road work, can you tell me what the situation is with that bill across the hall right now?

**Answer:** there I think have been several bills, I believe your referring to Sen. Bowman's bill that took the cap off. Sen. Bowman's bill takes the cap up to from 4.1 million that Bowman County is currently under to 9.1 million and its 5 million dollars per year hit on the budget that benefits Bowman County which is certainly a good argument for it, it wouldn't have any affect the way the bill is written on the fiscal note on this one because the way the bill is written.

**Sen. Oehlke**: what if we took half of this additional benefit and spread it to all the counties in the state?

**Answer**: if all the counties are producing oil cuz this is a property tax in lieu of property tax but it is a property tax to cover the cost in those counties. So if you spread it off to all the counties how is it going to help the counties that are producing oil and we do have money going to all the counties, about 91 million is going out into the counties in taxes from the State of ND currently.

**Sen. Tollefson**: I think the key to your statement is in lieu of taxes, that's the key to the entire bill, am I interpreting that correct?

**Answer**: yes

**Brad Bekkedahl**: Pres. of the ND Assoc. of Oil and Gas Producing Counties appeared in support with written testimony. (See attached) What we're asking is with your assistance in supporting this bill and the Legislature as well we could have some kind of a partnership where a little more money flows into what we're trying to do and then we can work with our constituents as well.

**Sen. Horne**: the current formula and the suggested formula would it be based on the production from each individual well, new or old so the first million, second million, third million that's from each well, is that what it stands for?

**Answer**: the formula is set up on a county by county basis, so what its saying there is the first million dollars of 5% gross production tax that the State receives from that total counties production, that's how that's broken up, so 75% of the current formula would go to the counties and the change would be that the first million dollars produced by that tax in that county from all the wells in that county, then 100% would go to the counties.

**Sen. Urlacher**: so it's not on a per well basis it's on a county production basis.

**Answer:** yes

**Sen. Oehlke:** our heartache is mainly with roads, right?

**Answer:** yes, the counties are taking the biggest hit on the impact right now, we're hearing mostly about roads in the counties.

**Rep. Kempenich:** appeared as co sponsor of the bill in support stating this is something that is sorely needed and is amended it shouldn't affect anything other than the permanent oil trust fund.

**Sen. Triplett:** do you agree with Rep. Drovdal in removing the sunset clause?

**Answer:** yes, it's an ongoing issue.

**Cliff Faraby:** Dunn County Commissioner appeared stating Dunn County is here today to ask for your help. We are county rich in natural resources such as oil and gas, however we lack dollars to take care of our roads especially to access oil and gas wells.

**Sen. Oehlke:** Where I'm from certain times of the year we put load restrictions on roads so farmers can't use them, is that not possible in some of these situations because of the way oil is produced?

**Answer:** In some situations we have, I will be putting on road restrictions on some but we don't to delay the activity that goes on out there.

**Sen. Oehlke:** anything with bigger or different vehicles, I'm trying to find a solution other than throwing money at roads all the time.

**Reinhard Hauck:** Dunn County Auditor appeared in support with written testimony. (See attached)

**Sen. Anderson:** by utilizing your estimates that you've got here, do you have figures of what the bill if that were approved what that would mean to you in dollars?

**Answer:** probably about another \$200,000 or \$250,000 into our coffers.

**Sen. Triplett**: has your county ever worked with the State Dept. of Transportation to try and get some demonstration funds to try to figure out a way to build a better county road for this purpose to harden the roads to hold up better

**Answer**: we have done some things with a base trying to harden surfaces and the State has even asked if we tried this product or that and we have. Some of it stands up some of it doesn't, it all depends upon the traffic, type of material used but things are being tried and its been difficult to try much because we're still battling the catch up part

**Bob Indvik**: Road Superintendent of Bottineau County appeared in support with written testimony. (See attached)

**Sen. Tollefson**: Bottineau County is producing oil on the west end of the county, right?

**Answer**: the west 2/3rds

**Sen. Tollefson**: where do they haul that oil?

**Answer**: a large number of it goes to Maxfast to the in bridge tanks and into the pipeline just west of Maxfast and then another pipeline further west that they truck the oil products to to get into the pipeline.

**Rick Larson**: Director of Minerals at the State Land Dept. appeared in support stating the trucks can't go on the county roads always to get where they need to go, so they are going to go on the township roads. The counties do help the townships the best they can but there still is not enough dollars and this bill would alleviate some of that.

**Aaron Birst**: Association of Counties appeared in support and handed out a letter from the Cass County Commissioners, Scott Wagner, Chairman.

**Ron Ness**: ND Petroleum Council appeared in support stating I think it's a reasonable

approach to try and provide more funding back to the counties. Often times production lags activity and certainly in new areas like Mountrail County and Dunn County, the production and

the tax revenues are going to come after much of the drilling and the completions have taken place and certainly in the case of Dunn County I would offer some temperment to their comments about companies wanting to violate the law and pay the fines, I think there's a certain county commissioner from Williams County who runs the awful number of those trucks, its going to be very interesting to hear their comments. In the form of Dunn County they better help for some economic wells in their county because this play will go away as fast as it came in. Let's hope their here next session talking about this continued problem.

Closed the hearing.

# 2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. Engrossed HB 1044

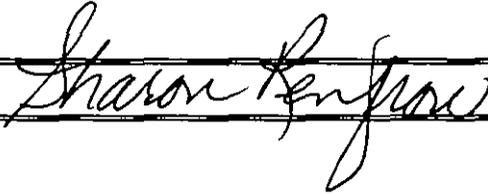
Senate Finance & Tax Committee

Check here for Conference Committee

Hearing Date: March 12, 2007

Recorder Job Number: 4920

Committee Clerk Signature



Minutes:

**Senator Urlacher** opened discussion on Engrossed HB 1044 relating to allocation of oil and gas gross production tax revenues; to provide for application; to provide an effective date; and to provide an expiration date.

**Senator Anderson** said on page 6, Representative Drovdal would like the sunset removed.

**Senator Triplett** moved to amend the bill to remove the sunset clause.

**Senator Tollefson** seconded the motion.

**Senator Urlacher** called for a voice vote. 7-0-0

**Senator Triplett** moved a do pass on Engrossed HB 1044 as amended.

**Senator Horne** seconded the motion.

The clerk call the roll 6-1-0.

**Senator Triplette** will carry the bill.

Date: 3-12-07

Roll Call Vote #: \_\_\_\_\_

**2007 SENATE STANDING COMMITTEE ROLL CALL VOTES**  
**BILL/RESOLUTION NO. HB 1044**

Senate Finance & Tax Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken Do Pass w/ Amendment

Motion Made By Sen. Triplett Seconded By Sen. Tollefson Horn

Senators	Yes	No	Senators	Yes	No
Sen. Urlacher	✓		Sen. Anderson	✓	
Sen. Tollefson	✓		Sen. Horne	✓	
Sen. Cook		✓	Sen. Triplett	✓	
Sen. Oehike	✓				

Total (Yes) 6 No 0

Absent 0

Floor Assignment Senator Triplett

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

**REPORT OF STANDING COMMITTEE**

**HB 1044, as engrossed: 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 (6 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING). Engrossed HB 1044 was placed on the Sixth order on the calendar.**

Page 1, line 2, after the second semicolon insert "and"

Page 1, line 3, remove "; and to provide an expiration date"

Page 6, line 26, remove "- EXPIRATION DATE"

Page 6, line 27, replace ", and before August 1, 2009," with a period

Page 6, remove line 28

Renumber accordingly

2007 SENATE APPROPRIATIONS

HB 1044

## 2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1044

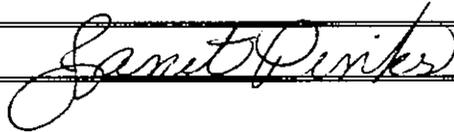
Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 03-19-07

Recorder Job Number: 5253

Committee Clerk Signature



Minutes:

Chairman Holmberg opened the hearing on HB 1044 with roll call.

Representative Drovdal, District 39, Arnegard, sponsored HB 1044 and introduced the bill indicating it was regarding oil well and oil tax distribution and discussed what the tax is used for. He distributed written testimony testifying that school districts would get the same as 1981. This bill does not change the cap. The impact is trucks travel county roads and it is expensive to maintain –trucks do extensive damage and heavy maintenance has to be done. This gives counties the funds they need.

Keith Kempenich distributed charts showing current oil tax distribution, HB 1044. He also stated this bill dovetails with 2278. The reason for this bill is because three counties are capped out and in need of road repair. When looking at the cost of bill this would be a decent package to pass.

Senator Krauter asked if this changes the formula that goes to school districts. The response was no but it eases the load; it impacts indirectly but doesn't change the mill.

Senator Krauter indicated his question was does it change the formula that goes to school districts. The response was no.

Vickie Steiner, representing oil and gas producers, in support of HB 1044, distributed charts of the current tax distribution and total tax collections, and indicated changes to the percentage counties get from production. She indicated there is a slight interaction between 2178 and 1044 and described the differences between the two bills. The house amended the bill to take the sunset off. The percentages remain the same; 45% to counties, 35% to schools, 20% to cities. Knew had problems but knew legislature had to make cuts in other budgets and didn't think they could be helped but are now bringing this before the Legislature --- She showed a chart demonstrating what the needs are and it will help 14 counties, it does not help Bowman County at all.

Carol Jovich from Dunn County, Director, Jobs Development authority, distributed booklets with information she discussed, indicating needs. She showed a map showing roads being affected by heavy truck traffic. There is now washboard and blowouts and deep pits in the road. A local ambulance went in the ditch because of road conditions; a rancher has lost animals because of traffic on open range roads. There is a need to alleviate that. We have over 200 vehicles traveling these roads daily. Ask support on this HB 1044

Reinhard Hauck, Dunn County Auditor, distributed written testimony on the Dunn County financial situation relating to roads and testified in support of HB 1044.

Senator Robinson indicated if HB1044 passes how much more will the county pick up for road work. The response was about \$240,000.

Senator Krauter referred to pg 4, indicating these is paved roads. What is the feasibility of maintaining paved roads vs. gravel? The response was keeping up paved roads is proven and built for recreational travel.

Senator Krauter indicated with maintenance on pavement vs. gravel it seems more economical to maintain gravel. The response was yes.

Senator Krauter asked about the funds being applied for through grant money or state aid money. Do you apply for those and get those dollars. The response was they have applied for \$900 thousand last year and got \$95,000. There is \$2.5 million available for the impact needs. Now he is writing grants that Dunn County has applied for and those grants are aligned at \$3.2 million. That is our needs now based strictly on energy but when sharing with other counties; cities and entities the funds don't go very far.

Senator Krauter asked how that money is generated. The response is the money comes from the state, based on an appropriation. It comes from the State 1%.

Aaron Burst, Association of Counties, testified indicating the Association supports this bill and he distributed supporting letters from Cass County and one from Grand Forks County asking for support on this bill. Both of them have no oil.

Chairman Holmberg Closed the hearing on HB1044.

## 2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1044

Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 03-22-07

Recorder Job Number: 5484

Committee Clerk Signature



Minutes:

**Chairman Holmberg** opened the hearing on HB 1044 on March 22, 2007 regarding oil tax distribution. He passed out the amendments (.0202) and explained the bill and the amendments and the fiscal note to the committee. Do I have a motion to accept the amendments? Senator Wardner moved to accept the amendments, seconded by Senator Lindaas. The motion carried.

**Senator Wardner moved a DO PASS AS AMENDED, Seconded by Senator Tallackson.**

Discussion followed about the different areas of the state that need attention regarding roads, and the tax issues regarding oil and coal and the hauling of beets and potatoes in the eastern part of the state and how that also taxes the road systems in eastern North Dakota. It was agreed by the committee that we all have problems all over the state regarding the upkeep on the roads and who will pay for it.

**Chairman Holmberg** made a request to Legislative Council to provide all equity pools and a list of the budgets that differ from the governor's budget.

**A roll call vote was taken resulting in 13 yeas, 0 nays, 1 absent, motion carried. Senator**

**Triplett from Finance and Tax will carry the bill.**

The hearing on HB 1044 closed.

*JH*  
3-22-07

PROPOSED AMENDMENTS TO ENGROSSED HOUSE BILL NO. 1044

In lieu of the amendments adopted by the Senate as printed on page 798 of the Senate Journal, Engrossed House Bill No. 1044 is amended as follows:

Page 1, line 2, after the second semicolon insert "and"

Page 1, line 3, remove "; and to provide an expiration date"

Page 6, line 26, remove "- EXPIRATION DATE"

Page 6, line 27, replace "2007, and before August 1, 2009," with "2008"

Page 6, line 28, remove "and is thereafter ineffective"

Renumber accordingly

Date: 3/22/07  
Roll Call Vote #:

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES  
BILL/RESOLUTION NO. 1044

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number \_\_\_\_\_

Action Taken do pass as amended. 0202

Motion Made By Wardner Seconded By Tallackson

Senators	Yes	No	Senators	Yes	No
Senator Ray Holmberg, Chrm	✓		Senator Aaron Krauter	✓	
Senator Bill Bowman, V Chrm	✓		Senator Elroy N. Lindaas	✓	
Senator Tony Grindberg, V Chrm	✓		Senator Tim Mathern	✓	
Senator Randel Christmann	✓		Senator Larry J. Robinson	✓	
Senator Tom Fischer			Senator Tom Seymour	✓	
Senator Ralph L. Kilzer	✓		Senator Harvey Tallackson	✓	
Senator Karen K. Krebsbach	✓				
Senator Rich Wardner	✓				

Total (Yes) 13 No 0

Absent 1

Floor Assignment Tripletts Em & tax

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

**REPORT OF STANDING COMMITTEE**

**HB 1044, as engrossed and amended: Appropriations Committee (Sen. Holmberg, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). Engrossed HB 1044, as amended, was placed on the Sixth order on the calendar.**

In lieu of the amendments adopted by the Senate as printed on page 798 of the Senate Journal, Engrossed House Bill No. 1044 is amended as follows:

Page 1, line 2, after the second semicolon insert "and"

Page 1, line 3, remove "; and to provide an expiration date"

Page 6, line 26, remove "- EXPIRATION DATE"

Page 6, line 27, replace "2007, and before August 1, 2009," with "2008"

Page 6, line 28, remove "and is thereafter ineffective"

Renumber accordingly

2007 HOUSE APPROPRIATIONS

CONFERENCE COMMITTEE

HB 1044

## 2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1044

House Appropriations Committee

Check here for Conference Committee

Hearing Date: April 10, 2007

Recorder Job Number: 5870

Committee Clerk Signature

*Jill N. Sundel*

Minutes:

**Chm. Al Carlson** called the Conference Committee on HB 1004 to order. The Conference Committee members included Rep. Carlson, Rep. Belter, Rep. Williams, Sen. Tollefson, Sen. Urlacher, and Sen. Triplett.

**Chm. Carlson:** This bill relates to the allocation of oil and gas production tax revenues. Would someone from the Senate explain the changes?

**Sen. Triplett:** I think it was just the effective date, wasn't it?

**Rep. Williams:** Why did you set it off for a year?

**Sen. Triplett:** It was just to reduce the fiscal note. It was actually done in Senate Appropriations and they were concerned about the amount.

**Rep. Williams:** It was not the Finance and Tax Committee that made the change? It was Appropriations?

**Sen. Triplett:** Yes.

**Rep. Williams:** And we don't have any members of the Appropriations Committee here?

**Sen. Triplett:** That's correct.

**Rep. Belter:** This is important legislation to our oil producing counties. With the revenue situation we have, I don't see any reason why we should delay sending this revenue to the counties.

**Rep. Carlson:** Explain the purpose of the money.

**Sen. Urlacher:** It goes for the roads primarily, but there are many impacts.

**Rep. Williams:** I've seen what oil development does to the so called infrastructure, primarily roads and there's never enough money and they have bills that are due now. Road construction is now. The roads are not going to do anything but deteriorate. I would like money to be available as soon as possible.

**Sen. Urlacher:** We are talking about a state problem. We've got a tremendous amount of revenue from that source and it's going up and the holidays are coming up on some of those wells and they're going to go up some more. It's time for the state to share some of that with those counties.

**Sen. Triplett:** Bowman County and two other counties will not benefit from this bill because they are already at the caps.

**Rep. Carlson:** We passed a separate bill that dealt with \$2 million for Bowman County. By the way the formula is established, the population divides it differently amongst the counties with various populations, but it basically could affect all oil producing counties in the end, correct?

**Rep. Belter:** That is correct. Bowman County and McKenzie County are not affected by this bill.

**Rep. Carlson:** I'm not sure of the status of the other bill with the \$2 million for those two counties. It's in Conference Committee as well? They're separate issues. I understand what the Senate did in Appropriations, but I agree that the roads are not going to wait a year to get better.

**Sen. Urlacher:** We should move forward with this bill. We put a lot of money into economic development throughout the state. This is a revenue source that has a high economic benefit to the state. I can't understand why we shouldn't address the impact of that major return.

**Rep. Carlson:** What are we basing our next budget on? How much is a price per barrel of oil?

I think its \$40 or \$42.

**Don Wolf, Legislative Council:** I will have to double-check.

**Rep. Carlson:** I know it's a low number. A barrel of oil in North Dakota is probably \$55 now.

The House assumed we would fund this at \$11.8 million to the counties for infrastructure. I don't know where the Senate is at – we don't have an Appropriations member here. I think its imperative you go back and find that out because you don't want this bill to be killed when it hits the floor of the Senate. I hesitate to take action until you have talked to your colleagues.

**Sen. Urlacher:** That's fine.

**Rep. Carlson:** It is \$5.8 million or \$5.9 million difference between what we sent out and what you gave to us. We'll reschedule one more meeting.

## 2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1044

House Appropriations Committee

Check here for Conference Committee

Hearing Date: April 11, 2007

Recorder Job Number: 5929

Committee Clerk Signature

*Holly N. Aurd*

Minutes:

**Chm. Al Carlson** called the Conference Committee on HB 1044 to order. Committee members present included Rep. Carlson, Rep. Belter, Rep. Williams, Sen. Tollefson, and Sen. Urlacher. Sen. Triplett was absent.

**Chm. Carlson** announced that there is still work being done on this bill, so we are going to recess for now and come back at the call of the Chair for further work.

**Rep. Williams:** The change is strictly fiscal in nature?

**Rep. Urlacher:** That is my interpretation.

**Chm. Carlson** recessed the meeting.

## 2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1044

House Appropriations Committee

Check here for Conference Committee

Hearing Date: April 13, 2007

Recorder Job Number: 5992

Committee Clerk Signature

*Holly N. Sand*

Minutes:

**Chm. Carlson** called the Conference Committee on HB 1044 to order.

**Chm. Carlson:** The issue of this bill is the change in the formula as to the distribution of dollars back to the counties. When it left the House it had an \$11.8 million fiscal note from the oil and gas trust fund and it would have had immediate implementation. The way the Senate amended it, the percentage has stayed the same but the implementation was changed to 7/31/08. The fiscal note became \$5.9 million. The formula is important to keep in place.

**Sen. Urlacher:** It doesn't appear as though we will get the original funding back. There has been some discussion of splitting that first \$5.9 million. It's my feeling that we let it go as it is. \$11 million will go into effect after that automatically.

**Rep. Belter:** I was hoping we could keep the whole funding in tact. I can live with the compromise.

**Sen. Urlacher:** If there was some way of getting the funding back I would certainly be going for it, but I would hope that there is a money shift later on that would address this.

**Chm. Carlson:** We must not lose sight of the formula change. That is what puts money in future years out into those oil counties.

**Rep. Belter motioned that the House Accede to the Senate amendments. Rep. Williams seconded the motion. The motion carried by a roll call vote of 6 ayes, 0 nays and 0 absent and not voting. Rep. Drovdal was designated to carry the bill.**

**Chm. Carlson** adjourned the meeting.

**REPORT OF CONFERENCE COMMITTEE  
(ACCEDE/RECEDE)**

Bill Number 1044 (, as (re)engrossed) Date: 4/13/07

Your Conference Committee House Appropriations

**For the Senate:**

**For the House:**

	YES / NO		YES / NO	
<i>Sen. Tolleson</i>	✓	<i>Rep. Carlson</i>	✓	P
<i>Sen. Urbacher</i>	✓	<i>Rep. Butts</i>	✓	P
<i>Sen. Inglett</i>	✓	<i>Rep. Williams</i>	✓	P

recommends that the (SENATE/HOUSE) (ACCEDE/to) (RECEDE from)

the (Senate/House) amendments on (SJ/HJ) page(s) 1406 - \_\_\_\_\_

✓, and place 1044 on the Seventh order.

\_\_\_\_\_, adopt (further) amendments as follows, and place \_\_\_\_\_ on the Seventh order:

\_\_\_\_\_, having been unable to agree, recommends that the committee be discharged and a new committee be appointed.

((Re)Engrossed) 1044 was placed on the Seventh order of business on the calendar.

DATE: 4/13/07

CARRIER: Rep. Dworkal

LC NO. _____	of amendment
LC NO. _____	of engrossment
Emergency clause added or deleted	
Statement of purpose of amendment	

MOTION MADE BY: Butts

SECONDED BY: Williams

VOTE COUNT 6 YES 0 NO 0 ABSENT

**REPORT OF CONFERENCE COMMITTEE**

**HB 1044, as engrossed:** Your conference committee (Sens. Tollefson, Urlacher, Triplett and Reps. Carlson, Belter, Williams) recommends that the **HOUSE ACCEDE** to the Senate amendments on HJ page 1406 and place HB 1044 on the Seventh order.

Engrossed HB 1044 was placed on the Seventh order of business on the calendar.

2007 TESTIMONY

HB 1044

1-10-07

HB 1044

#1

NORTH DAKOTA LEGISLATIVE ASSEMBLY

**Testimony**  
**HB 1044**  
**January 10, 2007**

TO: House Finance and Tax Committee

From: Representative David Drovdal

Chairman Belter and members of the house Finance and Tax Committee: For the record, I am David Drovdal and I represent District 39 which includes 6 counties in Western North Dakota. I am also the prime sponsor of HB 1044 which is before you today.

HB1044 deals with oil and gas dollars that are allocated to the producing oil & gas counties and is used to help cover the impact that is caused by the development and production of oil and gas to help cover other costs the counties incur. Some of those include additional law enforcement officers, fire fighting equipment, cost of roads, court costs and etc. The original bill was passed in 1981 and this formula has not been addressed since that date that I know of.

The intent of HB 1044 is two folds. First, it raises the dollars going back to the counties so that they will have the same buying power that they had in comparison to the 1981 dollar. The second thing the bill does is increase the dollars that are received by new producing counties and counties that have low production. The bill does not affect the formula as far as the first 20% of all dollars the state receives from oil and gas that goes to special funds. Of the remaining 80% the state receives, 100% of the first million will go to the producing counties, currently 75% of those dollars is returned to the counties and cities. Of the second million, 75% will go to counties compared to 50% currently. The third million 50%, where currently 25% is returned. Once four million dollars is reached, then 25% will go to the few counties that produce that much until they reach the cap, which currently, I believe, two counties have reached. This bill does not increase the cap but will send more needed dollars to the counties that produce oil.

The new counties and small producing counties have a need of more dollars because the impact is costlier in comparison for development of oil and gas. In regards to increasing the percentages, it's just the efficiency rule in place as counties receive more, it goes farther. In regard to the need of more dollars overall, no one will argue that costs have gone up in 25 years since this was originally passed; gravel, graders, wages etc. This HB 1044 will address that problem.

Thank you for your time and I ask for your favorable consideration on HB 1044. There will be testimony offered from individuals in all areas that feel the impact of oil and gas development and production following the completion of my testimony. If I can answer any questions, I would be happy to.

Representative David Drovdal

1-10-07  
#2  
for 2 people  
HB 1044

**HOUSE BILL 1044  
JANUARY 10, 2007 HEARING  
HOUSE FINANCE AND TAX COMMITTEE**

**Testimony presented by**

**Brad Bekkedahl, President  
North Dakota Association of Oil and Gas Counties**

Chairman Belter, Vice-Chairman Drovdal, Distinguished Representatives;

Good morning! My name is Brad Bekkedahl. I am a Williston City Commissioner, and the President of the North Dakota Association of Oil and Gas Producing Counties. I am one member of a nine member Executive Committee that represents the interests of our membership, consisting of 17 Counties, 84 School Districts, and 111 Cities. I would like to introduce two other members of our Executive Committee here today. Roger Chinn, a McKenzie County Commissioner from Grassy Butte, represents our Counties on the board, and Wayne Stanley, Superintendent of Stanley School District, represents our Schools on the board. We are here to ask for your support for HB 1044, a bill that seeks to "rebalance" the appropriation of gross production tax revenues shared by the State and Oil and Gas Producing Counties. With your permission, I will be coordinating our members' testimony for this hearing. First, I would like to call on our Association Executive Director Vicky Steiner, to give a brief history and overview of the current 5% Gross Production Tax.

**Vicky Steiner Presentation - 10 Minutes**

Thank you Vicky. I will now explain the study that was completed in September 2006 that provides a basis for the HB 1044 formula discussion. Approximately 2 years ago, our Association Executive Committee began discussing concerns from our membership relative to the increasing impacts from exploration and development programs, and the increased costs for building and maintaining the infrastructure necessary to support the rebirth of this industry in North Dakota. With this in mind, we funded a study with Larry Leistriz and Dean Bangsund of NDSU to evaluate the historical income and disbursements of the 5% gross production tax, using figures available from 1984 through 2005. The original document they prepared was over 80 pages long, and detailed the income history and the effects of inflation on the value of the dollar since that time. While the inflation analysis showed the counties would have received approximately \$35 Million more had the current formula been indexed for inflation, we recognize that the state has suffered the same loss of purchasing power over time relative to its share of the GPT. The only salvation to the State over this time period has been that, with the caps in place on the formula, the state was able to reap more beneficial revenue in times of high production and high price, mitigating to some degree the overall loss of power due to inflation.

Also, indexing the current formula to inflation only provided more revenue to the highest producing counties, and it was our intent to request an adjustment that would provide better revenues to all our member counties. With that in mind, we were able to find that an adjustment to the current formula, as proposed in HB 1044, would increase across the board, revenues to our member counties, school districts, and cities to deal with the increasing impacts, as well as the increased costs of maintenance due to the production facilities. On page five (5) of the Summary Report of the original document which we have just provided you, you will find a table, listed as Figure 1. This table shows the relative percentage return of the GPT revenues to the State and Counties, on a year by year basis. You will note that in times of sustained production, with low to moderate oil prices, the percentage share of dollars returned to the counties approaches the amount returned to the State. But, you will also note that in times of high activity, increased production, and increased prices, a cycle we are currently in, the State percentage share of revenues accelerates, and the Counties percentage declines. While everyone gets more income, the State benefits disproportionately, while the Counties, Schools, and Cities deal with the direct increased impacts. That is why we are here today, to seek your understanding and assistance in "rebalancing" the 5% Gross Production Tax formula, and help the local government entities deal with the costs of supporting the industry which is so beneficial to the entire State of North Dakota. I appreciate your attention to my testimony, and at this time may answer any questions you have relative to the presentation or Summary Report we have provided you today.

We would now like to present some of our members to provide local testimony at this time. We have representatives from Dunn County, Mountrail County, and Bottineau County that have requested time today for their input to the Committee. The presentations will be made by Carol Gjovik, the Dunn County Jobs Development Authority Director, Reinhard Hauck, Dunn County Auditor, Arlo Borud, Mountrail County Commissioner, and Bob Indvik, Bottineau County Roads Foreman.

### **County Presentations - 15 Minutes total**

### **Questions and Committee Response**

This concludes our testimony in support of HB 1044. On behalf of our Association members, I want to thank you for considering our testimony this morning. As Governor Hoeven said in his recent State of the State Address: "To realize our full potential, we must look beyond the borders of our state. Our real future in energy is not about what we consume in North Dakota; it is about what we can supply to the nation - a nation that needs more energy and more energy independence." The North Dakota Association of Oil and Gas Producing Counties wants to be a partner with the state of North Dakota in pursuing this development. We appreciate the opportunity to work with the Legislature on this partnership today, and hope you support our request for a "Do Pass" recommendation on HB 1044. We would be open to any further questions the Committee may have at this time. Thank you for your time and consideration.

1-10-07

# 3

1044

**Distribution of Gross Production Tax Revenues  
to Counties in North Dakota**

**Summary Report**

A Report to the  
North Dakota Association of Oil and Gas Producing Counties

Annual Meeting 2006  
Bowman, North Dakota

Submitted by  
F. Larry Leistritz  
Dean A. Bangsund

September, 2006

#3 1644  
1-10

### Introduction

North Dakota collects a Gross Production Tax on oil and gas production. Current law stipulates that 20 percent of the tax collections are to be allocated to the state General Fund (66.7%) and the Oil and Gas Impact Grant Fund (33.3%). The remaining 80 percent of the gross production tax is allocated between the State General Fund and the oil and/or gas producing counties based on a revenue distribution formula. The revenue formula for the split between the state and counties is based on different allocations for three separate levels of tax collection. Of the 80 percent of the gross production tax, the county receives 75 percent and the state receives 25 percent up to the first \$1 million in tax collections from that county. From \$1 million to \$2 million in tax collections, the county and state each receive 50 percent of the taxes collected in that county. For tax collections over \$2 million, the producing county receives 25 percent and the state 75 percent of the tax revenue in that county. Of the money collected for the producing counties by this tax revenue, 45 percent is allocated to the County General Fund, 35 percent is allocated to all the School Districts in that county, and 25 percent is allocated to the cities in that county.

The three monetary levels in the distribution formula (up to \$1 million, \$1 million to \$2 million, and over \$2 million) which stipulate the split in tax revenues between counties and the State General Fund were initially set by the 1981 ND Legislative Session. The existing formula for the split between the state and counties has remained unchanged since 1981; however, the cap in tax distributions to counties was changed in the 1983 ND Legislative Session. The maximum distribution of the gross production tax in any year varies based on the population of the county. For county population up to 3,000, the county has a maximum annual distribution of \$3.9 million. The maximum annual distribution increases to \$4.1 million for counties with population between 3,000 to 6,000 and counties with population over 6,000 have a maximum annual distribution of \$4.6 million.

### Project Scope

The overall goal of this project is to examine how distributions of the gross production tax between the state and oil and/or gas producing counties have been influenced by inflation and examine the tax distributions associated with an alternative tax formula. Specific objectives include the following:

- 1) Document the historical level of tax collections received by oil and/or gas producing counties based on current law,
- 2) Estimate the distribution of the gross production tax had the current formula been indexed for inflation, and
- 3) Examine an alternative formula for the distribution of the gross production tax between the state and oil and/or gas producing counties.

#3

### Study Procedures

An alternative formula for the percentage split in gross production tax between the state and counties has been proposed by the ND Association of Oil and/or Gas Producing Counties in an attempt to evaluate the distribution and magnitude of change in tax collections for oil and/or gas producing counties.

The alternative formula followed a similar structure to the current formula (Table 1). In this case, the first one-fifth of the gross production tax is allocated to the State (to be further split between the State General Fund and the Oil and Gas Impact Grant Fund). The formula stipulating how the remaining 80 percent of tax collections is to be allocated to the state and counties is the portion of the formula that has been changed in this alternative. Tax distributions in fiscal year 2005 were estimated for the alternative formula and compared to actual tax distributions in 2005. Also, the current maximum tax limits and an inflation-adjusted maximum tax distribution limit were included in the comparison.

Table 1. Current Formula and Alternative Formula for Distribution of Gross Production Tax between North Dakota and Oil and/or Gas Producing Counties

<u>Current</u>	County Share	State Share
1/5 of collections go to State Treasurer and 4/5 of collections are split between counties and State General Fund based on the following formula:		
up to	75 %	25 %
\$1,000,000 to	50 %	50 %
over	25 %	75 %
 <u>Alternative</u>		
1/5 to State Treasurer and 4/5 of collections are split between counties and State General Fund based on the following formula:		
up to	100 %	0 %
\$1,000,000 to	75 %	25 %
\$2,000,001 to	50 %	50 %
over	25 %	75 %

Notes: Counties have a maximum annual distribution of \$3.9 million for population up to 3,000, \$4.1 million for population of 3,000 to 6,000, and \$4.6 million for population over 6,000.

## Results

Adjusting the current formula for inflation, over the 1984 to 2005 period, the counties would have cumulatively collected about \$26.1 million to \$34.8 million (depending on the inflation index used) in additional tax revenue had the current formula been indexed to inflation. By indexing the current formula to inflation over the period, six counties would have collected over \$2 million in additional tax revenue, another six counties would have received modest (less than \$1 million) increases in tax revenues, while five counties would not have received any additional tax distributions.

The relative share of total distribution of the gross production tax between counties and the state were evaluated over the 1984 to 2005 period (Figures 1 and 2) (Table 2). In years when total gross production tax collections are highest, the counties' relative share of collections in percentage terms decreases. In contrast, in years when total gross production tax collections are lowest, the counties relative share of collections increases. Figure 1 shows the relative share of the gross production tax distributions while Figure 2 shows the counties' and state's share in monetary terms. While the total amount of money redistributed to counties increases when collections of gross production tax also increase, the increase is substantially less than the increase in the amount of dollars the state retains. The state's share in dollar terms increases substantially more than the increase in tax revenues to the counties in years with high tax revenues. If the relative share between the counties and the state is to change, the formula itself would need to be changed, or a completely different formula would be required.

## Conclusions

The purpose of this report was to examine how inflation has affected the formula for the distribution of gross production tax between oil and/or gas producing counties and the state of North Dakota, and to examine an alternative formula for the distribution of gross production tax revenues to more equitably share and re-balance the distribution of the tax during periods of high production, price, and therefore tax revenue.

The current formula uses fixed monetary levels that stipulate the percentage of tax that is allocated to the county and state. What was found was that the basic structure of the formula provides a greater redistribution of revenues to the state during periods of high tax collections. In other words, the share received by the state is disproportionately greater than the share received by the counties when higher levels of gross production tax are collected. The alternative formula was evaluated and compared to actual tax distribution for fiscal year 2005. This alternative resulted in a greater percentage of the gross production tax being redistributed back to the counties; however, perhaps of greater importance is that even counties with lower levels of gross production tax collections would experience some increase in tax distributions under the alternative formula. High revenue counties would also see an increase in the distribution of the gross production tax.

#3

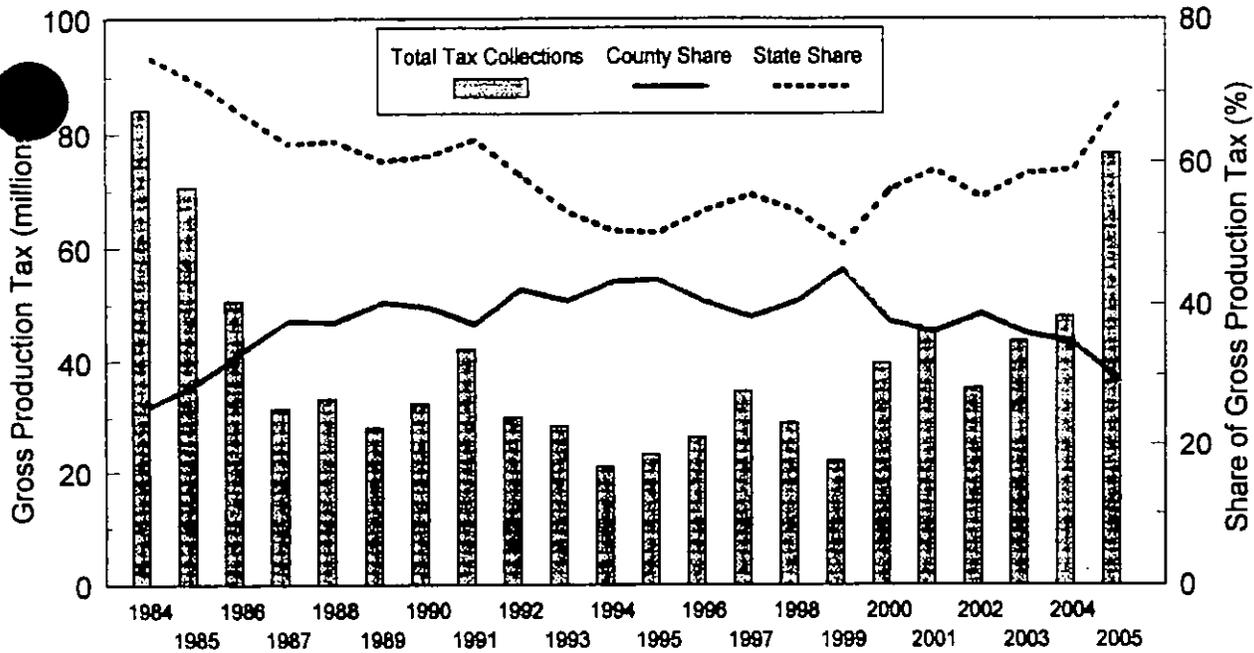


Figure 1. Total Gross Production Tax, Counties and State Share in Percentage Terms, Fiscal Years 1984 through 2005

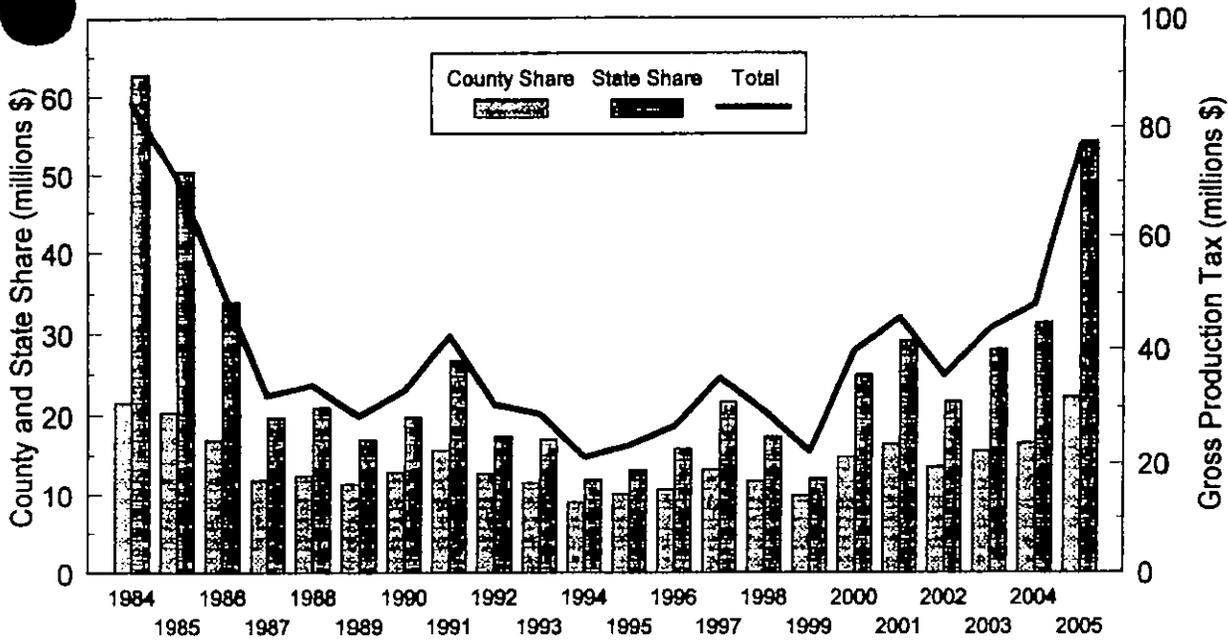


Figure 2. Total Gross Production Tax, Counties and State Share in Dollar Terms, Fiscal Years 1984 through 2005

#3

Table 2. Gross Production Tax for All Counties by Year, State and Counties' Monetary and Percentage Shares, Fiscal Years 1984 through 2005, Current Formula

	Fiscal Years										
	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Gross Production Tax (000s \$)	84,293	70,663	50,753	31,630	33,387	28,250	32,581	42,086	30,064	28,493	20,925
State Share of Tax (000s \$)	62,806	50,383	33,874	19,759	20,944	16,922	19,741	26,518	17,432	17,003	11,916
County Share of Tax (000s \$)	21,487	20,279	16,879	11,871	12,444	11,328	12,840	15,568	12,633	11,490	9,009
State Share (percent of total tax)	74.5	71.3	66.7	62.5	62.7	59.9	60.6	63.0	58.0	59.7	56.9
County Share (percent of total tax)	25.5	28.7	33.3	37.5	37.3	40.1	39.4	37.0	42.0	40.3	43.1

	Fiscal Years										
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Gross Production Tax (000s \$)	23,174	26,400	34,765	29,016	21,960	39,627	45,448	35,215	43,446	47,805	76,471
State Share of Tax (000s \$)	13,139	15,775	21,544	17,330	12,109	24,806	29,063	21,670	27,920	31,292	54,236
County Share of Tax (000s \$)	10,035	10,625	13,220	11,687	9,851	14,822	16,385	13,545	15,526	16,514	22,235
State Share (percent of total tax)	56.7	59.8	62.0	59.7	55.1	62.6	63.9	61.5	64.3	65.5	70.9
County Share (percent of total tax)	43.3	40.2	38.0	40.3	44.9	37.4	36.1	38.5	35.7	34.5	29.1

Notes: State and county share may not equal total due to rounding and state and county percentages may not total to 100 due to rounding.

#3

#3

### Alternative Formula Discussion

The following discussion and tables highlights the result of accepting the proposed alternative formula for distribution of the gross production tax. Based upon gross production tax figures from the year 2005, the alternative formula would result in an increase of \$5.7 million in tax revenues (per year) to the counties when compared to the current formula (not adjusted for inflation) with current maximum caps (Table 3). Overall, the counties in this alternative would have received a 25 percent increase in tax revenue over the current formula.

Table 3. Gross Production Tax in Fiscal Year 2005, County Share of Tax Distribution and Estimated Change in Tax Distribution based on Alternative Formula

County	Gross Production Tax	County Share of Tax		Net Change	Percentage Change
		Actual Formula	Alternative Formula		
Adams	0	0	0	0	
Billings	10,578,527	2,865,705	3,615,705	750,000	26.2
Bottineau	4,880,226	1,726,045	2,476,045	750,000	43.5
Bowman	22,297,272	4,100,000	4,100,000	0	0.0
Burke	1,526,187	860,475	1,165,712	305,238	35.5
Divide	1,664,437	915,775	1,248,662	332,887	36.4
Dunn	1,761,361	954,545	1,306,817	352,272	36.9
Golden Valley	1,607,213	892,885	1,214,328	321,443	36.0
Grant	0	0	0	0	
Henry	44,861	26,917	35,889	8,972	33.3
McKenzie	13,077,407	3,365,481	4,100,000	734,519	21.8
McLean	106,421	63,853	85,137	21,284	33.3
Mercer	0	0	0	0	
Mountrail	571,742	343,045	457,394	114,348	33.3
Renville	1,219,908	731,945	975,927	243,982	33.3
Slope	1,024,666	614,799	819,733	204,933	33.3
Stark	6,038,719	1,957,744	2,707,744	750,000	38.3
Ward	128,504	77,102	102,803	25,701	33.3
Williams	9,943,960	2,738,792	3,488,792	750,000	27.4
Totals	76,471,413	22,235,109	27,900,688	5,665,579	25.5

Notes: Maximum limits were not adjusted for inflation.

If the cap limits were adjusted for inflation, the only change in tax distributions to the counties was an increase in distributions to Bowman and McKenzie Counties. Tax distributions to the counties increased by about \$1.9 million when increasing the caps to reflect 2005 dollars. Total tax distribution to the counties in this alternative formula with inflation-adjusted caps were estimated to increase about \$7.5 million per year (Table 4).

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1044 #4 1-10

# North Dakota Association of Oil & Gas Producing Counties

## EXECUTIVE COMMITTEE

Brad Bekkedahl  
President  
Williston

Anthony Dukatski  
Vice President  
Bowman PSD

Diane Affeldt  
Garrison

Roger Chinn  
Past President  
McKenzie County

Verdean Kveum  
Bottineau County

Loren Mathison  
South Heart PSD

Ken Radenz  
Burke County

Wayne Stanley  
Stanley PSD

Greg Sund  
Dickinson

Reinhard Hauck  
Secretary/Treasurer  
Manning

## Testimony in Support of House Bill 1044

House Finance and Taxation Committee  
Chairman Wes Belter  
Fort Totten Room  
January 10, 2007

Chairman Belter and Members of the House Finance and Tax Committee. My name is Vicky Steiner. I represent the North Dakota Association of Oil and Gas Producing Counties. I live in Dickinson. I've worked for this Association since 1986.

There are two oil taxes. The 5% oil and gas gross production tax was passed into law in 1953. There had been an oil discovery in Williams County near Tioga in 1951 and the legislators took two years to craft this tax. Voters passed the 6.5% extraction tax on crude oil in 1980.

The 5% oil and gas gross production tax is "in lieu of local property tax. The revenues generated in this tax are shared between the county and the state. State legislators recognized there would be some impact to Williams County and designed the formula to address that concern.

The formula is easier to understand in a picture form. The tax is split 1% to the state and 4% to the county and state.

VICKY STEINER - EXECUTIVE DIRECTOR  
859 Senior Ave. ~ Dickinson, ND 58602-1333 ~ Phone: (701) 483-TEAM (8326) ~ Fax: (701) 483-8328 ~ Cellular: (701) 290-1339  
E-mail: vsteiner@ndsopermet.com ~ Web: www.ndoigas.govoffice.com

Linda Svihovec - Permit Operator  
P.O. Box 504 ~ Watford City, ND 58854 ~ Phone: 701-444-3457 (work) ~ Phone: 701-444-4061 (home) ~ Fax: 701-444-4113 ~ Email: lsvhov@4eyes.net

#4 1044  
1-10

The reason they had this 1% taken off the top so to speak was that originally funded the new oil and gas division of the Industrial Commission. It's no longer used for that. The money there is further split 1/3 to the Energy Impact fund, 2/3 to the state general fund.

On the other side, the remaining 4% is also split. In current law, the percentages have remained the same since 1953. However, the dollar amount was changed in 1981.

In 1953, it was 75% to the producing county, 25% to the state of the first \$200,000. Their reasoning, as reported in the newspaper and in letters to a former state Senator Duffy in Devils Lake was that the county would have initial impacts and should get the 75% to take care of impacts. In 1981, the impacts surpassed the 5% county tax

revenues and the impact fund was created to assist counties with that extreme growth. The energy impact fund was originally funded from the state general fund but in 1991, the law was changed to place the funding from the 5% oil tax on 1/3 of 1%.

Also, in 1981, the 5% formula was changed from \$200,000 to the \$1 million figure which is in today's formula.

The existing formula today goes 75-25 on the first million of the remaining 4%. 50-50 on the second million. 75 to the state and 25 to the county on the third million and after a cap is reached, 100% to the state.

The adjustment in House Bill 1044 moves the first percentage from 75% to 100% to the county on the first million. This means that 14 counties benefit from this change, even the smaller producing counties. The percentages are same as before 75/25, 50/50, 75/25 and then a cap is applied after \$3 million.

#4 1044  
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This bill does not address those larger oil producing counties that hit their caps last year. There is a provision in law that a county the size of Bowman will not receive more than \$4.1 million even though \$384 million in tax revenue was produced from that county. McKenzie County also reached a cap of \$4.1 million. Those caps were last adjusted in 1983.

This bill returns addition revenue to 14 counties that have NOT hit the cap.

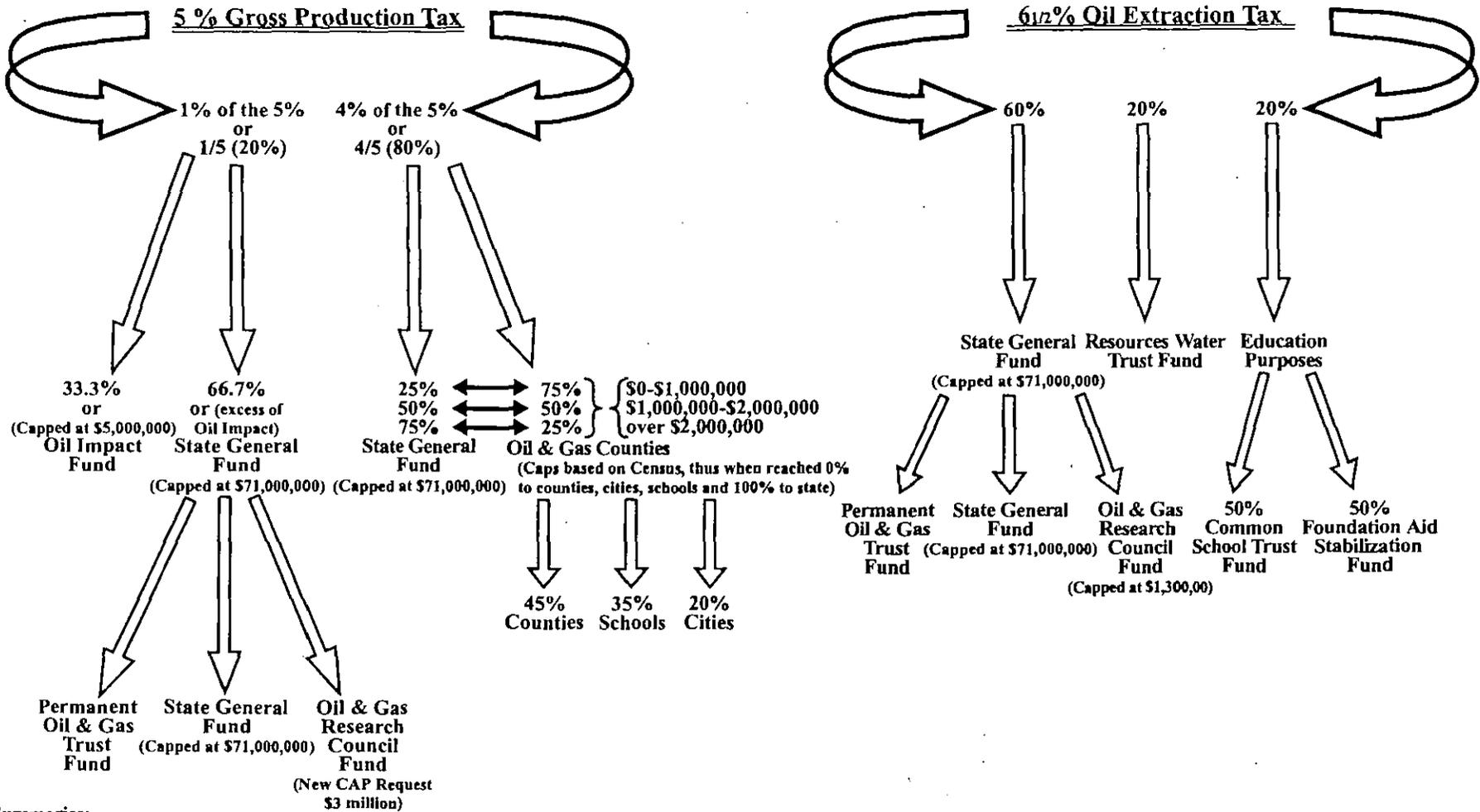
Also, after the county receives a share, it's further split 45% to the county commission, 35% to the school districts in the county and 20% to the cities.

Energy development in the future will continue to be a partnership This Association

supports the changes in HB 1044. Please give it a Do Pass recommendation. I'm available for questions. Thank you.

#17  
10/14

## Current Oil Tax Distribution

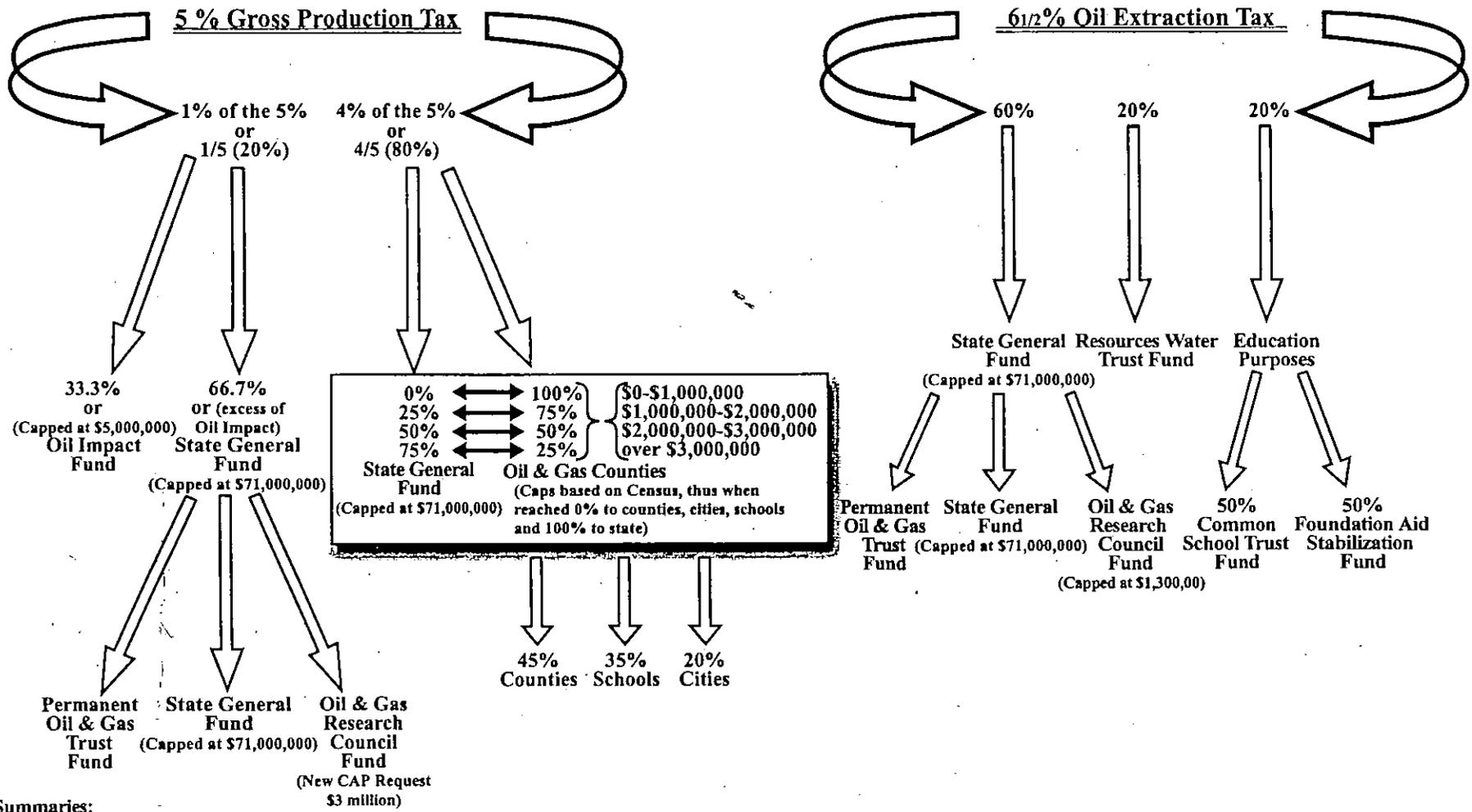


**Title Summaries:**

- Oil Impact Fund** = Such fund via grant application assists local political subdivisions in dealing with issues arising from oil and energy development and/or activities.
- State General Fund** = Such fund assists with projects and programs (educational, DOT, governmental, human services, agricultural, etc) across the entire state of ND.
- Oil & Gas Counties - Counties** = Such fund assists counties impacted by the production of oil and gas. Entitlement is based on a percentage and population basis.
- Oil & Gas Counties - Schools** = Such fund assists counties impacted by the production of oil and gas. Entitlement is based on a percentage and census basis.
- Oil & Gas Counties - Cities** = Such fund assists counties impacted by the production of oil and gas. Entitlement is based on a percentage and population basis.
- Resources Water Trust Fund** = Such fund assists with construction of water-related projects, including rural water systems and programs for energy conservation.
- Education Purposes - Common School Trust Fund** = Proceeds are deposited with DPI and interest from such fund is distributed to schools via tuition appointment payments.
- Education Purposes - Foundation Aid Stabilization Fund** = Interest monies transferred to state general fund. Principle balance may be used for revenue shortage to state general fund.
- Permanent Oil & Gas Fund** = Such fund assists with projects and programs (educational, DOT, governmental, human services, agricultural, etc) across the entire state of ND.
- Oil & Gas Research Council Fund** = Such fund assists to accumulate and disseminate information concerning the petroleum industry to foster the best interests of the public and industry.

# House Bill 1044 Adjustment Oil Tax Distribution

#11-10  
1044



**Title Summaries:**

- Oil Impact Fund** = Such fund via grant application assists local political subdivisions in dealing with issues arising from oil and energy development and/or activities.
- State General Fund** = Such fund assists with projects and programs (educational, DOT, governmental, human services, agricultural, etc) across the entire state of ND.
- Oil & Gas Counties - Counties** = Such fund assists counties impacted by the production of oil and gas. Entitlement is based on a percentage and population basis.
- Oil & Gas Counties - Schools** = Such fund assists counties impacted by the production of oil and gas. Entitlement is based on a percentage and census basis.
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- Resources Water Trust Fund** = Such fund assists with construction of water-related projects, including rural water systems and programs for energy conservation.
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- Oil & Gas Research Council Fund** = Such fund assists to accumulate and disseminate information concerning the petroleum industry to foster the best interests of the public and industry.

HB 1044

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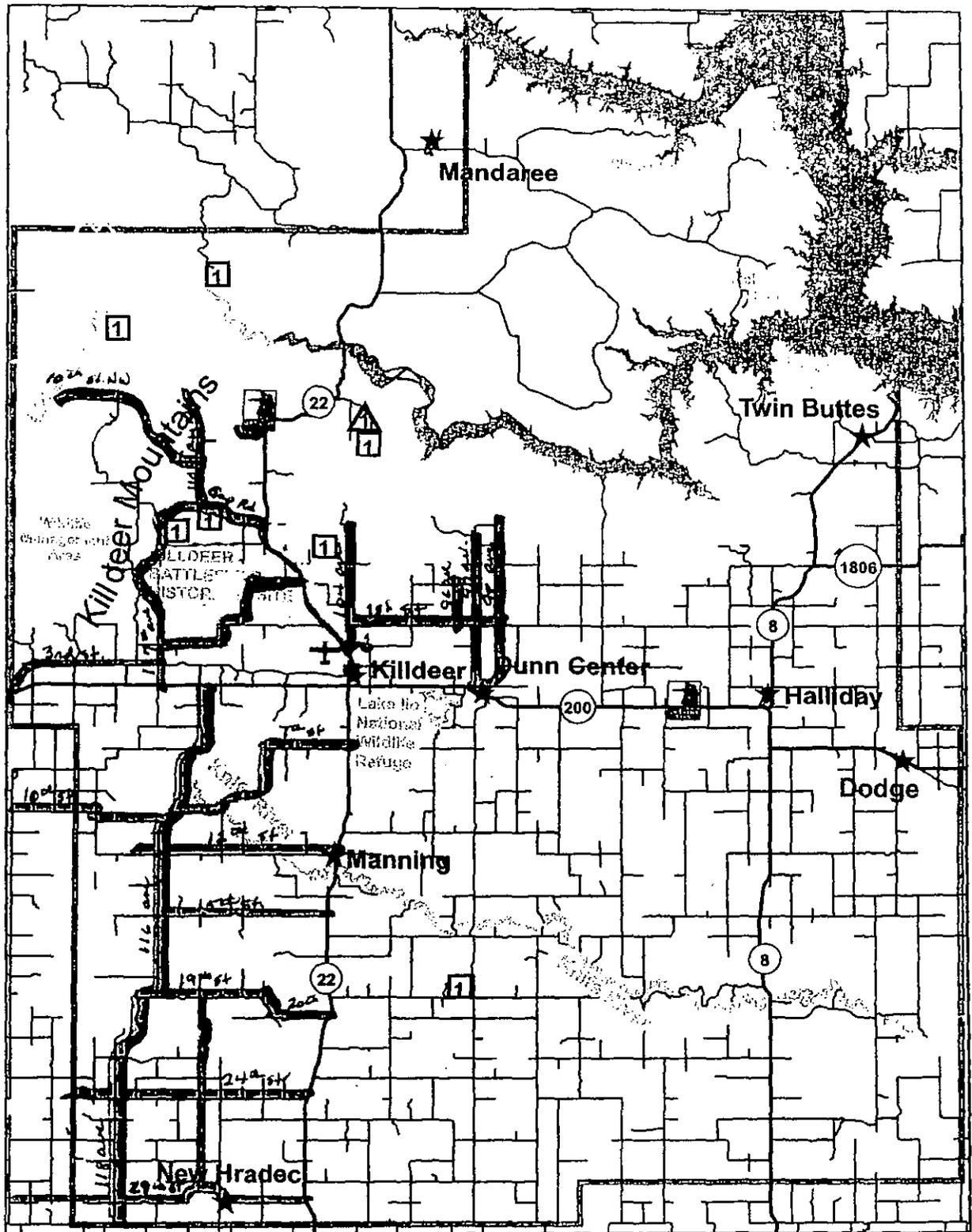
# DUNN COUNTY

## COUNTY ROAD SYNOPSIS

DECEMBER 2006

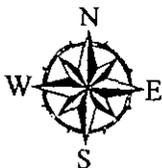
Prepared by  
Dunn County Jobs Development Authority  
Carroll Gjovik, Director

#5 1044  
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-  Airstrip
-  Golf Course

# Dunn County



#5 1044  
1-10

## **STATISTICAL INFORMATION FROM DUNN COUNTY**

*Requesting a 5.6 million increase in revenue for counties and would encourage the 1 million cap per county be increased.*

*In 1995 the county spent \$815,611.92 on roads, in 2005 they spent \$1,430,402.9, a 75% increase in 10 years considering inflation that is not bad, however in 2006 at least \$1,800,000 will be spent which is a 30% increase most of which is directly related to the oil impact.*

*The County revenue for roads in 1982 was \$429,000, in 1983 it was \$1,187,000 (last oil boom), and for 2007 it is budgeted at \$2,000,000. Maintenance dollars have doubled on county roads and tripled on federal aided roads in the last couple of years. It costs \$200,000 per mile to update a federal aid road.*

*The county has three road districts with a road superintendent for each district. Only two of the three have oil traffic.*

*District one has 295 miles of roads.*

*District two has 300 miles of roads.*

*District three has 272 miles of roads*

*Three oil fields are found in District 2 and two in District 1 and none in District 3.*

*The number of county road workers during the last oil boom was 28 people today there are only 13 workers trying to cover the same roads. The Dunn County budgeted salary for one month in 1985 was \$39,103 today it is \$40,236 per month.*

*While maintaining the road it means double when going over them because it takes at least two times to cover the roads. The Federal Aided County roads take four trips across to cover the entire road.*

*People call the road superintendents to request more gravel and secondly blading on their roads. When it rains truck use chains for safety and this really tears up the road bed.*

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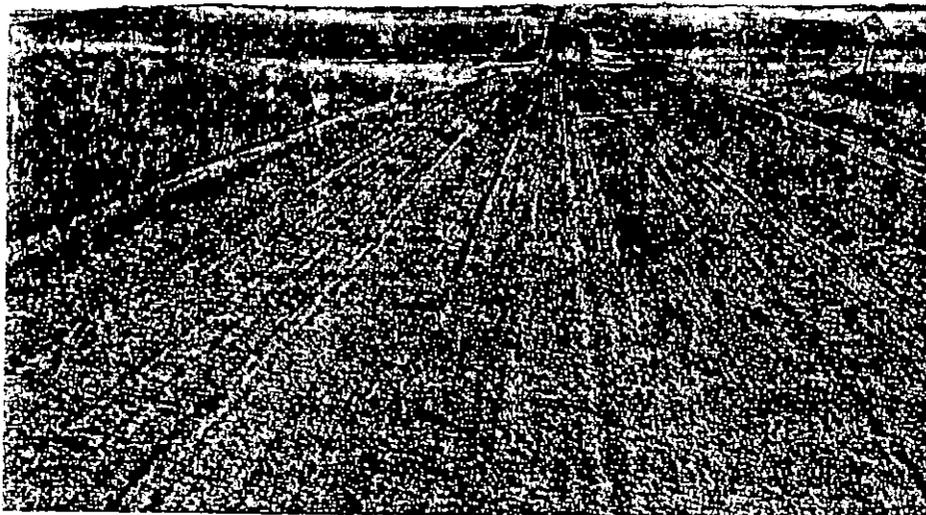
## Oil and Gas Roads Information/Pictures

### DISTRICT 1 (NORTH HALF)

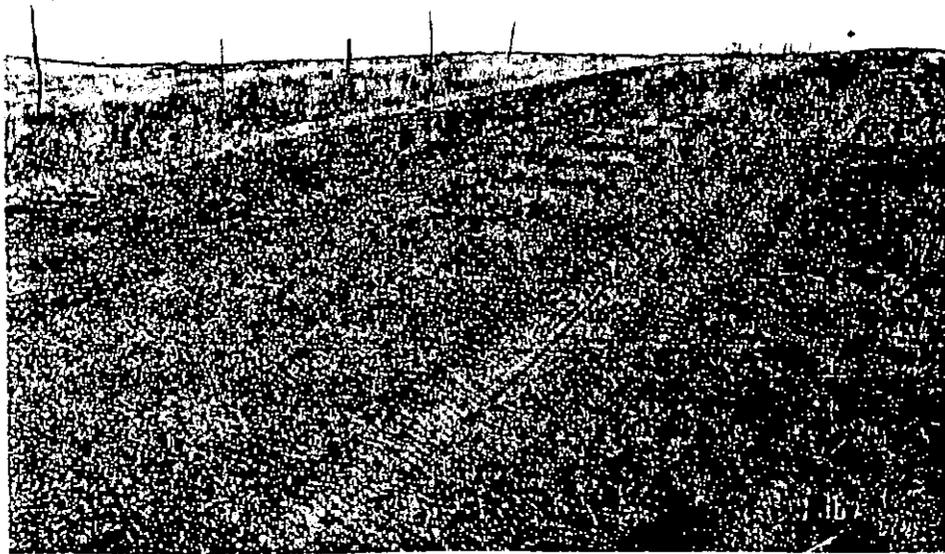
**104 Ave in Dunn County has a blow out on the hill side because of truck and trailers. Also there is wash board even when bladed day before. This road has about 103 vehicles per day.**



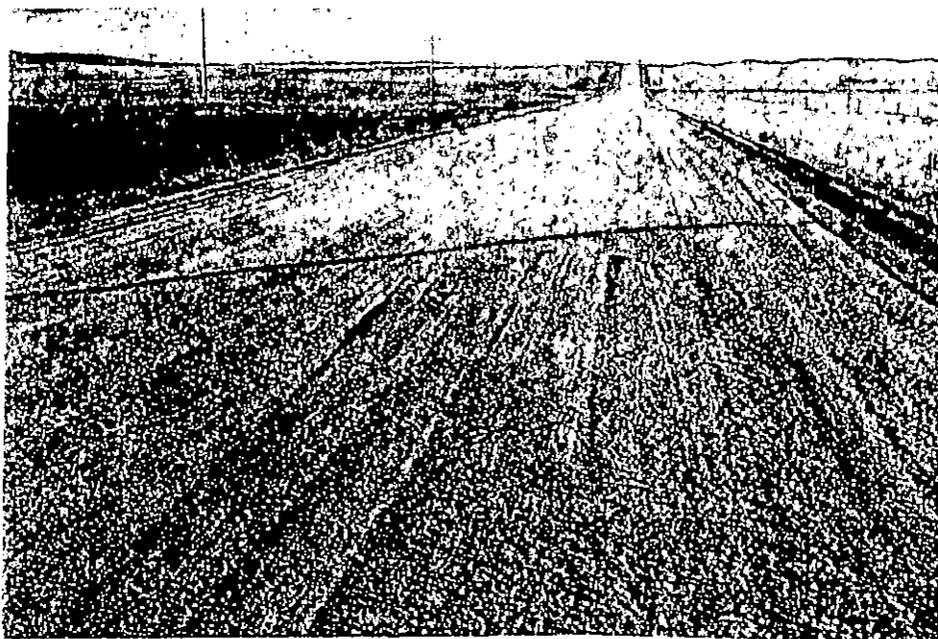
**1<sup>st</sup> St. SW near the Selle Well there are wash board conditions and pot holes from the truck traffic. On the average 186 vehicles travel this road a day**



**County road near old Duane Miller Farm has wash board problems plus needs update work. No count of daily traffic.**

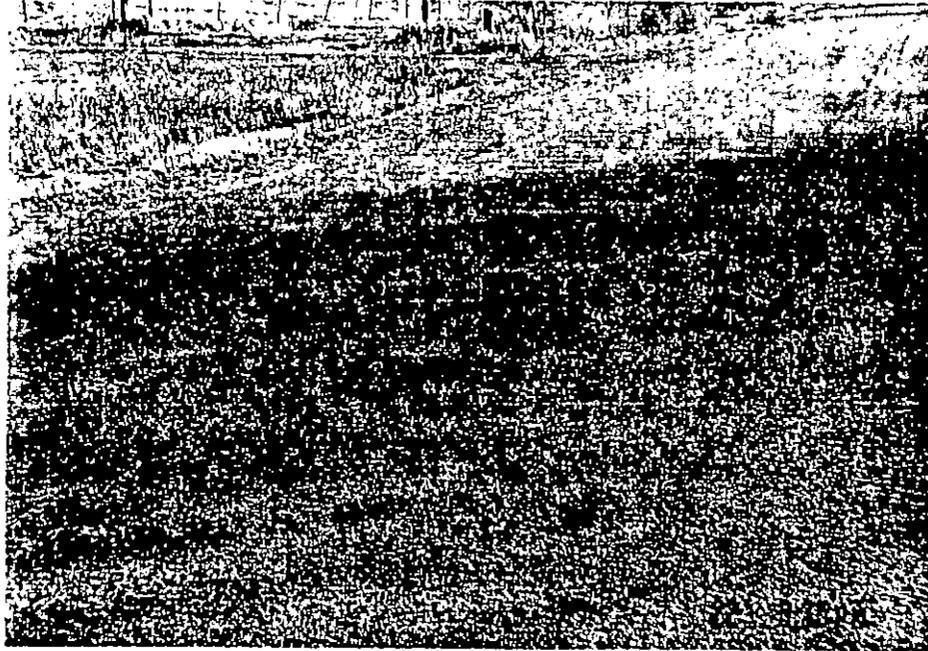


**County Road 97<sup>th</sup> Ave NW has three wells in drilling process—it is rough, wash board even when bladed the day before. About 265 vehicles use this road a day.**



#5 1044  
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98<sup>th</sup> Ave just north of Dunn Center has extreme wash board conditions due to large trucks using this road rather than the hard surfaced road which is designated as a recreational road. An estimate of 259 vehicles a day travels this road.

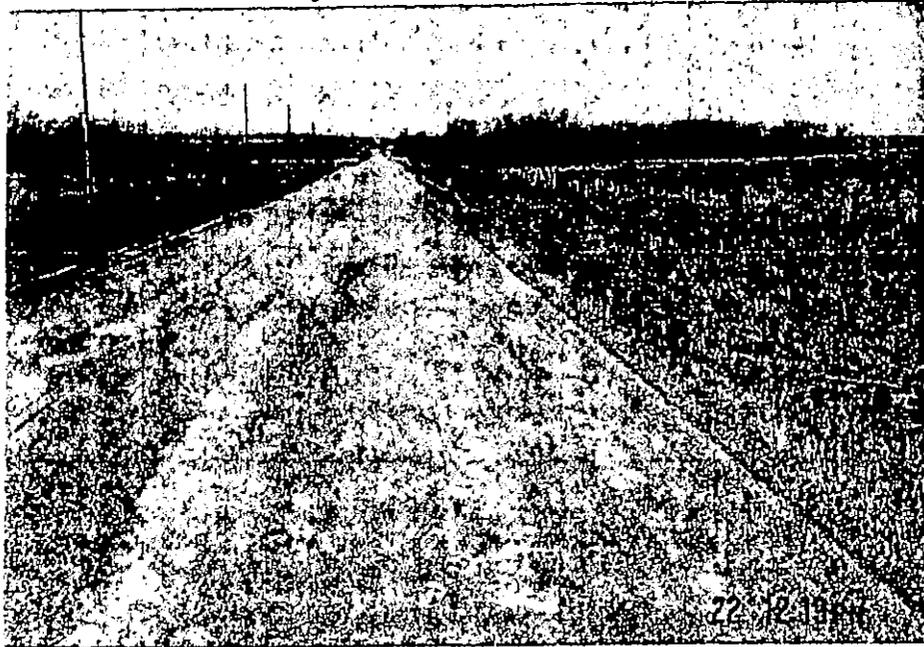


Due to some trucks using the hard surface the county has had to patch the road this fall of 2006.

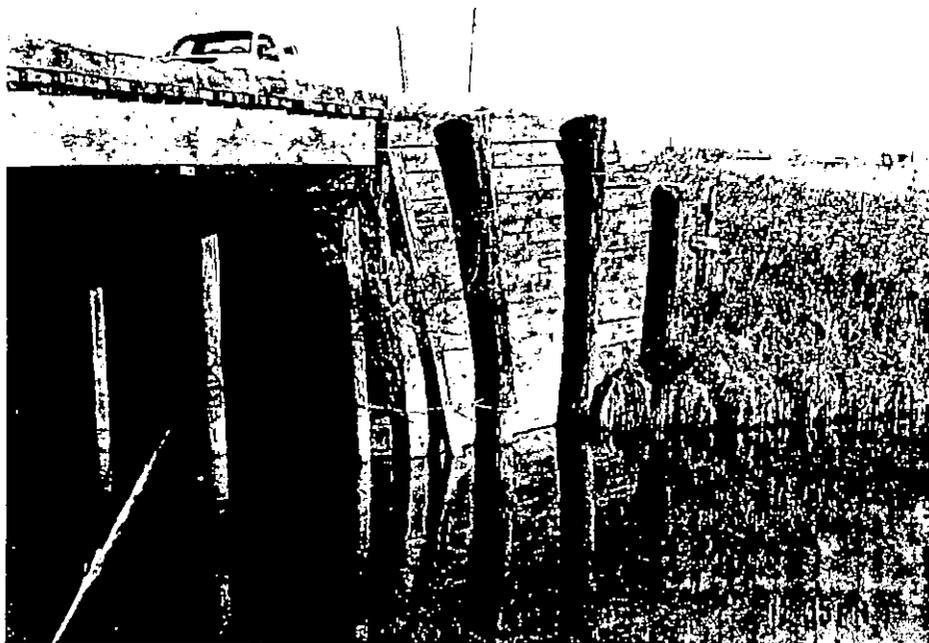


**DISTRICT 2 (South West Portion)**

**7<sup>TH</sup> St. SW (known as the Kulish well road) was done with scoria in Feb or March 2006. Today the road is worn, rutted and wash board ridden. There are at least three wells in various stages and another to be drilled in the near future. Seventy six vehicles travel this road.**



**A four ton bridge needs to be replaced as trucks need to travel from one oil field to another and are restricted because of the inadequate bridge. Another 8 ton bridge about a third of a mile east and a bit south also needs to be redone.**

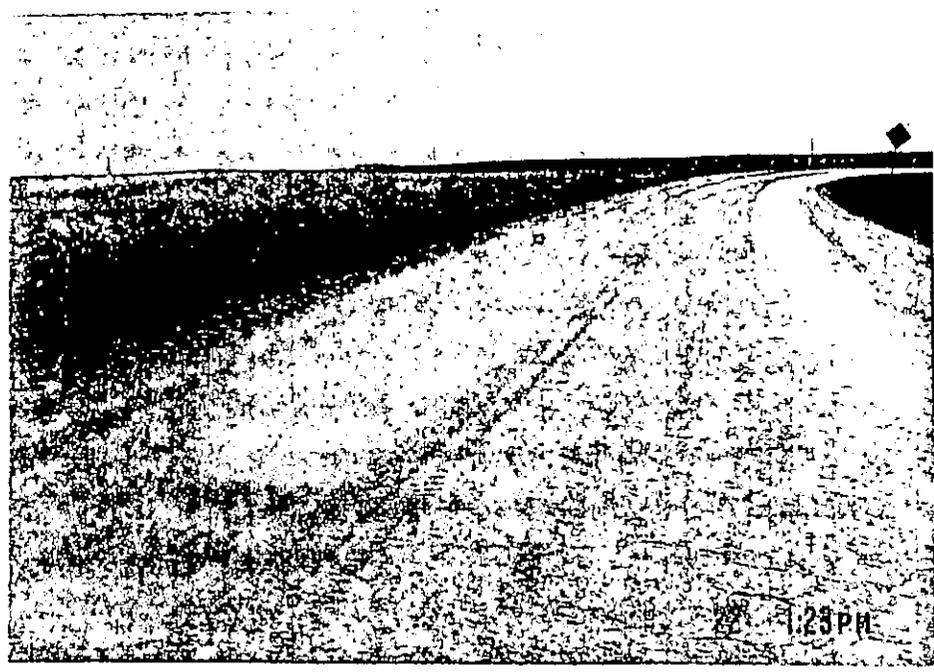


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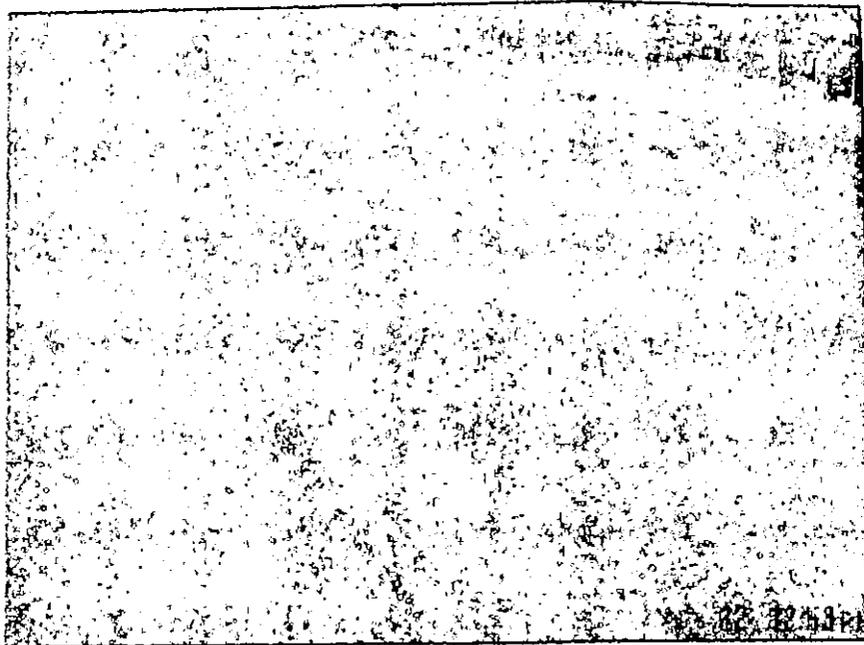
County road 116 Ave. SW was built up in 2000. November of 2006 additional gravel was added to the road bed because of the additional truck traffic. This is an extremely busy oil road as they haul the crude to Highway 200 to get it to a pipe line. About 144 vehicles average a day on this road.



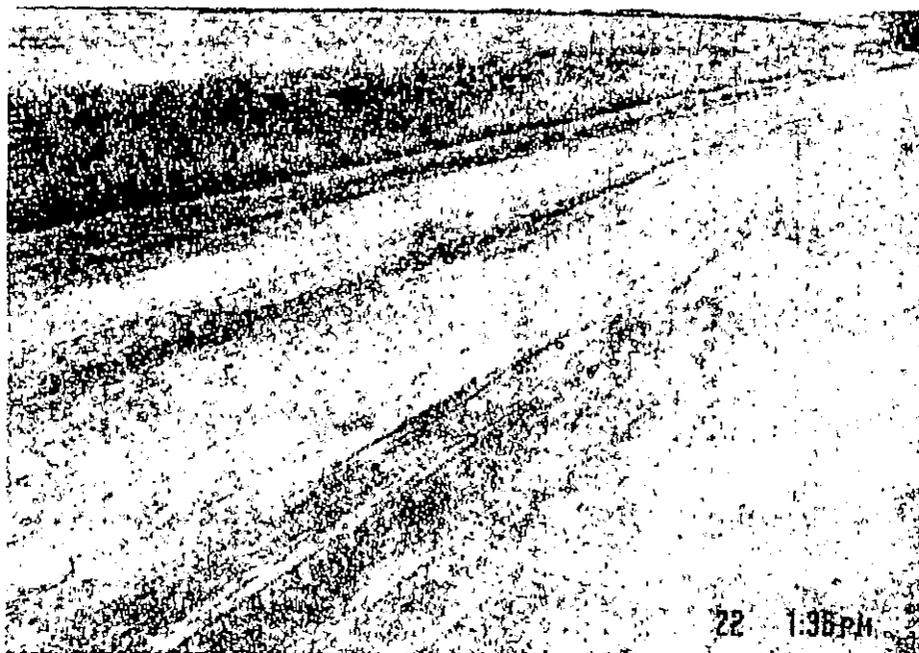
118<sup>th</sup> Ave SW north of 24<sup>th</sup> St. was graveled for 6 miles the summer of 2006. Today it has wash board conditions. This road also has about 144 vehicles a day as it connects to 116 Ave. SW.



Another road used by trucks is 114<sup>th</sup> Ave. SW. Again the condition of the road is deteriorating quickly.

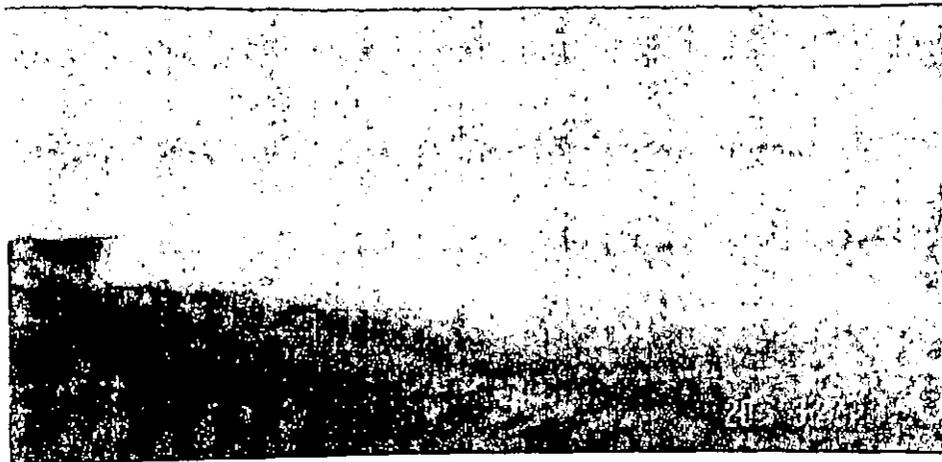
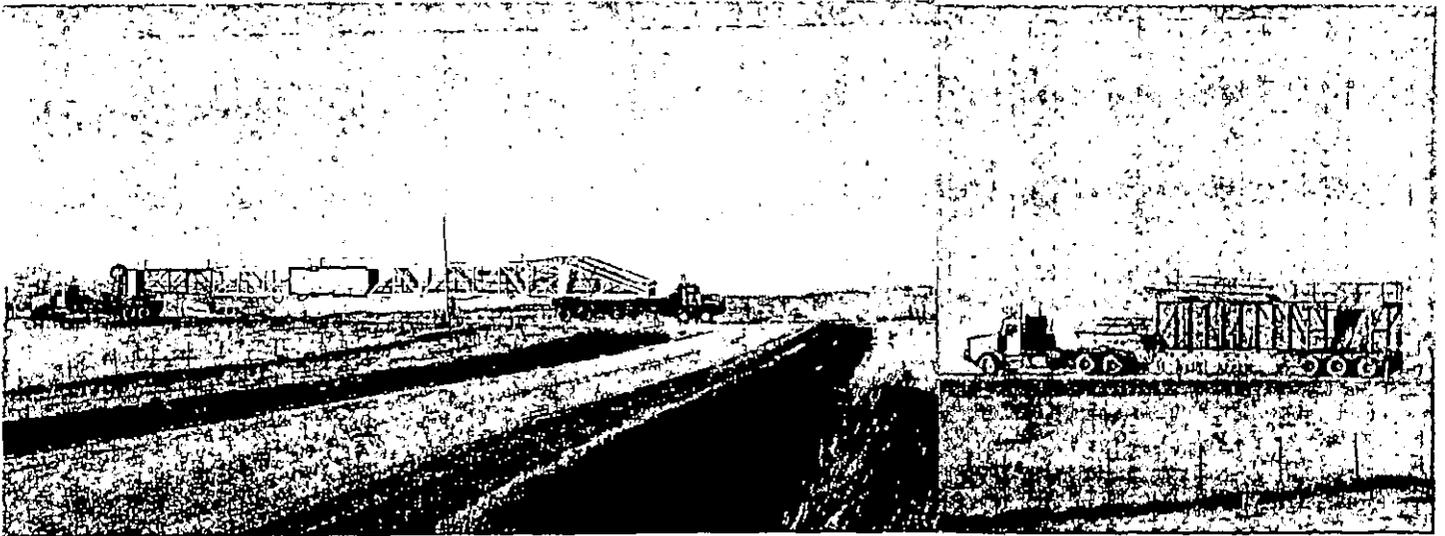
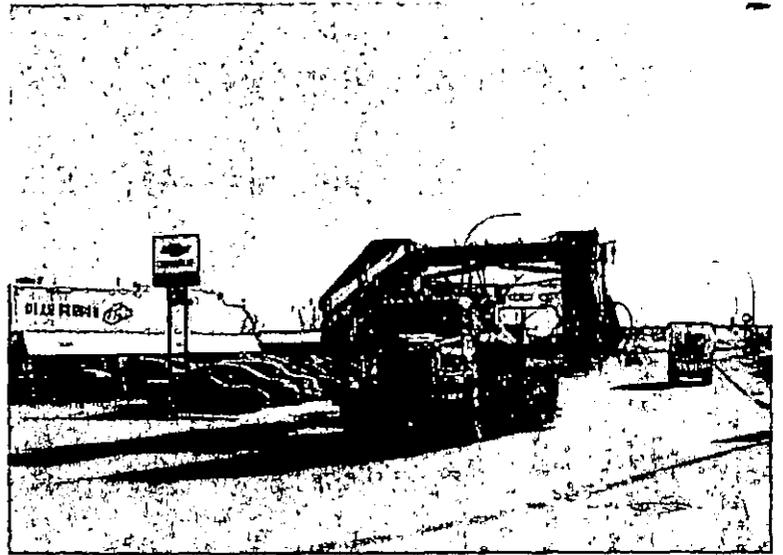
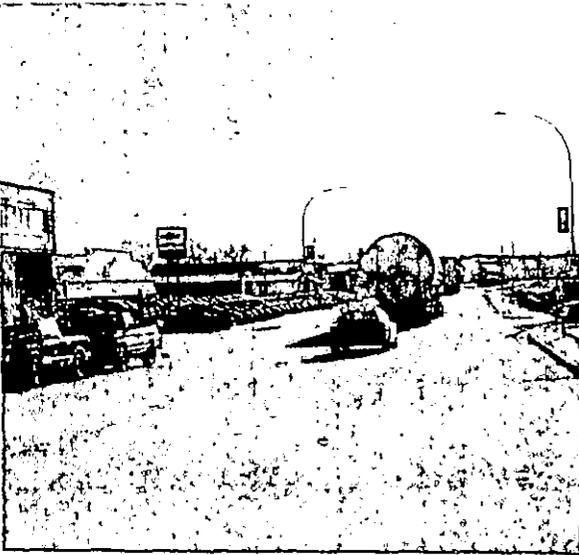


A low maintenance road on 114 Ave. SW used by oil well traffic shows the extreme beating the road receives.



#5 1044  
1-10

Sample of truck traffic on these roads:



#5 1044  
1-10

**Killdeer Mountain Manufacturing, Inc.**

233 Rodeo Drive, P.O. Box 450,  
Killdeer, North Dakota 58640

**KMM**

Telephone (701) 764-5651  
Facsimile (701) 764-5427

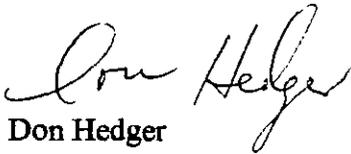
January 5, 2007

To Whom It May Concern:

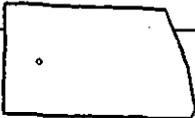
Our company employs 170 workers in Dunn County in aerospace electronics manufacturing. Many of our employees commute to our plants in Killdeer and Halliday over gravel country roads. With the increasing oil well development in Dunn County, hazardous driving conditions are becoming commonplace. At the same time, the "Quality of Place" environment for our workforce is being seriously impacted by dust and dirt.

Please consider using a small portion of the revenue generated by this oil development to improve our country roads to reduce the resulting hazards being experienced.

Sincerely,



Don Hedger  
President



---

Email: [kmm@kmmnet.com](mailto:kmm@kmmnet.com)  
Visit our website at: [www.kmmnet.com](http://www.kmmnet.com)

#5  
January 5, 2007

PO Box 655  
Killdeer, North Dakota

To Whom It May Concern:

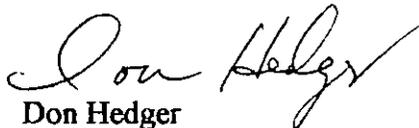
My wife and I live one mile north of Killdeer next to a farm-to-market road. Our location has been very comfortable until multiple oil wells were drilled and successfully completed recently about five miles from our home along the farm-to market road.

We now live with constant oil-related vehicles creating dust and ruts along the road. Our home has been invaded with dirt and dust spewing from the deteriorating roadway. Clouds of dust reduce visibility for traffic on the road, creating serious driving hazards.

A recently built public golf course utilizes this same road, adding to the public nuisance created by the oil traffic on a poorly constructed roadway.

Since the oil revenue created by these wells is being taxed by the State, we appeal for repair of the road to accommodate the new traffic and to reduce the dust problem.

Sincerely,

  
Don Hedger

1-10-07  
#6 HB1044

### Dunn County Fast Facts

County Taxable Valuation 2006 (2007 Budget based on this valuation)-----\$12,876,596  
County Wide Mill Levy 2006 (Taxes payable 2007)----- 104.63 Mills

Road and Bridge Mills 2006 (Available for 2007 budget) ----- 40.05 Mills  
Property Taxes for roads (2007) ----- \$ 515,708  
Other Revenue for Roads 2007 (Estimated) ----- \$ 596,810  
5% Gross Production Tax 2007 (Estimated)----- \$ 600,000  
Total Available for 2007 Roads ----- \$ 1,712,518

Road & Bridge Budget for 2007 ----- \$2,000,000.  
Actual Expenditures for 2007 ----- \$ ???

Road & Bridge Budget for 2006----- \$1,835,000  
Actual Road & Bridge Expenditures for 2006----- \$1,953,465  
Difference from budget to actual ----- \$ 118,465

5% Gross Production Tax County Share 2006----- \$ 604,230  
Other Road and Bridge Revenue 2006----- \$ 771,739  
Taxes for roads (2006)----- \$ 497,280  
Total Revenues for roads (using all of the 5% production tax)--\$1,873,249  
2006 Deficit ----- \$( 80,216)

Road materials used per year (Gravel/Scoria)-----120,000 yards  
Road materials used have doubled since 2004 (Pre Boom)  
Cost for royalties and crushing ----- \$400,000

Cost of road material royalties (Gravel/Scoria) 2004 ----- \$.65/ CY  
Cost of road material royalties (Gravel/Scoria) 2006 ----- \$1.00/ CY  
Cost of road material royalties (Gravel/Scoria) 2007 ----- \$ ??

Royalties paid by oil companies for road materials 2006 ----- \$1.25/CY  
Royalties paid by oil companies for road materials 2007 ----- \$??

Reinhard Hauck  
Dunn County Auditor, Manning ND  
701-573-4448

1-10-07

#1

1044

Members of Finance and Tax, Chairman Belter.

My name is Arlo Borud, I am a Mountrail County Commissioner. I have lived in Stanley for 26 years and I support House Bill 1044 because in Mountrail County the roads, township and county, have seen greatly increased travel because of new oil activity within the county. Approximately 30 permits have been issued with 16 having been drilled. Only one has been plugged. Most of the activity is in the southeast and northwest part of the county. With all the additional truck traffic we will need additional funding from the state to maintain our current road system, county and township. We would appreciate your support to pass Bill 1044.

That's my information. Do you have any questions?

1-10-07

#8

HB1044

## TESTIMONY ON HOUSE BILL NO. 1044

Good morning Mr. Chairman and committee members, I'm Bob Indvik, Road Superintendent for Bottineau County. I come before you this morning in support of House Bill 1044.

The increase in revenue provided for by this legislation is much needed if we are to stand any chance of maintaining our county and township road infrastructure at a level that allows adequate access not only for energy development but commerce as whole in our oil producing counties.

As all of you are well aware, the cost of fuel for construction and maintenance is significantly higher than what it was when this legislation was enacted. The cost of tires for motor graders has nearly doubled as well as the cost of cutting edges because of the rise in steel prices. We are also well aware of the costs associated with asphalt and the impact this has had on budgets contemplating new construction and overlays but it also severely impacts maintenance of existing paved roadways. As an example cold mix which cost \$22.00 per ton 3 years ago now costs \$42.00 per ton.

The increase in energy exploration, along with the associated service industry, also burdens stream crossing structures. In Bottineau County we have 130 structures that are listed on the Federal Aid System. Of those 130, 41 have a sufficiency rating of 50% or less which means they need to be repaired or replaced at an ever escalating cost. While Bottineau County has a program of replacing 1 or 2 structures per year, it will take about 30 years to address these 41 structures while in the meantime the 21 structures that are rated 50% to 60 % will deteriorate to a sufficiency rating of less than 50%. Compounding the foregoing scenario is the fact that Bottineau County also has some 40 bridges which are not on the federal aid system. Some of which were constructed in the 1940's and they too are in desperate need of updating. The cost to repair or replace these off system bridges is solely Bottineau counties responsibility.

With the energy development, as well as other commerce activities, we see an increase in the size and weight of many of the vehicles used to support these activities. I applaud the efforts of the North Dakota Department of Transportation in their efforts to improve the US and State highway system

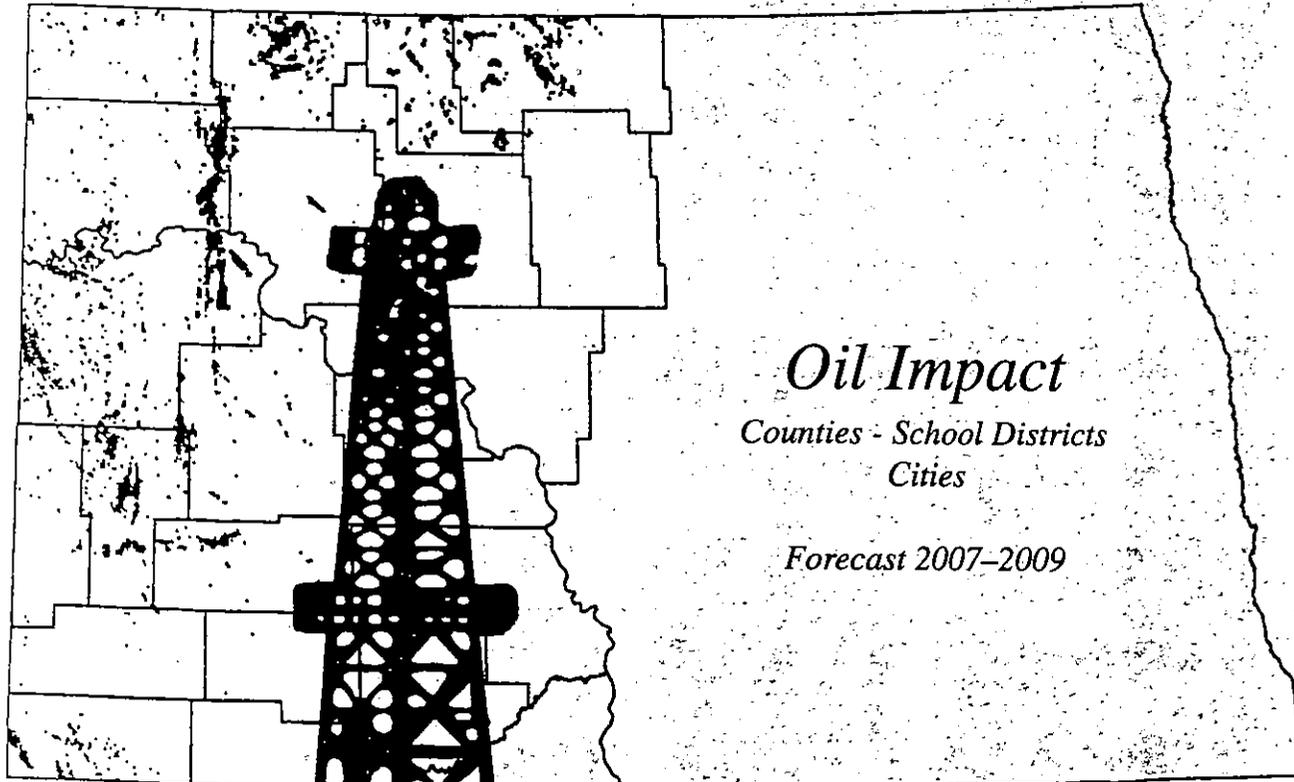
# 8 1044  
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in order to provide year around roadways that support vehicles that weigh 105,000 pounds, however Bottineau County's county and township roads were designed and built to handle vehicle weights of 80,000 to 90,000 pounds. While we strive to accommodate the higher vehicles weights, the impact of this heavier traffic on portions of our infrastructure can be quite dramatic. Budget dollars that are inadequate for constructing or maintaining 80,000 pound roads are stretched even thinner trying to improve weight limit carrying capacities.

Without an increase in this revenue source, counties and townships will be forced to increase mill levies on overburdened property taxes.

Thank you committee members and I'll stand for any questions.

# *Needs Assessment Survey*



## *Oil Impact*

*Counties - School Districts  
Cities*

*Forecast 2007-2009*



*ND Association of Oil & Gas Producing Counties  
December 2006*

*Vicky Steiner, Executive Director  
(701) 483-8326*

1-10-07  
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1044

# North Dakota Association of Oil and Gas Producing Counties

## Association Executive Committee Members

---

Brad Bekkedahl, President

Anthony Duletski, Vice-President

Roger Chinn, Past President

Diane Affeldt

Verdean Kveum

Loren Mathson

Ken Radenz

Wayne Stanley

Greg Sund

Williston City

Bowman/Rhame Public School Districts

McKenzie County Commission

Garrison City

Bottineau County Commission

South Heart Public School District

Burke County Commission

Stanley Public School District

Dickinson City

---

Vicky Steiner - Executive Director

859 Senior Avenue, Dickinson, ND

(701) 483-8326 Cell: (701) 290-1339

[www.ndoilgas.govoffice.com](http://www.ndoilgas.govoffice.com)

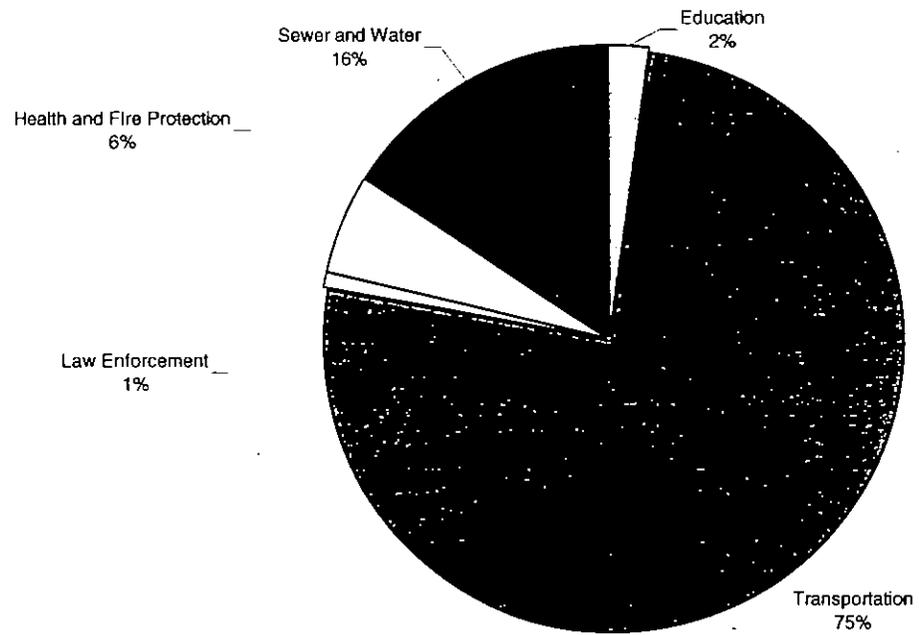
email [vsteiner@ndsupernet.com](mailto:vsteiner@ndsupernet.com)

*"The North Dakota Association of Oil and Gas Producing Counties shall provide leadership for change, to assure a fair and effective exchange of ideas between county government, municipalities and school districts through communication, education and a strong unified legislative effort for the good of all members."*

December 2006

FUNC_NUN	
Education	\$692,000.00
Transportation	\$24,972,983.00
Law Enforcement	\$280,000.00
Health and Fire Protection	\$1,861,000.00
Sewer and Water	\$5,243,000.00

### Needs Assessment by Function



# **ND Association of Oil & Gas Producing Counties Needs Assessment List**

<b>PROJECT</b>	<b>COST</b>	<b>IMPACT</b>
<b>BILLINGS COUNTY</b>		
<i>BILLINGS COUNTY</i>		
Road Construction	\$2,300,000	\$2,300,000
<b>TOTAL FOR BILLINGS COUNTY</b>	<b>\$2,300,000</b>	<b>\$2,300,000</b>
<i>CITY OF MEDORA</i>		
Water, sewer, streets and housing	\$3,800,000	\$1,000,000
Fire equipment	\$6,000	\$6,000
Road maintenance equipment	\$6,000	\$6,000
New ambulance	\$105,000	\$105,000
<b>TOTAL FOR CITY OF MEDORA</b>	<b>\$3,917,000</b>	<b>\$1,117,000</b>
<b>TOTAL FOR BILLINGS COUNTY</b>	<b>\$6,217,000</b>	<b>\$3,417,000</b>
<b>BOTTINEAU COUNTY</b>		
<i>CITY OF NEWBURG</i>		
Street overlay	\$100,000	\$100,000
<b>TOTAL FOR CITY OF NEWBURG</b>	<b>\$100,000</b>	<b>\$100,000</b>
<i>WESTHOPE PSD #17</i>		
Bus replacement	\$40,000	\$40,000
<b>TOTAL FOR WESTHOPE PSD #17</b>	<b>\$40,000</b>	<b>\$40,000</b>
<b>TOTAL FOR BOTTINEAU COUNTY</b>	<b>\$140,000</b>	<b>\$140,000</b>
<b>BOWMAN COUNTY</b>		
<i>BOWMAN PSD</i>		
Sidewalk replacement	\$18,000	\$18,000
Upgrade phone system	\$14,000	\$14,000
Bus replacement	\$60,000	\$60,000
Kitchen upgrade	\$18,000	\$18,000
Student lockers	\$40,000	\$40,000
Personnel due to special needs students	\$38,000	\$38,000

# **ND Association of Oil & Gas Producing Counties Needs Assessment List**

<b>PROJECT</b>	<b>COST</b>	<b>IMPACT</b>
Snowblower/lawn tractor	\$33,000	\$33,000
<b>TOTAL FOR BOWMAN PSD</b>	<b>\$221,000</b>	<b>\$221,000</b>
<b>CITY OF RHAME</b>		
Sewer and Water system	\$50,000	\$50,000
Law enforcement	\$30,000	\$30,000
Street repair	\$100,000	\$100,000
<b>TOTAL FOR CITY OF RHAME</b>	<b>\$180,000</b>	<b>\$180,000</b>
<b>RHAME RURAL FIRE</b>		
fire truck rescue unit and foam system	\$250,000	\$250,000
<b>TOTAL FOR RHAME RURAL FIRE</b>	<b>\$250,000</b>	<b>\$250,000</b>
<b>TOTAL FOR BOWMAN COUNTY</b>	<b>\$651,000</b>	<b>\$651,000</b>
<b>BURKE COUNTY</b>		
<b>BURKE CENTRAL PSD</b>		
Bus replacement	\$120,000	\$120,000
<b>TOTAL FOR BURKE CENTRAL PSD</b>	<b>\$120,000</b>	<b>\$120,000</b>
<b>BURKE COUNTY</b>		
Patrol vehicle	\$20,000	\$20,000
Road repair	\$200,000	\$200,000
<b>TOTAL FOR BURKE COUNTY</b>	<b>\$220,000</b>	<b>\$220,000</b>
<b>CITY OF FLAXTON</b>		
Street repairs	\$10,000	\$10,000
<b>TOTAL FOR CITY OF FLAXTON</b>	<b>\$10,000</b>	<b>\$10,000</b>
<b>TOTAL FOR BURKE COUNTY</b>	<b>\$350,000</b>	<b>\$350,000</b>
<b>DIVIDE COUNTY</b>		
<b>CITY OF CROSBY</b>		
Firehall/EMS Center	\$300,000	\$300,000

# ND Association of Oil & Gas Producing Counties Needs Assessment List

<i>PROJECT</i>	<i>COST</i>	<i>IMPACT</i>
Water mains	\$280,000	\$280,000
<b>TOTAL FOR CITY OF CROSBY</b>	<b>\$580,000</b>	<b>\$580,000</b>
<i>DIVIDE COUNTY</i>		
Road repair and maintenance	\$150,000	\$150,000
<b>TOTAL FOR DIVIDE COUNTY</b>	<b>\$150,000</b>	<b>\$150,000</b>
<b>TOTAL FOR DIVIDE COUNTY</b>	<b>\$730,000</b>	<b>\$730,000</b>
<b>DUNN COUNTY</b>		
<i>CITY OF KILLDEER</i>		
Sewer and Water updates	\$900,000	\$900,000
<b>TOTAL FOR CITY OF KILLDEER</b>	<b>\$900,000</b>	<b>\$900,000</b>
<i>DUNN COUNTY</i>		
Road repair	\$6,400,000	\$6,400,000
<b>TOTAL FOR DUNN COUNTY</b>	<b>\$6,400,000</b>	<b>\$6,400,000</b>
<b>TOTAL FOR DUNN COUNTY</b>	<b>\$7,300,000</b>	<b>\$7,300,000</b>
<b>GOLDEN VALLEY COUNTY</b>		
<i>BEACH PSD #3</i>		
Bus replacement	\$60,000	\$60,000
<b>TOTAL FOR BEACH PSD #3</b>	<b>\$60,000</b>	<b>\$60,000</b>
<i>GOLDEN VALLEY</i>		
Gravel truck	\$125,000	\$125,000
Motorgrader	\$245,000	\$245,000
Road gravelling	\$240,000	\$240,000
<b>TOTAL FOR GOLDEN VALLEY</b>	<b>\$610,000</b>	<b>\$610,000</b>
<b>TOTAL FOR GOLDEN VALLEY COUNTY</b>	<b>\$670,000</b>	<b>\$670,000</b>

# ND Association of Oil & Gas Producing Counties Needs Assessment List

<i>PROJECT</i>	<i>COST</i>	<i>IMPACT</i>
<b>MCKENZIE COUNTY</b>		
<i>CITY OF WATFORD CITY</i>		
Replace sanitary sewer	\$253,000	\$253,000
Street repair	\$1,404,483	\$1,404,483
<b>TOTAL FOR CITY OF WATFORD</b>	<b>\$1,657,483</b>	<b>\$1,657,483</b>
<i>MCKENZIE PSD #1</i>		
Bus replacement	\$60,000	\$60,000
<b>TOTAL FOR MCKENZIE PSD #1</b>	<b>\$60,000</b>	<b>\$60,000</b>
<i>YELLOWSTONE PSD #14</i>		
Street Improvement	\$100,000	\$100,000
Improve sewage lagoon	\$50,000	\$50,000
Improve school building	\$20,000	\$20,000
<b>TOTAL FOR YELLOWSTONE PSD</b>	<b>\$170,000</b>	<b>\$170,000</b>
<b>TOTAL FOR MCKENZIE COUNTY</b>	<b>\$1,887,483</b>	<b>\$1,887,483</b>
<b>MOUNTRAIL COUNTY</b>		
<i>CITY OF PLAZA</i>		
New well	\$180,000	\$180,000
Street repair	\$2,600,000	\$2,600,000
<b>TOTAL FOR CITY OF PLAZA</b>	<b>\$2,780,000</b>	<b>\$2,780,000</b>
<i>CITY OF STANLEY</i>		
Water treatment facility	\$750,000	\$750,000
<b>TOTAL FOR CITY OF STANLEY</b>	<b>\$750,000</b>	<b>\$750,000</b>
<b>TOTAL FOR MOUNTRAIL COUNTY</b>	<b>\$3,530,000</b>	<b>\$3,530,000</b>
<b>RENVILLE COUNTY</b>		
<i>CITY OF GLENBURN</i>		
Sewer and water project	\$130,000	\$130,000

# ND Association of Oil & Gas Producing Counties Needs Assessment List

<i>PROJECT</i>	<i>COST</i>	<i>IMPACT</i>
TOTAL FOR CITY OF GLENBURN	\$130,000	\$130,000
<i>CITY OF MOHALL</i>		
Building of equipment storage	\$400,000	\$400,000
TOTAL FOR CITY OF MOHALL	\$400,000	\$400,000
<i>CITY OF SHERWOOD</i>		
Equipment of Bobcat	\$5,000	\$5,000
Street lights	\$2,500	\$2,500
Street repair	\$25,000	\$25,000
TOTAL FOR CITY OF SHERWOOD	\$32,500	\$32,500
<i>MOHALL PSD #9</i>		
Replacement buses	\$120,000	\$120,000
TOTAL FOR MOHALL PSD #9	\$120,000	\$120,000
<i>RENVILLE COUNTY</i>		
Motorgrader	\$150,000	\$150,000
Patrol vehicles	\$30,000	\$30,000
Sealcoat and pavement maintenance	\$600,000	\$600,000
TOTAL FOR RENVILLE COUNTY	\$780,000	\$780,000
<i>TOTAL FOR RENVILLE COUNTY</i>	<b>\$1,462,500</b>	<b>\$1,462,500</b>
<b>STARK COUNTY</b>		
<i>CITY OF BELFIELD</i>		
Street repair	\$500,000	\$500,000
TOTAL FOR CITY OF BELFIELD	\$500,000	\$500,000
<i>CITY OF GLADSTONE</i>		
Street repair	\$100,000	\$100,000
TOTAL FOR CITY OF GLADSTONE	\$100,000	\$100,000
<i>TOTAL FOR STARK COUNTY</i>	<b>\$600,000</b>	<b>\$600,000</b>

Friday, January 05, 2007

Page 5 of 7

# **ND Association of Oil & Gas Producing Counties Needs Assessment List**

<i>PROJECT</i>	<i>COST</i>	<i>IMPACT</i>
<b>WARD COUNTY</b>		
<i>CITY OF KENMARE</i>		
Water treatment	\$2,000,000	\$2,000,000
<b>TOTAL FOR CITY OF KENMARE</b>	<b>\$2,000,000</b>	<b>\$2,000,000</b>
<b>TOTAL FOR WARD COUNTY</b>	<b>\$2,000,000</b>	<b>\$2,000,000</b>
<b>WILLIAMS COUNTY</b>		
<i>CITY OF TIOGA</i>		
Fire and Ambulance equipment	\$400,000	\$400,000
Street repair	\$20,000	\$20,000
Sewer and Water expansion	\$150,000	\$150,000
<b>TOTAL FOR CITY OF TIOGA</b>	<b>\$570,000</b>	<b>\$570,000</b>
<i>CITY OF WILLISTON</i>		
Street Lighting	\$600,000	\$600,000
Street repairs	\$7,870,000	\$7,870,000
Law Enforcement	\$100,000	\$100,000
Police quick entry equipment	\$100,000	\$100,000
Fire truck	\$500,000	\$500,000
Water and Sewer distribution	\$15,000,000	\$15,000,000
<b>TOTAL FOR CITY OF WILLISTON</b>	<b>\$24,170,000</b>	<b>\$24,170,000</b>
<i>EIGHT MILE PSD #6</i>		
Building expansion	\$100,000	\$100,000
<b>TOTAL FOR EIGHT MILE PSD #6</b>	<b>\$100,000</b>	<b>\$100,000</b>
<i>NESSON PSD #2</i>		
Bus replacement	\$71,000	\$71,000
<b>TOTAL FOR NESSON PSD #2</b>	<b>\$71,000</b>	<b>\$71,000</b>
<b>TOTAL FOR WILLIAMS COUNTY</b>	<b>\$24,911,000</b>	<b>\$24,911,000</b>

# **ND Association of Oil & Gas Producing Counties Needs Assessment List**

**PROJECT**

**COST**

**IMPACT**

**GRAND TOTAL**

**\$50,448,983**

**\$47,648,983**



February 6, 2007

**Board of County Commissioners**

Representative Rick Berg  
North Dakota House Majority Leader  
State Capitol  
Bismarck ND 58505

Scott Wagner  
Fargo, North Dakota

Vern Bennett  
Fargo, North Dakota

RE: HB1044

Ken Pawluk  
Fargo, North Dakota

Dear Representative Berg:

Darrell W. Vanyo  
West Fargo, North Dakota

It has come to Cass County's attention that you will be voting on HB1044 in the next few weeks. As you may know HB1044 contemplates making adjustments to the county and state formula on oil tax revenues.

Robyn Sorum  
Horace, North Dakota

The Cass County Board of Commissioners supports the additional money in HB1044 and asks for your help in seeing its favorable passage.

Even though Cass County doesn't directly benefit from these revenues we recognize the importance these dollars have on oil producing Counties. After 20 years without an adjustment we believe this request is reasonable and will help aid these Counties in their ability to provide services to their local residents without relying on property taxes.

Please consider supporting HB1044 and the \$11.8 million dollar fiscal note.

Thank you for your consideration of this matter and for your dedicated service to the citizens of Cass County and North Dakota.

Respectfully,

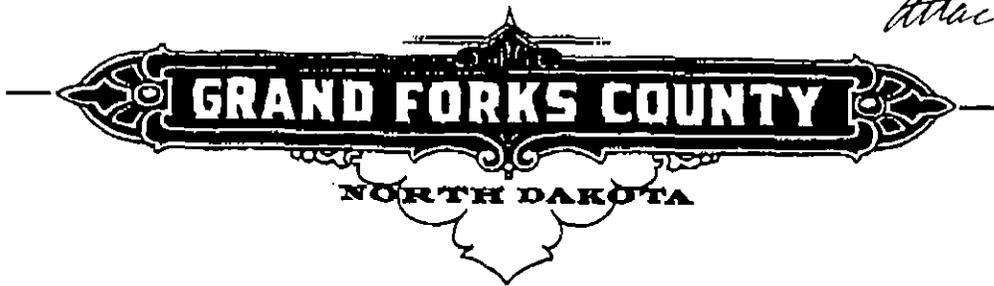
Scott Wagner, Chairman  
Cass County Commission

Heather Worden  
Commission Assistant

cc: Cass County Commissioners  
Terry Traynor, North Dakota Association of Counties

Box 2806  
211 Ninth Street South  
Fargo, North Dakota 58108

701-241-5609  
Fax 701-241-5728  
www.casscountygov.com

*Attach B*

151 SOUTH 4TH STREET  
GRAND FORKS, ND 58201

February 2, 2007

Grand Forks County Commission  
Grand Forks County Courthouse  
151 South 4<sup>th</sup> Street  
Grand Forks, ND 58201-4715

**RE: Support HB 1044 as passed by House Finance and Tax Committee**

Dear House Appropriations Chairman Rep. Ken Svedjan:

We understand that your Appropriations committee will be discussing HB 1044 this week.

We ask for your support on the bill and the \$11.8 million fiscal note.

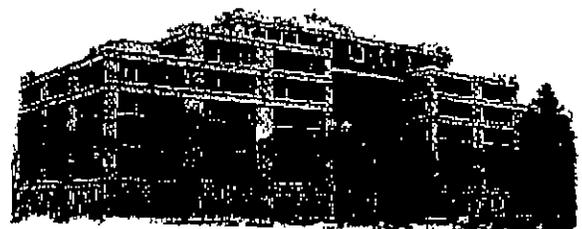
The 5% oil and gas gross production tax formula for counties has not been adjusted for over twenty years and as county commissioners, we understand the rising costs for the counties that are impacted by the growing oil industry.

Again, please support HB 1044. Energy development provides taxes for all the counties in the state. Thank you for your time and effort at the legislative session.

Sincerely,

A handwritten signature in cursive script, appearing to read "Gary Malm", is written over a horizontal line.

Chairman, Gary Malm  
On behalf of the Grand Forks County Commissioners



# DUNN COUNTY COUNTY ROAD SYNOPSIS

For HB 1044

JANUARY 2007

Prepared by  
Dunn County Jobs Development Authority  
Carroll Gjovik, Director  
701-764-6092

*Contact  
Carroll Gjovik  
for copy*



House Bill 1044

Dunn County is fortunate to be a oil producing county as is the state of North Dakota but we are here today to ask for help not only for ourselves but for the other oil producing counties that have increased activity. Dunn County has about 867 miles of roads and about 200 miles of these roads are taking a daily beating with the large truck traffic that oil wells bring. While driving on these roads there are blow outs and wash board conditions making travel dangerous and uncomfortable. A couple of examples that could have been costly—a local ambulance went into the ditch because of the wash board conditions on a curve and a rancher has lost animals because of oil traffic on open range roads.

The Dunn County Roads that we drive today were built in the 40's and 50's to be used by the farm/ranch equipment. Today some of these roads have over 200 vehicles travel them daily. Please refer to the booklet with the travel statistics.

Dunn County has increased their 2007 road budget to \$2,000,000 which is a 30% increase over 2006. This figure is about 40 mills of our budget. That will only scratch the surface of what needs to be done. The people of our county and the other oil producing counties are all looking for help to fix their roads so that they travel safely.

We are asking for your support of the HB 1044. Again please refer to the booklet that we have handed out that shows examples of road conditions and some of the large trucks that travel our roads.

Thank You  
Carroll Gjovik, Dunn County  
Jobs Development Authority Director

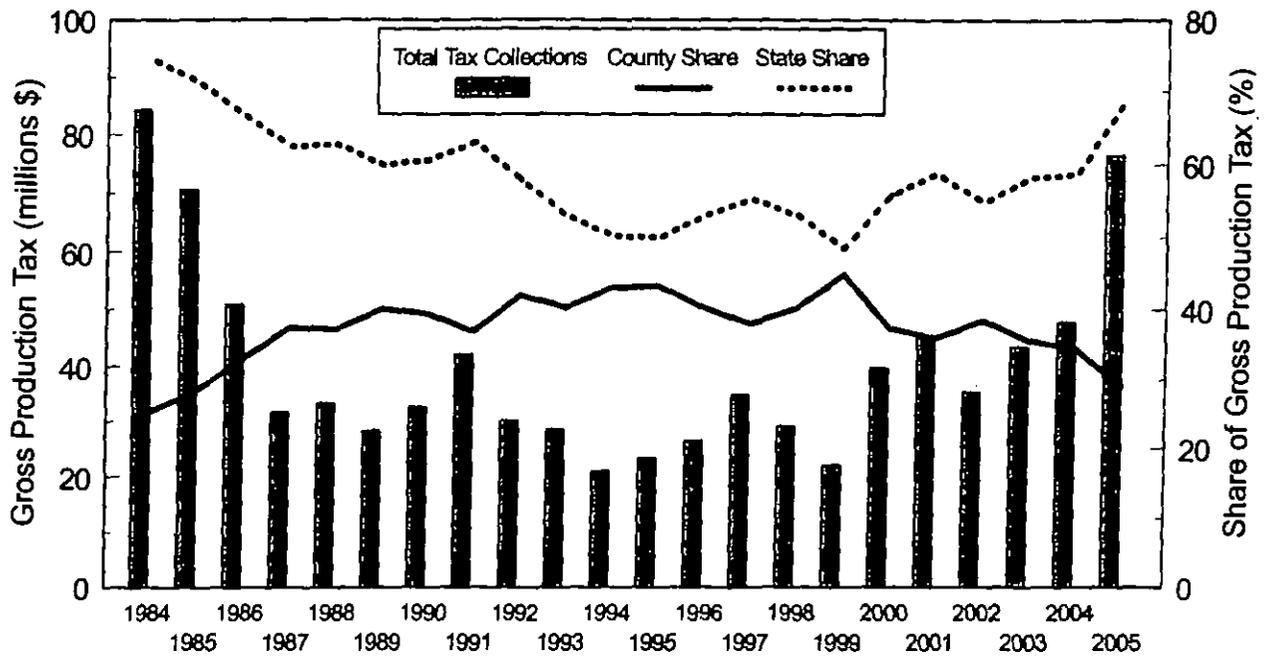


Figure 1. Total Gross Production Tax, Counties and State Share in Percentage Terms, Fiscal Years 1984 through 2005

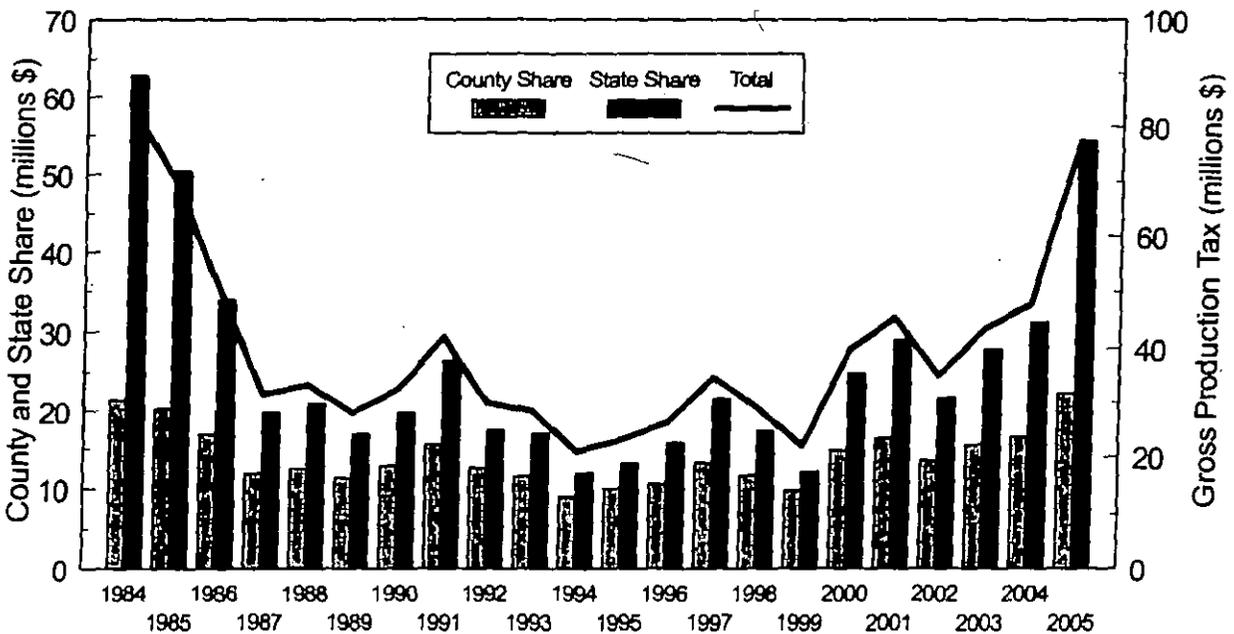


Figure 2. Total Gross Production Tax, Counties and State Share in Dollar Terms, Fiscal Years 1984 through 2005

Exhibit (Table)

Study completed June 2006 by Dean Bangsund and Larry Leistriz-NDSU

These graphs demonstrate the growing % of the state's share of the 5% gross Production Tax.



REPRESENTATIVE  
DAVID DROVDAL  
District 39  
2802 131st Avenue NW  
Arnegard, ND 58835-9127  
ddrovdal@nd.gov

HOUSE OF REPRESENTATIVES  
**NORTH DAKOTA**  
**LEGISLATIVE ASSEMBLY**

STATE CAPITOL  
600 EAST BOULEVARD  
BISMARCK, ND 58505-0360



COMMITTEES:  
Finance and Taxation,  
Vice Chairman  
Natural Resources

Testimony – HB 1044

March 5, 2007

Chairman Urlacher and member of the Senate Finance and Tax Committee:

For the record, I am David Drovdal and I represent District 39 which includes 6 counties in Western North Dakota. I am also the prime sponsor of HB 1044 which is before you today.

HB 1044 deals with oil and gas dollars that are allocated to the oil & gas producing counties and is used to help cover the impact that is caused by the development and production of oil and gas and to help cover other costs that the counties incur. Some of those include additional law enforcement officers, fire fighting equipment and cost of roads, court costs etc. The original bill was last amended in 1981 and this formula has not been addressed since that date that I know off.

The intent of HB 1044 is two fold. First it raises the dollars going back to the counties so that they will have the same buying power that they had in comparison to the 1981 dollar. The second intent is it increases the dollars that are received by new producing counties and counties that have low production. The bill does not affect the formula as far as the first 20% of all dollars the state receives from oil and gas. That goes to special funds. Of the remaining 80% of the tax received, 100% of the first million will go to the producing counties. Currently 75% of those dollars are returned to the counties, schools and cities. Of the second million 75% will go to counties compared to 50% currently. The third million, 50% will be returned where currently 25% is returned. The fourth million is 25% going to the few counties that produce that much oil until they reach the cap. Currently I believe three counties have reached the cap. This bill does not increase the cap but will send more needed dollars to the counties that produce oil especially the new counties and low producing counties.

The new counties and small producing counties have a need of more dollars because the impact is costlier in comparison to earlier exploration and development of oil and gas. In regard to increasing the % it's just the efficiency rule in place, as counties receive more it goes further. In regard to the need of more dollars overall, no one will argue that costs have gone up in 25 years since this was originally corrected. Gravel, graders, wages etc., and this HB 1044 will address those problems.

The house appropriation committee did add a sunset clause on the bill and I would like to ask your committee to consider removing that clause. It would be cumbersome and time consuming to have to return every session for an in lieu of tax that should go back to the counties. This formula can be reconsidered by any legislators at any time.

Thank you for your time and I ask for your favorable consideration on HB 1044. There will be testimony offered from individuals in all areas that feel the impact of oil and gas development and production following the completion of my testimony. If I can answer any questions I would be happy to.

Rep. David Drovdal

**HOUSE BILL 1044**  
**MARCH 5, 2007**  
**SENATE FINANCE AND TAXATION COMMITTEE**

**Testimony in support presented by**

**Brad Bekkedahl, President**  
**North Dakota Association of Oil and Gas Counties**

Chairman Urlacher, Vice-Chairman Tollefson, Distinguished Senators;

Good morning! My name is Brad Bekkedahl. I am a Williston City Commissioner, and the President of the North Dakota Association of Oil and Gas Producing Counties. As an organization, we represent 17 Counties, 84 School Districts, and 111 Cities. We are here to ask for your support for HB 1044, a bill that seeks to "rebalance" the distribution of revenues from the 5% Gross Production Tax (GPT). Approximately 2 years ago, our Association Executive Committee began discussing concerns from our membership relative to the increasing impacts from exploration and development programs, and the increased costs for building and maintaining the infrastructure necessary to support the resurgence of this industry in North Dakota. With this in mind, we funded a study with Larry Leistriz and Dean Bangsund of North Dakota State University to evaluate the historical income and disbursements of the 5% GPT, using figures available from the years 1984 to 2005. The original document they prepared was over 80 pages long, and detailed the income history and the effects of inflation on the value of the dollar since that time. While the inflation analysis showed the counties would have received over \$35 million more had the current formula been indexed for inflation, we recognize that the State has suffered the same loss of purchasing power over time relative to its share of the GPT as well. The only salvation to the State over this time period has been that, with the caps in place for revenues to the counties in the current formula, the State was able to reap a larger percentage of revenue in times of high production and high price, mitigating to some degree the overall loss of power due to inflation. With that in mind, we were able to make an adjustment to the current formula, (as proposed in HB 1044), that would increase across the board, revenues to our member counties, school districts, and cities to deal with the increasing impacts, as well as the increased costs of maintenance due to the production facilities. (refer to Table 1 provided). Table 2 shows the year by year analysis of the percentage of revenue returns to the State and Counties. The historical average of the returns for the last 22 years shows that the State average is 62.6% and the Counties average is 37.4 %. The formula adjustment proposed in HB1044 seeks to return the revenue distribution to this historical average. Figure 1 provided shows graphically what is happening to the distribution percentage in these times of high production and price. You will note that in times of sustained production, with low to moderate oil prices, the percentage share of dollars returned to the Counties approaches the amount returned to the State. But, you will also note, that in times of high activity, increased production, and

increased prices, (a cycle we are currently in), that the State percentage share of revenues accelerates, while the Counties percentage declines. While we acknowledge that everyone not capped by the formula receives more income, the State benefits disproportionately relative to the Counties, while the Counties, Schools, and Cities deal with the direct increased impacts. Additionally, the impacts seem to be headed more to our underdeveloped Counties east of current trends, such as Mountrail, Ward, Dunn, and McLean counties. So, the additional aid is even more vital to their future in coping with the new Bakken play as well. That is why we are here today, to seek your understanding and assistance in "rebalancing" the 5% GPT formula, and help these local government entities deal with the costs of supporting the industry which is so beneficial to the entire State of North Dakota. We recognize that the State can function without any adjustment to this formula, but the impacted Counties cannot cope effectively with these greater impacts without increased State assistance. Our choices are to seek this adjustment, accessing more of the 5% GPT the Industry pays as user fees, or to increase the property tax burden even further to our residents to pay for the increased infrastructure costs, which were not created by them or their activities. The most recent Oil Impact Needs Assessment Survey compiled by Rick Larson of the State Land Department shows \$25 million in road impact requests for 2007 from our member Counties. And the road development and maintenance are crucial to the industry to develop the resources, as well as to develop the infrastructure to deliver product for refining to our multiple gas plants and our only state refinery, TeSoro of Mandan. While we understand that we could have (and some say should have) requested more money to address these impacts, we also recognize the State has other financial needs to address, and felt a partnership of our financial participation with the State increase requested will help us cope with the impacts at this time. The impacts have overwhelmed the ability of some of our Counties to cope at this time, but we believe in working with you to service an Industry that is critical to the future growth of North Dakota at this time.

Let me summarize why HB 1044 is a good idea at this time:

- This formula adjustment is the first since 1983 and it seeks to rebalance the state and county revenue sharing to the average of the last 22 years
- The state has received increased taxes from the industry oil and gas taxes, but bears no fiscal responsibility for the increased local impacts
- Local governments feel the direct impacts financially and must respond to build and maintain the systems to support the industry and its benefits
- The state wants oil development to continue as it continues to enhance a funding source for the entire state, and we want to be partners with you in that growth

This concludes our formal testimony in support of HB 1044 at this time. On behalf of our Association Members, I want to thank you for scheduling us and considering our testimony today. We appreciate the opportunity to work with the ND Legislature in a partnership to service and expand this growing industry that supplies vital financial resources for all of North Dakota to benefit. We hope you support our request for a "DO PASS" recommendation on HB 1044, and would be happy to answer any questions you may have at this time.

**Table 1. Current Formula and Alternative Formula for Distribution of Gross Production Tax between North Dakota and Oil and/or Gas Producing Counties**

<u>Current Formula</u>			County Share	State Share
1/5 of collections go to State Treasurer and 4/5 of collections are split between counties and State General Fund based on the following formula:				
	up to \$1,000,000		75 %	25 %
	\$1,000,000 to \$2,000,000		50 %	50 %
	over \$2,000,000		25 %	75 %
<u>Alternative Formula</u>				
1/5 to State Treasurer and 4/5 of collections are split between counties and State General Fund based on the following formula:				
	up to \$1,000,000		100 %	0 %
	\$1,000,000 to \$2,000,000		75 %	25 %
	\$2,000,001 to \$3,000,000		50 %	50 %
	over \$3,000,000		25 %	75 %

Notes: Counties have a maximum annual distribution of \$3.9 million for population up to 3,000, \$4.1 million for population of 3,000 to 6,000, and \$4.6 million for population over 6,000.

Table 2. Gross Production Tax for All Counties by Year, State and Counties' Monetary and Percentage Shares, Fiscal Years 1984 through 2005, Current Formula

	Fiscal Year										
	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Gross Production Tax (000s \$)	84,293	70,663	50,753	31,630	33,387	28,250	32,581	42,086	30,064	28,493	20,925
State Share of Tax (000s \$)	62,806	50,383	33,874	19,759	20,944	16,922	19,741	26,518	17,432	17,003	11,916
County Share of Tax (000s \$)	21,487	20,279	16,879	11,871	12,444	11,328	12,840	15,568	12,833	11,490	9,009
State Share (percent of total tax)	74.5	71.3	66.7	62.5	62.7	59.9	60.6	63.0	58.0	59.7	56.9
County Share (percent of total tax)	25.5	28.7	33.3	37.5	37.3	40.1	39.4	37.0	42.0	40.3	43.1

	Fiscal Year										
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Gross Production Tax (000s \$)	23,174	26,400	34,765	29,016	21,960	39,627	45,448	35,215	43,446	47,805	76,471
State Share of Tax (000s \$)	13,139	15,775	21,544	17,330	12,109	24,806	29,063	21,670	27,920	31,292	54,236
County Share of Tax (000s \$)	10,035	10,625	13,220	11,687	9,851	14,822	16,385	13,545	15,526	16,514	22,235
State Share (percent of total tax)	56.7	59.8	62.0	59.7	55.1	62.6	63.9	61.5	64.3	65.5	70.9
County Share (percent of total tax)	43.3	40.2	38.0	40.3	44.9	37.4	36.1	38.5	35.7	34.5	29.1

Notes: State and county share may not equal total due to rounding and state and county percentages may not total to 100 due to rounding.

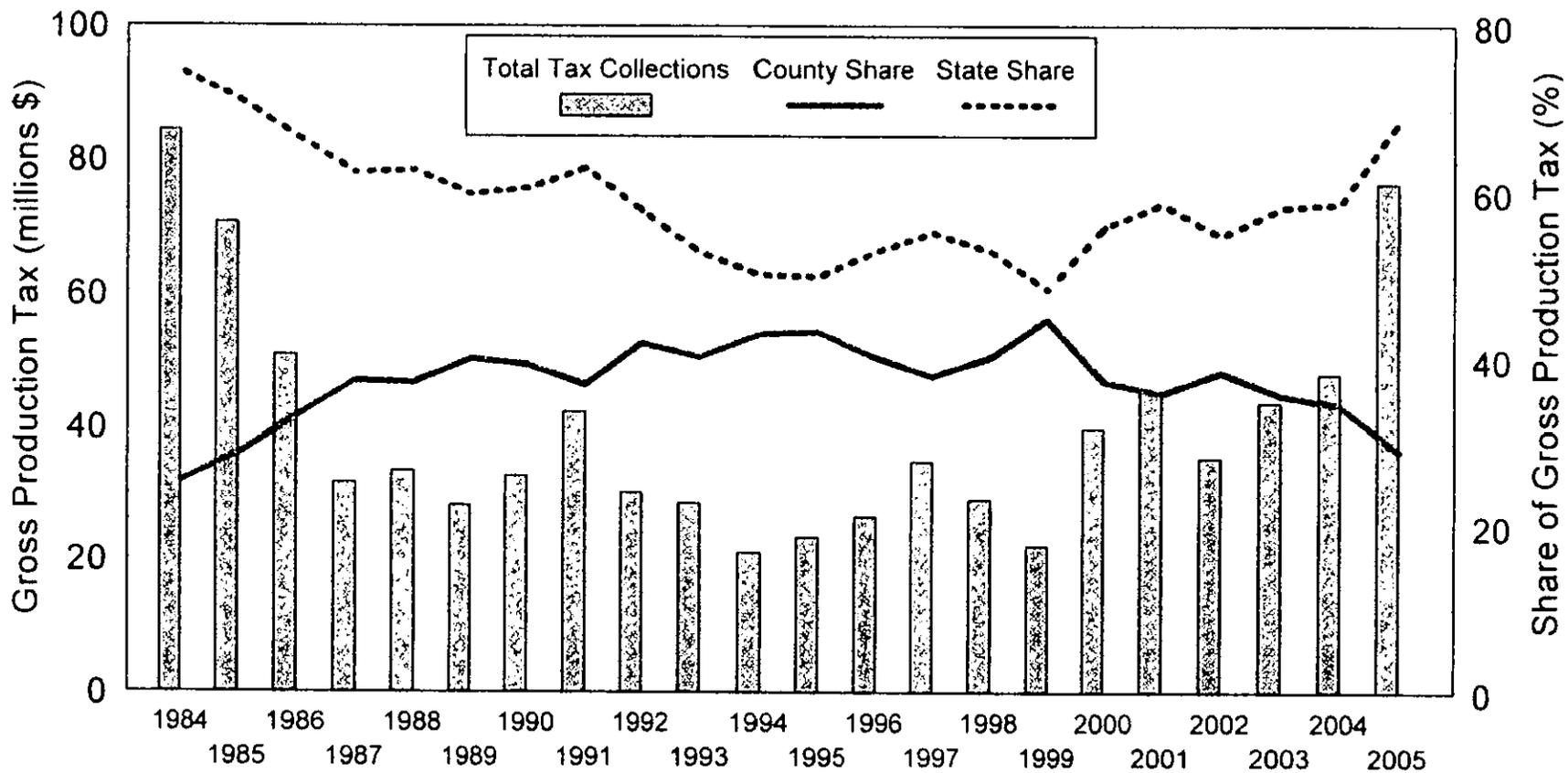


Figure 1. Total Gross Production Tax, Counties and State Share in Percentage Terms, Fiscal Years 1984 through 2005

Senate  
2/20/07

Chairman Urlacher, Members of the Finance and Taxation  
Committee, Staff, Guests.

I am Cliff Ferebee, Dunn County Commissioner.

Dunn County is here today to ask you for your help. We are a county rich in natural resources such as oil and gas, however, we lack dollars to take care of our roads, especially to access the oil and gas wells. We have about 867 total county miles of roads; 175 miles of these roads are taking a beating daily with large truck traffic from oil and gas activity. This has done extensive damage to our roads making it difficult and dangerous to travel on them.

The Dunn County Roads were built to be used by farm traffic. Today these roads are not only being used by farmers and ranchers, they are being used by the oil and gas industry. We have statistics to prove that we have between 80 to 90% increase of traffic on these roads because of oil and gas activity.

Dunn County has maximized their mill levy to the residents. Our 2007 budget for roads is at \$2,000,000 that is 30% higher than 2006. That will only scratch the surface of what should be done. The County is not able to support a staff that is able to do the job, nor are we able to purchase the equipment and supplies needed. The other alternative is to hire the work done by construction companies, if they are available. Most of them have work booked months to years in advance. This would be a costly option.

You have before you a brief booklet to inform you both with word and picture the conditions that we have. Please take a moment to look them over when you are considering your vote to support the HB 1044.

Thank you for your attention.

**GREG BOSCHEE**  
Commissioner 1st District  
(701) 862-3670

**ARLO BORUD**  
Commissioner 2nd District  
(701) 628-3287

**DAVID J. HYNEK**  
Commissioner 3rd District  
(701) 755-3372

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## Mountrail County Commissioners

Mountrail County Courthouse  
101 North Main Street - Box 69  
Stanley, North Dakota 58784-0069  
Tel. (701) 628-2145 Fax (701) 628-2276

March 6, 2007

The Honorable Herbert Urlacher  
Chairman, Finance & Taxation  
ND State Senate  
State Capitol Bldg.  
Bismarck, ND 58505

Dear Senator Urlacher:

We, the Mountrail County Commissioners are definitely in support of House Bill #1044. Because of the added traffic in oil impact areas, we will need additional monies to maintain and improve county roads.

We would appreciate the Senate Tax & Finance Committee support of this bill.

Sincerely,

Greg Boschee, Chairman



David J. Hynek



Arlo Borud



BOARD OF MOUNTRAIL COUNTY COMMISSIONERS

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Chairman Holmberg and member of the Senate Appropriations Committee. For the record I am David Drovda and I represent District 39 which includes 6 counties in Western North Dakota. I am also the prime sponsor of HB 1044 which is before you today.

HB 1044 address the oil and gas dollars that are allocated to the producing oil & gas counties and is used to cover the cost that is accumulated by the development and exploration of oil and gas. That includes additional law enforcement officers, fire fighting equipment and cost of roads, court cost etc. When oil was first discovered in the 50's the production tax was invented to be a in lieu of property tax. In 1981 the formula was last amended to reflect the additional counties and this formula has not been address since that date that I know off. Production Tax has the same effect as other inlieu of taxes and that is that it doesn't keep up with inflation. In 1981 the state received 63% of the tax and counties 37%. Today the state received 75% this bill will correct that. For your information oil and gas also pays a extraction tax of 6 1/2%, this bill does not change that.

The intent of HB 1044 is two folds, first it raises the dollars going back to the counties so that they will have the same buying power that they had in comparison to the 1981 dollar. The second intent is it increase the dollars that are received by new producing counties and counties that have low production. The bill does not affect the formula as far as the first 20% of all dollars the state receives from oil and gas, that goes to special funds. Of the remaining 80% of the tax received 100% of the first million will go to the producing counties, currently 75% of those dollars are returned to the counties, schools and cities. Of the second million 75% will go to counties compared to 50% currently and the third million 50% were currently 25% is returned. The fourth million is 25% going to the few counties that produce that much oil until they reach the cap. That cap is \$4.1 million per county and currently I believe three counties have reached the cap. This bill does not increase the cap but will sent more needed dollars to the counties that produce oil especially the new counties and low producing counties.

The new counties and small producing counties have a need of more dollars because the impact is costlier in comparison to earlier exploration and development of oil and gas. In regard to increasing the % it's just the efficiency rule in place, as counties receive more it goes further. In regard to the need of more dollars overall, no one will argue that cost have gone up in 25 years since this was originally corrected. Gravel, graders, wages etc., and this HB 1044 will address that problems. Compare your own personal property taxes from 1981 and last year as an example.

The house appropriation committee did add a sunset clause on the bill and I would like to ask your committee to consider removing that clause. It would be cumbersome and time consuming to have to return every session for an in lieu of tax that should go back to the counties. This formula can be reconsidered by any legislators at any time.

Thank you for your time and I ask for your favorable consideration on HB 1044. There will be testimony offered from individuals in all areas that feel the impact of oil and gas development and productions following the completion of my testimony but if I can answer any questions I would be happy to.

## TESTIMONY ON HOUSE BILL NO. 1044

Good morning Mr. Chairman and committee members, I'm Bob Indvik, Road Superintendent for Bottineau County. I come before you this morning in support of House Bill 1044.

The increase in revenue provided for by this legislation is much needed if we are to stand any chance of maintaining our county and township road infrastructure at a level that allows adequate access not only for energy development but commerce as whole in our oil producing counties.

As all of you are well aware, the cost of fuel for construction and maintenance is significantly higher than what it was when this legislation was enacted. The cost of tires for motor graders has more than doubled as well as the cost of cutting edges, We are also well aware of the costs associated with asphalt and the impact this has had on budgets contemplating new construction and overlays but it also severely impacts maintenance of existing paved roadways. As an example cold mix which cost \$22.00 per ton 3 years ago now costs \$42.00 per ton.

The increase in energy exploration, along with the associated service industry, also burdens stream crossing structures. In Bottineau County we have 130 structures that are listed on the Federal Aid System. Of those 130, 41 have a sufficiency rating of 50% or less which means they need to be repaired or replaced at an ever escalating cost. While Bottineau County has a program of replacing 1 or 2 structures per year, it will take about 30 years to address these 41 structures while in the meantime the 21 structures that are rated 50% to 60 % will deteriorate to a sufficiency rating of less than 50%. Compounding the foregoing scenario is the fact that Bottineau County also has some 40 bridges which are not on the federal aid system. Some of which were constructed in the 1940's and they too are in desperate need of updating. The cost to repair or replace these off system bridges is solely Bottineau counties responsibility.

With the energy development, as well as other commerce activities, we see an increase in the size and weight of many of the vehicles used to support these activities. I applaud the efforts of the North Dakota Department of Transportation in their efforts to improve the US and State highway system

in order to provide year around roadways that support vehicles that weigh 105,000 pounds, however Bottineau County's county and township roads were designed and built to handle vehicle weights of 80,000 to 90,000 pounds. While we strive to accommodate the higher vehicles weights, the impact of this heavier traffic on portions of our infrastructure can be quite dramatic. Budget dollars that are inadequate for constructing or maintaining 80,000 pound roads are stretched even thinner trying to improve weight limit carrying capacities.

Without an increase in this revenue source, counties and townships will be forced to increase mill levies on overburdened property taxes.

Thank you committee members and I'll stand for any questions.