

2015 SENATE FINANCE AND TAXATION

SB 2172

2015 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Lewis and Clark Room, State Capitol

SB2172
1/20/2015
Job Number 22189

- Subcommittee
 Conference Committee

Committee Clerk Signature

Emmery Brothberg

Explanation or reason for introduction of bill/resolution:

Relating to allocation and distribution of the oil and gas gross production tax and the oil extraction tax pursuant to the distribution rules in place when revenue is received; and to provide an effective date

Minutes:

Attachments: #1

Chairman Cook Opened hearing on SB 2172.

Senator Bekkedahl, District 1 -- Introduced bill. The bill is a corrections bill on how things are distributed coming from the tax commissioner's office to the treasurer's office. Provided explanation for lines on Page 1, Section 1, lines 13-16; on page 1, line 24 - page 2, line 4.

Ryan Skor, Director of Finance for the Office of State Treasurer -- (see attached #1)
Testified in support of SB 2172 (4:50).

Senator Triplett -- Would you be ok if I offer an amendment that suggests when individual tax payers haven't, for example, filed their taxes in previous years, they can just go ahead and file their taxes according to the current year's revenue if it happens to be more beneficial to them?

Ryan Skor -- This law would only affect the distributions under that, it would not affect the collections of the tax and the collections would still happen on the law in place when the oil was produced.

Senator Triplett -- My point is that filing taxes is inherently difficult for individuals and corporations and we as the government don't always make it easy. I don't know why we should essentially let our own agencies not do things correctly because it's easier.

Ryan Skor -- Another issue this would alleviate is that it would make the distributions and allocations that we make to certain funds more transparent and easier to understand. For instance, we make distributions or allocations out of this current formula to two funds: the Outdoor Heritage fund and the Abandoned Well fund receive 4% up to a certain dollar amount. Last year, the Outdoor Heritage fund did not reach its cap whereas the Abandoned Well fund did reach its cap. So when we rolled over to a new fiscal year, we started making

allocations to these two funds again. Since one of the funds capped and one did not cap last year, we are allocating money to the one that did not cap but we are not allocating money to the one did cap. So when you show the general public the allocations that we are making under the distribution formula, it would seem like those funds should be the same. But since one capped previously and one did not, those numbers are not the same. We think this bill would alleviate those questions or apparent inconstancies.

Senator Bekkedahl -- (11:34) As an attempt to answer one of Senator Triplett's concerns, what I looked at as most significant was what used to happen. The treasurer's office used to get the notice from the tax commissioner's office and distribute to the counties. And then counties would distribute to the cities and the townships and other political subdivisions under them. Now the treasurer's office does distributions directly to the city of Williston. And the bigger flag on this issue was the fact that the county system wasn't doing it correctly by looking back and finding the correct distributions. They were just following whatever the current law was. This would not place the burden on them to have to go and look back when they are not doing it originally. Maybe this should go to the treasurer's office where they have to say "this is exactly how you do it" but to not have to place that burden on them when they are not doing it right now.

Ryan Skor -- We have done a look back to fiscal year 2009. Between gross production and extraction, the net total fluctuates anywhere from 7 million dollars to 242,000 dollars of total prior year revenue collections in each year. This includes both production tax and extraction tax, it's a sum year. So each month there's prior year numbers that we get from the tax commissioner's office. You can see (see attachment #1.2) I've netted those amounts for every year and they net anywhere from 7.3 million dollars to 242,000.

Chairman Cook -- I can see the confusion on the production side because we are making changes to the production side every session. We don't make a lot of changes on the extraction side though.

Ryan Skor -- We don't make a lot of changes but one change that would come up is the issue of the capping of the funds. Plus another change that is necessary to affect them both is that the state's general fund share gets lumped together from both sides of the formula, so if we didn't have the same treatment on both sides there would be a difference in that general fund share number that is coming from extraction versus what is coming from the gross production side of the formula.

Senator Oehlke -- When you have to go through all the steps to determine the allocation the way the process is now, do you get it right 98% or 100% of the time?

Ryan Skor -- As far as we know, yes, close to 100% of the time. We just completed our audit of the 11-13 biennium and there were no findings in any of our oil and gas distributions from that year, so hopefully that means we did them 100% correctly. We have on occasion found small adjustments that we have corrected the next month. Our goal is 100% correction and there have not been indications that we have been doing them incorrectly.

Senator Oehlke -- So you are not adversely hurting a political sub and they are getting their money?

Ryan Skor -- Correct, they are getting their money. The only thing that could possibly adversely affect a political subdivision would be if there was a rather large net negative from a prior period when the formula was less beneficial to the counties or political subdivisions. That's why we did our summary of our numbers to find what it has looked like the past five or six years of what that net prior period adjustment has been. For gross production it has always shown a positive net adjustment for those previous years which would be a net benefit to the political subdivision.

Chairman Cook closed the hearing on SB2172.

2015 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Lewis and Clark Room, State Capitol

SB2172
1/20/2015
Job Number 22233

- Subcommittee
 Conference Committee

Committee Clerk Signature

Alicia Grove

Explanation or reason for introduction of bill/resolution:

Minutes:

Attachment #2

Chairman Cook called the committee back to order to hear further testimony.

Chairman Cook -- Called the committee to order on SB2172.

Mr. Schatz we got handed out a handout that shows the amount of errors in Tax Department calculation in oil tax revenue. Do you have this handout?

Kevin Schatz -- No, the Treasurer's Office handed out.

Chairman Cook -- Can you explain how this happens?

Kevin Schatz, Office of State Tax Commissioner -- The document that was handed out by the Treasurer's Office has to do with the differences from previous periods which are the result of amendments submitted by taxpayers. I've got a list of some of the common reasons for amending reports. **(Attachment #2)**

Senator Dotzenrod -- These columns, like the top left number, September, 2009, that 656,462.57, is that money that was paid back by the state, paid back to the taxpayer, or is that an amount that was owed that the state collected? Some of them have brackets, and that means what? That's what the state had to pay back?

Kevin Schatz -- The positive amounts, I believe, that Ryan had put together were amounts collected. The negative amounts would be refund amounts. (meter 8:32).

Chairman Cook -- Are you comfortable with SB2172?

Senator Bekkedahl -- I acted on behalf of the treasurer's office and my county auditor's office to simplify things for them. I'd like to see a do pass. So moved.

Seconded Senator Dotzenrod.

Discussion.

Senator Triplett -- I'm going to be voting against this on principal. I appreciate simplifying government when it makes sense but this just doesn't seem like it is such a burden that we should choose to be sending the money in the proportions to the wrong people. I don't think we should give that kind of relief to one of our state agencies.

Chairman Cook -- You recognize that the state agency isn't doing anything wrong?

Senator Triplett -- No, I don't believe the state agency is doing anything wrong. (Meter #11:25).

Chairman Cook -- I think it's going to make life easier for local people.

Roll call vote 3-3-1

Chairman Cook -- Well, we'll wait until we have #7 back in here.

Chairman Cook adjourned until 9a.m. tomorrow morning.

2015 SENATE STANDING COMMITTEE MINUTES

Finance and Taxation Committee
Lewis and Clark Room, State Capitol

SB2172
1/21/2015
Job Number 22312

- Subcommittee
 Conference Committee

Committee Clerk Signature

Alice Grove

Explanation or reason for introduction of bill/resolution:

Committee work

Chairman Cook opens the committee meeting on SB2172

Mr. Laffen wasn't here yesterday. Senator Bekkedahl you sponsored this bill. You want to give Senator Laffen a brief explanation.

Senator Bekkedahl -- We had testimony from the Treasurer's Office, Ryan Skor, the lead auditor for the office, and discussed the issues that were before us. Essentially what they are trying to do is take corrections from the tax department that look back from anywhere 3 to 6 years in corrections to gross production, oil extraction tax, receipts. The tax department was here and gave further information in the day, relative to why that happens. Typically it will be if a well get submitted for stripper well status, relative to the extraction tax and the company pays the full tax but the stripper well status is not granted by the industrial commission until later and is backdated to that date. There's a refund that comes out of the system; or if a miscalculation is placed on a well file for production and they have to update from one well site to another. There can be a positive correction to another local subdivision out of that. Typically when it comes from the tax office to the treasurer's office, the treasurer's office has had to do a look back to the date of when the production occurred. And to do that, then they have to go under whatever law was in place at that time. It's a very time consuming process. The bigger issue is, and what they are asking this bill to do would correct that by saying, whenever the date the correction hits the treasurer's office the disbursement to the local political subdivision is at the time of the statute at that date when it hits their office. Gross production tax is the only one that is dealt with this way, and they are trying to correct that and bring it into line with everything else, as well as the counties don't do the look back so when the disbursements hit the counties from the treasurer's office they are just doing it on whatever the statute is at that time.

Senator Oehlke -- I was able to track down Ryan Skor this morning and sat down and visited for awhile. I told him my concerns about why I voted no and it had to do more with being nervous that a political sub might be either adversely affected and then find out about that adverse treatment and how many dollars they got, another few months down the road or when they had an audit of their own and then they came back to the county and the county came back to the state. He assured me that would really not be an issue from their

standpoint, mainly because they aren't being adversely affected and, if they are being affected at all, it would be in a positive way. Mr. Chairman, because of that and the help streamline I would like to change my vote from a nay to a yah.

Chairman Cook -- Senator Laffen, do you understand it now?

Senator Laffen -- I do.

Chairman Cook -- Senator Bekkedahl do you want to make a motion?

Senator Bekkedahl -- Yes. I would move that the Senate Finance committee approve SB2172.

Senator Triplett -- We already voted yesterday on that motion.

Chairman Cook -- I understand that and the motion failed.

Senator Triplett -- You are just going to declare it a failure? Yesterday you said you were just holding it open from him to vote.

Seconded by Senator Oehlke

Senator Triplett -- I'll put my objection on the record again. I gave the people who were testifying yesterday an ample opportunity to give me a positive reason to do this, other than it's easier this way. There doesn't appear to be any other explanation. Unless we're going to offer our taxpayers the same kind of rules that it's just easier this way, there isn't any good reason to use that notion of simplification. For the same reasons that I voted no yesterday, I will be voting no again.

Chairman Cook -- I would agree with that argument. I don't know if it's a change in tax policy, as much as it is a distribution of the revenue collected. I think we should always do whatever we can to make it easier on the taxpayers and the people who administer it.

Senator Triplett -- As I understand it, this doesn't really matter in terms of the taxpayers here. We're just making it easier for our own agencies to distribute the taxes.

Senator Dotzenrod -- I've supported the bill and will probably vote yes for it, but I have been a little unclear about the notion of winners and loser. If we do this and then go by current law and not go and look back I buy the idea that if you can keep it clean and simple and make it more understandable that's a good thing and it's an objective worthwhile in making the system work. Is that significant, or are we just talking something that there is a number of these distributions being made and they won't really net out to be that big in the long run for any one party?

Senator Bekkedahl -- This was vetted through the oil and gas counties as well because they are the entities that receive this gross production tax. They supported it unanimously, partly because they deal with the auditors that have to deal with and they want it done right there and not having any question coming back. The other thing that came out of it was

that, every year, on the 6 year look back period, shows that it has been a net positive affect to those political subdivisions.

Senator Triplett -- I would agree with that because every year we have been trying to do more and better by the local subdivisions in oil country. At some point when we believe that we've gotten caught up, we're going to stop that and maybe plateau or maybe even go backwards in some areas as we strive in future years to get back to some kind of normalcy. The principal is that I think we should do it right all the time and then we don't get into those questions.

Roll call vote: 6-1-0.

Carrier Senator Bekkedahl.

Date: 1-20-15

Roll Call Vote #: 1

**2015 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO 2172**

Senate Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: _____

- Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
 Other Actions: Reconsider _____

Motion Made By Sen. Bekkedahl Seconded By Sen Dotzenrod

Senators	Yes	No	Senators	Yes	No
Chairman Dwight Cook	✓		Senator Jim Dotzenrod	✓	
Vice Chairman Lonnie Laffen	AB		Senator Connie Triplett		✓
Senator Brad Bekkedahl	✓				
Senator Dave Oehlke		✓			
Senator Jessica Unruh		✓			

Total (Yes) 3 No 3

Absent 1

Floor Assignment _____

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

Date: 1-21-15

Roll Call Vote #: 1

2015 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO 2172

Senate Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar

Other Actions: Reconsider _____

Motion Made By Sen. Bekkedahl Seconded By Sen. Oehlke

Senators	Yes	No	Senators	Yes	No
Chairman Dwight Cook	✓		Senator Jim Dotzenrod	✓	
Vice Chairman Lonnie Laffen	✓		Senator Connie Triplett		✓
Senator Brad Bekkedahl	✓				
Senator Dave Oehlke	✓				
Senator Jessica Unruh	✓				

Total (Yes) 6 No 1

Absent 0

Floor Assignment Sen. Bekkedahl

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

REPORT OF STANDING COMMITTEE

SB 2172: Finance and Taxation Committee (Sen. Cook, Chairman) recommends DO PASS (6 YEAS, 1 NAYS, 0 ABSENT AND NOT VOTING). SB 2172 was placed on the Eleventh order on the calendar.

2015 HOUSE FINANCE AND TAXATION

SB 2172

2015 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

SB 2172
3/18/2015
25049

- Subcommittee
 Conference Committee

Committee Clerk Signature

Mary Brucher

Explanation or reason for introduction of bill/resolution:

A bill relating to allocation and distribution of the oil and gas gross production tax and the oil extraction tax pursuant to the distribution rules in place when revenue is received.

Minutes:

Attachment #1, 2

Chairman Headland: Opened hearing.

Senator Bekkedahl: Introduced bill. Distributed written testimony; see attachment #1.

Chairman Headland: Is there testimony in support?

Ryan Skor, Director of Finance with Office of State Treasurer: Distributed written testimony in support; see attachment #2.

Chairman Headland: Is there further testimony in support? Is there any opposition? Are there any questions for the tax department? We will close the hearing on SB 2172.

Vice Chairman Owens: Made a motion for a do pass.

Representative Dockter: Seconded.

Vice Chairman Owens: We've heard that in some cases we get money from past before and the auditors have decided they don't want to do their job so we have to change the law to correct what's being done. I find that very interesting. In the process the Treasurer's Department is going to change the way they are doing things and this is going to make it easier on them.

Roll call vote: 13 yes 0 no 1 absent

Motion carried for a do pass.

Representative Strinden will carry this bill.

Date: 3-18-15
 Roll Call Vote #: 1

**2015 HOUSE STANDING COMMITTEE
 ROLL CALL VOTES
 BILL/RESOLUTION NO. 2172**

House Finance and Taxation Committee

Subcommittee

Amendment LC# or Description: _____

Recommendation: Adopt Amendment
 Do Pass Do Not Pass Without Committee Recommendation
 As Amended Rerefer to Appropriations
 Place on Consent Calendar
 Other Actions: Reconsider _____

Motion Made By Rep. Owens Seconded By Rep. Dockter

Representatives	Yes	No	Representatives	Yes	No
CHAIRMAN HEADLAND	✓		REP HAAK	✓	
VICE CHAIRMAN OWENS	✓		REP STRINDEN	✓	
REP DOCKTER	✓		REP MITSKOG	✓	
REP TOMAN	✓		REP SCHNEIDER	✓	
REP FROSETH	✓				
REP STEINER	✓				
REP HATLESTAD	✓				
REP KLEIN	✓				
REP KADING	AB				
REP TROTTIER	✓				

Total (Yes) 13 No 0

Absent 1

Floor Assignment Rep. Strinden

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

REPORT OF STANDING COMMITTEE

SB 2172: Finance and Taxation Committee (Rep. Headland, Chairman) recommends DO PASS (13 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). SB 2172 was placed on the Fourteenth order on the calendar.

2015 TESTIMONY

SB 2172

Senate Bill 2172
Testimony in Support
Committee: Senate Finance & Taxation
Date: January 20, 2015
Ryan K. Skor, Dir. of Finance
Office of State Treasurer

Mr. Chairman, members of the committee:

For the record, my name is Ryan Skor and I am the Director of Finance for the Office of State Treasurer. I am here in support of SB 2172 relating to the allocation and distribution of the oil and gas gross production tax and the oil extraction tax being pursuant to the distribution rules in place when the revenue is received.

Currently, the prevailing statutes have been interpreted as such that when revenue comes into the Tax Commissioner's Office related to oil or gas produced in a previous fiscal year, the Office of State Treasurer is required to apply the distribution/allocation rules that were in place at the time of production to that revenue. This causes a number of issues when it comes to administering the distribution and allocation of the oil and gas revenues for our office as well as for numerous political subdivisions.

This bill would require that all revenue collected by the Commissioner be considered current revenues for distribution and allocation purposes only, and would allow us to apply the most current distribution formula to allocate and distribute all revenues.

Changing this statute would greatly simplify our office's process. Currently it is very difficult and time consuming to reconcile the oil and gas distributions we make. We must apply multiple formulas to the certifications we receive from Tax and reconcile our manual calculations with the calculations run through our tax distribution system to ensure accuracy and correctness. By approving this bill, you would not only be simplifying this process for our office, you would also be simplifying the job of the State Auditor's Office as they must go through the same tedious process when auditing our distributions.

In addition to the Office of State Treasurer and the State Auditor's Office, you would also simplify the distribution process for the political subdivisions. The Office of State Treasurer has only recently been tasked with making all oil and gas distributions directly to the cities and school districts. Previously, some or all of these distributions were initially sent to the county for further distribution to the political subdivisions within that county. Under current law, any prior year amounts received for a period in which the county was responsible for distributing further are still distributed directly to the county and they are tasked with the duty of applying the appropriate formula in distributing those dollars. This process is especially difficult at the county level where we've seen significant employee turnover in some areas and a drastic increase in overall work load in almost all areas. With the small amount of dollars that we are talking about, it is our understanding that a number of counties have made the determination to just apply these funds to the county general fund rather than attempting to recreate old formulas. Changing the statute would eliminate this issue and would provide consistency at the county level.

Finally, by changing the statute, you would eliminate the need to store and maintain the computer coding for all of the previous distribution formulas. Not only does it take up a certain amount of disk space but, more importantly, it takes a significant amount of man hours to ensure the prior year code continues to act as intended.

Thank you for your consideration.

Ryan Skor

SR 2172

1.2

1-20-15

Office of State Treasurer
Oil & Gas Bill re. Collection Year

Monthly Gross Production Collection Amounts Sourced to Prior Years:

	<u>FY 09</u>	<u>FY 10</u>	<u>FY 11</u>	<u>FY 12</u>	<u>FY 13</u>	<u>FY 14</u>
Sep	656,462.57	731,048.85	1,060,166.93	561,700.14	2,192,671.85	1,770,345.26
Oct	359,396.92	(51,267.08)	534,045.74	(156,859.80)	(555,604.39)	(182,879.14)
Nov	99,697.11	(359,571.86)	(191,471.68)	53,007.13	(295,036.98)	98,024.37
Dec	(31,340.52)	15,725.15	668,236.06	104,903.77	(356,404.33)	97,157.97
Jan	(17,487.28)	20,717.71	61,042.01	(77,989.98)	(102,272.11)	84,142.82
Feb	(5,651.58)	(3,904.06)	(41,193.79)	(20,156.67)	(5,466.58)	33,586.29
Mar	(991.18)	24,959.36	4,026.82	245,153.97	(12,295.88)	(50,226.93)
Apr	50,478.59	(15,049.58)	(111,719.04)	103,019.98	(23,379.04)	(189,888.32)
May	(24,033.90)	(10,025.63)	(10,758.46)	190,630.70	35,888.75	13,368.87
Jun	(3,288.31)	22,324.94	76,541.37	(1,807.97)	3,305.47	(56,639.29)
Jul	(35,018.46)	9,052.14	74,970.87	(41,603.52)	(30,615.58)	20,539.11
Aug	(13,967.69)	(87,131.57)	(24,628.89)	8,766.43	115,950.08	23,239.93
FY Total	1,034,256.27	296,878.37	2,099,257.94	968,764.18	966,741.26	1,660,770.94

Monthly Oil Extraction Collection Amounts Sourced to Prior Years Per Fiscal Year:

	<u>FY 09</u>	<u>FY 10</u>	<u>FY 11</u>	<u>FY 12</u>	<u>FY 13</u>	<u>FY 14</u>
Sep	(532,647.33)	(49,381.73)	(124,689.07)	(462,957.01)	190,541.30	96,635.60
Oct	(1,993,958.68)	(235,251.81)	164,712.13	(1,005,479.22)	(853,554.35)	(540,560.62)
Nov	(448,282.51)	(1,048,280.92)	(595,697.11)	(236,524.17)	(516,324.52)	11,144.06
Dec	(513,961.86)	(825,309.01)	955,234.08	(807,272.44)	(684,514.50)	(29,513.48)
Jan	(1,017,263.13)	(1,118,520.76)	(1,561,271.23)	(706,154.21)	(340,867.51)	132,527.51
Feb	(1,150,161.06)	(173,409.31)	(58,949.99)	(124,329.71)	(250,094.63)	(573,546.47)
Mar	(835,329.62)	111,385.48	(22,275.17)	106,410.16	(282,176.30)	29,557.03
Apr	(12,408.89)	(122,230.50)	(344,923.94)	(950,975.69)	(109,625.20)	(241,590.93)
May	(259,035.20)	(16,297.24)	(14,143.69)	216,081.89	(32,097.73)	(2,422.64)
Jun	(11,208.21)	23,534.58	96,096.65	(186,651.19)	(200,468.35)	(192,701.35)
Jul	(1,238,544.54)	(129,456.15)	61,486.43	(99,456.15)	(73,628.50)	(22,396.95)
Aug	(371,483.68)	(765,597.88)	(255,451.10)	(226,213.99)	(102,313.03)	(85,635.90)
FY Total	(8,384,284.71)	(4,348,815.25)	(1,699,872.01)	(4,483,521.73)	(3,255,123.32)	(1,418,504.14)
TOTAL	(7,350,028.44)	(4,051,936.88)	399,385.93	(3,514,757.55)	(2,288,382.06)	242,266.80

Kevin
Schaty

SR 2172
1-20-15
#2

Common reasons for amended reports

Affect both GPT & OET:

1. Exempt royalty corrections
 - a. Federal, state, political subs, Tribal
2. Volume corrections
3. Value corrections
4. Originally reported on wrong well
5. Did not report and pay tax when due
6. Duplicate payments on billing notices
7. 3 year statute of limitations unless tax is in excess of 25% can go back 6 years for refund or assessment.

Affect OET only:

1. Failure to properly claim an OET exemption or rate reduction
 - a. Not claiming when qualified
 - b. Claiming when don't qualify
2. Failure to complete qualifying certification of an exemption or rate reduction prior to a required reporting period
 - a. IC certifies in certain cases that a well qualifies for an exemption or rate reduction
 - i. 10 mile outside Bakken/Three Forks for 2% rate
 - ii. One year production qualification for stripper wells
 - iii. Others that are currently subject to trigger
 - b. Requires tax paid at full rate until certification is completed
 - c. Indian land exemption certification for non-trust land was previously an issue
 - i. Needed sufficient time for BIA to provide spacing unit Trust and Non-Trust acreages
3. Stripper well certifications
 - a. Meet production requirements for 12 month period
 - b. Can go back up to 18 months to a 1 year qualifying period for refund
 - i. Failure to have qualified within 18 months of 1 year qualifying production period they can only claim exemption prospectively

SB 2172
March 18, 2015
#1

SB 2172

Testimony by Senator Brad Bekkedahl, District 1

House Finance and Tax Committee

Representative Craig Headland, Chairman

Chairman Headland and Committee Members,

Senate Bill 2172 relates to distributions from the Oil Extraction Tax and the Gross Production Tax made by the Office of State Treasurer. It specifically deals with distributions linked to corrections in tax collections sent to the Treasurer's office from the Office of Tax Commissioner. The amount of these corrections, (which can date from six years prior), when sent to the Treasurer, have been distributed to the local political subdivisions either directly from the Treasurer's office or from the County Auditor. In order to ensure parity with other distributions made by the Treasurer's office based upon current formula status, and to ensure continuity and transparency through the entire distribution from the State level through the County distribution level, this bill would require the use of the most current or existing statutory distribution formula at the time of the correction arriving from the Tax Commissioner's office to the State Treasurer.

This bill has been thoroughly vetted with the Tax Department, the Auditor's office, and the Attorney General with no objections, and has received the full support of the County Auditors and Treasurers, as well as the primary recipient representative organization, which is the North Dakota Association of Oil and Gas Producing Counties.

The bill has no fiscal note attached, and I request the Committee support SB 2172 with a Do Pass recommendation. Thank you for your consideration and I would entertain any questions the Committee may have at this time.



STATE OF NORTH DAKOTA
OFFICE OF STATE TREASURER
Kelly L. Schmidt, State Treasurer

SB 2172
3-18-15
2

Senate Bill 2172
Testimony in Support
Committee: House Finance & Taxation
Date: March 18, 2015
Ryan K. Skor, Dir. of Finance
Office of State Treasurer

Mr. Chairman, members of the committee:

For the record, my name is Ryan Skor, Director of Finance for the Office of State Treasurer. We are here in support of SB 2172 relating to the allocation and distribution of the oil and gas gross production tax and the oil extraction tax.

Currently, the prevailing statutes have been interpreted as such that when revenue comes into the Tax Commissioner's Office related to oil or gas produced in a previous fiscal year, our office is required to apply the distribution/allocation rules that were in place at the time of production to that revenue. This causes a number of issues when it comes to administering the distribution and allocation of the oil and gas revenues for our office as well as for numerous political subdivisions.

What this bill would do is require that all revenue collected by the Commissioner be considered current revenues for distribution and allocation purposes only, and would require us to apply the most current distribution formula to allocate and distribute all revenues. It would not affect the Tax Commissioner's Office collection of the tax in any way.

This change would add consistency and clarity to the distribution process for the political subdivisions. The Office of State Treasurer has only recently been tasked with making all oil and gas distributions directly to the cities and school districts. Previously, some or all of these distributions were initially sent to the county for further distribution to the political subdivisions within that county. Under current law, any prior year amounts received for a period in which the county was responsible for distributing further are still distributed directly to the county and they are tasked with the duty of applying the appropriate formula in distributing those dollars. This process is especially difficult at the county level where we've seen significant employee turnover in some areas and a drastic increase in overall work load in almost all areas. With the small amount of dollars that we are talking about, it is our understanding that a number of counties have made the determination to just apply these funds to the county general fund rather than attempting to recreate old formulas. Changing the statute would eliminate this issue and would provide consistency of distribution throughout the process as the Office of State Treasurer would be able to direct all funds to the appropriate political subdivisions.

We respectfully ask for a DO PASS recommendation on this bill.