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Gary D. Preszler, Commissioner

**TESTIMONY OF JEFF ENGLESON  
DIRECTOR, ENERGY DEVELOPMENT IMPACT OFFICE  
North Dakota State Land Department**

**TAXATION COMMITTEE  
October 2, 2008**

Chairman Stenehjem and members of the Taxation Committee, my name is Jeff Engleson. I'm the Director of the Energy Development Impact Office (EDIO). I'm here today to give you a brief overview of the 2008 oil and gas impact grant round and to answer any questions you may have about this program.

As many of you already know, funds for the EDIO come from a portion of the 5% Oil & Gas Gross Production Tax. The North Dakota State Legislature has allocated 6.67% of the total tax, not to exceed \$6.0 million for a biennium, to the EDIO for grants to local subdivisions experiencing the negative impacts from oil activity. With both prices and production up this biennium, the \$6.0 million biennial funding cap was reached many months ago. Prior to the current biennium, the cap for this program was \$5.0 million per biennium.

During fiscal year 2008, the EDIO made 265 grants totaling \$3.0 million to 241 local political subdivisions in western North Dakota. A total of 376 requests were received from 278 political different subdivisions during 2008; the total amount of grants requested was \$29.1 million. Approximately \$3.0 million of additional grants will be made during the grant round to be held in the spring of 2009.

For much of the past decade, there has been relatively little new drilling activity in the oil patch in western North Dakota. In that environment, the oil and gas impact program evolved into one that focused on providing most political subdivisions with at least a little help in dealing with the everyday financial impacts of oil and gas production. However, with the explosion of activity and the limited funding this program receives, the focus this year was on providing grants to those entities that are most directly affected by the initial impacts of oil and gas development and those entities that are experiencing significant financial hardship as a result of the rapid rate of development.

Financial need was the main factor in determining which entities received grants this year. As such, many applicants that have received grants in the past were either denied grants or received reduced grants this year. Most counties, which receive the largest share of the gross production taxes that are distributed to political subdivisions by the state, received no grants at all this year. Production tax revenues for most counties were up substantially in 2008, more than making up for what they had received from the EDIO in prior years. Counties were not alone in receiving less funding. Many townships that have previously received grants received reduced grants or no grant at all this year if that township had a large cash balance on hand, a low mill levy, or large amounts of unused grants from previous years.

The attached tables break down grant awards and grant requests for both the current year and for the past few biennia by function, county and political subdivision.

*Taxation Committee*  
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The attachment entitled "Grant Awards by Function" clearly shows that transportation and fire protection needs have historically received the vast majority of the dollars granted under this program. During the 2008 grant round, over 75% of funds were allocated to transportation-related projects, while an additional 17.4% went to support fire protection related services.

The primary reason these types of projects receive the most funding is that these government services are directly impacted by the increased oil and gas activity in the state, but in most cases, receive little or no funding from the taxes generated by that activity. Weight restrictions on state and county roads often force oil trucks to drive on township roads that were never designed for such traffic. These trucks run 24 hours a day, rain or shine, whereas farmers and ranchers will usually not drive on the roads with heavy equipment when conditions are too wet or spring thaw is occurring. New development took an especially hard toll on township roads, and budgets, over the past year. Volunteer fire departments are responsible for protecting hundreds of workers and millions of dollars worth of property and equipment from fire, yet many of them are using equipment that is 20, 30 or even 40 years old. Townships and fire departments do not receive any gross production tax revenues.

The attachment entitled "Grant Requests/Awards by Political Subdivision and County" breaks down grants requested and awarded, by political subdivision type and by county. It shows how this program has evolved and adapted as oil and development in the state has changed over time. Eight years ago, when much of the new development in the state was in Bowman County, political subdivisions in that county received more than 20% of the grants made during the 1999-2001 biennium. Now that the Bakken play is taking off in Mountrail and Dunn Counties, political subdivisions in those two counties received over 40% of grants made in 2008. It also shows a clear shift in grant funding from counties during the early part of the decade to townships in more recent years. Part of the reason for this shift is less drilling in Bowman County; however, the primary reason is the fact that counties now receive more funding from the state, while townships continue to receive no share of oil and gas tax revenues.

A summary of the 2008 grant rounds, which shows the amount of grants requested by, and awarded to, each political subdivision in 2008 is available. In the interest of saving paper, I did not include a copy of this 18 page document with my testimony today. However, this summary document can be found on the State Land Department's web site at [www.land.nd.gov](http://www.land.nd.gov) under "Energy Development Impact Office". If you wish to receive a printed copy of the summary document, please let me know and I'll make sure you get one.

Mr. Chairman, I would be happy to answer any questions the Committee may have.

**ENERGY DEVELOPMENT IMPACT OFFICE**  
**Grant Awards By Function**  
**Fiscal Year 2002 Through Fiscal Year 2008**

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

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**ENERGY DEVELOPMENT IMPACT OFFICE**  
**Grant Requests/Awards By Political Subdivision and County**  
**1999-01 Biennium Through Fiscal Year 2008**  
(all dollar amounts shown are in millions)

**Breakdown By Political Subdivision Class**

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

**Breakdown By County**

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