

FISCAL NOTE
Requested by Legislative Council
03/24/2015

Amendment to: SB 2337

- 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.*

	2013-2015 Biennium		2015-2017 Biennium		2017-2019 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

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

	2013-2015 Biennium	2015-2017 Biennium	2017-2019 Biennium
Counties			
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).*

SB 2337 with house amendments expands the oil extraction tax incentive for new wells drilled and completed outside the Bakken and Three Forks formations.

- 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.*

SB 2337 with house amendments allows for a complete exemption from oil extraction tax for new wells drilled outside the Bakken and Three Forks formations and ten or more miles outside an established field. The exemption is for the first 18 months after completion.

The March forecast assumes the 'big trigger' will be in effect for the first 11 months of the 2015-17 biennium, overriding the provisions of this bill. This non-Bakken new well incentive, under current law, would have allowed for a reduction of 4.5% (from 6.5% to 2%) for the remainder of the biennium after the big trigger is assumed to trigger off. If enacted, this bill will modify that incentive and remove the remaining 2% of the oil extraction tax, on new wells completed outside the Bakken during the biennium. If prices remain relatively low, drilling will be concentrated in the prime Bakken areas of the state. Therefore, the fiscal impact of the additional 2% reduction provided for in this bill is likely to be less than \$5000.

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 or a part of the appropriation is 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: 03/25/2015

FISCAL NOTE
Requested by Legislative Council
01/26/2015

Bill/Resolution No.: SB 2337

- 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.*

	2013-2015 Biennium		2015-2017 Biennium		2017-2019 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues						
Expenditures						
Appropriations						

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

	2013-2015 Biennium	2015-2017 Biennium	2017-2019 Biennium
Counties			
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).*

SB 2337 expands the oil extraction tax incentive for new wells drilled and completed outside the Bakken and Three Forks formations.

- 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.*

SB 2337 allows for a complete exemption from oil extraction tax for new wells drilled outside the Bakken and Three Forks formations and ten or more miles outside an established field. The exemption is for the first 18 months after completion.

The January re-forecast assumes the 'big trigger' will be in effect for the first ten months of the 2015-17 biennium, overriding the provisions of this bill. This non-Bakken new well incentive, under current law, would have allowed for a reduction of 4.5% (from 6.5% to 2%) for the remainder of the biennium after the big trigger is assumed to trigger off. If enacted, this bill will modify that incentive and remove the remaining 2% of the oil extraction tax, on new wells completed outside the Bakken during the final 14 months of the biennium. If prices remain relatively low, drilling will be concentrated in the prime Bakken areas of the state. Therefore, the fiscal impact of the additional 2% reduction provided for in this bill is likely to be less than \$5000.

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 or a part of the appropriation is 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: 02/04/2015

2015 SENATE ENERGY AND NATURAL RESOURCES

SB 2337

2015 SENATE STANDING COMMITTEE MINUTES

Energy and Natural Resources Fort Lincoln Room, State Capitol

SB 2337
2/5/2015
23261, 23267

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature

Kate Olin

Explanation or reason for introduction of bill/resolution:

Relating to an oil extraction tax exemption; and to provide an effective date.

Minutes:

Chairman Schaible opened the hearing, roll was taken and Senator O'Connell was on hand to introduce the bill.

Senator O'Connell: District 6. What this bill does is an exempt oil company from outside the Bakken and Three Forks formation from any tax for the first 18 months. A lot of these wells are between 100-150 barrels a day. They keep contractors working; it is a jobs bill, by not having any taxes they are shutting down the wells in our area. (.44-1:54)

Alexius Baxley: North Dakota Petroleum Council. We are in support of this bill; the exemption would be a great benefit to wells outside of the Bakken. Those wells are often times not a sure thing the way Bakken wells. Any tax exemption we can give them would help them continue to be developed. (2:45-3:10)

Senator Laffen: Would the oil companies be inclined to keep working inside the more productive areas even when prices are low.

Alexius Baxley: I think that some of the bigger companies will be more likely to focus on the sweet spots. This would in

Senator Armstrong: How do the triggers affect the wells differently?

Alexius Baxley: I would need to differ to someone else.

There was no further testimony and Chairman Schaible closed the hearing on SB 2337

A motion for a do pass was made by Vice Chair Unruh with a second by Senator Armstrong.

Senator Triplett: The level of oil development that was going on and if there was a way to move rigs outside the area of intense development and I have not done the research if it did help, my guess is it would be marginal if any. I think since we are in the time of falling oil prices and reduced presence of the oil industry. I do not know if there is anything we can do given the powerful marketplaces and I think that it was put in there for a purpose and I think it is being offered for a different purpose.

There was no further discussion, roll was taken, the motion passed on a 6-1-0 count and Vice Chair Unruh carried the bill to the floor.

Chairman Schaible then closed committee work on SB 2337

**2015 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2337**

Senate Energy and Natural Resources Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass

Motion Made By Vice Chair Unruh Seconded By Senator Armstrong

Senators	Yes	No	Senators	Yes	No
Chairman Schaible	X		Senator Murphy	X	
Vice Chair Unruh	X		Senator Triplett		X
Senator Armstrong	X				
Senator Hogue	X				
Senator Laffen	X				

Total (Yes) 6 No 1

Absent 0

Floor Assignment Vice Chair Unruh

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

REPORT OF STANDING COMMITTEE

SB 2337: Energy and Natural Resources Committee (Sen. Schaible, Chairman)
recommends **DO PASS** (6 YEAS, 1 NAYS, 0 ABSENT AND NOT VOTING).
SB 2337 was placed on the Eleventh order on the calendar.

2015 HOUSE FINANCE AND TAXATION

SB 2337

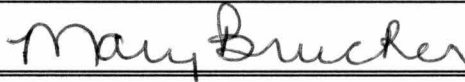
2015 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

SB 2337
3/11/2015
24644

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A bill relating to an oil extraction tax exemption.

Minutes:

No attachments.

Chairman Headland: Opened hearing.

Senator O'Connell: Introduced bill. I introduced this bill to give exempt all taxes for 18 months for any well being drilled outside the Bakken. I should have put in the bill 18 months from the signing of the governor. I would appreciate if you would look at a sunset someplace on it. When you get out of the Bakken in the Spearfish formation it is basically sour crude and it's about \$20 a barrel cheaper than anywhere else. The majority leader on the floor mentioned that it's \$242,000 of sales tax on every well and jobs are being created. We're not losing anything because we were not getting anything out of it at the time. These wells don't deplete like the Bakken formation. The 140 barrels is a pretty big number on a lot of these wells and they stay within that 140 barrel range for quite a few years.

Chairman Headland: Are they having some success in areas that haven't traditionally been successful now with new technologies in non-Bakken wells?

Senator O'Connell: They are. Wiley field is going back in there to these old wells that were drilled in the 1960s and most of those wells are stripper wells at this time. They are producing around 140 barrels of oil per day.

Representative Haak: What would you like the sunset to be?

Senator O'Connell: I would like to see the sunset be after the governor signs the bill. This would really help save jobs.

Representative Hatlestad: Do you think the oil companies in this area need the incentive to drill or if they are making it profitable they will come regardless?

Senator O'Connell: Right now Bottineau County had six rigs drilling and every one of them is stacked out at this time. They are waiting to see if we are going to do some kind of

relief. Sour crude is about \$10-20 a barrel less than what the Bakken crude is so it's about keeping jobs out there.

Chairman Headland: If taxes are the issue then would we be better served to adjust the rate of tax that we tax every well versus allowing for incentives for certain wells in certain areas for certain reasons?

Senator O'Connell: I'm not going to argue that point with you since we are on the same page but this is just an incentive to keep people working at this time. We're not losing anything since there is still oil in the ground. As long as the production doesn't decline we're going to recoup it later on.

Representative Steiner: You're not going to take the first 75,000 barrels as the previous incentive but you want to completely give away the 6.5% and the only pay gross production tax for all or part of the first 24 months. You'd like it to sunset after two years so the only pay gross production on a non-Bakken?

Senator O'Connell: It would be a complete new set of rules; nothing to do with the old formula whatsoever. It's a complete tax exemption for 18 months.

Representative Steiner: I'm looking at relating to an oil extraction tax exemption. I don't have it as a gross production tax exemption. Was it meant to be zero tax?

Senator O'Connell: Zero tax is what it was meant to be.

Representative Steiner: My concern is with the precedence setting that you will not tax oil at all and then Bottineau County could come in with issues with no revenue. I know the oil extraction tax is more of a state tax and that has been exempted in the past.

Senator O'Connell: We are looking at all counties but Bottineau County is the tenth oil producing county in the state. I'm well aware of their issues. Bottineau would get \$15.2 million of the head start money so we would still be ahead of the game. All those wells wouldn't be located in one county. I don't look for that many rigs to be going; there are rigs stacked out.

Vice Chairman Owens: It was your intent it would be zero tax for oil. This bill only exempts the oil extraction tax not the gross production tax. This only gets rid of the 6.5%; there is still 5% tax on this.

Senator O'Connell: I understand that now. Whichever way you see fit is fine.

Vice Chairman Owens: I just wanted to know what your intent was.

Senator O'Connell: That was my intent. Anything you can do to support the people that work on these rigs and help keep the smaller rigs going along with the sales and other taxes related to oil is a boost to our economy too.

Chairman Headland: Is there support for SB 2337?

Ron Ness, North Dakota Petroleum Council: The concept is to try and encourage activity in Senator's area. Last session you passed the non-Bakken tax incentive which created a two percent tax for the first 18 months. This bill as it came out of the senate takes that two percent to zero for 18 months for wells outside the Bakken. His intent is to try and help those areas which are out of the Bakken and lower economics. We would encourage you to look at his bill.

Chairman Headland: Can you give us an idea of how many rigs we have drilling in non-Bakken areas in North Dakota?

Ron Ness: I would guess it would be almost zero. With the projection we have we will probably have almost zero going forward.

Chairman Headland: Is there further support for 2337? If not, is there opposition to 2337?

Tom Ricker, President AFL-CIO: In between the time the governor came out with his proposed budget and now the forecast has changed greatly and we're looking for another forecast on March 18, 2015. There have been a lot of budgets cut back. I don't think it's a good time to be reducing taxes on oil extraction.

Chairman Headland: Just to correct a statement you just made, there is not one budget that has been reduced from the prior spending yet. There may be reductions in the increase but there is no budget that has been reduced.

Tom Ricker: I know there have been decreases from the governor's budget and they're looking at reducing some of them. I just think that if reductions are being made in areas that are needed then we don't need to be reducing oil tax exemptions at this time.

Representative Haak: The sponsor of the bill said he intended to include gross production. Do you know what that would do to the fiscal note?

Kevin Schatz, Tax Commissioner's Office: I would have to check with our research department and get that for you.

Representative Froseth: This would only pertain to wells drilled after June 30, 2015 and there are zero rigs drilling in that area right now. It would be pretty hard to determine an estimate of how many wells might be drilled.

Chairman Headland: If the big trigger kicks in then it doesn't matter anyway.

Representative Froseth: But there would still be the five percent reduction.

Chairman Headland: Are there any other questions? Seeing none we will close the hearing on SB 2337.

2015 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

SB 2337
3/16/2015
24874

- ☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature

Mary Brucher

Explanation or reason for introduction of bill/resolution:

A bill relating to an oil extraction tax exemption.

Minutes:

Attachment #1

Representative Haak: Distributed proposed amendments 15.0912.01001. See attachment #1. When Senator O'Connell testified on this bill in front of our committee he said he would like to put a sunset date on this which is what these amendments do. It will sunset until the next biennium so we would be able to revisit it next session.

Chairman Headland: I'm going to hold this bill for a little while as we are working on some other possible amendments. Thank you for bringing this to us.

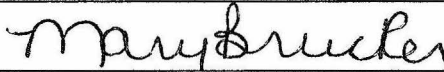
2015 HOUSE STANDING COMMITTEE MINUTES

Finance and Taxation Committee Fort Totten Room, State Capitol

SB 2337
3/23/2015
25257

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A bill relating to an oil extraction tax exemption.

Minutes:

Attachment #1.

Chairman Headland: We discussed this amendment last week but did not act on it. See attached proposed amendment; attachment #1.

Representative Steiner: Made a motion to adopt the amendment 15.0912.01001.

Representative Haak: Seconded.

Voice vote: Motion carried.

Representative Steiner: Made a motion for a do not pass as amended.

Representative Dockter: Seconded.

Representative Steiner: There is discussion about all the exemptions. I don't think the timing is right at this time because we have the triggers and now another exemption we would have to keep track of. I think we just need to leave it as it is.

Representative Froseth: This oil field is in Bottineau County in the Spearfish formation. Originally they thought those wells would produce at about 200 barrels a day but that didn't happen; they are coming in at about 18-30 barrels a day. I don't think they'll lose production like the Bakken. This isn't going to amount to a lot of savings to the oil companies. It's really not going to make any difference whether they continue drilling and producing in that field or not because it doesn't amount to that much.

Roll call vote for a do not pass as amended: 12 yes 0 no 2 absent

Motion carried.

Representative Steiner will carry this bill.

SL
3/23/15

PROPOSED AMENDMENTS TO SENATE BILL NO. 2337

Page 1, line 2, remove "and"

Page 1, line 3, after "date" insert "; and to provide an expiration date"

Page 1, after line 17, insert:

"SECTION 3. EXPIRATION DATE. This Act is effective through June 30, 2017,
and after that date is ineffective."

Renumber accordingly

Date: 3-23-15
Roll Call Vote #: 1

2015 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2337

House Finance and Taxation Committee

☐ Subcommittee

Amendment LC# or Description: 15.0912.01001 Sunset June 30, 2017

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. Steiner Seconded By Rep. Haak

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					
REP TROTTIER					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

Voice vote = Motion carries.

Date: 3-23-15
Roll Call Vote #: 2

2015 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2337

House Finance and Taxation Committee

☐ Subcommittee

Amendment LC# or Description: 15. 0912. 01001

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. Steiner Seconded By Rep. Dockter

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

Total (Yes) 12 No 0

Absent 2

Floor Assignment Rep. Steiner

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

REPORT OF STANDING COMMITTEE

SB 2337: Finance and Taxation Committee (Rep. Headland, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO NOT PASS** (12 YEAS, 0 NAYS, 2 ABSENT AND NOT VOTING). SB 2337 was placed on the Sixth order on the calendar.

Page 1, line 2, remove "and"

Page 1, line 3, after "date" insert "; and to provide an expiration date"

Page 1, after line 17, insert:

"SECTION 3. EXPIRATION DATE. This Act is effective through June 30, 2017, and after that date is ineffective."

Renumber accordingly

2015 TESTIMONY

SB 2337

SB 2337
3-16-15
#1

15.0912.01001
Title.

Prepared by the Legislative Council staff for
Representative Haak
March 12, 2015

PROPOSED AMENDMENTS TO SENATE BILL NO. 2337

Page 1, line 2, remove "and"

Page 1, line 3, after "date" insert "; and to provide an expiration date"

Page 1, after line 17, insert:

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and after that date is ineffective."

Renumber accordingly

15.0912.01001
Title.

SB 2337
3-23-15 # 1
Prepared by the Legislative Council staff for
Representative Haak

March 12, 2015

PROPOSED AMENDMENTS TO SENATE BILL NO. 2337

Page 1, line 2, remove "and"

Page 1, line 3, after "date" insert "; and to provide an expiration date"

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and after that date is ineffective."

Renumber accordingly