2009 SENATE FINANCE AND TAXATION

SB 2051

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2051

Senate Finance and Taxation Committee

☐ Check here for Conference Committee

Hearing Date: 01/20/2009

Recorder Job Number: 7286

Committee Clerk Signature

Minutes:

Chairman Cook: Opened hearing on SB 2051

Senator Bob Stenehjem, District 30: Testified in support of the bill; representing the interim Finance and Tax Committee. After much research provided by North Dakota Association of Oil and Gas Producing Counties, Department of Transportation, Tax Department and experts in the community, the committee decided to introduce a bill to generate discussion within the legislature on eliminating the statutory caps on oil and gas, ? Production tax, allocation to the counties and the elimination of the caps on allocation of oil and gas? Grant fund.

Representative David Drovdahl, District 39: Testified in support of the bill. After last session, the impact of the bills on this issue was diminished because the cap was put back down to only a $1 million increase. Good things have happened in oil production, but there are some problems. The caps restrict the revenue coming on, but it does not restrict the expenses going out. The cap shifts the burden from those that are using the services from the users to the other property tax owners.

Representative Mike Schatz, District 36: Testified in support of the bill. There are a number of issues in oil country that would make life a lot better and safer. We have a lot of bridges that need to be changed, maintenance of the roads, dust, traffic safety, etc. We need to give the

counties the ability to keep producing. Lifting the caps will help with all of those issues. The rigs are multiplying every year.

John Walstad, Legislative Council: Reviews the bill. See attachment #1 for tax interim committee info. Fiscal note differs from the report by the interim committee. That is probably due to the oil prices at the time. ($42 million vs. $36 million) This bill unusual because it only removes some language in existing law, and not adding any.

Vicky Steiner, Executive Director of the North Dakota Association of Oil and Gas Producing Counties: See attached Testimony #2 in support of this bill.

Senator Triplett: Did I understand that you believe that this is the more important place to make a difference, with the removal of the cap? You are aware that the Governor's budget has more money and you know that there are other bills out there, but of the two you think this is the way to go?

Vicky Steiner: Absolutely.

Jeff Engleson, Director of Energy Development Impact Office, North Dakota State Land Department: See attached testimony #3 in support of this bill.

Senator Triplett: Clarifies info on chart.

Reinhard Hauck, Dunn County Auditor: Testified in support of this bill. See attachment #4 for figures he discussed.

Christy Larsen, Dunn County Recorder/Clerk of Court: See attached testimony #5 in support of this bill.

Chairman Cook: Do these land men pay considerable fees for the information that they are able to take?

Christy Larsen: They pay 50 cents a copy or 10 cents for a digital copy, but just to look at it, No.

Chairman Cook: That is the only fees they are assessed?

Christy Larsen: For getting the information, for recording a document there is a recording fee.

Chairman Cook: Do you know that we limit what we can charge them?

Christy Larsen: Yes.

Chairman Cook: Is it sufficient?

Christy Larsen: Yes, I think so. If we charge more, the locals would have a problem with it.

Senator Triplett: Can you tell us how much money you have in the fund that you are allowed to use for digitizing your documents?

Christy Larsen: $3.00 of every recording goes into that. It varies from month to month; we average $900 to $1600.

Senator Triplett: So that has not been built up?

Christy Larsen: They encourage that we use that yearly and do not build up a fund.

Senator Anderson: How many copies a year do you make?

Christy Larsen: It is up and down, during the summer we had 60-65 people in there a day, and now we have 20-25.

Cliff Ferebee, Dunn County Commissioner: See Attached testimony #6 in support of bill.

Senator Triplett: Do you share the goal that if we have to make a choice between this bill and the oil impact fund, your preference would be for the caps to come off, rather than raid from the oil impact fund substantially?

Cliff Ferebee: We would rather that the caps come off, and we can plan ahead on projects that need to be done.

Susan Tuhy, Resident of Dunn County: Testified in support of bill. I would like to leave with you this morning that these roads were built in the 30's and 40's and at that time this wasn't

even conceived; the traffic, the different types of equipment, it is not just the semi's and the tankers, it is all the equipment they are hauling. When I have hit a shift change, I meet more traffic now on my gravel roads than even on Hwy. 22 before. It is a major safety issue; the roads, bridges, etc.

Gary Wilz, Superintendent of Killdeer Public Schools: See attached testimony #7 in support of bill.

Greg Boschee, Montrail County Commissioner: I would like Brooks Goodall to testify as to conditions in Montrail County.

Brooks Goodall, Montrail Resident: Generally explains that when they bought their home that it was a paved road and now it has been reduced to dirt from all of the traffic, and the dust is so bad that you cannot mow your yard. Haying is impossible because of all of the dirt. The cattle get dust pneumonia. We should be moving forward and not backward.

Greg Boschee: We need the caps off, that is my big thing. Montrail County is twice as big as Dunn County. We had 109 miles of paved road, we now have 100. In two years, with what is going on, we will have 16. The residents should not have to deal with this. We are out of money. We cannot pave any roads. It cost about $400,000 a mile to put a 4 inch surface on the road. It is 4 million dollars to redo that road; that is the total amount we get right now. Montrail County is not against the oil industry, they have helped us out tremendously, but we need help badly. I don't think they should have to. The proposed plan is fair; more oil means more money, less oil means less money. Montrail hid cap in December and we are not getting any more money till September. The energy impact gave Montrail County nothing. The dust is like a snow storm – you cannot see. There are many serious accidents due to the road conditions. (See attachment #8, pictures of chains and spikes on tires, a rig move, and 5 miles on a paved road) Gave figures on how much traffic goes on the roads per month.

Ron Ness, President of the North Dakota Petroleum Council: See Attached Testimony #9 in support.

Eric Dille', Manager of Government Relations, EOG Resources: Testified in support of this bill. I want to voice my concern for safety. We have spent approximately $400,000 to date just on safety issues (2 patrol cars and deputy sheriffs to monitor speed in the field, $100,000 on dust control, gravel, snow plow) We would ask for your speedy resolution of this. We have been there 3 years and we want to support the county commissioners on that.

Chairman Cook: You are in other states all over the country?

Eric Dille': Yes, we operate in every basin in the country.

Chairman Cook: Is this a problem unique to North Dakota? They have to beating up the roads everywhere else.

Eric Dille': No it is not, it is a significant problem in rural America; it is not unique to North Dakota.

Senator Dotzenrod: North Dakota is the best state to operate in, why?

Eric Dille': The state government is pro industry, and they have allowed us to put in gas gathering systems to work on flaring issues, or helping us to put in an oil pipeline at the moment. The general business climate is very good.

Kelly Schmidt, State Treasurer: I just wanted to give a quick overview of what we have been doing. I have been to most of the counties doing town hall meetings in the beginning of 2008 and help them deal with the impact and to understand where the tax dollars are going. During that time I heard them and we were able to change the quarterly distributions to monthly. We could not change the dollar amount, but we could get it to them faster. We turn them over in less than 30 days. We are ready to move forward on anything your body has us do.

Lynn Brackel, Bowman County Commissioner: See Attached Testimony #10 in support of bill.

Chairman Cook: I was always thinking the biggest impact especially on roads, was during when the drilling was going on, and maybe there would be a reduction when drilling moved on. You are saying we still have a big impact?

Lynn Brackel: We still do. One of the issues in Bowman County is the oil trucks are coming in with oil from Bakken formation loaded, ? the oil and then going back out loaded. So we still have the same issues with the roads.

Lyn James, President of Bowman City Commission: See Attachment #11 in support of bill.

Chairman Cook: Any testimony opposed to 2051? (No), neutral? (No)

I do need to ask one question, when we think of roads throughout the state and how we approach keeping roads in good condition, we have to levy dollars to build them and keep them repaired. We do things like policy that limits weights, permit fees...to what degree is that happening in the oil counties.

Vicky Steiner: We do have a uniform truck permit program, but it is not generating replacement dollars right now. They do have one that keeps track of it. There is some concern that weights are too heavy and there is discussion on that.

Chairman Cook: The truck that we saw pictures with the spikes, did that truck have a permit to drive on that road.

Vicky Steiner: I can find out how much that was for that, but it probably will not fix the damage.

Chairman Cook: I would like to know how that is operated out there. Could you get that to me?

Vicky Steiner: I can.

Chairman Cook: Closed hearing on SB 2051.

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2051

Senate Finance and Taxation Committee

☐ Check here for Conference Committee

Hearing Date: 02/03/2009

Recorder Job Number: 8509

Committee Clerk Signature

Minutes:

Chairman Cook: Reopened discussion on SB 2051. See Attachment #1 for amendments proposed.

Senator Triplett: Mentioned the six needed to be underlined in the amendment.

Chairman Cook: Will be taken care of, and it will need to be re-referred to Appropriations.

Senator Oehlke: Reminded that Miller moved and he seconded the motion.

Senator Triplett: The rules require it correct?

Chairman Cook: Yes. Suspended discussion on SB 2051.

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2051

Senate Finance and Taxation Committee

☐ Check here for Conference Committee

Hearing Date: 02/03/2009

Recorder Job Number: 8464

Committee Clerk Signature

Minutes:

Chairman Cook: Reopened discussion on SB 2051. He presented the idea of moving Section 2 of SB 2229 to SB 2051.

Discussion: A discussion followed among committee members on that idea and what it would change overall. The main concern lied with the $20 million and whether or not the counties would get less than that.

Vice Chairman Miller: Motioned to amend the bill, a hog house amendment, so that the bill simply states what is in section 2 of SB 2229.

Senator Triplett: As long as we are not killing SB 2229.

Chairman Cook: Without a doubt.

Senator Triplett: Seconded.

Senator Anderson: Voiced concern over it possibly killing SB 2229 if SB 2051 gets killed.

Chairman Cook: Then all that will be in SB 2051 will be section 2.

Senator Anderson: OK

A voice vote was taken on the amendment. 7 yeas, 0 nays.

Chairman Cook: Discussion?

Senator Triplett: Can we look at the dollar amount before we vote?

Chairman Cook: That is what I am looking at.

Senator Triplett: Notes some information on SB 2229. Would like more money in that bill; Emphasizing research dollars.

Chairman Cook: I don't think that it would go to appropriations.

Senator Triplett: So we can decide what to set it at. We should ask Karlene Fine what her recommendations are for research dollars

Senator Hogue: Points out that they had requests for about 11 million that are pending from the last biennium.

Karlene Fine: Currently we have 2.7 million dollars in requests, there is certainly a demand.

Senator Triplett: I would like to think 10 million would be better. It is an arbitrary number; gives an example as to why. It sends a message that we see that there is a need.

Chairman Cook: It is a matter of priorities and there are a lot of counties that would like to see that money for their roads.

Senator Hogue: I am struggling with five, but I could be persuaded to that. There is increased need for research.

Senator Anderson: I have no idea on how much this research costs, and I know that Senator Triplett does therefore I have to go with her suggestion.

Senator Dotzenrod: The number five came into this because it? the budget. That was the number agreed upon, and I tend to follow that because the cases were already made for that.

Chairman Cook: I think that is pretty rational thinking.

Senator Oehlke: I look at the sponsors of the bill and thought all four of those people are fairly reasonable and would have asked the same question of the governor, and I think that there was thought put into the five million dollars.

Chairman Cook: This was pulled out of the Governor's appropriation bill.

Vice Chairman Miller: I would like to know more about the whole process of oil and gas research if I were to go more than five. I want it spent wisely.

Chairman Cook: I would offer a compromise, I would offer that we change it to six for the simple reason that I think we could get it passed out. It will probably be reduced by the House.

Senator Triplett: Motioned for the amount to go to 10.

Senator Dotzenrod: Seconded.

Senator Oehlke: Does the industry do any research.

Senator Triplett: They do a lot of their own research; they hire their own people to do that.

Senator Oehlke: I don't know where the 5 or 10 million fits in there.

Senator Triplett: Well below a tenth of one percent. It truly is a drop in the bucket to what they are spending.

Senator Dotzenrod: On that point, I do not recall anyone who came to testify gave reason for 10.

Chairman Cook: I think they were happy going from 3 to 5.

Vice Chairman Miller: There are other projects that could help the industry, and I am concerned that they will then take their money and put it into something outside the state.

Senator Triplett: This money goes to the industrial commission which is made up of elected officials that have the best interests of our state at heart. The proposals that come in will have to meet criteria that benefits North Dakota. It will end up being used for things that relate to North Dakota. I don't think there should be a concern.

Chairman Cook: Asks clerk to take the roll on the motion.

A Roll Call vote was taken on the motion. 3 yeas, 4 nays.

Motion Failed.

Vice Chairman Miller: Moved SB 2051 as amended.

Senator Oehlke: Seconded.

Senator Dotzenrod: I wouldn't mind going from 5 to a six.

Senator Hogue: My concern is still getting past the Senate. It might draw a lot of red votes.

Senator Oehlke: It doesn't seem to matter what we send to the House, they always find fault with it. It isn't a bad idea to have some room.

Motions withdrawn.

Senator Hogue: Motioned to amend SB 2051 as amended to change the 5 million to 6 million.

Vice Chairman Miller: Seconded the motion.

A Roll Call vote was taken on the amendment. 7 yeas, 0 nays.

Vice Chairman Miller: Moved a Do Pass As Amended.

Senator Oehlke: Seconded.

A Roll Call Vote was taken: Yea 7, Nay 0, Absent 0.

Senator Dotzenrod will carry the bill.

FISCAL NOTE

Requested by Legislative Council
04/14/2009

Amendment to: Engrossed SB 2051

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.*

	2007-2009 Biennium		2009-2011 Biennium		2011-2013 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues				$0		
Expenditures						
Appropriations						

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

2007-2009 Biennium			2009-2011 Biennium			2011-2013 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

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).*

SB 2051 First Engrossment with House Amendments increases the amount of oil and gas tax revenue that goes to the oil and gas research fund.

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.*

If enacted, SB 2051 First Engrossment with House Amendments will increase the amount of oil and gas tax revenue that goes to the oil and gas research fund from $3 million to $4 million per biennium. This will increase the research fund by $1 million and decrease the permanent oil tax trust fund by $1 million during the 2009-11 biennium. Both of these are "other funds" and cancel each other out, and are, therefore, not shown in 1A above.

The bill also calls for a Legislative Council study of the taxation of mineral resources in North Dakota.

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:	Kathryn L. Strombeck	**Agency:**	Office of Tax Commissioner
Phone Number:	328-3402	**Date Prepared:**	04/14/2009

FISCAL NOTE

Requested by Legislative Council
02/06/2009

Amendment to: SB 2051

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.*

	2007-2009 Biennium		2009-2011 Biennium		2011-2013 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues				$0		
Expenditures						
Appropriations						

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

2007-2009 Biennium			2009-2011 Biennium			2011-2013 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

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).*

Engrossed SB 2051 increases the amount of oil and gas tax revenue that goes to the oil and gas research fund.

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.*

If enacted, engrossed SB 2051 will increase the amount of oil and gas tax revenue that goes to the oil and gas research fund from $3 million to $6 million per biennium. This will increase the research fund by $3 million and decrease the permanent oil tax trust fund by $3 million during the 2009-11 biennium. Both of these are "other funds" and cancel each other out, and are, therefore, not shown in 1A above.

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:	Kathryn L. Strombeck	**Agency:**	Office of Tax Commissioner
Phone Number:	328-3402	**Date Prepared:**	02/09/2009

FISCAL NOTE

Requested by Legislative Council
12/08/2008

Bill/Resolution No.: SB 2051

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.*

	2007-2009 Biennium		2009-2011 Biennium		2011-2013 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues				($36,700,000)		
Expenditures						
Appropriations						

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

2007-2009 Biennium			2009-2011 Biennium			2011-2013 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
			$36,700,000					

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).*

SB 2051 removes the $6 million biennial cap on oil and gas gross production tax revenues distributed to the oil and gas impact grant fund. The bill also removes the caps on the share of oil and gas gross production tax revenues that are distributed to producing counties.

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.*

The fiscal impact of the removal of the cap on revenues that are distributed to the impact grant fund is estimated to increase revenues to the impact grant fund by $26.8 million (from $6 million to $32.8 million) during the 2009-2011 biennium. Additionally, revenues in the permanent oil tax trust fund are expected to decrease by $26.8 million in the 2009-2011 biennium. NOTE: This impact is not shown in 1A above because both the impacts are to "other funds" and cancel each other out, with the net impact equal to zero.

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.*

The removal of the counties' caps on distributions of oil and gas gross production tax revenue is expected to reduce permanent oil tax trust fund revenue by an estimated $36.7 million in the 2009-2011 biennium, and increase county revenue by the same $36.7 million. (This additional county revenue is shared with school districts and cities depending upon enrollment and in some cases, based on employment.)

If this bill is deamed to contain only "distributional changes", in accordance with NDCC Section 57-51.1-07.2, the fiscal impact could be a reduction in state general fund revenues totaling $63.5 million for the 2009-2011 biennium, rather than a reduction in revenue to the permanent oil tax trust fund of $63.5 million.

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:	Kathryn L. Strombeck	**Agency:**	Office of Tax Commissioner
Phone Number:	328-3402	**Date Prepared:**	01/02/2009

Prepared by the Legislative Council staff for
Senator Cook
February 3, 2009

PROPOSED AMENDMENTS TO SENATE BILL NO. 2051

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to amend and reenact section 57-51.1-07.3 of the North Dakota Century Code, relating to oil and gas research fund deposits; and to provide an effective date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Section 57-51.1-07.3 of the North Dakota Century Code is amended and reenacted as follows:

57-51.1-07.3. Oil and gas research fund - Deposits - Continuing appropriation. There is established a special fund in the state treasury to be known as the oil and gas research fund. Two percent of the state's share of the oil and gas gross production tax and oil extraction tax revenues, up to ~~three~~ six million dollars per biennium, must be deposited into the oil and gas research fund. The state treasurer shall transfer into the oil and gas research fund two percent of the state's share of the oil and gas production tax and the oil extraction tax revenues for the previous three months. All moneys deposited in the oil and gas research fund and interest on all such moneys are appropriated as a continuing appropriation to the council to be used for purposes stated in chapter 54-17.6.

SECTION 2. EFFECTIVE DATE. This Act is effective for taxable events occurring after June 30, 2009."

Renumber accordingly

Date: 02/03/09

Roll Call Vote #: 1

2009 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. : 2051

Senate Finance and Taxation Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number AMENDMENT Hog House SB 2051 Section 2 from 2229 to 2051

Action Taken ☑ Do Pass ☐ Do Not Pass ☐ Amended

Motion Made By Miller Seconded By Hogue

Senators	Yes	No	Senators	Yes	No
Sen. Dwight Cook - Chairman			Sen. Arden Anderson		
Sen. Joe Miller – Vice Chairman			Sen. Jim Dotzenrod		
Sen. David Hogue			Sen. Constance Triplett		
Sen. Dave Oehlke					

All in Favor

Total: Yes 7 No

Absent

Floor Assignment

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

Date: 02/03/09

Roll Call Vote #: 2

2009 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. : 2051

Senate Finance and Taxation Committee

☐ Check here for Conference Committee Amend and change to 5

Legislative Council Amendment Number 10 million

Action Taken ☐Do Pass ☐Do Not Pass ☐Amended

Motion Made By Triplett Seconded By Dotzenrod

Senators	Yes	No	Senators	Yes	No
Sen. Dwight Cook - Chairman		✓	Sen. Arden Anderson	✓	
Sen. Joe Miller – Vice Chairman		✓	Sen. Jim Dotzenrod		✓
Sen. David Hogue		✓	Sen. Constance Triplett	✓	
Sen. Dave Oehlke	✓				

Total: Yes 3 No 4

Absent 0

Floor Assignment Fail

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

Date: 02/03/09

Roll Call Vote #: 3

2009 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. : 2051

Senate Finance and Taxation Committee

☐ Check here for Conference Committee Amend as Amendeded

Legislative Council Amendment Number 5 million to 6 mill

Action Taken ☐Do Pass ☐Do Not Pass ☐Amended

Motion Made By Hogue Seconded By Miller

Senators	Yes	No	Senators	Yes	No
Sen. Dwight Cook - Chairman	✓		Sen. Arden Anderson	✓	
Sen. Joe Miller – Vice Chairman	✓		Sen. Jim Dotzenrod	✓	
Sen. David Hogue	✓		Sen. Constance Triplett	✓	
Sen. Dave Oehlke	✓				

Total: Yes 7 No 0

Absent

Floor Assignment

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

Date: 02/03/09

Roll Call Vote #: 4

2009 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. : 2051

Senate Finance and Taxation Committee

☐ Check here for Conference Committee Re-Referred to Appropriations

Legislative Council Amendment Number 90317.0201

Action Taken ☒ Do Pass ☐ Do Not Pass ☒ Amended AS

Motion Made By Senator Miller Seconded By Senator Oehlke

Senators	Yes	No	Senators	Yes	No
Sen. Dwight Cook - Chairman	✓		Sen. Arden Anderson	✓	
Sen. Joe Miller – Vice Chairman	✓		Sen. Jim Dotzenrod	✓	
Sen. David Hogue	✓		Sen. Constance Triplett	✓	
Sen. Dave Oehlke	✓				

Total: Yes 7 No 0

Absent 0

Floor Assignment Senator Dotzenrod

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

REPORT OF STANDING COMMITTEE

SB 2051: Finance and Taxation Committee (Sen. Cook, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** and **BE REREFERRED** to the **Appropriations Committee** (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2051 was placed on the Sixth order on the calendar.

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to amend and reenact section 57-51.1-07.3 of the North Dakota Century Code, relating to oil and gas research fund deposits.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Section 57-51.1-07.3 of the North Dakota Century Code is amended and reenacted as follows:

57-51.1-07.3. Oil and gas research fund - Deposits - Continuing appropriation. There is established a special fund in the state treasury to be known as the oil and gas research fund. Two percent of the state's share of the oil and gas gross production tax and oil extraction tax revenues, up to ~~three~~ six million dollars per biennium, must be deposited into the oil and gas research fund. The state treasurer shall transfer into the oil and gas research fund two percent of the state's share of the oil and gas production tax and the oil extraction tax revenues for the previous three months. All moneys deposited in the oil and gas research fund and interest on all such moneys are appropriated as a continuing appropriation to the council to be used for purposes stated in chapter 54-17.6."

Renumber accordingly

2009 SENATE APPROPRIATIONS

SB 2051

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2051

Senate Appropriations Committee

☐ Check here for Conference Committee

Hearing Date: 02-10-09

Recorder Job Number: 9100

Committee Clerk Signature

Minutes:

Chairman Holmberg called the committee hearing to order at 11:15 for SB 2051 regarding elimination of the limits on the amount the oil impact fund and counties may receive under the oil and gas gross production tax.

Karline Fine Executive Director and Secretary for the Industrial Commission of North Dakota testified in favor of SB 2051 Engrossed bill providing written testimony # 1. She didn't know if there is an updated fiscal note other than the one dated 2-06.

Senator Mathern stated we are putting money into producing more oil, but we don't have the capability to and are selling it cheaper.

Karline Fine indicated part of this is for the pipeline.

Senator Mathern stated to build it, don't just talk about it.

Karline Fine indicated we did provide some money

Senator Mathern expressed concerns on moving ahead, solving issues and the consequences to the state of ND if more oil is produced.

Karline Fine indicated they we will look at applications in the future, every dollar has to be matched for this program.

Senator Mathern asked if we produce more oil don't we need to increase refinery capacity?

Karlene Fine stated she did not have the answer. To the extent we have identified we will try to step forward on the transportation issue.

Ron Ness, ND Petroleum Council, testified in support of SB 2051 citing a few examples on the industry in the state including the Bakken formation, the oil production rates, the of matching funds, and the ability to connect ND pipelines east and west. He indicated a number of studies have been done to look at ways to get more product out of ND. He also discussed another formation, better then the Bakken.

Senator Krauter asked if there is an oil refinery at Cushing.

The response was that the market is established at Cushing and oil is priced at Cushing.

Senator Krauter stated we are bottlenecked at Cushing, we can't do anything with it, they are loading rail cars with oil. What is going on with this?

The response was that he has not heard that Cushing reference. Our oil can't get to Cushing as it goes East.

Senator Mathern raised questions about the industry encouraging the industrial commission to move ahead with financing more research into a refinery.

The response was that no one loses more than the producer and operator. They are thinking about this every day. (16.59) More discussion has not been the problem. Issues are the long term commitment, the stability of the Bakken, the pipeline and the market consumption.

Additional discussion took place regarding the oil production and the process with the CO2 in ND production.

Chairman Holmberg closed the hearing on SB 2051.

Chairman Holmberg called the meeting back to order.

Vice Chairman Bowman moved a do pass on SB 2051. Senator Fischer seconded.

Discussion followed. A Roll Call vote was taken resulting in DO PASS with 13 ayes, 0

Nays, 1 absent. The Motion carried. The bill will go back to Finance andTax withSenator Dotzenrod will carrying the bill.

Chairman Holmberg closed the hearing.

Date: 2/10/09
Roll Call Vote #: 1

2009 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2051

Senate _____ Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken do pass

Motion Made By Bowman Seconded By Fischer

Representatives	Yes	No	Representatives	Yes	No
Senator Wardner	✓		Senator Robinson	✓	
Senator Fischer	✓		Senator Lindaas A		
V. Chair Bowman	✓		Senator Warner	✓	
Senator Krebsbach	✓		Senator Krauter	✓	
Senator Christmann	✓		Senator Seymour	✓	
Chairman Holmberg	✓		Senator Mathern	✓	
Senator Kilzer	✓				
V. Chair Grindberg	✓				

Total Yes 13 No 0

Absent 1

Floor Assignment F & Tax Dotzenrod

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

Minutes on SB 2385

REPORT OF STANDING COMMITTEE

SB 2051, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman) recommends **DO PASS** (13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). Engrossed SB 2051 was placed on the Eleventh order on the calendar.

2009 HOUSE NATURAL RESOURCES

SB 2051

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2051

House Natural Resources Committee

☐ Check here for Conference Committee

Hearing Date: 2--27-09

Recorder Job Number: 9855

Committee Clerk Signature Nancy L. Gerhardt

Minutes:

Chairman Porter – Open the hearing on SB 2051.

Ron Ness – Today I am providing the testimony for Karlene Fine – ND Industrial Commission – See **Attachments # 1 & 2**. Questions?

Chairman Porter – Further testimony in support of SB 2051? Opposition to SB 2051? Seeing none we will close the hearing on SB 2051.

Rep. DeKrey – Move Do Pass

Rep. Hofstad – 2nd.

Chairman Porter – We have a motion from Rep. DeKrey and a 2nd from Rep. Hofstad for a Do Pass. Discussion? The clerk will call the roll on SB 2051.

Yes 10 No 0 Absent 3 Carrier Rep. DeKrey

Date: 2-27-2009
Roll Call Vote #: _____

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2057

House Natural Resources Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken ☑ Do Pass ☐ Do Not Pass ☐ As Amended

Motion Made By DeKrey Seconded By Hofstad

Representatives	Yes	No	Representatives	Yes	No
Chairman Porter	✓		Rep Hanson	✓	
Vice Chairman Damschen	✓		Rep Hunskor	✓	
Rep Clark	✓		Rep Kelsh		
Rep DeKrey	✓		Rep Myxter	✓	
Rep Drovdal			Rep Pinkerton	✓	
Rep Hofstad	✓				
Rep Keiser		✓			
Rep Nottestad	✓				

Total (Yes) 10 No 0

Absent 3

Floor Assignment DeKrey

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

REPORT OF STANDING COMMITTEE

SB 2051: Natural Resources Committee (Rep. Porter, Chairman) recommends **DO PASS** (10 YEAS, 0 NAYS, 3 ABSENT AND NOT VOTING). SB 2051 was placed on the Fourteenth order on the calendar.

2009 HOUSE APPROPRIATIONS

SB 2051

2009 HOUSE STANDING COMMITTEE MINUTES

SB 2051

House Appropriations Committee

☐ Check here for Conference Committee

Hearing Date: April 8, 2009

Recorder Job Number: 11791

Committee Clerk Signature Shirley Brenning

Minutes:

Chm. Svedjan turned the Committee's attention to SB 2051.

Amendment .0301 (Attachment A) was distributed.

Rep. Skarphol moved amendment .0301. **Rep. Wald** seconded the motion. The motion carried by voice vote and the amendment was adopted.

Rep. Skarphol explained the bill as well as the fiscal note. Move a Do Pass as Amended

Rep. Wald: Second.

Rep. Nelson: What is the status of the oil and gas research fund? Are they using the money now?

Rep. Skarphol: I think they have funded a large amount of Baaken research through the EERC and along with the private sector. I think there is need for additional dollars to do additional research. Maybe OMB (Office of Management and Budget) or Legislative Council could give us a more accurate reflection of the utilization of the $3M that has been there in the past.

Allen Knudson, Legislative Council Director: We would have to work with the Industrial Commission on that.

Carlene Fine, Industrial Commission: I provided information to the Government Operations section when we testified. The entire $3M that we now have available has been committed.

Rep Wald: It hasn't been expended, but it has been requested.

Ms. Fine: There is a balance in the fund right now but, we've committed some of those projects and as they are completed we expend the dollars.

Rep. Nelson: The additional $3 million will fund more than what was mentioned in the study. Is there a waiting list for projects that are waiting for funding for research?

Ms. Fine: We have two grant rounds every year. Our next round starts June 30. Last round we could fund only part of the grant requests, so there is some demand.

Rep. Kaldor: Where would the $3 million otherwise go?

Ms. Fine: It would stay in the Oil and Gas Trust Fund (OGTF).

Rep. Delzer: We had discussion about the $3M and we did not discuss the next $3M. We are talking moving to $6M. I have a hard time supporting this.

Ms. Fine: I did not give you a list of the projects because it is a grant application process. I did give a list of projects that are funded and committed.

Rep. Delzer: Are you open for a motion? I would move $4M for $6M.

Chairman Svedjan: To amend on line # 9, $6M down to $4M, which would be a $1M increase over what goes in right now.

Rep. Glassheim: Second.

Rep. Delzer: I apologize. I don't know that we got into the results of what they were, this is a rapid expansion of this program.

Rep. Kerzman: I'm not familiar but if you go by the title, OGTF, I would think there are a lot of places where they could use these funds. Also they have been doing a study to drive some of the coal and get some of the sulphur content. With all the expansion think there would be a great need for something like this.

Rep. Skarphol: Addressing Ms. Fine: Based on your last grant round requests, do you see a need for the $6M requests or would $4M seem to be able to do what your grant requests have been? How short were you last time?

Ms. Fine: The last grant go around we had applications for $5M. We were only able to fund about $1M of that request.

Rep. Skarphol: Was that a year ago?

Ms. Fine: That was the last grant round in the fall. One was for $2M that was denied. They were large applications, one for $2M, another for $1M. There has been a growing demand. We have only had this in place since 2003.

Rep. Wald: The Baaken is producing because of the Fraccing process. That was helped but his effort. In the Fraccing process, the oil and gas research people were in involved in that and part of the reason they have done so well is because of research. I think we need to do innovative things to promote that and I would oppose the amendment.

Rep. Skarphol: I think Rep. Delzer's intent is to get this into Conference Committee. I will support the $4M for that reason.

Rep. Williams: Rep. Skarphol made a statement and I would like a response from Mr. Delzer. I think that's in order.

Rep. Delzer: I don't know that that was my thought. I would guess that the study would put it in Conference Committee as well. I don't know that that was what I was trying to do.

Chairman Svedjan: Voice vote taken on the motion. Motion carried to adopt the amendment.

Calling on a roll call vote as a Do Pass as amended on SB 2051.

Vote Taken: Yes 23 No 0 Absent 2 Motion Carried. Carrier: Chairman Skarphol.

Attachment A
4/8/09

90317.0301
Title.

Prepared by the Legislative Council staff for
Representative Froseth
March 23, 2009

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2051

Page 1, line 2, after "deposits" insert "; and to provide for a legislative council study"

Page 1, after line 14, insert:

"**SECTION 2. LEGISLATIVE COUNCIL STUDY.** During the 2009-10 interim, the legislative council shall consider studying impact and taxation issues relating to production of mineral resources in North Dakota, specifically including:

1. Development of relatively new industries for extraction and production of minerals such as uranium, potash, and other minerals not previously produced on a significant economic scale;
2. Environmental, economic, and governmental impact of mineral production;
3. Infrastructure maintenance and development relating to mineral production;
4. Employment opportunities and issues relating to mineral production;
5. Comparison of mineral tax structures in North Dakota and other states; and
6. Water supplies and demands relating to mineral production.

The legislative council shall reports it findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-second legislative assembly."

Renumber accordingly

Date: 4/8/09
Roll Call Vote #: 1

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2051

Full House Appropriations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number .0301

Action Taken adopt amendment .0301

Motion Made By Skarphol Seconded By Wald

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan					
Vice Chairman Kempenich					
Rep. Skarphol			Rep. Kroeber		
Rep. Wald			Rep. Onstad		
Rep. Hawken			Rep. Williams		
Rep. Klein					
Rep. Martinson					
Rep. Delzer			Rep. Glassheim		
Rep. Thoreson			Rep. Kaldor		
Rep. Berg			Rep. Meyer		
Rep. Dosch					
Rep. Pollert			Rep. Ekstrom		
Rep. Bellew			Rep. Kerzman		
Rep. Kreidt			Rep. Metcalf		
Rep. Nelson					
Rep. Wieland					

Total (Yes) _____ No _____

Absent _____

Floor Assignment Voice Vote - carries

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

Date: 4/8/09
Roll Call Vote #: 2/4

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2057

Full House Appropriations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number .0301

Action Taken Do Pass as Amended

Motion Made By Skarphol Seconded By Wald

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan	✓				
Vice Chairman Kempenich	✓				
Rep. Skarphol	✓		Rep. Kroeber	✓	
Rep. Wald	✓		Rep. Onstad	✓	
Rep. Hawken	✓		Rep. Williams	✓	
Rep. Klein	✓				
Rep. Martinson	✓				
Rep. Delzer	✓		Rep. Glassheim	✓	
Rep. Thoreson	✓		Rep. Kaldor	✓	
Rep. Berg	—		Rep. Meyer	✓	
Rep. Dosch	✓				
Rep. Pollert	✓		Rep. Ekstrom	—	
Rep. Bellew	✓		Rep. Kerzman	✓	
Rep. Kreidt	✓		Rep. Metcalf	✓	
Rep. Nelson	✓				
Rep. Wieland	✓				

Total (Yes) 23 No 0

Absent 2

Floor Assignment Skarphol

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

90317.0302
Title.0400

Prepared by the Legislative Council staff for
House Appropriations
April 8, 2009

VR
4/10/09

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2051

Page 1, line 2, after "deposits" insert "; and to provide for a legislative council study"

Page 1, line 9, replace "six" with "four"

Page 1, after line 14, insert:

"**SECTION 2. LEGISLATIVE COUNCIL STUDY.** During the 2009-10 interim, the legislative council shall consider studying impact and taxation issues relating to production of mineral resources in North Dakota, specifically including:

1. Development of relatively new industries for extraction and production of minerals such as uranium, potash, and other minerals not previously produced on a significant economic scale;
2. Environmental, economic, and governmental impact of mineral production;
3. Infrastructure maintenance and development relating to mineral production;
4. Employment opportunities and issues relating to mineral production;
5. Comparison of mineral tax structures in North Dakota and other states; and
6. Water supplies and demands relating to mineral production.

The legislative council shall reports it findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-second legislative assembly."

Renumber accordingly

Date: 4/8/09
Roll Call Vote #: 3

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2051

Full House Appropriations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number TBD

Action Taken subst. $6m to $4 million

Motion Made By Delzer Seconded By Glassheim

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan					
Vice Chairman Kempenich					
Rep. Skarphol			Rep. Kroeber		
Rep. Wald			Rep. Onstad		
Rep. Hawken			Rep. Williams		
Rep. Klein					
Rep. Martinson					
Rep. Delzer			Rep. Glassheim		
Rep. Thoreson			Rep. Kaldor		
Rep. Berg			Rep. Meyer		
Rep. Dosch					
Rep. Pollert			Rep. Ekstrom		
Rep. Bellew			Rep. Kerzman		
Rep. Kreidt			Rep. Metcalf		
Rep. Nelson					
Rep. Wieland					

Total (Yes) _____ No _____

Absent _____

Floor Assignment Voice Vote - Carries

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

REPORT OF STANDING COMMITTEE

SB 2051, as engrossed: Appropriations Committee (Rep. Svedjan, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (23 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). Engrossed SB 2051 was placed on the Sixth order on the calendar.

Page 1, line 2, after "deposits" insert "; and to provide for a legislative council study"

Page 1, line 9, replace "six" with "four"

Page 1, after line 14, insert:

"**SECTION 2. LEGISLATIVE COUNCIL STUDY.** During the 2009-10 interim, the legislative council shall consider studying impact and taxation issues relating to production of mineral resources in North Dakota, specifically including:

1. Development of relatively new industries for extraction and production of minerals such as uranium, potash, and other minerals not previously produced on a significant economic scale;
2. Environmental, economic, and governmental impact of mineral production;
3. Infrastructure maintenance and development relating to mineral production;
4. Employment opportunities and issues relating to mineral production;
5. Comparison of mineral tax structures in North Dakota and other states; and
6. Water supplies and demands relating to mineral production.

The legislative council shall reports it findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-second legislative assembly."

Renumber accordingly

2009 TESTIMONY

SB 2051

PROPOSED AMENDMENTS TO SENATE BILL NO. 2051

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to amend and reenact section 57-51.1-07.3 of the North Dakota Century Code, relating to oil and gas research fund deposits.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. AMENDMENT. Section 57-51.1-07.3 of the North Dakota Century Code is amended and reenacted as follows:

57-51.1-07.3. Oil and gas research fund - Deposits - Continuing appropriation. There is established a special fund in the state treasury to be known as the oil and gas research fund. Two percent of the state's share of the oil and gas gross production tax and oil extraction tax revenues, up to ~~three~~ six million dollars per biennium, must be deposited into the oil and gas research fund. The state treasurer shall transfer into the oil and gas research fund two percent of the state's share of the oil and gas production tax and the oil extraction tax revenues for the previous three months. All moneys deposited in the oil and gas research fund and interest on all such moneys are appropriated as a continuing appropriation to the council to be used for purposes stated in chapter 54-17.6.

Renumber Accordingly

OIL AND GAS TAX ALLOCATION STUDY

Background

North Dakota imposes two separate taxes on oil production--the oil extraction tax and the oil and gas gross production tax. Only under the oil and gas gross production tax are any direct revenue allocations made to political subdivisions.

Oil Extraction Tax Allocation

On November 4, 1980, the voters of North Dakota approved initiated measure No. 6 on the general election ballot and established an oil extraction tax as a companion tax to the oil and gas gross production tax that had existed since 1953. The oil extraction tax rate was established at 6.5 percent of the gross value of oil at the well.

In June 1990 the Constitution of North Dakota was amended to establish the resources trust fund as a constitutional trust fund and to provide that the principal and income of the fund could be spent only upon legislative appropriations for constructing water-related projects, including rural water systems and energy conservation programs. The constitutional provision, Article I, Section 22, of the Constitution of North Dakota, allows the Legislative Assembly to determine the share of extraction or production tax revenues which will go to the resources trust fund.

In November 1994 the voters of North Dakota approved a constitutional amendment, Article X, Section 24, of the Constitution of North Dakota, to provide that 20 percent of oil extraction tax collections be divided in equal amounts to the common schools trust fund and the foundation aid stabilization fund (used to offset any foundation aid funding reductions resulting from allotments pursuant to NDCC Section 54-44.1-12).

In 1995 the Legislative Assembly established the current allocation formula for oil extraction taxes which is 20 percent to the resources trust fund; 20 percent pursuant to Article X, Section 24, of the Constitution of North Dakota; and 60 percent to the state general fund.

Oil and Gas Gross Production Tax Allocation History

The oil and gas gross production tax was imposed in 1953 at a rate of 4.25 percent of gross value at the well of oil and gas. In 1957 the rate of the tax was increased to the current rate of 5 percent. The total net proceeds collected from the gross production tax increased from $306,000 in fiscal year 1954, to over $76 million in fiscal year 1982, and to over $104 million in fiscal year 2006. Current forecasts estimate gross production tax collections to exceed $250 million per year for the 2009-11 biennium.

From 1957 to 1981 revenue from the first 1 percent of gross value at the well of oil and gas produced was credited to the state general fund and the balance was distributed as follows:

1. Of the first $200,000, 75 percent to the producing county and 25 percent to the state general fund.
2. Of the next $200,000, 50 percent to the producing county and 50 percent to the state general fund.
3. All remaining revenue, 25 percent to the producing county and 75 percent to the state general fund.

A 1981 amendment did not change the disposition of the first 1 percent of gross value at the well of oil and gas produced which is credited to the state general fund, but remaining tax revenue from oil and gas produced in each county was reallocated as follows:

1. Of the first $1 million, 75 percent to the producing county and 25 percent to the state general fund.
2. Of the next $1 million, 50 percent to the producing county and 50 percent to the state general fund.
3. All remaining revenue, 25 percent to the producing county and 75 percent to the state general fund.

The overall effect of the 1981 amendment was to give each producing county $600,000 per year more than before 1981 if that county generated $2.5 million or more in annual gross production tax revenue.

Caps, or maximums, upon annual revenues producing counties could receive from the gross production tax were imposed in 1981 based on county population. Amounts exceeding a county cap were retained in the state general fund. Although the caps were scheduled to expire in 1983, the caps were increased by $100,000 in each population category and were extended to 1985. In 1985 the caps were made permanent at the following levels:

1. For counties with a population of 3,000 or fewer - $3,900,000.
2. For counties with a population from 3,001 to 5,999 - $4,100,000.
3. For counties with a population of 6,000 or more - $4,600,000.

Beginning in 1981, county revenues were distributed 45 percent to the county general fund, 35 percent to the school districts within the county, and 20 percent to the incorporated cities within the county. The 1981 legislation also imposed caps upon revenues that could be received by school districts and cities. School districts were limited to a maximum of 70 percent of the county per student cost times the number of students in attendance or in the school census, whichever was greater, unless the district had an average daily attendance or school census fewer than 400, in which case that district could receive up to 120 percent of the county average per student cost times the number of students in attendance or in the school census, whichever was greater. Incorporated cities were limited to a distribution not exceeding $500 per capita in any fiscal year. Amounts exceeding the caps for school districts or cities reverted to the county general fund.

In 1989 an allocation was provided of up to $5 million per biennium from the first 1 percent of oil and gas gross production tax revenues to the oil and gas impact grant fund and a continuing appropriation was provided in that amount for allocation by the Energy Development Impact Office to oil and gas-impacted political subdivisions. In 2005 the allocation for the oil and gas impact grant fund was increased from $5 million to $6 million per biennium beginning with the 2007-09 biennium.

Senate Bill No. 2178 (2007) allowed a county that reaches the annual cap on oil and gas gross production tax revenue to receive an additional $1 million in revenues if the county levies a total of at least 10 mills for county road and bridge, farm-to-market and federal aid road, and county road purposes. The additional $1 million of revenues to counties is not for allocations for political subdivisions in the county but must be credited entirely to the county general fund. Proponents of the bill said counties are experiencing increased road impact and increased road maintenance costs.

House Bill No. 1044 (2007) increased allocations to a producing county from oil and gas gross production taxes by revising the schedule for division of revenues between the producing county and the state general fund as follows:

1. The first $1 million is allocated to the producing county.
2. Of the next $1 million, 75 percent goes to the producing county and 25 percent to the state general fund.
3. Of the next $1 million, 50 percent goes to the producing county and 50 percent to the state general fund.
4. All remaining revenue is distributed 25 percent to the producing county and 75 percent to the state general fund.

The net effect of House Bill No. 1044 for a county is a potential increase in allocations to the county of up to $750,000 per year. The allocation change in House Bill No. 1044 became effective August 1, 2008.

Special Provisions Affecting State General Fund Allocation of Oil and Gas Tax Revenues

Under NDCC Section 57-51.1-07.2, all revenue deposited in the state general fund exceeding $71 million during a biennium from combined oil and gas gross production taxes and oil extraction taxes must be transferred to the permanent oil tax trust fund. Earnings of the permanent oil tax trust fund may be transferred to the state general fund at the end of each fiscal year, but the principal of the permanent oil tax trust fund may not be expended except upon a two-thirds vote of the members elected to each house of the Legislative Assembly. Because this is a statutory provision, the two-thirds vote requirement does not apply to subsequent legislative action.

Under NDCC Section 57-51.1-07.3, 2 percent of the state's share of oil and gas gross production tax and oil extraction tax revenues must be deposited in the oil and gas research fund, not exceeding $3 million per biennium. All money deposited in the oil and gas research fund is provided as a continuing appropriation to the Oil and Gas Research Council.

In 2007 the Legislative Assembly approved House Concurrent Resolution No. 3045 for placement of a measure on the state general election ballot in November 2008 to establish a constitutional permanent oil tax trust fund. If approved by the voters, the measure will require all oil and gas production or extraction tax revenue exceeding $100 million during a biennium to be transferred to the permanent oil tax trust fund. The measure would require interest earnings of the permanent oil tax trust fund to be transferred to the general fund at the end of each fiscal year. The measure would prohibit expenditures from the principal of the permanent oil tax trust fund except upon a vote of three-fourths of the members elected to each house of the Legislative Assembly and not more than 20 percent of the principal could be expended during any biennium. If approved by the voters, the measure will become effective on July 1, 2009. If the measure is approved by the voters, Senate Bill No. 2178 repeals the statutory provision for a permanent oil tax trust fund under NDCC Section 57-51.1-07.2 effective July 1, 2009.

Energy Development Impact Grant History

In 1975 the Legislative Assembly established a coal severance tax and a coal impact aid program. The Coal Development Impact Office was established within the Governor's office and was provided an appropriation of $5 million for grants to cities, counties, school districts, and other taxing districts impacted by coal development.

In 1979 the Coal Development Impact Office was moved from the Governor's office to the Board of University and School Lands. In 1981 the Coal Development Impact Office was renamed the Energy Development Impact Office and the office was authorized to provide impact grants for coal development and oil and gas development. By 1987 impact grant funding dwindled to approximately $1 million for coal and $2 million for oil.

In 1989 coal taxes were restructured and coal impact grants were eliminated. Since 1989 oil impact grants

have been administered by the Energy Development Impact Office under a continuing appropriation of $5 million per biennium for grants. Under 2007 legislation the continuing appropriation for oil impact grants was increased to $6 million per biennium.

Committee Consideration

The North Dakota Association of Oil and Gas Producing Counties commissioned a study by an NDSU research scientist to identify oil and gas impact costs to producing counties. The study attempted to isolate local government costs attributable to oil and gas development and exclude consideration of the normal cost increases of local government which are experienced by all political subdivisions. The study identified increased workloads and costs for general county offices and county road departments. The study concluded that the total general county office impact costs and county road impact costs attributable to oil and gas impact falls within a range of $36.9 million to $45.2 million per year.

The committee heard a substantial amount of testimony from local government officials from the oil and gas impact area. Local officials described the many kinds of increased costs to local government from oil and gas development impact, not the least of which is that it is difficult for local government to attract and retain employees because salaries offered by local government are not competitive with salaries offered in the oil industry.

The Department of Transportation provided information on extraordinary road and bridge impact costs. The drilling rig count in North Dakota is at a level that has not been seen since about 1983. Oversized vehicle permits issued by the department increased more than 16 percent from 2006 to 2007. The department estimated truck movement associated with oil and gas production at a daily average of 4,575 truckloads. The total of materials and equipment needed at the site of a vertical well is 400 truckloads and for a horizontal well the total is 600 truckloads to 1,000 truckloads. In addition to equipment hauled to drilling sites, oil, water, and equipment must be hauled away from drilling sites. Trucks haul approximately 65 percent of oil production, while pipelines carry approximately 35 percent of oil to refineries. Saltwater recovered in drilling operations must be disposed of, and approximately 35 percent is hauled by truck totaling more than 23,000 truckloads per year.

The number of oil drilling rigs in the state has been on a steady increase during 2007 and 2008. Horizontal wells in the Bakken Formation took an average of 65 days to complete in 2007 and the industry has reduced the drilling time to an average of 29 days for those wells in 2008. The Department of Mineral Resources expects that before the activity in current drilling areas is completed, every section of land in Dunn County and Mountrail County will have an oil well on it. The department expects the trend in drilling activity will be for drilling permit areas to move north and west from Mountrail County, and that Burke County and Divide County will probably be the next areas of extensive oil exploration. As oil production increases and the production areas expand, a growing level of impact will be experienced by a greater number of counties.

The committee reviewed the details of the oil and gas impact grant rounds conducted in 2007 and 2008. In 2007, 377 grant requests were received requesting a total of more than $40 million. The total amount requested was inflated by a request for $17.4 million from Williams County for a combined law enforcement and correctional center. The total amount awarded for all grants in 2007 was $2,471,000, which was the full amount available. Almost half of the amount awarded in 2007 went to townships for township road impacts because townships receive no direct allocation of oil tax revenues.

In 2008, 376 grant requests were received totaling $29.1 million. The Energy Development Impact Office awarded 265 grants totaling $3 million to 241 political subdivisions. Over 75 percent of grant funds were allocated to transportation projects and over 17 percent went to support fire protection services. Disqualifying factors applied in evaluating grant applicants include a large cash balance on hand, a low mill levy, or large amounts of unused grants from previous years.

The committee obtained fiscal information on removing statutory caps on oil and gas gross production tax allocations to counties and to the impact grant fund. Removing caps on statutory allocations of revenue to producing counties would reduce state general fund or permanent oil tax trust fund revenue by $42 million per year. Most of the benefit of increased revenues to counties would be received by Bowman and Mountrail Counties, which would receive a combined total of $30 million per year additional revenue. Eliminating the $6 million cap on deposits in the oil and gas impact grant fund would increase revenues to the impact grant fund by $28.4 million per biennium, with a corresponding reduction in permanent oil tax trust fund revenue. Impact funding is viewed as a critical component of funding for political subdivisions because such funding is targeted to areas of demonstrated impact need that is not adequately addressed by direct allocations.

Recommendation

The committee recommends Senate Bill No. 2051 to eliminate statutory caps on oil and gas gross production tax allocations to counties and to eliminate the cap on allocations to the oil and gas impact grant fund.

North Dakota Association of Oil & Gas Producing Counties

SB 2051

Senate Finance and Taxation Committee

January 20, 2009

9 AM

In Support of SB 2051

Good morning, Mr. Chairman Cook and members of the Senate Finance and Taxation Committee. My name is Vicky Steiner. I am the Executive Director of the ND Association of Oil and Gas Producing Counties. I live in Dickinson.

Senate Bill 2051 fixes an on-going problem. The 5% oil and gas gross production tax has been strapped down with caps. Inflation has eaten away at the numbers and the formula hasn't been significantly adjusted for 20 years.

On page one in the first section, that strike out removes the $6 million biennium cap from the impact fund. That cap has only been adjusted once. In 1991, the cap was set at $5 million but the law was actually passed in 1989, taking effect July 1, 1991.

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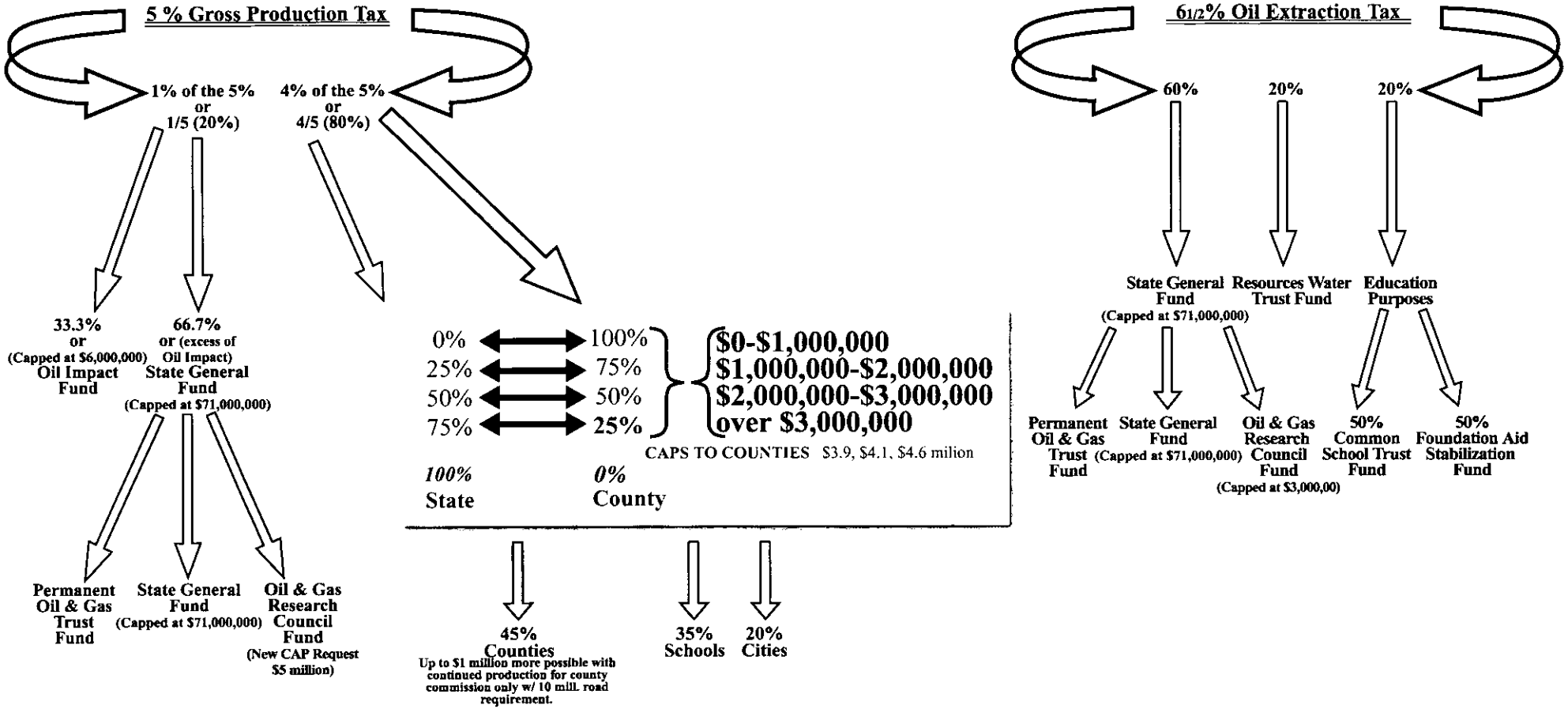
But more importantly, the county production caps are removed. Our priority this session is to see the removal of these caps. They don't make sense. This is critical to the oil and gas industry and the larger oil producing counties because these counties need to maintain infrastructure. (See chart 5% diagram).

This Association completed a study of damages with NDSU one year ago. The results showed an estimated $90 million in impacts. I've attached that study for your information. The case is solid. The state has a responsibility to these counties because the 5% oil and gas gross production tax is "in lieu of property taxes". The counties are not permitted to apply property taxes as other wealth is in the rest of the state. The intent of the 5% oil tax in the early 50's was to provide dollars back so local governments wouldn't suffer from the industry in their backyards. That intent is not being met today.

The fiscal note is a reasonable state investment back into the economic engine of the state. Of the $1.2 billion surplus, $800 million was generated by this incredible industry. Out of $800 million dollars, $36.6 million can be re-invested into the largest counties. Their communities deserve to be treated fairly. There are hundreds of great ideas in fiscal notes all over the Capitol, but this fiscal note is part of

the 30 year infrastructure that will be needed to develop not only the Bakken or Three Forks oil but new oil plays in other counties. Thank you and I am happy to answer your questions.

Oil Taxes
2009



Caps adjusted for inflation-1983
$7.8 $8.2 $9.2 million

Office of State Treasurer
FY 2008 Oil Tax Distribution
$ 395,017,182.77

Gross Production
$ 212,743,947.81

20% — **42,548,789.56**

Oil Impact	General Fund	Permanent Oil
6,000,000.00	12,244,290.42	24,304,499.14

80% — **170,195,158.25**

State Share 125,986,419.43

General Fund	Permanent Oil	Research Fund
27,059,429.93	97,217,996.56	1,708,992.94

O & G Counties 44,208,738.82

Counties	Schools	Cities
22,357,340.56	14,073,058.59	7,778,339.67

Oil Extraction
$ 182,273,234.96

60% — State Share 109,433,817.19

General Fund	Permanent Oil	Research Fund
31,696,279.65	76,446,530.48	1,291,007.06

20% — Resources Trust 36,419,708.87

20% — Education 36,419,708.90

Permanent Education	Foundation Aid
18,209,854.45	18,209,854.45

Oil Impact	State General	Resources Trust	Counties	Schools	Cities	Permanent Oil	Research Fund	Permanent Education	Foundation Aid
	31,696,279.65	36,419,708.87				76,446,530.48	1,291,007.06	18,209,854.45	18,209,854.45
6,000,000.00	12,244,290.42		22,357,340.56	14,073,058.59	7,778,339.67	24,304,499.14	1,708,992.94		
	27,059,429.93					97,217,996.56			
6,000,000.00	71,000,000.00	36,419,708.87	22,357,340.56	14,073,058.59	7,778,339.67	197,969,026.18	3,000,000.00	18,209,854.45	18,209,854.45
2%	18%	9%	6%	4%	2%	50%	1%	5%	5%

Effects of Petroleum Industry Activities on Cost of Providing County Government Services in North Dakota

Report prepared for
the North Dakota Association of Oil and Gas Producing Counties

Submitted by
Dean A. Bangsund
F. Larry Leistritz

July, 2008

Acknowledgments

Two individuals were helpful in providing data and information used in this study. Our appreciation and thanks are extended to:

Vicky Steiner, ND Association of Oil and Gas Producing Counties
Dan Brosz, Brosz Engineering Inc., Bowman, ND

The authors also wish to recognize the efforts of the county government officials who took the time to complete the survey. Without support and cooperation from those individuals, this study would not have been possible.

The authors assume responsibility for any errors of omission, logic, or otherwise. Any opinions, findings, or conclusions expressed in this publication are those of the authors and do not necessarily reflect the views of the ND Association of Oil and Gas Producing Counties.

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Introduction

Western North Dakota has been experiencing a boom in oil and gas activity in recent years. The history of oil production in North Dakota can be characterized by periods of boom and decline. Commercial oil and gas production in the state did not start until the mid 1950s. Shortly after oil production began, oil production in the state increased substantially until the mid 1960s. The late 1960s and most of the 1970s saw a slow decline in oil production. Starting in the late 1970s, oil production again began to increase, and this upturn resulted in a substantial change in the level of petroleum activities in the state.

The oil boom of the early 1980s has been well documented, and peak oil production in the early 1980s remains the milestone against which subsequent production has been measured. Consistent with cycles of boom and bust, oil production in the state precipitously declined in the 1980s, and increased again in the mid- to late-1990s. However, the rapid increase in production in the late 1990s quickly subsided, and production again declined for several years.

The current boom in oil activity started in the early 2000s. Current production in North Dakota now exceeds the all time production highs found in the early 1980s. While a number of factors have lead to the latest boom in oil production, the increase in the petroleum sector is not limited to an increase in oil flow or gas output. All phases of the petroleum sector have seen tremendous increases in activity levels. For example, the number of drilling rigs, often a measure of the level of exploration, has gone from under 20 in 2003 to around 70 in May of 2008.

Historically, periods of increasing and decreasing oil activity have occurred in nearly all of the oil producing counties in North Dakota. The nature of oil exploration and production are driven by a complex set of factors, many of which are related to technology and the ability to discover and extract oil and gas from new geologic formations. The current oil boom is no exception. Advances in drilling technologies, increased oil prices, and the ability of companies to target new oil reservoirs is readily apparent in the oil activity in North Dakota. While increases in oil activity are up throughout the oil producing region in ND, much of the increase in activity is associated with the Bakken formation. Much of this increase in oil exploration and production related to the Bakken formation is occurring in counties that historically have had very little oil activity.

Increases in oil exploration and production have impacts on local infrastructure (e.g., roads) and the provision of governmental services (e.g., law enforcement). Some counties (e.g., Billings County) have gone through the boom/bust cycles of oil activity, while other counties (e.g., Mountrail) are experiencing those changes for the first time. As a result, the ability to manage those changes are not necessarily equal among county governments, nor are the resource bases (e.g., personnel, funding) equal among all counties affected by changes in the oil production.

Oil industry activities can create challenges for small, rural governments to handle the increased demands on the provision of government services and maintenance of local infrastructure. The state recognized those issues many decades ago, and dedicated a portion of the gross production tax collected from oil and gas production to be returned to local

governments. It is often debated whether the level of tax re-distribution from state collected taxes is sufficient to offset local costs of providing government services. An additional consideration is that counties that have had small amounts of oil production in the recent past are not positioned to receive revenues to fund the cost increases associated with recent spikes in oil exploration. This is precisely the problem in some areas of ND that are now experiencing substantial increases in oil industry activity which puts a burden on government services before revenues from oil production can be redistributed. Still additional concerns exist on whether limits on revenue re-distribution are adequate to compensate local governments for additional costs.

Project Scope

The overall goal of this study was to examine how recent increases in oil and gas exploration and production have affected the cost of providing county government services in North Dakota. The interim legislative taxation committee, beginning in early 2008, sought information on how oil production and exploration have impacted the costs of providing government services. Through a separate process, cities and school districts have assessed their cost increases. This study was designed to provide insights on how increased oil and gas activity has affected the provision of county government services. These cost assessments will be used to address potential changes to the oil impact fund or other measures that may assist local governments in areas of high oil and gas activity.

Data Sources and Procedures

A survey of county governments in 16 oil and gas producing counties in North Dakota was conducted in February, 2008. The distribution of survey materials (i.e., questionnaires, cover letters) was conducted by the North Dakota Association of Oil and Gas Producing Counties.

The survey was comprised of two separate questionnaires: one questionnaire was developed for road departments and another for all other county offices (Appendix). Copies of the questionnaires were mailed to each county auditor, with instructions for the county auditor to distribute the questionnaires to offices/departments in the county. Each office was then responsible for filling out the questionnaire and returning it to the Auditor's office.

The survey was designed to solicit information on how increased oil and gas activity in the county affected the various county government departments/offices. For the non-road departments, a series of questions were structured to determine 1) if an increase in oil and gas activity has led to an increase in the provision of services by the county office, 2) what the office or department has done to handle the increased work load, 3) the change in the cost of providing services for the department over the past year, 4) the specific reasons for an increase in costs, and 5) if the office or department has been able to offset cost increases with additional fees or revenues. For the road departments, a separate questionnaire was developed to track the costs of maintaining roads impacted by oil and gas activity. The design of the questionnaire was to determine the cost of maintaining county roads in areas of oil and gas exploration and

production, and compare those costs to the costs of providing similar services on roads in the county that were not impacted by oil and gas activities. In most counties, oil and gas activities do not affect county roads equally throughout the county.

The sample size for the survey approximates a census of county governments affected by oil and gas activity in ND. However, due to less than 100 percent participation by all counties and departments, the survey represents a sample of county government offices in the counties affected by oil and gas activity. Since the survey represents a sample of counties affected by oil and gas activity, it was necessary to extrapolate survey information to project a cost estimate for all oil and gas producing counties. The techniques used to extrapolate the survey information to generate estimates of the changes in costs of providing county government services are presented and discussed in following sections.

Results

Petroleum exploration and extraction in North Dakota has been expanding for several years. Two key measures of identifying changes in the level of oil industry activity are oil production and drilling activity. Oil production in December of 2005, 2006, and 2007 was compared among the oil producing counties in North Dakota. Comparisons of oil output in December were used as a proxy for annual output in each county. Despite tremendous increases in statewide oil production since 2005, increases in oil production have not been uniform across all oil-producing counties (Table 1). In absolute (i.e., barrels per month) and in percentage terms from 2005 through 2007, the change in oil output has been greatest in Mountrail County. Dunn County has also seen a substantial increase in oil output since 2005–a 146 percent increase. Bowman and Williams Counties have also had substantial increases in monthly oil production from 2005 to 2007, although those increases do not represent as large of a percentage change as found in Mountrail and Dunn Counties.

From 2005 to 2007, oil production in the state went from 35.7 million barrels to over 45 million barrels. In percentage terms, statewide oil production increased 26 percent in two years. Drilling statistics also mirror the same level of changes in oil activity in the state. Total drilling rigs in the state were 33 in January of 2006, compared to 53 in December of 2007. Drilling rigs in North Dakota in May of 2008 were 71 (Department of Mineral Resources 2008). Total producing oil wells in the state increased from an average of 3,391 in 2005 to 3,759 in 2007. Clearly, if measured by oil production, drilling activity, and producing wells, the petroleum industry has undergone tremendous increase in activity in the state in the past two years.

Evidence throughout western ND indicates that the petroleum industry is having a substantial effect on local governments, local economies, labor force, housing, and other economic and social institutions. The provision of government services is part of the fabric of effects felt in many areas of western North Dakota.

Table 1. Change in Oil Production, by County, North Dakota, 2005 through 2007

County	December Oil Production (barrels)			Percentage Change		
	2005	2006	2007	2005 to 2006	2006 to 2007	2005 to 2007
Billings	377,779	418,448	387,507	10.8	-7.4	2.6
Bottineau	181,249	168,327	145,420	-7.1	-13.6	-19.8
Bowman	1,318,821	1,475,596	1,480,079	11.9	0.3	12.2
Burke	63,676	71,862	78,465	12.9	9.2	23.2
Divide	53,994	64,288	65,017	19.1	1.1	20.4
Dunn	75,870	102,570	187,019	35.2	82.3	146.5
Golden Valley	78,814	68,951	54,330	-12.5	-21.2	-31.1
McHenry	1,983	2,271	2,339	14.5	3.0	18.0
McKenzie	463,505	499,217	540,479	7.7	8.3	16.6
McLean	4,273	3,221	3,115	-24.6	-3.3	-27.1
Mountrail	21,247	59,802	204,569	181.5	242.1	862.8
Renville	60,651	64,070	65,090	5.6	1.6	7.3
Slope	47,359	59,350	38,004	25.3	-36.0	-19.8
Stark	175,277	151,078	132,059	-13.8	-12.6	-24.7
Ward	4,917	5,291	4,286	7.6	-19.0	-12.8
Williams	292,721	342,859	388,164	17.1	13.2	32.6

Survey Response

Response to the survey appears to be representative of the counties affected by oil and gas activity in North Dakota. Some response was obtained from 14 counties. Only Bottineau and Ward Counties did not respond. Response across departments was also representative. A total of 53 departments in 14 counties provided useable responses to the written questionnaire. An additional six road departments filled out the road cost questionnaire, but did not complete the written departmental questionnaire. Combining responses to both questionnaires, a total of 59 useable responses were obtained.

A survey response rate is difficult to estimate. First, it is unknown how many of each county's offices/departments received a questionnaire. Offices that never received a questionnaire should not be included in estimating a survey response rate. Second, some

counties share certain offices/officers with neighboring counties, although both counties list the office. Finally, how many of a county's functions should the study include? Should the job development officer be considered equally with the county auditor? Should the county library be counted the same as the sheriff's department? Not all counties have the same number of offices, although nearly all have the primary county offices (e.g., auditor, treasurer, sheriff, etc.). Based on the offices that did respond to the survey, this study estimated that there were 176 departments/offices in the 16 counties. Specifically, the offices included in the study were auditor, treasurer, recorder, clerk of court, states attorney, sheriff, road/highway, social services, emergency services, tax equalization, extension, and veterans services. Many miscellaneous offices/functions/services were not included. The most common services/offices not included were library, fair, coroner, council on aging, and parks or recreation. Based on the above definition of 176 offices in the 16 counties, the overall response rate for the survey was just over 30 percent.

Responses across all county offices were not uniform, but reasonably balanced (Table 2). Collectively, the offices of sheriff, auditor, register of deeds, and roads/highways represented over half of all responses (36 of 59 total responses).

Table 2. Survey Responses by County Department, Oil and Gas Producing Counties, North Dakota, 2007

County Department	Number of Responses	Percentage
Auditor	7	11.9
Sheriff	9	15.3
Treasurer	4	6.8
Register of Deeds	7	11.9
Social Services	4	6.8
States Attorney	2	3.4
Clerk of Court	4	6.8
Tax Equalization	4	6.8
Emergency Services	2	3.4
Highways/Road	13	22.0
Miscellaneous[a]	3	5.1
Total Responses	59	100.0

[a] Included janitorial, weed control, and job development.

Survey Results

Instructions for interpreting the questions on the survey were very specific. County officials were asked to only answer the questions with respect to how increases in oil and gas activity in their county have affected their office over the past 12 months. The importance of only considering the effects of increased oil industry activity was stressed in the instructions and in the wording of all questions since many factors could influence the cost of delivering county services.

The first issue on the questionnaire dealt with workload for the county office (Appendix). Specifically, the first question asked if the county office has experienced an increase in services provided or a change in workload due to increases in oil and gas activity. A total of 53 offices answered the question. Forty-two of the 53 total responses (79 percent) indicated that county office workloads had increased over the past year due to increases in petroleum industry activities (Table 3).

Table 3. Responses to Changes in Workload for County Offices, Oil and Gas Producing Counties, North Dakota, 2007

Has increased oil industry activities increased county office workloads?	Number of Responses	Percentage
Yes	42	79.2
If yes, how has office dealt with increased workloads?		
added additional staff	15	na
more hours for existing staff	30	na
purchased additional equipment	18	na
outsourced some of the work load	3	na
other (write-in) responses	24	na
No	10	18.9
Don't Know	1	1.9
Total Responses	53	100.0

If the office experienced an increase in their workload due to changes in the level of oil and gas activities in the county, the office was then asked to identify what measures were taken to handle the increased workload . Of the 42 offices that experienced an increased workload, 15 offices added additional staff, 30 offices were requiring staff to work more hours, 18 offices

purchased additional equipment, 3 offices outsourced some of the work, and 24 offices described other measures (Table 3). (Note: offices could select more than one option so multiple responses were possible). In most cases, the 24 write-in responses to the question were mostly comments about the work load and represented a re-iteration of some variation of the prior options. However, several departments did indicate work priorities and schedules were adjusted to accommodate oil activity requests.

County offices were subsequently asked if increased activities in the petroleum industry changed the cost of providing public services. Since a number of factors might affect the costs of delivering public services and since some of those factors may not be tied to the amount of public services (e.g., escalating wage rates, other input costs), the question was not conditional on changes in office workload. Alternatively, there was no requirement that the county office must have experienced an increased workload to have incurred increased costs.

Forty-two departments indicated that they have experienced an increase in office workload due to increases in petroleum industry activities in their county. Twenty nine of those 42 departments (69 percent) indicated that costs of providing services had increased (Table 4). One department reported costs had increased even though their workload had not changed. If the number of departments that indicated an increase in costs is compared to the total number of survey responses, about 57 percent (30 offices out of 53 responses) of all county offices experienced an increase in costs in the last year due to expanded oil and gas activity in their county.

Table 4. Survey Response to Change in Costs of Providing County Services, Oil and Gas Producing Counties, North Dakota, 2007

Change in Workload (n)	Increase in Costs (n)
Yes (42)	Yes (29)
	No (10)
	Don't Know (3)
No (10)	Yes (1)
	No (9)
Don't Know (1)	Don't Know (1)

The question regarding if the office or department has experienced an increase in costs also contained a statement that asked for an estimate of the change in costs over the past 12

months. Only 24 of the 30 departments that indicated that costs had increased gave an estimate of the actual cost increase. The 6 offices that did not report the actual increase just omitted that portion of the question. Of the 24 departments that provided an estimate of the cost increase, 5 were highway departments. Thus, 19 of the 24 general county departments provided a cost estimate. All of the 6 highway departments that filled out the general questionnaire (see Appendix) also provided estimates of cost increases. However, the survey was designed so that cost changes to the county highway/road departments would come from information obtained in the road cost questionnaire instead of the general office questionnaire.

The cost increase over the past year for the 19 general departments (i.e., providing an estimate of the increase) was $697,600 or $36,716 per office (Table 5). An additional question was also provided to determine, for those county offices that experienced a cost increase, had the office been able to offset any of the cost increase by charging higher fees or adding new revenues over the same period. Of the 19 general offices that reported cost increases, only 2 of those offices (10.5 percent) reported offsetting some cost increases with higher fees or new charges. The amount of the offset for those 19 offices was $75,500 or 10.8 percent of the total reported cost increase. Recalculating the cost increase to include revenue offsets, the average net cost increase per county office (non-road) was estimated at $32,742 over the last year.

Table 5. Estimates of Cost Increases by County Offices, Oil and Gas Producing Counties, North Dakota, 2007

Has the cost of providing county services changed as result of increased petroleum industry activity (n)	Survey respondents providing an estimate of the increase in costs (n)	Classification of county office providing cost estimates (n)	Average per-office cost increase over the past 12 months for those offices reporting cost increases[a]
Yes (30)	Yes (24)	General offices (19)	$36,716
		Road departments (6)	not used
	No (6)	General offices (6)	na
		Road departments (0)	na
No (19)	na	na	na
Don't Know (4)	na	na	na

[a] Cost estimates do not include offsetting revenues. Increases in road costs were derived from the road cost questionnaires.
na–not applicable.

The issue of revenue collection for counties is much too complex to fully explore given the time and resources available to this study. A few caveats are presented here, even though the topic is largely outside the scope of this study. Counties receive revenues from a multitude of sources, and the effects of increased oil activity can influence those revenues in many forms. Property values can be bid up, which can increase the tax base, but also increases the tax paid by county residents–some of which can be used by counties. However, in those cases, without offsetting changes in tax rates, the burden of increased costs falls on the residents of the counties; individuals who may or may not benefit from an increase in petroleum industry activities. While the county offices were asked in the survey to indicate if they had increased fees or added new charges to offset costs, most county offices do not and probably can not look to fees/permits/fines or other collections as a means to offset costs. Again, some of those increases would fall on county residents. Counties do receive a share of the Gross Production Tax, and those revenues can increase with changes in oil production and value, but the dollar value of those transfers is limited by state statutes. In some isolated cases, oil companies have made direct financial contributions to counties in an effort to assist in offsetting some road development and maintenance costs. However, those contributions can not be considered a reliable source of revenue for county governments since those situations are rare and are obviously not made equally by all companies to all counties in western ND. So, despite reports of assistance directly from oil companies, private financial assistance cannot be expected to address the larger issues of county-wide increases in the cost of providing public services. Essentially, the rapid increase in costs of providing public services presents real problems for most county governments in western North Dakota.

The net cost increase for the general county offices, based only on those that indicated they had incurred cost increases, was estimated to be over $32,000 per office per year. The scope of the study prevented the survey from collecting information on each county's operating budget or other related issues. Thus, due to a lack of data, it is problematic to put the reported cost increases in perspective to the size of operating budgets. Besides, those percentages would be of little assistance in estimating a collective assessment of cost increases. The survey did ask for county offices to indicate the reasons for increases in operating costs due to increased oil activity. In other words, if they actually incurred an increase in costs, what items were paid for with those increased expenditures.

Of the 30 county offices that reported cost increases, 28 of those offices answered the survey question regarding what the increased expenditures represented. The most common reason listed (25 out of 28 offices) was the purchase of additional supplies and inputs (e.g., office supplies, communications, fuel, computer services, etc.) over what the office would normally require/use (Table 6). The next most cited reason (21 out of 28 offices) was that the office needed to purchase/lease/acquire additional equipment and/or upgrade existing equipment sooner than expected. Following closely with 20 of the 28 offices was increased expenses for additional hours worked by staff. The following reasons were reported with similar frequency (about 10 of the 28 offices)--costs increased due to higher number of customers/clients/people serviced, hired additional full-time staff, and increased the wage rates for existing staff. Hiring part-time employees and incurring additional training/recruitment expenses had the lowest frequency among the reasons cited (Table 6).

Each county office, on average, listed over four reasons why the office had increased expenditures. Clearly, the increase in costs is not due to just one type of expenditure or just one area of operation. Increase in labor costs from both an increasing wage rate and additional hours, increased use of inputs and supplies, and additional equipment/capital purchases were all common areas where county offices incurred additional expenses.

Table 6. Reasons for Increases in Operating Costs due to Increased Oil Activity for County Offices, Oil and Gas Producing Counties, North Dakota, 2007

Specific Reasons for Cost Increases	Number of Responses	Percentage[a]
Increased use of supplies and inputs (e.g., computer services, paper, communications)	25	89.3
Purchase/lease/acquire additional equipment, upgrade existing equipment sooner than planned	21	75.0
Increased hours for existing personnel	20	71.4
Hiring additional full-time employees	12	42.9
Increased wage rates for office personnel	11	39.3
Increased number of customers/clients, servicing a larger population base, more applicants for county programs	10	35.7
Increased training and recruitment expenses due to additional hiring and employee turnover greater than normal	8	28.6
Hiring additional part-time employees	5	17.9
Other reasons[b]	10	35.7

[a] Represents the frequency reported for that reason divided by the 28 total responses to the question. Percentages will not total to 100 due to multiple answers.

[b] Some of the other reasons included additional meetings, more building cleaning and maintenance, converting old and existing records to electronic formats, handling specialized requests from landmen, increased travel for county officers.

Cost Projections

Survey responses were used to develop projections (estimates) of the increased costs of providing county services for all 16 of the oil and gas producing counties. Several approaches were considered. Road departments were considered separately from all other county offices.

General Offices

The first approach considered in forecasting cost increases to all oil and gas producing counties in ND would be to use survey responses for a specific office (e.g., auditor) and apply the survey average cost increase to that county office in all 16 counties. After a cost estimate was generated for each office, that cost increase would be summed for all of the offices, thereby providing an overall estimate of the cost increase in each county. In order for this approach to work, the survey average for each individual office would need to be representative of oil and gas activity effects on that office across the 16 oil and gas producing counties. For some offices (e.g., auditor, sheriff), survey responses are representative of the effects of increased oil and gas activity on the cost increase for that particular office because responses were collected from a large number of counties (i.e., in some cases over 50 percent of affected counties). However, for other offices, too few survey responses were available to place sufficient confidence that the survey results would be representative of the cost increases for all counties (see Table 2). In examining the number of survey responses by office it was clear that too many offices had too few survey responses for this approach to provide reliable projections of cost increases for just individual county offices.

An alternative approach would be generate an average cost per office by using all survey responses, regardless of the county or type of office represented by the response. In this approach, the cost increases for auditor, treasurer, sheriff, and all the other county offices responding to the survey would be averaged into single per-office estimate, and then applied to each county based on the number of offices in that county. A key drawback to this approach is that the impacts or effects of oil activities are implicitly treated equally across all counties. This assumption may not be a problem if proportionally equal numbers of responses came from counties with high oil and gas activity and from counties with more moderate oil and gas activity. Unfortunately, the impacts of the petroleum industry on the cost of providing county government services are not equal among the 16 counties, nor are the number of survey responses equal among the counties. The counties with substantial changes in oil and gas activities in the past few years accounted for the majority of survey responses. All things equal, the counties having the most trouble dealing with recent increases in oil and gas activities are perhaps the ones that would be most willing to respond or participate in the survey.

To correct for the problem of treating all counties equally, survey responses were stratified based on the level of change in petroleum sector activities within the county in the past two years. Survey responses were divided into 1) counties which have had the most change in oil output, both in absolute and percentage terms and 2) counties that have experienced more moderate changes in petroleum sector output in the last two years. Billings, Bowman, Dunn, McKenzie, Mountrail, and Williams Counties were considered high impact counties, based on

changes in oil exploration and extraction in the past two years (see Table 1). The remaining 10 counties were considered moderate impact counties.

For each county group, an average net (costs less increases in fee revenues) cost increase was estimated for all general offices that provided a cost estimate (some offices indicated that costs had increased, but provided no dollar estimate). It was assumed that offices that indicated they had experienced a cost increase, but did not provide a monetary estimate of the cost increase, would have a cost increase that was equal to the average per office cost increase. The number of offices indicating a cost increase was then multiplied by the average cost increase per office. The total dollar amount of the cost increases were then divided by the total number of offices responding, less the number of offices that provided 'do not know' responses to the question of having a cost increase. By dividing the total cost estimate by the total number of offices responding to the survey (less the 'do not know' responses), an average cost increase per office was estimated. The end result is an average cost increase that takes into consideration that some county offices did report a cost increase. The final average cost increase per office can be multiplied by the number of offices in the county group to project total cost increases for those counties (Table 7).

Road Departments

Estimating the cost increases incurred by county road departments due to increases in oil and gas exploration and production is somewhat complex. All county road departments, throughout the state, have incurred increases in their operating costs from increases in the price of basic inputs (e.g., gravel, fuel, labor) and from escalating equipment expenses (e.g., tires, lubrication, price of new equipment). Therefore, operating costs for county road departments will increase even when traffic patterns or traffic volumes do not change. However, the petroleum industry has tremendous effects on traffic volumes and traffic patterns on rural roads within areas where the industry is actively exploring or currently producing oil and gas. The key issue in this study was to identify how changes in oil and gas exploration and extraction affected the operating costs for county road departments and avoid including within those operating costs any increases in expenses that are not linked to the petroleum industry's use of rural roads.

The road cost questionnaire, developed by Dan Brosz of Brosz Engineering in Bowman, was designed to separately collect cost information for county roads that are impacted and roads that are not impacted by oil and gas activities. Two separate forms were developed. County road departments were instructed to complete both an impacted road form and a non-impacted road form (see Appendix for road cost forms). The goal was that information from both forms would be used to estimate the cost effects of oil and gas activities on county road departments.

Table 7. Projections of the Change in Costs of Providing County Government Services (Excluding Road Departments) Due to Changes in Oil Industry Activities, North Dakota, 2007

Forecasting Step/Explanation	Survey Responses	Cost Estimates
	<u>High Impact Counties</u>[a]	
Average of the net cost increase reported per county office		$35,777
Number of county offices providing a monetary increase	13	
Number of county offices reporting a cost increase	18	
Number of county offices multiplied by average cost increase		$643,985
Number of county offices indicating no cost increases	8	
Number of county offices with useable responses	26	
Average net cost increase across all county offices		$24,769
Estimated number of county offices in high impact counties	67	
Estimated increase in county government costs		$1,659,000
	<u>Moderate Impact Counties</u>	
Average of the net cost increase reported per county office		$27,417
Number of county offices providing a monetary increase	6	
Number of county offices reporting a cost increase	7	
Number of county offices multiplied by average cost increase		$191,917
Number of county offices indicating no cost increases	11	
Number of county offices with useable responses	18	
Average net cost increase across all county offices		$10,662
Estimated number of county offices in high impact counties	105	
Estimated increase in county government costs		$1,120,000
Total cost increases in all counties, all general county departments		$2,779,000

[a] High impact counties were Billings, Bowman, Dunn, McKenzie, Mountrail, and Williams.

The survey solicited per-mile costs, frequency of need, and miles of need for most road maintenance, repair, and construction operations performed by county governments (Table 8). Snow and ice maintenance, ditch mowing, and weed control were not included in the survey. The frequency of county road operations, on a per-mile basis, was included to provide an indication of how often each road maintenance or construction activity was performed relative to the number of miles in the county (see Appendix). Obviously, not all activities on every road would be expected to occur each year, so the frequency of some road operations would, on a per-mile basis, be less than the total miles of roads in the county. Yet other road operations, such as blading gravel roads, occur several times per month, and so would represent a level of need substantially greater than the total miles of roads in the county.

To arrive at an estimate of the cost to the county for performing each type of road operation, the number of miles of need for the next three years for each road operation was multiplied by the per-mile cost. The total costs to the county for all of the road operations were then summed. Miles of need, determined by the county, was a function of how often (frequency) that road operation was required and the total miles of that road type in the county. If completed properly, the questionnaire accounted for the per-mile costs for various county road operations, accounted for the frequency at which those operations were needed, accounted for the number of miles requiring those operations in the next three years, and collected that information separately for impacted and non-impacted roads. The road forms were designed to provide for a direct comparison of the cost of maintaining roads impacted by oil and gas activities and the costs of maintaining roads that were not impacted by oil and gas activities.

Two issues arose with regards to the survey of county road departments. Unfortunately, comparing the total costs of maintaining oil impacted roads with the costs of maintaining roads not affected by oil and gas does not provide the true measure of the impact of oil and gas activities on county road departments. The second issue was that several counties only filled out the impacted roads form.

In the first issue, what is needed is the amount of additional expense in road maintenance caused by oil and gas activities. Stated alternatively, the correct figure is the net cost increase on impacted roads, not the total cost of maintaining those roads or the difference in total costs between impacted roads and non-impacted roads. In the absence of oil and gas activities, the county would still need to maintain all roads in the county. Thus, the correct assessment was to estimate the maintenance cost on the impacted roads, assuming a per-mile cost and frequency of need similar to that of the non-impacted roads, and then subtract those costs from the estimated cost on the impacted roads to arrive a net cost to the county. The above approach is the reason why only returning the impacted road form created problems for determining the net costs of oil and gas activities on road operations.

Table 8. County Road Repair, Maintenance, and Construction Activities Contained in the Road Cost Survey, Oil and Gas Producing Counties, North Dakota, 2007

Maintenance Operations
Asphalt Overlay (1.5 inch or less)
Asphalt Chip Seal (labor, chips, oil)
Asphalt Repair (cold mix, patching, crack sealing)
Blading Gravel Roads (equipment, fuel, labor, repairs)
Gravel Surface Repairs (spot graveling, 2 inch lift or less)
Reconstruction Operations
Mine and Blend Rehab (milling, 0-2 inch asphalt, chip seal, loading, hauling, laying)
Asphalt Surface Treatment (3 inch or greater asphalt & chip seal, loading, hauling, laying)
Asphalt Overlay (milling, 2-3 inch overlay, loading, hauling, laying)
New Hot Bit Paving (3-5 inch new pavement)
Gravel Resurfacing (3-4 inch gravel, loading, hauling, laying, blading)
New Gravel Surfacing (4-6 inch gravel, loading, hauling, laying, blading)
Road Reconstruction (width improvement, preparation for surfacing, dirt work, culverts, erosion control, does not include surfacing)

The oil and gas industry has somewhat different effects in each county, depending upon the basic capacity (i.e., width, load limit, surface type) of county roads, how many road miles are impacted, how much traffic volume is generated on the impacted roads, and any per-mile cost differential for the county between operations on impacted versus non-impacted roads. To sort out all of the individual road effects in each county is beyond the scope of this study; however, what the survey did reveal is that, in most cases, the per-mile costs were somewhat higher for the same operation on impacted roads as for the same operation on non-impacted roads (Table 9). While average per-mile costs for operations on impacted versus non-impacted roads did not differ greatly in each county (Table 9), there were substantial per-mile cost differences among the counties for the same road operation. Also contributing to differences between counties was the number of miles of county roads affected by oil and gas activities (Table 10). Essentially, the nature of the impacts from oil and gas activities on county roads are somewhat different in each county.

Table 9. Estimated Average Per-mile Costs for Selected Road Operations, Oil and Gas Producing Counties, North Dakota, 2007

Road Operations	Roads Impacted by Oil and Gas Activities[a]	Roads Unaffected by Oil and Gas Activities[b]
	------- per mile cost -------	% of per-mile cost for impacted roads
Asphalt Overlay	$91,000	100
Asphalt Chip Seal	$20,329	85
Asphalt Repair	$7,774	69.2
Blading Gravel Roads	$96	99.1
Gravel Surface Repairs	$3,942	90.6
Mine and Blend Rehab	$72,500	100
Asphalt Surface Treatment	$59,250	100
Asphalt Overlay	$150,833	100
New Hot Bit Paving	$259,000	100
Gravel Resurfacing	$22,564	91.2
New Gravel Surfacing	$38,530	75.1
Road Reconstruction	$120,455	91.9

[a] Average of per-mile costs for Billings, Bowman, Burke, Dunn, Golden Valley, McHenry, McKenzie, Slope, Stark, and Williams Counties.

[b] Per-mile costs for roads unaffected by oil and gas activities were expressed as a percentage of the per-mile cost for impacted roads for Bowman, Billings, Slope, and Stark Counties.

The real effect on operating costs for county road departments comes from a substantial change in the frequency of the required road operations. In nearly all cases, road maintenance schedules (frequency of need) were often several times greater for impacted roads versus the level of need on non-impacted roads (Table 11). The level of need was expressed as a percentage because miles of need on impacted roads cannot be directly compared to miles of need on unaffected roads since the total miles in each group are not equal. It would be expected that miles of need for impacted roads would be greater since many more miles of roads were affected. Those effects were most pronounced for the road operations with highest per-mile costs, such as resurfacing, reconstruction, and road surface upgrades, as well as blading, which is the most common maintenance activity on gravel roads (Table 11). Thus, roads impacted by oil and gas activities required much more frequent resurfacing and reconstruction, and those activities are among the most expensive of the road operations described in the survey.

Table 10. Miles of Roads Under County Control, Oil and Gas Producing Counties, North Dakota, 2007

	Impacted by Oil and Gas Activities		Unaffected by Oil and Gas Activities	
County	Gravel	Asphalt	Gravel	Asphalt
Billings	537	12.5	104	0
Bowman	78	68	55	65
Burke	202	44	na	na
Dunn	862	14	na	na
Golden Valley	109	0	na	na
McHenry	201	90	na	na
McKenzie	1,008	135	na	na
Renville	927	74	na	na
Slope	202	2	234	0
Stark	81	16	1715	100
Williams	1,986	166	na	na
Total	6,093	621	2,108	165

na = not available.

The effects of oil and gas activities on the operating costs for road departments were estimated by first determining the total costs over the next three years for roads impacted by oil and gas activities. The per-mile costs and miles of need represented 2007 conditions and were held constant over the three-year period (i.e., costs didn't increase nor did miles of impacted roads change). After estimating the total operating costs for impacted roads, the likely costs of maintaining those same roads in the absence of oil and gas impacts were calculated. To estimate the operating costs in the absence of oil and gas impacts, a new frequency of need and a new cost per mile for each road operation was developed. The average frequency of need (i.e., percentage) for each road operation for roads unaffected by oil and gas activities in Bowman, Billings, Slope, and Stark Counties was multiplied by the total miles of impacted roads in Burke, Dunn, Golden Valley, McHenry, McKenzie, Renville, and Williams Counties. Thus, the average rate at which non-impacted roads in Bowman, Billings, Slope, and Stark Counties were repaired, re-surfaced, re-constructed, bladed, etc., was used to create a new level of miles of need, by road operation, for the impacted roads (i.e., assuming they were now managed as if they had no oil and gas impacts) in the other counties.

Table 11. Frequency of Road Operations for Impacted and Unaffected County Roads, Expressed as Miles of Need over the Next Three Years, North Dakota Oil and Gas Producing Counties, 2008 through 2010

Road Operations	Frequency of Need Over Next Three Years			
	Roads Impacted by Oil and Gas Activities[a]		Roads Unaffected by Oil and Gas Activities[b]	
	Miles	Percent[c]	Miles	Percent[c]
Asphalt Overlay	29.3	4.7	5.0	3.0
Asphalt Chip Seal	244.7	39.4	45.0	27.3
Asphalt Repair	619.5	99.7	295.0	179.0
Blading Gravel Roads	66,622.0	1,093.4	6,242.0	296.2
Gravel Surface Repairs	1,490.0	24.5	192.0	9.1
Mine and Blend Rehab	17.0	2.7	8.0	4.9
Asphalt Surface Treatment	32.0	5.2	2.0	1.2
Asphalt Overlay	94.0	15.1	5.0	3.0
New Hot Bit Paving	121.0	19.5	5.0	3.0
Gravel Resurfacing	673.0	11.0	127.0	6.0
New Gravel Surfacing	356.0	5.8	81.0	3.8
Road Reconstruction	162.0	2.7	10.5	0.5

[a] Average for Billings, Bowman, Burke, Dunn, Golden Valley, McHenry, McKenzie, Renville, Slope, Stark, and Williams Counties.

[b] Average for Bowman, Billings, Slope, and Stark Counties.

[c] Total miles of need in for each road operation for both impacted and unaffected roads were divided by total miles of roads impacted or unaffected in each county. The percentage for the impacted and unaffected categories is a relative index of how the frequency of need for road operations changes between impacted and unaffected roads.

Two methods were used to estimate a per-mile cost for maintaining impacted roads under the assumption that they were no longer affected by oil and gas activities. The first method simply used the average per-mile cost for road operations on unaffected roads in Bowman, Billings, Slope, and Stark Counties. For example, the average per-mile cost to blade gravel roads (unaffected by oil and gas) in those counties was used as the per-mile cost for blading gravel roads in the other counties. The second method used the average ratio of the per-mile cost for impacted roads to the per-mile cost for unaffected roads in Bowman, Billings, Slope, and Stark Counties and applied that ratio to the impacted roads' per-mile cost in the remaining counties. For example, if road operation A averaged $1,000 per mile on impacted roads and the same road operation averaged $800 per mile on unaffected roads, then a ratio of 80 percent was applied in each of the remaining counties to arrive at an estimated cost per mile to maintain the impacted roads assuming they were no longer impacted by oil and gas activities. This second

method uses each county's per-mile costs for impacted roads to produce a per-mile cost assuming those roads were no longer affected by oil and gas activities. Conversely, the first method assigns the same per-mile cost, assuming no oil and gas impacts, for road operations in Burke, Dunn, Golden Valley, McHenry, Renville, and Williams Counties. Because the average per-mile cost of maintaining roads not impacted by oil and gas activities in Bowman, Billings, Slope, and Stark Counties may not be the appropriate rate for all of the remaining counties, both methods were used and produced two separate estimates of the cost of maintaining impacted roads in the absence of oil and gas activities.

In the absence of oil and gas activities, each county would still need to maintain all roads under county control. Under that assumption, the correct assessment of the impact of oil and gas activities on county road department costs was to estimate the difference between costs of maintaining impacted roads and the cost of maintaining those same roads in the absence of oil and gas activities. Using 2007 data on per-mile costs and 2007 data on miles of need for various road operations, 11 of the 16 oil and gas counties responding to the survey were estimated to have operating costs on roads impacted by oil and gas activities that would exceed $110 million over the next three years (2008 through 2010) (Table 12). By contrast, costs to maintain the same roads impacted by oil and gas activities assuming those roads were not used by the oil and gas industry were estimated at about $22 million to $25 million (Table 12). The net cost increase due to impacts of oil and gas activities on road costs for those 11 counties was estimated to be about $86 to $89 million over the next three years. The added cost of oil and gas activities on county road costs was about $2.6 million to $2.7 million per county per year.

It is important to recognize that the change in road costs calculated from the survey data represent the overall presence of the oil and gas industry in a county. A considerable amount of additional research would be required to estimate only the marginal effects of recent changes in oil and gas industry activities on a corresponding change in maintenance costs for county road departments. Given the information collected in this study, it would difficult, if not impossible, to accurately estimate only the change in road maintenance costs associated with just recent increases (e.g., a 10 percent increase in oil output in the last 12 months) in oil and gas industry activities. An example of this could be framed such as what would be the increase in road maintenance costs if a county added 15 oil wells over the past year?

Mountrail County responded to the survey by indicating that the county did not currently have the data to fill out the road cost forms. The Mountrail County auditor, through a telephone interview, indicated that their road department was unable to comply with the detailed information in the road cost forms, but indicated that their increase in road costs in the next year would be about $1 million. This cost increase was based on the level of additional work that the county was experiencing with the current work load and was reflective of current (Spring of 2008) road costs. The substantial increase in the work load for the Mountrail County Road Department has largely been reactionary to the changes in oil exploration and production in the county over the past 18 months. At this point, it was suggested that most of the work load has been devoted to dust control, blading, and adding gravel to existing roads, among other maintenance activities. Past cost increases in Mountrail County are likely to be very conservative since those cost changes do not reflect future increases in many of the more expensive resurfacing operations found in the other counties. Since impacts from the oil and gas

industry are relatively recent in Mountrail County, the cumulative effects of increased traffic volumes and traffic patterns have perhaps not been manifested in physical deterioration of road beds or road surfaces to the extent found in other counties.

Table 12. Estimated Net Cost Increases of Maintenance of Roads Under County Control, Oil and Gas Producing Counties, North Dakota, 2008 through 2010

	Estimated Costs (000s of 2007 dollars)				
		Average Cost Analysis[a]		Ratio Analysis[b]	
County	Impacted Roads	Non-impacted Status[c]	Net Cost Increase	Non-impacted Status[c]	Net Cost Increase
Billings	29,420	6,930	22,490	6,930	22,490
Bowman	10,550	1,600	8,950	1,600	8,950
Burke	9,090	910	8,180	840	8,250
Dunn	19,700	2,140	17,560	3,450	16,250
G. Valley	2,890	330	2,560	300	2,590
McHenry	4,810	1,590	3,220	1,770	3,040
McKenzie	7,100	2,070	5,030	3,120	3,980
Renville	670	570	100	510	160
Slope	2,810	480	2,330	480	2,330
Stark	3,850	620	3,230	620	3,230
Williams	19,990	4,790	15,200	5,210	14,780
Total	110,880	22,030	88,850	24,830	86,050
Average annual	36,960	7,343	29,617	8,277	28,683
Average annual per county	3,360	668	2,692	752	2,608

[a] Assigning average per mile costs for operations on non-impacted roads for Bowman, Billings, Slope, and Stark Counties to remaining counties.

[b] Used the average ratio of the per-mile cost for impacted roads to the per-mile cost for unaffected roads in Bowman, Billings, Slope, and Stark Counties and applied that ratio to the impacted roads' per-mile cost in the remaining counties.

[c] The cost of maintaining those roads was based on assuming the impacted roads were unaffected by oil and gas activities.

Summary of Cost Projections

Cost increases over the next year for general county offices (i.e., non-road offices) were estimated separately for six counties experiencing high oil development and production and for ten counties that have been less impacted by oil and gas activities. Increases in costs of providing services for the general county offices in the high impact counties were estimated at about $1.7 million in the last year. The remaining counties were estimated to collectively have cost increases around $1.1 million over the last 12 months for provision of services by the general county offices. Combined, cost increases for general county offices in the 16 oil and gas producing counties were estimated at about $2.8 million over the past year.

Road costs were estimated separately from cost estimates for the general county offices. The effects of oil and gas activities on the costs of maintaining county roads was estimated to range from $2.6 million to $2.7 million per county per year for the counties responding to the survey. Thus, the presence of oil and gas activities in a county was estimated to increase road maintenance costs, on average, about $2.65 million over the costs of maintaining those roads in the absence of the oil and gas industry (i.e., the industry was not present in the county). If the estimated cost increases for the counties responding to the survey are representative of all oil and gas producing counties in North Dakota, then the net cost to counties to maintain county roads affected by the oil and gas industry over the next year could approach $42.4 million ([$2,600,000+$2,700,000]/2*16). However, if the effects of the oil and gas industry, in the counties that did not respond to the survey, are closer to the impacts in Mountrail County, where the additional expense was estimated at $1 million annually, then the change in operating expenses for county road departments would be closer to $34 million ($2,650,000*11+5*$1,000,000) annually.

Collectively, all 16 oil and gas producing counties could expect the net cost of the oil and gas industry to be $36.9 million ($34 million for roads plus $2,779,000 for other services) to $45.2 million ($42.4 million for roads plus $2,779,000 for other services) annually in the next few years. It is important to recognize that the change in road costs represents the overall presence of the oil and gas industry in a county, and does not represent just the marginal increase in costs associated with recent changes in oil and gas industry output. However, the change in the cost of providing county services represents the marginal increase in expenses associated with changes in the level of oil and gas activities over the past year, and does not necessarily represent the overall costs of the oil and gas industry in the county. Additional research would be required to estimate only the marginal effects of recent changes in oil and gas industry activities on the change in maintaining roads.

Conclusions

North Dakota has experienced tremendous increases in oil production and exploration in the last five years. Current levels of oil exploration and production now exceed the all-time highs of the state's largest oil boom of the early 1980s.

Rapid changes in oil and gas activities, like which is occurring in some western North Dakota counties, can strain local governments and increase the costs of providing services. Often these cost increases occur without corresponding revenue offsets.

The purpose of this study was to survey county governments, solicit information on how increased oil and gas activity has affected the workload in county offices, how county offices have adjusted to changes in workload, if changes in oil and gas activities have affected costs of providing county services, and extrapolate survey estimates to project the overall cost of changes in oil and gas activities on county governments.

Results from the survey clearly showed that the workload for a majority of county offices has increased due to changes in oil and gas activities in western North Dakota. Further, a majority of the county offices responding to the survey indicated that operating costs had increased over the past 12 months due to changes in oil and gas industry activities in their county. It is clear that changes in workload have translated into increased costs. The increased costs are attributable to changes in wages, personnel, input purchases, equipment/capital purchases, and a host of other factors. In addition, most offices and departments have not been able to offset those additional costs with changes in fees or charges (at least not in the short run). Increased workloads have had an unequal effect on office personnel, as many offices indicated that only salaried employees could work more than 40 hours per week. Many elected and appointed officials have been left to cover the additional work load, and many of those individuals suggest that turnover of personnel in the future may become a growing issue. Many respondents echoed sentiments that current pay scales are not commensurate with existing workoads or responsibilities.

The influence of oil and gas production and development on the cost of maintaining rural roads is more complex to estimate than the financial effects on other county offices. While a number of factors influence road maintenance costs within any particular county, the most common factors are the number of miles of rural roads affected, the per-mile costs for road operations, the geographic scope of oil and gas activities within a county, rural road capacities/characteristics, and the intensity of use by oil and gas industry vehicles.
In the absence of oil and gas activities, the county would still need to maintain all county roads under their control. Thus, determining the financial effects of oil and gas activities on county road departments required first estimating the maintenance cost on the impacted roads, assuming a per-mile cost and frequency of need for road maintenance similar to that of non-impacted roads within those counties, and then subtract those costs from the estimated cost of the impacted roads to arrive a net cost to the county.

Cost increases over the next year for general county offices (i.e., non-road offices) were estimated separately for six counties experiencing high oil development and production and for ten counties that have been less impacted by oil and gas activities. Increases in costs of providing services for the general county offices in the high impact counties were estimated at about $1.7 million in the last year. The remaining counties were estimated to collectively have cost increases around $1.1 million over the last 12 months. Combined, cost increases for general county offices in the 16 oil and gas producing counties were estimated at about $2.8 million over the next year.

Road costs were estimated separately from cost estimates for the general county offices. The presence of oil and gas activities in a county was estimated to increase road maintenance costs, on average, about $2.65 million over the costs of maintaining those same roads without the presence of the oil and gas industry. The net cost of maintaining roads used by the oil and gas industry was estimated to range from $34 million to $42 million annually, depending upon assumptions of the change in costs for county road departments.

Collectively, all 16 oil and gas producing counties could expect the net cost of the oil and gas industry to be $36.9 million ($34 million for roads plus $2,779,000 for general services) to $45.2 million ($42 million for roads plus $2,779,000 for general services) annually in the next few years. It is important to recognize that the change in road costs represents the overall presence of the oil and gas industry in a county, and does not represent just the marginal increase in costs associated with recent changes in oil and gas industry output.

APPENDIX

General County Department Questionnaire and Road/Highway Department Questionnaires

Survey Goal

The purpose of this survey is to gather insights into how increased oil and gas exploration and production have affected the provision and cost of county government services. This is not an in-depth analysis, but rather the survey is designed to provide a cursory or periphery assessment of the impacts of increased activity in the petroleum industry on local governments in western North Dakota.

Survey Instructions

(1) Please limit your assessment of the effects of oil and gas activity to the last 12 months. We are not concerned about effects that may have happened more than 1 year ago.

(2) To the best of your ability, please consider all of your responses with respect to just the effects of increased activity in the petroleum industry. We recognize that the provision of public services and the costs to provide those services change over time, so again, try to only describe those changes that are a result of the additional business activity associated with oil and gas exploration and production in your county.

(3) Please call Vicky Steiner (701-290-1339) if you have any questions.

(4) Please complete the questionnaire by February 8, 2008.

(5) Please return this form to your county Auditor's Office. The county auditor will collect the forms and mail them to NDSU for analysis.

Please fill in the following information.

County _____

Office or Department _____

Your name and Position _____

(1) Has there been an increase in services provided or change in workload in your office/department due to increases in oil and gas exploration and extraction in your county? (Please circle and check all that apply)

Yes — If yes, how has your office/department handled the increased workload?

_____ added additional staff

_____ more hours for existing staff

_____ purchased more equipment

_____ outsourced some of the work load

_____ other measures (please specify _____)

No — Our office workload has not been affected by oil and gas activity.

Don't know

(2) Have increases in oil and gas exploration and production in your county changed the cost of providing public services in your office or department? (please circle)

Yes Please estimate the approximate cost increase over the past 12 months $_____

No Please skip to Question 4.

Don't Know

(3) What would be the reasons for increases in your office/department's operating costs due to increased oil and gas activity in your county? (Please check all that apply)

____ increased wage rates for office personnel
____ more hours for existing personnel
____ hired additional part-time employees
____ hired additional full-time employees
____ had to incur increase in training and recruitment expenses due to higher than normal employee turnover or additional hiring
____ purchase/lease/acquire additional equipment or upgrade existing equipment sooner than expected (please clarify _____)
____ had to purchase more supplies and inputs than normal (e.g., fuel, electricity, paper, computer services, communications, etc.)
____ costs went up because of an increased number of customers and/or servicing a larger population base and/or more applicants for our programs
____ other reasons (please specify_____)
____ don't know

(4) Has your office or department offset cost increases in the last year by increasing rates/fees or by adding new/additional fees? (please circle)

Yes Please estimate the approximate revenue increase due to higher fees or new fees added over the past 12 months $_____.

No Our office or department has not increased existing fees or added any new fees.

Don't know

(5) Please comment on any other fiscal effects on your office or department that are a direct result of increased oil and gas activity in your county (add additional sheets if necessary).

THANK YOU–please return this form to the County Auditor's Office.

OIL AND GAS IMPACTED COUNTY ROAD COST SURVEY

COUNTY ROAD INVENTORY				COUNTY
Item No.		TOTAL MILES ASPHALT	TOTAL MILES GRAVEL	
1	COUNTY COLLECTORS (Federal Aid and others that serve as major collectors)			
2	MINOR COUNTY COLLECTORS (Most roads leading to the County and State Collectors)			
3	OTHER COUNTY ROADS (Secondary roads that are like township roads)			

	MAINTENANCE COSTS and FREQUENCY	COST		FREQUENCY			MILES OF NEED NEXT 3 YEARS
5	ASPHALT OVERLAY (1-1/2" or less will be considered maintenance)		per mile	every		years	
6	ASPHALT CHIP SEAL (Include oil, chips, equipment and labor to complete)		per mile	every		years	
7	ASPHALT REPAIR (include cold mix, patching and crack sealing)		per mile	every		years	
8	BLADING GRAVEL ROADS (Include equipment, labor, fuel and repairs)		per mile			per month	
9	GRAVEL SURFACING REPAIRS (spot graveling, 2" lift or less for maintenance)		per mile	every		years	
10	GRAVEL CRUSHING (Include equipment, fuel, labor, testing and royalty)		per ton/CY	<-Circle ton or CY			
11	GRAVEL HAULING AND LAYING (Based on average haul miles in County)						
	(Include loading, hauling, laying and all other costs)		per ton/CY	<-Circle ton or CY			

	RECONSTRUCTION COSTS and FREQUENCY	COST		FREQUENCY			MILES OF NEED NEXT 3 YEARS
12	MINE AND BLEND REHAB. (Includes Milling, 0" to 2" Graveling, and Chip Seal)		per mile	every		years	
13	ASPHALT SURFACE TREATMENT (Includes 3"or Thicker Graveling and Chip Seal)		per mile	every		years	
14	ASPHALT OVERLAY (Includes milling and 2" to 3" overlay)		per mile	every		years	
15	NEW HOT BIT. PAVING (Includes 3" to 5" for new pavement)(Specify thickness in notes)		per mile	every		years	
16	GRAVEL RESURFACING (3" to 4")(Based on average haul miles in County)						
	(Include loading, hauling, laying and all other costs)		per mile	every		years	
17	NEW GRAVEL SURFACING (4" to 6" -Specify)(Based on average haul miles in County)						
			per mile	every		years	
18	ROAD RECONSTRUCTION(Needed to improve safety/widening to accommodate surfacing)						
	(Cost for Dirt Work, Culverts, Erosion Control, etc., do not include surfacing)		per mile				

Vicky Steiner
2051

ND ASSOCIATION OF OIL & GAS PRODUCING COUNTIES
UNIFORM COUNTY PERMIT SYSTEM

CURRENT FISCAL YEAR

FEES COLLECTED BY COUNTY

	July - 08	Aug - 08	Sep - 08	Oct - 08	Nov - 08	Dec - 08	Jan - 09	Feb - 09	Mar - 09	Apr - 09	May - 09	Jun - 09	Jul 08 - Mar 09 YTD TOTAL
ADAMS	0.00	0.00	110.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	$110.00
BILLINGS	6,550.00	8,930.00	4,980.00	6,670.00	6,150.00	7,570.00							$38,850.00
BOTTINEAU	240.00	480.00	360.00	300.00	360.00	300.00							$2,040.00
BOWMAN	5,840.00	7,460.00	6,000.00	5,530.00	8,120.00	5,470.00							$38,420.00
BURKE	3,180.00	2,630.00	2,650.00	2,310.00	2,260.00	2,120.00							$15,350.00
DIVIDE	1,150.00	2,490.00	2,230.00	2,250.00	1,670.00	2,850.00							$12,640.00
DUNN	18,760.00	15,140.00	17,260.00	12,720.00	15,440.00	14,430.00							$93,750.00
GOLDEN VALLEY	1,370.00	1,980.00	1,180.00	920.00	2,530.00	1,720.00							$9,700.00
McKENZIE	18,310.00	18,511.25	17,150.00	15,000.00	23,340.00	12,390.00							$102,701.25
McLEAN	0.00	150.00	700.00	1,110.00	2,300.00	180.00							$4,440.00
MERCER	0.00	0.00	0.00	0.00	460.00	140.00							$600.00
MOUNTRAIL	28,845.00	26,384.50	19,230.00	22,130.00	27,030.00	21,567.00							$145,186.50
RENVILLE	120.00	1,110.00	1,670.00	300.00	320.00	260.00							$3,780.00
SLOPE	2,130.00	2,810.00	1,730.00	1,980.00	2,920.00	1,800.00							$13,370.00
STARK	5,590.00	4,360.00	4,570.00	3,930.00	4,720.00	4,620.00							$27,790.00
WARD	370.00	2,580.00	540.00	200.00	530.00	20.00							$4,240.00
WILLIAMS	7,480.00	7,110.00	6,920.00	6,750.00	12,070.00	8,931.00							$49,261.00
TOTAL	$97,935.00	$100,326.75	$87,280.00	$82,100.00	$110,220.00	$84,368.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$562,228.75

PERMITS SOLD BY COUNTY

	July - 08	Aug - 08	Sep - 08	Oct - 08	Nov - 08	Dec - 08	Jan - 09	Feb - 09	Mar - 09	Apr - 09	May - 09	Jun - 09	Jul 08 - Mar 09 YTD TOTAL
ADAMS	0	0	1	0	0	0							1
BILLINGS	150	142	102	155	151	170							870
BOTTINEAU	5	11	6	8	9	11							50
BOWMAN	144	175	142	124	186	124							895
BURKE	93	67	69	67	52	54							402
DIVIDE	37	54	54	55	44	83							327
DUNN	488	388	422	329	424	335							2,386
GOLDEN VALLEY	29	42	25	24	63	35							218
McKENZIE	401	379	368	317	554	308							2,327
McLEAN	0	3	8	16	31	6							64
MERCER	0	0	0	0	14	2							16
MOUNTRAIL	757	672	492	587	698	591							3,797
RENVILLE	2	20	33	6	8	6							75
SLOPE	42	63	38	51	79	46							319
STARK	169	121	150	125	169	132							866
WARD	6	38	10	5	12	1							72
WILLIAMS	180	156	163	152	287	191							1,129
TOTAL	2503	2331	2083	2021	2781	2095	0	0	0	0	0	0	13,814

1/20/09

Vicky Steiner
2051

ND ASSOCIATION OF OIL & GAS PRODUCING COUNTIES

UNIFORM COUNTY PERMIT HEAVY WEIGHT FEE SCHEDULE

Gross Weight	Trucks & Trailers
Under 105,500 but Overwidth or Overlength	$20
105,501 - 110,000	30
110,001 - 115,000	40
115,001 - 120,000	50
120,001 - 125,000	60
125,001 - 130,000	70
130,001 - 135,000	80
135,001 - 140,000	90
140,001 - 145,000	100
145,001 - 150,000	110
150,001 - 155,000	120
155,001 - 160,000	130
160,001 - 165,000	140
165,001 - 170,000	150
170,001 - 175,000	160
175,001 - 180,000	170
180,001 - 185,000	180
185,001 - 190,000	190
190,001 - 195,000	200
195,001 - 200,000	210
Over 200,000	$5/ton/mile
Workover Rigs & Cranes	
40,000 - 60,000	$30
60,001 - 100,000	40
100,001 - 110,000	60
110,001 - 115,000	70
115,001 - 120,000	80
120,001 - 125,000	90
125,000 - 130,000	100
130,001 - 135,000	110
135,001 - 140,000	120
140,001 - 145,000	130
145,001 - 150,000	140
150,001 - 155,000	150
155,001 - 160,000	160
160,001 - 165,000	170
165,001 - 170,000	180
170,001 and over	190
Earth Moving Equipment	
40,000 - 70,000	$30
70,001 and over	50

A $10.00 administrative fee is included in the uniform fee schedule.

On all loads over 200,000 lbs, the fee is $5/ton/mile on all weight over 105,500

Uniform Permits are NOT authority to use county roads during weight restrictions (Frost Law). Contact the Sheriff Dept. in each county before using any County Road during the Frost Law period.

1/20/09

1707 North 9th Street
PO Box 5523
Bismarck, ND 58506-5523
Phone: (701) 328-2800
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ND STATE LAND DEPARTMENT
Helping to Fund Education

Gary D. Preszler, Commissioner

TESTIMONY OF JEFF ENGLESON
Director, Energy Development Impact Office
North Dakota State Land Department

IN SUPPORT OF SENATE BILL NO. 2051

Senate Finance and Taxation Committee
January 20, 2009

PURPOSE

The mission of the Energy Development Impact Office (EDIO) is to provide financial assistance to local units of government that are affected by energy activity in the state. Over the years, the EDIO has helped counties, cities, schools districts and other local units of government (organized townships, fire and ambulance districts, etc.) deal with both the booms and the busts associated with energy development in North Dakota. The EDIO became a part of the Land Department in 1989.

Since 1991, the EDIO has made grants only for impacts related to oil and gas development. Funding for these grants is appropriated by the State Legislature from a portion of the 5% Oil & Gas Gross Production Tax. For the 2007-09 biennium, the amount available to this program is capped at $6.0 million; prior to the current biennium, the cap was $5.0 million per biennium.

The Director of the EDIO is responsible for making all decisions related to the oil impact grant program. The Board of University and School Lands is the appellate for applicants not satisfied with the decisions made by the director. Over time, very few appeals have been made.

CURRENT PROGRAM

The EDIO is managed under NDCC Chapter 57-62. NDCC 57-62-05 and 57-62-06 provide the following guidance to the EDIO Director:

- Grants should be used "to meet initial impacts affecting basic government services, and directly necessitated" by oil and gas development impact. Basic government services does not mean marriage or guidance counseling, programs to alleviate other sociological impacts or programs to meet secondary impacts.
- The amount of tax an entity is entitled to from real property and from other tax or fund distribution formulas provided by law must be considered when determining grants.

The following award criteria are used when making grants to political subdivisions:

- A grantee must demonstrate the negative impact caused by oil and gas development in the area.
- A grantee must demonstrate its tax effort and financial need.
- The funds granted must be used to alleviate the hardship caused by oil and gas development.

Under current state law, a portion of the gross production taxes collected by the state flow back to counties, cities and school districts. There are others here today that can better explain the details of the formula used to distribute these funds, so I will not address that issue. However, organized townships, fire and ambulance districts, and many other political subdivisions do not share in any of the gross production taxes collected by the state even though those entities can be greatly impacted by oil and gas development in a given area.

HISTORIC INFORMATION

One of the great things about this program is that the EDIO Director has always had flexibility in administering the oil and gas impact grant program. This has allowed the program to adapt to changing needs as drilling activity has moved from one area of the state to another, and as oil and gas development has gone through both boom and bust cycles. The attached tables provide a breakdown of grants requested and awarded over the past 5 biennia by political subdivision type, by county, and by function.

These tables contain a lot of information; however, there are a few specific things I'd like to point out:

- The amount of grant requests has increased substantially over the past nine years, from a total of $22.7 million for the 1999-01 biennium to $29.1 million in fiscal year 2008 alone.
- The amount of grants awarded to counties has decreased over the past nine years, while the amount awarded to organized townships has increased. This is partly a result of the fact that the amount of tax revenue going to many counties has increased in recent years as both production and oil prices have risen. It is also partly a result of the program recognizing that organized townships have major, direct impacts from oil and gas development, but do not receive any share of the production tax revenues collected by the state.
- The amount of grants awarded to political subdivisions in Bowman County has decreased, while the amount of grants awarded to entities in Mountrail and Dunn counties has increased. This is result of the focus of development activity moving from the Cedar Hills area in Bowman County in the late 1990s and early part of this decade to the Bakken play in the Mountrail and Dunn County areas in more recent years.
- The one thing that hasn't really changed much over the years is the fact that the vast majority of the grants awarded (85%-90%) have been for transportation related projects/functions and for fire and ambulance related equipment and services. This reflects the program's recognition that these government services are probably the services most directly impacted by oil development.

As these tables show, the flexibility of the EDIO program has allowed the EDIO Director to try to balance the needs of the various political subdivisions at any given point in time with the resources available. The tables also show that this program allows the EDIO Director to address the fact that there are many political subdivisions that are directly impacted by oil and gas development, but which do not receive an adequate amount of tax revenues to help defray the cost of reducing those impacts.

PROPOSED CHANGES

Section 7 of SB 2051 contains two provisions that affect the EDIO.

- The proposed change to NDCC 57-51-15, subsection 1 eliminates the cap on the amount of gross production tax revenue that flows to the EDIO office oil grant program. Based on current estimates, this would increase the amount available to the program from $6.0 million per biennium to $32.8 million.
- The proposed changes to NDCC 57-51-15, subsection 2, eliminates the cap on gross production tax revenues flows to the counties, cities and school districts that are impacted by oil and gas development.

Although the focus of my testimony today is on NDCC 57-51-15, subsection 1, any increase in the amount of funding provided to counties, cities and school districts via the gross production tax funding formula will have an impact on the amount of money needed by the oil impact grant program to help those entities.

The EDIO supports the oil impact grant program and believes there is a tremendous need for additional funding to flow back to western North Dakota to help deal with the impacts of oil and gas development. Although we take no specific position as to how much funding flows back to impacted areas and exactly how that funding flows back to those areas, I would like to take this time to make a few of comments about this bill and how the proposed changes could impact the way that the EDIO oil impact grant program is administered:

- Although the proposed changes to NDCC 15-51-15, subsection 2 have no direct impact on the EDIO, as stated previously, any additional funding that goes directly to political subdivisions would lessen the need for funds from the EDIO oil impact grant program. It is clear from my involvement with the EDIO over the years that there is a need to provide additional funding directly to the counties, cities and school district impacted by the oil and gas development via the gross production tax distribution formula.

- The EDIO has historically focused on "filling in the gaps" for those entities that receive no funding or inadequate funding under the gross production tax distribution formula. Although additional funding is needed for this program to help fill those gaps, raising the amount of funds available to $32.8 million or more per biennium would change the nature of the program and would make the EDIO an integral part of financing transportation infrastructure in western North Dakota.

- The current budget for the EDIO is $6.0 million per biennium. Of that amount, $5,888,100 is used to provide grants to political subdivisions and $111,900 is used to administer the program. At the present time, the Land Department dedicates about 25% of one FTE to perform the functions of the EDIO, although the actual time involved in administering the program is probably somewhat more than currently allocated. If the amount allocated to this program increases substantially, there would be a need for an additional FTE and operating funds to administer the program. The Land Departments budget bill (SB 2013), addresses this need by adding one FTE to the Land Department and an additional $222,241 in expenses to administer the oil impact grant program.

- The Land Department budget bill currently contains provisions that raise the cap on funding to the oil impact program to $20.0 million per biennium.

- There are a number of bills that have been filed that deal with the amount of funding dedicated to the EDIO and/or the amount of gross production taxes flowing back to counties, cities and school districts. The bills I currently know about include HB 1225, HB 1274, HB 1275, HB 1304, SB 2013 and this bill. There may be others as well. Because these two issues are so directly related, it might be a good idea to deal with these issues in only one bill.

ENERGY DEVELOPMENT IMPACT OFFICE

Grant Requests/Awards By Political Subdivision and County

1999-01 Biennium Through Fiscal Year 2008

(all dollar amounts shown are in millions)

Breakdown By Political Subdivision Class

	1999-01 Biennium			2001-03 Biennium			2003-05 Biennium			2005-07 Biennium			Fiscal Year 2008		
Class	Requested	Awarded	%	Requested	Awarded	%	Requested	Awarded	%	Requested	Awarded	%	Requested	Awarded	%
County	$ 8.412	$ 2.063	42.1%	$ 8.929	$ 1.978	39.0%	$ 9.092	$ 1.388	28.3%	$ 44.353	$ 1.191	24.0%	$ 10.573	$ 0.540	18.0%
School	1.317	0.248	5.1%	2.164	0.352	6.9%	3.394	0.376	7.7%	3.499	0.255	5.1%	0.902	0.093	3.1%
City	7.813	0.891	18.2%	7.942	0.868	17.1%	12.018	0.850	17.3%	12.508	0.674	13.6%	9.823	0.497	16.6%
Park District	0.120	0.003	0.1%	0.077	-	0.0%	0.244	-	0.0%	0.351	-	0.0%	0.193	-	0.0%
Airport Auth.	0.733	0.046	0.9%	0.249	0.029	0.6%	0.502	0.038	0.8%	0.337	0.042	0.8%	0.138	0.005	0.2%
Township	2.577	1.217	24.8%	2.559	1.271	25.0%	3.652	1.503	30.7%	8.117	2.239	45.0%	5.654	1.492	49.7%
Fire District	1.777	0.432	8.8%	2.141	0.577	11.4%	2.804	0.745	15.2%	3.616	0.570	11.5%	1.856	0.373	12.4%
TOTAL	$ 22.749	$ 4.900	100%	$ 24.061	$ 5.075	100%	$ 31.706	$ 4.900	100%	$ 72.781	$ 4.971	100%	$ 29.139	$ 3.000	100%

Breakdown By County

	1999-01 Biennium			2001-03 Biennium			2003-05 Biennium			2005-07 Biennium			Fiscal Year 2008		
County	Requested	Awarded	%	Requested	Awarded	%	Requested	Awarded	%	Requested	Awarded	%	Requested	Awarded	%
Billings	$ 1.404	$ 0.030	0.6%	$ -	$ -	0.0%	$ 0.081	$ 0.005	0.1%	$ 0.073	$ 0.005	0.1%	$ 0.007	$ -	0.0%
Bottineau	0.891	0.399	8.1%	1.741	0.433	8.5%	1.365	0.491	10.0%	1.481	0.415	8.3%	0.838	0.164	5.5%
Bowman	5.759	1.000	20.4%	6.125	1.056	20.8%	7.004	0.610	12.4%	8.710	0.390	7.8%	5.012	0.133	4.4%
Burke	0.744	0.366	7.5%	0.837	0.396	7.8%	0.932	0.400	8.2%	1.683	0.493	9.9%	0.924	0.203	6.8%
Divide	0.586	0.306	6.2%	0.507	0.250	4.9%	0.610	0.296	6.0%	1.630	0.505	10.1%	3.259	0.228	7.6%
Dunn	1.066	0.192	3.9%	0.683	0.202	4.0%	0.753	0.234	4.8%	2.742	0.251	5.0%	5.044	0.440	14.7%
G. Valley	0.814	0.304	6.2%	0.716	0.278	5.5%	1.221	0.366	7.5%	1.789	0.370	7.4%	0.872	0.156	5.2%
Hettinger	-	-	0.0%	-	-	0.0%	0.005	-	0.0%	-	-	0.0%	-	-	0.0%
McHenry	-	-	0.0%	0.067	0.035	0.7%	0.070	0.050	1.0%	0.070	0.040	0.8%	0.030	-	0.0%
McKenzie	0.647	0.112	2.3%	1.513	0.201	4.0%	1.545	0.215	4.4%	3.141	0.184	3.7%	0.734	0.118	3.9%
McLean	0.024	0.015	0.3%	0.005	0.003	0.1%	0.010	0.007	0.1%	0.005	0.002	0.0%	0.003	0.001	0.0%
Mercer	0.274	0.018	0.4%	0.012	-	0.0%	0.032	0.012	0.2%	0.035	0.009	0.2%	0.018	0.002	0.1%
Mountrail	0.756	0.370	7.5%	0.892	0.276	5.4%	1.143	0.295	6.0%	3.769	0.641	12.9%	4.390	0.796	26.5%
Renville	1.117	0.366	7.5%	1.694	0.398	7.8%	1.920	0.441	9.0%	1.676	0.402	8.1%	0.862	0.177	5.9%
Slope	0.754	0.171	3.5%	0.517	0.183	3.6%	0.646	0.151	3.1%	0.826	0.154	3.1%	0.364	0.073	2.4%
Stark	2.904	0.389	7.9%	2.618	0.432	8.5%	3.270	0.385	7.9%	4.272	0.239	4.8%	1.501	0.090	3.0%
Ward	0.107	0.046	0.9%	0.064	0.030	0.6%	0.185	0.048	1.0%	0.180	0.042	0.8%	0.092	0.025	0.8%
Williams	4.904	0.818	16.7%	6.072	0.904	17.8%	10.914	0.896	18.3%	40.700	0.831	16.7%	5.189	0.394	13.1%
TOTAL	$ 22.749	$ 4.900	100%	$ 24.061	$ 5.075	100%	$ 31.706	$ 4.900	100%	$ 72.781	$ 4.971	100%	$ 29.139	$ 3.000	100%

ENERGY DEVELOPMENT IMPACT OFFICE

Grant Awards By Function

Fiscal Year 2002 Through Fiscal Year 2008

	2001-03 Biennium		2003-05 Biennium		2005-07 Biennium		
Function	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Law Enforcement	$ 2,400	$ 21,000	$ 22,000	$ 15,000	$ 45,000	$ 5,500	$ 10,000
Education	152,000	200,000	181,000	197,000	110,000	105,000	83,500
Health	89,500	105,350	121,000	120,500	59,000	35,100	78,500
Transportation	1,694,100	1,936,250	1,601,000	1,669,600	1,869,000	1,949,400	2,274,000
Recreation	7,000	1,000	4,000				-
Fire Protection	260,000	419,900	384,000	401,600	369,500	338,500	521,000
Housing							-
Planning		3,500				12,000	-
Potable Water	4,000	40,000	40,000	10,000	32,000	18,000	-
Sewage Treatment		10,000	26,000				-
Water and Sewer	5,000	5,000	51,000	10,300	15,000	7,000	25,000
Local Administration	1,000	58,000		26,000	500	500	5,000
Other	60,000		20,000				3,000
TOTAL	$ 2,275,000	$ 2,800,000	$ 2,450,000	$ 2,450,000	$ 2,500,000	$ 2,471,000	$ 3,000,000
		$ 5,075,000		$ 4,900,000		$ 4,971,000	

	2001-03 Biennium		2003-05 Biennium		2005-07 Biennium		
Function	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Law Enforcement	0.1%	0.8%	0.9%	0.6%	1.8%	0.2%	0.3%
Education	6.7%	7.1%	7.4%	8.0%	4.4%	4.2%	2.8%
Health	3.9%	3.8%	4.9%	4.9%	2.4%	1.4%	2.6%
Transportation	74.5%	69.2%	65.3%	68.1%	74.8%	78.9%	75.8%
Recreation	0.3%	0.0%	0.2%	0.0%	0.0%	0.0%	0.0%
Fire Protection	11.4%	15.0%	15.7%	16.4%	14.8%	13.7%	17.4%
Housing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Planning	0.0%	0.1%	0.0%	0.0%	0.0%	0.5%	0.0%
Potable Water	0.2%	1.4%	1.6%	0.4%	1.3%	0.7%	0.0%
Sewage Treatment	0.0%	0.4%	1.1%	0.0%	0.0%	0.0%	0.0%
Water and Sewer	0.2%	0.2%	2.1%	0.4%	0.6%	0.3%	0.8%
Local Administration	0.0%	2.1%	0.0%	1.1%	0.0%	0.0%	0.2%
Other	2.6%	0.0%	0.8%	0.0%	0.0%	0.0%	0.1%
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

#4

Dunn County Fast Facts

County Taxable Valuation 2008 (2009 Budget based on this Valuation) ---$13,573,191
County Wide Mill Levy 2008 (Taxes payable 2009) ----------101.61 Mills

Road and Bridge Mills 2008 (Available for 2009 Budget) ----------39.19 Mills
Property Taxes for roads 2009 ----------$ 502,000
Other Revenue for Roads 2009 (Estimated) ----------$ 748,432
5% Gross Production Tax 2009 (Estimated) ----------$ 2,845,000
Total Available for 2009 Roads ----------$4,095,432

Road and Bridge Budget for 2007 ----------$2,000,000
Expenditures for 2007 ----------$2,280,890
Road and Bridge Budget for 2008 ----------$2,500,000
Expenditures for 2008----------$3,881,750

5% Gross Production Tax County Share 2008 ----------$ 2,815,086
Other Road and Bridge Revenue for 2008 ----------$ 1,409,256
Taxes for Roads (2007 pd in 2008) ----------$ 323,268
Total Revenues for roads (Using all of the 5% production Tax--$ 4,547,610

2008 Ending Balance in Road Funds----------$ 665,860

Road and Bridge Budget for 2009 ----------$3,600.000

Road Materials used per year (Gravel/Scoria) ----------200,000 yards
Road materials prices have tripled since 2004 (Pre-Boom)
Cost for royalties and crushing 300,000 yard @$4.64 ----------$1,392,000

Cost of road material royalties (Gravel/Scoria) 2005 ----------$.65/CY
Cost of road material royalties (Gravel/Scoria) 2007 ----------$1.00/CY
Cost of road material royalties (Gravel/Scoria) 2008 ----------$2.00/CY

Other costs related to the Oil Impact:
Additional Sheriff's Deputy Hired ----------$83,000
(Salary, Benefits, Fixed Costs, Vehicle, Uniforms, Vehicle Maintenance)

Additional Road Employees: Five part time and three full time:-----$169,776

Additional Administrative Staffing - Auditors Office, Recorders Office
(Three full time, two Part time) ----------$ 87,280

Energy Impacts Identified in March of 2008 ----------$4,250,000

Energy Impacts Funded in June of 2008 ----------$ 400,000
Impacts Identified since March of 2008 ----------$7,350,000

Total rebuild of 20 Miles Federal Aid Roads - heavily impacted oil roads - back to Federal Aid Standards at $200,000 per Mile ---------- $4,000,000

100 miles of dust control @ $6,000 per mile ---------- $ 600,000

150 miles of roads need to have the shoulders pulled and resurfaced
At $15,000 per mile ----------$2,250,000

Courthouse needs to add space for sheriff department and
Record retention/storage ----------$ 500,000

Dunn County's Road Budget needs to be doubled to begin to play catch up with the impacts. This cannot be done since the funding is not available.

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

#5

To: Chairman Cook
Members of the Finance and Taxation Committee

From: Christy L. Larsen
Dunn County Recorder/Clerk of Court

RE: SB2051

For the record, my name is Christy Larsen. I am currently the Dunn County Recorder & Clerk of Court. I am here to support Senate Bill 2051.

As the county recorder/clerk of court I have seen a steady increase in the use of our public records and the system in which we preserve these records.

When one hears oil impact in western North Dakota, you often hear of the quality of the roads traveled. As a county recorder I would like to stress the effects that this impact is having in my office.

Dunn County currently averages between 20 to 25 land men daily. This number was at 60 during the peak of the leasing process. In 2006 our records working area was set up to hold 12 people and contained 2 public terminals. As of today, we have added three more public terminals along with seating and tables down the hall, in the commissioners room and the lunch room.

In 2006 the recorder/clerk of court offices consisted of 3 staff, the recorder/clerk of court and then a deputy for both areas. As of today we have added a clerk and indexing position so we are currently at five staff.

Competing with the oil field to keep staff has been a large burden. Since 2006 the recorder/clerk of court, deputy recorder, and 2 indexing positions have left our office and are currently working in the oil business. Dunn County can not compete with the wages

that the oil field is able to pay not to mention the time and extra costs that are incurred to train the new staff that are hired.

Along with the influx of land men comes wear and tear of our computers, copy machines, printers, faxes, furniture and mostly the priceless records we keep in our office.

The recorders office has added a copy machine, printer, three computers and is in the process of bidding out a copier/fax machine. We have also added numerous tables and have replaced seating throughout the courthouse.

As the keeper of the records, I feel they have seen the biggest effect of this influx. Pages are being ripped out of books, pages are going missing, books are being put back out of sequence along with the damage that is occurring to the bindings of the books.

I recently had Tri State Binders review our needs for maintaining our books, he looked through 66 of our books and quoted $13,800.00 to make the needed fixes. He also suggested to hold off on much of the fixing until our usage is down as they are being broken from being pulled from the shelves and they will continue to break until this is changed. To replace one of the books in the pictures, the average cost is between $600.00 to $900.00 dollars.

Dunn County is in the process of dealing with the wear and tear of the books by digitizing the records and making them available in other manners. This in turn comes with a hefty price monetarily, in man power and time.

I support SB 2051, lifting the cap will help us care for our roads but it would also provide support in our county to help us guarantee the preservation of the records for our public in the future.

I thank you for this time and would be happy to answer any questions you may have.

#6

Thank you Chairman & Committee Members.

I am Cliff Ferebee-Dunn Co. Commissioner.

You have seen by Auditor Hauck's presentation that the cap has to be removed to help the oil producing counties with the huge impact on our roads & bridges. The traffic on most of the roads in our county has gone up from 3-10 vehicles a day to 4-5 hundred a day. Because of this increase in traffic we have had to put down dust control on many miles of our roads. This is a costly procedure and lasts for only one season.

Each oil well drilled in Dunn County from start to finish takes from 800-1000 vehicles, most of them heavy equipment. Each well takes approximately 1 million gallons of water to frac. After completion of a well there is still need for service vehicles & vehicles to haul the oil.

The need for gravel & scoria has increased enormously because of the oil and gas industry. The State Health Dept. & EPA found eronite in about ½ of our gravel supply and told us not to use it. This makes it necessary to haul gravel more miles putting more stress on our roads.

We want to thank those that have come to Dunn County and other oil producing counties to witness our needs. We extend an invitation to you to come visit the oil producing counties that have generated much of the states surplus funds. The State of North Dakota owns over 60,000 acres of minerals in Dunn County alone plus receives $'s from oil royalties, tax on oil companies, fuel taxes from vehicles working for oil companies, sales tax, and state income tax.

I'd like to share the Energy Development Impact Office Statement of Goals. Removing caps to oil producing counties would be a start in meeting those goal

Energy Development Impact Office: Statement of Goals

The primary goal of the office is to ensure that local subdivisions hosting energy activity are not required to bear a disproportionate share of the costs associated with that activity (both in its "boom" and "bust" cycles.) The guiding principle of the office is to ensure that the benefit to all of the people of North Dakota, from the extraction of energy resources, will not be gained at the expense of those whose lives or property are disturbed, without adequate compensation, in the process.

Thank you for your consideration in removing caps and your help to take care of the needs of the oil producing counties.

#9

Killdeer Public School
Gary A. Wilz, Superintendent
Email – gary.wilz@sendit.nodak.edu
Phone – 701-764-5877

Transportation Concerns –

- School bus repair bill has nearly doubled since 2006 – 2007
- Bus chassis wear out at 140,000 – 160,000miles, problems starting at 90,000
- Hiring drivers nearly impossible – a quote from a potential driver... "I am not sure if I want to be responsible for all those children, and I certainly don't want the responsibility for driving them with all the oil traffic."
- Bus driver reports of vehicular traffic NOT stopping when the bus is stopped with stop arm extended and flashers on has increased from 1 – 2 incidents per year to 1 – 2 incidents per month.
- Maintenance time at major repair facilities has doubled as we are being "trumped" by the oil industry. I currently have two buses in Bismarck for repair.
- Availability of Number 1 diesel
- Per mile costs have risen from $1.03/mile in 2003 – 2004 to $1.67/mile in 2007 – 2008
- 240 out of 376 students are transported by bus.
- Total bus mileage per day will approximate 825 miles.
- Total route mileage in 2007 – 2008 was slightly less than 110,000 miles on eight routes.
- Killdeer replaces one bus per year, last year we purchased two new buses
- A new "yellow" bus costs over $70,000.00
- Killdeer School would put 200,000+ miles on a bus if it were feasible on our road networks...county roads not feasible, highway routes - this is feasible.

Additional Education Concerns –

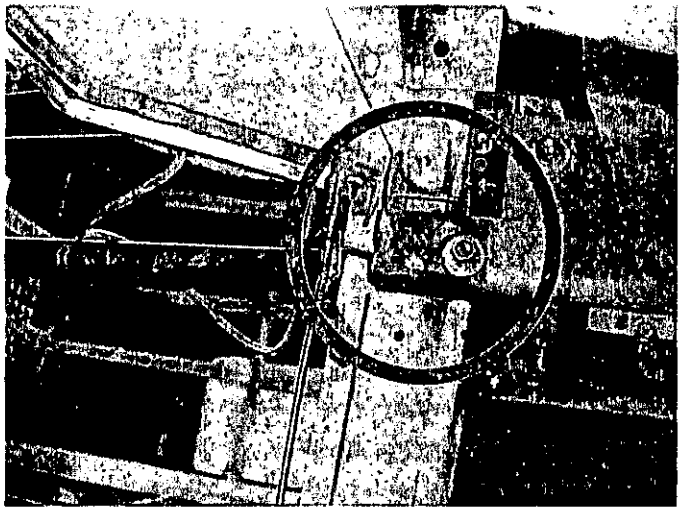
- Special Education costs – transient families
- Open enrollments- Billings County, McKenzie County, Dodge, Halliday
- Impacts on class size – class sizes from 18 to 45 students – One teacher or two?
- Hiring impacts – advertised custodial position for 9 months, "people that are employable are employed"

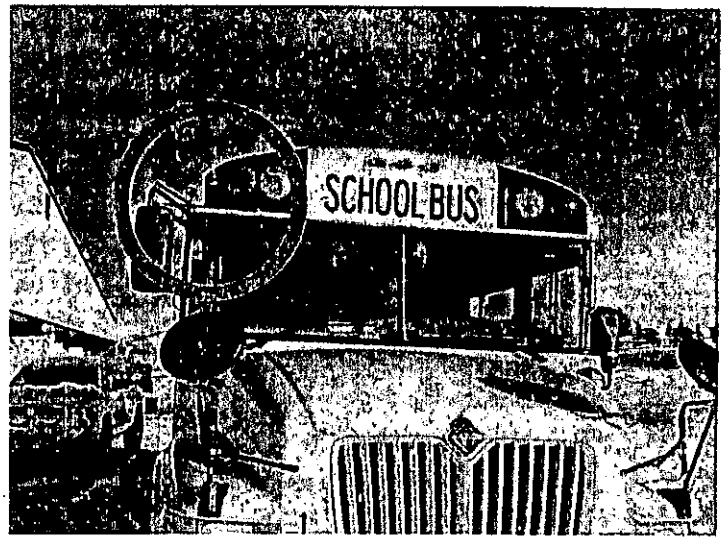
Killdeer Public School Transportation Budget

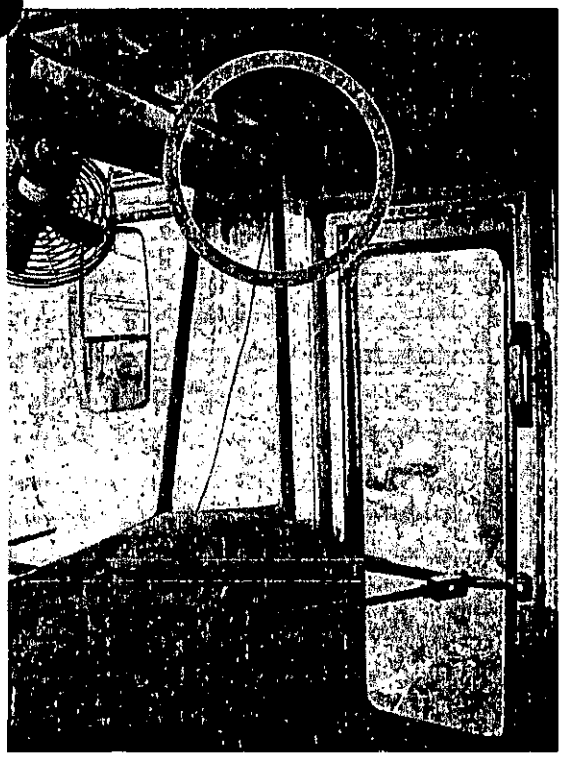
Estimated and Spent Columns from 2005 - 2009

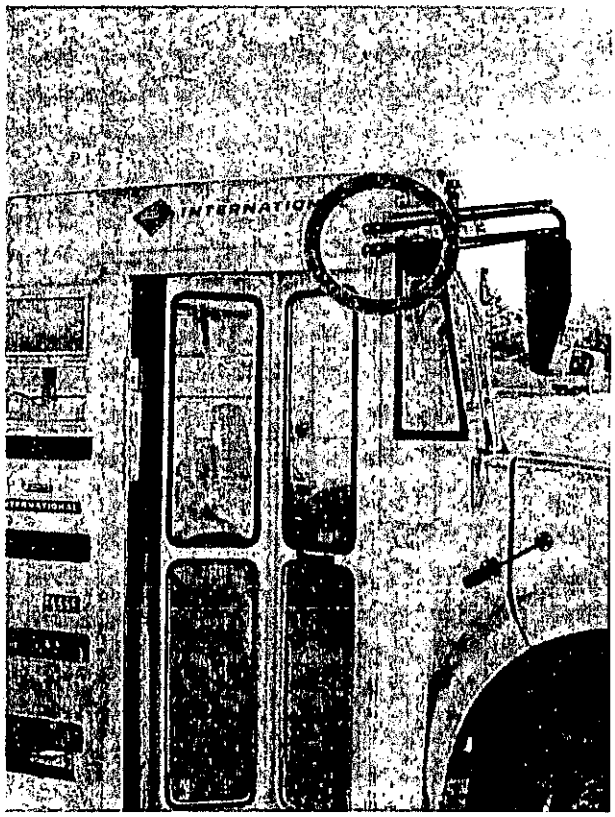
TRANSPORTATION 000-2700

Obj #	Account Title	Estimated 05-06	Spent as of Jun 06	Estimated 06-07	Spent as of Jun 07	Estimated 07-08	Spent as of Jun 08	Estimated 08-09
110	Salaries - Transportation Dir	$3,375.00	$3,374.00	$3,475.00	$3,474.97	$3,475.00	$3,474.97	$3,900.00
120	Salaries - Bus Mechanic	$14,000.00	$15,167.00	$15,000.00	$16,399.61	$16,000.00	$21,202.81	$25,500.00
121	Part Time Salary - Bus Driver	$78,000.00	$76,601.00	$79,050.00	$79,446.64	$90,000.00	$88,170.26	$85,000.00
122	Sub Salary	$3,600.00	$5,128.00	$5,000.00	$3,720.24	$5,000.00	$5,027.42	$5,500.00
210	Health Insurance	$1,150.00	$1,469.00	$1,672.00	$2,084.60	$3,600.00	$4,565.40	$4,600.00
220	FICA	$7,296.19	$7,605.00	$7,843.16	$7,798.80	$8,757.34	$8,933.37	$9,172.35
230	TFFR & PERS	$2,000.00	$2,287.00	$2,400.00	$2,088.56	$2,381.83	$2,997.56	$4,044.00
330	Other Professional Services					$1,000.00	$912.27	$1000.00
390	Physicals	$2,500.00	$2,274.00	$2,500.00	$328.00	$2,000.00	$1,338.25	$2,000.00
431	2 Way Radio.	$1,200.00	$631.00	$1,000.00	$460.72	$1,000.00	$0.00	$1000.00
432	Fire Exting. Service	$175.00	$144.00	$175.00	$230.85	$250.00	$171.10	$250.00
519	Transportation - Family Type	$4,000.00	$3,683.00	$4,000.00	$3,895.04	$4,900.00	$5,537.40	$6,000.00
520	Insurance	$3,500.00	$2,607.00	$3,250.00	$3,378.00	$4,000.00	$3,695.00	$7,000.00
580	Travel	$1,500.00	$711.00	$750.00	$26.25	$300.00	$0.00	$250.00
626	Gasoline	$150.00	$0.00	$100.00	$472.13	$500.00	$939.25	$1000.00
627	Diesel	$50,000.00	$56,626.00	$70,000.00	$54,161.10	$70,000.00	$62,100.48	$90,000.00
671	Oil And Grease	$2,000.00	$740.00	$2,000.00	$878.90	$1,400.00	$519.45	$1200.00
672	Tires And Tubes	$5,000.00	$4,509.00	$5,000.00	$1,877.64	$4,500.00	$10,182.53	$ 5,000.00
673	Repairs	$16,000.00	$20,608.00	$22,000.00	$39,105.84	$30,000.00	$39,572.59	$35,000.00
732	Vehicle Replacement	$90,000.00	$83,040.00	$47,000.00	$47,605.00	$48,350.00	$48,350.00	$115,000.00
	TOTALS	**$285,446.19**	**$287,204.00**	**$272,215.16**	**$267,432.89**	**$297,414.16**	**$307,690.11**	**$402,416.35**




SCHOOL BUS





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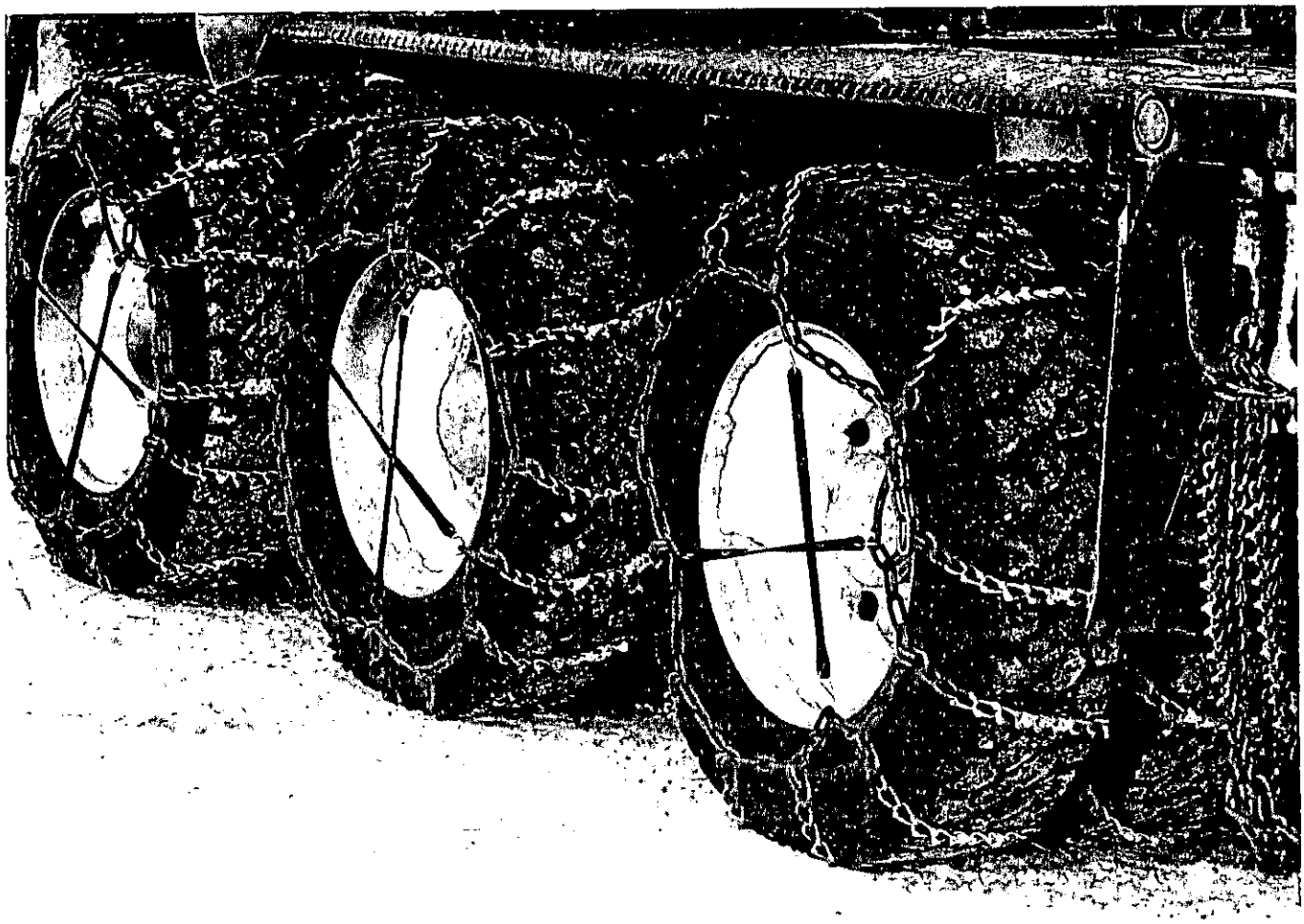


#9

NORTH DAKOTA PETROLEUM COUNCIL

Ron Ness
President

Marsha Reimnitz
Office Manager

120 N. 3rd Street • Suite 225 • P.O. Box 1395 • Bismarck, ND 58502-1395
Phone: 701-223-6380 • Fax: 701-222-0006 • Email: ndpc@ndoil.org

Senate Bill 2229 & Senate Bill 2051

Senate Finance & Tax

January 20, 2009

Chairman Cook and members of the Committee. My name is Ron Ness. I am the President of the North Dakota Petroleum Council. The North Dakota Petroleum Council represents 160 companies involved in all aspects of the oil and gas industry and has been representing the industry since 1952. As you know, the level of oil and gas activity over the past two years has increased substantially. Maintaining a quality road infrastructure in these areas is critical to the ability to develop the state's oil resources. We strongly support additional funding for oil and gas producing counties. Our industry is paying the tax; a portion of which is intended for impacts to these areas and a sufficient portion should be returned to these counties.

The oil tax distribution formula is broken and needs repair. The current lag between drilling activity and actual oil production resulting in tax revenues flowing to the state and ultimately to the counties must be addressed. The biggest impacts occur early in an oil play prior to the majority of the tax revenues returning to the counties. Counties with new production do not have the budgets/resources to maintain their roads when the impacts hit. There is no reason, with the tremendous amount of wealth that oil production has brought to our state, why counties where the wealth is generated are begging the state to have more of the revenue flowing back to their counties to assist with significant road impacts. Our member companies paid over $400 million in oil production

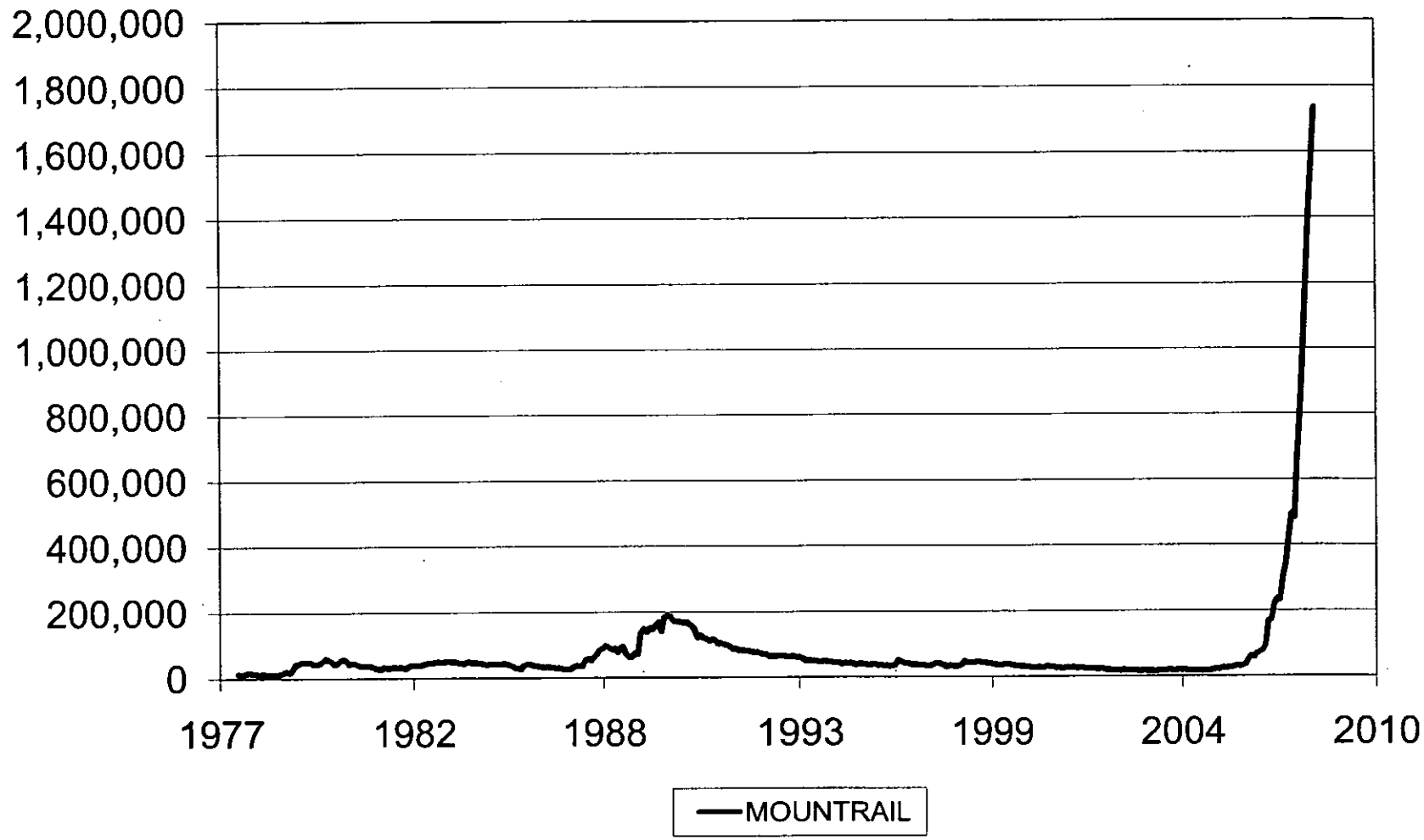
taxes to North Dakota in fiscal year 2008, and yet several of them have recognized the dire straits of budgets in certain counties and have made contributions to counties for vehicles, fire trucks, and bridges. North Dakota companies should not be put in that situation when our state is experiencing historic economic times. This bill will likely see much debate, but we hope that you can find the right level of funding to address the counties funding issues.

Section 2 of the bill was amended into this bill out of the Industrial Commission budget. The Empower Commission recommended additional funding for the Oil & Gas Research Council, as it has become a valuable component in encouraging research into Bakken completion techniques and most recently the Three-Forks formation. Supporting research that may lead to greater productivity in these prolific oil producing formations will return millions, or billions, of dollars to the State of North Dakota.

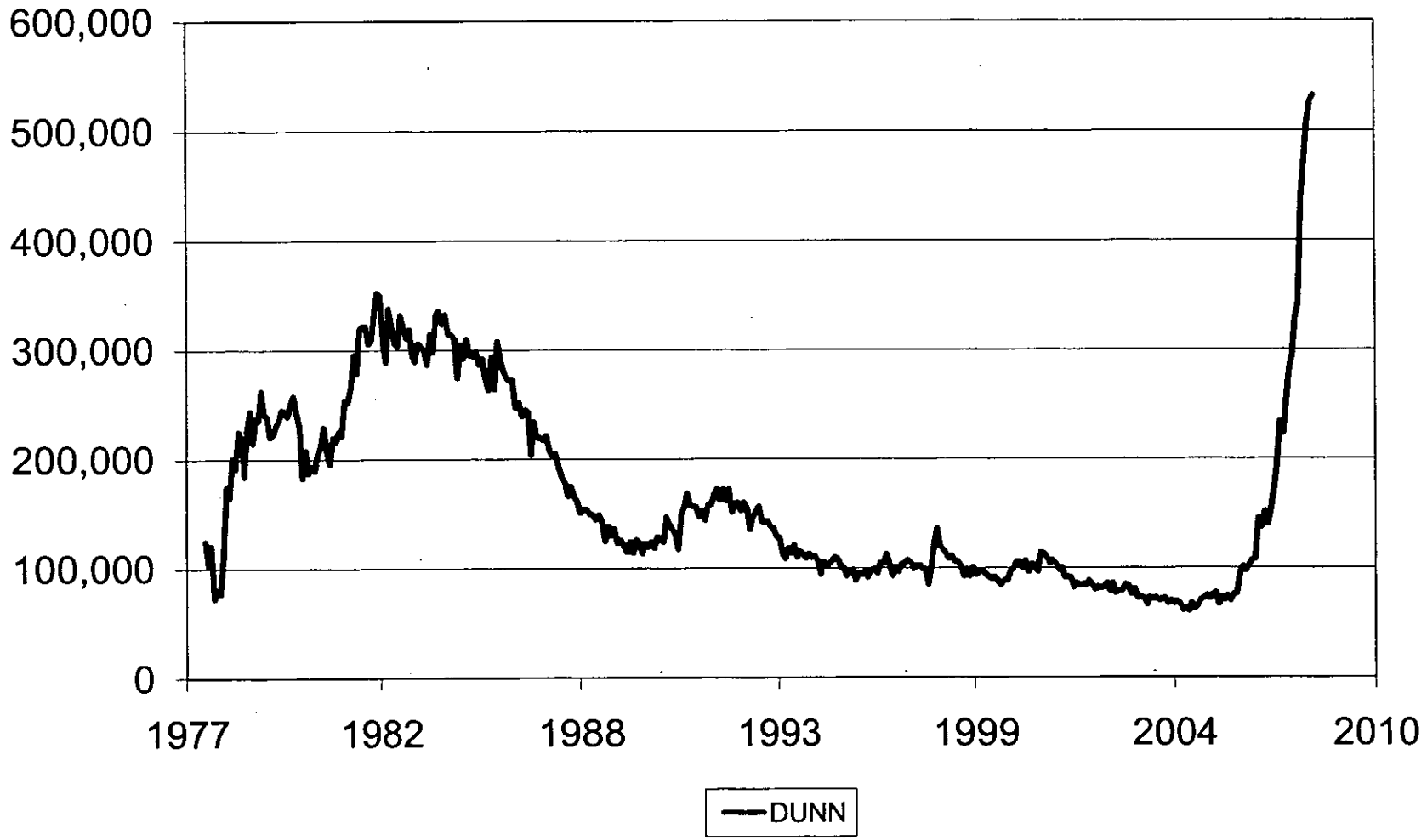
We urge you to support the increase in funding. The funding is a small portion of two percent of the oil and gas gross production revenues.

I would be happy to answer any questions.

MONTHLY OIL PRODUCTION FOR LOCAL COUNTIES



MONTHLY OIL PRODUCTION FOR LOCAL COUNTIES



#10

TESTIMONY FOR SENATE BILL 2051

AMEND SECTION 57-51-15

PREPARED FOR:

SENATE FINANCE AND TAXATION COMMITTEE

SENATOR DWIGHT COOK, CHAIRMAN

PREPARED BY:

BOWMAN COUNTY COMMISSIONERS

COUNTY OF BOWMAN
BOARD OF COUNTY COMMISSIONERS

Post Office Box 439
104 First Street NW

Bowman, ND 58623
701-523-3130

Senate Finance and Taxation Committee
Sen. Dwight Cook, Chairman

The Bowman County Commission would like to thank you for this opportunity to provide some information as to the importance of oil and gas production taxes to Bowman County. Tax revenues that come to the County have been of great assistance to the citizens of Bowman County, especially the past few years.

The demands on Bowman County have remained the same from drilling to production. The difficulties are still with Bowman County

The demands at the Auditor's Office have increased with the invoice processing with accounts payable system from the Social Services Dept., Sheriff's Dept. and Road Dept.

With the production of oil and gas comes transportation and storage of the products. The hazard that comes with production requires additional training and equipment for our local emergency responders.

The Bowman County Social Services has seen an increase of 8-10% in the last 10 years and remains steady. With the initial oil activity most workers did not bring their families to Bowman County. Now that we are in a production phase more families have moved to the area to make Bowman County their home, causing an increase use of their programs.

The court system for the county has stayed the same with their case loads, averaging 120 to 140 cases filed with the Clerk of Courts. The number of recordings in the records office has remained steady. In 1995 was a high of 4,419 to an average of 1,500 yearly from 1999 to 2008.

The number of deputies has risen from 1987-1994 with a sheriff and one part-time deputy to the present sheriff, two full-time deputies and on part-time deputy. The criminal and civil case load has gone from 156 cases in 1995 to 258 cases in 2008. The number of execution of judgments prior to 1995 was approximately 6 to a high of 24 in 2004 and present at 17 executions of judgments. Bowman County has seen a large increase in the housing of prisoners at the Southwest Multi-Correction Center. In the past housing expenses averaged 300-400 dollars an month to a present cost of 3,000-4,000 dollars a month to house prisoners. The sheriff's office has not slowed down from drilling to production phase. Number of civil process, criminal process, crime and the need for additional patrolling has steadily increases.

As for roads in Bowman County, we are seeing the need to resurface roads that were new 5 to 6 years ago. The county is running out of local gravel to continue to rebuild roads heavy enough to handle the heavy loads that are traveling on the roads. This shortage of gravel increases the cost of repairing and building of roads. The overload permits have remained steady with an average of 150 permits issued a month. Which does not include oil. water, gravel and scoria loads. The oil companies are now blending the oil from the Bakken formation with the oil in Bowman County. With this phase of production we are seeing trucks come into Bowman County loaded and leaving the county loaded.

As a result of the needs of permanent employees who work at or on these facilities or sites continue to impact the communities. The needs for housing, daycare, healthcare, schools recreation, culture, and roads are still placing demands on the county and communities of Bowman County.

Bowman County supports Senate Bill 2051. The legislation is needed to maintain and provide additional needs for the residents of Bowman County. Your support is urgently needed.

Thank you for your time and favorable consideration.

Lynn Brackel, Commissioner
Bowman County Commission
lbrackel@ndsupernet.com

NON-IMPACTED COUNTY [illegible] COST SURVEY

Item No.	COUNTY ROAD INVENTORY	TOTAL MILES ASPHALT	TOTAL MILES GRAVEL
1	COUNTY COLLECTORS (Federal Aid and others that serve as major collectors)	34	0
2	MINOR COUNTY COLLECTORS (Most roads leading to the County and State Collectors)	31	50
3	OTHER COUNTY ROADS (Secondary roads that are like township roads)	0	5

COUNTY
BOWMAN

	MAINTENANCE COSTS and FREQUENCY	COST		FREQUENCY			MILES OF NEED NEXT 3 YEARS
5	ASPHALT OVERLAY (1-1/2" or less will be considered maintenance)	N/A	per mile	every		years	
6	ASPHALT CHIP SEAL (Include oil, chips, equipment and labor to complete)	$14,000	per mile	every	7	years	25
7	ASPHALT REPAIR (include cold mix, patching and crack sealing)	$500	per mile	every	1	years	195
8	BLADING GRAVEL ROADS (Include equipment, labor, fuel and repairs)	$65	per mile		1	per month	990
9	GRAVEL SURFACING REPAIRS (spot graveling, 2" lift or less for maintenance)	$600	per mile	every	7	years	25
10	GRAVEL CRUSHING (Include equipment, fuel, labor, testing and royalty)	$3.25	per ton/CY	<-Circle ton or CY			
11	GRAVEL HAULING AND LAYING (Based on average haul miles in County) (Include loading, hauling, laying and all other costs)	$5.75	per ton/CY	<-Circle ton or CY			

	RECONSTRUCTION COSTS and FREQUENCY	COST		FREQUENCY			MILES OF NEED NEXT 3 YEARS
12	MINE AND BLEND REHAB. (Includes Milling, 0" to 2" Graveling, and Chip Seal)	$72,500	per mile	every	25	years	8
13	ASPHALT SURFACE TREATMENT (Includes 3"or Thicker Graveling and Chip Seal)	$103,500	per mile	every	N/A	years	
14	ASPHALT OVERLAY (Includes milling and 2" to 3" overlay)	N/A	per mile	every	N/A	years	
15	NEW HOT BIT. PAVING (Includes 3" to 5" for new pavement)(Specify thickness in notes)	N/A	per mile	every	N/A	years	
16	GRAVEL RESURFACING (3" to 4")(Based on average haul miles in County) (Include loading, hauling, laying and all other costs)	$24,000	per mile	every	15	years	12
17	NEW GRAVEL SURFACING (4" to 6" -Specify)(Based on average haul miles in County) (Include loading, hauling, laying and all other costs)	$58,500	per mile	every	N/A	years	
18	ROAD RECONSTRUCTION(Needed to improve safety/widening to accommodate surfacing) (Cost for Dirt Work, Culverts, Erosion Control, etc., do not include surfacing)	$90,000	per mile				

	NOTES (Enter item no. and comments below)
6	22 wide = 12,900 sy @ $1.10 = $14,000
7	15 days patching @ $1600/day = $24,000 and 100 ton cold mix @ $80/ton = $8,000 Total $32,000/65 miles = $500/mile
8	Blade cost of $750/day - blade 12 miles/day = $65/mile
9	50 ton per mile @ $9.00 =$450 - 2 Hr. blade @ $75/Hr.= $150 for Total of $600/mile
10	Ave. price for 2007
11	Average haul in Bowman County is 10 miles
12	Recyle surface @ $7,500/ mile - 2" gravel is 2200 ton @ $9.00 = $20,000 - Double Chip Seal = $45,000/ mile - Total $72,500
13	6500 ton gravel @ $9.00 = $58,500 - double chip seal @ $45,000/ mile Total $103,500
16	(3" compacted) 2700 ton/ mile @ $9.00 = $24,000/ mile
17	(8" compacted) 6500 ton/ mile @ $9.00 = $58,500/ mile
18	Average per mile cost 2007

OIL AND GAS IMPACTED COUNTY ROAD COST SURVEY

COUNTY
BOWMAN

COUNTY ROAD INVENTORY

Item No.		TOTAL MILES ASPHALT	TOTAL MILES GRAVEL
1	COUNTY COLLECTORS (Federal Aid and others that serve as major collectors)	68	21
2	MINOR COUNTY COLLECTORS (Most roads leading to the County and State Collectors)	0	51
3	OTHER COUNTY ROADS (Secondary roads that are like township roads)	0	6

MAINTENANCE COSTS and FREQUENCY

		COST		FREQUENCY			MILES OF NEED NEXT 3 YEARS
5	ASPHALT OVERLAY (1-1/2" or less will be considered maintenance)	N/A	per mile	every		years	
6	ASPHALT CHIP SEAL (Include oil, chips, equipment and labor to complete)	$20,000	per mile	every	3	years	68
7	ASPHALT REPAIR (include cold mix, patching and crack sealing)	$1,300	per mile	every	1	years	204
8	BLADING GRAVEL ROADS (Include equipment, labor, fuel and repairs)	$75	per mile		2	per month	2808
9	GRAVEL SURFACING REPAIRS (spot graveling, 2" lift or less for maintenance)	$600	per mile	every	3	years	68
10	GRAVEL CRUSHING (Include equipment, fuel, labor, testing and royalty)	$3.25	per ton/CY	<-Circle ton or CY			
11	GRAVEL HAULING AND LAYING (Based on average haul miles in County) (Include loading, hauling, laying and all other costs)	$5.75	per ton/CY	<-Circle ton or CY			

RECONSTRUCTION COSTS and FREQUENCY

		COST		FREQUENCY			MILES OF NEED NEXT 3 YEARS
12	MINE AND BLEND REHAB. (Includes Milling, 0" to 2" Graveling, and Chip Seal)	$72,500	per mile	every	15	years	15
13	ASPHALT SURFACE TREATMENT (Includes 3"or Thicker Graveling and Chip Seal)	$103,500	per mile	every	N/A	years	29
14	ASPHALT OVERLAY (Includes milling and 2" to 3" overlay)	N/A	per mile	every	N/A	years	
15	NEW HOT BIT. PAVING (Includes 3" to 5" for new pavement)(Specify thickness in notes)	N/A	per mile	every	N/A	years	
16	GRAVEL RESURFACING (3" to 4")(Based on average haul miles in County) (Include loading, hauling, laying and all other costs)	$24,000	per mile	every	5	years	35
17	NEW GRAVEL SURFACING (4" to 6" -Specify)(Based on average haul miles in County)	$58,500	per mile	every	5	years	12
18	ROAD RECONSTRUCTION(Needed to improve safety/widening to accommodate surfacing) (Cost for Dirt Work, Culverts, Erosion Control, etc., do not include surfacing)	$105,000	per mile				29

NOTES (Enter item no. and comments below)

6 31 wide = 18,100 sy @ $1.10 = $20,000

7 30 days patching @ $1800/day = $54,000 (includes flagging) and 500 ton cold mix @ $80/ton = $40,000 Total $94,000/68 miles = $1,300/mile

8 Blade cost of $750/day - blade 10 miles/day = $75/mile Note: Total miles in three years is 78 mile x 12 per year x 3 years

9 50 ton per mile @ $9.00 =$450 - 2 Hr. blade @ $75/Hr = $150 for Total of $600/mile

10 Ave. price for 2007

11 Average haul in Bowman County is 10 miles

12 Recyle surface @ $7,500/ mile - 2" gravel is 2200 ton @ $9.00 = $20,000 - Double Chip Seal = $45,000/ mile - Total $72,500

13 6500 ton gravel @ $9.00 = $58,500 - double chip seal @ $45,000/ mile Total $103,500

16 57 Miles of minor and secondary (3" compacted) 2700 ton/ mile @ $9.00 = $24,000/ mile

17 21 miles of collector (8" compacted) 6500 ton/ mile @ $9.00 = $58,500/ mile

18 Average per mile cost 2007

Bowman County

Non-impacted verses Oil and Gas Impacted

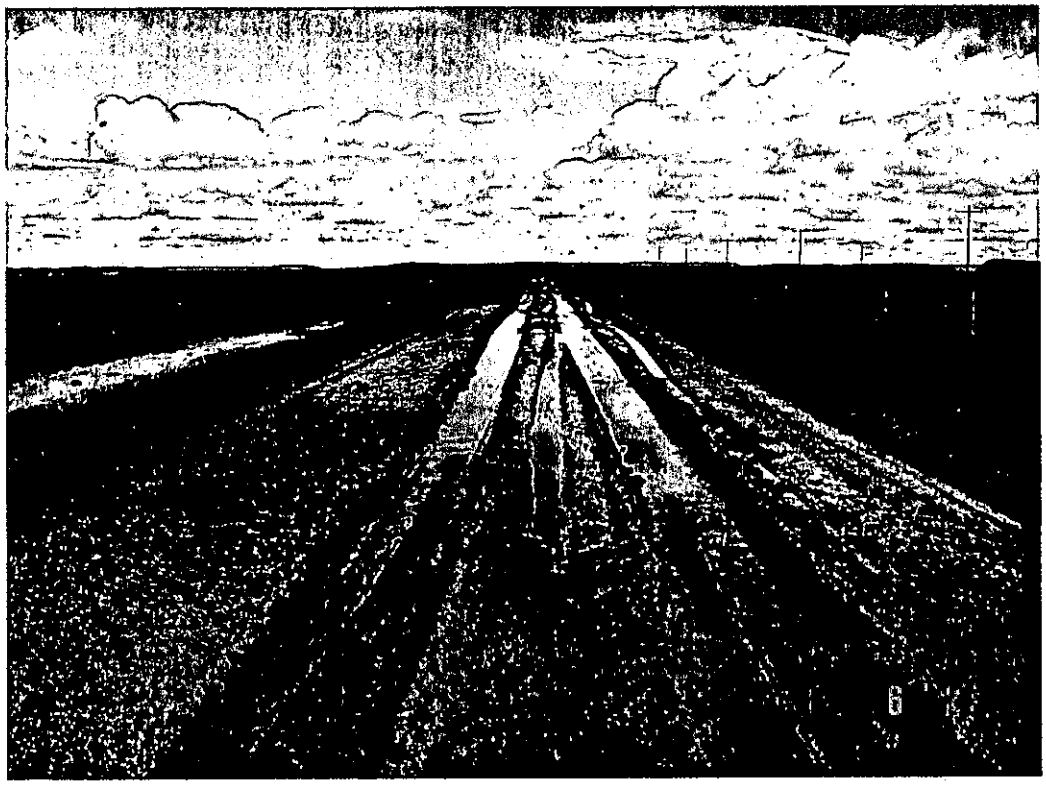
Non-impacted Roads

Item No.	Cost/mile	miles	Total
6	$14,000	25	$350,000
7	$500	195	$97,500
8	$65	990	$64,350
9	$600	25	$15,000
12	$72,500	8	$580,000
16	$24,000	12	$288,000
TOTAL			$1,394,850

Oil and Gas Impacted Roads

Item No.	Cost/mile	miles	Total
6	$20,000	68	$1,360,000
7	$1,300	204	$265,200
8	$75	2808	$210,600
9	$600	68	$40,800
12	$72,500	15	$1,087,500
13	$103,500	29	$3,001,500
16	$24,000	35	$840,000
17	$58,500	12	$702,000
18	$105,000	29	$3,045,000
TOTAL			$10,552,600

LOOP ROAD – SPRING

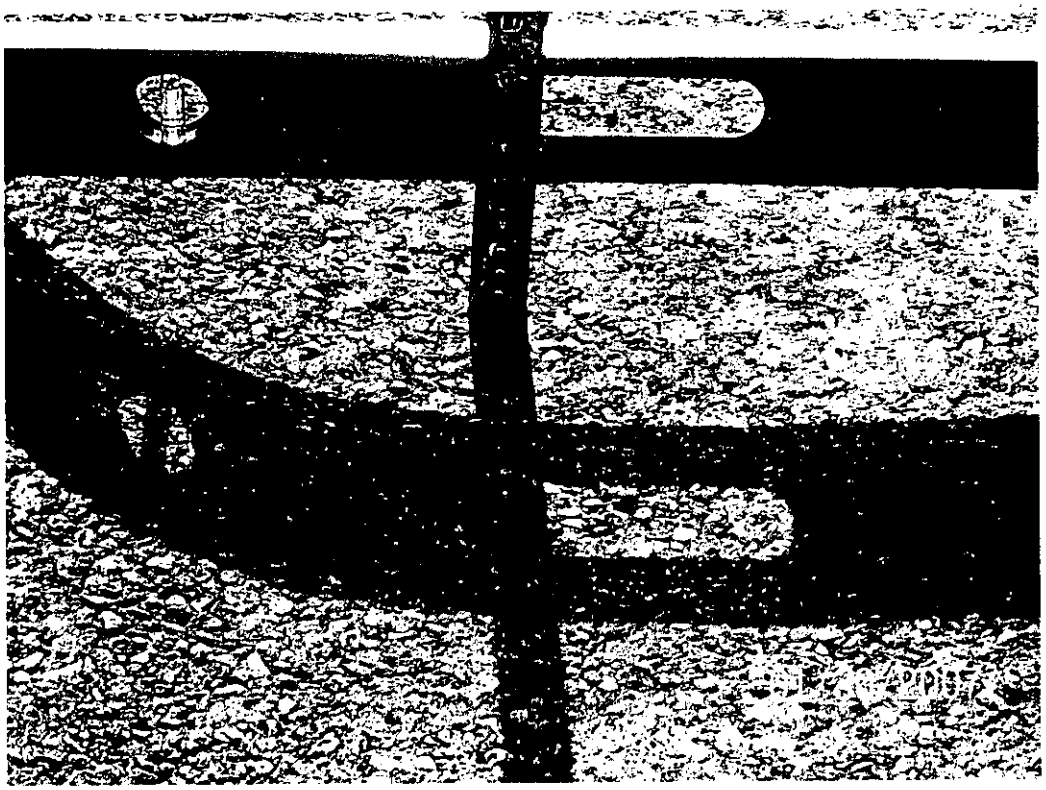


LOOP ROAD – SPRING

TOWNSHIP ROAD

TOWNSHIP ROAD

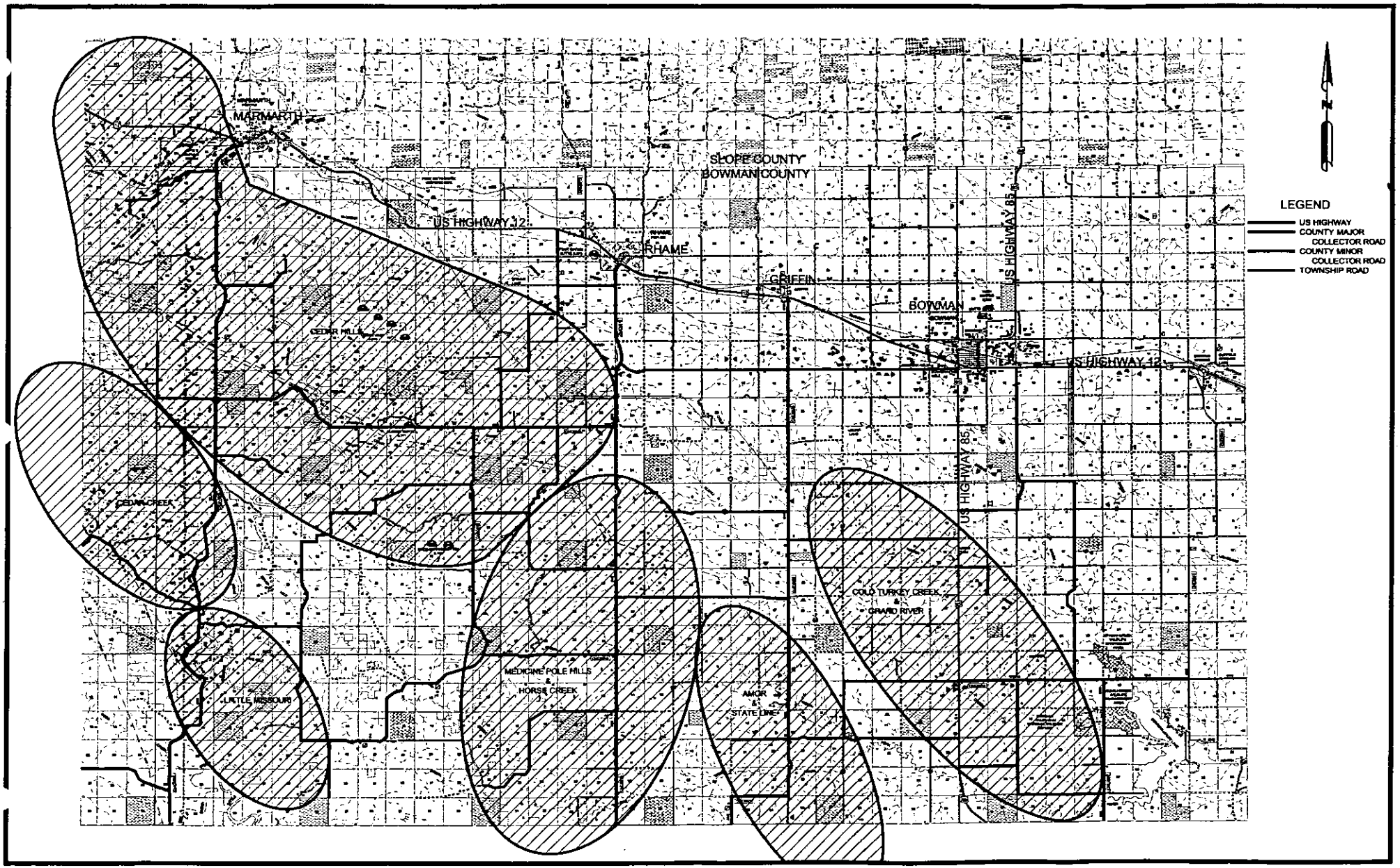
RHAME ROAD



RHAME ROAD

GRIFFIN-RHAME CUT ACROSS

GRIFFIN-RHAME CUT ACROSS


MARMARTH
SLOPE COUNTY
BOWMAN COUNTY
US HIGHWAY 12
RHAME
GRIFFIN
BOWMAN
US HIGHWAY 85
US HIGHWAY 12
CEDAR HILLS
DEBAN CREEK
LITTLE MISSOURI
MEDICINE POLE HILLS
&
HORSE CREEK
AMOR
&
STATE LINE
COLD TURKEY CREEK
&
GRAND RIVER
LEGEND
US HIGHWAY
COUNTY MAJOR
COLLECTOR ROAD
COUNTY MINOR
COLLECTOR ROAD
TOWNSHIP ROAD

#11

PHONE NUMBER:
701-523-3309

CITY OF
BOWMAN

FAX NUMBER:
701-523-5716

P.O. BOX 12
BOWMAN, N.D. 58623

January 20, 2009

Mr. Chairman and Committee Members:

My name is Lyn James, President of the Bowman City Commission. I am here to testify in support of SB 2051.

You have heard Bowman County, and the other oil producing counties, present effective and informative testimonies clearly explaining their needs for the oil-extraction taxes as the oil industry impacts their roads, bridges and other infrastructure.

I ask you to remember that the impact extends into our towns and cities as well.

The City of Bowman receives a portion of the oil extraction taxes, to the maximum available for our population. Those funds are a God-send as we struggle to provide essential services. The City needs to assist in all areas of services, and also maintain infrastructure put in place during the exploration phase, as well as the production phase. For example, the City has to replace one major street that is being pounded by oil trucks. The 6-7 block construction costs will be at least $1,000,000. We have also needed additional road enhancement on the outer limits of our city.

Each year since 2005, the City of Bowman has reached the maximum funding allowed by the formula put in place in 1983. Because of continued demands over the years, funding is tight. Our tax base is limited, and consequently, the City Commission has taken the unpopular step to increase our general fund mill levy for 2009 by, and I'll tell you that the Commission has taken a lot of heat over this decision.

Bowman has maintained a stable population, thanks in most part, to the oil industry. With that in mind, we have seen a burden on our police department. The additional staffing and equipment equates to approximately $98,000.00 annually. There is need for additional and more specialized fire equipment, as well the space

and related expenses to house this equipment. Enhanced ambulance services and equipment has been essential. Training requirements in each of the areas I have spoken of has been an issue as well. In order to keep quality employees in place, the City has also seen the need to be competitive with the oil industry in the area of salaries and benefits.

The City strives to enhance "quality of place" issues, in order to encourage families who are drawing oil-related salaries to select Bowman as their home community. Some of those essential services are public safety, transportation enhancement and healthcare, as well as cultural and recreational facilities and services.

These "quality of place" issues are very difficult to quantify from a dollar and cent perspective, but have continued to be a significant public need.

In regard to the Energy Impact Grants, the City of Bowman encourages you to expand that fund in order to meet more energy impact funding needs. I have included information regarding grant requests and receipts from our City, Fire Department and Healthcare Services for the past six years.

We support Senate Bill 2051. Such legislation will allow additional energy dollars to come back to the Bowman area, as well as our neighbors in the North Dakota oil country.

Thank you for your time.

Respectfully submitted,

Lyn James
President, City Commission

ENERGY IMPACT GRANT REQUESTS
20 - 2008

SW HEALTHCARE:

03	04	05	06
Request: $200,000 Salaries	$135,000 Phys. Salary	$35,000 Port X-Ray	$20,000 Ambulance
Receive: $40,000	$10,000	$10,000	$5,000
Request: $14,600 Pharm. Supplies	$12,000 Drug Testing		$7,450 Pharm. Supplies
Receipt: $5,000	$5,000		$2,000
Request: $100,000 X-Ray Equip	$20,000 Ambulance		$22,000 Phys. Recruit
Receipt: -0-	$5,000		$5,000
Request: $5,000 Training Supplies	$3,853 Pharm. Supplies		$30,000 Remodel
Receipt: $4,000	$1,000		-0-
Request: $20,000 Ambulance			
Receipt: $5,000			
Request: $13,000 Bathrooms			
Receipt: -0-			

	07	08
Request:	$30,500 Ambulance/	$20,000 Ambulance
Receipt:	$5,000	$5,000
Request:		$13,266 Pharm. Supplies
Receipt:		-0-

FIRE DEPT:

03		04	05	08
Request	$70,000 Rescue Unit	$40,000 Rescue Unit	$5,000 Foam Truck Rep.	$400,000 New Fire Hall
Receipt:	$10,000	$5,00	$2,500	$20,000

CITY OF BOWMAN

03		04	05	06
Request:	$25,000 Solar Bee	$10,000 Poli[redacted]	$40,000 Chip Seal	$50,000 New Shop
Receipt:	$5,000	$4,000	$10,000	-0-
	Public Safety			
Request:	$10,000 Vehicle	$82,000 Chip Seal	$150,000 Water Main	$15,000 11th Ave No.
Receipt:	-0-	$10,000	-0-	$5,000
Request:			$200,000 Reservoir Cover	
Receipt:			-0-	

07
Request: $20,000 Cemetery Road
Receipt: $2,000

****

City of Bowman: 2003 thru 2008

Requests: $492,000
Receipts: $36,000

Fire Dept: 2003 thru 2008

Requests: $480,000
Receipts: $32,500

SW Healthcare: 2003 thru 2008

Requests: $701,669
Receipts: $107,000

Extra Testimony #2

In support of SB 2051:

Good Morning Chairman Cook and members of the Senate Finance and Taxation Committee.

I am Larry Syverson a farmer from Mayville, I am the Chairman of Roseville Township of Traill County. I am also a District Director of the North Dakota Township Officers Association. NDTOA represents six thousand Township Officers in eleven hundred dues paying townships.

This morning I come before you to state that at our convention this last December the NDTOA membership unanimously passed a resolution to remove the caps from the oil impact funds.

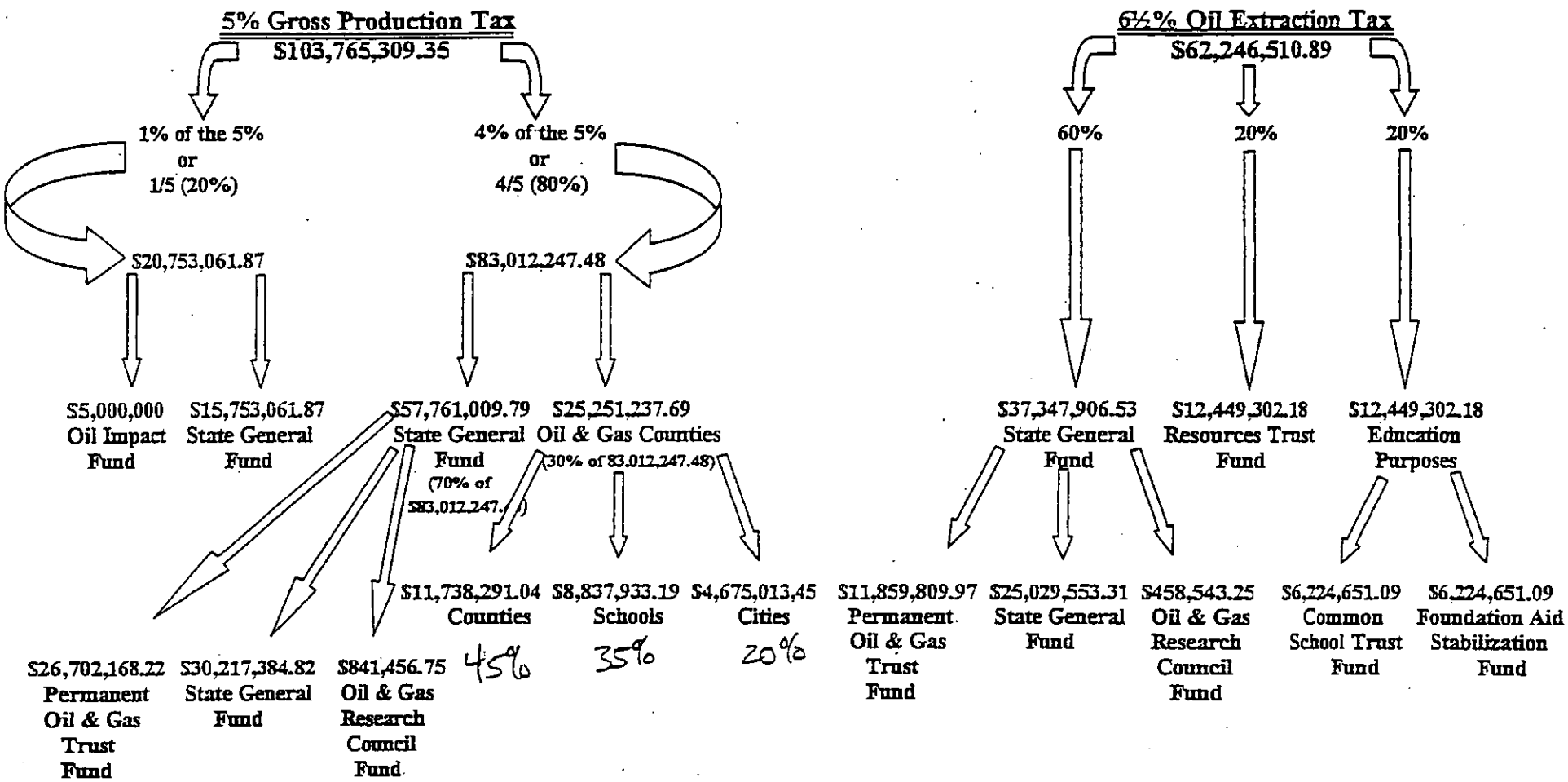
Therefore I ask you to support SB 2051 and let the energy producing counties and townships maintain their roads and keep them safe.

nario #2

Current Oil [redacted] Distribution

(Fiscal Year 2005- 2006 [July 1, 2005 thru June 30 ,2006] Revenue Totals & Distribution)

$166,011,820.24 Received



Summary:

$103,765,309.35 + $62,246,510.89 = $166,011,820.24

Oil Impact	State General	Resources Trust	Counties	Schools	Cities	Permanent Oil & Gas Trust	Oil & Gas Research Council	Common School Trust	Found. Aid Stab.
$5,000,000.00	$15,753,061.87	$12,449,302.18	$11,738,291.04	$8,837,933.19	$4,675,013.45	$11,859,809.97	$458,543.25	$6,224,651.09	$6,224,651.09
(3%)	$25,029,553.31	(7%)	(7%)	(5%)	(3%)	$26,702,168.22	$841,456.75	(4%)	(4%)
	$30,217,384.82					$38,561,978.19	$1,300,000.00		
	$71,000,000.00					(23%)	(1%)		
	(43%)								

Oil Extraction Tax & Oil and Gas Gross Production Tax Revenues
Annual Oil Production and Average Posted Field Price
And Average Effective Tax Rate

	Oil Extraction	*Gross Production*	*Combined*	*Annual Production In Barrels*	*Average Price Per Barrel*	*Average Effective Tax Rate*
FY 80	0	$ 29,601,845	$ 29,601,845	40,354,036	$ 38.04	5.00%
FY 81 (1)	$ 23,651,815	63,754,409	87,406,224	45,706,999	36.26	6.85%
FY 82	89,141,246	79,794,487	168,935,733	47,548,563	32.68	10.59%
FY 83	86,952,446	79,715,144	166,667,590	50,736,433	29.02	10.45%
FY 84	91,472,873	85,122,189	176,595,062	52,663,425	29.10	10.37%
FY 85	77,799,141	73,014,024	150,813,165	50,938,289	26.38	10.33%
FY 86	62,565,514	57,208,654	119,774,168	45,604,775	14.58	10.47%
FY 87	34,988,979	34,356,907	69,345,886	41,347,241	17.43	10.09%
FY 88	36,954,125	35,259,694	72,213,819	39,338,530	14.42	10.24%
FY 89	27,398,372	29,385,521	56,783,893	36,725,255	17.74	9.66%
FY 90	30,847,416	33,902,581	64,749,997	36,711,859	22.49	9.55%
FY 91	38,274,835	47,316,794	85,591,629	35,893,823	19.60	9.04%
FY 92	26,677,270	32,517,549	59,194,819	32,895,586	18.93	9.10%
FY 93	26,606,259	29,792,007	56,398,266	30,908,150	16.27	9.47%
FY 94	16,218,450	22,118,770	38,337,220	27,677,551	14.73	8.67%
FY 95	16,354,433	23,787,276	40,141,709	29,335,824	16.09	8.44%
FY 96	16,467,484	26,905,996	43,373,480	32,298,918	19.42	8.06%
FY 97	19,079,936	34,772,117	53,852,053	35,829,185	17.43	7.74%
FY 98	15,328,212	29,521,309	44,849,521	35,558,361	10.47	7.60%
FY 99	12,074,588	22,705,995	34,780,583	32,879,591	15.09	7.66%
FY 00	21,023,977	38,041,008	59,064,985	32,720,222	25.78	7.76%
FY 01	24,793,997	46,029,027	70,823,024	31,692,613	21.00	7.69%
FY 02	17,068,846	36,515,072	53,583,918	30,803,563	21.18	7.34%
FY 03	22,618,069	43,477,533	66,095,602	29,255,458	25.97	7.60%
FY 04	25,638,914	47,519,075	73,157,989	31,089,882	35.83	7.70%
FY 05	45,566,628	74,046,219	119,612,847	35,545,663	51.09	8.08%
FY 06	65,122,617	104,378,689	169,501,306	39,881,506	57.86	8.12%
FY 07	69,409,618	118,782,343	188,191,961	45,051,065	64.36	7.92%

(1) The Oil Extraction Tax became effective January 1, 1981

NOTE: Revenues are on fiscal year basis; production, price and effective tax rate are on calendar year basis

Attachment #1

INDUSTRIAL COMMISSION OF NORTH DAKOTA

OIL AND GAS RESEARCH COUNCIL

Governor
John Hoeven
Attorney General
Wayne Stenehjem
Agriculture Commissioner
Roger Johnson

Testimony on Engrossed Senate Bill 2051
House Natural Resources Committee
February 27, 2009
Karlene Fine, Executive Director and Secretary for the Industrial Commission of North Dakota

Same Testimony to Senate Approps 2-10-09

For the record, my name is Karlene Fine and I serve as Executive Director and Secretary for the North Dakota Industrial Commission.

The Oil and Gas Research Program was established in 2003 as a state/industry partnership. The Program is currently funded by two percent of the State's share of the oil and gas production tax and oil extraction tax, up to $3 million a biennium. The mission of the Program is to promote the oil and gas industry through research and education.

The law states that the Oil and Gas Research Program shall:

- Promote efficient, economic and environmentally sound exploration, development and use of North Dakota's oil and gas resources.
- Preserve and create jobs involved in the exploration, production and utilization of North Dakota's oil and gas resources.
- Ensure economic stability, growth and opportunity in the oil and gas industry.
- Encourage and promote the use of new technologies and ideas that will have a positive economic and environmental impact on oil and gas exploration, development and production in North Dakota.
- Promote public awareness of the benefits and opportunities provided by the North Dakota oil and gas industry.

Since the Program was implemented the Commission has approved funding of 38 projects totaling $4,217,273. (Attached to my testimony is a list of the projects that were approved during the 2007-2009 biennium.) The Oil and Gas Research Program is structured similar to the Lignite Research, Development and Marketing Program. There is a ten-person advisory council made up of six representatives from the oil industry, a representative of the Oil and Gas Producing Counties, a county commissioner, the State Geologist and the Director of the Oil and Gas Division. There is a multi-tiered review and approval process before a project is funded. Here is how it works.

- Applications are received by the application deadlines (generally there are two grant rounds each year) and the initial review process is conducted at the staff level. A determination is made as to whether or not the application meets the Program criteria.

Oil and Gas Research Council (OGRC)
State Capitol, 14th Floor - 600 E Boulevard Ave Dept 405 - Bismarck, ND 58505-0840
E-Mail: kfine@nd.gov PHONE: 701-328-3722 FAX: 701-328-2820

- If the application meets the criteria then it is forwarded to independent technical reviewers with expertise in the area of the application. For example if the application deals with research for a technology to enhance drilling operations, the application would be reviewed by individuals that are actively working in the industry and with expertise in the mechanics of drilling. If the application dealt more in the area of geology, then we would seek expertise in that field. The technical reviewer comments are then given to the applicant so the applicant has an opportunity to respond to the comments. The reviews and responses are then forwarded to the Oil and Gas Research Council along with the application and the Technical Advisor's recommendation and an opportunity is given to the applicant to make a presentation to the Council.
- If the application is approved by the Council it is then forwarded to the Industrial Commission for consideration.

The Oil and Gas Research Program has been set up to direct 77% of its funds for research and 10% for education with the remaining funds used for the Pipeline Authority (10%) and for administration (3%) of the program.

Examples of work that has been done through this Program in the Research area are:

- Surface Tiltmeter Study of a Bakken Fracture Stimulation
- Hydraulic Fracturing & Microseismic Monitoring Project
- Plains CO2 Reduction Partnership
- Preliminary Engineering Feasibility Study for a Refinery
- Purpose Fit Portable Multi-Phase Production Measurement
- Determination of the Uniqueness of Reserves and Productivity from the Middle Bakken and the Three Forks Sanish Zones

Examples in the Education area include:

- Petroleum Safety and Technology Center
- Teacher Seminars
- Education for Oilfield Fire Safety
- Contribution of Petroleum Industry to the State's Economy (developing a baseline of information)
- Oil and Gas Education Program in the Schools

Information on all the projects funded by the Program is available on the Industrial Commission website. http://www.nd.gov/ndic/ogrp-infopage.htm The dollars invested by the State in these projects is also matched so that every dollar provided by the Program is leveraged. As with the other Industrial Commission administered research programs the Commission believes having a partner in the project leads to projects being conducted that have a value to the industry and State and is not just research for research sake.

Early this month the Oil and Gas Research Council met and considered five applications. These five applications represent projects that total over $11 million with requested funding from the

Oil and Gas Research Fund of over $2.7 million in just this one grant round. Of these five applications the Council and subsequently the Industrial Commission approved funding for four of the five projects of just over $830,000 – the remaining amount that was available. These projects include one education project and three research projects that include the recovery and reuse of water that is used for fracturing in the oil field; development of drilling tools used in horizontal drilling, and determination of reserves between the Middle Bakken and Three Forks formations. These are examples of the type of research that has been funded in the past and we hope will continue to be presented to the Council/Commission in the future.

The EmPower North Dakota Commission did not include a specific dollar amount in their 2008-2025 Comprehensive State Energy Policy. However, they did state the following two provisions regarding the Oil and Gas Research Fund:

"Support research of horizontal drilling, completion and production techniques through the Oil and Gas Research Fund."

"Consider raising the biennial cap on the Oil and Gas Research Fund. Additional funds could be used to develop a public education program to increase understanding of oil and gas exploration and refining; how oil and gas gets to markets' and the barriers involved in the process. Additional funds could also be used to create an Oil and Gas program similar to the Lignite Vision 21 program to advance economically feasible projects."

Engrossed Senate Bill 2051 would raise the limit on funds going into the Oil and Gas Research Fund to $6 million dollars from its current level of $3 million. The Governor's Executive Budget had proposed that the limit be $5 million.

Projects Funded through the Oil and Gas Research Fund (OGRF) 2007-2009 Biennium

Project Title	Applicant	Amount Awarded	Total Project Cost	% Funded by OGRF	Project Description
Preliminary Engineering Feasiblity Study - Refinery	Northwest Refining	$40,000	$80,000	50%	This preliminary feasibility engineering study is to explore all of the factors involved in the development, construction, and operation of a 50,000 bbl/day oil refinery in the Williston area.
Hydraulic Fracturing & Microseismic Monitoring Project - Bakken Consortium	Headington & Bakken Consortium	$750,000	$14,000,000	5%	The purpose of this project includes the drilling of three parallel horizontal wells (two producing wells and one monitoring well) into the middle member of the Bakken Formation within a single 640-acre spacing unit. Substantial geological, engineering, and geophysical data acquired by this project should allow for the better understanding of completion effectiveness and oil recovery in the Bakken Formation.
Surface Microseismic Study of a Bakken Simultaneous Fracture	Marathon Oil Company	$207,550	$415,000	50%	Conduct a surface microseismic study of a simultaneous hydraulic fracture stimulation on two newly drilled, closely spaced North Dakota Bakken horizontal wells. This study is to understand the mechanics of a simultaneous fracture stimulation in the Bakken between two parallel horizontal wells drilled in the same 1280 acre drilling and spacing unit and compare the results to a microseismic study of a single well stimulation.
Plains CO2 Reduction Partnership - Phase III	Energy & Environmental Research Center	$500,000	$135,731,052	0.40%	Phase III of the PCOR Partnership will include, among other tasks, commercial-scale field demonstration projects that focus on injecting CO2 into geologic formations.
Geomechanical Study of Bakken Formation in the Nesson Anticline	University of North Dakota	$377,967	$100,000	27%	Determine the in-situ stress field of the targeted formation for better design of horizontal wells and hydraulic fracturing; measure geomechanical proeprties; develop local geomechanical laboratory capacities; establish lab facilities to teach lab classes for courses that include geomechanics components
Purpose-Fit Portable Multi-Phase Production Measurement System	Ward Williston Oil Company	$98,000	$196,000	12%	Create and use a purpose-built portable production measurement system to measure flow rates from pumping wells involved in conventional and enhanced recovery operations.

Town Hall Meeting - A Conversation on Oil & Gas	ND Association of Oil & Gas Producing Counties	$10,000	$20,000	50%	Host six informal town hall meetings to provide information and allow the public to have conversations about oil and gas development in western ND. Provide a "frequently asked" questions informational document.
Good Neighbor Initiative and Outreach Program	ND Petroleum Council	$50,000	$133,000	38%	To bring focus on engaging in a continuous dialogue about the key issues relating to oil and gas development with neighbors, policy makers and the general public.
Contribution of Petroleum Industry to the ND Economy	ND Petroleum Council	$13,000	$26,000	50%	To estimate the contribution of the petroleum industry to the ND economy, measured by indicators such as employment, income, additional gross receipts in various sectors of the state economy, and revenues from selected state taxes. This is an update of a previous study.
Improved Directional Drilling Technology for the Bakken Formation	Laserlith Corporation	$200,000	$1,207,000	17%	To develop a redesign of horizontal drilling tools by including the use of a miniature gyroscope in the drilling assemblage.
Commercial Driver Training Program	Fort Berthold Community College	$11,900	$137,106	9%	To provide funding for two-part time positions for the start-up and operations for a one-year program to train individuals interested in careers in driving, with a focus on providing a skilled and safe workforce for the oil industry.
Bakken Water Opportunities Assessment	Energy & Environmental Research Center	$25,000	$60,000	42%	To investigate the recycling of water flowed-back after Bakken fracture stimulation and assess the technical and economic potential of such recycling.
Determination of the Uniqueness of Reserves and Productivity from the Middle Bakken and the Three Forks Sanish Zones	Continental Resources, Inc.	$600,000	$7,395,000	8%	To determine if the Middle Bakken and Three Forks production are separate and distinct reservoirs. If the two intervals are separate and distinct, producible reserves per spacing unit would greatly increase with proper development.

VOLUME III ISSUE I

Attachment #2

Oil&GasTIDBITS

NORTH DAKOTA PETROLEUM COUNCIL

We Keep North Dakota Going Strong

Oil & Gas Economic Impacts Double in North Dakota

Increased Oil & Gas Activity Benefits the State

North Dakota State University researchers recently announced that the oil and gas industry doubled its total business activity from $3.9 billion in 2005 to $8.22 billion in 2007, making it one of the state's largest industries. This study, a follow-up to the 2005 study, was funded by the North Dakota Petroleum Council with grant support from the Oil and Gas Research Council.

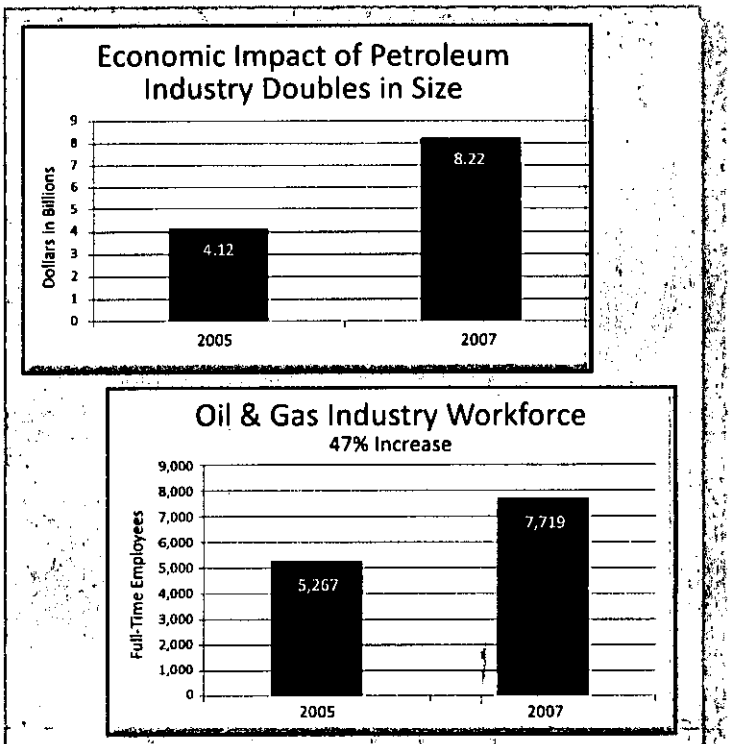
"This study confirms the ever-growing contribution and significant impact that the oil and gas industry has on North Dakota," said Ron Ness, President of the North Dakota Petroleum Council. "The petroleum industry is a leading economic driver for North Dakota, second only to agriculture, in terms of benefiting our residents through jobs creation, tax relief and total business activity."

The study shows that the petroleum industry created nearly 2,500 new jobs between 2005 and 2007, going from a total of 5,267 to 7,719 full-time employees (47% increase). These jobs generated an estimated $1.46 billion in direct personal income in 2007. Furthermore, the study reveals that the industry created secondary employment impacts sufficient to support 38,500 full-time jobs.

The entire state also benefits from the taxes generated from the growth in oil and gas activity. The industry has created tremendous wealth in the state by paying $400 million in royalty payments.

"Our researchers have conducted numerous impact studies of other business sectors in North Dakota, and we've yet to see such phenomenal growth in jobs and expenditures in just two years," said NDSU Economist Dean Bangsund.

The study shows that the petroleum industry paid $519.8 million in state and local taxes in 2007. These taxes were used to provide property tax relief and support for a variety of programs and services including education, water development, and centers of excellence funding. These taxes have also contributed significantly to the state's budget surplus.



To learn more about the North Dakota oil and gas industry, visit www.ndoil.org.

Did You Know?

- Overall business activity increased from $4.12 billion in 2005 to $8.22 billion in 2007 (99% increase).
- Direct impacts increased from $1.57 billion in 2005 to $3.10 billion in 2007 (98% increase).
- Indirect impacts increased from $2.55 billion in 2005 to $5.12 billion in 2007 (101% increase).
- The petroleum industry paid $519.8 million in state and local taxes in 2007.
- The petroleum industry paid $400 million in royalties, with 54% being paid to North Dakota residents.
- The petroleum industry created nearly 2,500 new jobs between 2005 and 2007.
- From 2005 to 2007, the number of active wells in North Dakota increased from 3,391 to 3,759 (10.8% increase)

Comparing the Oil and Gas Industry from 2005 to 2007

The Numbers Behind State Revenue and Jobs

The economic impact study shows that the petroleum industry's direct economic impacts increased from $1.57 billion in 2005 to $3.10 billion in 2007 (98% increase). The indirect impacts increased from $2.55 billion in 2005 to $5.12 billion in 2007 (101% increase).

Direct economic impacts are defined as the initial or first-round effects of a project, program, or activity. Secondary economic impacts result from subsequent rounds of spending and re-spending that occur within an economy. The gross business volume of $8.22 billion is then established by combining the direct economic impacts and the secondary economic impacts. These figures don't include the dollars generated by the sale of retail gasoline or the distribution of fuel oil.

"Maintaining North Dakota's positive business climate is important to continue to attract the capital necessary to further develop the Bakken formation," said Rick Ross, Vice President of Operations, Whiting Oil & Gas, and Chairman of the North Dakota Petroleum Council.

"The industry is facing many challenges, such as commodity prices, pipeline capacity, challenging geology and high costs of drilling. While we are likely to see highs and lows in a commodity-based business, a healthy business climate will allow the industry to move forward in the future."

While this study is a snapshot in time, it clearly indicates that in recent years the petroleum industry's investment in exploration and production of oil and natural gas has had a significant impact on North Dakota's economy. In 2008, 600 wells were drilled in North Dakota, nearly doubling the 336 wells drilled in 2007. Due to technological advancements and the world-class potential of the Bakken and Three Forks formations, the oil and gas industry in North Dakota will continue to be a leader in driving the state's economy forward.

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KEY SEGMENTS OF THE PETROLEUM INDUSTRY

	Exploration	Extraction	Transportation & Processing	Totals
	Drilling & Locating Oil Reserves	Bringing Oil & Gas to the Surface	Moving Oil & Gas from Pumps to Processing Centers and Oil Refining & Natural Gas Processing	
Direct Impacts	$1.536 billion	$1.308 billion	$262 million	$3.106 billion
Secondary Impacts	$2.721 billion	$1.956 billion	$445 million	$5.122 billion
Gross Business Volume	$4.258 billion	$3.264 billion	$707 million	$8.229 billion
Direct Employment	7,140 full-time jobs		579 full-time jobs	7,719 full-time jobs
Secondary Employment	38,500 full-time jobs			
Tax Revenues	$108 million	$393 million	$19 million	$520 million

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