

MICROFILM DIVIDER

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



ROLL NUMBER

DESCRIPTION

14/57

2007 HOUSE APPROPRIATIONS

HB 1457

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1457

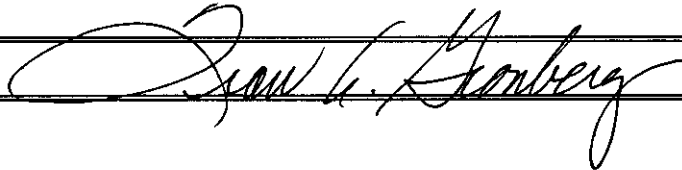
House Appropriations Committee

Check here for Conference Committee

Hearing Date: 1-22-07

Recorder Job Number: 1530

Committee Clerk Signature



Minutes:

Chairman Svedjan opened the hearing on HB 1457.

Rep Froseth, Dist 6: (testimony - attachment A)

Chairman Svedjan: How do you see this bill working?

Rep Froseth: It seems like we spend all the money we bring in and this is an opportunity to build a fund for the future and set some money aside for the future and use the interest off the money. My intention is not to touch any of the obligations to the oil and gas trust fund that are presently in place.

Chairman Svedjan: So as a practical matter you're saying that the fund would grow - the \$200M would go into the fund and become principal until such a time as it reaches \$1B. Then it grows at \$100M a year until it reaches \$2B. And then the earnings to the fund would begin going into the fund ...?

Rep Froseth: My intentions that any above the \$200M could be expended plus the earnings on the \$200M could be expended each biennium.

Chairman Svedjan: So it's just the sums of money that work you up to the levels of one billion and two billion that is a factor here.

Rep Nelson: You are saying that in the next biennium \$167M is projected to come into that fund. Is that correct? (Froseth, yes) If that would be the case, we wouldn't meet that \$200M threshold. My concern is although there is no question that oil revenue has contributed a great deal to our ending fund balance, as oil revenues are increased there is a cost to the general public in higher fuel costs. And that does at some point in time on an economic curve start to decrease some of our other tax revenues because of the cost of that. From a budgeting standpoint there is a balance that you could argue is inherent in that because of the increase oil revenues would offset the lack of increase sales tax with the increase cost. So we would eliminate that growth potential in state government if we put all that money away, wouldn't we?

Rep Froseth: If you follow this, these are the figures that the office of management and budget gave me. The ending balance of the 2005-07 biennium would be \$218M after the \$116M property tax relief if that bill passes for the property tax relief. The '07-09 projected income is \$167M. The balance at that time in the fund would be \$295M. So it should sustain the first year of \$200M savings. The people I visited with in the oil industry believe that the \$200M level could be easily reached.

Rep Nelson: Are you comfortable that the excess revenue over \$200M, if that was to occur, would offset the lack of other general taxes because of the high cost of fuel and other situations?

Rep Froseth: I believe it would.

Chairman Svedjan: If we were to do this, and the first \$200M that becomes part of the principal, the earnings on that \$200M go into the general fund?

Rep Froseth: Right and anything above the \$200M.

Rep Wald: We probably should have done this about 20 years ago patterned after Alaska. If we should get into a sustained drought pattern or oil prices should drop as it has in about 1983, we could still access this money if need be because it is not a constitutionally protected trust fund.

Rep Froseth: That's exactly right. The only way to make it an untouchable permanent fund would be to put it into the constitution, a constitutional amendment to go to the voters. I didn't want to go that route, but I believe Sen Tollefson has a bill that does that in the Senate. I didn't want to go that route in case we need to use these funds.

Rep Kempenich: Lines 21 and 22 - spelling out what any excess can be used for causes me some concern.

Rep Froseth: That's entirely up to this committee. I wouldn't object amendments if you choose to amend it - the amounts or balances. The main concern of the general public now a days is property taxes and school funding. That's the reason the two items are in there.

Rep Klein: Have you thought about adding the requirement for adding a 2/3 vote?

Rep Froseth: That's up to this committee.

Chairman Svedjan: Lines 21 and 22 on page one. You do have the 2/3 vote.

Rep Froseth: That's existing language.

Rep Carlson: Isn't it true that it takes a simple majority to change a 2/3 vote?

Chairman Svedjan: Yes, I believe that's correct.

Rep Skarphol: In reading the existing language, I think that possibly we have been violating the law in not requiring a 2/3 vote on appropriations of oil tax revenues.

Chairman Svedjan: I'm not sure, but I think we have followed the 2/3 requirement.

Rep Wald: Section two, this would have no impact in this current biennium.

Rep Froseth: I believe that 's true. That was my intention. It starts June 30, 2007

Rep Kempenich: To put this in perspective, Wyoming's carryover is \$2B. If we are going to do something like this, we are going to have to start.

Rep Froseth: I was interested in something like this that would deal with college tuition.

Wyoming has a program called a halfway project. It pays the tuition of any high school graduate that's academic and needs based. They have criteria they have to meet. The money comes from the oil and gas trust fund.

Rep Carlson: Would it be possible for us to see the amount of money Wyoming generates from their minerals compared to ours? So when they talk trust funds and volume, we would have some comparison about how many dollars and how they do it.

Chairman Svedjan: Council, do you have any information on Wyoming right now?

LC Representative: No, but we can gather some.

Chairman Svedjan closed the hearing on HB 1457.

2007 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1457

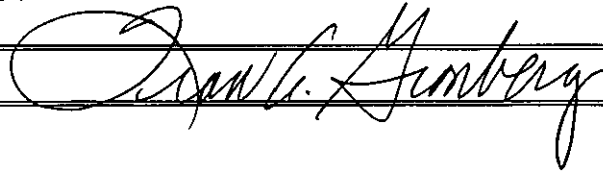
House Appropriations Committee

Check here for Conference Committee

Hearing Date: 2-13-07

Recorder Job Number: 3431

Committee Clerk Signature



Minutes:

Chairman Svedjan opened the hearing on HB 1457.

Rep Froseth, Dist 6: Rep Froseth distributed amendment 0101 (attachment #1)

I presented this bill earlier in an effort to put away some of our old oil and gas trust fund money into a permanent principle account. My earlier intent was too aggressive so I have prepared the amendments that will cut the savings in half. The original intent was to put the first \$200M over and above the present obligations in the oil and gas trust fund. The principle was not to be touched until it reached \$1B. Seeing that the trust fund at the end of this biennium is projected to be \$167M, maybe we won't be able to reach the goal. This amendment will cut the \$200M to #100M and line 15 cuts the \$100M to \$50M until it reaches \$2B. I had dedicated the interest on this fund to be expended for property tax relief and elementary and secondary education on lines 21 and 22. Maybe that money should be left to the discretion of the legislature as to how it should be spent. Issues may change to I took that out.

Rep Wald moved the amendments 0101

Rep Carlson seconded the motion

Carried on a voice vote

Rep Kempenich: Wyoming allots a portion of severance tax to permanent mineral trust fund anticipating ending balance of the fund for fiscal year 2007 is \$3.54135B. It works in Wyoming.

Rep Kempenich moved a Do Pass as Amended on HB 1457

Seconded by Rep Carlson

Rep Nelson: Could we get a status report of the permanent oil trust fund to see if there is any money in it at the present time and if there is how long it will be there? I have no idea what's even left there.

Chairman Svedjan: We can get that and it should be reflected in the budget status report.

Rep Nelson: If the status of that fund right now is \$117M600Th, with passage of this bill, that would mean that with the first \$100M, we are rapidly approaching zeroing out the fund.

Chairman Svedjan: Zeroing out is not the right descriptor, what it would do is secure that sum of money in the fund.

Rep Carlson: The intention is always good, but when it takes a 2/3 vote of the members to get the money out, it takes a 51% to change the 2/3.

Rep Kroeber: We do have a certain amount of dollars that come out of the oil and gas that does go into a permanent trust fund - for example some goes into the common schools trust fund and another \$6M that goes into the foundation aid stabilization fund. And both of those are by constitution.

Rep Glassheim: I'm just not sure how far down we want to spend the governor's projected balance of the three funds. I'm not sure how we're going to sustain the increases that we voted for already this year without raising taxes or making cuts.

Chairman Svedjan: The governor's budget proposal would have some \$400M in reserve in those areas you mentioned. It would leave us somewhere in the neighborhood of \$300M.

Rep Wald: We have to start sometime, somewhere. Wyoming and Alaska have had success with this method. The longer we wait the more dire our fiscal picture can look.

Rep Monson: The first \$71M would go to the general fund. The next \$100M would go into the permanent oil trust fund, and everything over that first \$171M would go into the permanent oil trust fund but could be taken out for other purposes.

Chairman Svedjan: That's correct. And that includes the earnings.

Rep Glassheim: It seems to me that not only can't you spend the principal, but it takes a 2/3 vote to spend the interest.

Chairman Svedjan: But it takes a majority vote to change the requirements.

Rep Monson: I think that the interest is automatically transferred to the general fund at the end of each biennium or at the beginning of each biennium depending on how you look at it.

Chairman Svedjan: I stand corrected.

Rep Glassheim: What is the meaning of lines 20 and 21?

Chairman Svedjan: That would involve any amount that's in the fund that's in excess of \$100M. That is not considered part of the principle balance. The extraction tax will continue to feed into that fund.

Rep Kroeber: The bill that we just reconsidered and passed, was that the sustainability of that property tax was basically dependent upon the \$178M in the permanent oil trust fund. That

was the theory by which we could say that this was not a one time situation, but that we could carry on this property tax because of those dollars. You have just removed 100 of those of those \$178 that are in the budget for that purpose.

Rep Kempenich: When you read this report there is actually about \$300M in the fund now (projected). We're still talking quite a bit of money sitting in that fund.

Rep Nelson: A lot of facts about other states have been thrown out here, Wyoming for example and how they do business saving money. The one difference I would like to comment on is that Wyoming has made some hard decisions as far as their public policy. They have a centralized higher ed system there, more efficient than ours certainly. Their K-12 system was revamped years ago. They've made hard decisions in the past to get to where there are more efficiencies. I don't know how ND with its insatiable appetite for spending can afford this.

Rep Carlson: I would maintain that the only way to stop this spending is to have some of the money set aside. 2 or 4 years ago we would never have looked at this much money form oil revenues. I view this as another savings account if needed. It's important to set some of this money aside.

Rep Kempenich: A definition of a plateau is a sharp rise with a flat top with a sharp drop. We need to plan for a plateau.

Rep Klein: I call the question.

The motion Do Pass as Amended Passed

(yes) 17 (no) 7 (absent) 7

Carrier: Rep Kempenich

FISCAL NOTE
 Requested by Legislative Council
 01/17/2007

Bill/Resolution No.: HB 1457

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	\$0	\$0	\$0	\$0	\$0	\$0
Expenditures	\$0	\$0	\$0	\$0	\$0	\$0
Appropriations	\$0	\$0	\$0	\$0	\$0	\$0

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
\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0

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).*

Revenues exceeding a 71 million dollar General Fund cap are currently being deposited into the Permanent Oil Tax Trust Fund and would continue to be deposited there under this bill.

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.*

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.*

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.*

Name:	Lawrence Hopkins	Agency:	Office of State Treasurer
Phone Number:	701 328-4694	Date Prepared:	01/19/2007

70715.0101
Title.

Prepared by the Legislative Council staff for
Representative Froseth
February 8, 2007

Attach 1
2/13/07

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1457

Page 1, line 12, replace "two" with "one"

Page 1, line 15, replace "one hundred" with "fifty"

Page 1, line 21, remove "for property tax relief or"

Page 1, line 22, remove "elementary and secondary education funding"

Renumber accordingly

Date: 2/13/07
Roll Call Vote #: 1

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1457

House Appropriations Full Committee

Check here for Conference Committee

Legislative Council Amendment Number 70715.0101

Action Taken Adopt Amend. 0101

Motion Made By Wald Seconded By Carlson

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan					
Vice Chairman Kempenich					
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:

Vote carries

Date: 2/13/07
 Roll Call Vote #: 2

2007 HOUSE STANDING COMMITTEE ROLL CALL VOTES
 BILL/RESOLUTION NO. 1457

House Appropriations Full Committee

Check here for Conference Committee

Legislative Council Amendment Number 70715.0101

Action Taken No Pass as amended by 0101

Motion Made By Kempenich Seconded By Carlson

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 Glasshelm		✓
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) 17 No 7

Absent 0

Floor Assignment Kempenich

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

REPORT OF STANDING COMMITTEE

HB 1457: Appropriations Committee (Rep. Svedjan, Chairman) recommends AMENDMENTS AS FOLLOWS and when so amended, recommends DO PASS (17 YEAS, 7 NAYS, 0 ABSENT AND NOT VOTING). HB 1457 was placed on the Sixth order on the calendar.

Page 1, line 12, replace "two" with "one"

Page 1, line 15, replace "one hundred" with "fifty"

Page 1, line 21, remove "for property tax relief or"

Page 1, line 22, remove "elementary and secondary education funding"

Renumber accordingly

2007 SENATE APPROPRIATIONS

HB 1457

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1457

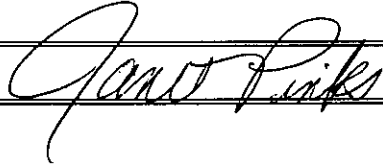
Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 3-8-07

Recorder Job Number: 4657

Committee Clerk Signature



Minutes:

Chairman Holmberg opened the hearing on HB 1457.

Representative Glen Froseth, District 6, Kenmare, presented written testimony and testified in support of HB 1457 indicating enacting this bill would place a permanent balance in the oil gas trust fund so that over the next 60 years the balance will reach \$2 billion dollars. He indicated that in addition to this, HCR 3045 attempts to do the same thing.

Senator Grindberg shared his thoughts and questioned what Wyoming is doing with their minerals. He then indicated that with the proposal for tax relief the same goal would be accomplished. He also asked that if something happens and we don't reach the objectives, will that be an issue for the Legislature in the future. The response was probably.

Senator Bowman testified indicating that if we have a billion barrels of potential production and we build a hug reserve over time, we will have something to fund future projects. This is away to set aside part of the income to reserve before the oil dries up.

Nancy Sand, ND Education Association, testified in opposition to the amount to be set aside in HB 1457 indicating the Association prefers the designated set aside funds be established on a per session basis.

Senator Mathern questioned whether the Association had a specific set aside amount. The response was no.

Bev Nielson, ND School Board Association, testified on HB 1457 and expressed the same concerns as Nancy Sand indicating to enact this bill would tie the hands of the legislators. Chairman Holmberg indicated the conversation of Senator Grindberg and the sustainability of the property tax relief program in the Governor's budget and when you read the language carefully, it states the first one hundred million per biennium, must be considered part of the balance and may not be expended for any reason. If next biennium, we are going to get a \$150 million into the fund, there would only be \$50 million for property tax relief.

Pam Sharp testified indicating this is her concern also. Based on the forecast in February, the expected revenue is \$158 million into the fund. The way I read it, this would only provide for \$58 million to be spent and we are counting on \$116 million. In addition, the sustainability of property tax relief, we are looking to sustain it from the permanent oil tax trust fund for years to come.

Senator Bowman indicated if the money is saved and the interest on the money is used, and the fund is built up and we increase the funding to education without having to raise a mil, isn't that property tax relief. By saving, you accomplish two things, more money available to spend and we are not asking the citizens to come up with that money. Every year that this grows, there is more money available.

Pam Sharp indicated she is not against saving money, the concern is with the property tax relief that is proposed, there would not be the money available for that for next biennium.

Doug Johnson, ND Council of Education Leaders, testified indicating he concurred with both Bev Nielson and Nancy Sand. He also urged consideration of SB 2200 as it goes through the process. One of the provisions in that bill is the emergency clause for the commission to continue its work beginning hopefully next month if it goes through. The next thing the commission would be looking at is the adequacy of education funding. He thinks the long term

committee of the permanent oil tax fund is premature and we should wait with this until the next session.

Jodie Buhiz, ND Public Employees Association, testified and agreed with the concerns of the prior two speakers indicating they favor savings, however, she thinks Legislators would be tying their hands. She thinks the sustainability will not be there.

Senator Bowman responded indicating if we spend all of the money and don't know the future of oil, where will we be in ten years. If we save it, we know where we will be. If we spend and our demands are like we have seen this year, where are we going to get the money to meet those demands. If we don't do something to save part of the wealth we have created, there will be major problems down the road.

Jodie Buhiz offered a second analogy, we agree we need to save, however, you don't take money from your checking account to put in savings when there are bills due.

Chairman Holmberg closed the hearing on HB 1457.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1457

Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 03-22-07

Recorder Job Number: 5464

Committee Clerk Signature



Minutes:

Chairman Holmberg opened the hearing on HB 1457, reviewing the minutes of 3/8/07.

Senator Bowman indicated that all we are looking for was a way to put money aside. He stated we have been through high oil prices and seen how those high prices go away. We have the opportunity to save a lot of money. If you imagine going thru all that money, how would we recoup that with out high taxes. If there is no more oil production, we know what inflation does to us. If we don't save money now, it would put us in a train wreck some day. This bill has merit. I will support the bill.

Senator Wardner indicated the interest from this could be used for appropriations; it is just protecting the principal. When it hits \$500 million, the interest generated can be used for appropriations

Senator Grindberg questioned the council about the dilemma he sees with recommendations from the executive branch. The opinion of the Governor's Office and OMB that we can sustain a property tax rebate program with \$100 million and sets it aside which further puts in jeopardy for tax relief does it not. The response is if you look to the future, this is a permanent tax relief for twenty years from now. When the oil decreases, we have something to sustain us that will generate wealth just like the oil wells today. This is not for today's relief; it is for the future when the oil dries up. The interest off that resource makes it a lot easier to take care of the budget we need each session.

Senator Bowman indicated if you look into the future this is a permanent property tax relief this will generate wealth in future and will have a permanent source of income. It is out there

Page 2

Senate Appropriations Committee

Bill/Resolution No. "Click here to type Bill/Resolution No."

Hearing Date: "Click here to type Hearing Date"

Senator Wardner indicated Senator Grindberg makes a good point we should lower the \$100 million as it does effect sustainability of property tax relief.

Senator Grindberg recommended we table this bill until after HB 1051 has been heard.

Chairman Holmberg closed the hearing on HB 1457.

2007 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 1457

Senate Appropriations Committee

Check here for Conference Committee

Hearing Date: 03-22-07

Recorder Job Number: 5484

Committee Clerk Signature

Steve DeLuzer

Minutes:

Chairman Holmberg opened the hearing on HB 1457.

Senator Grindberg moved a **DO NOT PASS**. **Seconded by Senator Krauter**. Discussion followed. **A roll call vote was taken resulting in 13 yeas, 1 nay, 0 absent. The motion carried. Senator Grindberg will carry the bill.**

The hearing on HB 1457 was closed.

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

2007 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1457

Senate Appropriations Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken do NOT pass

Motion Made By Grindberg Seconded By Krauter

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 1

Absent _____

Floor Assignment Grindberg

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

REPORT OF STANDING COMMITTEE (410)
March 23, 2007 9:14 a.m.

Module No: SR-55-6032
Carrier: Grindberg
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1457, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman)
recommends **DO NOT PASS** (13 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING).
Engrossed HB 1457 was placed on the Fourteenth order on the calendar.

2007 TESTIMONY

HB 1457

(A)

1/23/07

Jim H

HB 1457

Rep. Svedjan, Chairman
House Appropriation Committee

Chairman Svedjan and members of the House Appropriations Committee, for the record I'm Rep. Glen Froseth of Kenmare, representing District 6 which comprises all the Bottineau County, Renville County and the north half of Ward County. Much of my District is oil producing country.

I requested HB 1457 to be drafted in an effort to preserve some of the Oil and Gas taxes that go into the so called Permanent Oil & Gas Trust Fund to help insure a sound and secure future for the State of North Dakota.

The concept of HB 1457 is relatively simple. HB 1457 will add \$2 billion dollars to the Trust Fund over the next 30 years. After the first \$71 million dollars of oil and gas taxes that go into the general fund, the bill will call for the next \$200 million dollars per biennium, to be added to the principal balance of the fund. This continues for 5 biennium, at which time the fund should reach the first \$1 billion dollar mark. After that, the first \$100 million in tax collections will be added to the principal amount until the fund reaches \$2 billion, which would take another ten biennium or 20 years.

The second provision of this bill will allow for expenditure of any additional monies that qualify for the Trust Fund, and the interest generated on the principal, to be spent for purposes of Property Tax relief or Elementary and Secondary Education.

Oil Production and Projected Revenue to the Permanent Trust Fund

Presently, North Dakota is producing 113,000 barrels of oil per day, which equates to approximately 37 million barrels for 2006. The 2007 production is estimated to be 41 million barrels. We presently have 42 rigs drilling in the state and the industry has created 2500 new jobs in the last 30 months and is looking for more workers. The impact to our overall economy is huge and is revealed by the tax revenue we receive from the product, the employment, the materials used and every other aspect of the industry. This also contributes greatly to our sales and use taxes, income tax, property tax, excise tax, ect.

The office of Management and Budget presented these numbers in regard to the Oil and Gas Trust Fund. The ending balance of the 05-07 bienniums will be \$218 million after the \$116 million property tax relief appropriation, and the 07-09 projected income to the fund is \$167 million to make the ending balance at that time of \$295 million. If our oil and gas production remains stable and the price remains above the \$45-\$50 a barrel level, revenue could easily reach the \$200 million mark by the 09-11 bienniums and continue to grow from there.

Mr. Chairman and committee, I believe North Dakota is in a position for opportunity we may never see again, and if we do not take advantage of our present strong economy and

strong tax collections, we may miss an opportunity to secure the financial future of our state for generations to come.

As you are well aware, our oil industry has been very cyclical, or in other words "Boom or Bust." Today we are in a real "Boom" cycle and I expect it will continue strong for the next 10-15 years, and hopefully much longer.

If we choose to put some of our oil and gas tax collection in a savings for the future, we will not need to have long debates on how to alleviate the property tax burden, or how to adequately fund our educational system. A little foresight and good financial planning today, will insure our children and grandchildren of good affordable homes and schools.

Now is the time to take initiatives to save for a secure future of North Dakota.

A wise old treasure of a civic club I belong to, was asked to give its treasure's report. He replied, "We made some, we spent some, and we have some."

Now is the time to set aside "some" to have for generations to come.

I urge your favorable consideration on HB 1457.

Thank you, Mr. Chairman and Committee

Testimony for HB1457

Senate Appropriations Committee
Sen. Ray Homberg, Chairman

Chairman Holmberg and members of the Senate Appropriations Committee, the record, I'm Rep. Glen Froseth of District 6, which consists all of Bottine County, Renville County and the north half of Ward County.

I ask for this committee's favorable recommendation on HB1457. This bill to the Oil & Gas Trust Fund to help insure a sound and secure future for the state of North Dakota.

As amended by the House Appropriations, HB1457 will add \$2 billion dollars to the Permanent State Oil and Gas Trust Fund over the next 60 years. As you know, the first \$71 million of oil and gas taxes go into the General Fund and the amount collected above the first \$71 million is deposited in the Permanent Oil & Gas Trust Fund. This bill will call for the first \$100 million per biennium of Trust Fund to be considered to be part of the principal balance of the fund and may not be expended for any reason. When the Trust Fund exceeds \$1 billion dollars (approximately 10 biennium), the first \$50 million per biennium must be deposited in the Trust Fund until the fund reaches \$2 billion dollars (approximately another 20 biennium).

Mr. Chairman and Committee, I believe North Dakota is in a position for great opportunities we may never see again, and if we do not take advantage of the present strong economy and strong tax collections, we may miss an opportunity to secure the financial future of our state for generations to come.

As you are well aware, our oil industry has been very cyclical, or in other words "Boom or Bust". Well, today we are in a real "Boom" cycle, and I fully expect to continue strong for the next 15-20 years, and hopefully longer.

If we choose to put some of our oil and gas tax collections in a savings for the future, we will not need to have debates on how to alleviate the property tax burden, or how to adequately fund our educational system. A little foresight and good financial planning today, will insure our children and grandchildren of affordable homes and schools.

Now is the time to take initiatives to save for the future, and I urge this committee to give HB1457 a "Do Pass" for the future of North Dakota.

A wise old treasurer of a civic club, once said when asked about the financial condition of the club, replied, "We made some, we spent some, and we have some". Now is the time to set aside some to have for future generations.

DISTRIBUTION OF ESTIMATED OIL EXTRACTION AND OIL AND GAS PRODUCTION TAXES FOR THE 2007-09 BIENNIUM (AMOUNTS ARE SHOWN IN MILLIONS OF DOLLARS)¹

Tax	General Fund ²	Permanent Oil Tax Trust Fund ²	Common Schools Trust Fund ³	Foundation Aid Stabilization Fund ³	Resources Trust Fund	Oil and Gas Impact Grant Fund	Counties	Oil and Gas Research Fund ⁴	Total
Oil extraction tax ⁵	\$31.16	\$91.16	\$20.50	\$20.50	\$41.01			\$0.70	\$205.03
Oil and gas production tax ⁶	39.84	75.88				\$6.00	\$94.82	0.60	217.14
Total	\$71.00	\$167.04	\$20.50	\$20.50	\$41.01	\$6.00	\$94.82	\$1.30	\$422.17

NOTE: Based on preliminary review, it appears the executive forecast may be overstating the counties' share of oil and gas production tax collections and understating the state's share. We have asked the Office of Management and Budget and the Tax Department to review the projection.

¹The amounts shown are as recommended in the 2007-09 executive budget.

²North Dakota Century Code (NDCC) Section 57-51.1-07.2 (1997 Senate Bill No. 2366) establishes a permanent oil tax trust fund and provides that all revenues deposited in the general fund during a biennium derived from taxes imposed on oil and gas under Chapters 57-51 (Oil and Gas Gross Production Tax) and 57-51.1 (Oil Extraction Tax) which exceed \$71 million are to be transferred by the State Treasurer to the permanent oil tax trust fund. The State Treasurer is to transfer the interest earnings on the fund to the general fund at the end of each fiscal year. The principal of the permanent oil tax trust fund may only be spent upon a two-thirds vote of the members elected to each house of the Legislative Assembly.

The revised revenue forecast for the 2005-07 biennium projects oil and gas production tax and oil extraction tax revenues deposited into the general fund to exceed \$71 million by \$158,543,405. Therefore, \$158,543,405 is projected to be transferred to the permanent oil tax trust fund during the 2005-07 biennium.

The revenue forecast for the 2007-09 biennium projects oil and gas production tax and oil extraction tax revenues deposited in the general fund to exceed \$71 million by \$167,036,607. Therefore, \$167,036,607 is projected to be transferred to the permanent oil tax trust fund during the 2007-09 biennium.

³The 1993 Legislative Assembly passed Senate Concurrent Resolution No. 4011, which contained a constitutional amendment relating to the distribution of oil extraction tax revenues. The constitutional amendment was approved by the voters in the November 1994 general election. The constitutional amendment provides that 20 percent of the oil extraction tax revenues are to be allocated as follows:

- Fifty percent (of the 20 percent) to the common schools trust fund.
- Fifty percent (of the 20 percent) to a foundation aid stabilization fund.

⁴North Dakota Century Code Section 57-51.1-07.3 (2003 Senate Bill No. 2311) establishes an oil and gas research fund and provides that 2 percent of the state's share of oil and gas gross production tax and oil extraction tax revenues, up to \$1.3 million per biennium, are to be deposited in the oil and gas research fund. All money deposited in the oil and gas research fund is appropriated as a continuing appropriation to the Oil and Gas Research Council.

⁵The oil extraction tax rate is 6.5 percent of the gross value at the well for wells drilled prior to April 27, 1987. For oil produced from wells drilled after April 27, 1987, there is no extraction tax levied for 15 months and thereafter the rate is 4 percent. The initial production of oil from a well is exempt from any oil extraction tax for a period of 60 months if it meets any of the following conditions: (1) is located within the boundaries of an Indian reservation; (2) is on lands held in trust for an Indian tribe or individual Indian; or (3) is on lands held by an Indian tribe as of August 1, 1997. For oil produced from any well drilled and completed as a horizontal well after April 27, 1987, there is no extraction tax levied for 24 months, and thereafter the rate is 4 percent. The oil extraction tax rate is 4 percent for qualifying secondary and tertiary recovery projects, and production from stripper wells and enhanced oil production methods is exempt. If the average price of a barrel of oil exceeds the trigger price for each month in any consecutive five-month period, the oil extraction tax will become 6.5 percent. The tax rate reverts to 4 percent if the average price of a barrel of oil is less than the trigger price for each month in any consecutive five-month period. The trigger price is defined in statute as \$35.50 as indexed for inflation, and the Tax Commissioner computes the indexed trigger price by December 31 of each year to be applied for the

Oil & Gas Production Tax and Oil Extraction Tax Revenues (Based on Executive Budget Revenue Forecast)

