

2009 HOUSE FINANCE AND TAXATION

HB 1251

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. HB 1251

House Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: 01/27/09

Recorder Job Number: 7815

Committee Clerk Signature *Wivi Engelson*

Minutes:

Chairman Belter opened the hearing on HB 1251.

Rep. Bob Sakrphol: 1251 is an attempt to get trucks off the road. Currently under North Dakota law there is no tax exemption in place for gathering system pipelines for property tax.

When I talk about gathering system pipelines, I'm talking about a scenario, oil for an example.

Currently they are putting in place pipelines from each well drilled to a central collection tank in regard to collecting the oil they produce along Highway 23 and then trucking it to Stanley.

Under this bill, they would be eligible for property tax exemption for five years for putting in place a pipeline that would move that oil from that tank to either the pipeline in Stanley or a rail in Stanley of a full 100%. There are amendments being drafted that make some language changes to make sure the terminology is correct. It does not change the effect of the bill or the intent of the bill. When you talk about the kind of production that these wells are making, obviously we are talking about a lot of trucks moving up and down the highway. This is simply an attempt to encourage the oil industry to develop the gathering systems or the delivery systems to deliver this to the pipeline or the rail. It does not include, for example, the expansion being done. It is designed for the producer that puts together what is necessary to move that oil or natural gas by pipeline. It's a property tax exemption only.

Bob Harms: Bob Harms, North Dakota Alliance of Independent Producers. We agree with HB 1251 just as an effort to reduce the traffic in North Dakota, reduce the amount of gas that we see on which any tax is paid. The bill provides a more efficient system and less costly transportation methodology. It reduces the wasting of resources. We support the bill.

Chairman Belter: The question has been asked why there is no fiscal note on here. I believe that is because this would only affect the counties, and currently there aren't any property taxes. This is only for a new line so subsequently I don't think there would be a fiscal note on here. We can get clarification.

Rep. Weiler: It would affect the counties, wouldn't it?

Chairman Belter: Correct.

Rep. Skarphol: The chairman is correct. It does only have a fiscal effect on the county, and the county would not receive any revenue were the pipeline not built. Therefore there would not be a fiscal effect. This will be centrally assessed by the state as designed, not assessed by the county. It includes it under the section of the law which provides for central assessment.

Rep. Froseth: I don't really understand how broad this would be. Would this include the Keystone Pipeline that runs through North Dakota and Canada on down?

Rep. Skarphol: It would not. It was intended for the producer or operator. It is only intended for gathering systems for oil or gas.

Chairman Belter: Further testimony in support of 1251? Any opposition to 1251? Any neutral?

David Hynek, Mountrail County Commissioner: My name is David Hynek. I am the chairman of the board of the Mountrail County Commissioners. From the information that was just presented I must speak in opposition to this. These pipelines that are currently being

discussed in this legislation are already in the ground or are being put in the ground in Mountrail County. It is my understanding that the taxation of these pipelines depends on whichever comes first, the point of measurement or the point of sale. So that has a very dramatic affect on when we talk about gathering lines. If you have six wells coming together into one central tank battery, there is no taxation on those pipelines until it gets to that central tank battery which would be your first point of sale.

Rep. Froelich: What kind of fiscal impact do you think this will have?

David Hynek: At the present time, I could not give you an answer. We are in the process of analyzing the number of miles of pipeline that are currently being put in the ground, and we do not have a good handle on when either the point of sale or point of measurement comes into play on each specific pipeline. There are hundreds of miles of pipeline being put in the ground in Mountrail County. Several oil companies are currently laying pipelines. Either gathering lines or lines that go directly into existing interstate corridor pipelines. I cannot give you an accurate answer. I believe it will be substantial in the near future. One of the difficulties we are running into concerning pipelines is that there does not seem to be anyone in the state of North Dakota keeping track of where these pipelines are and exactly what is going in the ground other than the one call system. Our auditor and our tax director are having a very difficult time getting a handle on this. We, as a county, are going to have to do our own research on this.

Rep. Brandenburg: This bill talks about a five-year tax exemption but they pay on year six to encourage the building of pipelines. Would you be paying taxes to the county on year six?

David Hynek: Yes, we would if that exemption goes into place.

Rep. Brandenburg: Wouldn't that be good then because now you've got a incentive there for the people to come through and put in pipeline so you can move more products so the county can collect more tax. So you would have to wait five years to get in on year six.

David Hynek: It may or may not be good. We have a real critical problem in Mountrail County as the other oil and gas producing counties are encountering. We have a tremendous shortage of revenue right now. Our impact is right now, and we need to somehow attract more revenue to those oil producing counties. I would agree that part of this bill is a good intent and that is to get the truck traffic off the road, but we need revenue and we need it right now. We can't wait six years.

Rep. Pinkerton: Those pipelines are permitted. There's a permit that's required before they lay them.

David Hynek: We have a very limited fee for permitting. The dollars that would be associated with that type of activity would be paid to the individual landowners for easements to go across their property. As far as the county receiving permit fees, it's a very, very small amount of money.

Rep. Pinkerton: I wasn't speaking so much about the money, but there has to be someone keeping track of where those lines are located, isn't there?

David Hynek: To my knowledge, that is a big question mark at the present time exactly where those lines are located.

Rep. Froseth: Do you think it's possible to compile comparison figures to what the loss of property tax revenue in relation to the cost of maintaining infrastructure roads. At what point would you come out ahead by offering a tax incentive? If you offer a five year tax incentive, are you going to lose x amount of dollars to maintain your roads. The infrastructure now costs

x amount of dollars. At do you break even and you come out ahead by having an incentive like this? Could you compile that.

David Hynek: It could be done. I can't give you a timeframe on when that data would be available. We could attempt to do that. My question is that these pipelines that are being discussed in this bill, are already being put in the ground with no incentive. That's my point.

Rep. Pinkerton: Will they put these pipelines in without an incentive.

David Hynek: Sure.

Chairman Belter: Any other testimony on 1251? Will this be neutral?

Joan Hollekim: This will be neutral. I'm Joan Hollekim the Mountrail County Auditor. I just feel that if the state wants to give an exemption on gathering, they need to consider assessing it. Right now gathering lines are locally assessed, so if they want to take over the exemption, they need to take over the assessing of it.

Chairman Belter: Any other testimony? If not we'll close the hearing on HB 1251.

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. **HB1251**

House Finance and Taxation Committee

Check here for Conference Committee

Hearing Date: January 28, 2009

Recorder Job Number: 8066

Committee Clerk Signature



Minutes:

Chairman Belter: Committee, what are your wishes on 1251?

Representative Grande: I move a "do not pass".

Representative Headland: Second.

Chairman Belter: I have a "do not pass" motion from Representative Grande on 1251 and a second from Representative Headland. Is there any discussion? If not, will the clerk read the roll.

A roll call vote was taken, resulting in 13 ayes, 0 nays, and 0 absent/not voting.

Representative Pinkerton will carry the bill.

Date: January 28, 2009

Roll Call Vote #: 1

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 1251

House FINANCE AND TAXATION Committee

Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken Do Pass Do Not Pass Amended

Motion Made By Grande Seconded By Headland

Representatives	Yes	No	Representatives	Yes	No
Chairman Wesley R. Belter	/		Representative Froelich	/	
Vice Chairman David Drovdal	/		Representative Kelsh	/	
Representative Brandenburg	/		Representative Pinkerton	/	
Representative Froseth	/		Representative Schmidt	/	
Representative Grande	/		Representative Winrich	/	
Representative Headland	/				
Representative Weiler	/				
Representative Wrangham	/				

Total (Yes) 13 No 0

Absent 0

Floor Assignment Representative Pinkerton

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

REPORT OF STANDING COMMITTEE (410)
January 29, 2009 9:55 a.m.

Module No: HR-17-1180
Carrier: Pinkerton
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HB 1251: Finance and Taxation Committee (Rep. Belter, Chairman) recommends DO NOT PASS (13 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). HB 1251 was placed on the Eleventh order on the calendar.

2009 TESTIMONY

HB 1251

PROPOSED AMENDMENTS TO HOUSE BILL NO. 1251

Page 1, line 7, replace "Property comprising a pipeline system" with "A gathering line"

Page 1, line 10, replace "pipeline system" with "gathering line"

Page 1, line 11, replace "the point" with "a refinery or processing facility, a holding tank or tank battery, or an oil or gas transmission pipeline."

Page 1, remove lines 12 and 13

Renumber accordingly