

2013 HOUSE FINANCE AND TAXATION

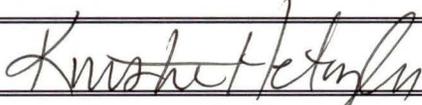
HB 1318

2013 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee Fort Totten Room, State Capitol

HB 1318
January 30, 2013
Job 17992

Conference Committee



Explanation or reason for introduction of bill/resolution:

A Bill relating to establishment and use of a school influx fund to address funding needs of school districts impacted by an influx of students due to oil and gas development; relating to oil and gas gross production tax revenue allocation to political subdivisions.

Minutes:

Attached testimony #1.

Chairman Belter: Opened hearing on HB 1318.

Representative Onstad: Introduced bill. See attached testimony #1. (ended 13:50)

Representative Zaiser: Given the fact that these improvements are long overdue do you think it would be necessary to put an emergency clause on this bill?

Representative Onstad: I don't think that would be necessary.

Vice Chairman Headland: According to the fiscal note it looks like it's going to clear out all the funds the state has set up for relief, is there expertise out at these county levels to handle that amount of money?

Representative Onstad: The expertise is clearly out there. I believe the counties and cities have shown an excellent approach on how they control the dollars. The state disaster relief fund is capped at 22 million. Property tax relief fund has already been set aside.

Representative Haak: This is not a tax increase it's just shifting money around, correct?

Representative Onstad: That is correct.

Chairman Belter: Further testimony in support of 1318?

Craig Boschee, County Commissioner in Mountrail County: At this point we are so far behind it is hard to even specify what we need, it's an altogether catch up. The oil industry

has done a lot for the western ND and I thank them for that. We need a change in the formula in order to plan for the future. We cannot be here every two years asking for money and missing out on any more construction seasons. We need a formula that leaves us money to plan ahead.

Ron Ness, President of the North Dakota Petroleum Counsel: We stand in support of this bill. (ended 27:25)

Chairman Belter: Further testimony in support of 1318?

Richard Schlosser, North Dakota Farmers Union: Development and economic needs additional funding. We are behind the eight ball and band aids are no longer working. The price of product is significantly risen.

Chairman Belter: Further testimony in support of HB 1318

Ken Yantes, Executive Secretary of ND township officers association: We are all saying the same thing; I just want to state that I am in Support of HB 1318

Chairman Belter: Any further testimony. Closes.

2013 HOUSE STANDING COMMITTEE MINUTES

House Finance and Taxation Committee
Fort Totten Room, State Capitol

HB 1318
February 13, 2013
Job #18904

Conference Committee

Committee Clerk Signature

Mary Brucher

Explanation or reason for introduction of bill/resolution:

A Bill relating to establishment and use of a school influx fund to address funding needs of school districts impacted by an influx of students due to oil and gas development; relating to oil and gas gross production tax revenue allocation to political subdivisions.

Minutes:

No testimony.

Representative Drovdal: I think we passed out a real good bill with the oil and gas counties. I realize this one here while it is a great idea and we have the money, it just isn't helping the whole state and the other bill helps cover the whole state. Even though I'm on the bill I will make a **motion for a Do Not Pass**.

Representative Klein: Seconded.

ROLL CALL VOTE: 11 YES 2 NO 1 ABSENT

Representative Drovdal will carry this bill.

FISCAL NOTE
Requested by Legislative Council
01/16/2013

Bill/Resolution No.: HB 1318

- 1 A. **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.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			\$(144,217,000)	\$(1,330,017,000)		
Expenditures						
Appropriations						

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

	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
Counties		\$1,474,234,000	
Cities			
School Districts			
Townships			

- 2 A. **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 1319 reallocates the oil and gas gross production and oil extraction taxes.

- 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 changes the allocation to the impact grant fund and to the producing counties. Section 2 addresses the state's distributional "buckets".

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.*

Section 1 increases the gross production tax revenue allocated to the impact grant fund from \$100 million to an estimated \$440.431 million in the 2013-15 biennium. This section also increases the distribution of gross production tax to counties, estimated to total an additional \$1.474 billion for the 2013-15 biennium. Section 2 deals with the distribution of the state's share of revenues into the state's "buckets". The state general fund share of the total is expected to be reduced from \$300 million to \$155.783 million in the 2013-15 biennium. All other state "buckets" - including the property tax relief sustainability fund, the strategic investment and improvements fund, and the state disaster relief fund - are expected to be reduced an estimated \$1.670 billion in the 2013-15 biennium. No revenue is expected to flow into these buckets in the 2013-15 biennium, under the provisions of HB 1318.

- 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

Telephone: 328-3402

Date Prepared: 01/29/2013

Date: 2-13-13
Roll Call Vote #: 1

2013 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 1318

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. Drovdal Seconded By Rep. Klein

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley Belter	✓		Rep. Scot Kelsh		✓
Vice Chairman Craig Headland	✓		Rep. Steve Zaiser	✓	
Rep. Matthew Klein	✓		Rep. Jessica Haak	AB	
Rep. David Drovdal	✓		Rep. Marie Strinden		✓
Rep. Glen Froseth	✓				
Rep. Mark Owens	✓				
Rep. Patrick Hatlestad	✓				
Rep. Wayne Trottier	✓				
Rep. Jason Dockter	✓				
Rep. Jim Schmidt	✓				

Total (Yes) 11 No 2

Absent 1

Floor Assignment Rep. Drovdal

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

REPORT OF STANDING COMMITTEE

HB 1318: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO NOT PASS (11 YEAS, 2 NAYS, 1 ABSENT AND NOT VOTING). HB 1318 was placed on the Eleventh order on the calendar.

2013 TESTIMONY

HB 1318

HB 1318

Good Morning Mr. Chairman and members of the Finance and Tax committee:

HB 1318 makes a significant increase to oil impacted counties. It is for a 2 year period only and at the end of that period it resorts back to the current formula

Mr. Chairman , I believe now is the time to address and solve our road and water infrastructure needs and to do so immediately. We have both emergency work as well as long-term new infrastructure development which should be initiated.

There is no excuse to delay any further. If there is a true desire to demonstrate that North Dakota knows how and is capable of handling growth now is the time to prove it. We have known for over 6 years now the needs that our state faces in the development of oil and gas exploration. The expansion of our region is unprecedented. We have no history to follow. It literally has been a figure it out on your own situation.

We hear the boogie man is anti-fracing, air and water control that could shut down the current activity. The real fear , and it is here, is the lack of infrastructure to nurture this development.

Oil companies pay a tax, they say it the responsibility of the State to live up to that responsibility. When development first started, they were very good neighbors and gifted to many organizations, townships, cities and counties to provide some of that necessary impact money the State of North Dakota didn't provide. They are not as generous now.

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#1
Pg 3

HB 1318

It provides for all of the statutory requirements currently in the formula

It only deals with the production tax-- the portion that funds the counties.

2 components to the bill:

- 1) 20% of the 5% production tax goes into the impact grant Fund \$440 million
 - a. Last biennium we had \$662 million of requests
 - b. 981 requests
 - c. WE funded \$124 million of those requests
- 2) 80% of the 5% production goes to the oil impacted counties
 - a. \$792 m to county general funds(45%
 - b. \$528 million to schools and School influx Fund (30%)(explained further below)
 - c. \$352 m to cities(20%)
 - d. \$88 million to County infrastructure Fund (townships)(5%)
 - e. Total of \$1.76 B less current forecast of \$287 m leaves \$1.473 B new money

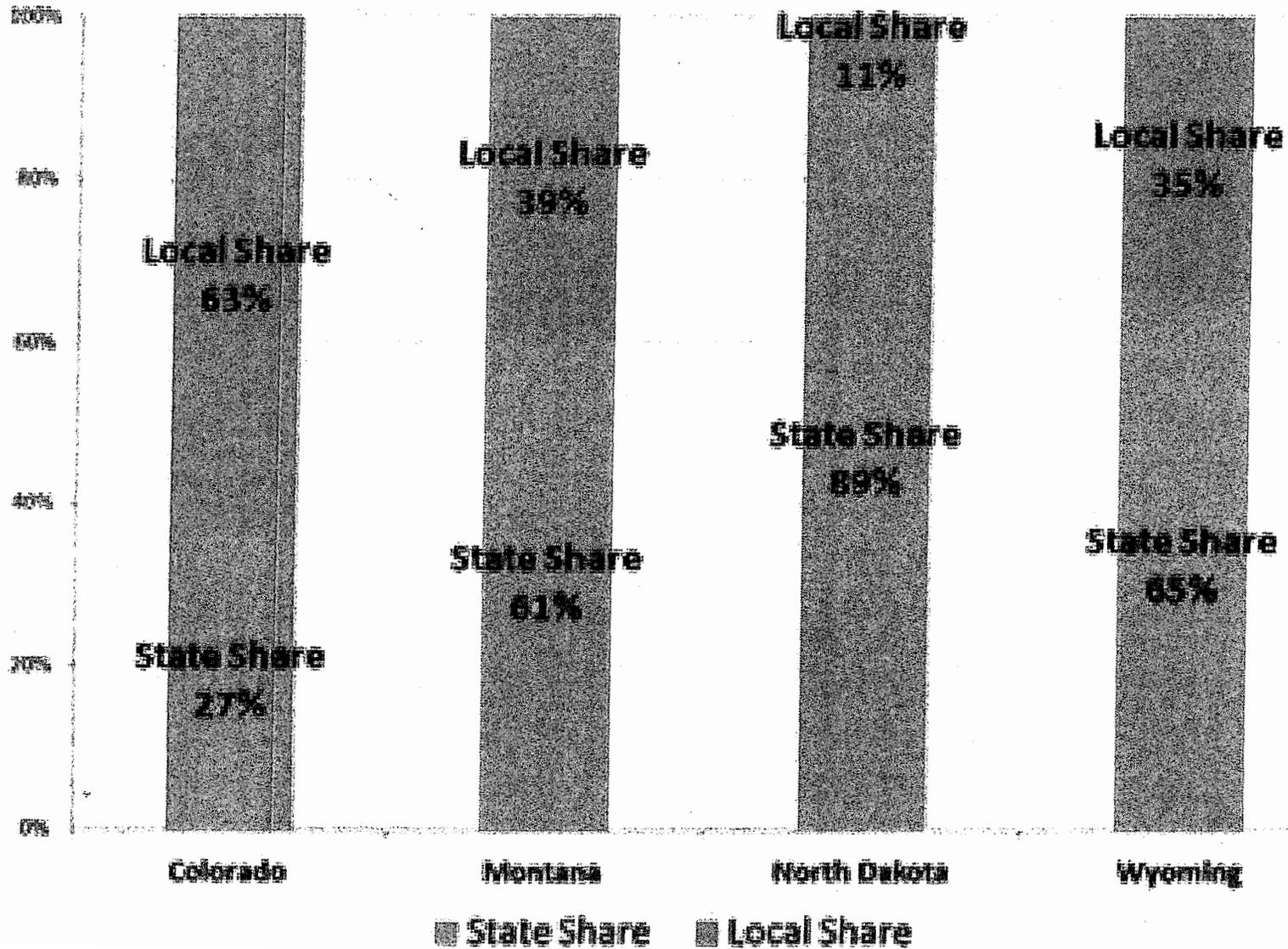
This is the estimated distribution of biennial revenues based on the Executive Forecast for 2013-15 biennium. This forecast projects the total oil and gas tax revenues of \$5.13 billion for the biennium compared to 2011-13 biennium of \$3.8 billion

Comparisons of other states (see attached chart)

HB 1318 is passed it would for 2 years only provide funding at 42% for impacted counties.

The influx fund. Schools would be capped at \$3million dollars per calendar year(\$6M total) ,further assistance, they apply to the influx fund. Influx fund allows equity payments to provide for assistance to a smaller school district as distribution is based on a per pupil basis from counties.

State vs. Local Share of Oil and Natural Gas Effective Tax Rate on New Unconventional Wells



894

County and a few city needs to adequately "catch up"

Mckenzie County	\$250 m
Mountrail County	\$350 m
Dunn County	\$310 m
Williams County	\$350m
Watford City	\$190m
Williston	\$200
Dickinson	\$140m
Schools	\$340 m
Unfunded requests last biennium	\$540

Information gathered from the 4 largest producing counties and schools

We have not included the remaining 13 oil producing counties along with their cities that compromise them.