2011 HOUSE FINANCE AND TAXATION

HB 1303

2011 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1303
January 19, 2011
#13073

☐ Conference Committee

Committee Clerk Signature Mary Brucker

Explanation or reason for introduction of bill/resolution:

A Bill relating to application of the extraction tax to natural gas and imposition of a separate and additional oil and gas infrastructure maintenance tax; and to provide an effective date.

Minutes:

See attached testimony #1, #2

Representative Conklin: Sponsor. Support. This bill puts a 1% tax on gas and oil which goes back straight to the counties for use as roads and bridge funds.

Representative Patrick Hatlestad: Can you tell me what the gas tax is now? For the extraction tax for natural gas what do we charge?

Representative Conklin: No, I can't.

Chairman Wesley R. Belter: We can get that clarification.

Representative Conklin: There is a separate tax on gas that is smaller than the tax on oil.

Ron Ness, President of ND Petroleum Council: Opposition. Please refer to attached testimony #1. Gas is a hard commodity to tax. Former Tax Commissioner Heitcamp reached an agreement in 1986 that imposed a fluctuating tax on natural gas that really tracks what the economic market does. The current tax is about .09 per thousand cubic feet of gas produced. So this would be a substantial increase in the tax on natural gas which would be a disincentive to capture that natural gas at current prices. We are now seeing upwards of $2-2 ½ billion being invested in natural gas infrastructure over the next three years. I think the previous speaker's intention was to provide more revenue to the counties. I think the thought is that when you tax the oil companies then you're going to create more revenue. Certainly in the short term you are. You also have to understand that every mineral owner and every royalty owner out there whether it's a farmer or rancher or a relative or anybody else pays that tax. Currently tax on oil is 11 ½%, that's the third highest tax in the nation. It is and always has been a disincentive to explore foreign and produce oil in the state of North Dakota. At the current high prices and the economics of the Bakken that may not be an issue when you have lease holds but we can look back in time and over the 30 years of when this extraction tax was put in place have just about passed an incentive bill every session. Currently we have between 12 and 15 different incentives on this extraction tax. It's a very complex structure that is essentially broken because the triggers don't work as they should. Refer to the attached testimony #1.

Representative Steven L. Zaiser: What are some of the extraction tax rates in some of the other oil and gas producing states? How do they line up with North Dakota's?

Ron Ness: That is a question that the tax department and I have researched. They are all over the board. There are different ways the states tax. Traditionally the states are in the 8-10% range. Texas is 7%, Wyoming is 12 1/2%, Montana if you drill a horizontal well is about .76% for the first 18 months and then it's about 9 1/4 %, and South Dakota is extremely low at 4%. With all the incentives off North Dakota is at the high end of the tax structure which is why we have this history of providing incentives on that extraction tax. what we've been advocating is more of a flat tax and getting rid of the triggers because they don't work as evidenced by last session. Those triggers should have kicked in to incentivize activity sooner. As a result this body passed HB 1235 which created a one month trigger to lower the tax to 7% for the first 18 months, 75,000 barrels, or $4.5 million in gross value.

Representative Steven L. Zaiser: What would happen if one were to raise the extraction tax for the reason for sustaining the drilling for a longer period of time to flatten out the income coming to the state of North Dakota? The western part of the state has been a bust and boom sort of culture and if one was to spread that income out further maybe that would be to the state's advantage.

Ron Ness: Thanks for that question. We did that in 1981, 1980 by a vote of the people. Before the price dropped we lost 55 drilling rigs in a matter of weeks. You will drive this industry out of the state. You will see companies develop their lease hold but what is generally the most understood is that right now you're in a lease hold position; companies are in a position where they are drilling to protect leases which are incredible value. But once you've established production in that spacing unit then the dollars will go to where it's more economical, anywhere in the nation. You've got a period of time which is just what the study is saying. You've got a period of time where people are going to drill for the Bakken because it's a tremendous resource. When the economics go the other way or you raise the tax too high and they can choose to come back at a later time they will take their investment elsewhere because its' an economic situation. They can sit back and put their dollar anywhere they want. Right now they are almost forced to protect those lease holds over the next period of years and as it spreads out it gets a little bit bigger. The big concern should be once you've got those leaseholds protected now you can choose to come back in five years, 10 years, one year, what we want to do is keep the jobs here and we want to keep them here now and maintain them. What has happened in other areas that once you chase them out those investment dollars go elsewhere and they may or may not come back. I think it would be very detrimental in the long term. In the near term people will pay it to protect those leases but your revenues will fall in the long term which is exactly what this study is saying.

Representative Steven L. Zaiser: How long to do you see this spurge of drilling going on? Do you see this continuing 10, 20, 40 years from now? What do you see? I've heard many views on how much oil is in the Bakken. What's your view on that?

Ron Ness: There is a tremendous resource and opportunity. The experts say all conditions remaining equal you could have 10-20 years of active drilling, potentially 10-20,000 new wells when you look at that chart. Federal government could impose restrictions on hydraulic fracturing tomorrow then the Bakken is done. The commodity price could drop to a level in which you can't get an economic return. For the leasehold issue we were previously discussing that's really up to every company and how big their leasehold is because every company has different leaseholds. Some operators that came here and firmed up their reserves are now selling them off. Now others are looking to expand their leaseholds so they can continue operating. That second phase of drilling is something that we've tried to focus in on with the Department of Commerce because that is where you need the housing and that's where people will settle in they will go through these fields more efficiently and economically to try and tap that resource's fullest potential. Right now you're just in a cover leasehold phase.

Representative Shirley Meyer: The rate at which we tax gas now at .09 per thousand cubic feet. What would this bill raise it too? And where is gas taxed specifically, not at the well head like oil is it?

Ron Ness: Gas is essentially taxed at the meter. The Tax Department can verify that. This is imposing a 1980 extraction tax on gas. This 1% of the gross value and 8/10 of 1% times the gas is a pretty substantial tax increase on natural gas there is no question.

Mark Fox: Oppose. Presented written testimony from Tex G. Hall. Please refer to attached testimony #2. I also want to state as part of the record that in no way, shape or form would we want any impression that we're not in favor of what is going on with the development of oil and gas, we very much are. In fact, we are sponsoring an energy summit. This is something we see as an opportunity to help build out where we are at today.

Bill Shalhoob, Chamber of Commerce: Oppose. Our goal in the past session was to be looking for credits. One of the credits we targeted was natural gas and the flaring of that and how we can recapture more. Taxes are definitely a disincentive for those kind of things. Our organization is looking for ways through the economic development people to capture more natural gas not to get less. We don't need to flare it we need to find ways to use it. We've also been in favor of balanced taxes. The oil industry is now paying 30% of the bill or generating 30% of the bill and do we need to really go there for more money at this time? We understand the position of the counties and we are in favor of them getting the money they need to run their counties and things like that but another tax at this time. A lot of natural gas is going to be perceived to use in North Dakota for heating. Those taxes when put on at the well head are going to be passed to the consumer. I don't think we need to go to another tax, perceived to be or real, and I think it will be real as natural gas is not exported on North Dakota businesses and North Dakota citizens. For those reasons we urge a Do Not Pass on this bill.

Representative Shirley Meyer: This is question for the tax department. Explain to me where natural gas is taxed at.

Kevin Schatz, Tax Department's Oil and Gas Section: Gas is actually taxed at the lease when it enters the meter and is measured in mcf and we verify that with the production report that operator submits to North Dakota Industrial Commission.

Representative Shirley Meyer: With that are there checks and balances such as on the producer? Is there more than one report?

Kevin Schatz: Yes, we do a cross check. The purchaser of that gas reports the mcf produced and there is a form that is sent to the North Dakota Industrial Commission by that operator each month that shows the volume of gas they sell off of that lease. We compare the Industrial Commission report with our tax report that verifies those mcf matches.

Representative Shirley Meyer: How much can they be off from the reports? Can they be off a cubic foot or what is the discrepancy?

Kevin Schatz: We take a look at that and base it on the tax that is due. If it's less than $5 we are not going to notify them. Those wells that are being continually off are sent notices to both the purchaser of the gas and the operator of that lease and request that they verify their reports and either correct the Industrial Commission's report or amend the tax reports.

Representative Shirley Meyer: When that happens the taxes that are due when there is a discrepancy are applied to the producer or the operator at the well site. If there's a discrepancy in the tax how often does that happen and is it reported on some form?

Kevin Schatz: That would be reported on their amended tax report. The purchaser of the gas would report and submit the tax and I'm assuming they settle with the operator to recoup the tax that's due on the gas produced. The reporting for the gas is really good because we have the cross check and because it is a flat rate for mcf and they have the meter readings the information that we get for natural gas reporting is really good.

Representative Glen Froseth: The gas meter is at the well site? When the flare is finally shut off and we have a pipeline tapping it the meter is taxed at the well site? It's not metered at the refinery is it?

Kevin Schatz: Yes, it is. It is metered at the well site when it goes into the pipeline to collect that gas and send it to the processing facility.

Representative Glen Froseth: The gas that's flared off is just basically a total loss?

Kevin Schatz: They get a permit from the Industrial Commission to flare for a certain period of time and then they either have to connect it or they have to pay the tax on that gas unless they get an exemption.

Representative Glen Froseth: How long can they flare that off?

Kevin Schatz: I don't know if I can answer that question. I'd have to check that with the Industrial Commission but I believe it is 12 months.

Representative Steven L. Zaiser: Who monitors and who manages the reading process and the monitoring process? Is that the well owner, or the state, or the processing people?

Kevin Schatz: I believe the reports are read by the operator of the lease and I believe the Industrial Commission does have a system where they go out and check the meters for accuracy on an intermittent basis.

Representative Steven L. Zaiser: How frequently do they go out and check those meters?

Kevin Schatz: I do not know. That's the Industrial Commissions responsibility.

Chairman Wesley R. Belter: No further testimony. Closed hearing on HB 1303.

2011 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1303
January 26, 2011
#13476

☐ Conference Committee

Committee Clerk Signature Mary Brucker

Explanation or reason for introduction of bill/resolution:

A Bill relating to application of the extraction tax to natural gas and imposition of a separate and additional oil and gas infrastructure maintenance tax; and to provide an effective date.

Minutes: *See attached testimony #1*

Committee Work

Chairman Wesley R. Belter: Would you like to explain your amendments?

Representative Shirley Meyer: Distributed amendments. Testimony #1 attached. Basically this is a hog house amendment. I believe the provisions in here were unworkable and so this is a hog house to HB 1303. It incentivizes natural gas. You all heard that 52 of the 53 counties all have natural gas deposits and I believe the 53rd county does too but they won't let them test for it. This gives an incentive to help municipalities to start in the process of getting this natural gas in their utility systems. If we had some vehicle where we could start giving people breaks for pipelines, we get a utility system that is exempt from use tax and I'm of the opinion of whomever utilizes our natural gas first is going to win. I believe this does this. I worked with Mr. Walstad trying to come up with some solution and is based on the western part of the state. We have 5,400 wells right now but we are expected to have 10,000 wells. In order to get crude oil you have to flare it. If you're not flaring then you are not pumping and you don't get any oil. This is creating a lot of concern out there and they're flaring it for a year. I think it would help a lot to our cities and counties if we could incentivize some way to start utilizing this natural gas. If we give it a use and a benefit instead of just having it flare. We looked at different ways we could do that. The third subsection does offer loan guarantee program to a city for establishment of a natural gas utility service for city residence. I would move the amendment.

Representative Scot Kelsh: Seconded motion.

Representative Glen Froseth: Number one says property not including land is exempt from property taxes during the first full year following initial operation of the pipelines. Pipelines are assessed differently. Do you intend on having those exempt in the same manner or taxed and valued in the same manner?

Representative Shirley Meyer: The property which is the system that was in place, not a natural gas plant, that system itself would be exempt from the property taxes because you have to have a storage system for natural gas to use in a municipal utility system.

Vice Chairman Craig Headland: Every city or municipality that decides to move in this direction is qualified for a loan up to $2 ½ million from the Bank of North Dakota? They are going to guarantee at least $2 ½ million of any loan?

Representative Shirley Meyer: That's my understanding. Up to $2 ½ million.

Representative Glen Froseth: Would you clarify number 2, property acquired for incorporation of a pipeline? The first one not including land, does that also not include land in number 2 there? You've got incorporation of a pipeline and necessary associated equipment for transportation and storage of natural gas. So that's what you mean, you have a big storage tank and any pumping units?

Representative Shirley Meyer: And gathering systems.

Representative Glen Froseth: But not the processing facility itself?

Representative Shirley Meyer: Correct.

Representative Glen Froseth: How would all the natural gas processing plants being built now, how would this affect them?

Representative Shirley Meyer: It is my understanding that it wouldn't affect them at all. This is trying to incentivize a city that is trying to use natural gas. In researching this whoever figures out how to utilize natural gas first is going to win this race. The cities aren't going to do it without some incentive because they can't afford to do it. Once they get it in place it would solve two problems; they would have a much cheaper source of energy and they would clean up what is happening in our area and what is coming in the future. In the next 10 years flaring a natural gas is going to be a huge issue.

Representative Glen Froseth: Does the Bank of North Dakota approve this number 3 so they would be able to guarantee the program?

Representative Shirley Meyer: I didn't visit with the Bank of North Dakota. I looked at the monies in the lands and minerals trust fund.

Representative Patrick Hatlestad: Do we have a city that provides natural gas service? I thought that was a private company.

Representative Shirley Meyer: I do not know.

Representative Patrick Hatlestad: We have three major gas gathering facilities now being built or being planned to be built in the next year in western North Dakota. Their gas is probably going to be shipped out of state for processing. Would they qualify for all of this?

Representative Shirley Meyer: I believe that they would but I don't know that for certain.

Representative Dave Weiler: You said you looked at the money in the lands and minerals trust fund?

Representative Shirley Meyer: Yes.

Representative Dave Weiler: I believe in the Governor's budget he is pretty much but all emptied that account so hopefully more will go in there in the next biennium.

Representative Shirley Meyer: I'm pretty sure you are right. But this fund is growing at an unbelievable rate with the mineral leasing we have going on out there now and the bonus royalties being paid plus all the royalties on the state land. This fund is going to grow as long as oil maintains the price it is at and the activity remains the same. I believe this fund is going to grow substantially more than any of us predicted.

Chairman Wesley R. Belter: I'm going to have to oppose your amendment from the standpoint that I have a real problem with the Bank of North Dakota guaranteeing these loans. I would think that other financial institutions ought to be willing to do this and if they're not willing to do it then it probably has a risk factor that I don't want to expose the Bank of North Dakota too. I guess I would oppose this amendment.

VOICE VOTE: MOTION FAILED. We will set this bill aside for now.

JOB RECORDING #13478 in continuation from same committee meeting:

Representative Bette Grande: Made a motion to DO NOT PASS.

Representative Roscoe Streyle: Seconded.

A roll call vote was taken. 12 YES 0 NO 2 ABSENT
MOTION CARRIED-DO NOT PASS.
Representative Roscoe Streyle will carry HB 1303.

FISCAL NOTE

Requested by Legislative Council
01/12/2011

Bill/Resolution No.: HB 1303

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.*

	2009-2011 Biennium		2011-2013 Biennium		2013-2015 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues				$64,830,000		
Expenditures						
Appropriations						

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

2009-2011 Biennium			2011-2013 Biennium			2013-2015 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
			$151,270,000					

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

HB 1303 applies the state's oil extraction tax to natural gas and imposes a new oil and gas infrastructure maintenance tax.

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

Section 1 of HB 1303 imposes an oil extraction tax on gas using a 'per unit' gas tax rate similar to the state's gross production tax rate on gas. This section is estimated to generate $25.270 million for the producing counties and $10.830 for the Legacy Fund.

Section 2 of HB 1303 imposes a new oil and gas infrastructure maintenance tax. This section is estimated to generate $126.0 million for the producing counties and $54.0 million for the Legacy Fund.

All county revenues from this bill must be deposited in the county road and bridge fund and used for road maintenance purposes.

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:**	01/19/2011

Date: 1-26-11
Roll Call Vote # 1

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1303

House Finance and Taxation Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number ____________

Action Taken: ☒ Do Pass ☐ Do Not Pass ☒ Amended ☐ Adopt Amendment

☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Rep. Meyer Seconded By Rep. Kelsh

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley R. Belter			Scot Kelsh		
Vice Chair. Craig Headland			Shirley Meyer		
Glen Froseth			Lonny B. Winrich		
Bette Grande			Steven L. Zaiser		
Patrick Hatlestad					
Mark S. Owens					
Roscoe Streyle					
Wayne Trottier					
Dave Weiler					
Dwight Wrangham					

Total (Yes) ____________ No ____________

Absent ____________

Floor Assignment ____________

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

AYE NAY ← MAJORITY

MOTION FAILED.

Date: 1-26-11
Roll Call Vote # 2

2011 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1303

House Finance and Taxation Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number ______

Action Taken: ☐ Do Pass ☒ Do Not Pass ☐ Amended ☐ Adopt Amendment

☐ Rerefer to Appropriations ☐ Reconsider

Motion Made By Rep. Grande Seconded By Rep. Streyle

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley R. Belter	✓		Scot Kelsh	✓	
Vice Chair. Craig Headland	✓		Shirley Meyer	✓	
Glen Froseth	✓		Lonny B. Winrich		
Bette Grande	✓		Steven L. Zaiser		
Patrick Hatlestad	✓				
Mark S. Owens	✓				
Roscoe Streyle	✓				
Wayne Trottier	✓				
Dave Weiler	✓				
Dwight Wrangham	✓				

Total (Yes) 12 No 0

Absent 2

Floor Assignment Rep. Streyle

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

MOTION CARRIED

REPORT OF STANDING COMMITTEE

HB 1303: Finance and Taxation Committee (Rep. Belter, Chairman) recommends **DO NOT PASS** (12 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). HB 1303 was placed on the Eleventh order on the calendar.

2011 TESTIMONY

HB 1303

Testimony #1 p. 1
HB 1303

the state of
American
Energy

energy API

WOOD MACKENZIE: Energy Policy at a Crossroads

An Assessment of the Impacts of Increased Access Versus Higher Taxes on U.S. Oil and Natural Gas Production, Government Revenue and Employment

- The Wood Mackenzie study examined the implications of increasing oil and natural gas development in five key U.S. regions currently closed to development: the Eastern Gulf of Mexico, portions of the Rocky Mountains, the Arctic National Wildlife Refuge (ANWR), and the Atlantic and Pacific Outer Continental Shelf (OCS).
- Wood Mackenzie contrasted the "access" results with an analysis of the potential threat to production and jobs associated with increasing taxation on the oil and natural gas industry at a rate of $5 billion per year, which was less than the amount that was considered by the U.S. Congress and administration in 2010.

The results show that not all revenue is created equal.

- The analysis found that increasing access leads to a direct increase in domestic production, jobs and government revenue. Whereas increasing taxes reduces production and jobs. It is also detrimental to government revenues five years into the future.
- Comparing the total government revenue impact from the two scenarios (access versus taxes, 2011 to 2025) shows increased access generates an estimated $150 billion in additional government revenue. Under the higher taxation scenario, net revenues are estimated to decrease by $128 billion. The negative economic consequences of higher taxes will, in the long run, more than offset any short-term tax revenue gains.

Potential Production Impact[1]

- Access increased U.S. production by 1.4 million barrels of oil equivalent per day (mmboed) by 2020, and 4 mmboed by 2025.
- Increasing taxes decreased production by 0.7 mmboed by 2020 with an additional 1.7 mmboed put at increased risk, and decreased production by 0.4 mmboed by 2025 with an additional 1.2 mmboed put at increased risk.

Potential Government Revenue Impact

- Access increased government revenue by $20 billion per year by 2020 and $150 billion per year by 2025.
- Five billion dollars per year in taxes netted an average of only $3 billion per year the first five years, 2011-2015. By 2020, increased taxes actually reduced government revenue by $6 billion per year in 2020 with an additional $8 billion put at increased risk, and $10 billion less in 2025 with an additional $8 billion put at increased risk.

Potential Employment Impact

- Access created 130,000 direct jobs by 2020 and 150,000 jobs by 2025. Access created 330,000 indirect jobs by 2020 and 380,000 jobs by 2025.
- Increasing taxes reduced direct oil and natural gas employment by 50,000 jobs in 2014 dropping to 15,000 in 2020 and 8,000 in 2025. Increasing taxes reduced indirect employment by 120,000 in 2014, 35,000 in 2020, and 20,000 in 2025.

---

[1] 2010 U.S. production is 18.8 mmboed.

#1 p. 2 HB 1303

What Does Every New Oil Well Mean to North Dakota?

A Typical North Dakota Oil Well Produces for an Average of 37 Years.

- If economical, additional secondary recovery efforts can be made to extend the life of the well.

In Those 37 Years, an Average Oil Well:

- Produces over 838,000 barrels of oil (60 barrels of oil per day)
- Generates $57 million in gross profit
- Pays $5,775,000 in taxes:
  - Gross production tax - $2,665,000
  - Extraction tax - $2,813000
  - Sales tax - $297,000
- Pays royalties to mineral owners of $9,520,000
- Pays salaries of $1,552,000
- Has operating expenses of $1,666,000

The average cost of completing a well in North Dakota in 2010 was $6.1 million.

Oil and gas development accounts for a major portion of the business for RECs in western North Dakota – as much as 75% in some instances.

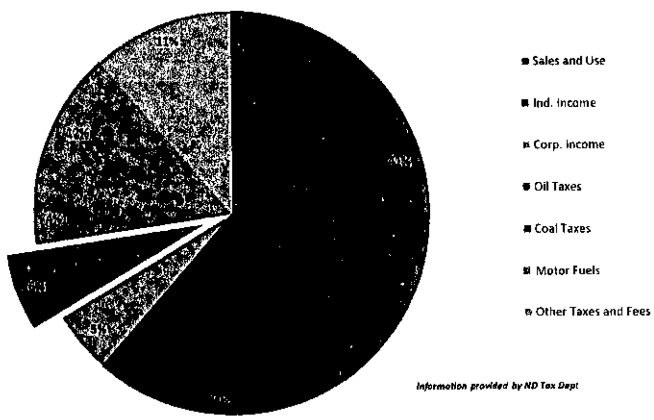
Road contractors, electricians, welders, service companies, trucking companies, and many other local businesses and communities in western North Dakota rely on the oil industry for their livelihood.

About 34% of the gross value from a well is returned to the local economy in taxes, wages, and other expenses, which helps keep the local economy running, the government operating, and helps reduce your tax burden.

#1 p. 3 HB 1303

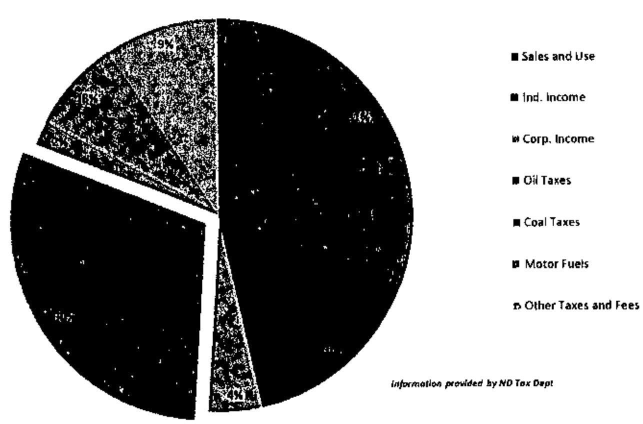
Increased Dependence on Oil Tax

FY2000 State Net Collections

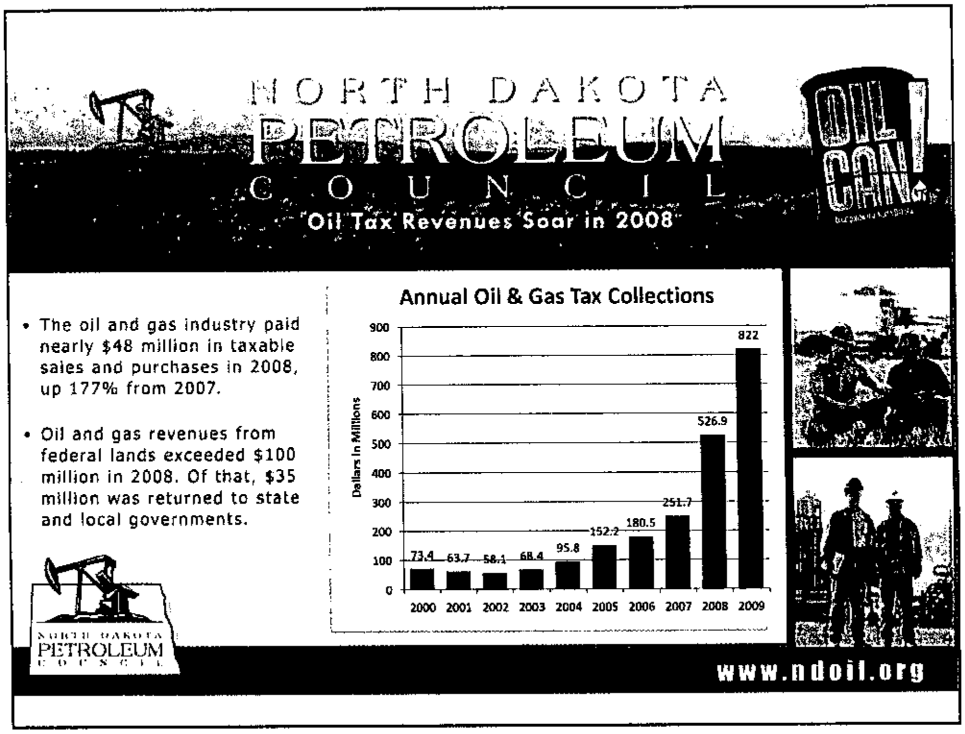


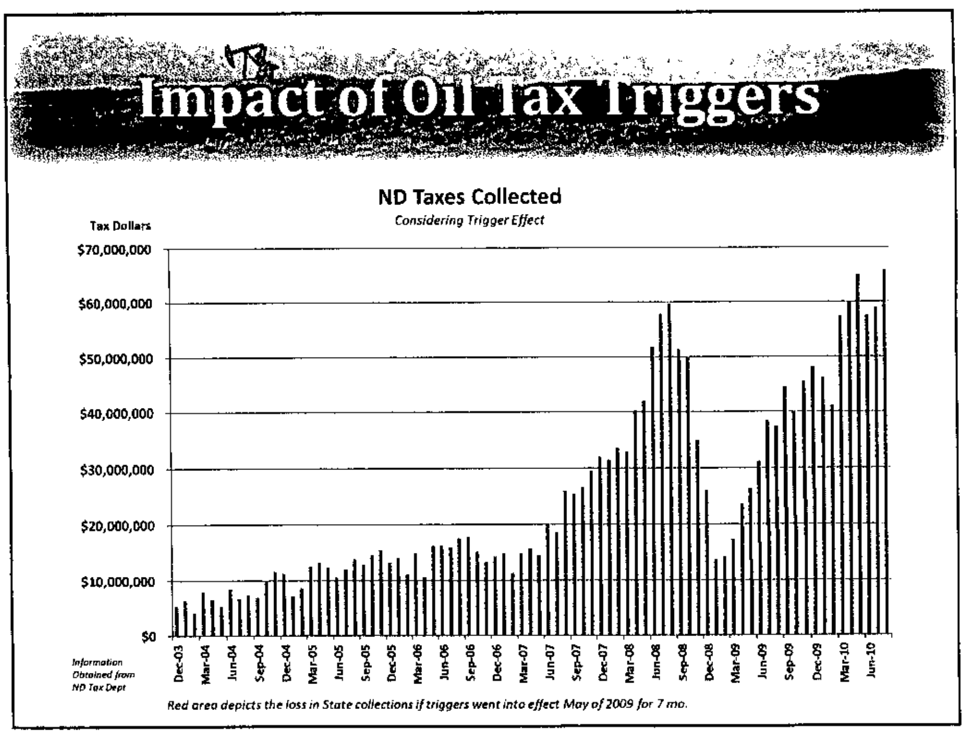
Increased Dependence on Oil Tax

FY2010 State Net Collections



#1 p. 4 HB 1303


NORTH DAKOTA
PETROLEUM
COUNCIL
Oil Tax Revenues Soar in 2008
OIL CAN!
• The oil and gas industry paid nearly $48 million in taxable sales and purchases in 2008, up 177% from 2007.
• Oil and gas revenues from federal lands exceeded $100 million in 2008. Of that, $35 million was returned to state and local governments.
Annual Oil & Gas Tax Collections
Dollars in Millions
0
100
200
300
400
500
600
700
800
900
73.4
63.7
58.1
68.4
95.8
152.2
180.5
251.7
526.9
822
2000
2001
2002
2003
2004
2005
2006
2007
2008
2009
NORTH DAKOTA PETROLEUM COUNCIL
www.ndoil.org


Impact of Oil Tax Triggers
ND Taxes Collected
Considering Trigger Effect
Tax Dollars
$70,000,000
$60,000,000
$50,000,000
$40,000,000
$30,000,000
$20,000,000
$10,000,000
$0
Dec-03
Mar-04
Jun-04
Sep-04
Dec-04
Mar-05
Jun-05
Sep-05
Dec-05
Mar-06
Jun-06
Sep-06
Dec-06
Mar-07
Jun-07
Sep-07
Dec-07
Mar-08
Jun-08
Sep-08
Dec-08
Mar-09
Jun-09
Sep-09
Dec-09
Mar-10
Jun-10
Information Obtained from ND Tax Dept
Red area depicts the loss in State collections if triggers went into effect May of 2009 for 7 mo.

OIL REVENUE & USE OF OIL REVENUE

	Production & Extraction Permanent Oil Trust	Production & Extraction Legacy Fund	Production & Extraction General Fund	Extraction 6.5% Resources Trust Fund	Extraction 6.5% Common Schools Trusts	Extraction 6.5% Stabilization Foundation Aid	Production 5% Impact Fund	Production 5% Counties Production Formula	Production 5% Research Oil & Gas	Total Oil Rev 2011-13	
End (09-11)	620.1	0	0	128.5	134	134	0	0	0		
Rev (11-13)	608.3	618.6	71	199.8	100	100	100	247	3	2047.7	M
				Repay 3.5						2.0477	B
				Int. 1.1							
Totals	1228.4	618.6	71	328.3	234	234	100	247	3		
(in millions)											
		Locked Savings	Deposit in General Fund	Water Commission Water Projects	Elementary & Secondary Funding (part of interest and rev is pd out in Foundation aid)	Locked Savings for Elementary & Secondary	Grants Oil & Gas Counties	Formula Oil & Gas Counties In Lieu of Property Tax	Research New Tech		
		State Wide	State Wide	State Wide	State Wide	State Wide	Oil & Gas Counties	Oil & Gas Counties	Oil & Gas Industry		

DHS	1.5	State Wide
Higher Ed	2.3	State Wide
Tribal College	1	State Wide
State Road Project	228.6	Oil Counties
County & Township	142	Oil Counties
Property Tax (11-13)	46.8	State Wide
Property Tax (13-15)	341.8	State Wide
General Fund	232	State Wide
Ending (11-13)	232	State Wide

Oil Counties Infrastructure Support		
State Roads in oil country	229	M
County roads and Township roads	142	M
Oil & Gas Impact Grants	100	M
Oil & Gas Production Tax	247	M
DOT Funds - State/Federal Highway Funds	240	M
	958	M

Proposed Governor's Budget 2011-13

#1 p.5 HB 1303

Testimony #2

TESTIMONY ON HB 1303
HOUSE FINANCE AND TAXATION COMMITTEE
January 19, 2010
Tex G. Hall "Red Tipped Arrow", Chairman,
Mandan Hidatsa and Arikara Nation Tribal Business Council
Fort Berthold Indian Reservation

Mr. Chairman and Members of the Committee, My name is Tex Hall, my traditional name is Ihbudah Hishi, "Red Tipped Arrow". I am honored to present this testimony as the Chairman of the Mandan Hidatsa and Arikara Nation Tribal Business Committee. I generally support any legislation that provides additional tax revenue to areas impacted by the oil and gas boom in western North Dakota. However, I oppose HB 1303 in its current form, because it does not ensure that the MHA Nation, whose lands lie in the heart of the Bakken Formation, receives its fair share of the additional revenue contemplated by HB 1303 to the extent that revenue comes from production on the Fort Berthold Indian Reservation. I would support HB 1303 with an amendment that provides that the revenue derived from the Bill as a result of oil and gas extraction and production on the reservation were shared between the Tribe and state in accordance with the tax agreement authorized by NDCC Chapter 57-51.2, to help mitigate the massive toll that the oil and gas industry is taking on reservation trust lands, infrastructure and resources.

As I stated yesterday in my testimony on HB 1198, the tax revenue that the MHA Nation receives under the current oil and gas tax sharing agreement, while appreciated, is not nearly enough to catch up to and maintain the costs incurred from the enormous burden that the oil and gas boom is putting on reservation roads, infrastructure and the MHA Nation's natural and human resources. Any additional revenue that would come from the tax agreement as a result the inclusion of the taxes authorized by HB 1303 in the agreement would help the MHA Nation in its effort to mitigate the burden that comes with the boom. The justification for the MHA Nation's need for additional Revenue from reservation production is set forth in detail in my testimony on HB 1198. I ask that the Committee consider that testimony as part of this Bill, and incorporate that testimony into the record for HB 1303. Thank you.

1-26-11
Testimony #1

11.0078.03001
Title.

Prepared by the Legislative Council staff for
Representative S. Meyer
January 24, 2011

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1303

Page 1, line 1, after "A BILL" replace the remainder of the bill with "for an Act to create incentives and assistance to establish natural gas utility service for cities.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1.

Municipal utility conversion to natural gas incentives and assistance.

This section applies to any city not providing natural gas service to customers before January 1, 2011.

1. Property, not including land, is exempt from property taxes during construction and for the first five full taxable years following initial operation if it consists of a pipeline, constructed after 2010, and necessary associated equipment for the transportation or storage of natural gas for use in municipal utility systems.

2. Property acquired for incorporation in a pipeline, constructed after 2010, and necessary associated equipment for transportation or storage of natural gas for use in a municipal utility system is exempt from sales and use taxes.

3. The Bank of North Dakota shall administer a loan guarantee program to guarantee the loan of money to a city for establishment of natural gas utility service for city residents. The Bank of North Dakota shall establish and maintain an adequate guarantee reserve fund in a special account at the Bank. The guarantee reserve fund must be maintained from the lands and minerals trust fund and any moneys transferred from the lands and minerals trust fund to maintain the guarantee reserve fund are available to reimburse lenders for guaranteed loans in default. The maximum dollar amount of any guarantee on a single loan may not exceed two million five hundred thousand dollars."

Renumber accordingly