17.0521.04000

FISCAL NOTE
Requested by Legislative Council
04/25/2017

Amendment to: SB 2013

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.*

	2015-2017 Biennium		2017-2019 Biennium		2019-2021 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			$0	$12,625,000		
Expenditures			$0	$0		
Appropriations			$0	$0		

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

	2015-2017 Biennium	2017-2019 Biennium	2019-2021 Biennium
Counties		$(3,170,000)	
Cities		$(6,900,000)	
School Districts		$(2,005,000)	
Townships		$(550,000)	

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).*

Section 16 of Engrossed Senate Bill 2013 with Conference Committee Amendments makes changes to the oil and gas gross production tax distribution formula.

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 16 of Engrossed Senate Bill 2013 changes a number of items in the gross production tax distribution formula that would have fiscal impacts on political subdivisions and/or state special funds:
1). It allows the hub city calculation to revert back to using the mining employment percentages. The amendment also locks in specific percentages to use for the first year of the biennium. For the second year of the biennium and going forward, it uses the mining percentages produced by Job Service but it excludes the first two percentage points from the calculation of their annual amounts. Specifying these percentages in the first year and then excluding the first two percentage points from the actual percentages in the second year would cause a decrease in the amounts going to hub cities of about $5,271,000 from current law for the 2017-2019 biennium.
2). It also changes the calculations for the hub city school distribution amounts in a manner consistent with the hub city changes above. These changes cause a decrease in the amounts going to hub city schools of about $1,437,000 from current law for the 2017-2019 biennium.
3). It creates a tiered calculation for the amounts to be paid to the schools within counties that received between $5M and $30M in GPT revenue in the most recently completed even-numbered fiscal year. This change would cause five counties to continue receiving $1.5M per year for their schools and one county to receive $500K per year for its schools. This would reduce the amount going to schools by about $1,917,000 for the biennium.
4). It would reduce the biennial cap for amounts going into the outdoor heritage fund from $40M down to $10M. Based on the March '17 legislative forecast for oil and gas collections, this would reduce the estimated amount going into the fund by about $10,900,000.
5). It would reduce the annual cap for amounts going into the abandoned oil and gas well plugging and site reclamation fund from $7.5M to $4M per year. Based on the forecast, this would reduce the estimated amount going into the fund by about $2,450,000.
6). It would reduce the biennial cap for amounts going into the oil and gas impact grant fund from $100M down to $25M for the 2017-2019 biennium.
7). The net impact of changes 1-6 would increase the amount projected to be deposited in the strategic investment and improvements fund (SIIF) by around $96,975,000.

Furthermore, the bill requires $2M per year to be withheld from the county share of GPT distributions to the counties that received greater than $5M per year and transferred to the energy impact Fund. This would cause a reduction in the amounts going to the political subdivisions of $4M for the biennium with a corresponding increase in the amounts going to the energy impact fund of the same $4M. This $4M reduction would be allocated across the political subdivisions in the same manner as the distribution formula.

Combining these changes would cause an estimated decrease in the funds distributed to political subdivisions of around $12,625,000 and an increase in total state special fund revenue of this same $12,625,000 when compared to current law.

Also, as part of these changes, Section 16 of Engrossed SB 2013 would change the determination year for all calculations to be "the most recently completed even-numbered fiscal year" rather than "fiscal year 2014". This change would impact the distribution of revenue at the county level for specific counties, but would not impact the total amounts being distributed to political subdivisions in total or any other special funds.

The amounts included above do not include any costs associated with the Office of State Treasurer needing to rewrite its distribution software to facilitate these changes. See expenditure section below for further explanation.

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.*

   The amounts included above do not include any costs associated with the Office of State Treasurer needing to rewrite its distribution software to facilitate these changes. In looking at all the proposed changes, the only two sections that would require any significant type of rewrite would be the change to the determination year and the change that requires $2M per year to be withheld from the political subdivisions to be transferred into the energy impact fund. We have a request into ITD for a cost estimate that hasn't been completed yet but, based on a conversation with ITD, we are estimating that these costs will come in around $30,000. This amount would be needed to make the appropriate changes to our software.

   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: Ryan Skor

Agency: Office of State Treasurer

Telephone: 701-328-2643

Date Prepared: 04/26/2017

17.0521.03000

FISCAL NOTE
Requested by Legislative Council
04/10/2017

Amendment to: SB 2013

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.*

	2015-2017 Biennium		2017-2019 Biennium		2019-2021 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			$0	$8,625,000		
Expenditures			$0	$0		
Appropriations			$0	$0		

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

	2015-2017 Biennium	2017-2019 Biennium	2019-2021 Biennium
Counties		$0	
Cities		$(5,271,000)	
School Districts		$(3,354,000)	
Townships		$0	

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).*

Section 13 of Engrossed Senate Bill 2013 makes changes to the oil and gas gross production tax distribution formula.

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 13 of Engrossed Senate Bill 2013 changes a number of items in the gross production tax distribution formula that would have fiscal impacts on political subdivisions and/or state special funds:
1). It allows the hub city calculation to revert back to using the mining employment percentages but it excludes the first two percentage points from the calculation of their annual amounts. Excluding the first two percentage points would cause a decrease in the amounts going to hub cities of about $5,271,000 from current law for the 2017-2019 biennium.
2). It also excludes the first two percentage points for the calculation of the hub city school distribution amounts. Excluding the first two percentage points would cause a decrease in the amounts going to hub city schools of about $1,437,000 from current law for the 2017-2019 biennium.
3). It creates a tiered calculation for the amounts to be paid to the schools within counties that received between $5M and $30M in GPT revenue in the most recently completed even-numbered fiscal year. This change would cause five counties to continue receiving $1.5M per year for their schools and one county to receive $500K per year for its schools. This would reduce the amount going to schools by about $1,917,000.
4). It would reduce the biennial cap for amounts going into the outdoor heritage fund from $40M down to $10M. Based on the March '17 legislative forecast for oil and gas collections, this would reduce the estimated amount going into the fund by about $10,900,000.
5). It would reduce the annual cap for amounts going into the abandoned oil and gas well plugging and site reclamation fund from $7.5M to $4M per year. Based on the forecast, this would reduce the estimated amount going into the fund by about $2,450,000.
6). It would reduce the biennial cap for amounts going into the oil and gas impact grant fund from $100M down to $25M for the 2017-2019 biennium.
7). The net impact of changes 1-6 would increase the amount projected to be deposited in the strategic investment and improvements fund (SIIF) by around $96,975,000.

Combining these changes would cause an estimated decrease in the funds distributed to political subdivisions of around $8,625,000 and an increase in total state special fund revenue of this same $8,625,000 when compared to current law.

Also, as part of these changes, Section 13 of Engrossed SB 2013 would change the determination year for all calculations to be "the most recently completed even-numbered fiscal year" rather than "fiscal year 2014". This change would impact the distribution of revenue at the county level for a specific county, but would not impact the total amounts being distributed to political subdivisions in total or any other special funds.

A final change made by this section would be to the gross production tax distributions made to the townships in the "over $5M counties". Current law allocates 3% and 3% of the county's allocation to the townships within that county and within all counties considered "over $5M counties". This section would reduce those percentages to 1% and 1%. It would then take the remaining 4% and allocate that amount equally to all the townships in all the "non-oil-producing" counties. Although this wouldn't change the amount going to townships as a whole, it would change which townships the amounts are distributed to as it would add all of the township in the "non-oil-producing" counties to the distribution.

The amounts included above do not include any costs associated with the Office of State Treasurer needing to rewrite its distribution software to facilitate these changes. See expenditure section below for further explanation.

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.*

   The amounts included above do not include any costs associated with the Office of State Treasurer needing to rewrite its distribution software to facilitate these changes. In looking at all the proposed changes, the only two sections that would require any type of rewrite would be the change to the determination year and the changes to the township distributions. We have a request into ITD for a cost estimate that hasn't been completed yet but, based on a conversation with ITD, we are estimating that these costs will come in around $30,000. This amount would be needed to make the appropriate changes to our software.

   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: Ryan Skor

Agency: Office of State Treasurer

Telephone: 701-328-2643

Date Prepared: 04/11/2017

2017 SENATE APPROPRIATIONS

SB 2013

2017 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

SB 2013 and SB 2073
1/20/2017
JOB # 27176

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature	Pam Dever for Alice Delzer

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation of defraying the expenses of the commissioner of university and school lands; to provide for transfers; and to provide for distributions from permanent funds.

Minutes:

1.Testimony of Lance Gaebe, Commssioner
2.Howard Klug; Williston Basin International Airport
3.Scott Decker, Mayor of Dickinson
4.Mathew Remynse, President

Chairman Holmberg called the Committee back to order on SB 2013 & 2073 at 9:30 a.m. Regarding the North Dakota Department of Trust Lands. All committee members were present. Becky J. Keller, OMB and Adam Mathiak, Legislative Council were also present. As you know, at the end of the day only SB2013 will go forward. SB2073 will be melded into SB2013. (.30)

Lance Gaebe, Commissioner & Secretary for the Board of University and School Lands (Land Board) testified in favor of SB 2013 and 2073 and provided Testimony attached # 1. (1.00) We request for total special funds appropriation. The primary responsibility of the Board and the Department is to manage the Common Schools Trust Fund and 12 other permanent educational and institutional trust funds governed by Article IX of the North Dakota Constitution. Other prominent roles are Management of five additional funds, the state unclaimed property division, the Energy Infrastructure and impact office. The distribution amounts are found in a chart on page 3.

Chairman Holmberg: (5.41) The committee should be aware that the money that is solicited here that goes to campuses are already in their budget under the anticipated income.

Commissioner Gaebe: (6.05) You are correct. He continued with testimony on page 3. On page 4 – Asset and Distribution Trends chart. We are also responsible for other funds listed on page 4 of his testimony. The state has the responsibility to take care of the Unclaimed Property (9.44) that people may have forgotten about or lost tract of.

Chairman Holmberg: (11.28) You might want to mention to committee that we may get SB 2134 coming down the pipe which talks about mineral acres and dispute under the river, and that has a fiscal note of $200M something. What you are saying is $143M of whatever that payout would be if we pass the bill; is this a down payment on that? (12.03)

Commissioner Gaebe: Yes, it is a combination of both monies that has been collected in bonus and royalties and money that is in escrow that has been paid by operators, but not necessarily collected by the state. It is in escrow in bank of ND. A portion is participated revenue. If that bill were to be adopted, yes, the balance is what we have reserved for those disputes, but that was based on litigation not legislation changing it. They are reserved to help repay bonus and royalties that have been collected if decided later that the state should not have collected them.

Chairman Holmberg: (13.06) So that is kind of a down payment on whatever that bill would warrant if that bill was to pass.

Senator Mathern: (13.14) On that portion of dollars, who makes the decision what money goes into escrow?

Commissioner Gaebe: The money in escrow was a change in the land boards lease in 2010 that required operators to put into escrow if in dispute. Statute allows for operators to hold those dollars in suspense if there is a title dispute until they can figure out who owns the land. In 2010, the land board adjusted its lease to require that the escrow instead of company's accounts. (14.08)

Chairman Holmberg: (14.09) I just want to draw attention because it is very likely we will have that bill here, so you can refer back to this testimony, committee.

Commissioner Gaebe: Continued on page 5 (15.39) On the other area, the School Construction Loan Assistance Fund was responsible to the land board but by passing Measure 2 this past November, it activated some laws from last session regarding the Foundation Stabilization Fund. This responsibility was transferred to the Bank of ND. We don't' have that responsibility anymore. You asked for a breakdown on page 5 so on the bottom is the breakdown graph. On page 6, we discuss Former Governor's 90 percent budget request. (19.37)

Senator Mathern: (19.39) As you are not a cabinet agency, and you are separate in the constitution, what motivates you to make your budget based on the governor's recommendation?

Commissioner Gaebe: All general fund agencies were asked to present and submit 90% budget. As the Governor is but one member of the board, I think it is separate and distinct from a cabinet. We're expected to submit a budget, and we did as well. (20.46)

Senator Mathern: So the governor is considered the premier responsible party in your leadership?

Commissioner Gaebe: The governor is the chairman of the board. I have work with all 5 of the elected officials on that board.

Chairman Holmberg: At the end of the day, it is the legislative assembly who decides how this is going to work out; not the governor.

Commissioner Gaebe: That is why we strenuously stress those FTE's be restored.

Senator Hogue: (21.41) You mentioned the oil impact revenues is going to be $70M for the current fiscal year. How much that is short of what is anticipated, and who's going to be the most adversely affected???

Commissioner Gaebe: The anticipated was $140M. We will collect about $75M based on this month's deposit will be $3M, and the distribution is a portion of one of the 5% of the gross production tax. The second part of your questions, there are a number specific counties, Bowman and Divide, has specific allocations, and we haven't been able to do that. We did half the schools and have not been able to do the other half. I have a comprehensive list, which ones we have been able to fund and which we have not been able to fund. I can get you that information.

Senator Hogue: I would appreciate that list, and would also like to know your approach; are you trying to reprioritize or try to give them a portion of what they want and what you thought they should have?

Commissioner Gaebe: It's a combination of both. The land board is meeting next week. Just in the last month, we are on the hold; we were granted more dollars then we had granted. But in December, the deposits in the funds were equal what we were granted. So the recommendation then preparing would put emphasis in public safety. Hasn't been much funded for airports. We did a few grants for airports. Several millions we were not able to do. The likely one would be law enforcement. We also have some grants ready to be approved until the February budget announcement came last year. The ones used for shelters were high on the list.

V. Chairman Bowman: (25.29) The money that Bowman/Divide county were supposed to get, as we have seen the pool build up, we understand the money is not there. My point is when the money is available, are we going to get it? Or has it been wiped off the books?

Commissioner Gaebe: I think we will be able to do those specific allocations; if the current deposits continue at their pace. The last few months have been a stronger deposit.

V. Chairman Bowman: We finished the one row project. To finish the whole project, we need the money. If we have to wait, another year, we got a plan. The most critical part is our last bid, on the project, came in 30% less than it was supposed to. I don't want to wait until it is 30% more. So then you do not get bang for the buck. So I can tell our road crew down there what we can plan for and what we cannot.

Commissioner Gaebe: It will be deposited yet this biennium. Anything that does not get funded will have to be authorized by the legislature for next biennium.

Commissioner Gaebe: He continued with testimony budget - request IT upgrade on page 7 of testimony. (31.11) page 8 chart – Integrated Trust Lands Information Management Systems – Cost Projections. Dealing with the audit, in Ellendale there were several that were recorded in the wrong trust. A mistake was found and something placed in youth correction trust instead of the Ellendale trust. We have undone and put in right location. The request is in both of the budget bills to correct the errors we found. An additional amount would go to beneficiaries for the Ellendale trust. (34.19) That correction is in SB2013 but not in SB2073. (in section 6). Bottom of page10 - (36.07) Oil and Gas Royalty and Bonus Revenues – and Royalty Records Processed – page 10 and 11. We continue to manage the surface. Graph shows the market growth we have seen on surface trust lands. Why you see the increase in right of way inspections? We developed a mobile tool to allow the permittee to do the self-inspections. We still have some field staff, but not going to every single location. The big junk is unclaimed royalties. Bottom of page 12, (40.25) shows the increase in amount paid. Grants from the Oil and Gas Impact Grant Fund – see pie chart on page 14. (41.49) Many of those areas were specially allocated by directive or by legislative intent in last session. We have seen an up and down in deposits from month to month. The deposits are not made until the month following. If we knew what the deposits would be, we could then grant those yet for this biennium. Not leave those grants on the table. (43.22) We do have a reimbursement basis. Grants are authorized by the land board. Staff evaluates after a project is completed based on receipts and inspections. (46.20) We are double checking, so that is where the staff time comes in. I would like to emphasize the IT project. We get lots of phone calls of folks wanting to know what are royalty position is. What we are getting paid. Would be nice to get it on a website. I would reduce staff time to help the public. It is a big chunk of change, the $5.5M is a lot. We recognize that. It is a system wide accounting minerals lands unclaimed property. If energy impact goes away, that chunk would not be necessary. In closing, we continue to fulfill our responsibility to preserve the trusts and their income potential both in agriculture, mineral, and investment returns. We do a good job of managing our own and taking care of natural resources for the benefits of the trust and for ND. The future remains bright. Look forward to working with you and hope we can come to a good conclusion. Thank you.

Chairman Holmberg: (50.00) We will appoint a subcommittee**: Senator Dever as Chair, Senators Wanzek and Grabinger**. Is there anyone else that wants to testify?

Senator Brad Brekkedahl, District 1, Williston: I have handouts for you. Our mayor is here. I speak today to discuss Energy Impact Fun relative to airports. Last session, in the oil funding bill, there was an oil impact section that directed appropriations to certain unities in areas from the Oil Impact Fund. As you heard from Mr. Gaebe, those funds did not come to completely fund all the Appropriations necessary. Airports received about 35% of that allocation in the original bill. However, to date they have only been funded less than 5% of their allocation. The other entities have received most of their funding. Most have been needs for public safety, disabilities, hospitals, and other severe needs. I think they have done a great job with that but it has left our funding short in our Williston Airport Project. The stress it puts on us, is we were anticipating those funds and have not received them. The original formula for funding the airport was 50% federal funds, of which the city has received two grants totally about $54M already for the project. We had oil impact from 2013 session of about $18M. We spent some. We hope Mr. Gaebe is holding the rest for us. The promise of the $40M we are discussing today. This bill, SB2073 would address the $20M to the Williston

Airport. The governor's budget put that money in for this biennium. part of the bill with the promise of trying to get the next $20M in the next biennium. There is also a House bill the currently addresses oil impact funding again. That would continue the obligation from last biennium to fund the unfunded entities. Due to lack of appropriation, there is SB2073 that does protect the $20M interest for us, in case there is problems with the House bill coming over. look favorable about that. Any questions?

Chairman Holmberg: (54.16) The Burgum budget has the money in it that the Daylraple budget had in it. Part of this press release.

Mayor Howard Klug, Mayor of Williston, representing the Williston Basin International Airport. Testified in support of SB 2073 and provided written Testimony attached # 2 – a request to allow critical airport projects such as the new Williston Basin International Airport to continue to progress toward planned completion in 2019. I would like to bring you up to date. We have acquired the land. We went out and talked to the landowner. The reason we had to put the airport where it is, is because of environmental issues, oil pads, and terrains. We finally came up with three sites and chose this one. We were very fair with those land owners. We paid additional money as that money was appraised for farming land. We didn't want to go down the eminent domain approach. This project is so critical. Testimony attached # 3 – Williston Basin International Airport. Why new airport? Our current one does not meet the FAA design standards. To fix what is wrong; could we do it at the local site, yes, but it would mean shutting down our airport for 2 years, and the cost would be about the same as moving to our new site. We have excellent bids for moving the dirt, we are ready. The funding we are expecting from the state will go a long way to get the bids we need. We are looking at bids that are 30% less than during the Baaken boom era. The weight capacity is not able now is only designed to 25,000 pounds, and we now we are getting 50,000 pounds. If something goes wrong with runway, Williston is on the hook. I bring this to your attention. The graph – historical boarding's in the Williston airport. We know we need a new airport. We will be able to compete with the rest of the country. This is one of the last pieces of what we are trying to do out there through the state's help. With Northern Improvement, a lot in western ND, the oil industry, the ag industry, and the rail industry; this is just one more piece of how Williston will be able to compete as we go forward. We are looking forward to doing this on a fast track. We are trying to get this done in 8 years. We have a good team, once we get that airport done. We have plans in place for our old airport. The average age of people in Williston is under 30 years old. That is how much the influx of new people are doing in the Williston. When I talk about our regional area, it is all of western ND that will benefit with this new airport. We want to compete and provide services. (1.04.50)

Senator Grabinger: Where is the location of the new site from your old airport?

Mayor Klug: About 6 miles northwest of our current airport. It's on our new truck reliever route. This truck route really helps the city of Williston, and it also connects directly as a 4 lane highway to Watford City, and now it is a safe highway. They are very excited about the implications.

Scott Decker, Mayor of Dickinson (1.06.41) testified in favor of SB 2073 and provided written Testimony attached # 4 asking the legislation for support to allow critical airport projects such as at the Dickinson-Theodore Roosevelt Regional Airport to continue to progress throughout 2017-2018. We had an uptick at our airport also. We originally could only handle 40,000 pounds. Most are over 40,000 pounds. We are piece by piece fixing our airport best we can right now.

V. Chairman Bowman: Is there going to be any improvement to the parking lot? Whenever I have used the airport, I have to park my car in the boonies.

Mayor Decker: Yes. As the mayor of the city, we will work with them to provide parking. We were overwhelmed at that point you were referring to, Senate Bowman.

Matthew Remynse, President of the Airport Association of ND (AAND) did not testify but submitted Testimony attached # 4 in support of SB 2073.

Chairman Holmberg: We will close the hearing on 2013.

2017 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

SB 2013
1/30/2017
Job # 27601

☒ Subcommittee
☐ Conference Committee

Committee Clerk Signature	Rose Laning

Explanation or reason for introduction of bill/resolution:

To provide an appropriation of defraying the expenses of the commissioner of university and school lands.

Minutes: Testimony attached 1 – 3.

Legislative Council: Adam Mathiak
OMB: Becky Keller

Senator Dever called the sub-committee to order on SB 2013. **Senators Wanzek and Grabinger** were also present. **Senator Wanzek** asked to be updated on the energy impact grants which seems to be the biggest decline in the budget. We didn't get enough money in the impact grant fund to cover all the requests from last time, and I understand we might carry that over and try to get those funded.

Lance Gaebe, Commissioner & Secretary for the Board of University and School Lands (Land Board) Testimony from January 20, 2017 - Attached # 1.

The 2015 Legislature appropriated $140M to the Energy Impact Grant Fund and allocated or earmarked $134M to specific projects, allocations and areas of interest. The list of grants that had been awarded was given to the committee. - Testimony submitted later - January 25, 2017 - Attached # 3.

This list describes the grants that have already been awarded by topical areas so the top box shows the grants that have been awarded. Just this last month, we've collected more than the $47.9M. We're actually upside down and have granted more money than we had in the fund. We have collected $51.5M so far and as of last week, we had another $3.5M deposit. We are guesstimating that we'll collect about $18M more. That's a little lower than the legislative forecast, but we're basing that on $3M more for each month. We are in the $70M range of what we think we will collect. The legislature had appropriated $140M. In the green shaded box are the grants that have not yet been awarded. The Land Board met earlier today and awarded the $2200 to the Sexual Assault Examiner program, and they also authorized us to announce and begin the grant rounds for Domestic Violence shelters, Law Enforcement grants and EMS. They decided to focus on public safety, so it would be $2M for Domestic Violence, $1.2M for Law Enforcement, and $2.3 for EMS. We also decided we would not be implementing any grant rounds until we know what the funds are or until we are sure we have the dollars.

Senator Dever: So that $140M from the current biennium – does that carry forward?

Lance Gaebe: It does not. There's a carry forward provision for grants that have been awarded carrying forward, but we had a legal review done. If the earmarks go forward past the biennium, then they probably won't be carried forward because unless the funds are appropriated in the next biennium, then we won't collect additional funds. The executive budget essentially zeroes out the continuation of the Energy Impact Grant Funds. We don't have a source to fund the rest of those grants. We may be able to get closer to another $18M, so it's possible we could get grants to several of those entities in the greenish box. We won't be touching the expectations of the Williston Airport or the Dickinson Airport.

Senator Grabinger: Has there been consideration or talk about the nursing home basic care?

Lance Gaebe: There wasn't a great deal of discussion of what might be next. The decision today was for a focus on public safety. If there are funds available, nursing homes were mentioned, schools were mentioned. The ones likely to get some attention are the specific cities because in some cases, those cities actually have spent the dollars because they believed, because it was earmarked, that it would be available.

Senator Grabinger: So who's making those decisions today?

Lance Gaebe: There are five members of the Land Board; the governor, attorney general, secretary of state, treasurer and the superintendent of public instruction. Most of these grants were done by legislative intent. There were a few that were mandatory. Those have already been funded. The Land Board is awarding grants based on a schedule that was adopted at the beginning of the biennium and then we stopped that in February when the new budget forecast came out. Today's decision was the first grant round of discretionary grants in a year.

Senator Dever: Regarding nursing home basic care, would that $4M been for operating expenses or some other purpose? I determined they'd be included in the consideration prior to the allotments?

Lance Gaebe: Yes, it was a carved out by the 2015 legislature. I believe it's FTE based on how the distribution would be calculated, but we also work with the Long Term Care Association on how the application formula might be done. It was focused on nursing homes within oil and gas producing counties. I believe it was based on their challenges with competing against salaries and wages in the western counties.

Senator Dever: If the $140M was authorized, what would you expect the balance to be at the end of this biennium?

Lance Gaebe: In round numbers, we'd get about $70M of the $140M. There'd be $70M of grants that we wouldn't award. The areas that wouldn't be earmarked, we call a contingency. That would basically be the balance of what was not earmarked (the bottom number $6.3M). Nobody is expecting that amount and the $5M for Eligible General.

Senator Dever: How is that fund is generated?

Lance Gaebe: It's one of the 5% of the gross production tax - the buckets. The same side of the chart that funds hub city distribution formula is based on energy related jobs. There is a series - the Heritage Fund gets funds, the Legacy Fund gets 30% of all extraction and gross production tax. Specifically, one of the 5% goes partly to the SIF, partly to the Heritage Fund; partly to the Oil and Gas Impact Grant Fund; partly to the Hub Cities; partly to the Hub Schools. Once each bucket fills, it cascades into the next one, so the source is a portion of the Gross Production taxes.

Senator Dever: Maybe we should look at the changes that Gov. Burgum made to Gov. Dalrymple's budget. (He handed out <u>Dept. of Trust Lands – Base Level Funding Changes</u> – Testimony Attached # 2). He took away the 1% salary increase and added 5% share of the health insurance. The 5% probably won't be assessed. We'll deal with the health insurance otherwise.

Lance Gaebe: We submitted a 90% budget. We reduced our FTE count by 2. We will be down to 31 FTEs and the 2 FTEs that are phased out are a natural resources manager and assistant director of the Energy Impact Office. In our optional requests, we requested 2 FTEs to be restored; one for a GIS person and one for mineral title specialist.

Discussed changes---------

(17:40) **Senator Dever**: Did you have discussions with the Burgum administration regarding the FTE they eliminated?

Lance Gaebe: Brief conversations. Basically they had a target they needed to reach and so we had a phone call about how to accomplish that. The health insurance and the salaries weren't negotiable. The other pieces were up for discussion, but there weren't a lot of other places to cut because we had already cut our operations pretty substantially. Without affecting our ability to operate, the FTE was the one. In hindsight, because of the consideration of removing the Energy Impact Office, that we could probably take more of a cut in the capital asset for the IT project, more than the FTE. We find ourselves way behind industry and our fellow state agencies with our ability to generate maps which is odd for an organization that manages 700,000 acres of land and 2.5 million acres of minerals that we end up using Google Earth and drawing on it and not using the GIS tools that are available.

(19:15) Senator Dever: Are you saying you'd rather increase the reduction in capital assets?

Lance Gaebe: Yes, and restore that FTE.

Senator Wanzek: You'd rather do that than the IT project?

Lance Gaebe: The IT project was in the executive budget and the base budget of SB 2013 at $5.5M and the Burgum revision reduced that by $215,000.

Senator Dever: And you would rather reduce that reduction $415,000 and restore the FTE?

Lance Gaebe: That is correct. Because the energy impact grants wouldn't be part of that IT revisit and we also anticipate the IT project as a 3-year project.

Senator Wanzek: What is the $99M for the Energy Impact Grants? We also had the one-time funding for $139 that we took off. Do we have more than one impact grant fund?

Adam Mathiak: I should have had the $215,000 reduction for the capital assets listed below in the one-time funding section, so I'll get a corrected one to you because it's related to the IT project and not an on-going reduction. The energy impact grants - the executive budget recommendation changed current law and in doing so, removed the allocation of oil money to the oil and gas impact grant fund. If there's no money going to the fund, there would be no money for grants from the fund. The amounts that are seen in here are reflective of the appropriation to give out grants from that fund. The executive recommendation was to do away with the Oil and Gas Impact Grant Fund essentially all together and no longer provide those grants. That was the way Gov. Dalrymple needed to reduce some of the other allocations to get to his one billion dollar general fund allocation in the oil formula. The reduction you see is because of getting rid of the oil and gas impact grants from the executive recommendation. Current law provides for $100M to be allocated to the fund, and Gov. Dalrymple changed current law, not in this budget bill, but in the OMB or Industrial Commission bill is where the century code change takes place.
HB 1366 also proposes some changes to the Oil and Gas Impact Grant Fund. That proposes to reducing it to $60M and also some language that says basically any of the unfunded obligations that were designated by the 2015 legislative assembly should be filled out of that new appropriation. That may be the vehicle or the potential solution that some legislators thought to fulfill those obligations that were designated this last time around for the oil and gas impact grants. So there are not two separate oil and gas impact grant funds, but the $99M reduction is reflective of the Governor Dalrymple proposal. It's also included in Governor Burgum's proposal because it didn't change that, but that's not reflective of the base level or what's in current law. If you didn't change anything in current law, it would be $100M going into the Oil and Gas Impact Grant Fund. If you didn't move over that $99M reduction, the base level would include an appropriation of $99M for grants from the oil and gas impact grant fund. In the bullet itself, you'll see $139.3M listed in section 2 – that is a mistake and wasn't identified as one-time funding. A portion of it would've been reduced automatically because, for the 2015-17 biennium only, the allocation was $140M and after that it was $100M. There are a lot of moving parts. The main proposal is in the first column in section one of the bill. There's $99.3M in their base level. If you're looking at SB 2013, you'll see the $99.3M continued in there. If you were to look at SB 2073, which reflected the Dalrymple proposal, you'd see a reduction because the Governor proposed removing that, but he supplanted it with $24M of grants from SIF to airports.

Senator Dever: Governor Burgum left that $24M? (Answer – yes.)

Adam Mathiak; With the $24M, the primary purpose was realizing that a portion of the Oil & Gas Impact Grants from the 2015-17 biennium were designated for the airports. Those airports have deadlines that are looming to provide the matching funds for the federal grants that they are receiving. Since they were doing away with the Oil & Gas Impact Grants after the 15-17 biennium, this was a solution to provide them with the matching funds so they could access the federal grants.

Senator Dever: wasn't $24M the amount that Williston was asking for?

Lance Gaebe: The earmark for the current biennium was actually $39M. Dickinson was over $5M and has gotten some of its funds, but my understanding is that the basis for the $24M was half of what Williston was expecting and the remainder of Dickinson was expecting with the hope that the rest of it could maybe be budgeted in the subsequent biennium for Williston.

Adam Mathiak: Just a reminder, this is a special funded agency. It depends on the perspective you're looking at. I think Governor Burgum wanted to make sure that special funded agencies are also contributing to reductions. In this case, any reductions to this particular budget have no bearing on the general fund, so it's not going to provide extra money to the general fund or help meet that shortfall on that side. If you were to restore that $200,000 for the FTE position, it would not necessarily require you to also reduce from somewhere else to offset that. It's up to you and these are special funds and its not going to affect the general fund budget.

Senator Wanzek: The trust revenues – are they mostly from the trust accounts to operate the department?

Lance Gaebe: The statute authorizes the maintenance fund which is funded by the fees that are charged for various documents and items. We've got a formula that pulls a small piece from each fund that helps pay for maintenance operations and salaries. The generation of income comes from royalties, rents, lease payments, investment income, etc.

Senator Wanzek: If we don't totally appropriate all that money, does it stay in the trust fund that it's identified with?

Lance Gaebe: Yes, it bolsters the growth of those permanent funds.

Senator Wanzek: In Dalrymple's budget, the drop in the $700,000 to administer the impact fund down to $221,000, is that because the fund is going to disappear or go away?

Lance Gaebe: That number was chosen with our help assuming the fund would go away, but that we would have some roll-up need to do the work – on a reimbursement basis, for the grants, even if they haven't been approved. We haven't sent out the dollars until we verify that the projects have been done. That money, though it's authorized to spend, we don't have a source for it. If the Oil and Gas Impact Grant Fund goes away, that $221,735 does not have a source. There was a provision in SB 2073 that allowed for carryover money to be used for that. That is something we'd probably want to continue.

Senator Wanzek: We're back on SB 2013 because we killed SB 2073, so we're back to $700,000.

Lance Gaebe: We need that particular piece so we can have a source. We don't have the trust funds to pay for the operations of the energy impact fund. The employees, part of my salary, part of the rent is paid for by the Energy Impact Grant Funds so the Common Schools and the other trusts aren't paying a portion of that. The budget has the number but it doesn't have a source of money.

Senator Wanzek: If we go from SB 2013 and don't change it, you'd have the source of money, you'd have the grants. Am I wrong?

Adam Mathiak: That is correct.

Senator Dever: Asked **Lance Gaebe** if he would outline the sources of funding for his budget.

Lance Gaebe: yes.

2017 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

SB 2013 sub-committee
2/6/2017
Job # 27942

☒ Subcommittee
☐ Conference Committee

Committee Clerk Signature Sandy Baumgartner For Rose Laning

Explanation or reason for introduction of bill/resolution:

To provide an appropriation of defraying the expenses of the commissioner of university and school lands.

Minutes:

#1

Legislative Council: Adam Mathiak
OMB: Lori Laschkewitsch / Becky Keller

Senator Dever called the sub-committee on Dept. Of Trust Lands budge to order on SB 2013. Senator Wanzek and Senator Grabinger were also present. This is the second time this sub-committee has met. The first meeting we asked Mr. Gaebe to prepare some information to bring back to us regarding his budget.

Lance Gaebe, Commissioner & Secretary for the Board of University and School Lands (Land Board) Handed out information that was requested previously by the committee (dated 2-6-17) Testimony Attached # 1.

Senator Grabinger: The one FTE for mineral title specialist. Where is that at right now?

Lance Gaebe: There is one bill in the House and one bill in the Senate. It was amended last week. I haven't seen the final amendments, but the initial fiscal note was $230 Million and if it was amended like I believe it was, it climbed to $280 million because there would be change in the determination of how the state's sovereign mineral rights will be reviewed. My understanding was that if it was given a Do Pass recommendation and then it will come to appropriations. There is another bill in the House, that doesn't have quite as large fiscal note, but it also has an impact because it changes how the sovereign minerals are defined and described. The fiscal notes that are prepared for those bills are inclusive to the cost of the strategic investment improvement fund. It didn't really contemplate the FDE and legal and survey and title costs because of the scale of what we are talking about. If the bills move forward, they may have to review resources. We would be resurveying a lot of acres that have been already claimed by the state. It is an area of growing concern and didn't think that far ahead. The energy impact pays for its direct cost. The unclaimed property that is collected from the holders on behalf of unclaimed property owners is starting to set the fund and it does pay for the claims and expenses for 3 FTE. The distribution is not something that I manage. The treasures office oversees that. I provided a flow chart that Legislative Council prepared to show that. (Further explanation of testimony followed)

Senator Dever: If we're not going to fund the energy impact grants, what happens with that money in the next biennium?

Lance Gaebe: The current law would make it up to $140M, authorization up to that expires at the end of this biennium. It will be replaced with $100M cap in that fund. There has been a proposal to change that cap, one of which I believe is already been defeated. I believe it was 1073. As of this time for the next biennium, the law in effect would be $100M cap. The other bill in the House side replaces that with a $60M cap to help fund the carry-over of grants that we weren't able to do this particular biennium.

Senator Dever: So the money won't be depleted, but in the coming biennium would it be funded if they have already been awarded?

Lance Gaebe: No, if the money is not restored in the budget in the next biennium those earmarks that we weren't able to grant funds to in this biennium would not get money unless money is appropriated into the next biennium. There was $133 million of earmarks, but we are only going to collect a little of $70 million. In the gap, we don't have the funding source for it.

Senator Dever: There will be money generated into that fund in the next biennium that will be directed to somewhere else?

Lance Gaebe: As the law at present, yes it would happen. But they could change how that allocation happens.

Adam Mathiak: The only one that I am aware of that are out there remaining that would actually change the allocation to the impact grant fund is HB1366. Previously HB1075 also included provisions to make changes to that. HB1075 proposed eliminating the fund completely. That money then would be available to flow to the rest of the formula and end up at the state share on the bottom. It was part of the governor's proposal to get to a billion dollars of general fund. It would have replaced the proposal on the flow chart increase to the general fund share to a billion dollars and make some other changes. It got rid of the Tax Relief Fund allocation and things like that in the very bottom of it. That $100 million, that would have been allocated on the Gas Impact Grant Fund under his proposal provided additional money to get up to the billion-dollar threshold. As was mentioned, current law has $100M, so the money would just be sitting there until appropriated by legislative assembly. HB1366 reduces the allocation from $100M to $60M. It does provide an appropriation in that bill up to $50.3M of grants. If it does not pass, ultimately it will be an effort to align all the moving parts at the end of the day. Right now HB1366 is kind of the vehicle to watch. If it did not pass it would probably have to be some sort of appropriation from the Oil and Gas Impact Grant Fund, whether it is in this bill or the OMB bill.

Senator Wanzek: SB2073 is not with us anymore. But as it was presented, did it reflect the fact that the Impact Fund was going to be terminated? It took the money out of there. The base dollars are back in there again.

Adam Mathiak: That is correct. The $99.3 million would be in the base levels. In this case it would be just a matter of clarifying that it is the funding source relating to those. Since they are all special funded it would have the authority. It would probably be best to identify and clarify that the $99.3 million is for grants from the Oil and Gas Impact fund. Any unfunded grants from the current biennium would get funded in the next biennium. Coordinating between the two bills will be the challenge.

Senator Wanzek: There were targeted or legislative impacts for last session. Why didn't we fully cover those obligations? Did we use the full $140 million?

Adam Mathiak: It was because of the revenue shortfall. The oil and gas tax allocations came in under the projection. The money has not been available to fill that bucket to its limit. The money that has gone into there has been right around $40-$50M. The projection has been allocated thus far and is about $73M. The revenues were short. There wasn't an official allotment. This is the only thing provided is the grants. It is up to the agency to determine the rate of expenditures from it.

Senator Wanzek: I'm confused with the flow chart and how money ended up in the impact fund. It appears that that gets filled before others. The revenues were down.

Lance Gaebe: They anticipated about $6 mill @month and actually collected about $3-$4M @month.

Senator Dever: The portion that goes in there gets funded before the state share though, right?

Lance Gaebe: It all comes down to less collections. The tax collection price was much reduced because of price.

Senator Dever: So you have funded $40mill. You anticipate revenues of $73 million. So you could fund additional before the biennium?

Lance Gaebe: That's correct, Mr. Chairman. As mentioned, we have a little over $50 million that has been collected. That has essentially all been granted. At a meeting last week, the Land Board authorized the initiation of 3 more grants rounds. One for domestic violence shelters, one for law enforcement needs and one for emergency medical vehicles. These are all public safety orientated. It is about $5 ½ million worth of grants which in effect, would be the amount we have available. We initiate grants when we have the funds. We will continue to collect money each of the next six months, so I estimate we will collect another $18 million. That Dept. of Trust Lands sheet dated 1-25-2017 was explained. Testimony attached # 2. This has the breakdown of what is left. He explained the chart on the spreadsheet.

Senator Dever: How many FT's are associated with the administration of the impact office and are they necessary even though the fund is not used?

Lance Gaebe: There have been 2 ½ FTs associated with the operating of the office. Part of my salary and 2 other folks, 1 has since transferred to Mineral Title Management. They have been extra busy because we have spent a great deal of time in communication with hundreds of grantees that thought they were getting money from this fund, who haven't been. We were explaining to lots of folks how the appropriation process is an authorization to spend, but not a mandatory one. We are also reimbursement based grant. So once grants are awarded, the staff verifies that the project is done or largely completed before we send the money out. Even if the fund winds down there is a phase-out responsibility to make sure the dollars are going to the right place and used for the what they were granted for.

Senator Dever: There is no legislation to eliminate the fund. There is just intention to fund it.

Lance Gaebe: That's correct. In the executive budget the funds were zeroed out, but the bill that did that doesn't exist anymore. That's the limbo we are struggling to explain. The proposal was to have the fund go away. But over $200,000 of operation funds to close it out, but the bill that did that was defeated. I understand that Legislative Council is working on the explanation of a correction because of an error. In the Executive budget, there is a little over $200,000 for the operation of the Energy Impact Office, but there isn't a source. So there is a piece in 2073 that would authorize the Land Board to dispense the roll-up dollars for the close-out and those operations. Similarly, if you could have authorization for a Land Board to spend grant dollars in the next biennium, but are ear-marked for this biennium. What I mean by that is, I told you a moment ago that the $18 mill is anticipated yet this biennium. But we won't actually realize those amounts until a month later. There is lag time. Money that is collected in June doesn't show up in the fund until a month later. But we won't know the amount until it is deposited. So if there would be a provision that we could make the grants in July of the next biennium from money that is appropriated this biennium. I think that would be appropriate because it would be authorized in that biennium.

Senator Dever: How was the amount of money for the IT was arrived at? Are you being able to do it for less?

Lance Gaebe: Last biennium you had appropriated $170,000 to help us for an IT review so we hired a consulant. That spend the entire half year looking at our operations. It's called Business Process Modeling. It was a major consulting that has done work for DOT, Secretary of State, WSI. They spend a year with us documenting all of our processes and procedures. It was their forecast of the cost of implementing IT systems for the accounting, lands management, for unclaimed property, responsibility energy impact grants. That is where we got to that $5 ½ mill.

Senator Dever: If you take money out of that fund to fund other things, then what happens? Do you scale the project down?

Lance Gaebe: If for example you mean the energy impact grants?

Senator Dever: You said $5 million plus for the IT project. If you could keep the GIS specialist, then you would fund it out of that money?

Lance Gaebe: No, the total project is $5.5 million. What I am trying to depict is that $5.2 million of that would come from the Maintaince Fund or the Collective Permanence Funds to help pay for that one-time cost. The other $270,000 of that would come from the Oil and Gas

Impact Grant Fund. The GIS is a FTE that we would benefit. It is a position that would help with mapping.

Senator Dever: How would you propose to fund that?

Lance Gaebe: It would be shared by the trusts and formula of how much land and minerals there are.

Senator Wanzek: The $5.5 million capital assets is for an IT contracted cost? What kind of system will that provide us? It seems like a lot of money to me. What are we getting for that $5.5 million?

Lance Gaebe: It would be a full-scale total rebuild of our royalties accounting, lands management. We have over several hundred thousand acres of land we oversee. It would help with the maintenance and inventory there. It would help with the rent collection. We have 2.6 million acres of mineral acres, about 9000 tracts. There is active production of 8000 tracts. We would be integrating the lands management, the royalty's management, the accounting, and then the side parts. Which is the unclaimed property and $270,000 for energy impact grants. It is a pretty comprehensive system largely because the system we operate now is a system of systems and data base from the 1990's and a couple cases older than that. We do lots of manual spreadsheet copying and pasting trying to work things out often creating lots of errors. Very challenging is trying to audit royalties. For example, some of the properties are managed by well, some are managed by tract, some are managed by lease. They don't always talk to each other. It is really an upgrade of everything, or rebuild everything is a better way to put it. It would be a one-time cost.

Senator Wanzek: The consultant is who is working on that project now?

Lance Gaebe: That consultant's work is done. They provided a map and working with ITD. Now we have put in a work order with ITD to gets some costs estimates to see if the figures by the consultant are valid. It is still a work in progress. I don't think it will be more. The consultant helped us identify the processes. Those processes being incorporated into a request for proposals that would be put on the street to help find a qualified consultant. The basic recommendation was to do a custom off the shelf software. So you find a company that has products that largely do what we want, but customized for our unique circumstances. For example, we had a video conference with a software vendor this morning explaining our needs. We allocate royalties to one of 19 different funds or trusts. That is a complicated procedure that basic off the shelf accounting programs don't necessarily do. We need some customization. That is where the dollars come in. The only part that is started is talking with the other states that do the same kind of work and their vendors who have similar kinds of work to try to get a scale.

Senator Dever: We will schedule again. Probably sometime later this week. Close this sub-committee hearing.

2017 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

SB 2013 sub-committee
2/14/2017
Job # 28350

☒ Subcommittee
☐ Conference Committee

Committee Clerk Signature	Rose Laning

Explanation or reason for introduction of bill/resolution:

To provide an appropriation of defraying the expenses of the commissioner of university and school lands.

Minutes:

Legislative Council: Adam Mathiak
OMB: Becky Keller

Senator Dever called the sub-committee to order on SB 2013. Senator Wanzek and Senator Grabinger were present.

Senator Dever: 24M for airports, we'll take out because House is putting back in. Start at the top with the Base Funding Changes.

Adam Mathiak: Base payroll is pretty standard. Continue the 2015-17 biennium salary changes into the next biennium. This one is a bit unusual, but with some changes it's a small increase.

Senator Wanzek: That may be that some longer term employees retired and replaced with younger at a different pay scale? Could that be one of the reasons?

Senator Dever: Or you had a pay increase and each year of the biennium and the second year was not included in the first years last biennium but both years of this biennium.

Adam Mathiak: There's only 1 years' worth of salary at the higher level in the existing budget and so to continue that on, they will have to add that in. But then with other adjustments, if you have longer term employees that were replaced by newer employees, vacant positions and shifted funding. The agency could provide more detail on the specifics of this.

Senator Dever: Salary increase performance is zero.
Senator Grabinger: Not getting pay increase? (correct)

Senator Dever: Health insurance go away; remove 2 FTEs. The GIS FTE – the department would like us to seriously consider putting that back in and take that from the funds for IT project. Does that sound right?

Lance Gaebe: The sourcing of those funds all come from the maintenance fund which is our operations fund. Whether you fund the GIS person from those maintenance funds – fees and based on a scale. I don't think I said it would come from the IT piece it would just be in essence the 2 FTE's would be reduced, our natural resource manager and the energy impact assistant administrator, this would just be a restoration of one FTE at the funding level but the source would be the maintenance fund.

Senator Wanzek: We would be removing the Burgum budget request to remove the GIS employee.

Senator Dever: The Burgum budget eliminates the FTE that's being requested for GIS. The question is whether we should go with that, or we should include that in the budget.

Senator Dever: Maps are now drawn using Google. Have that drafted to include that?

Senator Wanzek: Where would money come from again?

Lance Gaebe: Maintenance fund which is our source for operating and its comes from it is a small portion of each of the funds based on their scale. It is a formula that we talked about before, but based on how much surface acres they own, mineral acres they own and how many dollars they have, how many FTE's do these kinds of work, we have formula. Any trusts that have land or minerals that would help fund that.

Senator Dever: It's an important position?

Lance Gaebe: We are behind our sister agencies. We have to ask for them to give us their information on paper, because we don't have technology to handle that.

Senator Dever: Building utility increases, special and development I don't think those are in question?

Lance Gaebe: Common Schools Trust Fund own the building that the department operates out of and the rest of the trust pay rent to it. It is one of the major funds that the Appropriations for its operations to authorize.

Senator Dever: Reduction in operating expenses.

Lance Gaebe: That was to accomplish Gov. Dalrymple's request to reduce the budget that we reduce those 2 FTE's, and operations. I think with a lot less travel because of our ability to do things electronically we can manage with that reduction in operation.

Senator Dever: Energy Impact operating expenses.

Lance Gaebe: $700,000 for operating and executive budget was $200,000

Becky Keller: If you take that amount and part of base payroll, and two FTE – you'd get to where we net out to the $200,000 that we left in. so that is just part of that drop in the $700,000 because there wasn't going to be as much activity in the EIOE (Energy Impact ???

Lance Gaebe: Have to have someone to administer. If you do not pass from the committee.

Senator Dever: They're looking at money for airports.

Lance Gaebe: Grant dollars. They carry forward that obligation into the next biennium.

Senator Dever: The $168,000 we could take out here and it would be addressed later. $99M is the same discussion.

Lance Gaebe: That was authorized on 2015 for the grants and of which we have----- the law that would have been in effect July 2017, the executive budget wipes that out. That sunsets on June 30 to $30M. $99.3 to other uses.

Senator Wanzek: In the governor's budget, both of them the impact grant fund really is not funded at all next.

Lance Gaebe: If we take that money out of here, there is no money for grants. An agreement made and will be dealt with on the other side.

Lance Gaebe: All the grants were approved for the current biennium. The project or phases must be done on a reimbursement basis, so our office makes sure that the grant or project is largely done or phases are done or completed so we give them the dollars after the fact. We have 3 years of grants.

Senator Dever: You have other amendments to address that.

Lance Gaebe: It was from SIIF (Strategic Investment and Improvement Fund).

Senator Dever: Reduction of capital assets.
Lance Gaebe: A reduction from Dalrymple budget - $5M IT package. Additional reductions.

Senator Dever: IT project – it says $5.M $5.520M and I thought somewhere else I saw that that $5,250,000?

Lance Gaebe: If the Energy Impact Office continues, it would come from energy impact funds. Reductioin of $5.5 was maybe from another fund.

Lance Gaebe: $5.5M was in the Exec. Budget. But we need to find $ to continue grants program. If you discontinued energy Infrastructure Impact Office we wouldn't do that. $ is grants administration portion of that overall IT piece. If you choose to not continue the grants program we could be reduced.

Senator Dever: If we reduced it that additional amount, it would cover the FTE.
If we reduced to $5.250,000. It would offset the FTE.

Senator Wanzek: $270,000 of the $5.52M is a one-time expenditure for the energy's impact committee's share the IT project, is that right?

Lance Gaebe: That total is the same, but the source would have to be identified. The objective is to reduce that amount to the energy impact office.

Senator Wanzek: If we took that $270,000, there won't be an energy impact office next biennium . We hear you saying the GIS, FTE employee is more important.

Lance Gaebe: It would have greater impact and greater value for the broader focus department on its land and minerals management. If there's a continued effort to have energy impact office to continue, yes we would like the GIS person would be a key for our department particularly with the reduction of the other FTE. In fact the IT project is a 3 year project.

Senator Dever: Takes care of the numbers. Looking at sheet from Feb. 2. You suggested amendments to SB2213. The first suggestion was to delete section 1 from section 4 of the bill and I am sure why?

Lance Gaebe: It was a mistake. The distributions are actually in Sections.
Senator Dever: Insert the dollar amount from section 6 using language to suggest the Adam.

Lance Gaebe: Those numbers were to make a correction. Impact on the distributions that affects the Youth Correctional Center, as well as the recipients of the Ellendale Trust. Your already appropriating those corrected amounts in there, section 2 where you authorize section 4. Why these numbers are out of whack. The Legislative Council has a draft amendment that would move that into 2013.

Senator Dever: Energy Impact Office. That just gives you the authority to move forward with the grants that are already in place.

Lance Gaebe: That's part of it, but the other piece. The provision is authorization spending. The oil and gas impact dollars related to the energy impact grants. They forwarded that amendment but maybe drop the dollars, because the dollars are actually in the appropriation line. Why they drop the dollars is because we are collecting money each month in the oil and gas impact grant dollars. We won't know until the end of this month – we won't get them until July or August and if we could have the ability to finish out the grants in that next year and also to pay for any administrative costs related to that, also from the oil and gas impact grant fund.

Senator Wanzek: We don't need to leave that $221,735 in there. Just whatever grant money comes in you would allocate a certain percentage to cover your costs first and then address any unfunded grants first.

Lance Gaebe: I think that would work. You're approving the amount in a prior sector.

Senator Wanzek: Grant money from this biennium even though you're probably not get until the beginning of the next biennium. Whatever you have you're going to try to meet the obligations that.

Lance Gaebe: There are obligations that we will not be able to meet. We won't get thru all of them. I'd like the authority to grant those funds because I believe that previous appropriations expire on the 30 June, so whatever you did last session, so that authority doesn't exist anymore. This or something similar to this to be carried over.

Senator Wanzek: You feel you need the authority to finish out the 15-17 biennium, but you need authority to wrap that stuff up.

Lance Gaebe: That and the administrative costs. If there is a continuation, then the authority to use those funds for any IT upgrades as well, administrative costs.

Senator Dever: I think we've in other budgets we've done the same thing and given them the authority to do that. Any other amendments to be considering for this?

Lance Gaebe: We asked for a mineral titlist specialist as well but that was not in either executive budget, or certainly in the revised Burgum Executive budget. I will not press for it, but it was in our initial request, but funding not there.

2017 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

SB 2013 sub-committee
2/15/2017
Job # 28419

☒ Subcommittee
☐ Conference Committee

Committee Clerk Signature	Rose Laning

Explanation or reason for introduction of bill/resolution:

To provide an appropriation of defraying the expenses of the commissioner of university and school lands.

Minutes:

Testimony Attached # 1 – 2.

Legislative Council: Adam Mathiak
OMB: Becky Keller

Senator Dever called the sub-committee to order on SB 2013. **Senator Wanzek** and **Senator Grabinger** were present.

Proposed amendments 17.0521.01001 – Testimony Attached # 1.
Adam Mathiak presented the Base Level Funding Changes – Testimony Attached # 2.

Senator Grabinger: The Internet Technology project was changed to $5,250,000. That's in there.

Senator Grabinger: moved to approve the amendments.
Senator Wanzek: Seconded the motion.

A Roll Call Vote was taken: 3 yeas, 0 nays, 0 absent.

Senator Dever will present the bill to the committee.

2017 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

SB 2013
2/15/2017
JOB # 28428

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature	Alice Delzer

Explanation or reason for introduction of bill/resolution:

A DO PASS AS AMENDED on Trust Lands

Minutes:

1.Proposed Amendment # 17.0521.01001

Chairman Holmberg: called the Committee to order on SB 2013. All committee members were present. Alex Cronquist, Legislative Council and Becky J. Keller, OMB were also present.

Senator Dever presented Amendment # 17.0521.01001 and moved the amendment. 2nd by Senator Oehlke. He explained the amendment. (0.03.58)

Chairman Holmberg: I have a question directed to counsel. As we put together the funding in the university system, we have written into the documents we have the transfers from constitutional funds to the various campuses. Is there any problem? Can we just go ahead with what we have in the higher ed budget?

Alex Cronquist, Legislative Council I don't believe you added, as far as having to reference the money that's coming from these transfers, the higher ed budget has a section in it that allows them to accept all other funds.

Chairman Holmberg: What we have done we just recognize that when we just add up the dollars that go to State College of Science.

Alex Cronquist, Legislative Council. It is entirely possible that those special fund appropriations are included in these trust fund transfers.

Senator Dever: There was a question whether those amounts had to be spelled out in the bill and Adam considered that and did include them.

V. Chairman Bowman: I believe you said all the money from the energy impact grants is taken out of the 15 budget?

Senator Dever: (0.06.03) No, there are no energy impact grant dollars budgeted for the coming biennium. What has been awarded in the current biennium will be allowed to be spent going forward. Yesterday the House had House bill 1366 that would have provided for that and it failed. But the intention was that those dollars be considered later in the session and I think the most interest is in funding airports in Williston and Dickinson.

Senator Oehlke: we heard the last few weeks that Tasers wearing out, radio equipment around the state going down the tubes, and if we don't fix it by the end of the year some of it may be inoperable, I hear we got IT I don't see in any of these things where we provided for or tried to provide for an ongoing maintenance program so that 5 years down the road when this goes belly up we don't have to go searching for money for it again. I am also curious about, here we have someone who deals with lands, are they talking at all to the Department of Natural Resources, the Lynn Helms group, about their computer system and how they work and could it work together. Are they cooperating at all? Is everyone running off and doing their own IT thing. I think something could be done to help them cooperate with one another but I don't see it happening and I am wondering if we should be addressing that or not.

Senator Robinson: In response to that, there is considerable checks and balances in that area. First the Information Technology Committee is heavily involved in that and we have results throughout the year. There is also a state information technology advisory committee that represents a broad base group of legislators and private sector people and government agencies here in the capital that review all technology expansions, planned proposals, and they are pretty thorough. they work hand in hand with ITD as does the Information Technology Committee. And then former governor Dalrymple established a special review committee that monitors and insures that we are working smart, we're cooperating, that we are looking out for one another. IT is involved in that as well. That's been another means of having some checks and balances on the system. We have been advised by a number of states that we have a good system. this goes back to a lot of centralization of services.

Chairman Holmberg: stated there are several agencies not interested and want to be separate.

Senator Mathern discussed more on that 1995 effort and working together.

Chairman Holmberg: Not seek or even resist. Senator Oehlke raises a point because I sat in on the HP and there is a myriad of those issues. Call the roll on amendments to 2013?

A Roll Call vote was taken. Yea: 13; Nay: 1; Absent: 0.

Senator Dever: Moved a Do Pass as Amended on SB 2013. 2nd by Senator Grabinger.

A Roll Call vote was taken. Yea:14; Nay: 0; Absent: 0. Senator Dever will carry the bill. The hearing was closed on SB 2013.

ET
2-15-17
p. 1 of 3

17.0521.01001
Title.02000
Fiscal No. 1

Prepared by the Legislative Council staff for
Senator Dever
February 15, 2017

PROPOSED AMENDMENTS TO SENATE BILL NO. 2013

Page 1, line 2, remove the second "and"

Page 1, line 3, after "funds" insert "; and to provide an exemption"

Page 1, replace lines 13 through 19 with:

"Salaries and wages	$6,123,516	$95,220	$6,218,736
Operating expenses	2,019,637	(243,914)	1,775,723
Capital assets	0	5,250,000	5,250,000
Grants	99,300,000	(99,300,000)	0
Contingencies	100,000	0	100,000
Energy infrastructure and impact office	700,000	(479,283)	220,717
Total special funds	$108,243,153	($94,677,977)	$13,565,176
Full-time equivalent positions	33.00	(1.00)	32.00"

Page 1, line 20, after "**FUNDING**" insert "**- EFFECT ON BASE BUDGET - REPORT TO THE SIXTY-SIXTH LEGISLATIVE ASSEMBLY**"

Page 1, line 21, after "biennium" insert "and the 2017-19 biennium one-time funding items included in the appropriation in section 1 of this Act"

Page 1, replace lines 23 and 24 with:

"Information technology project	$0	$5,250,000
Total other funds	$0	$5,250,000

The 2017-19 biennium one-time funding amounts are not a part of the entity's base budget for the 2019-21 biennium. The commissioner of university and school lands shall report to the appropriations committees of the sixty-sixth legislative assembly on the use of this one-time funding for the biennium beginning July 1, 2017, and ending June 30, 2019."

Page 2, line 5, after "budget" insert "and the legislative council"

Page 2, line 6, remove "section 1 of"

Page 2, after line 24, insert:

"**SECTION 5. ONE-TIME ADJUSTMENT TO DISTRIBUTIONS TO STATE INSTITUTIONS.** Pursuant to article IX of the Constitution of North Dakota and in addition to the distributions in section 4 of this Act, the board of university and school lands shall distribute during the biennium beginning July 1, 2017, and ending June 30, 2019, the following one-time corrections resulting from the misallocation of prior mineral revenues, from the permanent funds managed for the benefit of the following entities:

North Dakota state college of science	$89,698
State hospital	89,698
Veterans' home	89,698
North Dakota vision services - school for the blind	89,698
Dakota college at Bottineau	89,698
Dickinson state university	89,698

ET
2-15-17
p. 2 of 3

Minot state university	89,698
Youth correctional center	(621,186)
Total	$6,700

SECTION 6. EXEMPTION - OIL AND GAS IMPACT GRANT FUND. The amount appropriated from the oil and gas impact grant fund for the energy infrastructure and impact office line item in section 1 of chapter 13 of the 2015 Session Laws and for oil and gas impact grants in section 5 of chapter 463 of the 2015 Session Laws is not subject to section 54-44.1-11. Any money deposited in the fund for taxable events occurring through June 30, 2017, and any unexpended funds from the appropriation are available for grants and administrative costs associated with the fund during the biennium beginning July 1, 2017, and ending June 30, 2019."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2013 - Department of Trust Lands - Senate Action

	Base Budget	Senate Changes	Senate Version
Salaries and wages	$6,123,516	$95,220	$6,218,736
Operating expenses	2,019,637	(243,914)	1,775,723
Capital assets		5,250,000	5,250,000
Grants	99,300,000	(99,300,000)	
Energy Infrastructure and Impact Office	700,000	(479,283)	220,717
Contingencies	100,000		100,000
Total all funds	$108,243,153	($94,677,977)	$13,565,176
Less estimated income	108,243,153	(94,677,977)	13,565,176
General fund	$0	$0	$0
FTE	33.00	(1.00)	32.00

Department No. 226 - Department of Trust Lands - Detail of Senate Changes

	Adjusts Funding for Base Payroll Changes[1]	Adds Funding for Health Insurance Increase[2]	Adjusts Funding for FTE Positions[3]	Adjusts Funding for Operating Expenses[4]	Adjusts Funding for Oil and Gas Impact Grants[5]	Adds One-Time Funding for an Information Technology Project[6]
Salaries and wages	$86,577	$90,870	($82,227)			
Operating expenses			23,025	(266,939)		
Capital assets						5,250,000
Grants					(99,300,000)	
Energy Infrastructure and Impact Office	(160,260)	714	(151,237)		(168,500)	
Contingencies						
Total all funds	($73,683)	$91,584	($210,439)	($266,939)	($99,468,500)	$5,250,000
Less estimated income	(73,683)	91,584	(210,439)	(266,939)	(99,468,500)	5,250,000
General fund	$0	$0	$0	$0	$0	$0
FTE	0.00	0.00	(1.00)	0.00	0.00	0.00

	Total Senate Changes
Salaries and wages	$95,220
Operating expenses	(243,914)
Capital assets	5,250,000
Grants	(99,300,000)
Energy Infrastructure and Impact Office	(479,283)
Contingencies	

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2-15-17
p. 3 of 3

Total all funds	($94,677,977)
Less estimated income	(94,677,977)
General fund	$0
FTE	(1.00)

---

[1] Funding is adjusted for cost-to-continue 2015-17 biennium salaries and benefit increases and for other base payroll changes.

[2] Funding is added for increases in health insurance premiums from $1,130 to $1,249 per month.

[3] Funding is adjusted for FTE positions as follows:

- Removes 1 natural resources director FTE position ($259,307).
- Removes 1 energy infrastructure and impact office FTE position ($151,237).
- Adds 1 geographic information systems specialist FTE position ($200,105) and related operating expenses ($23,025).

[4] Funding for operating expenses is adjusted as follows:

	Total Other Funds
Adds funding for building maintenance costs and utility cost increases	$93,746
Adds funding for professional development	45,000
Reduces funding related to professional services, information technology services and equipment, and travel	(405,685)
	($266,939)

[5] Funding is reduced for energy infrastructure and impact office operating expenses ($168,500), and funding is removed for grants to political subdivisions from the oil and gas impact grant fund ($99,300,000).

[6] One-time funding of $5,250,000 is added for an information technology system replacement project.

This amendment also:

- Adds a section to allow the Commissioner of University and School Lands, upon approval of the Board of University and School Lands, to transfer funding between the various line items, including the contingencies line item. The Commissioner shall notify the Office of Management and Budget and the Legislative Council of each transfer made pursuant to this section.
- Provides permanent fund income distributions to state institutions and adds a new section to provide a one-time correcting adjustment to the distributions.
- Adds a section to provide an exemption for the amount appropriated from the oil and gas impact grant fund for administrative costs and oil impact grants for the 2015-17 biennium and for the deposits in the fund for taxable events through June 30, 2017, allowing the funding to continue to be available during the 2017-19 biennium.

Date: 2-15-17

Roll Call Vote #: 1

2017 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2013

Senate Appropriations Committee

~~☐~~ Subcommittee

Amendment LC# or Description: #17.0521.01001

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 Grabinger Seconded By Wanzek

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg			Senator Mathern		
Vice Chair Krebsbach			Senator Grabinger	✓	
Vice Chair Bowman			Senator Robinson		
Senator Erbele					
Senator Wanzek	✓				
Senator Kilzer					
Senator Lee					
Senator Dever	✓				
Senator Sorvaag					
Senator Oehlke					
Senator Hogue					

Total (Yes) 3 No 0

Absent 0

Floor Assignment ____________

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

Date: 2-15-17
Roll Call Vote #: 1

2017 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2013

Senate Appropriations Committee

☐ Subcommittee

Amendment LC# or Description: 17.0521.01001

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 Dever Seconded By Oehlke

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	✓		Senator Mathern	✓	
Vice Chair Krebsbach	✓		Senator Grabinger	✓	
Vice Chair Bowman		✓	Senator Robinson	✓	
Senator Erbele	✓				
Senator Wanzek	✓				
Senator Kilzer	✓				
Senator Lee	✓				
Senator Dever	✓				
Senator Sorvaag	✓				
Senator Oehlke	✓				
Senator Hogue	✓				

Total (Yes) 13 No 1

Absent 0

Floor Assignment ____________

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

Date: 2-15-17
Roll Call Vote #: 2

2017 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2013

Senate Appropriations 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 Dever Seconded By Grabinger

Senators	Yes	No	Senators	Yes	No
Chairman Holmberg	✓		Senator Mathern	✓	
Vice Chair Krebsbach	✓		Senator Grabinger	✓	
Vice Chair Bowman	✓		Senator Robinson	✓	
Senator Erbele	✓				
Senator Wanzek	✓				
Senator Kilzer	✓				
Senator Lee	✓				
Senator Dever	✓				
Senator Sorvaag	✓				
Senator Oehlke	✓				
Senator Hogue	✓				

Total (Yes) 14 No 0

Absent 0

Floor Assignment Dever

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

REPORT OF STANDING COMMITTEE

SB 2013: Appropriations Committee (Sen. Holmberg, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (14 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2013 was placed on the Sixth order on the calendar.

Page 1, line 2, remove the second "and"

Page 1, line 3, after "funds" insert "; and to provide an exemption"

Page 1, replace lines 13 through 19 with:

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Contingencies	100,000	0	100,000
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Total special funds	$108,243,153	($94,677,977)	$13,565,176
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Page 2, after line 24, insert:

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Total	$6,700

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Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2013 - Department of Trust Lands - Senate Action

	Base Budget	Senate Changes	Senate Version
Salaries and wages	$6,123,516	$95,220	$6,218,736
Operating expenses	2,019,637	(243,914)	1,775,723
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Department No. 226 - Department of Trust Lands - Detail of Senate Changes

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Capital assets						5,250,000
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Energy Infrastructure and Impact Office	(160,260)	714	(151,237)		(168,500)	
Contingencies						
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Less estimated income	(73,683)	91,584	(210,439)	(266,939)	(99,468,500)	5,250,000
General fund	$0	$0	$0	$0	$0	$0
FTE	0.00	0.00	(1.00)	0.00	0.00	0.00

	Total Senate Changes
Salaries and wages	$95,220
Operating expenses	(243,914)
Capital assets	5,250,000
Grants	(99,300,000)
Energy Infrastructure and Impact Office	(479,283)
Contingencies	
Total all funds	($94,677,977)
Less estimated income	(94,677,977)
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	($266,939)

[5] Funding is reduced for energy infrastructure and impact office operating expenses ($168,500), and funding is removed for grants to political subdivisions from the oil and gas impact grant fund ($99,300,000).

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- Provides permanent fund income distributions to state institutions and adds a new section to provide a one-time correcting adjustment to the distributions.
- Adds a section to provide an exemption for the amount appropriated from the oil and gas impact grant fund for administrative costs and oil impact grants for the 2015-17 biennium and for the deposits in the fund for taxable events through June 30, 2017, allowing the funding to continue to be available during the 2017-19 biennium.

2017 HOUSE APPROPRIATIONS

SB 2013

2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division
Medora Room, State Capitol

SB2013
3/6/2017
Recording Job# 28703

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the commissioner of university and school lands; to provide for transfers; and to provide for distributions from permanent funds.

Minutes:

Attachment A

Vice Chairman Boehning: Opened the hearing on HB2013.

Lance Gaebe, Commissioner, ND Department of Trust Lands: See testimony attachment A.

Representative Kempenich: Have you done any projections out farther?

Lance Gaebe: Yes.

Representative Brabandt: You mentioned 2.3 million acres. What was that?

Lance Gaebe: All states after the original 13 colonies were provided a gift of land; and North Dakota's was 3.2 million acres. For the first 90 years of statehood the land was sold to nominations to farmers and ranchers. What remains of that original 3.2 million acres is 700,000 acres of land and 1.7 million acres of minerals. The constitution limits the use of that land to pasture and meadow; so a lot of the land that had good cultivation potential was sold.

Representative Brabandt: So the state owns 700,000 acres of land from 3.2 million?

Lance Gaebe: That's correct.

Lance Gaebe continued with his testimony.

Representative Kempenich: Was Ellendale going before these other institutions were established? How come Ellendale is in here and some of these others aren't?

Lance Gaebe: If we use the actual references to the constitution, it talks about the normal schools at Mayville, Valley City and Ellendale. It talks about the land grant at Fargo and the School of Mines.

Representative Kempenich: I suppose it would take a constitutional measure to change the language to take Ellendale out and just have it as a higher education trust.

Lance Gaebe: You're correct; but the fund does exist.

Representative Brabandt: Are these the six original schools listed in the constitution?

Lance Gaebe: We change them to more present names. They're referenced in Article 9 of the constitution. These are the main branches of the 13 permanent trusts.

Representative Delmore: Can you explain how that Ellendale money is distributed? Do you have how much goes to each of those entities?

Representative Kempenich: It's in the bill itself.

Lance Gaebe: That's the correction I talked about earlier. Those do list the institutions and the ratio. It's evenly split between 7 institutions.

Representative Kempenich: Do you have what each of these funds are worth?

Lance Gaebe: I don't believe I have the breakdown in this testimony; but it's easy to provide.

Lance Gaebe continued with his testimony.

Representative Kempenich: Those came from the Bank of North Dakota?

Lance Gaebe: It's a combination. It's minerals that were acquired by the Bank of North Dakota, the treasurer, sales and the retention of minerals from land that was sold.

Lance Gaebe continued with his testimony.

Representative Kempenich: There's about a $200 million gap between those two bills. Why is that?

Lance Gaebe: There are two bills that codify how the minerals beneath Lake Sakakawea or other stretches of river would be managed. The House already passed HB1199 which we think codifies that practice. There's an acreage difference between how the land board has been doing it and how HB1199 would do it. The huge fiscal note in SB2134 is being heard later this week. That bill says instead of using historical references that the land board does, we'd use the corp of engineers survey of the river in 1949 and 1950 when the land was being acquired. There's a difference of around 40,000 acres.

Chairman Brandenburg: The difference between the bills is that when you get west of Williston is where the difference lies?

Lance Gaebe: No. The difference between the two bills is that HB1199 uses the best historical information and it changes that west of Williston. SB2134 would use the corp of engineers survey; which is a much narrower river.

Representative Kempenich: I see this with soil surveys which were done in 1940 or 1950.

Lance Gaebe: The land board under the authority you granted HCR6301 is responsible for the oil and gas on behalf of all North Dakotan's.

Lance Gaebe continued with his testimony.

Representative Delmore: I see you have $100,000.00 listed for contingencies. Can you tell me what the contingencies are that you're planning for?

Lance Gaebe: We don't plan for that. The contingency is offered for unexpected challenges related to our building.

Representative Delmore: You said how often in the last many years?

Lance Gaebe: Two times.

Vice Chairman Boehning: How much money is in the unclaimed property?

Lance Gaebe: There's over 100,000 names and around $66 million in unclaimed property. It's perpetually available to those people who are their heirs.

Vice Chairman Boehning: There's not any point where that money just reverts to the state? You always have a chance to come and get it.

Lance Gaebe: That's correct.

Vice Chairman Boehning: How do you determine in your appropriation where the money comes from? What funds do you take it out of or does it come out evenly split?

Lance Gaebe: Under statute we have the authority for a maintenance fund and that is a collection of both the fees charged and a prorated portion of the various funds. We have 19 different funds we oversee; so there's a formula we utilize that's a combination of the financial assets they have, the number of FTE's dedicated to their responsibility, numbers of transactions and numbers of square footage. Where we can specifically allocate a cost to trust we do.

Lance Gaebe continued with his testimony.

Representative Delmore: Are all of your FTE's filled now?

Lance Gaebe: We are not. The two that were recommended to be not filled are vacant. We have an additional IT manager position that's vacant. We have three vacancies right now.

Chairman Brandenburg: If you have 33, right now you have 30.

Lance Gaebe: That's correct.

Representative Brabandt: Out of the 30 FTE's do you have any human resource people included in that?

Lance Gaebe: Our human resource responsibilities are handled by our deputy commissioner who also oversees the administrative pool and all the IT functions.

Representative Brabandt: So you have one part-time?

Lance Gaebe: That's correct.

Lance Gaebe continued with his testimony.

Representative Kempenich: You just mentioned two of the agencies that have had major wrecks in their past IT projects. Are you going through ZyTech with this also?

Lance Gaebe: Yes. The first stage presented by ZyTech was the effort to ask ITD if they were able to do this type of project and what the scale is, the scope and expense of the project. The numbers we're presenting are the result of Major Oak.

Representative Kempenich: They were involved in this last go around?

Lance Gaebe: Yes. We didn't ask them to do any of the IT work; it was a documentation of all processes, procedures and steps that could be digitized. They helped us map it out so when we do issue a request for proposals, we'll already have that documentation of what all those various steps are.

Lance Gaebe continued with his testimony.

Representative Kempenich: Do you have a more specific breakdown of how you're going to pay for that? Are you going to take the majority from the common schools trust fund? How are you going to make the allocations back up?

Lance Gaebe: The parts that are specifically related to the energy impact, we would hope to pay for out of the energy impact. Similarly, with the unclaimed property, would be paid for by the proceeds from unclaimed property. The other larger components would be prorated similar to how I described the maintenance fund.

Representative Kempenich: You used $2.5 million to sell to the governor and the Senate cut it by $250,000.00. I would like to see the breakdown of this project.

Lance Gaebe: It's not a great deal more complicated than what's depicted on page 8. This is the summarization of that aspect.

Representative Kempenich: Any time you appropriate a number is usually what the bid comes in at.

Lance Gaebe: We'll get that information.

Lance Gaebe continued with his testimony.

Chairman Brandenburg: So there's $7.2 million; $6.1 million of mineral and the investment off that of $1.1 million. The $621,000.00 going to the YCC, why is that happening?

Lance Gaebe: It's because that $7.2 million is the fund that was moved. That amount was used over time to calculate the distributions to the beneficiaries.

Chairman Brandenburg: So the $621,000.00 is going to the YCC; they didn't get that.

Lance Gaebe: We're not asking to appropriate more money, it's just corrective distribution.

Chairman Brandenburg: Since the college was defunded in the 1960's, part of this $7.2 million should be going back to Ellendale.

Lance Gaebe: We went back 26 years to figure out the wrong distributions.

Lance Gaebe continued with his testimony.

Representative Kempenich: Is it more of the combination in price than production? Has the production that the state has been getting, is that relatively flat?

Lance Gaebe: Largely the decline is related to price and not production. This dramatic drop of $150 million was related to price.

Representative Kempenich: The life of these wells are not very long.

Lance Gaebe: Because of the concentration of trust lands in the west, the primary land is in the Bakken.

Lance Gaebe continued with his testimony.

Representative Delmore: Is there a reason for that increase?

Lance Gaebe: We do try to contact people with cost ways of doing things. We have some software products that help match up, where we have social security numbers, they can find people that might match up with that name. The reason a lot of that property is there is because it has a mistake or bad address. We do try to do some outreach.

Lance Gaebe continued with his testimony.

Chairman Brandenburg: How much is left in this biennium?

Lance Gaebe continued with his testimony.

Chairman Brandenburg: Can you explain the K-12 schools, the $15 million?

Lance Gaebe: Last legislative session you authorized $30 million to be distributed to oil impacted schools and it needed to be done in the same ratio as the distribution of gross production tax; but it had to be done for specific projects. The amount of money is determined by that formula. When they submit requests we make sure that it's for construction or for specific purposes. We did the distribution of the first $15 million early on in the biennium and we have not been able to do the distribution of that for the second year.

Chairman Brandenburg: Is it for an offset or for construction?

Representative Kempenich: It was part of the non-hub city school districts.

Representative Nathe: I believe some of it was the increase in enrollments that they had out there.

Chairman Brandenburg: So instead of rapid enrollment, it was impact.

Lance Gaebe: That was the basis for why the distribution occurred. This is the same ratio of the formulas you already have for non-hub schools for gross distribution.

Chairman Brandenburg: So it's an impact because of the activity.

Lance Gaebe: It wasn't just an enhancement to the formula, but it was for something that was built or repaired.

Chairman Brandenburg: Then eligible general?

Lance Gaebe: What the allocation there said was that we were supposed to do a grant round for the counties that were not in the main production areas.

Chairman Brandenburg: They had oil but not enough oil?

Lance Gaebe: Right.

Chairman Brandenburg: The contingency?

Lance Gaebe: That was just what wasn't earmarked.

Lance Gaebe continued with his testimony.

Vice Chairman Boehning: In Section 6, are we going to have to do that every biennium? How is this going to work?

Lane Gaebe: I don't think so. It was never contemplated before. There's a carryover provision of grants that were awarded could be carried over to subsequent years. In all other cases, all the funds that authorized were collected early in the biennium. This is the first time we'll be collecting as we go.

Vice Chairman Boehning: How much do you think we're going to be short?

Lance Gaebe: We'll be short about $70 million of that total.

Chairman Brandenburg: We're expecting $70 million but we're going to be short $70 million?

Lance Gaebe: You had $140 million appropriated last time, we'll collect about $70 million; so there will be $70 million left over.

Lance Gaebe continued with his testimony.

Vice Chairman Boehning: So we'd have to be cognizant of what we're going to put into this line item in this next biennium; so when we come to this point we don't have the same situation.

Representative Kempenich: Isn't there about $104.5 million in that bucket right now?

Lance Gaebe: In the executive budget there was zero. The $130 million sunsets at the end of this biennium and there be a revenue in force.

Lance Gaebe continued with his testimony.

Representative Kempenich: Are you still running anything from 2013-2015 on grants?

Lance Gaebe: Yes. We cancelled a number of them this year; but they do carry forward.

Chairman Brandenburg: Closed the hearing.

2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division
Medora Room, State Capitol

SB2013
3/8/2017
Recording Job# 28873

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the commissioner of university and school lands; to provide for transfers; and to provide for distributions from permanent funds.

Minutes:

Attachment A.

Chairman Brandenburg: Opened the hearing on SB2013.

Lance Gaebe, Commissioner, ND Department of Trust Lands: See testimony attachment A.

Representative Kempenich: Does the common schools trust fund own individual buildings or is it more the Bank of North Dakota? How does that work?

Lance Gaebe: We don't own that building in Rolla. The state of North Dakota held it in trust for Job Service purposes. The only building the common schools trust fund owns outright as an investment is the building that we reside in. We have a few farm buildings that are related to foreclosures.

Representative Kempenich: Do you use the Bank of North Dakota? You don't loan directly; it's through an investment. Correct?

Lance Gaebe: That's correct. It goes into the farm loan pool and we also have some multi-family housing loans; that less than $1.5 million. The farm loan pool is around $6.5 million.

Representative Kempenich: When you do that is that an allocation? Is that the board doing that?

Lance Gaebe: Yes, it is the board that does the asset allocation. There is specific statute that authorizes the participation of the farm loan pool. All the collective trusts have a prorated percentage of that farm loan pool.

Lance Gaebe continued with his testimony.

Representative Kempenich: Basically you're breaking down the cost?

Lance Gaebe: That's correct.

Lance Gaebe continued with his testimony.

Representative Kempenich: This would be a complete system? It wouldn't have components phased in?

Lance Gaebe: It would be both. It would be phased in into four subsystems. We anticipate that it will take at least three years to put this in place.

Lance Gaebe continued with his testimony.

Representative Kempenich: I know the Senate was intending to keep rolling this bienniums commitments on the energy impacts forward. We won't zero it out, but it might be $4 million for this next biennium.

Lance Gaebe: If the trend line continues like it has in the last 3 months, in terms of deposits in that fund, we received $3.6 million in February, we had $3.4 million in January; so we potentially receive those similar amounts in July and August.

Lance Gaebe continued with his testimony.

Representative Kempenich: It looks like there's a different vendor for each segment of this.

Lance Gaebe: That's going to be the challenge for the project manager.

Lance Gaebe continued with his testimony.

Representative Vigesaa: On the capitol building fund for the governor's project, they had to raise a certain amount of funds before they could begin, were those funds put in the trust or were they held separately?

Lance Gaebe: They were raised outside of the fund; but once they reached that $500,000.00 threshold they were deposited into this fund and that was the trigger that allowed the construction to commence. There's another $500,000.00 expected to be raised.

Representative Vigesaa: As the project is being constructed, are the contractors submitting invoices for work that has been completed? How is that paid back out?

Sheila Peterson, Director of Fiscal Management, Office of Management and Budget: Those bills run through facility management division of OMB. When a bill comes in to be paid, then we ask those funds to be drawn down to pay those bills.

Vice Chairman Boehning: How many of those bills have been paid so far?

Lance Gaebe: There has been $1.1 million paid so far; and $4 million was appropriated out of that fund for that project last session.

Vice Chairman Boehning: How much will be left in that fund when we're all done? December 31, 2015 we had $6.6 million and now we're down to just under $6.1 million.

Lance Gaebe: It was $4 million for that and then there was another $1.3 million for signage for the capitol structure and around $25,000.00 for the operations of the capitol grounds planning commission to do some upgrades. It's somewhere around $5.5 million that was appropriated last session.

Lance Gaebe continued with his testimony.

Adam Mathiak, Fiscal Analyst, ND Legislative Council: The number is about $2.4 million at the end of the 2015-2017 biennium.

Representative Vigesaa: Do you know how much money is expected to come in during the next biennium?

Adam Mathiak: For 2017-2019 there is investment income of $100,000.00 and the rents, royalties and bonuses was estimated to be about $1.9 million.

Representative Kempenich: The student construction assistant loan fund is that something that resides with you or the bank?

Lance Gaebe: That was transferred in January to the Bank of North Dakota. That was a bill that was passed in the 2015 session but was triggered by passage of Measure 2 in November. The source of that was the SIIF money, but the responsibilities transfer to the Bank of North Dakota with that passage.

Representative Kempenich: Is that the amount the amount that was transferred?

Lance Gaebe: This was the December 31, 2016 number. It would have been within ten days that that money was transferred.

Representative Kempenich: Wasn't it $317 million that was going to trigger that Measure 2 out of the foundation aid stabilization fund? Wasn't $100 million going to be school loan programs?

Lance Gaebe: The trigger was because if Measure 2 passed, several million dollars of the foundation aid stabilization fund would be merged also into the school construction loan fund. The school construction loan fund existed before that measure passed.

Representative Kempenich: Do you have to authorize that as it gets used?

Lance Gaebe: We transferred the whole amount.

Lance Gaebe continued with his testimony.

Representative Kempenich: Can you invest in buildings with the common schools trust fund?

Lance Gaebe: We have not.

Representative Kempenich: But you could if you wanted to.

Lance Gaebe: It would have to be commensurate with the risk and enough to justify the returns that we could find elsewhere.

Lance Gaebe continued with his testimony.

Vice Chairman Boehning: Was that $186 million all transferred? Was it one line or both lines?

Lance Gaebe: Just the SCELF one.

Vice Chairman Boehning: So you still have the $43 million left for the construction loans?

Lance Gaebe: Yes.

Vice Chairman Boehning: I have a question on your real estate portfolio. You have 50% in real estate; how much of that money in real estate is invested within the state from the common schools trust fund?

Lance Gaebe: None directly except for the participation of a small number of loans.

Vice Chariman Boehning: Have you ever talked about taking a percentage of that money and using that to invest in the state?

Lance Gaebe: It is discussed on occasion and we are already very to the movement by pulling minerals and collecting royalties or owning farm land and pastureland and collecting revenues there. If those investments were made here, they would have to be comparative to what the funds could get elsewhere.

Vice Chairman Boehning: I think we should use a percentage of this money to help the state even though it's not as high of a return.

Lance Gaebe: The constitution also has a distribution formula that is 10% of the rolling 5 year average. If we issue low return investments or low return loans or risky ones that go bad it makes it that much more complicated to make those distributions that are required.

Vice Chairman Boehning: With the real estate investments they'll all out of state and they're not risky as well?

Lance Gaebe: They are but they're thousands of properties combined in all parts of the country; and we have different types of property. We have investments in major metropolitan areas of office space in current markets.

Vice Chairman Boehning: There's about $550 million in that? Do you ever talk with your investors to see if they want to bring some of that into the state?

Lance Gaebe: G P Morgan had real estate investors here. I think it is happening to some degree.

Lance Gaebe continued with his testimony.

Representative Kempenich: Was it that what was committed yet this biennium the intent to finish out those earmarks? There's going to be roughly $30 million yet?

Lance Gaebe: It's going to be hard to give you an ending number; but the talk in the Senate was the same as here. We don't know from month to month the way the buckets are configured.

Lance Gaebe continued with his testimony.

Representative Kempenich: They're going to make it part of the Hub City money?

Lance Gaebe: The other energy impact grants are part of the oil and gas impact grant fund. That money for the grant dollars for the flood was general fund money.

Representative Kempenich: It's something that you have pigeon-holed someplace?

Lance Gaebe: It's been granted but hasn't been distributed. It did let us carry over to this biennium, but I think that's it.

Vice Chairman Boehning: Closed the hearing.

2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee - Government Operations Division
Medora Room, State Capitol

SB2013
3/17/2017
Recording Job# 29376

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the commissioner of university and school lands; to provide for transfers; and to provide for distributions from permanent funds.

Minutes:

Attachment A

Chairman Brandenburg: Opened the hearing on SB2013.

Lance Gaebe, Director, ND Trust Lands: The additional deposit will be into the oil and gas impact grant fund of $4.1 million.

Chairman Brandenburg: What did the Senate do to you guys?

Lance Gaebe: The Senate cut an IT improvement project from $5.5 million down to $5.2 million. They adopted the recommended FTE request for a GIS person to help with the mapping. The executive budget had reduced our FTE count by two and we had a supplemental request for one FTE and that was included in the Senate's version.

Chairman Brandenburg: They took out the $99,468,000.00

Lance Gaebe: The executive budget and the Senate wiped out the grants with the energy impact office. There was $200,000.00 for operations. That's anticipating that you do some additional grant funding for the carry over of those earmarks from this biennium and we do all of our grants on a reimbursement basis; so we have hundreds of grants that have been awarded but we have not set the dollars on.

Chairman Brandenburg: The targets didn't get hit and the commitments didn't happen.

Lance Gaebe: See testimony attachment A.

Representative Kempenich: You're still carrying some money from before on grant rounds that were committed? How much is out there yet?

Lance Gaebe: There's a follow up number that we provided.

Gerard Schwan, Director of Grants and Claims, ND Trust Lands: See testimony attachment A.

Chairman Brandenburg: So what you're saying is we were looking at $140 million and you actually came up with $71 million.

Gerard Schwan: Of what has been awarded.

Chairman Brandenburg: What's available is $7 million.

Gerard Schwan: If you take the amount collected to date, minus the administrative costs and then you look at the actual net awards and you subtract those; you come up with available to award today as $7.9 million.

Gerard Schwan continued with his testimony.

Representative Delmore: Is that included in your contingency fund?

Gerard Schwan: We have not done anything with those dollars. By the end of the biennium, they would go away. We have not incurred any contingency grant funding as of yet.

Representative Kempenich: The eligible general $5 million, are you treating that like an impact where you don't have anything specified on that?

Gerard Schwan: It's in HB1176 that it had to be within the 7 counties. The applications were received in January and February 2016 and had not been considered yet by the land board; that's when the funding also stopped. The land board has not had any execution of those funds or awards to that grant round.

Representative Nathe: On the K-12 grants, are those mainly for rapid enrollment?

Gerard Schwan: They could be used for anything. The last grant round was identified for any type of property improvements and upgrades.

Representative Nathe: How about the remaining $15 million?

Gerard Schwan: There has not been anything identified yet of that to go out. We're waiting to see what future funding is coming in in the next four months. We don't know if the money is there or not to go forward with that grant. The funding is provided on as a per ratio based on student population in those schools; so it's formula driven.

Chairman Brandenburg: Available to award today is $7.9 million. But you have about $4 million committed out of the $7.9 million?

Gerard Schwan: Right. $3.5 million of that is ready to commit; it just hasn't been committed yet in actual awards.

Chairman Brandenburg: You said you picked up about $4 million?

Gerard Schwan: $4.1 million will be deposited next Wednesday. I've figured those into these costs.

Chairman Brandenburg: So there's some more coming?

Gerard Schwan: Yes, in April, May, June and July. We're figuring a conservative deposit of $3 million per month in our projection.

Chairman Brandenburg: If you take 3.5 times 4; you'll be around $11 million.

Gerard Schwan: Right. We're projecting our ending balance in July of $12 million.

Gerard Schwan continued with his testimony

Representative Nathe: What are the status on the audit findings?

Lance Gaebe: There were three efforts by the state auditors. One was specific to the energy impact and infrastructure office, one was specific to the unclaimed property office and one was general trust and operations. We have developed a database to take each one of those recommendations and assigning those to individual staff on making sure we follow up. There are 60 recommendations total.

Representative Nathe: How are we doing on the trust assets?

Lance Gaebe: It's in the bill in section 5 of the engrossed bill. A number of mineral tracts were improperly assigned to the youth correction center trust when they should have been assigned to the Ellendale trust. There is a one-time corrected adjustment of $620,000.00 to accommodate.

Lance Gaebe continued with his testimony.

Representative Nathe: You said that transfer was in section 5?

Lance Gaebe: Yes.

Representative Kempenich: Are you digitizing your information?

Lance Gaebe: The digitization was part of the problem. There was a presumption that was on paper was entered into a database. That was all done pre-digital. It's going pre-electronics that we're finding the errors.

Representative Kempenich: I'm not saying you get rid of the paper. If you're going back that far, are you putting them in an easier format to access?

Lance Gaebe: We're doing both. We're scanning those documents but keeping the paper.

Lance Gaebe continued with his testimony.

Representative Nathe: Is there an outside auditor, not the state auditor, that audits those royalty payments to make sure everything is being entered correctly?

Lance Gaebe: We have an outside financial auditor.

Lance Gaebe continued with his testimony.

Representative Nathe: Is there anybody that audits your staff that could better take care of this?

Lance Gaebe: Other than the performance audit we talked about and the financial audit, no, there's not.

Representative Vigesaa: The $5.2 million IT project. Where are those funds coming from? If the project wasn't going forward, where would that money be parked?

Lance Gaebe: We operate all of our costs through a maintenance fund. That's based on a formula of how much land each trust owns, how many minerals it owns, how many FTE's are dedicated to it and the financial assets that are in place. We use a formula to allocate those costs. The common schools trust fund is the largest contributor to that. The costs of this IT project would be just like our maintenance fund. If we don't do the IT project, it stays within those funds.

Vice Chairman Boehning: With all the funds that you take care of, are you going to take a look at some of these other ones to see if there have been any other large errors?

Lance Gaebe: We hope so; but it's going to be a long process.

Lance Gaebe continued with his testimony.

Vice Chairman Boehning: Closed the hearing.

2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee – Government Operations Division
Medora Room, State Capitol

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☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the commissioner of university and school lands; to provide for transfers; and to provide for distributions from permanent funds.

Minutes:

Attachments A through C

Chairman Brandenburg: Opened the hearing on SB2013,

Representative Kempenich: Explained amendment 17.0521.02007. Attachment C.

Blair Thoreson, Continental Resources: Made introductions.

Brooks Richardson, Continental Resources: Testified in support of SB2013.

Representative Kempeich: Has there been a formal declaration of the change or is it just a proposal?

Brooks Richardson: On Thursday we received a draft letter with a memorandum to the board of university and school land that states as of May 1 this is the way they want things calculated. That calculation would require valuation methods based on those downstream values.

Brooks Richardson continued with his testimony.

Representative Kempenich: There's no allowance for any cost from point A to point B?

Brooks Richardson: That's correct. It would be a cost free royalty.

Representative Kempenich: No stop?

Brooks Richardson: No stop.

Representative Nathe: Why is this just for the two years?

Brooks Richardson: There is a sunset on it. I was not the author of the two year sunset suggestion.

Chairman Brandenburg: In the past you were paid at the well head and now the payment is going to end at the end of the line. How are we going to determine what profits go at well head, the profits go at the pipelines, etc., to get to the end point? That's what I understand could be one of the problems.

Brooks Richardson: That is one of the problems of trying to go to a downstream valuation methodology. Other states that have tried have resulted in huge administrative burdens.

Chairman Brandenburg: So you have to trust that they're going to treat you fair?

Brooks Richardson: Yes. What's fairly standard in gas purchase contracts is a formula. The formula is that the purchaser will pay a downstream value and then the cost to get it there is a negotiated method.

Representative Delmore: Where did the new rules come from?

Brooks Richardson: There was an audit of the land department in 2016. In that audit they found that operators were reporting the proceeds and various costs in different manners. That alarmed the auditor and they made mention of it in their audit to the land department. As a result, the land department is looking for uniformity. They want everyone to report their oil and gas proceeds the same way.

Representative Kempenich: Where does your ownership end? Do you own infrastructure or is it midstream operators that own infrastructure once it leaves the pad? How does that all work?

Brooks Richardson: There are processes on particular production facility sites associated with the well. When the gas comes up through the well head it's going to run through several different processes that are on the lease. Those costs are never charged to a royalty owner.

Brooks Richardson continued with his testimony.

Representative Kempenich: I had instances with private royalty holders that they were getting paid at the plant and deducted back to the well head. You're saying is that the land department would like to get paid at the production facility without any deducts?

Brooks Richardson: That's correct.

Chairman Brandenburg: When I take my grain to the elevator, I sell it and I get a check. The change being proposed, when I take my grain to the elevator, I don't get paid there. I have to wait until the elevator sends it to the ethanol plant and when the ethanol plant gets done with their profits, they send back what they think is the right number to the elevator. The elevator gives me what they think is right after the deductions.

Brooks Richardson: One of the things that will benefit you is if another grain elevator comes in and gives them competition. If you don't like the prices, you can go to another elevator. That's what I'm talking about with the infrastructure development.

Chairman Brandenburg: Wouldn't your banker be worried about this situation?

Representative Kempenich: Uniformity is one thing we'd like to find. This amendment helps in that direction.

Chairman Brandenburg: What would happen if the other person down the line went bankrupt?

Brooks Richardson: We've already paid the royalty owner based on production.

Lance Gaebe, Commissioner, ND Trust Lands: Explained the amendment.

Representative Nathe: Before the no flaring rules, gas was so low it had to be burned off. Wouldn't this amendment help with the price structure and it wouldn't be burned off?

Lance Gaebe: It's possible, there are so many different scenarios.

Lance Gaebe continued with his testimony.

Representative Kempenich: That's what we do on it; make sure the state is collecting what's owed. Are the gross proceeds at the well head?

Lance Gaebe: I believe the gross proceeds is determined at the well head. There is a preference that that is calculated somewhere further downstream.

Representative Kempenich: Private royalty holders are kind of getting into that conversation.

Lance Gaebe: Their leases might allow that.

Lance Gaebe continued with his testimony.

Representative Kempenich: The problem is is where the price discovery is in this conversation.

Lance Gaebe: That's exactly right.

Lance Gaebe continued with his testimony.

Ron Ness, President, ND Petroleum Council: Testified to the amendment.

Representative Kempenich: I heard about this last fall.

Chairman Brandenburg: Closed the hearing.

Attachments A and B were submitted but not discussed.

2017 HOUSE STANDING COMMITTEE MINUTES

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Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the commissioner of university and school lands; to provide for transfers; and to provide for distributions from permanent funds.

Minutes:

Attachments A through C

Chairman Brandenburg: Opened the hearing on SB2013

Representative Kempenich: Explained proposed amendment. See attachment A.

Representative Kempenich: The intent is that when the ownership transfers that's where the payments start.

Brooks Richardson, Continental Resources: Testified to the proposed amendment. See attachment A.

Representative Kempenich: Are we cutting the relationship at a central tank battery or is it at the site?

Brooks Richardson: A lease activated custody transfer meter is not going to exist on every site in the state of North Dakota. There are many that have it, there are many that do not. We should be careful to try to think of change of ownership. Some companies will hold ownership all the way down the line and some companies sell as soon as it comes out of the ground. The royalty owner isn't buying off on the risks that a midstream operator decides to take.

Representative Kempenich: A lot of wells out there today don't have any support system. There is a central tank battery where all the oil is at. Is that what you're referring to?

Brooks Richardson: If a central tank battery exists and it's going into a pipeline from that central tank battery, that is where a LACT unit will be. If a single well pad isn't connected to a pipeline it's going to be trucked. That's the custody transfer point at that specific spot and then the midstream operations begin at that point.

Representative Kempenich: Made a motion to move the amendment.

Representative Nathe: Seconded the motion.

Roll Call Vote: 5 Yeas 2 Nays 0 Absent.

Motion Carried.

Adam Mathiak, Fiscal Analyst, ND Legislative Council: Explained amendment 17.0521.02009. See attachment B.

Chairman Brandenburg: On number 4 there's $25 million; but $20 million is going to the Williston airport, $5 million is going to the Dickinson airport and then there's one-time funding out of SIIF for $15 million. There's a total of $35 million going to Williston and $5 million to Dickinson.

Adam Mathiak: Correct.

Adam Mathiak continued with his explanation.

Chairman Brandenburg: Have they made the determinations on the counties of the $5 million at this point?

Adam Mathiak: That's correct.

Chairman Brandenburg: Will we have a change any more in this session?

Adam Mathiak: Based on fiscal year 2016 Bottineau drops below the $5 million threshold. That's the only county that changes.

Chairman Brandenburg: How many counties are over $5 million?

Adam Mathiak: I believe there are nine.

Representative Kempenich: Did it fall off already?

Adam Mathiak: It's already happened and these are based on fiscal year 2016.

Adam Mathiak continued with his explanation.

Representative Delmore: The change to the outdoor heritage fund allocation. Haven't we used all that money every biennium? What effect will it have if it's cut in half?

Representative Kempenich: I think what has been allocated for this biennium have been committed. It would limit the projects that would go forward. There's still quite a bit of money there to do projects.

Representative Delmore: Were they comfortable with that?

Representative Kempenich: That's what they're accepting.

Representative Delmore: The abandoned well and gas well plugging and site reclamation. Have we been using that full $7.5 million?

Representative Kempenich: No. There is money being used out of it. We're trying to build that fund up. There will be 60,000 or 70,000 wells at some point and the feeling was that we're going to have some funds around in the future. This is a future fund for the most part. The idea is to build that up to around $70 million in the future so we have the ability to take care of these wells.

Vice Chairman Boehning: Of that $8 million coming off of that heritage fund. How much is that supposed to generate in the next biennium? Do you have an estimate on that?

Adam Mathiak: It would be the $10 million.

Vice Chairman Boehning: What does the 8% raise? After we raise the $10 million, how much more money is going to be deposited? Where does that money go?

Adam Mathiak: Because of the limit it would eventually down into the state buckets.

Chairman Brandenburg: Without changing this, it's very possible that the heritage would get nothing. This way they're going to get $10 million.

Representative Kempenich continued with his explanation.

Chairman Brandenburg: So those first buckets have to fill before it gets into the SIIF fund.

Representative Kempenich: Yes.

Chairman Brandenburg: So that $10 million will get there right off the bat?

Representative Kempenich: Yes. We have $3.1 billion that could come in.

Representative Kempenich continued with his explanation.

Chairman Brandenburg: The proceeds from the sale of the existing airport in Williston has to first go for the federal funding; but after that's taken care of, half of this $55 million would be repaid back to the state.

Representative Kempenich: What it means if there is any extra monies, it would go to some of these grants.

Representative Delmore: We've cut over $60 million in special funds? Is that correct?

Representative Kempenich: Yes and no. It's in grants

Adam Mathiak continued with his explanation.

Lance Gaebe, Director, ND Trust Lands: Testified to the budget.

Chairman Brandenburg: How much are you going to pay out?

Lance Gaebe: It's about $3 million per month. The last deposit in March was $4.1 million.

Lance Gaebe continued with his explanation.

Representative Kempenich: They run about two months behind, don't they?

Lance Gaebe: Yes. The production that happens in June, the tax is collected in July and transfer happens in August.

Chairman Brandenburg: There's going to be something left behind?

Lance Gaebe: Certainly.

Representative Kempenich: You're going to prorate other funds? How do you see that playing out?

Lance Gaebe: The ones that have already been started, are the ones that are more process oriented.

Lance Gaebe continued with his explanation.

Representative Kempenich: Going forward on some of the impact grant allocations. The $25 million for the 2017-2019 that's going to the airports. Right?

Adam Mathiak: That's correct.

Representative Kempenich: There's $5 million unallocated in the grant fund going forward. There's $104 million currently in the impact grant fund. Correct.

Adam Mathiak: That would be a reference to current law. Based on these changes, by limiting it to $25 million; that additional $80 million would go down into the state share.

Adam Mathiak continued with his explanation.

Representative Kempenich: That would just stay in the impact fund or would it get played out in these current commitments?

Lance Gaebe: The entire $25 million for the 2017-2019 biennium that goes into the fund would be dedicated to one project. We would have no discretionary grants. You're suggesting that the $3 million or $4 million in August would be discretionary.

Representative Kempenich: That's what I'm referencing.

Lance Gaebe continued with his explanation.

Representative Kempenich: Is that $15 million part of that August payment?

Lance Gaebe: Yes.

Adam Mathiak continued with his testimony.

Representative Nathe: This money was appropriated but apparently an appraisal took 18 months to get. Now the money's not there?

Representative Kempenich: It's headed back this way unless we do this.

Adam Mathiak: Explained amendment 17.0521.02002.

Chairman Brandenburg: This amendment just gives them authority going forward.

Adam Mathiak: Correct.

Representative Nathe: Made a motion to move amendment 17.0521.02002. Attachment C.

Representative Brabandt: Seconded the motion.

Vice Chairman Boehning: If they don't have it completed in six years, why would we want to extend it? Six years is a long time on a project that hasn't been completed. I can't support this amendment.

Representative Nathe: From what I understand it was almost two years of waiting for an appraisal that's delayed this project.

Representative Brabandt: Withdrew his second.

Representative Nathe: Withdrew his motion.

Chairman Brandenburg: Closed the hearing.

2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee – Government Operations Division
Medora Room, State Capitol

SB2013
4/6/2017
Recording Job# 29961

☐ Subcommittee
☐ Conference Committee

Committee Clerk Signature

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the commissioner of university and school lands; to provide for transfers; and to provide for distributions from permanent funds.

Minutes: Attachments A and B

Chairman Brandenburg: Opened the hearing on SB2013.

Adam Mathiak, Fiscal Analyst, ND Legislative Council: Explained amendments.

Representative Nathe: Made a motion to move amendment 17.0521.02011.

Representative Kempenich: Seconded the motion.

Representative Vigesaa: Could you explain what this amendment does?

Representative Kempenich: Explained amendment 17.0521.02011

Representative Vigesaa: So that $1.325 million is just sitting in the general fund?

Representative Kempenich: It's sitting in the land office. I think there's a line item that was for those floods; it's in a grant line item in the land department.

Representative Vigesaa: So it's not a new appropriation?

Representative Kempenich: No.

Vice Chairman Boehing: Is this to upgrade their current landfill?

Representative Kempenich: Yes.

Vice Chairman Boehning: Don't they create enough revenue off their general billing? Are they going to come back in another ten years and ask for more money to upgrade? I have to oppose this amendment. It's been six years and they haven't spent the money on their landfill and now they're going to do an upgrade on the landfill. This probably wasn't for the purpose that this was appropriated.

Representative Kempenich: It's not to buy any new land, it's to upgrade their landfill. It will expand the current location. I think the original plan was to have them expand in a different area; but they haven't been able to do that.

Representative Nathe: In regards to the time, they had to do an appraisal which took almost two years to get that appraisal done; that was the main reason why they didn't move and take the $1.3 million.

Representative Kempenich: It isn't new money, it's been sitting there.

Roll Call Vote: 6 Yeas 1 Nay 0 Absent.

Motion Carried.

Representative Kempenich: I'm working on some lien language against the federal government on the corp land. Companies are paying the federal government along with the state government; and I think with a lien action I think we can get in between that conversation.

Representative Vigesaa: You would be offering this in full committee?

Representative Kempenich: Yes.

Representative Nathe: I like this amendment and the concept. I think it would be very proactive to do something like this along these lines. I think to hope to get paid by the federal government is going to be a waste of time.

Representative Kempenich: Explained amendment 17.0521.02009.

Representative Vigesaa: On page 11 and 12 where it has the current law versus the proposed changes. Where is the detail for the townships and the nonoil producing counties?

Representative Kempenich: It would be on page 12 on the bottom.

Representative Vigesaa: It has counties with $5 million or more and then counties less than $5 million.

Representative Kempenich: The counties less than $5 million are considered non-impacted townships.

Representative Vigesaa: Is there then funds for eastern townships?

Representative Kempenich: In the proposal right now there is. There's 4% so what's being proposed is roughly $16 million.

Representative Vigesaa: That 4% is showing up under counties $5 million or more.

Representative Kempenich: The overall split is 70/30 between the state and oil producing counties. The nonoil is coming out of the $5 million or more side.

Representative Vigesaa: It's split out from the 4%?

Representative Kempenich: Yes. This bill is heading for conference committee.

Representative Nathe: In regards to the outdoor heritage fund. It says $21 million but we're going to lower that down to $10 million. That should fill it then shouldn't it?

Representative Kempenich: Yes.

Representative Kempenich continued with his explanation.

Chairman Brandenburg: At the end of the day, when you add it all up, there's $500 million going out in the formula bill to oil counties and townships. As you look at the rest of the state, in the DOT budget there's another $503 million going out to oil country. The only thing coming the nonoil is some repairs, upgrades and some projects from last session for about $45 million. What this does is still give the $20,316.00 per township and gives the nonoil townships $9,950.00.

Representative Vigesaa: Using the distributions based on the formula, how much less would it be, with what's proposed in these amendments, than what was received last time by the same counties?

Representative Kempenich: Because it's all percentage based, we're roughly $1.5 billion below on the general fund side. We're over $1.1 billion to $1.2 billion that was figured in 24 months ago.

Representative Kempenich: Made a motion to move amendment 17.0521.02009.

Representative Nathe: Seconded the motion.

Roll Call Vote: 7 Yeas 0 Nays 0 Absent.

Motion Carried.

Representative Kempenich: Made a motion for a "Do Pass as Amended."

Representative Brabandt: Seconded the motion.

Roll Call Vote: 7 Yeas 0 Nays 0 Absent.

Motion Carried.

Chairman Brandenburg: Closed the hearing.

Attachments A and B submitted but not specifically discussed.

2017 HOUSE STANDING COMMITTEE MINUTES

Appropriations Committee
Roughrider Room, State Capitol

SB 2013
4-6-2017
29983

☐ Subcommittee
☐ Conference Committee

Virginia L Moen

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the commissioner of university and school lands

Minutes:

Representative Kempenich: Review bill 2013 related to school lands. It provides Common Schools Trust Fund, NDSU, UND, ND school for the Deaf, Correctional School, ND State College, State Hospital, Veteran's Home, Valley City State, ND Vision Service, Mayville Dakota College, Dickinson State, Minot State University and Ellendale Trust funds. It had an increase of $86.7and provides $288,264,000 into the budget as detailed on the bill. He reviewed amendment 17.0521.02012 3:10-7:50
There is quite a decrease that is relating to the impact grant funds. We also removed 3 FTEs. It has $40 million going to airports at Dickinson and Williston. Minot was granted in 2011 rewarded in 2012 funds for their land fill and then they ran into some land issues. We thought we'd give them one more shot at it.

Chairman Delzer: continues on changes in the amendment 7:50-27:00
This will go to conference and we should make sure that everybody understands that it is $375 to the hub cities. What changes from the past is there is no longer money going to hub cities West Fargo, Bismarck, Mandan, Fargo and Grand Forks. It changes the fiscal year to September for oil and gas, it is two months behind. They now will give their reports from the last even numbered year. He explains the distribution of the production tax. We wanted to make sure that those that didn't have production still got some of this. We do need to recognize that we are capping the ND Outdoor Heritage Fund for two years, only, we are not changing the formula. We are capping for 2 years at $10 million, and the abandon oil site reclamation fund at 4% a year, a total of 8 million a biennium.

Representative Holman: The 4% for townships, is there a breakout for that? Is it based on road miles?

Chairman Delzer: The 6% would be roughly $25 million, the 4% is roughly $16 million. Yes, it is based the same way we've done every other time.

Representative Streyle: We will be going to conference with this. This is in lieu of property tax. I don't think some of these changes are appropriate. We need to get rid of the sunset on this so we don't' have to work on it every two years.

Chairman Delzer: I'm not aware of a sunset in here. The only mention of it is the study on it.

Representative Streyle: Yes, it's current law but its' a little deceptive. We should be comparing what this generated before the current biennium and what it will in the future. We are not showing the real picture. Minot was at 14% but now they are at 6%.

Chairman Delzer: That was put in specifically to be a 2 year bump. You should not look at that 2 years; you should look at before that. We'll be dealing with this at conference committee.

Representative Streyle: My point is there is a drop here, it's not a hold even.

Chairman Delzer: I not sure it's a 30% drop the way our revenues have, though.

Representative Martinson: I know the heritage fund hasn't reached its peak of what it is allowed to spend. How much over have they gone?

Chairman Delzer: My understanding is that they have roughly $9 million carry forward. The forecast would have given them 20.5 million, we are capping it at $10 million which would move $10.5 million to the general fund or to SIF. (It moves it in to the oil buckets.)

Representative Martinson: They keep the carryover?

Chairman Delzer: They keep the carryover plus $10 million. The oil site reclamation fund said the formula was fine for them.

Representative Sanford: Could you remind me what the school monies are useable for.

Chairman Delzer: They can be used for anything in formula at 75%. Impact dollars are not imputed at all.

Representative Sanford: Some of these cities get rapid enrollment?

Chairman Delzer: They have in the past. I doubt if they would this time.

Representative Sanford: I think we are playing with fire when it comes to equity and the formula. I think they should be looking at the state building schools.

Chairman Delzer: This is part of the study and it needs to be looked at.

17:45 Representative Kempenich: continues on amendment Section 13.

Chairman Delzer: My understanding is Williston will borrow $39.5 million from Bank of North Dakota. When they sell the existing airport they will pay it off. We may have to look at language and say "It is a loan if they can repay it, if they can't, it's a grant." We are giving them 50 million, 30 million went to Minot's airport.

Representative Schmidt: The senate is taking 1 million dollars from the Resources Trust Fund that was to go to parks and sovereign lands and putting it in to the Historical Society for double ditch. Why can't we take a million from the $9 million carryover from the Outdoor Heritage Fund and put it back into sovereign lands?

Chairman Delzer: I'm not sure if it fits the criteria. You'd have to check that out and have Parks and Rec or the Heritage Fund apply for that. It wouldn't be as proper for us to go in and appropriate that money as it would be for them to grant that money.

Representative Kempenich: 21:25 continues on sec 13, Hub city bonding.

Representative Streyle: This is unworkable for the flood buckets.

Chairman Delzer: This should not be listed as your collateral.

Representative Streyle: I would hope that we would not give in at all to take this section out. This amendment is absolutely necessary.

Representative Kempenich: continues 25:10 0n Legislative management.
I would make the motion to adopt amendment 17.0521.02012

Representative Brandenburg: Second

Representative Schmidt: I still have a concern with the Outdoor Heritage Fund. We appropriated directly from a fund in HB 1347, could we cap that fund at $9 million and take that million from it?

Chairman Delzer: I suppose you could do that in conference committee on 18 and 19 with Parks and Rec. I don't think we should do it here. **Further discussion?**

Voice vote all in favor, motion carries.

Representative Streyle: Pretty simple amendment **17.0521.02005**, this adds to two nonvoting members to the state land board in an advisory role without voting rights. It would stop the fighting between the legislature and the land board**. I move to adopt this amendment**

Representative Nathe Second

Voice vote, all in favor, motion carries.

Representative Kempenich: Do Pass as Amended

Representative Vigesaa: second

A Roll Call vote was taken. Yea: 17 Nay: 2 Absent: 2

Motion carries Representative Kempenich will carry the bill.

Meeting ends 33: 35

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2013

Page 1, line 3, remove "and"

Page 1, line 2, after "exemption" insert "; and to provide legislative intent"

Page 3, after line 23, insert:

SECTION 7. LEGISLATIVE INTENT – ENCOURAGEMENT OF ENERGY INFRASTRUCTURE INVESTMENTS – COMMISSIONER OF UNIVERSITY AND SCHOOL LANDS – USE OF TERMS. It is the intent of the sixty-fifth legislative assembly that the state of North Dakota encourage the continued development of energy infrastructure that will help reduce instances of natural gas flaring and increase the market value received for oil and gas produced within the state generally and from state owned lands specifically which will increase the value of royalties paid to the funds under the control of the board of university and school lands. Consistent with this intent, ~~for the biennium beginning July 1, 2017, and ending June 30, 2019,~~ the commissioner of university and school lands shall continue to interpret the terms "gross production," "market value," and "gross proceeds of sale" in its lease from to mean a value determined at the producing well or associated production facility, or in the surrounding field or area, where the oil and gas was produced, prior to any post-production activities undertaken by the lessee, operator, or purchaser after the oil and gas has been transported from the producing well and associated production facility. These values must be determined by the amount received by the lessee in an arm's length contract, or in the absence of an arm's length contract, either a comparable sales method or a work-back calculation methodology consistent with state law."

Renumber accordingly

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Prepared by the Legislative Council staff for
House Appropriations - Government
Operations Division Committee
April 5, 2017

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2013

Page 1, line 3, replace "an exemption" with "exemptions"

Page 3, after line 23, insert:

"**SECTION 6. EXEMPTION - FLOOD-IMPACTED POLITICAL SUBDIVISION INFRASTRUCTURE DEVELOPMENT GRANTS.** Up to $1,325,500 appropriated from the general fund in section 10 of chapter 579 of the 2011 Session Laws for flood-impacted political subdivision infrastructure development grants, which was awarded but not yet reimbursed to the city of Minot for a landfill expansion project, is not subject to section 54-44.1-11, and any unexpended funds are available to reimburse the city of Minot during the biennium beginning July 1, 2017, and ending June 30, 2019."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

This amendment provides an exemption for a grant to the city of Minot for a landfill expansion project allowing Minot to be receive the grant payments during the 2017-19 biennium.

Prepared by the Legislative Council staff for
House Appropriations Committee
April 5, 2017

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2013

Page 1, line 3, replace "and" with "to amend and reenact subsection 5 of section 57-51-01 and section 57-51-15 of the North Dakota Century Code, relating to oil and gas gross production tax definitions and allocations;"

Page 1, line 3, after "exemption" insert "; to provide for funding repayments; to provide statements of legislative intent; to provide for a legislative management study; and to provide an effective date"

Page 1, line 7, after the first comma insert "the strategic investment and improvements fund,"

Page 1, replace lines 13 through 20 with:

"Salaries and wages	$6,123,516	($295,046)	$5,828,470
Operating expenses	2,019,637	(266,939)	1,752,698
Grants	99,300,000	(59,300,000)	40,000,000
Contingencies	100,000	0	100,000
Energy infrastructure and impact office	700,000	(479,283)	220,717
Total special funds	$108,243,153	($60,341,268)	$47,901,885
Full-time equivalent positions	33.00	(3.00)	30.00

SECTION 2. HEALTH INSURANCE INCREASE. The appropriation in section 1 of this Act includes $89,948 from special funds for increases in employee health insurance premiums from $1,130 to $1,241 per month."

Page 2, replace lines 2 and 3 with:

"Oil and gas impact grants - airports	$0	$25,000,000
Other grants - airports	0	15,000,000
Total special funds	$0	$40,000,000"

Page 3, after line 23, insert:

"**SECTION 8. OIL AND GAS IMPACT GRANT FUND - AIRPORT GRANTS.** The grants line item and the total special funds line item in section 1 of this Act include the sum of $25,000,000 from the oil and gas impact grant fund for grants to airports, for the biennium beginning July 1, 2017, and ending June 30, 2019. Of the $25,000,000, the board of university and school lands shall award a grant of $20,000,000 to the Williston airport and a grant of $5,000,000 to the Dickinson airport. A grant may be awarded to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

SECTION 9. STRATEGIC INVESTMENT AND IMPROVEMENTS FUND - WILLISTON AIRPORT GRANT. The grants line item and the total special funds line item in section 1 of this Act include the sum of $15,000,000 from the strategic investment and improvements fund for a grant to the Williston airport, for the biennium beginning July 1, 2017, and ending June 30, 2019. A grant may be awarded to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

SECTION 10. AMENDMENT. Subsection 5 of section 57-51-01 of the North Dakota Century Code is amended and reenacted as follows:

5. "Hub city" means~~, for the period beginning September 1, 2015, and ending August 31, 2017, a city with a population of twelve thousand five hundred or more, according to the last official decennial federal census, which has more than one percent of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota. "Hub city" means, after August 31, 2017,~~ a city with a population of twelve thousand five hundred or more, according to the last official decennial federal census, which has more than one percent of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota.

SECTION 11. AMENDMENT. Section 57-51-15 of the North Dakota Century Code is amended and reenacted as follows:

57-51-15. Gross production tax allocation.

The gross production tax must be allocated monthly as follows:

1. ~~First the~~The tax revenue collected under this chapter equal to one percent of the gross value at the well of the oil and one-fifth of the tax on gas must be deposited with the state treasurer ~~who shall~~. The state treasurer shall allocate the funding in the following order:

    a. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city, which is located in a county that received an allocation under subsection 2, a monthly amount that will provide a total allocation of three hundred seventy-five thousand dollars per fiscal year for each full or partial percentage point of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city, which is located in a county that received an allocation under subsection 2 of this section in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of three hundred seventy-five thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~;~~.

    b. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city, which is located in a county that did not receive an allocation under subsection 2, a monthly amount that will provide a total allocation of two hundred fifty thousand dollars per fiscal year for each full or partial percentage point of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city, which is located in a county that did not receive an allocation under subsection 2 of this section in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of two hundred fifty thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~;~~.

c. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city school district, which is located in a county that received an allocation under subsection 2, a monthly amount that will provide a total allocation of one hundred twenty-five thousand dollars per fiscal year for each full or partial percentage point of the hub city's private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city school district, which is located in a county that received an allocation under subsection 2 of this section in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one hundred twenty-five thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of the hub city's private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~, provided that hub~~. Hub city school districts, which are located in a county that did not receive an allocation under subsection 2 of this section in the most recently completed even-numbered fiscal year, must be excluded from the allocations under this subdivision~~;~~.

d. ~~Allocate to~~To each county that received more than five million dollars but less than thirty million dollars of total allocations under subsection 2 of this section in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, the state treasurer shall allocate a monthly amount that will ~~provide a total allocation of one million five hundred thousand dollars per fiscal year to be added by the state treasurer~~be added to the allocations to school districts under subdivision b of subsection 5~~;~~

~~e. Credit revenues to the oil and gas impact grant fund, but not in an amount exceeding one hundred forty million dollars per biennium for the 2015-17 biennium, and not in an amount exceeding one hundred million dollars per biennium thereafter;~~

~~f. Credit eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding twenty million dollars in a state fiscal year and not in an amount exceeding forty million dollars per biennium;~~

~~g. Credit four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding seven million five hundred thousand dollars in a state fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars; and~~

~~h. Allocate the remaining revenues under subsection 3~~ of this section, as follows:

(1) To each county that received more than five million dollars but not exceeding ten million dollars of total allocations under subsection 2 of this section in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million five hundred thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5 of this section.

(2) To each county that received more than ten million dollars but not exceeding fifteen million dollars of total allocations under subsection 2 of this section in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million two hundred fifty thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5 of this section.

(3) To each county that received more than fifteen million dollars but not exceeding twenty million dollars of total allocations under subsection 2 of this section in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5 of this section.

(4) To each county that received more than twenty million dollars but not exceeding twenty-five million dollars of total allocations under subsection 2 of this section in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of seven hundred fifty thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5 of this section.

(5) To each county that received more than twenty-five million dollars but not exceeding thirty million dollars of total allocations under subsection 2 of this section in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of five hundred thousand dollars per fiscal year. The allocation must distributed to school districts within the county pursuant to subdivision b of subsection 5 of this section.

e. (1) For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding ten million dollars per biennium. For purposes of this paragraph, "biennium" means the period beginning September first of each odd-numbered calendar year and ending August thirty-first of the following odd-numbered calendar year.

(2) After August 31, 2019, the state treasurer shall allocate eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding twenty million dollars per fiscal year.

f. (1) For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding four million dollars per fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars.

(2) After August 31, 2019, the state treasurer shall allocate four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding seven million five hundred thousand dollars per fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars.

g. For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate the remaining revenues in the following order:

(1) Up to twenty-five million dollars to the oil and gas impact grant fund.

(2) Any remaining revenues under subsection 3.

h. After August 31, 2019, the state treasurer shall allocate the remaining revenues in the following order:

(1) Up to five million dollars per biennium to the oil and gas impact grant fund. For purposes of this paragraph, "biennium" means the period beginning September first of each odd-numbered calendar year and ending August thirty-first of the following odd-numbered calendar year.

(2) Any remaining revenues under subsection 3.

i. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

2. After deduction of the amount provided in subsection 1 of this section, annual revenue collected under this chapter from oil and gas produced in each county must be allocated as follows:

a. The first five million dollars is allocated to the county.

b. Of all annual revenue exceeding five million dollars, thirty percent is allocated to the county.

3. After the allocations under subsections 1 and 2 of this section, the amount remaining is allocated first to provide for deposit of thirty percent of all revenue collected under this chapter in the legacy fund as provided in section 26 of article X of the Constitution of North Dakota and the

remainder must be allocated to the state general fund. If the amount available for a monthly allocation under this subsection is insufficient to deposit thirty percent of all revenue collected under this chapter in the legacy fund, the state treasurer shall transfer the amount of the shortfall from the state general fund share of oil extraction tax collections and deposit that amount in the legacy fund.

4. For a county that received less than five million dollars of allocations under subsection 2 of this section in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, revenues allocated to that county must be distributed at least quarterly by the state treasurer as follows:

   a. Forty-five percent must be distributed to the county treasurer and credited to the county general fund. However, the distribution to a county under this subdivision must be credited to the state general fund if in a taxable year after 2012 the county is not levying a total of at least ten mills for combined levies for county road and bridge, farm-to-market and federal aid road, and county road purposes.

   b. Thirty-five percent must be distributed to school districts within the county on the average daily attendance distribution basis for kindergarten through grade twelve students residing within the county, as certified to the state treasurer by the county superintendent of schools. However, a hub city school district must be omitted from distributions under this subdivision.

   c. Twenty percent must be distributed to the incorporated cities of the county. A hub city must be omitted from distributions under this subdivision. Distributions among cities under this subsection must be based upon the population of each incorporated city according to the last official decennial federal census. In determining the population of any city in which total employment increases by more than two hundred percent seasonally due to tourism, the population of that city for purposes of this subdivision must be increased by eight hundred percent.

   d. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

5. For a county that received five million dollars or more of allocations under subsection 2 of this section in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, revenues allocated to that county must be distributed at least quarterly by the state treasurer as follows:

   a. Sixty percent must be distributed to the county treasurer and credited to the county general fund. However, the distribution to a county under this subdivision must be credited to the state general fund if in a taxable year after 2012 the county is not levying a total of at least ten mills for combined levies for county road and bridge, farm-to-market and federal aid road, and county road purposes.

   b. Five percent must be distributed to school districts within the county on the average daily attendance distribution basis for kindergarten through grade twelve students residing within the county, as certified to the state treasurer by the county superintendent of schools. However, a hub city school district must be omitted from distributions under this subdivision.

c. Twenty percent must be distributed to the incorporated cities of the county. A hub city must be omitted from distributions under this subdivision. Distributions among cities under this subsection must be based upon the population of each incorporated city according to the last official decennial federal census. In determining the population of any city in which total employment increases by more than two hundred percent seasonally due to tourism, the population of that city for purposes of this subdivision must be increased by eight hundred percent.

d. ~~Three~~One percent must be allocated among the organized and unorganized townships of the county. The state treasurer shall allocate the funds available under this subdivision among townships in proportion to each township's road miles relative to the total township road miles in the county. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads, which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships.

e. ~~Three~~One percent must be allocated among the organized and unorganized townships in all the counties that received five million dollars or more of allocations under subsection 2 of this section in the most recently completed ~~state~~even-numbered fiscal year. The amount available under this subdivision must be allocated by the state treasurer in an equal amount to each eligible organized and unorganized township. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads, which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships.

f. Four percent must be allocated among the organized and unorganized townships in all the non-oil-producing counties. The amount available under this subdivision must be allocated by the state treasurer in an equal amount to each eligible organized and unorganized township. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads, which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships. For purposes of this subdivision, "non-oil-producing counties" means the counties that received no allocation or a total allocation of less than five million dollars under subsection 2 of this section in the most recently completed even-numbered fiscal year.

g. Nine percent must be distributed among hub cities. Sixty percent of funds available under this subdivision must be distributed to the hub city receiving the highest percentage of allocations to hub cities under subdivision a of subsection 1 for the quarterly period, thirty percent of funds available under this subdivision must be distributed to the hub city receiving the second highest percentage of such allocations, and ten percent of funds available under this subdivision must be distributed to the hub city receiving the third highest percentage of such allocations. Hub cities, which are located in a county that did not receive an allocation under subsection 2 of this section in the most recently completed even-numbered fiscal year, must be excluded from the allocations under this subsection. If fewer than three hub cities are eligible for the allocations under this subdivision, the state treasurer shall allocate the available funds in proportion to the amounts the eligible hub cities received under subdivision a of subsection 1 of this section.

h. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

6. Within thirty days after the end of each calendar year, the board of county commissioners of each county that has received an allocation under this section shall file a report for the calendar year with the commissioner, in a format prescribed by the commissioner, including:

a. The county's statement of revenues and expenditures;

b. The county's ending fund balances;

c. The amounts allocated under this section to the county's general fund, the amounts expended from these allocations, and the purposes of the expenditures; and

d. The amounts allocated under this section to or for the benefit of townships within the county, the amounts expended from these allocations, and the purposes of the expenditures.

Within fifteen days after the time when reports under this subsection are due, the commissioner shall provide the reports to the legislative council compiling the information from reports received under this subsection.

7. Within thirty days after the end of each fiscal year ended June thirtieth, each school district that has received an allocation under this section shall file a report for the fiscal year ended June thirtieth with the commissioner, in a format prescribed by the commissioner, including:

a. The school district's statement of revenue and expenditures;

b. The school district's ending fund balances; and

c. The amounts allocated under this section to the school district, the amounts expended from these allocations, and the purposes of the expenditures.

Within fifteen days after the time when reports under this subsection are due, the commissioner shall provide the reports to the legislative council compiling the information from reports received under this subsection.

SECTION 12. DEPARTMENT OF TRUST LANDS - WILLISTON AIRPORT FUNDING REPAYMENTS - DEPOSIT. The city of Williston shall use the proceeds from the sale of the existing Williston airport, excluding any proceeds used to repay the

Bank of North Dakota for outstanding loans related to the new airport, for repaying the department of trust lands up to $27,500,000 for a portion of the state's financial assistance provided for the new Williston airport. The department of trust lands shall deposit any funds received under this section in the strategic investment and improvements fund.

SECTION 13. LEGISLATIVE INTENT - HUB CITY BONDING. It is the intent of the sixty-fifth legislative assembly that during the period beginning July 1, 2017, and ending June 30, 2019, hub cities, as defined in section 57-51-01, not issue any new bonds based on anticipated future hub city oil tax revenue allocations under section 57-51-01.

SECTION 14. LEGISLATIVE INTENT - AGENCY EFFICIENCIES. It is the intent of the sixty-fifth legislative assembly that during the 2017-18 interim, the governor and the commissioner of university and school lands achieve efficiencies and budgetary savings within the department of trust lands through the use of innovative ideas and through alternative solutions relating to information technology.

SECTION 15. LEGISLATIVE MANAGEMENT STUDY - OIL AND GAS TAX REVENUE ALLOCATIONS TO HUB CITIES AND HUB CITY SCHOOL DISTRICTS.

1. During the 2017-18 interim, the legislative management shall consider studying oil and gas tax revenue allocations to hub cities and hub city school districts. The study must include consideration of the following:

    a. The current and historical oil and gas tax revenue allocations to hub cities and hub city school districts.

    b. Other state funding provided to hub cities and hub city school districts, including grants from the oil and gas impact grant fund, distributions from the strategic investment and improvements fund, state school aid payments, and payments from the state aid distribution fund and highway tax distribution fund.

    c. Local taxing and revenue levels in hub cities compared to cities in non-oil-producing counties, including mill levies, property tax values, local sales and use taxes, and other revenue sources.

    d. The appropriate level of oil and gas tax revenue allocations to hub cities and hub city school districts based on infrastructure and other needs.

    e. The estimated fiscal impact to hub cities, hub city school districts, other political subdivisions, and the state if the oil and gas tax revenue allocation formula would be changed to transition hub cities and hub city school districts from allocations under subsection 1 of section 57-51-15 to allocations under subsections 4 and 5 of section 57-51-15.

    f. The estimated fiscal impact to hub cities, hub city school districts, other political subdivisions, and the state if the oil and gas tax revenue allocation formula would be changed to discontinue the allocations to hub cities and hub city school districts under subsection 1 of section 57-51-15.

2. The membership of the committee assigned the responsibility of the study must proportionately reflect the state's population distribution between oil-producing counties and non-oil-producing counties and must include members from the finance and taxation committees and the appropriations committees.

3. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-sixth legislative assembly.

SECTION 16. EFFECTIVE DATE. Sections 10 and 11 of this Act are effective for taxable events occurring after June 30, 2017."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2013 - Department of Trust Lands - House Action

	Base Budget	Senate Version	House Changes	House Version
Salaries and wages	$6,123,516	$6,218,736	($390,266)	$5,828,470
Operating expenses	2,019,637	1,775,723	(23,025)	1,752,698
Capital assets		5,250,000	(5,250,000)	
Grants	99,300,000		40,000,000	40,000,000
Energy Infrastructure and Impact Office	700,000	220,717		220,717
Contingencies	100,000	100,000		100,000
Total all funds	$108,243,153	$13,565,176	$34,336,709	$47,901,885
Less estimated income	108,243,153	13,565,176	34,336,709	47,901,885
General fund	$0	$0	$0	$0
FTE	33.00	32.00	(2.00)	30.00

Department No. 226 - Department of Trust Lands - Detail of House Changes

	Adjusts Funding for Health Insurance Increases[1]	Removes Funding for FTE Positions[2]	Removes Funding for an Information Technology Project[3]	Adds Funding for Grants[4]	Total House Changes
Salaries and wages	($6,636)	($383,630)			($390,266)
Operating expenses		(23,025)			(23,025)
Capital assets			(5,250,000)		(5,250,000)
Grants				40,000,000	40,000,000
Energy Infrastructure and Impact Office					
Contingencies					
Total all funds	($6,636)	($406,655)	($5,250,000)	$40,000,000	$34,336,709
Less estimated income	(6,636)	(406,655)	(5,250,000)	40,000,000	34,336,709
General fund	$0	$0	$0	$0	$0
FTE	0.00	(2.00)	0.00	0.00	(2.00)

[1] Funding for employee health insurance is adjusted to reflect the updated premium amount of $1,241 per month.

[2] Funding is removed as follows:

- $200,105 is removed for a geographic information system position, which was added by the Senate. Of the $200,105, $177,080 relates to salaries and wages, and $23,025 relates to operating expenses.
- $206,550 is removed for a project manager position.

[3] One-time funding of $5.25 million is removed for an information technology project. The Senate added this funding.

[4] One-time funding of $25 million is added from the oil and gas impact grant fund for grants to the Williston airport ($20 million) and the Dickinson airport ($5 million). One-time funding of $15 million is added from the strategic investment and improvements fund for a grant to the Williston airport.

This amendment also:

- Identifies the health insurance increase.
- Identifies $25 million from the oil and gas impact grant fund for an oil impact grant of $20 million to the Williston airport and a grant of $5 million to the Dickinson airport. This funding is available to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project.
- Identifies $15 million from the strategic investment and improvements fund for a grant to the Williston airport. This funding is available to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project.
- Amends the oil and gas tax revenue allocation formulas (see the table below) and provides an effective date related to the formula changes.
- Provides that the city of Williston use the proceeds from the sale of the existing airport, up to $27.5 million, to repay the Department of Trust Lands for the state's financial assistance provided for the new airport.
- Provides a statement of legislative intent that hub cities not issue new bonds during the 2017-19 biennium based on anticipated future hub city oil tax revenue allocations.
- Provides a statement of legislative intent regarding efficiencies within the Department of Trust Lands.
- Provides for a Legislative Management study by a committee with proportional geographic representation and members of the Finance and Taxation and Appropriations Committees regarding the oil and gas tax revenue allocations to hub cities and hub city school districts.

Senate Bill No. 2013 - Other Changes - House Action

Current Law	Proposed Changes
Hub city definition • After August 31, 2017, a hub city is based on mining employment.	Hub city definition • No change to current law.
Hub city and hub city school district allocations • Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment. • Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment. • Hub city school districts receive an annual allocation of $125,000 per full or partial percentage point of mining employment, excluding hub city school districts located in non-oil-producing counties.	Hub city and hub city school district allocations • Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment exceeding 2 percent. • Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment exceeding 2 percent. • Hub city school districts in oil-producing counties receive an annual allocation of $125,000 per full or partial percentage point of mining employment exceeding 2 percent.
Supplemental school district allocation • Eligible counties receive an annual allocation of $1.5 million for distributions to school districts in the county.	Supplemental school district allocation • Changes the annual allocation to provide a specific amount based on the oil and gas tax allocations received by the county in the most recently completed even-numbered fiscal year. The specific amounts range from $500,000 to $1.5 million per year.

North Dakota outdoor heritage fund allocations

- From the 1 percent of the 5 percent oil and gas gross production tax, 8 percent is allocated to the North Dakota outdoor heritage fund, up to $20 million per fiscal year.

Abandoned oil and gas well plugging and site reclamation fund allocations

- From the 1 percent of the 5 percent oil and gas gross production tax, 4 percent is allocated to the abandoned oil and gas well plugging and site reclamation fund, up to $7.5 million per fiscal year.

Oil and gas impact grant fund allocations

- Up to $100 million per biennium is allocated to the oil and gas impact grant fund.

Distributions to political subdivisions

- The distributions to political subdivisions in North Dakota Century Code Sections 57-51-15(4) and 57-51-15(5) are based on the oil and gas tax allocations received by a county in fiscal year 2014.
- From the 4 percent of the 5 percent oil and gas gross production tax, 30 percent of all revenue above $5 million is allocated to the county with the remaining 70 percent allocated to the state.
- The distributions to political subdivisions are as follows:

	Counties - Less Than $5 Million	Counties - $5 Million Or More
County general fund	45%	60%
Cities	20%	20%
Schools	35%	5%
Townships (equal)		3%
Townships (road miles)		3%
Hub cities		9%

- From the counties' share in counties that received $5 million or more of oil and gas tax allocations, 9 percent is distributed to the three hub cities with the highest percentage of mining employment.

North Dakota outdoor heritage fund allocations

- Decreases the amount allocated to the North Dakota outdoor heritage fund by changing the limit from $20 million per fiscal year to $10 million for the 2017-19 biennium.

Abandoned oil and gas well plugging and site reclamation fund allocations

- Decreases the amount allocated to the abandoned oil and gas well plugging and site reclamation fund by changing the limit from $7.5 million per fiscal year to $4 million per fiscal year for the 2017-19 biennium.

Oil and gas impact grant fund allocations

- Decreases the allocation to the oil and gas impact grant fund from $100 million per biennium to $25 million per biennium for the 2017-19 biennium and provides an allocation of $5 million per biennium to the oil and gas impact grant fund after the 2017-19 biennium.

Distributions to political subdivisions

- Changes the basis for the distributions to political subdivisions in Sections 57-51-15(4) and 57-51-15(5) to reflect the oil and gas tax allocations received by a county in the most recently completed even-numbered fiscal year rather than fiscal year 2014.
- No change to current law.
- The proposed changes to the distributions to political subdivisions are as follows:

	Counties - Less Than $5 Million	Counties - $5 Million Or More
County general fund	45%	60%
Cities	20%	20%
Schools	35%	5%
Townships (equal)		1%
Townships (road miles)		1%
Townships (non-oil)		4%
Hub cities		9%

- Clarifies the distribution to hub cities to exclude hub cities that are located in non-oil-producing counties and to provide proportional allocations if less than three hub cities qualify for the distributions.

17.0521.02012
Title.

Fiscal No. 2

Prepared by the Legislative Council staff for House Appropriations - Government Operations Division Committee
April 6, 2017

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2013

Page 1, line 3, replace "and to provide an exemption" with "to amend and reenact subsection 5 of section 57-51-01 and section 57-51-15 of the North Dakota Century Code, relating to oil and gas gross production tax definitions and allocations; to provide for funding repayments; to provide exemptions; to provide statements of legislative intent; to provide for a legislative management study; and to provide an effective date"

Page 1, line 7, after the first comma insert "the strategic investment and improvements fund,"

Page 1, replace lines 13 through 20 with:

"Salaries and wages	$6,123,516	($295,046)	$5,828,470
Operating expenses	2,019,637	(266,939)	1,752,698
Grants	99,300,000	(59,300,000)	40,000,000
Contingencies	100,000	0	100,000
Energy infrastructure and impact office	700,000	(479,283)	220,717
Total special funds	$108,243,153	($60,341,268)	$47,901,885
Full-time equivalent positions	33.00	(3.00)	30.00

SECTION 2. HEALTH INSURANCE INCREASE. The appropriation in section 1 of this Act includes $89,948 from special funds for increases in employee health insurance premiums from $1,130 to $1,241 per month."

Page 2, replace lines 2 and 3 with:

"Oil and gas impact grants - airports	$0	$25,000,000
Other grants - airports	0	15,000,000
Total special funds	$0	$40,000,000"

Page 3, after line 23, insert:

"**SECTION 8. EXEMPTION - FLOOD-IMPACTED POLITICAL SUBDIVISION INFRASTRUCTURE DEVELOPMENT GRANTS.** Up to $1,325,500 appropriated from the general fund in section 10 of chapter 579 of the 2011 Session Laws for flood-impacted political subdivision infrastructure development grants, which was awarded but not yet reimbursed to the city of Minot for a landfill expansion project, is not subject to section 54-44.1-11, and any unexpended funds are available to reimburse the city of Minot during the biennium beginning July 1, 2017, and ending June 30, 2019.

SECTION 9. OIL AND GAS IMPACT GRANT FUND - AIRPORT GRANTS. The grants line item and the total special funds line item in section 1 of this Act include the sum of $25,000,000 from the oil and gas impact grant fund for grants to airports, for the biennium beginning July 1, 2017, and ending June 30, 2019. Of the $25,000,000, the board of university and school lands shall award a grant of $20,000,000 to the Williston airport and a grant of $5,000,000 to the Dickinson airport. A grant may be awarded to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

SECTION 10. STRATEGIC INVESTMENT AND IMPROVEMENTS FUND - WILLISTON AIRPORT GRANT. The grants line item and the total special funds line item in section 1 of this Act include the sum of $15,000,000 from the strategic investment and improvements fund for a grant to the Williston airport, for the biennium beginning July 1, 2017, and ending June 30, 2019. A grant may be awarded to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

SECTION 11. AMENDMENT. Subsection 5 of section 57-51-01 of the North Dakota Century Code is amended and reenacted as follows:

5. "Hub city" means~~, for the period beginning September 1, 2015, and ending August 31, 2017, a city with a population of twelve thousand five hundred or more, according to the last official decennial federal census, which has more than one percent of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota. "Hub city" means, after August 31, 2017,~~ a city with a population of twelve thousand five hundred or more, according to the last official decennial federal census, which has more than one percent of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota.

SECTION 12. AMENDMENT. Section 57-51-15 of the North Dakota Century Code is amended and reenacted as follows:

57-51-15. Gross production tax allocation.

The gross production tax must be allocated monthly as follows:

1. ~~First the~~The tax revenue collected under this chapter equal to one percent of the gross value at the well of the oil and one-fifth of the tax on gas must be deposited with the state treasurer ~~who shall~~. The state treasurer shall allocate the funding in the following order:

    a. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city, which is located in a county that received an allocation under subsection 2, a monthly amount that will provide a total allocation of three hundred seventy-five thousand dollars per fiscal year for each full or partial percentage point of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city, which is located in a county that received an allocation under subsection 2 of this section in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of three hundred seventy-five thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~;~~.

    b. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city, which is located in a county that did not receive an allocation under subsection 2, a monthly amount that~~

~~will provide a total allocation of two hundred fifty thousand dollars per fiscal year for each full or partial percentage point of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city, which is located in a county that did not receive an allocation under subsection 2 of this section in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of two hundred fifty thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~;~~.

c. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city school district, which is located in a county that received an allocation under subsection 2, a monthly amount that will provide a total allocation of one hundred twenty-five thousand dollars per fiscal year for each full or partial percentage point of the hub city's private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city school district, which is located in a county that received an allocation under subsection 2 of this section in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one hundred twenty-five thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of the hub city's private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~, provided that hub~~. Hub city school districts, which are located in a county that did not receive an allocation under subsection 2 of this section in the most recently completed even-numbered fiscal year, must be excluded from the allocations under this subdivision~~;~~.

d. ~~Allocate to~~To each county that received more than five million dollars but less than thirty million dollars of total allocations under subsection 2 of this section in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, the state treasurer shall allocate a monthly amount that will ~~provide a total allocation of one million five hundred thousand dollars per fiscal year to be added by the state treasurer~~be added to the allocations to school districts under subdivision b of subsection 5~~;~~

~~e.~~ ~~Credit revenues to the oil and gas impact grant fund, but not in an amount exceeding one hundred forty million dollars per biennium for the 2015-17 biennium, and not in an amount exceeding one hundred million dollars per biennium thereafter;~~

~~f.~~ ~~Credit eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding twenty million dollars in a state fiscal year and not in an amount exceeding forty million dollars per biennium;~~

~~g.~~ ~~Credit four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding seven million five hundred thousand dollars in a state fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars; and~~

~~h.~~ ~~Allocate the remaining revenues under subsection 3~~ of this section, as follows:

(1) To each county that received more than five million dollars but not exceeding ten million dollars of total allocations under subsection 2 of this section in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million five hundred thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5 of this section.

(2) To each county that received more than ten million dollars but not exceeding fifteen million dollars of total allocations under subsection 2 of this section in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million two hundred fifty thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5 of this section.

(3) To each county that received more than fifteen million dollars but not exceeding twenty million dollars of total allocations under subsection 2 of this section in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5 of this section.

(4) To each county that received more than twenty million dollars but not exceeding twenty-five million dollars of total allocations under subsection 2 of this section in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of seven hundred fifty thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5 of this section.

(5) To each county that received more than twenty-five million dollars but not exceeding thirty million dollars of total allocations under subsection 2 of this section in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of five hundred thousand dollars per fiscal year. The allocation must distributed to school districts within the county pursuant to subdivision b of subsection 5 of this section.

e. (1) For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding ten million dollars per biennium. For purposes of this paragraph, "biennium" means the period beginning September first of each odd-numbered calendar year and ending August thirty-first of the following odd-numbered calendar year.

(2) After August 31, 2019, the state treasurer shall allocate eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding twenty million dollars per fiscal year.

f. (1) For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding four million dollars per fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars.

(2) After August 31, 2019, the state treasurer shall allocate four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding seven million five hundred thousand dollars per fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars.

g. For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate the remaining revenues in the following order:

(1) Up to twenty-five million dollars to the oil and gas impact grant fund.

(2) Any remaining revenues under subsection 3.

h. After August 31, 2019, the state treasurer shall allocate the remaining revenues in the following order:

(1) Up to five million dollars per biennium to the oil and gas impact grant fund. For purposes of this paragraph, "biennium" means the period beginning September first of each odd-numbered calendar year and ending August thirty-first of the following odd-numbered calendar year.

(2) Any remaining revenues under subsection 3.

i. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

2. After deduction of the amount provided in subsection 1 of this section, annual revenue collected under this chapter from oil and gas produced in each county must be allocated as follows:

a. The first five million dollars is allocated to the county.

b. Of all annual revenue exceeding five million dollars, thirty percent is allocated to the county.

3. After the allocations under subsections 1 and 2 of this section, the amount remaining is allocated first to provide for deposit of thirty percent of all revenue collected under this chapter in the legacy fund as provided in section 26 of article X of the Constitution of North Dakota and the remainder must be allocated to the state general fund. If the amount available for a monthly allocation under this subsection is insufficient to deposit thirty percent of all revenue collected under this chapter in the legacy fund, the state treasurer shall transfer the amount of the shortfall from the state general fund share of oil extraction tax collections and deposit that amount in the legacy fund.

4. For a county that received less than five million dollars of allocations under subsection 2 of this section in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, revenues allocated to that county must be distributed at least quarterly by the state treasurer as follows:

   a. Forty-five percent must be distributed to the county treasurer and credited to the county general fund. However, the distribution to a county under this subdivision must be credited to the state general fund if in a taxable year after 2012 the county is not levying a total of at least ten mills for combined levies for county road and bridge, farm-to-market and federal aid road, and county road purposes.

   b. Thirty-five percent must be distributed to school districts within the county on the average daily attendance distribution basis for kindergarten through grade twelve students residing within the county, as certified to the state treasurer by the county superintendent of schools. However, a hub city school district must be omitted from distributions under this subdivision.

   c. Twenty percent must be distributed to the incorporated cities of the county. A hub city must be omitted from distributions under this subdivision. Distributions among cities under this subsection must be based upon the population of each incorporated city according to the last official decennial federal census. In determining the population of any city in which total employment increases by more than two hundred percent seasonally due to tourism, the population of that city for purposes of this subdivision must be increased by eight hundred percent.

   d. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

5. For a county that received five million dollars or more of allocations under subsection 2 of this section in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, revenues allocated to that county must be distributed at least quarterly by the state treasurer as follows:

   a. Sixty percent must be distributed to the county treasurer and credited to the county general fund. However, the distribution to a county under this subdivision must be credited to the state general fund if in a taxable year after 2012 the county is not levying a total of at least ten mills for combined levies for county road and bridge, farm-to-market and federal aid road, and county road purposes.

b. Five percent must be distributed to school districts within the county on the average daily attendance distribution basis for kindergarten through grade twelve students residing within the county, as certified to the state treasurer by the county superintendent of schools. However, a hub city school district must be omitted from distributions under this subdivision.

c. Twenty percent must be distributed to the incorporated cities of the county. A hub city must be omitted from distributions under this subdivision. Distributions among cities under this subsection must be based upon the population of each incorporated city according to the last official decennial federal census. In determining the population of any city in which total employment increases by more than two hundred percent seasonally due to tourism, the population of that city for purposes of this subdivision must be increased by eight hundred percent.

d. ~~Three~~One percent must be allocated among the organized and unorganized townships of the county. The state treasurer shall allocate the funds available under this subdivision among townships in proportion to each township's road miles relative to the total township road miles in the county. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads, which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships.

e. ~~Three~~One percent must be allocated among the organized and unorganized townships in all the counties that received five million dollars or more of allocations under subsection 2 of this section in the most recently completed ~~state~~even-numbered fiscal year. The amount available under this subdivision must be allocated by the state treasurer in an equal amount to each eligible organized and unorganized township. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads, which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships.

f. Four percent must be allocated among the organized and unorganized townships in all the non-oil-producing counties. The amount available under this subdivision must be allocated by the state treasurer in an equal amount to each eligible organized and unorganized township. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads, which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships. For purposes of this subdivision, "non-oil-producing counties" means the counties that received no allocation or a total allocation of less than five million dollars under subsection 2 of this section in the most recently completed even-numbered fiscal year.

g. Nine percent must be distributed among hub cities. Sixty percent of funds available under this subdivision must be distributed to the hub city receiving the highest percentage of allocations to hub cities under subdivision a of subsection 1 for the quarterly period, thirty percent of funds available under this subdivision must be distributed to the hub city receiving the second highest percentage of such allocations, and ten percent of funds available under this subdivision must be distributed to the hub city receiving the third highest percentage of such allocations. Hub cities, which are located in a county that did not receive an allocation under subsection 2 of this section in the most recently completed even-numbered fiscal year, must be excluded from the allocations under this subsection. If fewer than three hub cities are eligible for the allocations under this subdivision, the state treasurer shall allocate the available funds in proportion to the amounts the eligible hub cities received under subdivision a of subsection 1 of this section.

h. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

6. Within thirty days after the end of each calendar year, the board of county commissioners of each county that has received an allocation under this section shall file a report for the calendar year with the commissioner, in a format prescribed by the commissioner, including:

   a. The county's statement of revenues and expenditures;

   b. The county's ending fund balances;

   c. The amounts allocated under this section to the county's general fund, the amounts expended from these allocations, and the purposes of the expenditures; and

   d. The amounts allocated under this section to or for the benefit of townships within the county, the amounts expended from these allocations, and the purposes of the expenditures.

   Within fifteen days after the time when reports under this subsection are due, the commissioner shall provide the reports to the legislative council compiling the information from reports received under this subsection.

7. Within thirty days after the end of each fiscal year ended June thirtieth, each school district that has received an allocation under this section shall file a report for the fiscal year ended June thirtieth with the commissioner, in a format prescribed by the commissioner, including:

   a. The school district's statement of revenue and expenditures;

   b. The school district's ending fund balances; and

   c. The amounts allocated under this section to the school district, the amounts expended from these allocations, and the purposes of the expenditures.

Within fifteen days after the time when reports under this subsection are due, the commissioner shall provide the reports to the legislative council compiling the information from reports received under this subsection.

SECTION 13. DEPARTMENT OF TRUST LANDS - WILLISTON AIRPORT FUNDING REPAYMENTS - DEPOSIT. The city of Williston shall use the proceeds from the sale of the existing Williston airport, excluding any proceeds used to repay the Bank of North Dakota for outstanding loans related to the new airport, for repaying the department of trust lands up to $27,500,000 for a portion of the state's financial assistance provided for the new Williston airport. The department of trust lands shall deposit any funds received under this section in the strategic investment and improvements fund.

SECTION 14. LEGISLATIVE INTENT - HUB CITY BONDING. It is the intent of the sixty-fifth legislative assembly that during the period beginning July 1, 2017, and ending June 30, 2019, hub cities, as defined in section 57-51-01, not issue any new bonds based on anticipated future hub city oil tax revenue allocations under section 57-51-01.

SECTION 15. LEGISLATIVE INTENT - AGENCY EFFICIENCIES. It is the intent of the sixty-fifth legislative assembly that during the 2017-18 interim, the governor and the commissioner of university and school lands achieve efficiencies and budgetary savings within the department of trust lands through the use of innovative ideas and through alternative solutions relating to information technology.

SECTION 16. LEGISLATIVE INTENT - ENCOURAGEMENT OF ENERGY INFRASTRUCTURE INVESTMENT - COMMISSIONER OF UNIVERSITY AND SCHOOL LANDS - USE OF TERMS. It is the intent of the sixty-fifth legislative assembly that the state of North Dakota encourage the continued development of energy infrastructure that will help reduce instances of natural gas flaring and increase the market value received for oil and gas produced within the state generally and from state-owned lands specifically, which will increase the value of royalties paid to the funds under the control of the board of university and school lands. Consistent with this intent, the commissioner of university and school lands shall continue to interpret the terms "gross production," "market value," and "gross proceeds of sale" in its lease form to mean a value determined at the producing well or associated production facility, or in the surrounding field or area, where the oil and gas was produced, prior to any post-production activities undertaken by the lessee, operator, or purchaser after the oil and gas has been transported from the producing well and associated production facility. These values must be determined by the amount received by the lessee in an arm's length contract, or in the absence of an arm's length contract, either a comparable sales method or a work-back calculation methodology consistent with state law.

SECTION 17. LEGISLATIVE MANAGEMENT STUDY - OIL AND GAS TAX REVENUE ALLOCATIONS TO HUB CITIES AND HUB CITY SCHOOL DISTRICTS.

1. During the 2017-18 interim, the legislative management shall consider studying oil and gas tax revenue allocations to hub cities and hub city school districts. The study must include consideration of the following:

    a. The current and historical oil and gas tax revenue allocations to hub cities and hub city school districts.

    b. Other state funding provided to hub cities and hub city school districts, including grants from the oil and gas impact grant fund, distributions from the strategic investment and improvements fund, state school aid payments, and payments from the state aid distribution fund and highway tax distribution fund.

c. Local taxing and revenue levels in hub cities compared to cities in non-oil-producing counties, including mill levies, property tax values, local sales and use taxes, and other revenue sources.

d. The appropriate level of oil and gas tax revenue allocations to hub cities and hub city school districts based on infrastructure and other needs.

e. The estimated fiscal impact to hub cities, hub city school districts, other political subdivisions, and the state if the oil and gas tax revenue allocation formula would be changed to transition hub cities and hub city school districts from allocations under subsection 1 of section 57-51-15 to allocations under subsections 4 and 5 of section 57-51-15.

f. The estimated fiscal impact to hub cities, hub city school districts, other political subdivisions, and the state if the oil and gas tax revenue allocation formula would be changed to discontinue the allocations to hub cities and hub city school districts under subsection 1 of section 57-51-15.

2. The membership of the committee assigned the responsibility of the study must proportionately reflect the state's population distribution between oil-producing counties and non-oil-producing counties and must include members from the finance and taxation committees and the appropriations committees.

3. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-sixth legislative assembly.

SECTION 18. EFFECTIVE DATE. Sections 11 and 12 of this Act are effective for taxable events occurring after June 30, 2017."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2013 - Department of Trust Lands - House Action

	Base Budget	Senate Version	House Changes	House Version
Salaries and wages	$6,123,516	$6,218,736	($390,266)	$5,828,470
Operating expenses	2,019,637	1,775,723	(23,025)	1,752,698
Capital assets		5,250,000	(5,250,000)	
Grants	99,300,000		40,000,000	40,000,000
Energy Infrastructure and Impact Office	700,000	220,717		220,717
Contingencies	100,000	100,000		100,000
Total all funds	$108,243,153	$13,565,176	$34,336,709	$47,901,885
Less estimated income	108,243,153	13,565,176	34,336,709	47,901,885
General fund	$0	$0	$0	$0
FTE	33.00	32.00	(2.00)	30.00

Department No. 226 - Department of Trust Lands - Detail of House Changes

	Adjusts Funding for Health Insurance Increases[1]	Removes Funding for FTE Positions[2]	Removes Funding for an Information Technology Project[3]	Adds Funding for Grants[4]	Total House Changes
Salaries and wages	($6,636)	($383,630)			($390,266)
Operating expenses		(23,025)			(23,025)
Capital assets			(5,250,000)		(5,250,000)
Grants				40,000,000	40,000,000
Energy Infrastructure and Impact Office					
Contingencies					
Total all funds	($6,636)	($406,655)	($5,250,000)	$40,000,000	$34,336,709
Less estimated income	(6,636)	(406,655)	(5,250,000)	40,000,000	34,336,709
General fund	$0	$0	$0	$0	$0
FTE	0.00	(2.00)	0.00	0.00	(2.00)

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[1] Funding for employee health insurance is adjusted to reflect the updated premium amount of $1,241 per month.

[2] Funding is removed as follows:

- $200,105 is removed for a geographic information system position, which was added by the Senate. Of the $200,105, $177,080 relates to salaries and wages, and $23,025 relates to operating expenses.
- $206,550 is removed for a project manager position.

[3] One-time funding of $5.25 million is removed for an information technology project. The Senate added this funding.

[4] One-time funding of $25 million is added from the oil and gas impact grant fund for grants to the Williston airport ($20 million) and the Dickinson airport ($5 million). One-time funding of $15 million is added from the strategic investment and improvements fund for a grant to the Williston airport.

This amendment also:

- Identifies the health insurance increase.
- Provides an exemption to allow an unspent grant to a flood-impacted political subdivision to be available in the 2017-19 biennium.
- Identifies $25 million from the oil and gas impact grant fund for an oil impact grant of $20 million to the Williston airport and a grant of $5 million to the Dickinson airport. This funding is available to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project.
- Identifies $15 million from the strategic investment and improvements fund for a grant to the Williston airport. This funding is available to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project.
- Amends the oil and gas tax revenue allocation formulas (see the table below) and provides an effective date related to the formula changes.
- Provides that the city of Williston use the proceeds from the sale of the existing airport, up to $27.5 million, to repay the Department of Trust Lands for the state's financial assistance provided for the new airport.
- Provides a statement of legislative intent that hub cities not issue new bonds during the 2017-19 biennium based on anticipated future hub city oil tax revenue allocations.
- Provides a statement of legislative intent regarding efficiencies within the Department of Trust Lands.

- Provides a statement of legislative intent regarding the calculation of mineral royalties.
- Provides for a Legislative Management study by a committee with proportional geographic representation and members of the Finance and Taxation and Appropriations Committees regarding the oil and gas tax revenue allocations to hub cities and hub city school districts.

Senate Bill No. 2013 - Other Changes - House Action

Current Law	Proposed Changes
Hub city definition • After August 31, 2017, a hub city is based on mining employment.	Hub city definition • No change to current law.
Hub city and hub city school district allocations • Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment. • Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment. • Hub city school districts receive an annual allocation of $125,000 per full or partial percentage point of mining employment, excluding hub city school districts located in non-oil-producing counties.	Hub city and hub city school district allocations • Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment exceeding 2 percent. • Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment exceeding 2 percent. • Hub city school districts in oil-producing counties receive an annual allocation of $125,000 per full or partial percentage point of mining employment exceeding 2 percent.
Supplemental school district allocation • Eligible counties receive an annual allocation of $1.5 million for distributions to school districts in the county.	Supplemental school district allocation • Changes the annual allocation to provide a specific amount based on the oil and gas tax allocations received by the county in the most recently completed even-numbered fiscal year. The specific amounts range from $500,000 to $1.5 million per year.
North Dakota outdoor heritage fund allocations • From the 1 percent of the 5 percent oil and gas gross production tax, 8 percent is allocated to the North Dakota outdoor heritage fund, up to $20 million per fiscal year.	North Dakota outdoor heritage fund allocations • Decreases the amount allocated to the North Dakota outdoor heritage fund by changing the limit from $20 million per fiscal year to $10 million for the 2017-19 biennium.
Abandoned oil and gas well plugging and site reclamation fund allocations • From the 1 percent of the 5 percent oil and gas gross production tax, 4 percent is allocated to the abandoned oil and gas well plugging and site reclamation fund, up to $7.5 million per fiscal year.	Abandoned oil and gas well plugging and site reclamation fund allocations • Decreases the amount allocated to the abandoned oil and gas well plugging and site reclamation fund by changing the limit from $7.5 million per fiscal year to $4 million per fiscal year for the 2017-19 biennium.
Oil and gas impact grant fund allocations • Up to $100 million per biennium is allocated to the oil and gas impact grant fund.	Oil and gas impact grant fund allocations • Decreases the allocation to the oil and gas impact grant fund from $100 million per biennium to $25 million per biennium for the 2017-19 biennium and provides an allocation of $5 million per biennium to the oil and gas impact grant fund after the 2017-19 biennium.
Distributions to political subdivisions • The distributions to political subdivisions in North Dakota Century Code Sections 57-51-15(4) and 57-51-15(5) are based on the oil and gas tax allocations received by a county in fiscal year 2014.	Distributions to political subdivisions • Changes the basis for the distributions to political subdivisions in Sections 57-51-15(4) and 57-51-15(5) to reflect the oil and gas tax allocations received by a county in the most recently completed even-numbered fiscal year rather than fiscal year 2014.
• From the 4 percent of the 5 percent oil and gas gross production tax, 30 percent of all revenue above $5 million is allocated to the county with the remaining 70 percent allocated to the state.	• No change to current law.
• The distributions to political subdivisions are as follows:	• The proposed changes to the distributions to political subdivisions are as follows:

Current law:

	Counties - Less Than $5 Million	Counties - $5 Million Or More
County general fund	45%	60%
Cities	20%	20%
Schools	35%	5%
Townships (equal)		3%
Townships (road miles)		3%
Hub cities		9%

Proposed changes:

	Counties - Less Than $5 Million	Counties - $5 Million Or More
County general fund	45%	60%
Cities	20%	20%
Schools	35%	5%
Townships (equal)		1%
Townships (road miles)		1%

Townships (non-oil)		4%
Hub cities		9%

• From the counties' share in counties that received $5 million or more of oil and gas tax allocations, 9 percent is distributed to the three hub cities with the highest percentage of mining employment.	• Clarifies the distribution to hub cities to exclude hub cities that are located in non-oil-producing counties and to provide proportional allocations if less than three hub cities qualify for the distributions.

Prepared by the Legislative Council staff for
Representative Streyle
March 31, 2017

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2013

Page 1, line 2, after the first semicolon insert "to amend and reenact section 15-01-01 of the North Dakota Century Code, relating to advisory members of the board of university and school lands;"

Page 3, after line 23, insert:

"**SECTION 7. AMENDMENT.** Section 15-01-01 of the North Dakota Century Code is amended and reenacted as follows:

15-01-01. Board - Membership - Officers.

The governor, secretary of state, state treasurer, attorney general, and superintendent of public instruction shall constitute the "board of university and school lands". The governor must be the chairman, the secretary of state must be the vice chairman, and the commissioner of university and school lands must be the secretary of the board. In the absence of the commissioner at any meeting of the board, the deputy commissioner of university and school lands shall act as secretary. When acting as the board of university and school lands, the members of the board shall act in person and may not be represented by any assistant, clerk, or deputy. <u>The speaker of the house and the president pro tempore of the senate each shall appoint one individual to serve as an adviser to the board. The adviser may attend and participate in all meetings of the board, but may not vote.</u>"

Renumber accordingly

17.0521.02014
Title.03000
Fiscal No. 3

Prepared by the Legislative Council staff for
House Appropriations Committee
April 6, 2017

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2013

Page 1, line 3, replace "and to provide an exemption" with "to amend and reenact section 15-01-01, subsection 5 of section 57-51-01, and section 57-51-15 of the North Dakota Century Code, relating to oil and gas gross production tax definitions and allocations; to provide for funding repayments; to provide exemptions; to provide for reports; to provide statements of legislative intent; to provide for a legislative management study; and to provide an effective date"

Page 1, line 7, after the first comma insert "the strategic investment and improvements fund,"

Page 1, replace lines 13 through 20 with:

"Salaries and wages	$6,123,516	($295,046)	$5,828,470
Operating expenses	2,019,637	(266,939)	1,752,698
Grants	99,300,000	(59,300,000)	40,000,000
Contingencies	100,000	0	100,000
Energy infrastructure and impact office	700,000	(479,283)	220,717
Total special funds	$108,243,153	($60,341,268)	$47,901,885
Full-time equivalent positions	33.00	(3.00)	30.00

SECTION 2. HEALTH INSURANCE INCREASE. The appropriation in section 1 of this Act includes $89,948 from special funds for increases in employee health insurance premiums from $1,130 to $1,241 per month."

Page 2, replace lines 2 and 3 with:

"Oil and gas impact grants - airports	$0	$25,000,000
Other grants - airports	0	15,000,000
Total special funds	$0	$40,000,000"

Page 3, after line 23, insert:

"**SECTION 8. EXEMPTION - FLOOD-IMPACTED POLITICAL SUBDIVISION INFRASTRUCTURE DEVELOPMENT GRANTS.** Up to $1,325,500 appropriated from the general fund in section 10 of chapter 579 of the 2011 Session Laws for flood-impacted political subdivision infrastructure development grants, which was awarded but not yet reimbursed to the city of Minot for a landfill expansion project, is not subject to section 54-44.1-11, and any unexpended funds are available to reimburse the city of Minot during the biennium beginning July 1, 2017, and ending June 30, 2019.

SECTION 9. OIL AND GAS IMPACT GRANT FUND - AIRPORT GRANTS. The grants line item and the total special funds line item in section 1 of this Act include the sum of $25,000,000 from the oil and gas impact grant fund for grants to airports, for the biennium beginning July 1, 2017, and ending June 30, 2019. Of the $25,000,000, the board of university and school lands shall award a grant of $20,000,000 to the Williston airport and a grant of $5,000,000 to the Dickinson airport. A grant may be awarded to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

SECTION 10. STRATEGIC INVESTMENT AND IMPROVEMENTS FUND - WILLISTON AIRPORT GRANT. The grants line item and the total special funds line item in section 1 of this Act include the sum of $15,000,000 from the strategic investment and improvements fund for a grant to the Williston airport, for the biennium beginning July 1, 2017, and ending June 30, 2019. A grant may be awarded to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

SECTION 11. AMENDMENT. Section 15-01-01 of the North Dakota Century Code is amended and reenacted as follows:

15-01-01. Board - Membership - Officers.

The governor, secretary of state, state treasurer, attorney general, and superintendent of public instruction shall constitute the "board of university and school lands". The governor must be the chairman, the secretary of state must be the vice chairman, and the commissioner of university and school lands must be the secretary of the board. In the absence of the commissioner at any meeting of the board, the deputy commissioner of university and school lands shall act as secretary. When acting as the board of university and school lands, the members of the board shall act in person and may not be represented by any assistant, clerk, or deputy. <u>The speaker of the house and the president pro tempore of the senate each shall appoint one individual to advise the board. The individual appointed to advise the board may attend and participate in all meetings of the board, but may not vote.</u>

SECTION 12. AMENDMENT. Subsection 5 of section 57-51-01 of the North Dakota Century Code is amended and reenacted as follows:

5. "Hub city" means~~, for the period beginning September 1, 2015, and ending August 31, 2017, a city with a population of twelve thousand five hundred or more, according to the last official decennial federal census, which has more than one percent of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota. "Hub city" means, after August 31, 2017,~~ a city with a population of twelve thousand five hundred or more, according to the last official decennial federal census, which has more than one percent of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota.

SECTION 13. AMENDMENT. Section 57-51-15 of the North Dakota Century Code is amended and reenacted as follows:

57-51-15. Gross production tax allocation.

The gross production tax must be allocated monthly as follows:

1. ~~First the~~<u>The</u> tax revenue collected under this chapter equal to one percent of the gross value at the well of the oil and one-fifth of the tax on gas must be deposited with the state treasurer ~~who shall~~<u>. The state treasurer shall allocate the funding in the following order</u>:

   a. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city, which is located in a county that received an allocation under subsection 2, a monthly amount that will~~

~~provide a total allocation of three hundred seventy-five thousand dollars per fiscal year for each full or partial percentage point of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city, which is located in a county that received an allocation under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of three hundred seventy-five thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~;~~.

b. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city, which is located in a county that did not receive an allocation under subsection 2, a monthly amount that will provide a total allocation of two hundred fifty thousand dollars per fiscal year for each full or partial percentage point of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city, which is located in a county that did not receive an allocation under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of two hundred fifty thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~;~~.

c. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city school district, which is located in a county that received an allocation under subsection 2, a monthly amount that will provide a total allocation of one hundred twenty-five thousand dollars per fiscal year for each full or partial percentage point of the hub city's private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city school district, which is located in a county that received an allocation under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one hundred twenty-five thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of the hub city's private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~, provided that hub~~. Hub city school districts, which are located in a county that did not receive an allocation under subsection 2 in the most recently completed even-numbered fiscal year, must be excluded from the allocations under this subdivision~~;~~.

d. ~~Allocate to~~To each county that received more than five million dollars but less than thirty million dollars of total allocations under subsection 2 in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, the state treasurer shall allocate a monthly amount that will ~~provide a total allocation of one million five hundred thousand dollars per fiscal year to be added by the state treasurer~~be added to the allocations to school districts under subdivision b of subsection 5~~;~~

~~e.~~ ~~Credit revenues to the oil and gas impact grant fund, but not in an amount exceeding one hundred forty million dollars per biennium for the 2015-17 biennium, and not in an amount exceeding one hundred million dollars per biennium thereafter;~~

~~f.~~ ~~Credit eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding twenty million dollars in a state fiscal year and not in an amount exceeding forty million dollars per biennium;~~

~~g.~~ ~~Credit four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding seven million five hundred thousand dollars in a state fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars; and~~

~~h.~~ ~~Allocate the remaining revenues under subsection 3~~ as follows:

(1) To each county that received more than five million dollars but not exceeding ten million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million five hundred thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(2) To each county that received more than ten million dollars but not exceeding fifteen million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million two hundred fifty thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(3) To each county that received more than fifteen million dollars but not exceeding twenty million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(4) To each county that received more than twenty million dollars but not exceeding twenty-five million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of seven hundred fifty thousand dollars per fiscal year. The allocation

must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(5) To each county that received more than twenty-five million dollars but not exceeding thirty million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of five hundred thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

e. (1) For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding ten million dollars per biennium. For purposes of this paragraph, "biennium" means the period beginning September first of each odd-numbered calendar year and ending August thirty-first of the following odd-numbered calendar year.

(2) After August 31, 2019, the state treasurer shall allocate eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding twenty million dollars per fiscal year.

f. (1) For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding four million dollars per fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars.

(2) After August 31, 2019, the state treasurer shall allocate four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding seven million five hundred thousand dollars per fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars.

g. For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate the remaining revenues in the following order:

(1) Up to twenty-five million dollars to the oil and gas impact grant fund.

(2) Any remaining revenues under subsection 3.

h. After August 31, 2019, the state treasurer shall allocate the remaining revenues in the following order:

(1) Up to five million dollars per biennium to the oil and gas impact grant fund. For purposes of this paragraph, "biennium" means the period beginning September first of each odd-numbered

calendar year and ending August thirty-first of the following odd-numbered calendar year.

(2) Any remaining revenues under subsection 3.

i. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

2. After deduction of the amount provided in subsection 1, annual revenue collected under this chapter from oil and gas produced in each county must be allocated as follows:

   a. The first five million dollars is allocated to the county.

   b. Of all annual revenue exceeding five million dollars, thirty percent is allocated to the county.

3. After the allocations under subsections 1 and 2, the amount remaining is allocated first to provide for deposit of thirty percent of all revenue collected under this chapter in the legacy fund as provided in section 26 of article X of the Constitution of North Dakota and the remainder must be allocated to the state general fund. If the amount available for a monthly allocation under this subsection is insufficient to deposit thirty percent of all revenue collected under this chapter in the legacy fund, the state treasurer shall transfer the amount of the shortfall from the state general fund share of oil extraction tax collections and deposit that amount in the legacy fund.

4. For a county that received less than five million dollars of allocations under subsection 2 in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, revenues allocated to that county must be distributed at least quarterly by the state treasurer as follows:

   a. Forty-five percent must be distributed to the county treasurer and credited to the county general fund. However, the distribution to a county under this subdivision must be credited to the state general fund if in a taxable year after 2012 the county is not levying a total of at least ten mills for combined levies for county road and bridge, farm-to-market and federal aid road, and county road purposes.

   b. Thirty-five percent must be distributed to school districts within the county on the average daily attendance distribution basis for kindergarten through grade twelve students residing within the county, as certified to the state treasurer by the county superintendent of schools. However, a hub city school district must be omitted from distributions under this subdivision.

   c. Twenty percent must be distributed to the incorporated cities of the county. A hub city must be omitted from distributions under this subdivision. Distributions among cities under this subsection must be based upon the population of each incorporated city according to the last official decennial federal census. In determining the population of any city in which total employment increases by more than two hundred percent seasonally due to tourism, the population of that city for purposes of this subdivision must be increased by eight hundred percent.

d. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

5. For a county that received five million dollars or more of allocations under subsection 2 in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, revenues allocated to that county must be distributed at least quarterly by the state treasurer as follows:

   a. Sixty percent must be distributed to the county treasurer and credited to the county general fund. However, the distribution to a county under this subdivision must be credited to the state general fund if in a taxable year after 2012 the county is not levying a total of at least ten mills for combined levies for county road and bridge, farm-to-market and federal aid road, and county road purposes.

   b. Five percent must be distributed to school districts within the county on the average daily attendance distribution basis for kindergarten through grade twelve students residing within the county, as certified to the state treasurer by the county superintendent of schools. However, a hub city school district must be omitted from distributions under this subdivision.

   c. Twenty percent must be distributed to the incorporated cities of the county. A hub city must be omitted from distributions under this subdivision. Distributions among cities under this subsection must be based upon the population of each incorporated city according to the last official decennial federal census. In determining the population of any city in which total employment increases by more than two hundred percent seasonally due to tourism, the population of that city for purposes of this subdivision must be increased by eight hundred percent.

   d. ~~Three~~One percent must be allocated among the organized and unorganized townships of the county. The state treasurer shall allocate the funds available under this subdivision among townships in proportion to each township's road miles relative to the total township road miles in the county. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads, which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships.

   e. ~~Three~~One percent must be allocated among the organized and unorganized townships in all the counties that received five million dollars or more of allocations under subsection 2 in the most recently completed ~~state~~even-numbered fiscal year. The amount available under this subdivision must be allocated by the state treasurer in an equal amount to each eligible organized and unorganized township. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads, which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships.

f. Four percent must be allocated among the organized and unorganized townships in all the non-oil-producing counties. The amount available under this subdivision must be allocated by the state treasurer in an equal amount to each eligible organized and unorganized township. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships. For purposes of this subdivision, "non-oil-producing counties" means the counties that received no allocation or a total allocation of less than five million dollars under subsection 2 in the most recently completed even-numbered fiscal year.

g. Nine percent must be distributed among hub cities. Sixty percent of funds available under this subdivision must be distributed to the hub city receiving the highest percentage of allocations to hub cities under subdivision a of subsection 1 for the quarterly period, thirty percent of funds available under this subdivision must be distributed to the hub city receiving the second highest percentage of such allocations, and ten percent of funds available under this subdivision must be distributed to the hub city receiving the third highest percentage of such allocations. Hub cities, which are located in a county that did not receive an allocation under subsection 2 in the most recently completed even-numbered fiscal year, must be excluded from the allocations under this subsection. If fewer than three hub cities are eligible for the allocations under this subdivision, the state treasurer shall allocate the available funds in proportion to the amounts the eligible hub cities received under subdivision a of subsection 1.

h. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

6. Within thirty days after the end of each calendar year, the board of county commissioners of each county that has received an allocation under this section shall file a report for the calendar year with the commissioner, in a format prescribed by the commissioner, including:

   a. The county's statement of revenues and expenditures;

   b. The county's ending fund balances;

   c. The amounts allocated under this section to the county's general fund, the amounts expended from these allocations, and the purposes of the expenditures; and

   d. The amounts allocated under this section to or for the benefit of townships within the county, the amounts expended from these allocations, and the purposes of the expenditures.

   Within fifteen days after the time when reports under this subsection are due, the commissioner shall provide the reports to the legislative council compiling the information from reports received under this subsection.

7. Within thirty days after the end of each fiscal year ended June thirtieth, each school district that has received an allocation under this section shall file a report for the fiscal year ended June thirtieth with the commissioner, in a format prescribed by the commissioner, including:

   a. The school district's statement of revenue and expenditures;

   b. The school district's ending fund balances; and

   c. The amounts allocated under this section to the school district, the amounts expended from these allocations, and the purposes of the expenditures.

   Within fifteen days after the time when reports under this subsection are due, the commissioner shall provide the reports to the legislative council compiling the information from reports received under this subsection.

SECTION 14. DEPARTMENT OF TRUST LANDS - WILLISTON AIRPORT FUNDING REPAYMENTS - DEPOSIT. The city of Williston shall use the proceeds from the sale of the existing Williston airport, excluding any proceeds used to repay the Bank of North Dakota for outstanding loans related to the new airport, for repaying the department of trust lands up to $27,500,000 for a portion of the state's financial assistance provided for the new Williston airport. The department of trust lands shall deposit any funds received under this section in the strategic investment and improvements fund.

SECTION 15. LEGISLATIVE INTENT - HUB CITY BONDING. It is the intent of the sixty-fifth legislative assembly that during the period beginning July 1, 2017, and ending June 30, 2019, hub cities, as defined in section 57-51-01, not issue any new bonds based on anticipated future hub city oil tax revenue allocations under section 57-51-01.

SECTION 16. LEGISLATIVE INTENT - AGENCY EFFICIENCIES. It is the intent of the sixty-fifth legislative assembly that during the 2017-18 interim, the governor and the commissioner of university and school lands achieve efficiencies and budgetary savings within the department of trust lands through the use of innovative ideas and through alternative solutions relating to information technology.

SECTION 17. LEGISLATIVE INTENT - ENCOURAGEMENT OF ENERGY INFRASTRUCTURE INVESTMENT - COMMISSIONER OF UNIVERSITY AND SCHOOL LANDS - USE OF TERMS. It is the intent of the sixty-fifth legislative assembly that the state of North Dakota encourage the continued development of energy infrastructure that will help reduce instances of natural gas flaring and increase the market value received for oil and gas produced within the state generally and from state-owned lands specifically which will increase the value of royalties paid to the funds under the control of the board of university and school lands. Consistent with this intent, the commissioner of university and school lands shall continue to interpret the terms "gross production," "market value," and "gross proceeds of sale" in its lease form to mean a value determined at the producing well or associated production facility, or in the surrounding field or area, where the oil and gas was produced, before any post-production activities undertaken by the lessee, operator, or purchaser after the oil and gas has been transported from the producing well and associated production facility. These values must be determined by the amount received by the lessee in an arm's length contract, or in the absence of an arm's length contract, either a comparable sales method or a work-back calculation methodology consistent with state law.

SECTION 18. LEGISLATIVE MANAGEMENT STUDY - OIL AND GAS TAX REVENUE ALLOCATIONS TO HUB CITIES AND HUB CITY SCHOOL DISTRICTS.

1. During the 2017-18 interim, the legislative management shall consider studying oil and gas tax revenue allocations to hub cities and hub city school districts. The study must include consideration of the following:

   a. The current and historical oil and gas tax revenue allocations to hub cities and hub city school districts.

   b. Other state funding provided to hub cities and hub city school districts, including grants from the oil and gas impact grant fund, distributions from the strategic investment and improvements fund, state school aid payments, and payments from the state aid distribution fund and highway tax distribution fund.

   c. Local taxing and revenue levels in hub cities compared to cities in non-oil-producing counties, including mill levies, property tax values, local sales and use taxes, and other revenue sources.

   d. The appropriate level of oil and gas tax revenue allocations to hub cities and hub city school districts based on infrastructure and other needs.

   e. The estimated fiscal impact to hub cities, hub city school districts, other political subdivisions, and the state if the oil and gas tax revenue allocation formula would be changed to transition hub cities and hub city school districts from allocations under subsection 1 of section 57-51-15 to allocations under subsections 4 and 5 of section 57-51-15.

   f. The estimated fiscal impact to hub cities, hub city school districts, other political subdivisions, and the state if the oil and gas tax revenue allocation formula would be changed to discontinue the allocations to hub cities and hub city school districts under subsection 1 of section 57-51-15.

2. The membership of the committee assigned the responsibility of the study must proportionately reflect the state's population distribution between oil-producing counties and non-oil-producing counties and must include members from the finance and taxation committees and the appropriations committees.

3. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-sixth legislative assembly.

SECTION 19. EFFECTIVE DATE. Sections 12 and 13 of this Act are effective for taxable events occurring after June 30, 2017."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2013 - Department of Trust Lands - House Action

	Base Budget	Senate Version	House Changes	House Version
Salaries and wages	$6,123,516	$6,218,736	($390,266)	$5,828,470
Operating expenses	2,019,637	1,775,723	(23,025)	1,752,698
Capital assets		5,250,000	(5,250,000)	
Grants	99,300,000		40,000,000	40,000,000
Energy Infrastructure and Impact Office	700,000	220,717		220,717
Contingencies	100,000	100,000		100,000
Total all funds	$108,243,153	$13,565,176	$34,336,709	$47,901,885
Less estimated income	108,243,153	13,565,176	34,336,709	47,901,885
General fund	$0	$0	$0	$0
FTE	33.00	32.00	(2.00)	30.00

Department No. 226 - Department of Trust Lands - Detail of House Changes

	Adjusts Funding for Health Insurance Increases[1]	Removes Funding for FTE Positions[2]	Removes Funding for an Information Technology Project[3]	Adds Funding for Grants[4]	Total House Changes
Salaries and wages	($6,636)	($383,630)			($390,266)
Operating expenses		(23,025)			(23,025)
Capital assets			(5,250,000)		(5,250,000)
Grants				40,000,000	40,000,000
Energy Infrastructure and Impact Office					
Contingencies					
Total all funds	($6,636)	($406,655)	($5,250,000)	$40,000,000	$34,336,709
Less estimated income	(6,636)	(406,655)	(5,250,000)	40,000,000	34,336,709
General fund	$0	$0	$0	$0	$0
FTE	0.00	(2.00)	0.00	0.00	(2.00)

[1] Funding for employee health insurance is adjusted to reflect the updated premium amount of $1,241 per month.

[2] Funding is removed as follows:

- $200,105 is removed for a geographic information system position, which was added by the Senate. Of the $200,105, $177,080 relates to salaries and wages, and $23,025 relates to operating expenses.
- $206,550 is removed for a project manager position.

[3] One-time funding of $5.25 million is removed for an information technology project. The Senate added this funding.

[4] One-time funding of $25 million is added from the oil and gas impact grant fund for grants to the Williston airport ($20 million) and the Dickinson airport ($5 million). One-time funding of $15 million is added from the strategic investment and improvements fund for a grant to the Williston airport.

This amendment also:

- Identifies the health insurance increase.
- Provides an exemption to allow an unspent grant to a flood-impacted political subdivision to be available in the 2017-19 biennium.
- Identifies $25 million from the oil and gas impact grant fund for an oil impact grant of $20 million to the Williston airport and a grant of $5 million to the Dickinson airport. This funding is available

to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project.

- Identifies $15 million from the strategic investment and improvements fund for a grant to the Williston airport. This funding is available to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project.
- Adds two advisory members that are appointed by the Speaker of the House and the President Pro Tempore to the board of university and school lands.
- Amends the oil and gas tax revenue allocation formulas (see the table below) and provides an effective date related to the formula changes.
- Provides that the city of Williston use the proceeds from the sale of the existing airport, up to $27.5 million, to repay the Department of Trust Lands for the state's financial assistance provided for the new airport.
- Provides a statement of legislative intent that hub cities not issue new bonds during the 2017-19 biennium based on anticipated future hub city oil tax revenue allocations.
- Provides a statement of legislative intent regarding efficiencies within the Department of Trust Lands.
- Provides a statement of legislative intent regarding the calculation of mineral royalties.
- Provides for a Legislative Management study by a committee with proportional geographic representation and members of the Finance and Taxation and Appropriations Committees regarding the oil and gas tax revenue allocations to hub cities and hub city school districts.

Senate Bill No. 2013 - Other Changes - House Action

Current Law	Proposed Changes
Hub city definition •After August 31, 2017, a hub city is based on mining employment.	**Hub city definition** •No change to current law.
Hub city and hub city school district allocations •Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment. •Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment. •Hub city school districts receive an annual allocation of $125,000 per full or partial percentage point of mining employment, excluding hub city school districts located in non-oil-producing counties.	**Hub city and hub city school district allocations** •Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment exceeding 2 percent. •Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment exceeding 2 percent. •Hub city school districts in oil-producing counties receive an annual allocation of $125,000 per full or partial percentage point of mining employment exceeding 2 percent.
Supplemental school district allocation •Eligible counties receive an annual allocation of $1.5 million for distributions to school districts in the county.	**Supplemental school district allocation** •Changes the annual allocation to provide a specific amount based on the oil and gas tax allocations received by the county in the most recently completed even-numbered fiscal year. The specific amounts range from $500,000 to $1.5 million per year.
North Dakota outdoor heritage fund allocations •From the 1 percent of the 5 percent oil and gas gross production tax, 8 percent is allocated to the North Dakota outdoor heritage fund, up to $20 million per fiscal year.	**North Dakota outdoor heritage fund allocations** •Decreases the amount allocated to the North Dakota outdoor heritage fund by changing the limit from $20 million per fiscal year to $10 million for the 2017-19 biennium.
Abandoned oil and gas well plugging and site reclamation fund allocations •From the 1 percent of the 5 percent oil and gas gross production tax, 4 percent is allocated to the abandoned oil and gas well plugging and site reclamation fund, up to $7.5 million per fiscal year.	**Abandoned oil and gas well plugging and site reclamation fund allocations** •Decreases the amount allocated to the abandoned oil and gas well plugging and site reclamation fund by changing the limit from $7.5 million per fiscal year to $4 million per fiscal year for the 2017-19 biennium.
Oil and gas impact grant fund allocations •Up to $100 million per biennium is allocated to the oil and gas impact grant fund.	**Oil and gas impact grant fund allocations** •Decreases the allocation to the oil and gas impact grant fund from $100 million per biennium to $25 million per biennium for the 2017-19 biennium and provides an allocation of $5 million per biennium to the oil and gas impact grant fund after the 2017-19 biennium.

4/7/17 DA
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Distributions to political subdivisions

- The distributions to political subdivisions in North Dakota Century Code Sections 57-51-15(4) and 57-51-15(5) are based on the oil and gas tax allocations received by a county in fiscal year 2014.
- From the 4 percent of the 5 percent oil and gas gross production tax, 30 percent of all revenue above $5 million is allocated to the county with the remaining 70 percent allocated to the state.
- The distributions to political subdivisions are as follows:

	Counties - Less Than $5 Million	Counties - $5 Million Or More
County general fund	45%	60%
Cities	20%	20%
Schools	35%	5%
Townships (equal)		3%
Townships (road miles)		3%
Hub cities		9%

- From the counties' share in counties that received $5 million or more of oil and gas tax allocations, 9 percent is distributed to the three hub cities with the highest percentage of mining employment.

Distributions to political subdivisions

- Changes the basis for the distributions to political subdivisions in Sections 57-51-15(4) and 57-51-15(5) to reflect the oil and gas tax allocations received by a county in the most recently completed even-numbered fiscal year rather than fiscal year 2014.
- No change to current law.
- The proposed changes to the distributions to political subdivisions are as follows:

	Counties - Less Than $5 Million	Counties - $5 Million Or More
County general fund	45%	60%
Cities	20%	20%
Schools	35%	5%
Townships (equal)		1%
Townships (road miles)		1%
Townships (non-oil)		4%
Hub cities		9%

- Clarifies the distribution to hub cities to exclude hub cities that are located in non-oil-producing counties and to provide proportional allocations if less than three hub cities qualify for the distributions.

Date: 04/05/17
Roll Call Vote #: 1

**2017 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB2013**

House Appropriations - Government Operations Division Committee

☐ Subcommittee

Amendment LC# or Description: Encouragement of energy infrastructure

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 Representative Kempenich Seconded By Representative Nathe

Representatives	Yes	No	Representatives	Yes	No
Chairman Brandenburg	X		Representative Delmore		X
Vice Chairman Boehning	X				
Representative Brabandt	X				
Representative Nathe	X				
Representative Kempenich	X				
Representative Vigesaa		X			

Total Yes 5 No 2

Absent 0

Floor Assignment ____________

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

Date: 04/06/17
Roll Call Vote #: 1

2017 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB2013

House Appropriations - Government Operations Division Committee

☐ Subcommittee

Amendment LC# or Description: 17.0521.02011

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 Representative Nathe Seconded By Representative Kempenich

Representatives	Yes	No	Representatives	Yes	No
Chairman Brandenburg	X		Representative Delmore	X	
Vice Chairman Boehning		X			
Representative Brabandt	X				
Representative Nathe	X				
Representative Kempenich	X				
Representative Vigesaa	X				

Total Yes 6 No 1

Absent 0

Floor Assignment ____________

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

Date: 04/06/17
Roll Call Vote #: 2

2017 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB2013

House Appropriations - Government Operations Division Committee

☐ Subcommittee

Amendment LC# or Description: 17.0521.02009

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 Representative Kempenich Seconded By Representative Nathe

Representatives	Yes	No	Representatives	Yes	No
Chairman Brandenburg	X		Representative Delmore	X	
Vice Chairman Boehning	X				
Representative Brabandt	X				
Representative Nathe	X				
Representative Kempenich	X				
Representative Vigesaa	X				

Total Yes 7 No 0

Absent 0

Floor Assignment

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

Date: 4/6/17
Roll Call Vote #: 3

2017 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB2013

House Appropriations - Government Operations Division 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 Representative Kempenich Seconded By Representative Brabandt

Representatives	Yes	No	Representatives	Yes	No
Chairman Brandenburg	X		Representative Delmore	X	
Vice Chairman Boehning	X				
Representative Brabandt	X				
Representative Nathe	X				
Representative Kempenich	X				
Representative Vigesaa	X				

Total Yes 7 No 0

Absent 0

Floor Assignment Representative Kempenich

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

Date: 4/6/2017
Roll Call Vote #: 1

2017 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2013

House Appropriations Committee

☐ Subcommittee

Amendment LC# or Description: **17.0521.02012**

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 **Representative Kempenich** Seconded By **Representative Brandenburg**

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer					
Representative Kempenich			Representative Streyle		
Representative: Boehning			Representative Vigesaa		
Representative: Brabandt					
Representative Brandenburg					
Representative Kading			Representative Boe		
Representative Kreidt			Representative Delmore		
Representative Martinson			Representative Holman		
Representative Meier					
Representative Monson					
Representative Nathe					
Representative J. Nelson					
Representative Pollert					
Representative Sanford					
Representative Schatz					
Representative Schmidt					

Voice Vote

Total (Yes) ____________ No ____________

Absent ____________

Floor Assignment ____________

If the vote is on an amendment, briefly indicate intent

MOTION CARRIES

Date: 4/6/2017
Roll Call Vote #: 2

2017 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2013

House Appropriations Committee

☐ Subcommittee

Amendment LC# or Description: **17.0521.02005**

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 **Representative Streyle** Seconded By **Representative Nathe**

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer					
Representative Kempenich			Representative Streyle		
Representative: Boehning			Representative Vigesaa		
Representative: Brabandt					
Representative Brandenburg					
Representative Kading			Representative Boe		
Representative Kreidt			Representative Delmore		
Representative Martinson			Representative Holman		
Representative Meier					
Representative Monson					
Representative Nathe					
Representative J. Nelson					
Representative Pollert					
Representative Sanford					
Representative Schatz					
Representative Schmidt					

Total (Yes) ______ No ______

Absent ______

Floor Assignment ______

If the vote is on an amendment, briefly indicate intent

MOTION CARRIES

Date: 4/6/2017
Roll Call Vote #: 3

2017 HOUSE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. SB 2013

House Appropriations 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 **Representative Kempenich** Seconded By **Representative Vigesaa**

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer	X				
Representative Kempenich	X		Representative Streyle	X	
Representative: Boehning	X		Representative Vigesaa	X	
Representative: Brabandt	X				
Representative Brandenburg	X				
Representative Kading		X	Representative Boe		X
Representative Kreidt	X		Representative Delmore	A	
Representative Martinson	X		Representative Holman	X	
Representative Meier	X				
Representative Monson	X				
Representative Nathe	X				
Representative J. Nelson	X				
Representative Pollert	X				
Representative Sanford	X				
Representative Schatz	A				
Representative Schmidt	X				

Total (Yes) 17 No 2

Absent 2

Floor Assignment **Representative Kempenich**

If the vote is on an amendment, briefly indicate intent

MOTION CARRIES

REPORT OF STANDING COMMITTEE

SB 2013, as engrossed: Appropriations Committee (Rep. Delzer, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (17 YEAS, 2 NAYS, 2 ABSENT AND NOT VOTING). Engrossed SB 2013 was placed on the Sixth order on the calendar.

Page 1, line 3, replace "and to provide an exemption" with "to amend and reenact section 15-01-01, subsection 5 of section 57-51-01, and section 57-51-15 of the North Dakota Century Code, relating to oil and gas gross production tax definitions and allocations; to provide for funding repayments; to provide exemptions; to provide for reports; to provide statements of legislative intent; to provide for a legislative management study; and to provide an effective date"

Page 1, line 7, after the first comma insert "the strategic investment and improvements fund,"

Page 1, replace lines 13 through 20 with:

"Salaries and wages	$6,123,516	($295,046)	$5,828,470
Operating expenses	2,019,637	(266,939)	1,752,698
Grants	99,300,000	(59,300,000)	40,000,000
Contingencies	100,000	0	100,000
Energy infrastructure and impact office	700,000	(479,283)	220,717
Total special funds	$108,243,153	($60,341,268)	$47,901,885
Full-time equivalent positions	33.00	(3.00)	30.00

SECTION 2. HEALTH INSURANCE INCREASE. The appropriation in section 1 of this Act includes $89,948 from special funds for increases in employee health insurance premiums from $1,130 to $1,241 per month."

Page 2, replace lines 2 and 3 with:

"Oil and gas impact grants - airports	$0	$25,000,000
Other grants - airports	0	15,000,000
Total special funds	$0	$40,000,000"

Page 3, after line 23, insert:

"**SECTION 8. EXEMPTION - FLOOD-IMPACTED POLITICAL SUBDIVISION INFRASTRUCTURE DEVELOPMENT GRANTS.** Up to $1,325,500 appropriated from the general fund in section 10 of chapter 579 of the 2011 Session Laws for flood-impacted political subdivision infrastructure development grants, which was awarded but not yet reimbursed to the city of Minot for a landfill expansion project, is not subject to section 54-44.1-11, and any unexpended funds are available to reimburse the city of Minot during the biennium beginning July 1, 2017, and ending June 30, 2019.

SECTION 9. OIL AND GAS IMPACT GRANT FUND - AIRPORT GRANTS. The grants line item and the total special funds line item in section 1 of this Act include the sum of $25,000,000 from the oil and gas impact grant fund for grants to airports, for the biennium beginning July 1, 2017, and ending June 30, 2019. Of the $25,000,000, the board of university and school lands shall award a grant of $20,000,000 to the Williston airport and a grant of $5,000,000 to the Dickinson airport. A grant may be awarded to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

SECTION 10. STRATEGIC INVESTMENT AND IMPROVEMENTS FUND - WILLISTON AIRPORT GRANT. The grants line item and the total special funds line item in section 1 of this Act include the sum of $15,000,000 from the strategic investment and improvements fund for a grant to the Williston airport, for the biennium beginning July 1, 2017, and ending June 30, 2019. A grant may be awarded to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

SECTION 11. AMENDMENT. Section 15-01-01 of the North Dakota Century Code is amended and reenacted as follows:

15-01-01. Board - Membership - Officers.

The governor, secretary of state, state treasurer, attorney general, and superintendent of public instruction shall constitute the "board of university and school lands". The governor must be the chairman, the secretary of state must be the vice chairman, and the commissioner of university and school lands must be the secretary of the board. In the absence of the commissioner at any meeting of the board, the deputy commissioner of university and school lands shall act as secretary. When acting as the board of university and school lands, the members of the board shall act in person and may not be represented by any assistant, clerk, or deputy. The speaker of the house and the president pro tempore of the senate each shall appoint one individual to advise the board. The individual appointed to advise the board may attend and participate in all meetings of the board, but may not vote.

SECTION 12. AMENDMENT. Subsection 5 of section 57-51-01 of the North Dakota Century Code is amended and reenacted as follows:

5. "Hub city" means~~, for the period beginning September 1, 2015, and ending August 31, 2017, a city with a population of twelve thousand five hundred or more, according to the last official decennial federal census, which has more than one percent of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota. "Hub city" means, after August 31, 2017,~~ a city with a population of twelve thousand five hundred or more, according to the last official decennial federal census, which has more than one percent of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota.

SECTION 13. AMENDMENT. Section 57-51-15 of the North Dakota Century Code is amended and reenacted as follows:

57-51-15. Gross production tax allocation.

The gross production tax must be allocated monthly as follows:

1. ~~First the~~The tax revenue collected under this chapter equal to one percent of the gross value at the well of the oil and one-fifth of the tax on gas must be deposited with the state treasurer ~~who shall~~. The state treasurer shall allocate the funding in the following order:

   a. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city, which is located in a county that received an allocation under subsection 2, a monthly amount that will provide a total allocation of three hundred seventy-five thousand dollars per fiscal year for each full or partial percentage point of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city, which is located in a county that received an allocation under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of three hundred seventy-five thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~;~~.

b. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city, which is located in a county that did not receive an allocation under subsection 2, a monthly amount that will provide a total allocation of two hundred fifty thousand dollars per fiscal year for each full or partial percentage point of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city, which is located in a county that did not receive an allocation under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of two hundred fifty thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~;~~.

c. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city school district, which is located in a county that received an allocation under subsection 2, a monthly amount that will provide a total allocation of one hundred twenty-five thousand dollars per fiscal year for each full or partial percentage point of the hub city's private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city school district, which is located in a county that received an allocation under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one hundred twenty-five thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of the hub city's private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~, provided that hub~~. Hub city school districts, which are located in a county that did not receive an allocation under subsection 2 in the most recently completed even-numbered fiscal year, must be excluded from the allocations under this subdivision~~;~~.

d. ~~Allocate to~~To each county that received more than five million dollars but less than thirty million dollars of total allocations under subsection 2 in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, the state treasurer shall allocate a monthly amount that will ~~provide a total allocation of one million five hundred thousand dollars per fiscal year to be added by the state treasurer~~be added to the allocations to school districts under subdivision b of subsection 5~~;~~

~~e.~~ ~~Credit revenues to the oil and gas impact grant fund, but not in an amount exceeding one hundred forty million dollars per biennium for the 2015-17 biennium, and not in an amount exceeding one hundred million dollars per biennium thereafter;~~

~~f.~~ ~~Credit eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount~~

~~exceeding twenty million dollars in a state fiscal year and not in an amount exceeding forty million dollars per biennium;~~

~~g.~~ ~~Credit four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding seven million five hundred thousand dollars in a state fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars; and~~

~~h.~~ ~~Allocate the remaining revenues under subsection 3~~ as follows:

(1) To each county that received more than five million dollars but not exceeding ten million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million five hundred thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(2) To each county that received more than ten million dollars but not exceeding fifteen million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million two hundred fifty thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(3) To each county that received more than fifteen million dollars but not exceeding twenty million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(4) To each county that received more than twenty million dollars but not exceeding twenty-five million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of seven hundred fifty thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(5) To each county that received more than twenty-five million dollars but not exceeding thirty million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of five hundred thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

e. (1) For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding ten million dollars per biennium. For purposes of this paragraph, "biennium" means the period beginning September first of each odd-numbered calendar year and ending August thirty-first of the following odd-numbered calendar year.

(2) After August 31, 2019, the state treasurer shall allocate eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding twenty million dollars per fiscal year.

f. (1) For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding four million dollars per fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars.

(2) After August 31, 2019, the state treasurer shall allocate four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding seven million five hundred thousand dollars per fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars.

g. For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate the remaining revenues in the following order:

(1) Up to twenty-five million dollars to the oil and gas impact grant fund.

(2) Any remaining revenues under subsection 3.

h. After August 31, 2019, the state treasurer shall allocate the remaining revenues in the following order:

(1) Up to five million dollars per biennium to the oil and gas impact grant fund. For purposes of this paragraph, "biennium" means the period beginning September first of each odd-numbered calendar year and ending August thirty-first of the following odd-numbered calendar year.

(2) Any remaining revenues under subsection 3.

i. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

2. After deduction of the amount provided in subsection 1, annual revenue collected under this chapter from oil and gas produced in each county must be allocated as follows:

a. The first five million dollars is allocated to the county.

b. Of all annual revenue exceeding five million dollars, thirty percent is allocated to the county.

3. After the allocations under subsections 1 and 2, the amount remaining is allocated first to provide for deposit of thirty percent of all revenue

collected under this chapter in the legacy fund as provided in section 26 of article X of the Constitution of North Dakota and the remainder must be allocated to the state general fund. If the amount available for a monthly allocation under this subsection is insufficient to deposit thirty percent of all revenue collected under this chapter in the legacy fund, the state treasurer shall transfer the amount of the shortfall from the state general fund share of oil extraction tax collections and deposit that amount in the legacy fund.

4. For a county that received less than five million dollars of allocations under subsection 2 in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, revenues allocated to that county must be distributed at least quarterly by the state treasurer as follows:

   a. Forty-five percent must be distributed to the county treasurer and credited to the county general fund. However, the distribution to a county under this subdivision must be credited to the state general fund if in a taxable year after 2012 the county is not levying a total of at least ten mills for combined levies for county road and bridge, farm-to-market and federal aid road, and county road purposes.

   b. Thirty-five percent must be distributed to school districts within the county on the average daily attendance distribution basis for kindergarten through grade twelve students residing within the county, as certified to the state treasurer by the county superintendent of schools. However, a hub city school district must be omitted from distributions under this subdivision.

   c. Twenty percent must be distributed to the incorporated cities of the county. A hub city must be omitted from distributions under this subdivision. Distributions among cities under this subsection must be based upon the population of each incorporated city according to the last official decennial federal census. In determining the population of any city in which total employment increases by more than two hundred percent seasonally due to tourism, the population of that city for purposes of this subdivision must be increased by eight hundred percent.

   d. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

5. For a county that received five million dollars or more of allocations under subsection 2 in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, revenues allocated to that county must be distributed at least quarterly by the state treasurer as follows:

   a. Sixty percent must be distributed to the county treasurer and credited to the county general fund. However, the distribution to a county under this subdivision must be credited to the state general fund if in a taxable year after 2012 the county is not levying a total of at least ten mills for combined levies for county road and bridge, farm-to-market and federal aid road, and county road purposes.

   b. Five percent must be distributed to school districts within the county on the average daily attendance distribution basis for kindergarten through grade twelve students residing within the county, as certified to the state treasurer by the county superintendent of schools. However, a hub city school district must be omitted from distributions under this subdivision.

c. Twenty percent must be distributed to the incorporated cities of the county. A hub city must be omitted from distributions under this subdivision. Distributions among cities under this subsection must be based upon the population of each incorporated city according to the last official decennial federal census. In determining the population of any city in which total employment increases by more than two hundred percent seasonally due to tourism, the population of that city for purposes of this subdivision must be increased by eight hundred percent.

d. ~~Three~~One percent must be allocated among the organized and unorganized townships of the county. The state treasurer shall allocate the funds available under this subdivision among townships in proportion to each township's road miles relative to the total township road miles in the county. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads, which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships.

e. ~~Three~~One percent must be allocated among the organized and unorganized townships in all the counties that received five million dollars or more of allocations under subsection 2 in the most recently completed ~~state~~even-numbered fiscal year. The amount available under this subdivision must be allocated by the state treasurer in an equal amount to each eligible organized and unorganized township. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads, which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships.

f. Four percent must be allocated among the organized and unorganized townships in all the non-oil-producing counties. The amount available under this subdivision must be allocated by the state treasurer in an equal amount to each eligible organized and unorganized township. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships. For purposes of this subdivision, "non-oil-producing counties" means the counties that received no allocation or a total allocation of less than five million dollars under subsection 2 in the most recently completed even-numbered fiscal year.

g. Nine percent must be distributed among hub cities. Sixty percent of funds available under this subdivision must be distributed to the hub city receiving the highest percentage of allocations to hub cities under subdivision a of subsection 1 for the quarterly period, thirty percent of funds available under this subdivision must be distributed to the hub city receiving the second highest percentage of such allocations, and ten percent of funds available under this subdivision must be distributed to the hub city receiving the third highest percentage of such allocations. Hub cities, which are located in a county that did not receive an allocation under subsection 2 in the most recently completed even-numbered fiscal year, must be excluded from the allocations under this subsection. If fewer than three hub cities are eligible for the allocations under this subdivision, the state treasurer shall allocate the available funds in proportion to the amounts the eligible hub cities received under subdivision a of subsection 1.

h. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

6. Within thirty days after the end of each calendar year, the board of county commissioners of each county that has received an allocation under this section shall file a report for the calendar year with the commissioner, in a format prescribed by the commissioner, including:

   a. The county's statement of revenues and expenditures;

   b. The county's ending fund balances;

   c. The amounts allocated under this section to the county's general fund, the amounts expended from these allocations, and the purposes of the expenditures; and

   d. The amounts allocated under this section to or for the benefit of townships within the county, the amounts expended from these allocations, and the purposes of the expenditures.

   Within fifteen days after the time when reports under this subsection are due, the commissioner shall provide the reports to the legislative council compiling the information from reports received under this subsection.

7. Within thirty days after the end of each fiscal year ended June thirtieth, each school district that has received an allocation under this section shall file a report for the fiscal year ended June thirtieth with the commissioner, in a format prescribed by the commissioner, including:

   a. The school district's statement of revenue and expenditures;

   b. The school district's ending fund balances; and

   c. The amounts allocated under this section to the school district, the amounts expended from these allocations, and the purposes of the expenditures.

   Within fifteen days after the time when reports under this subsection are due, the commissioner shall provide the reports to the legislative council compiling the information from reports received under this subsection.

SECTION 14. DEPARTMENT OF TRUST LANDS - WILLISTON AIRPORT FUNDING REPAYMENTS - DEPOSIT. The city of Williston shall use the proceeds from the sale of the existing Williston airport, excluding any proceeds used to repay the Bank of North Dakota for outstanding loans related to the new airport, for repaying the department of trust lands up to $27,500,000 for a portion of the state's financial assistance provided for the new Williston airport. The department of trust lands shall deposit any funds received under this section in the strategic investment and improvements fund.

SECTION 15. LEGISLATIVE INTENT - HUB CITY BONDING. It is the intent of the sixty-fifth legislative assembly that during the period beginning July 1, 2017, and ending June 30, 2019, hub cities, as defined in section 57-51-01, not issue any new bonds based on anticipated future hub city oil tax revenue allocations under section 57-51-01.

SECTION 16. LEGISLATIVE INTENT - AGENCY EFFICIENCIES. It is the intent of the sixty-fifth legislative assembly that during the 2017-18 interim, the governor and the commissioner of university and school lands achieve efficiencies and budgetary savings within the department of trust lands through the use of innovative ideas and through alternative solutions relating to information technology.

SECTION 17. LEGISLATIVE INTENT - ENCOURAGEMENT OF ENERGY INFRASTRUCTURE INVESTMENT - COMMISSIONER OF UNIVERSITY AND SCHOOL LANDS - USE OF TERMS. It is the intent of the sixty-fifth legislative assembly that the state of North Dakota encourage the continued development of energy infrastructure that will help reduce instances of natural gas flaring and increase the market value received for oil and gas produced within the state generally and from state-owned lands specifically which will increase the value of royalties paid to the funds under the control of the board of university and school lands. Consistent with this intent, the commissioner of university and school lands shall continue to interpret the terms "gross production," "market value," and "gross proceeds of sale" in its lease form to mean a value determined at the producing well or associated production facility, or in the surrounding field or area, where the oil and gas was produced, before any post-production activities undertaken by the lessee, operator, or purchaser after the oil and gas has been transported from the producing well and associated production facility. These values must be determined by the amount received by the lessee in an arm's length contract, or in the absence of an arm's length contract, either a comparable sales method or a work-back calculation methodology consistent with state law.

SECTION 18. LEGISLATIVE MANAGEMENT STUDY - OIL AND GAS TAX REVENUE ALLOCATIONS TO HUB CITIES AND HUB CITY SCHOOL DISTRICTS.

1. During the 2017-18 interim, the legislative management shall consider studying oil and gas tax revenue allocations to hub cities and hub city school districts. The study must include consideration of the following:

    a. The current and historical oil and gas tax revenue allocations to hub cities and hub city school districts.

    b. Other state funding provided to hub cities and hub city school districts, including grants from the oil and gas impact grant fund, distributions from the strategic investment and improvements fund, state school aid payments, and payments from the state aid distribution fund and highway tax distribution fund.

    c. Local taxing and revenue levels in hub cities compared to cities in non-oil-producing counties, including mill levies, property tax values, local sales and use taxes, and other revenue sources.

    d. The appropriate level of oil and gas tax revenue allocations to hub cities and hub city school districts based on infrastructure and other needs.

    e. The estimated fiscal impact to hub cities, hub city school districts, other political subdivisions, and the state if the oil and gas tax revenue allocation formula would be changed to transition hub cities and hub city school districts from allocations under subsection 1 of section 57-51-15 to allocations under subsections 4 and 5 of section 57-51-15.

    f. The estimated fiscal impact to hub cities, hub city school districts, other political subdivisions, and the state if the oil and gas tax revenue allocation formula would be changed to discontinue the allocations to hub cities and hub city school districts under subsection 1 of section 57-51-15.

2. The membership of the committee assigned the responsibility of the study must proportionately reflect the state's population distribution between oil-producing counties and non-oil-producing counties and must include members from the finance and taxation committees and the appropriations committees.

3. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-sixth legislative assembly.

SECTION 19. EFFECTIVE DATE. Sections 12 and 13 of this Act are effective for taxable events occurring after June 30, 2017."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2013 - Department of Trust Lands - House Action

	Base Budget	Senate Version	House Changes	House Version
Salaries and wages	$6,123,516	$6,218,736	($390,266)	$5,828,470
Operating expenses	2,019,637	1,775,723	(23,025)	1,752,698
Capital assets		5,250,000	(5,250,000)	
Grants	99,300,000		40,000,000	40,000,000
Energy Infrastructure and Impact Office	700,000	220,717		220,717
Contingencies	100,000	100,000		100,000
Total all funds	$108,243,153	$13,565,176	$34,336,709	$47,901,885
Less estimated income	108,243,153	13,565,176	34,336,709	47,901,885
General fund	$0	$0	$0	$0
FTE	33.00	32.00	(2.00)	30.00

Department No. 226 - Department of Trust Lands - Detail of House Changes

	Adjusts Funding for Health Insurance Increases[1]	Removes Funding for FTE Positions[2]	Removes Funding for an Information Technology Project[3]	Adds Funding for Grants[4]	Total House Changes
Salaries and wages	($6,636)	($383,630)			($390,266)
Operating expenses		(23,025)			(23,025)
Capital assets			(5,250,000)		(5,250,000)
Grants				40,000,000	40,000,000
Energy Infrastructure and Impact Office					
Contingencies					
Total all funds	($6,636)	($406,655)	($5,250,000)	$40,000,000	$34,336,709
Less estimated income	(6,636)	(406,655)	(5,250,000)	40,000,000	34,336,709
General fund	$0	$0	$0	$0	$0
FTE	0.00	(2.00)	0.00	0.00	(2.00)

[1] Funding for employee health insurance is adjusted to reflect the updated premium amount of $1,241 per month.

[2] Funding is removed as follows:

- $200,105 is removed for a geographic information system position, which was added by the Senate. Of the $200,105, $177,080 relates to salaries and wages, and $23,025 relates to operating expenses.

- $206,550 is removed for a project manager position.

[3] One-time funding of $5.25 million is removed for an information technology project. The Senate added this funding.

[4] One-time funding of $25 million is added from the oil and gas impact grant fund for grants to the Williston airport ($20 million) and the Dickinson airport ($5 million). One-time funding of $15 million is added from the strategic investment and improvements fund for a grant to the Williston airport.

This amendment also:

- Identifies the health insurance increase.
- Provides an exemption to allow an unspent grant to a flood-impacted political subdivision to be available in the 2017-19 biennium.
- Identifies $25 million from the oil and gas impact grant fund for an oil impact grant of $20 million to the Williston airport and a grant of $5 million to the Dickinson airport. This funding is available to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project.
- Identifies $15 million from the strategic investment and improvements fund for a grant to the Williston airport. This funding is available to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project.
- Adds two advisory members that are appointed by the Speaker of the House and the President Pro Tempore to the board of university and school lands.
- Amends the oil and gas tax revenue allocation formulas (see the table below) and provides an effective date related to the formula changes.
- Provides that the city of Williston use the proceeds from the sale of the existing airport, up to $27.5 million, to repay the Department of Trust Lands for the state's financial assistance provided for the new airport.
- Provides a statement of legislative intent that hub cities not issue new bonds during the 2017-19 biennium based on anticipated future hub city oil tax revenue allocations.
- Provides a statement of legislative intent regarding efficiencies within the Department of Trust Lands.
- Provides a statement of legislative intent regarding the calculation of mineral royalties.
- Provides for a Legislative Management study by a committee with proportional geographic representation and members of the Finance and Taxation and Appropriations Committees regarding the oil and gas tax revenue allocations to hub cities and hub city school districts.

Senate Bill No. 2013 - Other Changes - House Action

Current Law	Proposed Changes
Hub city definition • After August 31, 2017, a hub city is based on mining employment.	**Hub city definition** • No change to current law.
Hub city and hub city school district allocations • Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment.	**Hub city and hub city school district allocations** • Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment exceeding 2 percent.
• Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment.	• Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment exceeding 2 percent.
• Hub city school districts receive an annual allocation of $125,000 per full or partial percentage point of mining employment, excluding hub city school districts located in non-oil-producing counties.	• Hub city school districts in oil-producing counties receive an annual allocation of $125,000 per full or partial percentage point of mining employment exceeding 2 percent.

Supplemental school district allocation

- Eligible counties receive an annual allocation of $1.5 million for distributions to school districts in the county.

North Dakota outdoor heritage fund allocations

- From the 1 percent of the 5 percent oil and gas gross production tax, 8 percent is allocated to the North Dakota outdoor heritage fund, up to $20 million per fiscal year.

Abandoned oil and gas well plugging and site reclamation fund allocations

- From the 1 percent of the 5 percent oil and gas gross production tax, 4 percent is allocated to the abandoned oil and gas well plugging and site reclamation fund, up to $7.5 million per fiscal year.

Oil and gas impact grant fund allocations

- Up to $100 million per biennium is allocated to the oil and gas impact grant fund.

Distributions to political subdivisions

- The distributions to political subdivisions in North Dakota Century Code Sections 57-51-15(4) and 57-51-15(5) are based on the oil and gas tax allocations received by a county in fiscal year 2014.
- From the 4 percent of the 5 percent oil and gas gross production tax, 30 percent of all revenue above $5 million is allocated to the county with the remaining 70 percent allocated to the state.
- The distributions to political subdivisions are as follows:

County general fund	
Cities	
Schools	
Townships (equal)	
Townships (road miles)	
Hub cities	

- From the counties' share in counties that received $5 million or more of oil and gas tax allocations, 9 percent is distributed to the three hub cities with the highest percentage of mining employment.

Supplemental school district allocation

- Changes the annual allocation to provide a specific amount based on the oil and gas tax allocations received by the county in the most recently completed even-numbered fiscal year. The specific amounts range from $500,000 to $1.5 million per year.

North Dakota outdoor heritage fund allocations

- Decreases the amount allocated to the North Dakota outdoor heritage fund by changing the limit from $20 million per fiscal year to $10 million for the 2017-19 biennium.

Abandoned oil and gas well plugging and site reclamation fund allocations

- Decreases the amount allocated to the abandoned oil and gas well plugging and site reclamation fund by changing the limit from $7.5 million per fiscal year to $4 million per fiscal year for the 2017-19 biennium.

Oil and gas impact grant fund allocations

- Decreases the allocation to the oil and gas impact grant fund from $100 million per biennium to $25 million per biennium for the 2017-19 biennium and provides an allocation of $5 million per biennium to the oil and gas impact grant fund after the 2017-19 biennium.

Distributions to political subdivisions

- Changes the basis for the distributions to political subdivisions in Sections 57-51-15(4) and 57-51-15(5) to reflect the oil and gas tax allocations received by a county in the most recently completed even-numbered fiscal year rather than fiscal year 2014.
- No change to current law.
- The proposed changes to the distributions to political subdivisions are as follows:

	Counties - Less Than $5 Million	Counties - $5 Million Or More
County general fund	45%	60%
Cities	20%	20%
Schools	35%	5%
Townships (equal)		1%
Townships (road miles)		1%
Townships (non-oil)		4%
Hub cities		9%

- Clarifies the distribution to hub cities to exclude hub cities that are located in non-oil-producing counties and to provide proportional allocations if less than three hub cities qualify for the distributions.

2017 CONFERENCE COMMITTEE

SB 2013

2017 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

SB 2013
4/18/2017
Job # 30204

☐ Subcommittee
☒ Conference Committee

Committee Clerk Signature	Eva Liebelt for Rose Laning

Explanation or reason for introduction of bill/resolution:

To provide an appropriation of defraying the expenses of the commissioner of university and school lands.

Minutes: Testimony Attached # 1

Legislative Council: Adam Mathiak
OMB: Becky Keller

Chairman Wardner called the conference committee to order on SB 2013. Conferees were: **Senators Wanzek and Grabinger and Representatives Kempenich, Brandenburg and Delzer**.

Chairman Wardner: I would like you to take a look at the proposed amendments, 17.0521.02014 amendment, see attachment #1. We are going to work from that sheet today. What I would like to do first is talk about the budget for the university and school land budget. Then we will go to the beginning of this and go right down the line in each section of the bill. The Senate had $5,250,000 in for an IT project and the House took it out. If I could get what your reasoning is.

Representative Kempenich: The $5,250,000 was broken into three different components in there. The more we got into discussing this project, the more we found out we didn't need to spend this kind of money to get it done. We added Section 16, that is basically the agency efficiencies and what we would like to do is have the governor and the land board come up with a solution that won't cost $5.2M. What we have been told and understand is that could happen. They might need some funding, but not $5.2M.

Chairman Wardner: Representative Kempenich would you go over the three components.

Representative Kempenich: Who was paying for it was the unclaimed property and trust, minerals and land operations. We got the information on how that was broke out in dollars.

Chairman Wardner: So each one of those different areas contributed money to make up the total of the $5,250,000, okay. This is the agency that got hammered by the auditors and a lot of it had to do with data. One particular piece of information was from back in the 1940s on money being sent to the YCC instead of an institution.

Representative Kempenich: Yes, that is true and I sat on the board and they did get hit with audit findings. Here is some of the technology upgrade. They're trying to get rid of the manual processes. It isn't that we're against them trying to do something this way. It's just that we were getting information and thought we didn't need to reinvent the wheel. That is what this is doing, coming up with some solutions that doesn't cost that kind of money.

Representative Delzer: We have to recognize that the Governor we have has an extensive IT background. If you take a look at that, after they get SITAC (State Information Technology Advisory Committee) figured out whether there is something off the shelf that they can do, granted maybe in a year's time we can have the money set aside. It should be looked at instead of going off what we have without them having the opportunity to look at it.

Chairman Wardner: One of the things that concerns me is this agency collects money from different sources. I'm told they need good IT. I got the letter from the individual who used to work there too. Are they going to be able to do these efficiencies that you are indicating, that is my concern? Are they behind a rock and a hard place, I don't know but I do know one thing, they need to get their IT system up to snuff.

Representative Delzer: I don't think any of us disagree with that. Currently we go with the existing plan that was put into place before we have a change in administration or do we give them a little time. They have been under this for many, many years so is a half a year enough or a year to much to do? Now granted we took all of the money out but maybe we will have to have some thought of where we would be in a year's time or whether it should come back to the budget section for approval or what direction should they go. We want to make sure we go forward in the right direction.

Representative Kempenich: Some additional information I have is, land management, accounting, unclaimed properties and grant administration are the four components. They have three scenarios on each one on a five year cost and implementation. We did have some conversation on what's the right number and that has been with these computer systems, working with IT to a certain degree. It wasn't just from talking with that one individual, we have had other conversations with some other people that it could be done for less. It's special fund money coming out of it and we could but some language in that once they get some better numbers put together I would like to see what they can come up with. This is expensive for what we were told it could be. I don't know what the check was. It's that we want to deny it from them it's so they move forward. They did have some audit findings and a lot of it is tracking what their operations was doing. I want to make sure that we were on the right track.

Chairman Wardner: We are going to move on and we will come back to it later. It gives us a little background. Next I would like to go to the two FTE's. If we are going to be innovative, I know they have 3-4 people who work in IT. If we're taking especially the project manager, I would like to know why we would take that person away because if we are going to be innovative we are going to need somebody who is going to direct this project even if it is within their own shop.

Representative Kempenich: There wasn't a lot of science behind that. They had 3 vacant FTE's. One was director of natural resources, programmer, and an administrative officer. So we took a couple of them out. This is special funds but in the Governor's budget they had zeroed out the dollar amounts.

Chairman Wardner: Those two positions came out of vacant positions at the time? And the other one is a GIS, geographic information systems person. They may be hard to find and whether they need that person in the future or not I guess we should find out. That at least gives me an idea why you took those two positions. We do need to find out if they are needed. The project manager is the one that I was looking at that should be in there, maybe it someone else, I don't know. I got the information I wanted and that was, those were vacant positions and that's why you did it. Next I would like to go to Section 16, on page 9. Give us an explanation of what you are getting at with that statement.

Representative Kempenich: Have the executive branch look for efficiencies in it and come back. I am sure it is going to cost us some money to implement this but we didn't feel the 5.2 was the right number and that's why we put that language in there.

Chairman Wardner: Before we move on. In the Houses conference committee, you do feel we probably could put some back in to help them no matter how they do that they do need some resources to get going?

Representative Kempenich: Yes, we've had numbers tossed at us.

Chairman Wardner: We would have to negotiate that.

Representative Delzer: You might want to think about the idea of having it as contingent language with budget section approval to go forward. After we see which one they are going forward with.

Chairman Wardner: That's a path forward, so that's something.

Senator Wanzek: It appears to me that you do recognize the need for a more effective system that works better in keeping the records given the complexity of all that the trust department is doing. You're not willing to write a check for $5.2M but you want to see a little more thought into what goes into that. I would hope that we could leave with something that indicates some funding and some intent to go in that direction.

Representative Brandenburg: We had a lot of discussion not only in this agency but other agencies in dealing with the possibility of a new governor and all of the knowledge that he has with IT and he wants to be able to do something with it. So this gives the initiative to move forward with that. That is the discussion we need to have and where we go with it and how much we put into it.

Representative Delzer: I don't think anyone is happy with how IT has worked in general and we are hoping we can get something better working on that. I know that is part of the issue, how quick do you do this if you start down a certain path and then a group or the governor or someone decides it should be a different path, how do you stop that without them having a little bit of time to look at it first.

Chairman Wardner: Between now and our next meeting I want you to be thinking on what that should be. I want us to be thinking about where we can compromise or do the best for the agency. That is our agency and we have to make sure they have the tools to get the job done. There are all kinds of things going on out in the patch and we need to make sure that is taken care of and they have the information technology and the tools to get the job done.
Let's go to page 1and I am going to go down the line.
Section 2 – Health insurance increase we are in agreement with that.
Section 8 – Flood impact political subdivision infrastructure development grants it affects Minot, we do not have a problem with that.
Section 9 – Oil and Gas Impact Grant Fund, we do not have a problem with that.

Representative Delzer: I thought that said in the future it would only be a $5M impact?

Chairman Wardner: I believe that is in another place, but a couple pages down.
Section 10 – SIIF fund, we are in agreement on that.
Section 11 – The House added the part where the speaker of the House and the president pro tempore of the Senate each shall appoint one individual to the board and an individual to advise the board in all meetings but may not vote. We question that, any comments?

Representative Kempenich: The reason we did that, when we got into discussion is it's not a voting membership but it's more of someone being able to bring information back to the legislature. The land board has been very active in our process to supply not only money, but policies.

Chairman Wardner: You feel you need to have someone at the meeting reporting back?

Representative Delzer: Not only reporting back, but also taking views of legislature back to the Land Board. They do a lot of things that effect things we have to deal with later on or things that are directly affected by what we have done in the past session. That would just put a little more discussion on there. You can't be a voting member, but you can help promote the views of what the legislature would probably do the next session.

Chairman Wardner: Can you give me some examples? I know we are probably phasing out the impact grants to oil and gas counties. What are some things that we need to be aware of because now they are just handling the money coming from school lands?

Representative Delzer: They do a little bit more than that because they are doing some language. They are dealing with the mineral rights, that came from land board. You also have the situation where they are trying to change where the custody of oil and gas changes. There are a number of things that impact the money and the policy of the legislature.

Chairman Wardner: Thank you. I understand what you are getting at. Let's move to Section 12 - That is the definition of a hub city. We have no issue with that. Section 13 - The gross production tax allocation instructs the state treasurer, we're fine with that. As we go to page 3 of Section 13 - 1. a, we have a concern about "excluding the first two percentage points". In b, it is the same thing, excluding the first two percentage points and in c., which had to do with hub city schools. As we move on I would point out that we are fine with 1.d. There was some language that was overstruck. I think that is a good piece of work that you did. In the counties that are over $5M this brackets it up. If you are from $5M to 10M in the county, then they get the $1.5M, #1. If you go from 10-15 then you get $1, 250,000, #2. Then if you go from 15-20 then it is $1M per fiscal year, #3. Then we go to #4, the allocation is $750,000. The last one is #5 and that is when we go from 25-30 and then it would be a half million. Before $5M was the cut off and $30M was the cut off. That leaves us, DRAW A LINE RIGHT BEFORE E and we'll start there. Adjourned to you get a call of the chairman.

2017 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

SB 2013
4/19/2017
Job # 30226

☐ Subcommittee
☒ Conference Committee

Committee Clerk Signature	Eva Liebelt for Rose Laning

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the commissioner of university and school lands;

Minutes: | Testimony Attached # 1 - 2 |

Legislative Council: Adam Mathiak
OMB: Becky Keller

Chairman Wardner called the conference committee to order on SB 2013. Conferees were: **Senators Wanzek and Grabinger and Representatives Kempenich, Brandenburg and Delzer.**

Chairman Wardner: What I would like to do is finish going over the amendments and then I would like to discuss the hub city township stuff. This afternoon when we meet I would like to concentrate on getting the budget for the department of universities and schools lands taken care of. So that is the order that we will do it so we can concentrate on one part and get it completed. If you recall yesterday, we were on page 5 of the proposed amendment sheet that we were using as a guide. We had just gotten done talking about the schools in oil country, in counties that receive $5M or more per fiscal year and how that is distributed.
On page 5, E of the amendment sheet (.02014), that has to do with the outdoor heritage fund, we are capping that going into this next biennium in an amount not to exceed $10M. In part 2 there is a sunset and it reverts back to what it was before. It is just for one biennium.
F, has to do with the abandoned oil and gas well plugging and site reclamation, that is the amount not to exceed $4M per fiscal year and $8M cap, but in Section 2 of F, we go back to the way it is currently. It is a 2-year sunset on both of those. Then you go down to G, oil and gas impact grants. Yesterday we talked about $20M for Williston and $5M for Dickinson. It would come out of the oil and gas impact grant. H, tells you that going forward after this biennium that the oil and gas impact grant fund will put $5M into it. We are fine with that at this time.

Representative Delzer: I have a question for Adam Mathiak. What we are doing in order on the 1%, the heritage fund, what comes first the heritage fund, abandoned wells, oil and gas research and then the impact?

Adam Mathiak: So subsection 1 has that read in language that it is the following order so the political subdivisions and hub cities and the hub cities school districts would receive their allocations 1st, then supplemental amount for the school districts and then heritage fund and abandoned well fund and then impact grant fund.

Representative Delzer: Isn't there a research fund too?

Adam Mathiak: The oil and gas research fund receive its share out of the state's share.

Representative Delzer: On the extraction side?

Adam Mathiak: It receives from both the extraction and the production tax.

Chairman Wardner: Then we go to Section 3 which talks about the legacy fund, 30% goes to the legacy fund. Section 4, a, b, and c, that is how the money is distributed for those counties under the $5M a year. Section 5 is the distribution of the gross production tax. Those counties that are $5M or more per year. 60% to counties, 5% to school districts, 20% to the incorporated cities, and then we have the townships and that is where we disagree. We believe it should stay at 3% and you have it at 1%. On the next page it is taking 4% of the township money and distributing to non-oil and gas producing townships. We don't have a problem with that but we don't want it to come out of the oil and gas townships. G, talks about the hub cities and we don't have a problem with that. H, for the purpose of this we have a fiscal year beginning September 1 to Aug 31 and that is because there is a 2-month delay on receiving the money.

Representative Delzer: That just puts in code what has been happening.

Chairman Wardner: That is right. Section 6 is language that clarifies and we're fine with that. Section 14, is the department of trust lands dealing with the Williston airport fund repayment deposit. (reading page 9) The aeronautics people tell us that is an issue and so we would question that.

Representative Delzer: We put that in there because we were told that's how they plan to pay off their Bank of North Dakota loans. If the FAA didn't have a problem with that, we thought they wouldn't have a problem with paying back part of the $60M, which was talked about but if we go down to $35M we were talking $55M and that's how we ended up with $27.5M. Whatever we have to do there but in essence if it is okay for Williston to pay back the Bank of North Dakota, if we were loaning them money instead of grants, why can't they pay the state part of that too?

Chairman Wardner: I'll check on that. I know that the FAA......

Representative Delzer: We don't mean to cause the project problems. We received the same letter and don't mean to cause problems but do have some consternation with how much we are giving just how they're paying it back

Chairman Wardner: Then Section 15 is hub city bonding, we do have an issue with that. We really feel that these hub cities aren't going to bond. They have debt and will be using this money to pay off their debt.

Representative Delzer: That was our concerns. We didn't want them putting further debt out there. We were concerned about how they manage to pay it back or we do. Maybe they shouldn't be able to use it as collateral. We can certainly have a discussion about that.

Chairman Wardner: Section 16, legislative intent for universities and schools and using some efficiencies and savings, innovative ideas for technology projects.

Representative Kempenich: It's getting down to their computer system, the $5.2M. When we pulled that out we thought during the interim we could have the executive branch and the IT and land department come up with some ways to keep this going. Find something off the shelf so it wouldn't cost $5.2M. We're not stuck on this, but want to keep that idea moving.

Chairman Wardner: Well I don't think we have a problem with the wording and this afternoon this definitely will be a part of getting their budget wrapped up. Section 17, I've had visitors from east and west talking about this. At this time, I am fine with it.

Representative Kempenich: It's intent language and yesterday I handed out what we are basing off of and why it is here. It is kind of price discovery and value discovery of where gas and oil are at. There were letters sent out by land department is what got this started. It is a complicated issue in one way. We're trying not to get into contracts per say but there gets to be some word definitions of, gross and gross proceed and we are trying to have the price discovery of where a royalty holder's values are at. There is a discussion still going on with this. The reason for the language from the well locations the infrastructure that goes beyond that, there is a cost to it. I think a lot of the companies are picking up the cost to a point until they lose custody of it and that is their price discovery. This amendment is intent language. It's our understanding that when the operator and the royalty holder lose custody, that is where the prices are discovered.

Chairman Wardner: The bottom line is, do we get the royalty at the well head or do we ship it down the line where they sell it and who is responsible for the transportation and where is the point of sales is, is that where the royalties are? It is the point either at the well head or where they sell it. That is the argument. I don't know that this language takes care of it but if it does, the director said he could probably live with it.

Representative Kempenich: It's intent language. There are different agreements in different areas and we thought we would leave it at how everybody understands it. It's intent. We will see where this goes and if there keeps being issues, we'll hear about it.

Chairman Wardner: Section 18, it's a study. I think we need to have the study out there and take a look at where we are at. What the needs are out in oil company. There are people who feel too much money is going to the oil country and there are people in oil country who feel they are not getting enough. We need to take a good look at this and zero in on this. This has been going on since I came into the legislature. There is always discussion of how much money is going out there and number two is we are going to try to load the committee with western legislators. We try to get people from all over the state. I am not going to worry about it but if someone is counting people and there has to be 2 from Fargo and 2 from Grand Forks, I might get a little hostile on that. We want it spread out and we want people from other parts of the state to take a look at this. We don't want just the people out from the west making that decision.

Representative Kempenich: Imputed values. This has been an ongoing issue on how different well heads are taxed and how they are recognized. Here a couple of 3-4 years ago, we started getting into more of a percentage based recognition of value going out, so it ebbs and flows with what goes on in oil production. We tried to get this where the conversation is based on the activities instead of dollar numbers. We've always had an ongoing discussion.

Chairman Wardner: What I would like to do now is zero in on the townships. I want some discussion on your reasoning on taking the 4% out of the 6% that the townships.

Representative Delzer: Yesterday I handed out 17.9668.08000, see attachment #1. Basically the first two pages of that just deals with exactly we just went through. If you go to Page 3, it is the dollar figures on everything. This is our current forecast of $47/barrel. We heard yesterday that if we're a dollar short on the price and come in at $46, it would take 20,400 barrels to make up that dollar. If we were starting the biennium right now it gives us $3 worth of play on our forecast. We hope we're low on both. This is based on how we try to get out of here. This whole session and not just the western oil counties. If we look at the top part of this page it shows what goes to the different entities. He goes over the differences. We can do some compromising in the middle where some of that stays. We do have a list of the dollar figures. The bill deal is the airport in Williston. Trying to figure out how to cover that. We have it currently listed out of the SIIF fund. Maybe setting up some sort of oil airport thing 2% of money and could carry it forward. I know that Dickinson needs airport money in the future. We're open to discussion on how we go forward. I don't know what the right number would be. I do agree that we should do something for the non-oil townships. We put this forward to have an honest discussion. The big grill is trying to get the airport done.

Representative Kempenich: This has been ongoing. I think everyone has seen the list of what didn't show up in this biennium for the land department. We appropriated this current biennium about $140M and we are still $86M short of that $140M.

Chairman Wardner: That is the energy impact grant.

Representative Kempenich: Yes. The problem is we're pushing forward with moneys. There is roughly $4.5M coming in about now, it wasn't that earlier. We will be able to cover some of this. Take the airports, Williston was at 39, Dickinson airport was at 4.6, other airports were at 1.39. (He continues reading from paper from Land Department.) We pulled the airports out of this discussion and money. There is roughly $42M that could be collected yet through this biennium. Realizing there is a 2-month lag, there is roughly $22M that could show up. It depends on what the percentages of the development. How to fund this airport commitment has been one of the struggles? We're covering $25M and finding the other $15M has been the biggest challenge.

Representative Brandenburg: Looking at the numbers here of what is going out. When you add it all up, there are $540M going out west and $40M to airports. The airport issue is not going to go away. Looking at the numbers to develop a plan to take care of airports because when we come back next session there is still going to be money needed for the airports. Williston is looking at $132M of federal money and $60M from the city and $40M from the state. It is an ongoing issue.

Senator Wanzek: Obviously I'd like to see oil money going to non-oil townships. I feel I'm being asked to make a policy decision that we didn't have a hearing on and we are making a change and I question the fairness of that. If we can somehow identify some funds that would help our townships to the east and leave the current situation as it is and go through the study. I don't know that I am in the position to say that these townships in oil counties are getting too much money or not enough money. I know this is a promise we made. If we can somehow identify another source and honor our situation that is out there and look into it. It's a struggle.

Representative Delzer: That's one of the struggles we have. I don't know where we have any more money. We have to look at the budget stabilization fund to we want to put money in or next time SIIF money because we are basically using everything we have available. There was $39M for the Williston airport and what we put together here is a combination that fits $35M because when the bids have been coming in they have been coming in considerably lower.

Representative Kempenich: This has been an ongoing from basically January, because this wasn't showing up. In my mind it's trying to find the airport. The way the formula was put together that wasn't the issue from the start and that is where I would just as soon leave that conversation. It is how to fund $15M to finish the Williston airport.

Representative Delzer: If we could possibly find the money somewhere, I'd rather use the SIIF money for the non-oil, so it could go out in August of this year. Where is if we use the oil money and did it over the two years it is going to take the two years to get that money out to the non-oil townships.

Chairman Wardner: I would like to make some comments to what you guys have mentioned. When you talk about there being a lot of money there now and you are comparing what non-oil is getting versus oil. I want you to be aware that when this thing wrapped up in 2007, it took a long before we got resources out there. They had needs and they were eating dust and there were ruts in the roads. So until they got that resource out there, they were behind the eight ball. As we go forward maybe they are with a little more but the fact of the matter is they have needs. Back in the day when things were hopping out there we had something called the Bakken premium, so they got a lot of money but it didn't go very far. Those are some things they had to deal with and as we go forward I know we hear rumors that there are townships that have high reserves. There may be a few but all in all most of them still have needs and things they need to get taken care of from when the activity was so heavy out there. I still believe they need it and in the information that I have gotten they have graveling to do, they had roads to reconstruct and then one of the biggest things that has happened out west is they put magnesium chloride on the roads to control dust. It was bad, there was dust on that grass and it didn't grow. Cattle didn't mess with it. The oil industry had felt a down turn too. They don't make as much money. Oil companies aren't building roads anymore and the townships need this money. The counties that don't have townships they are losing that money to shore up their roads. For these townships, they have planned on it. In townships its basically roads, the ones that are organized its roads. We wouldn't think of going into Fargo diversion and taking that money away. There is a contract here and we made a commitment and if you change the contract that's one thing and it is part of a contract. Next time, we will take it from the counties or take it from the schools. I am concerned about setting a precedent here. I do believe the township thing is separate from the airports. There is no question that the airports are critical for those hub cities.

Representative Delzer: I don't disagree with a lot of what you said except with the exception that this is not a contract. This is something that is dealt with by every legislative session. We looked at this and six years ago these townships were getting nothing. We worked hard to make sure they got something because they needed it. Now we have every township having problems and townships are limited in what they can tax. I don't have the updated numbers but the most they could tax is $10,000 a township. It may be up to that 15 range especially in the east where you have higher values on land. In the west its' probably less. This is entirely different than a contract because this is open. Each legislative session, we can't tell the next one what they have to do. All we can do is deal with what is in front of us.

Representative Kempenich: It took 2 biennia's, until 2011. The biggest problem we ran into with the townships is there was one county when we put that first percentage out, we didn't put townships into that but we expected the counties to step up and help the townships. One county drug their feet in supporting their townships. They weren't receiving the help they needed. It still wouldn't matter because the way it was set up the counties were getting the money. This would still be the same way. Going back, I think our challenge is to find airport money to help Williston. Whether we can get part this biennium and part through next session. We're trying to find identifiable money to finish this or to meet this. We spent over a billion dollars trying to backfill everything in this biennium to meet what we have done. There's a billion that didn't show up on this side of the coin plus on the general funding side of the coin. Everything is backing up from into what happened here in the last year and a half. That's our challenge of what we need to do.

Representative Brandenburg: I'm chairman of Nora township and we have blacktop road that got dug up a couple of years ago and there is no plan to put back the blacktop. Every time we get spring run off or a spring storm, plus we have a gravel road and they pounded that road to nothing. I just wanted to share that regular townships we have some of those same issues that happen in the oil townships.

Senator Grabinger: I understand that and I get where non-oil producing townships need money too. We all have the needs but I agree with the Majority Leader. We have a commitment that we made as a state to these oil producing townships and I think if we can somehow work towards what Senator Wanzek was alluding to and find some other source to give to the non-oil producing townships. I think that is the way to do it. We need to uphold the commitment that we made.

Chairman Wardner: I have a couple of responses. Representative Delzer you're right, each legislative session we can change things, however in this particular case, we represent the people and there should have been a hearing on this some place. I realize that we had 1166 over in the House and it covered some of these areas. Although it did not cover the township part. The other thing that bothers me is that it is put on a budget bill. It would have been nice had we kept 1166 alive and amended that and worked off of that. I think that would have been a better deal. I am going to do a little bit of digging around and figure out if we can't figure out a way because I am not against giving the non-oil townships some money. We did give them some money in the last session and when we talked to the township people they were happy. I feel for those people along the border where the roads are washed out. Do I think we need to take a look inside that formula, that legislation and see where the monies should go to counties? This study is important and we need to find that out. What I would like to do is to make sure it's set and so that the formula can work in to the future and we aren't in here fighting over it every session.

Representative Kempenich: Last session, we stuck $10M into the impact for dust control. It's funny how times change. It was a serious issue and so we did it. It's funny when dollars are available, ten million isn't a big issue.

Chairman Wardner: I was on appropriation then and both Senator Bowman and myself were fighting for a way to curb dust and I think we had to pilot counties. Is there anything else?

Representative Delzer: I think all of us are trying to do the best we can for everybody in the state. We may have differences of opinion, but we want to help.

Senator Wanzek: If nothing else I feel positive about, at least we are recognizing the value of township roads. I've always said the first miles a bushel of wheat or corn or a barrel of oil, or a load of coal typically makes is on a township road. They are vitally important to our economy.

Chairman Wardner: We're scheduled for this afternoon and will work on the budget for university and school lands. Any other comments?

Representative Kempenich: This afternoon you want basically the budget on the FTE's and the computers. That is about all we did outside of that.

Chairman Wardner: We will talk about the IT project and the funding. We will talk about the FTE's and the two advisory FTE's. It all has to do with their budget bill. Closed the hearing on SB 2013.

Testimony submitted later to the committee:

Memo from Lance Gaebe, Commissioner of University and School Lands (dated April 18, 2017) – Testimony Attached # 2.

2017 SENATE STANDING COMMITTEE MINUTES

Appropriations Committee
Harvest Room, State Capitol

SB 2013
4/24/2017
Job # 30278

☐ Subcommittee
☒ Conference Committee

Committee Clerk Signature	for Rose Laning

Explanation or reason for introduction of bill/resolution:

A BILL for an Act to provide an appropriation for defraying the expenses of the commissioner of university and school lands;

Minutes: Testimony Attached # 1 – 5

Legislative Council: Adam Mathiak
OMB: Becky Keller

Chairman Wardner called the conference committee to order on SB 2013. Conferees were: **Senators Wanzek and Grabinger and Representatives Kempenich, Brandenburg and Delzer.**

Senator Wardner handed out SB 2013 - 17.0521.02016 (Xmas tree version) – attached #1.

Representative Brandenburg (:48): (Handed out Proposed Amendment to SB 2013 – Wellhead Gas Flaring – Attached # 2) We'll look at Kempenich's amendment first.

Representative Kempenich (1:08): (Handed out Proposed amendment to SB 2013 - Section 20. Study of Oil and Gas Valuation – Attached # 3.) This is intent language; a study of evaluations but it does tie into how to recognize the infrastructure with this and how it all ties together. This study looks at different issues all around. The intent language brings an issue forward, but where it's aimed at, doesn't mean anything. It becomes problematic when you have stuff in the code that doesn't do anything. This piece asks the tax department, the board of university and school lands and the industrial commission because there are two members, the Governor and the Attorney General who are on the commission, and who need to define the flaring issues. We need to put the flaring issue in. Before the rules went in, we were flaring 60% gas now it's 88% captured. So the issue becomes where do you discover that value at?

Senator Wardner (3:40): Everyone should know what we are doing here. We are replacing section 20 with the language that has been brought forward. I will read attachment 3 to the committee.

Representative Kempenich (6:20): Over the next interim, the party involved probably isn't going to follow this. There are issues with how its being interpreted. Market value and gross production. It's what happens now, but there have been courts cases. It involved sour gas out of Killdeer. It's interesting where value is discovered but there are so many issues that go forward with this due to the lack of value. The question becomes, how do you mandate the investment?

Senator Wardner (8:15): I welcome the study because I think this will tell us how everything works.

Senator Wanzek (8:55): Reading thru the intent language. It doesn't indicate the state taking a position on what point do we determine the value. We need to determine at the well head what the value is and whether it's that value or the value that the producer is receiving.

Representative Kempenich: A well head lease does not recognize a working interest, they aren't paying for facilities. Some of the work or deductions going on there may be some incentive paid back in midstream but not going back to the royalty owner. This issue was in December. There are issues because it's kind of a monopoly deal regarding capturing of gas and flaring.

Representative Delzer: (12:33) I have no problem adding it, but we should have Adam make it a separate section.

Adam Mathiak: If this language was adopted, we would add it as section 21 and a standalone. The last two sections would be renumbered.

Senator Grabinger (13:30): Looks like we're putting the cart before the horse here. In section 20 we're already making a determination on how to go forward and we haven't done the study yet.

Representative Kempenich: This isn't new. Some of the rules have changed over the last few years, but this isn't a new. Companies had the option of flaring it off if they were going to lose money on it. Now it's kind of a mandate that they have to capture 88% of it. There are problems and issues out there with this. If it wasn't for last fall and last winter, I'd say get rid of it and let the courts handle it. But now court rulings are showing that they are also having problems with it. Maybe we should look at this a little deeper.

Senator Wardner: What's the downside if we do a study?

Representative Kempenich (16:48): With the intent I think the player involved is going to ignore it so that's what bothers me. The issue is to encourage energy investment. The crux of the issue is if there's no money involved why would you want to invest in infrastructure?

Senator Wardner: I agree. They're going to do it anyway; I want to make an intelligent decision regarding this. I want to know more.

Representative Delzer (18:20): Section 20 gives us guidelines on the study. If taken out, they will only look at it from their standpoint.

Senator Wardner: Do you feel comfortable with that explanation?

Senator Grabinger: The study pretty much spells out and what the study is to look at. I don't think that has any bearing on the study. Do the study, find out what's going on, and come back in two years and do.

Representative Brandenburg (19:40): There are some problems trying to find out who is making money and who is losing money. What the proposed amendment will do, until we get done with the study, is allow the industrial commission to allow operators to flare away the gas if the operator doesn't have sufficient vacuum to demonstrate that the gas is (indistinguishable) with the wellhead.

Senator Wardner (22:25): This pertains to state lands. This is a contract between the Land Dept. and oil companies, is that correct? It doesn't affect contracts with other private land owners?

Representative Kempenich (22:55): Well there are problems with that. Like I was saying earlier, this is the crux of the issue. We do want to encourage investment in energy infrastructure and so the companies are going to have the majority of the product going through these facilities but if the royalty holder wants to get 100% of theirs at a recognized value at the back end with no investment, that becomes an issue. We need to look at how we get to that investment and still recover costs if there is no cost recognition which is what this is all about.

Senator Wardner (26:15): I want to dissect this a little bit. Was this an amendment brought into the committee from before? (Yes)

Representative Kempenich (26:40): We had both the players and we brought the discussion forward. You want to encourage the development of the infrastructure that will be needed to be put in out there. It's getting a little foggy.

Senator Wardner: I want flaring to be minimized out in the oil patch. There are also people who feel they are getting short changed from those who are selling the gas. I'm going to go through it and see what people object to. (Reading from Xmas tree version - page 18)

Senator Wardner (30:35): Why do you think it helps the study?

Representative Kempenich: There have been legal court cases regarding this, specifically, the Petro-Hunt case. The problems 3-4 years ago were from us mandating gas capture. From personal experience, sometimes deductions are up and sometimes they disappear, but it was never really a big dollar amount. But since there is a mandate to capture gas now, I think we have to look into this more.

Senator Wardner (33:10): The biggest thing to me is where it says, "shall continue to interpret the terms," I guess I'm not sure what that all means. So I guess I could see it either way; we could take it out or leave it in.

Senator Wanzek (33:33): I've read this a number of times to try to decipher what it's saying, but just again to get more understanding of this. It sounds to me that the gas at the well head depends on how close you are to the production facility as to what the value is. Am I wrong in that assessment?

Representative Kempenich (34:20): There is exceptions for remoteness. It costs more – one well could see the plant and that one could cost the most. Some were on the south side of the lake, some on the north. You're getting into marketing now and a lot of stuff we don't address in here also, and that's why they're not going to follow this. Leaving it in just draws attention to why we have to study this.

Senator Grabinger (36:00): We're hearing it on both sides here, we want to study this, we want to learn more about this. But before we go ahead, we should take a look at that because it appears that we haven't got all the facts on the other side of the argument. We need to be careful with that. Representative Brandenburg, regarding your proposal, who makes the determination if there is value at the well head?

Representative Brandenburg: The Industrial Commission does.

Senator Wardner (38:40): Companies come in and if they are not reimbursing the royalty owner, then that's not right. I would entertain a motion regarding this.

Representative Brandenburg: This amendment was here for discussion so everyone could understand what we are up against. If it doesn't carry forward, that's ok. If we don't move this, I'll live another day.

Representative Kempenich (40:00): motioned to move the white sheet amendment on the study.

Representative Brandenburg: Seconded the motion.

A Roll Call Vote was taken: 6 yeas, 0 nays, 0 absent.
The motion carried.

Senator Wardner: We need to know who is making the money?

Senator Grabinger: I will support the study and then I'd like to remove the last part of sections 20, line 30. I would move that we strike the rest of the sentence after the word "purchaser" all the way to the end of the section on the next page after law."

Senator Grabinger: Moved to strike part of section 20, line 30 to the end of the section.
Senator Wanzek: Seconded the motion.

Senator Wanzek: I'm still trying to fully understand this. Usually calculations are made after the transactions. Reading this, I look at it as me renting the land, whatever my net dollars or whatever I receive will be factored in to the royalty or the rent payment in my scenario. If there is issue with grain, the landlord shares in that too. I don't have a problem with leaving that in.

Senator Grabinger: We should do the study and then make the determination.

A Roll Call Vote was taken: 1 yeas, 5 nays, 0 absent.

Senator Wardner: No	**Representative Kempenich: No**
Senator Wanzek: No	**Representative Brandenburg: No**
Senator Grabinger: Yes	**Representative Delzer: No**

Senator Wardner: asked **Adam Mathiak** to go over the bill and changes.

Adam Mathiak: Reading from xmas tree version of the bill – attached # 1 and then from attached #4 & #5.
(reading the Proposed Amendments to Engrossed SB 2013 - 17.0521.02016 – Statement of Purpose (page 13) Testimony Attached # 4.)
2017-2019 Biennium Oil and Gas Tax Allocation Formulas (Amendment 17.9668.10000) – attached # 5.

Representative Delzer: Moved that the House recede from House amendments and further amend with the discussed changes.
Senator Wanzek: Seconded the motion.

A Roll Call Vote was taken: 5 yeas, 1 nays, 0 absent.

Senator Wardner: Yes	**Representative Kempenich: Yes**
Senator Wanzek: Yes	**Representative Brandenburg: Yes**
Senator Grabinger: No	**Representative Delzer: Yes**

Senator Wardner closed the hearing on SB 2013.

17.0521.02017
Title.04000
Fiscal No. 3

Prepared by the Legislative Council staff for Conference Committee
April 24, 2017

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PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2013

That the House recede from its amendments as printed on pages 1332-1343 of the Senate Journal and pages 1560-1571 of the House Journal and that Engrossed Senate Bill No. 2013 be amended as follows:

Page 1, line 2, after the first semicolon insert "to provide an appropriation to the state treasurer;"

Page 1, line 3, replace "and to provide an exemption" with "to create and enact a new section to chapter 57-51 of the of the North Dakota Century Code, relating to the energy impact fund; to amend and reenact subsection 5 of section 57-51-01 and sections 57-51-15 and 57-51.1-07.6 of the North Dakota Century Code, relating to oil and gas gross production tax definitions and allocations and the political subdivision allocation fund; to repeal section 57-51.1-07.6 of the North Dakota Century Code, relating to the political subdivision allocation fund; to provide exemptions; to provide for reports; to provide statements of legislative intent; to provide for a legislative management study; and to provide an effective date"

Page 1, line 7, after the first comma insert "the strategic investment and improvements fund, the energy impact fund,"

Page 1, replace lines 13 through 20 with:

"Salaries and wages	$6,123,516	($117,966)	$6,005,550
Operating expenses	2,019,637	(243,914)	1,775,723
Capital assets	0	3,600,000	3,600,000
Grants	99,300,000	(59,300,000)	40,000,000
Contingencies	100,000	0	100,000
Energy infrastructure and impact office	700,000	(700,000)	0
Total special funds	$108,243,153	($56,761,880)	$51,481,273
Full-time equivalent positions	33.00	(2.00)	31.00

SECTION 2. HEALTH INSURANCE INCREASE. The appropriation in section 1 of this Act includes $84,948 from special funds for increases in employee health insurance premiums from $1,130 to $1,241 per month."

Page 2, replace lines 2 and 3 with:

"Oil and gas impact grants - airports	$0	$25,000,000
Other grants - airports	0	15,000,000
Information technology project	0	3,600,000
Total special funds	$0	$43,600,000"

Page 2, replace lines 8 through 12 with:

"**SECTION 4. APPROPRIATION - STATE TREASURER - DISTRIBUTIONS TO NON-OIL-PRODUCING COUNTIES.** There is appropriated out of any moneys in the strategic investment and improvements fund in the state treasury, not otherwise appropriated, the sum of $8,000,000, or so much of the sum as may be necessary, and out of any moneys in the state disaster relief fund in the state treasury, not otherwise appropriated, the sum of $8,100,000, or so much of the sum as may be necessary, to

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the state treasurer for the purpose of providing distributions to non-oil-producing counties for the benefit of the organized and unorganized townships within each non-oil-producing county, for the biennium beginning July 1, 2017, and ending June 30, 2019. In August 2017, the state treasurer shall distribute $16,100,000, or so much of the sum as may be necessary, to non-oil-producing counties for the benefit of the organized and unorganized townships within each non-oil-producing county. The distribution to each non-oil-producing county must provide for an allocation of $10,000 to each organized and unorganized township within the county. The amount allocated to organized townships under this section must be paid by the county treasurer to each organized township. The amount allocated to unorganized townships under this section must be credited by the county treasurer to a special fund for unorganized township roads. The distributions under this section must be used for the maintenance and improvement of township paved and unpaved roads and bridges. A township is not eligible for an allocation of funds under this section if the township does not maintain any township roads. For purposes of this subsection, a "non-oil-producing county" means a county that received no allocation of funding or a total allocation under subsection 2 of section 57-51-15 of less than $5,000,000 for the period beginning September 1, 2015, and ending August 31, 2016. For the purposes of calculating the unobligated balance of the state disaster relief fund under section 57-51.1-07.5, the moneys appropriated in this section from the state disaster relief fund may not be considered an obligation of the state disaster relief fund until after July 31, 2017. The funding appropriated in this section is considered a one-time funding item.

SECTION 5. TRANSFER - POLITICAL SUBDIVISION ALLOCATION FUND TO ENERGY IMPACT FUND. The state treasurer shall transfer $8,000,000 from the political subdivision allocation fund to the energy impact fund during August 2017.

SECTION 6. TRANSFER - POLITICAL SUBDIVISION ALLOCATION FUND TO STRATEGIC INVESTMENT AND IMPROVEMENTS FUND. After the transfer in section 5 of this Act, the state treasurer shall transfer any amount remaining in the political subdivision allocation fund from the political subdivision allocation fund to the strategic investment and improvements fund during August 2017.

SECTION 7. TRANSFER - STRATEGIC INVESTMENT AND IMPROVEMENTS FUND TO ENERGY IMPACT FUND. The state treasurer shall transfer $3,000,000 from the strategic investment and improvements fund to the energy impact fund during August 2017."

Page 3, after line 23, insert:

"**SECTION 11. EXEMPTION - FLOOD-IMPACTED POLITICAL SUBDIVISION INFRASTRUCTURE DEVELOPMENT GRANTS.** Up to $1,325,500 appropriated from the general fund in section 10 of chapter 579 of the 2011 Session Laws for flood-impacted political subdivision infrastructure development grants, which was awarded but not yet reimbursed to the city of Minot for a landfill expansion project, is not subject to section 54-44.1-11, and any unexpended funds are available to reimburse the city of Minot during the biennium beginning July 1, 2017, and ending June 30, 2019.

SECTION 12. INFORMATION TECHNOLOGY PROJECT - BUDGET SECTION APPROVAL - LEGISLATIVE INTENT - AGENCY EFFICIENCIES. The capital assets line item and the total special funds line item in section 1 of this Act include $3,600,000 from the state lands maintenance fund for an information technology project. Of the $3,600,000, $1,800,000 may be spent only upon approval of the budget section. It is the intent of the sixty-fifth legislative assembly that during the

2017-18 interim, the governor and the commissioner of university and school lands achieve efficiencies and budgetary savings within the department of trust lands through the use of innovative ideas and through alternative solutions relating to information technology.

SECTION 13. OIL AND GAS IMPACT GRANT FUND - AIRPORT GRANTS. The grants line item and the total special funds line item in section 1 of this Act include the sum of $25,000,000 from the oil and gas impact grant fund for grants to airports, for the biennium beginning July 1, 2017, and ending June 30, 2019. Of the $25,000,000, the board of university and school lands shall award a grant of $20,000,000 to the Williston airport and a grant of $5,000,000 to the Dickinson airport. A grant may be awarded to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

SECTION 14. ENERGY IMPACT FUND - WILLISTON AIRPORT GRANT. The grants line item and the total special funds line item in section 1 of this Act include the sum of $15,000,000 from the energy impact fund for a grant to the Williston airport, for the biennium beginning July 1, 2017, and ending June 30, 2019. A grant may be awarded to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

SECTION 15. AMENDMENT. Subsection 5 of section 57-51-01 of the North Dakota Century Code is amended and reenacted as follows:

5. "Hub city" means~~, for the period beginning September 1, 2015, and ending August 31, 2017, a city with a population of twelve thousand five hundred or more, according to the last official decennial federal census, which has more than one percent of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota. "Hub city" means, after August 31, 2017,~~ a city with a population of twelve thousand five hundred or more, according to the last official decennial federal census, which has more than ~~one~~<u>two</u> percent of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota.

SECTION 16. AMENDMENT. Section 57-51-15 of the North Dakota Century Code is amended and reenacted as follows:

57-51-15. Gross production tax allocation.

The gross production tax must be allocated monthly as follows:

1. ~~First the~~<u>The</u> tax revenue collected under this chapter equal to one percent of the gross value at the well of the oil and one-fifth of the tax on gas must be deposited with the state treasurer ~~who shall~~<u>. The state treasurer shall allocate the funding in the following order</u>:

    a. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city, which is located in a county that received an allocation under subsection 2, a monthly amount that will provide a total allocation of three hundred seventy-five thousand dollars per fiscal year for each full or partial percentage point of its~~

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~~private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city, which is located in a county that received an allocation under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of three hundred seventy-five thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~;~~. For purposes of the allocations under this subdivision during the period beginning September 1, 2017, and ending August 31, 2018, the state treasurer shall use the following employment percentages:

(1) Thirty-three percent for the city of Williston;

(2) Seventeen percent for the city of Dickinson; and

(3) Four percent for the city of Minot.

b. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city, which is located in a county that did not receive an allocation under subsection 2, a monthly amount that will provide a total allocation of two hundred fifty thousand dollars per fiscal year for each full or partial percentage point of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city, which is located in a county that did not receive an allocation under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of two hundred fifty thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~;~~.

c. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city school district, which is located in a county that received an allocation under subsection 2, a monthly amount that will provide a total allocation of one hundred twenty-five thousand dollars per fiscal year for each full or partial percentage point of the hub city's private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city school district, which is located in a county that received an allocation under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one hundred twenty-five thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of the hub city's private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~, provided that hub~~. Hub city school districts, which are located in a

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county that did not receive an allocation under subsection 2 in the most recently completed even-numbered fiscal year, must be excluded from the allocations under this subdivision~~;~~. For purposes of the allocations under this subdivision during the period beginning September 1, 2017, and ending August 31, 2018, the state treasurer shall use the following employment percentages:

(1) Thirty-three percent for the city of Williston;

(2) Seventeen percent for the city of Dickinson; and

(3) Four percent for the city of Minot.

d. ~~Allocate to~~To each county that received more than five million dollars but less than thirty million dollars of total allocations under subsection 2 in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, the state treasurer shall allocate a monthly amount that will ~~provide a total allocation of one million five hundred thousand dollars per fiscal year to be added by the state treasurer~~be added to the allocations to school districts under subdivision b of subsection 5~~;~~

~~e. Credit revenues to the oil and gas impact grant fund, but not in an amount exceeding one hundred forty million dollars per biennium for the 2015-17 biennium, and not in an amount exceeding one hundred million dollars per biennium thereafter;~~

~~f. Credit eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding twenty million dollars in a state fiscal year and not in an amount exceeding forty million dollars per biennium;~~

~~g. Credit four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding seven million five hundred thousand dollars in a state fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars; and~~

~~h. Allocate the remaining revenues under subsection 3~~, as follows:

(1) To each county that received more than five million dollars but not exceeding ten million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million five hundred thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(2) To each county that received more than ten million dollars but not exceeding fifteen million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million two hundred fifty thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

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(3) To each county that received more than fifteen million dollars but not exceeding twenty million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(4) To each county that received more than twenty million dollars but not exceeding twenty-five million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of seven hundred fifty thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(5) To each county that received more than twenty-five million dollars but not exceeding thirty million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of five hundred thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

e. (1) For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding ten million dollars per biennium. For purposes of this paragraph, "biennium" means the period beginning September first of each odd-numbered calendar year and ending August thirty-first of the following odd-numbered calendar year.

(2) After August 31, 2019, the state treasurer shall allocate eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding twenty million dollars per fiscal year.

f. (1) For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding four million dollars per fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars.

(2) After August 31, 2019, the state treasurer shall allocate four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding seven million five hundred thousand dollars per fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars.

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g. For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate the remaining revenues in the following order:

(1) Up to twenty-five million dollars to the oil and gas impact grant fund.

(2) Any remaining revenues under subsection 3.

h. After August 31, 2019, the state treasurer shall allocate the remaining revenues in the following order:

(1) Up to five million dollars per biennium to the oil and gas impact grant fund. For purposes of this paragraph, "biennium" means the period beginning September first of each odd-numbered calendar year and ending August thirty-first of the following odd-numbered calendar year.

(2) Any remaining revenues under subsection 3.

i. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

2. a. During the period beginning September 1, 2017, and ending August 31, 2019, for counties that received less than five million dollars of total allocations under this subsection in the most recently completed even-numbered fiscal year, then after deduction of the amount provided in subsection 1, the state treasurer shall allocate revenue collected under this chapter from oil and gas produced in each county as follows:

(1) The first five million dollars of collections received each fiscal year is allocated to the county.

(2) The remaining revenue collections received each fiscal year are allocated thirty percent to the county and seventy percent to the state for allocations under subsection 3.

b. During the period beginning September 1, 2017, and ending August 31, 2019, for counties that received five million dollars or more of total allocations under this subsection in the most recently completed even-numbered fiscal year, then after deduction of the amount provided in subsection 1, the state treasurer shall allocate revenue collected under this chapter from oil and gas produced in each county as follows:

(1) The first five million dollars of collections received each fiscal year is allocated to the county. From the first five million dollars allocated to the county, the state treasurer shall allocate an amount from each county to the energy impact fund to provide a total allocation of two million per fiscal year to the fund. The amount allocated from each county to the energy impact fund under this paragraph must be proportional the county's monthly oil and gas gross production tax revenue collected relative to the total monthly oil and gas gross production tax revenue collected from all the counties under this subdivision. The state treasurer

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shall allocate the amount remaining from this paragraph to the county under subsection 5. For the purposes of determining the counties that received five million dollars or more of total allocations under this subsection in the most recently completed even-numbered fiscal year under this section, any amounts withheld from the county for allocations to the energy impact are considered allocations to the county.

(2) The remaining revenue collections received each fiscal year are allocated thirty percent to the county and seventy percent to the state for allocations under subsection 3.

c. After deduction of the amount provided in subsection 1, annual revenue collected under this chapter from oil and gas produced in each county must be allocated after August 31, 2019, as follows:

~~a.~~(1) The first five million dollars is allocated to the county.

~~b.~~(2) Of all annual revenue exceeding five million dollars, thirty percent is allocated to the county.

d. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

3. After the allocations under subsections 1 and 2, the amount remaining is allocated first to provide for deposit of thirty percent of all revenue collected under this chapter in the legacy fund as provided in section 26 of article X of the Constitution of North Dakota and the remainder must be allocated to the state general fund. If the amount available for a monthly allocation under this subsection is insufficient to deposit thirty percent of all revenue collected under this chapter in the legacy fund, the state treasurer shall transfer the amount of the shortfall from the state general fund share of oil extraction tax collections and deposit that amount in the legacy fund.

4. For a county that received less than five million dollars of allocations under subsection 2 in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, revenues allocated to that county must be distributed at least quarterly by the state treasurer as follows:

   a. Forty-five percent must be distributed to the county treasurer and credited to the county general fund. However, the distribution to a county under this subdivision must be credited to the state general fund if in a taxable year after 2012 the county is not levying a total of at least ten mills for combined levies for county road and bridge, farm-to-market and federal aid road, and county road purposes.

   b. Thirty-five percent must be distributed to school districts within the county on the average daily attendance distribution basis for kindergarten through grade twelve students residing within the county, as certified to the state treasurer by the county superintendent of schools. However, a hub city school district must be omitted from distributions under this subdivision.

   c. Twenty percent must be distributed to the incorporated cities of the county. A hub city must be omitted from distributions under this

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subdivision. Distributions among cities under this subsection must be based upon the population of each incorporated city according to the last official decennial federal census. In determining the population of any city in which total employment increases by more than two hundred percent seasonally due to tourism, the population of that city for purposes of this subdivision must be increased by eight hundred percent.

d. <u>For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.</u>

5. For a county that received five million dollars or more of allocations under subsection 2 in ~~state~~<u>the most recently completed even-numbered</u> fiscal year ~~2014~~, revenues allocated to that county must be distributed at least quarterly by the state treasurer as follows:

a. Sixty percent must be distributed to the county treasurer and credited to the county general fund. However, the distribution to a county under this subdivision must be credited to the state general fund if in a taxable year after 2012 the county is not levying a total of at least ten mills for combined levies for county road and bridge, farm-to-market and federal aid road, and county road purposes.

b. Five percent must be distributed to school districts within the county on the average daily attendance distribution basis for kindergarten through grade twelve students residing within the county, as certified to the state treasurer by the county superintendent of schools. However, a hub city school district must be omitted from distributions under this subdivision.

c. Twenty percent must be distributed to the incorporated cities of the county. A hub city must be omitted from distributions under this subdivision. Distributions among cities under this subsection must be based upon the population of each incorporated city according to the last official decennial federal census. In determining the population of any city in which total employment increases by more than two hundred percent seasonally due to tourism, the population of that city for purposes of this subdivision must be increased by eight hundred percent.

d. Three percent must be allocated among the organized and unorganized townships of the county. The state treasurer shall allocate the funds available under this subdivision among townships in proportion to each township's road miles relative to the total township road miles in the county. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads, which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships.

e. Three percent must be allocated among the organized and unorganized townships in all the counties that received five million dollars or more of allocations under subsection 2 in the most recently completed ~~state~~<u>even-numbered</u> fiscal year. The amount available under this subdivision must be allocated by the state treasurer in an

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equal amount to each eligible organized and unorganized township. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads, which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships.

f. Nine percent must be distributed among hub cities. Sixty percent of funds available under this subdivision must be distributed to the hub city receiving the highest percentage of allocations to hub cities under subdivision a of subsection 1 for the quarterly period, thirty percent of funds available under this subdivision must be distributed to the hub city receiving the second highest percentage of such allocations, and ten percent of funds available under this subdivision must be distributed to the hub city receiving the third highest percentage of such allocations. <u>Hub cities, which are located in a county that did not receive an allocation under subsection 2 in the most recently completed even-numbered fiscal year, must be excluded from the allocations under this subsection. If fewer than three hub cities are eligible for the allocations under this subdivision, the state treasurer shall allocate the available funds in proportion to the amounts the eligible hub cities received under subdivision a of subsection 1.</u>

<u>g.</u> <u>For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.</u>

6. Within thirty days after the end of each calendar year, the board of county commissioners of each county that has received an allocation under this section shall file a report for the calendar year with the commissioner, in a format prescribed by the commissioner, including:

a. The county's statement of revenues and expenditures;

b. The county's ending fund balances;

c. The amounts allocated under this section to the county's general fund, the amounts expended from these allocations, and the purposes of the expenditures; and

d. The amounts allocated under this section to or for the benefit of townships within the county, the amounts expended from these allocations, and the purposes of the expenditures.

Within fifteen days after the time when reports under this subsection are due, the commissioner shall provide the reports to the legislative council compiling the information from reports received under this subsection.

7. Within thirty days after the end of each fiscal year ended June thirtieth, each school district that has received an allocation under this section shall file a report for the fiscal year ended June thirtieth with the commissioner, in a format prescribed by the commissioner, including:

a. The school district's statement of revenue and expenditures;

b. The school district's ending fund balances; and

c. The amounts allocated under this section to the school district, the amounts expended from these allocations, and the purposes of the expenditures.

Within fifteen days after the time when reports under this subsection are due, the commissioner shall provide the reports to the legislative council compiling the information from reports received under this subsection.

SECTION 17. A new section to chapter 57-51 of the North Dakota Century Code is created and enacted as follows:

Energy impact fund.

There is created in the state treasury the energy impact fund. The fund consists of all moneys deposited in the fund under section 57-51-15. The moneys in the fund may be spent pursuant to legislative appropriations.

SECTION 18. AMENDMENT. Section 57-51.1-07.6 of the North Dakota Century Code is amended and reenacted as follows:

57-51.1-07.6. Political subdivision allocation fund~~ - Oil and gas tax revenue allocations to political subdivisions - State treasurer - Continuing appropriation~~.

There is created in the state treasury the political subdivision allocation fund. The fund consists of oil and gas tax revenue deposited in the fund pursuant to this chapter. ~~All moneys in the fund are appropriated to the state treasurer on a continuing basis for the purpose of allocations to political subdivisions in oil-producing counties.~~

~~1.~~ ~~If the balance of the fund exceeds ten million dollars on March first of each odd-numbered year, within thirty-one days, the state treasurer shall allocate all moneys in the fund to eligible political subdivisions in oil-producing counties based on each political subdivision's oil and gas gross production tax allocations under subsection 4 or subsection 5 of section 57-51-15 in the most recently completed formula allocation year. The allocation to each eligible political subdivision must be proportional to each political subdivision's total oil and gas gross production tax allocation under subsection 4 or subsection 5 of section 57-51-15 in the most recently completed formula allocation year relative to the combined total of all oil and gas gross production tax allocations under subsection 4 and subsection 5 of section 57-51-15 in the most recently completed formula allocation year. For purposes of this subsection, "formula allocation year" means the period beginning September first of an odd-numbered year and ending August thirty-first of the following even-numbered year.~~

~~2.~~ ~~If the balance of the fund exceeds ten million dollars on August first of each odd-numbered year, within thirty-one days, the state treasurer shall allocate all moneys in the fund to eligible political subdivisions in oil-producing counties based on each political subdivision's oil and gas gross production tax allocations under subsection 4 or subsection 5 of section 57-51-15 in the most recently completed formula allocation year. The allocation to each eligible political subdivision must be proportional to each political subdivision's total oil and gas gross production tax allocation under subsection 4 or subsection 5 of section 57-51-15 in the most recently completed formula allocation year relative to the combined total of all oil and gas gross production tax allocations under subsection 4 and~~

~~subsection 5 of section 57-51-15 in the most recently completed formula allocation year. For purposes of this subsection, "formula allocation year" means the period beginning September first of an odd-numbered year and ending August thirty-first of the following even-numbered year.~~

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SECTION 19. REPEAL. Section 57-51.1-07.6 of the North Dakota Century Code is repealed.

SECTION 20. LEGISLATIVE INTENT - ENCOURAGEMENT OF ENERGY INFRASTRUCTURE INVESTMENT - COMMISSIONER OF UNIVERSITY AND SCHOOL LANDS - USE OF TERMS. It is the intent of the sixty-fifth legislative assembly that the state of North Dakota encourage the continued development of energy infrastructure that will help reduce instances of natural gas flaring and increase the market value received for oil and gas produced within the state generally and from state-owned lands specifically which will increase the value of royalties paid to the funds under the control of the board of university and school lands. Consistent with this intent, the commissioner of university and school lands shall continue to interpret the terms "gross production," "market value," and "gross proceeds of sale" in its lease form to mean a value determined at the producing well or associated production facility, or in the surrounding field or area, where the oil and gas was produced, before any post-production activities undertaken by the lessee, operator, or purchaser after the oil and gas has been transported from the producing well and associated production facility. These values must be determined by the amount received by the lessee in an arm's length contract, or in the absence of an arm's length contract, either a comparable sales method or a work-back calculation methodology consistent with state law.

SECTION 21. STUDY OF OIL AND GAS VALUATION - REPORT TO ENERGY DEVELOPMENT AND TRANSMISSION COMMITTEE.

1. During the 2017 18 interim, the tax department, in consultation with the board of university and school lands, the industrial commission, and other state agencies as necessary, shall study the valuation of oil and gas as used to determine mineral royalty payments and tax liability. The study must include consideration of the following:

   a. The methods used to calculate the value of oil and gas, including changes in custody, the basis for the value, any deductions or incentives applied to the value, and the point at which the value is determined.

   b. The impact of state and federal regulations, including gas capture requirements.

   c. The market competition for gas processing, including the possibility of rate setting by the public service commission.

   d. The reporting of any deductions or incentives applied to the value as included on mineral royalty statements and tax reporting documents.

2. The tax department shall report to the energy development and transmission committee by September 30, 2018, regarding the results and recommendations of the study.

SECTION 22. LEGISLATIVE MANAGEMENT STUDY - OIL AND GAS TAX REVENUE ALLOCATIONS TO HUB CITIES AND HUB CITY SCHOOL DISTRICTS.

1. During the 2017-18 interim, the legislative management shall consider studying oil and gas tax revenue allocations to hub cities and hub city school districts. The study must include consideration of the following:

   a. The current and historical oil and gas tax revenue allocations to hub cities and hub city school districts.

   b. Other state funding provided to hub cities and hub city school districts, including grants from the oil and gas impact grant fund, distributions from the strategic investment and improvements fund, state school aid payments, and payments from the state aid distribution fund and highway tax distribution fund.

   c. Local taxing and revenue levels in hub cities compared to cities in non-oil-producing counties, including mill levies, property tax values, local sales and use taxes, and other revenue sources.

   d. The appropriate level of oil and gas tax revenue allocations to hub cities and hub city school districts based on infrastructure and other needs.

   e. The estimated fiscal impact to hub cities, hub city school districts, other political subdivisions, and the state if the oil and gas tax revenue allocation formula would be changed to transition hub cities and hub city school districts from allocations under subsection 1 of section 57-51-15 to allocations under subsections 4 and 5 of section 57-51-15.

   f. The estimated fiscal impact to hub cities, hub city school districts, other political subdivisions, and the state if the oil and gas tax revenue allocation formula would be changed to discontinue the allocations to hub cities and hub city school districts under subsection 1 of section 57-51-15.

2. The membership of the committee assigned the responsibility of the study must proportionately reflect the state's population distribution between oil-producing counties and non-oil-producing counties and must include members from the finance and taxation committees and the appropriations committees.

3. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-sixth legislative assembly.

SECTION 23. EFFECTIVE DATE. Sections 15 and 16 of this Act are effective for taxable events occurring after June 30, 2017. Section 19 of this Act becomes effective September 1, 2017. House Bill No. 1300, as approved by the sixty-fifth legislative assembly, becomes effective January 1, 2018."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2013 - Summary of Conference Committee Action

	Base Budget	Senate Version	Conference Committee Changes	Conference Committee Version	House Version	Comparison to House

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State Treasurer						
Total all funds	$0	$0	$16,100,000	$16,100,000	$0	$16,100,000
Less estimated income	0	0	16,100,000	16,100,000	0	16,100,000
General fund	$0	$0	$0	$0	$0	$0
Department of Trust Lands						
Total all funds	$108,243,153	$13,565,176	$37,916,097	$51,481,273	$47,901,885	$3,579,388
Less estimated income	108,243,153	13,565,176	37,916,097	51,481,273	47,901,885	3,579,388
General fund	$0	$0	$0	$0	$0	$0
Bill total						
Total all funds	$108,243,153	$13,565,176	$54,016,097	$67,581,273	$47,901,885	$19,679,388
Less estimated income	108,243,153	13,565,176	54,016,097	67,581,273	47,901,885	19,679,388
General fund	$0	$0	$0	$0	$0	$0

Senate Bill No. 2013 - State Treasurer - Conference Committee Action

	Base Budget	Senate Version	Conference Committee Changes	Conference Committee Version	House Version	Comparison to House
Distributions to Non-Oil Townships			$16,100,000	$16,100,000		$16,100,000
Total all funds	$0	$0	$16,100,000	$16,100,000	$0	$16,100,000
Less estimated income	0	0	16,100,000	16,100,000	0	16,100,000
General fund	$0	$0	$0	$0	$0	$0
FTE	0.00	0.00	0.00	0.00	0.00	0.00

Department No. 120 - State Treasurer - Detail of Conference Committee Changes

	Adds Funding for Distributions to Townships in Non-Oil-Producing Counties[1]	Total Conference Committee Changes
Distributions to Non-Oil Townships	$16,100,000	$16,100,000
Total all funds	$16,100,000	$16,100,000
Less estimated income	16,100,000	16,100,000
General fund	$0	$0
FTE	0.00	0.00

[1] Funding of $8 million from the strategic investment and improvements fund and $8.1 million from the state disaster relief fund is added to provide a distribution of $10,000 to each organized and unorganized township in non-oil-producing counties.

This amendment also includes the following changes related to the State Treasurer:

- Adds a section to provide an appropriation to the State Treasurer for distributions to townships in non-oil-producing counties and to provide the criteria for the distributions.
- Provides for a transfer of $8 million from the political subdivision allocation fund to the energy impact fund.
- Provides for a transfer of the remaining amounts from the political subdivision allocation fund to the strategic investment and improvements fund.
- Provides for a transfer of $3 million from the strategic investment and improvements fund to the

energy impact fund.

Senate Bill No. 2013 - Department of Trust Lands - Conference Committee Action

	Base Budget	Senate Version	Conference Committee Changes	Conference Committee Version	House Version	Comparison to House
Salaries and wages	$6,123,516	$6,218,736	($213,186)	$6,005,550	$5,828,470	$177,080
Operating expenses	2,019,637	1,775,723		1,775,723	1,752,698	23,025
Capital assets		5,250,000	(1,650,000)	3,600,000		3,600,000
Grants	99,300,000		40,000,000	40,000,000	40,000,000	
Energy Infrastructure and Impact Office	700,000	220,717	(220,717)		220,717	(220,717)
Contingencies	100,000	100,000		100,000	100,000	
Total all funds	$108,243,153	$13,565,176	$37,916,097	$51,481,273	$47,901,885	$3,579,388
Less estimated income	108,243,153	13,565,176	37,916,097	51,481,273	47,901,885	3,579,388
General fund	$0	$0	$0	$0	$0	$0
FTE	33.00	32.00	(1.00)	31.00	30.00	1.00

Department No. 226 - Department of Trust Lands - Detail of Conference Committee Changes

	Adjusts Funding for Health Insurance Increases[1]	Removes Funding for an FTE Position[2]	Adds Funding for Grants[3]	Reduces Funding for Information Technology Project[4]	Adjusts Funding for Energy Infrastructure and Impact Office[5]	Total Conference Committee Changes
Salaries and wages	($6,636)	($206,550)				($213,186)
Operating expenses						
Capital assets				(1,650,000)		(1,650,000)
Grants			40,000,000			40,000,000
Energy Infrastructure and Impact Office					(220,717)	(220,717)
Contingencies						
Total all funds	($6,636)	($206,550)	$40,000,000	($1,650,000)	($220,717)	$37,916,097
Less estimated income	(6,636)	(206,550)	40,000,000	(1,650,000)	(220,717)	37,916,097
General fund	$0	$0	$0	$0	$0	$0
FTE	0.00	(1.00)	0.00	0.00	0.00	(1.00)

[1] Funding for employee health insurance is adjusted to reflect the updated premium amount of $1,241 per month.

[2] Funding of $206,550 is removed for a project manager position. The House removed $406,655 for a geographic information system position ($200,105) and for a project manager position ($206,550), both of which were included in the Senate version.

[3] One-time funding of $25 million is added from the oil and gas impact grant fund for grants to the Williston airport ($20 million) and the Dickinson airport ($5 million). One-time funding of $15 million is added from the energy impact fund for a grant to the Williston airport. The House provided the same level of funding but did not use funding from the energy impact fund.

[4] Funding is reduced by $1.65 million to provide $3.6 million for an information technology project. Of the $3.6 million, $1.8 million is available only upon approval of the Budget Section pursuant to Section 9 of the bill. The Senate included $5.25 million, and the House removed the funding for the project.

[5] Funding is removed for the Energy Infrastructure and Impact Office because the funding is a duplication of the funding authorized for administrative expenses from the continuation of unspent 2015-17 biennium appropriation authority as identified in Section 11.

This amendment also provides the following changes related to the Department of Trust Lands:

- Identifies the health insurance increase.
- Removes a section to provide line item transfer authority.
- Provides an exemption to allow an unspent grant to a flood-impacted political subdivision to be available in the 2017-19 biennium, the same as the House.
- Identifies $25 million from the oil and gas impact grant fund for an oil impact grant of $20 million to the Williston airport and a grant of $5 million to the Dickinson airport. This funding is available to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. The House also included this funding designation.
- Identifies $15 million from the energy impact fund for a grant to the Williston airport. This funding is available to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. The House provided $15 million from the strategic investment and improvements fund and included the federal funding commitment provisions.
- Removes a section added by the House to add two advisory members that are appointed by the Speaker of the House and the President Pro Tempore to the board of university and school lands.
- Amends the oil and gas tax revenue allocation formulas (see the table below) and provides an effective date related to the formula changes.
- Removes a section added by the House to provide that the city of Williston use the proceeds from the sale of the existing airport, up to $27.5 million, to repay the Department of Trust Lands for the state's financial assistance provided for the new airport.
- Removes a section added by the House to provide a statement of legislative intent that hub cities not issue new bonds during the 2017-19 biennium based on anticipated future hub city oil tax revenue allocations.
- Provides a statement of legislative intent regarding efficiencies within the Department of Trust Lands, the same as the House.
- Provides a statement of legislative intent regarding the calculation of mineral royalties, the same as the House.
- Provides for a study by the Tax Department and other state agencies regarding the valuation of oil and gas for mineral royalties and tax liability.
- Provides for a Legislative Management study regarding the oil and gas tax revenue allocations to hub cities and hub city school districts. The House also included the study.
- Provides an effective date for House Bill No. 1300 relating to the requirement that the Department of Trust Lands be subject to the administrative rules process.

Senate Bill No. 2013 - Other Changes - Conference Committee Action

2017-19 Biennium Oil and Gas Tax Allocation Formulas		
Current Law	**House Version - Senate Bill No. 2013 [17.0521.02014]**	**Conference Committee Version - Senate Bill No. 2013 [17.0521.02017]**
Hub city definition	**Hub city definition**	**Hub city definition**
•After August 31, 2017, a hub city is based on mining employment.	•No change to current law.	•A hub city must have more than 2 percent mining employment compared to 1 percent under current law.
Hub city and hub city school district allocations	**Hub city and hub city school district allocations**	**Hub city and hub city school district allocations**
•Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment.	•Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment exceeding 2 percent.	•Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment exceeding 2 percent and specifies employment percentages for the first year.

•Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment.	•Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment exceeding 2 percent.	•Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment exceeding 2 percent. (Same as House)
•Hub city school districts receive an annual allocation of $125,000 per full or partial percentage point of mining employment, excluding hub city school districts located in non-oil-producing counties.	•Hub city school districts in oil-producing counties receive an annual allocation of $125,000 per full or partial percentage point of mining employment exceeding 2 percent.	•Hub city school districts in oil-producing counties receive an annual allocation of $125,000 per full or partial percentage point of mining employment exceeding 2 percent and specifies employment percentages for the first year.
Supplemental school district allocation	**Supplemental school district allocation**	**Supplemental school district allocation**
•Eligible counties receive an annual allocation of $1.5 million for distributions to school districts in the county.	•Changes the annual allocation to provide a specific amount based on the oil and gas tax allocations received by the county in the most recently completed even-numbered fiscal year. The specific amounts range from $500,000 to $1.5 million per year.	•Changes the annual allocation to provide a specific amount based on the oil and gas tax allocations received by the county in the most recently completed even-numbered fiscal year. The specific amounts range from $500,000 to $1.5 million per year. (Same as House)
North Dakota outdoor heritage fund allocations	**North Dakota outdoor heritage fund allocations**	**North Dakota outdoor heritage fund allocations**
•From the 1 percent of the 5 percent oil and gas gross production tax, 8 percent is allocated to the North Dakota outdoor heritage fund, up to $20 million per fiscal year.	•Decreases the amount allocated to the North Dakota outdoor heritage fund by changing the limit from $20 million per fiscal year to $10 million per biennium only for the 2017-19 biennium.	•Decreases the amount allocated to the North Dakota outdoor heritage fund by changing the limit from $20 million per fiscal year to $10 million per biennium only for the 2017-19 biennium. (Same as House)
Abandoned oil and gas well plugging and site reclamation fund allocations	**Abandoned oil and gas well plugging and site reclamation fund allocations**	**Abandoned oil and gas well plugging and site reclamation fund allocations**
•From the 1 percent of the 5 percent oil and gas gross production tax, 4 percent is allocated to the abandoned oil and gas well plugging and site reclamation fund, up to $7.5 million per fiscal year.	•Decreases the amount allocated to the abandoned oil and gas well plugging and site reclamation fund by changing the limit from $7.5 million per fiscal year to $4 million per fiscal year only for the 2017-19 biennium.	•Decreases the amount allocated to the abandoned oil and gas well plugging and site reclamation fund by changing the limit from $7.5 million per fiscal year to $4 million per fiscal year only for the 2017-19 biennium. (Same as House)
Oil and gas impact grant fund allocations	**Oil and gas impact grant fund allocations**	**Oil and gas impact grant fund allocations**
•Up to $100 million per biennium is allocated to the oil and gas impact grant fund.	•Decreases the allocation to the oil and gas impact grant fund from $100 million per biennium to $25 million per biennium for the 2017-19 biennium and provides an allocation of $5 million per biennium to the oil and gas impact grant fund after the 2017-19 biennium.	•Decreases the allocation to the oil and gas impact grant fund from $100 million per biennium to $25 million per biennium for the 2017-19 biennium and provides an allocation of $5 million per biennium to the oil and gas impact grant fund after the 2017-19 biennium. (Same as House)
Distributions to political subdivisions	**Distributions to political subdivisions**	**Distributions to political subdivisions**
•The distributions to political subdivisions in North Dakota Century Code Sections 57-51-15(4) and 57-51-15(5) are based on the oil and gas tax allocations received by a county in fiscal year 2014.	•Changes the basis for the distributions to political subdivisions in Sections 57-51-15(4) and 57-51-15(5) to reflect the oil and gas tax allocations received by a county in the most recently completed even-numbered fiscal year rather than fiscal year 2014.	•Changes the basis for the distributions to political subdivisions in Sections 57-51-15(4) and 57-51-15(5) to reflect the oil and gas tax allocations received by a county in the most recently completed even-numbered fiscal year rather than fiscal year 2014. (Same as House)
•From the 4 percent of the 5 percent oil and gas gross production tax, 30 percent of all revenue above $5 million is allocated to the county with the remaining 70 percent allocated to the state.	•No change to current law.	•From the first $5 million allocated to the county related to counties that received $5 million or more in the most recently completed even-numbered fiscal year, a total of $2 million per fiscal year is allocated to a newly created energy impact fund with the remainder allocated to the counties. This allocation change is only for the 2017-19 biennium.

CR
4/25/17
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- The distributions to political subdivisions are as follows:

	Counties - Less Than $5 Million	Counties - $5 Million or More
County	45%	60%
Cities	20%	20%
Schools	35%	5%
Townships		
Equal		3%
Road miles		3%
Hub cities		9%

- From the counties' share in counties that received $5 million or more of oil and gas tax allocations, 9 percent is distributed to the 3 hub cities with the highest percentage of mining employment.

Political subdivision allocation fund

- Allocations to the political subdivision allocation fund expire at the end of the the 2015-17 biennium. Distributions from the fund are made in March and August of odd-numbered fiscal years

- The proposed changes to the distributions to political subdivisions are as follows:

	Counties - Less Than $5 Million	Counties - $5 Million or More
County	45%	60%
Cities	20%	20%
Schools	35%	5%
Townships		
Equal		1%
Road miles		1%
Non-oil		4%
Hub cities		9%

- Clarifies the distribution to hub cities to exclude hub cities that are located in non-oil-producing counties and to provide proportional allocations if less than 3 hub cities qualify for the distributions.

Political subdivision allocation fund

- No change to current law.

- No change to current law.

- Clarifies the distribution to hub cities to exclude hub cities that are located in non-oil-producing counties and to provide proportional allocations if less than 3 hub cities qualify for the distributions. (Same as House)

Political subdivision allocation fund

- Removes the distributions to political subdivisions and repeals the fund on September 1, 2017.

Energy impact fund

- Creates a new section to Chapter 57-51 to establish the energy impact fund.

Date: ____________
Roll Call Vote #: ____________

2017 SENATE CONFERENCE COMMITTEE
ROLL CALL VOTES

BILL/RESOLUTION NO. 2013 as (re) engrossed

Attendance Sheet

Senate Appropriations Committee

Action Taken
- ☐ **SENATE accede to House Amendments**
- ☐ **SENATE accede to House Amendments and further amend**
- ☐ **HOUSE recede from House amendments**
- ☐ **HOUSE recede from House amendments and amend as follows**
- ☐ **Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion Made by: ____________ Seconded by: ____________

Senators	4/18	4/19	4/24	Yes	No	Representatives	4/18	4/19	4/24	Yes	No
Senator Wardner	✓	✓	✓			Rep. Kempenich	✓	✓	✓		
Senator Wanzek	✓	✓	✓			Rep. Brandenburg	✓	✓	✓		
Senator Grabinger	✓	✓	✓			Rep. Delzer	✓	✓	✓		
Total Senate Vote						Total Rep. Vote					

Vote Count Yes: ________ No: ________ Absent: ________

Senate Carrier ____________ House Carrier ____________

LC Number ____________ . ____________ of amendment

LC Title # ____________ . ____________ of engrossment

Emergency clause added or deleted

Statement of purpose of amendment

Date: 4-24-17
Roll Call Vote #: 1

2017 SENATE CONFERENCE COMMITTEE
ROLL CALL VOTES

BILL/RESOLUTION NO. 2013 as (re) engrossed

Senate Appropriations Committee

Action Taken
- ☐ **SENATE accede to House Amendments**
- ☐ **SENATE accede to House Amendments and further amend**
- ☐ **HOUSE recede from House amendments**
- ☐ **HOUSE recede from House amendments and amend as follows**

- ☐ **Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion: To accept the white Sheet amendment on the Study. of oil + gas valuation.

Motion Made by: Rep. Kempenich Seconded by: Rep. Brandenburg

Senators				Yes	No		Representatives				Yes	No
Senator Wardner				Y			Rep. Kempenich				Y	
Senator Wanzek				Y			Rep. Brandenburg				Y	
Senator Grabinger				Y			Rep. Delzer				Y	
Total Senate Vote				3	0		Total Rep. Vote				3	0

Vote Count Yes: 6 No: 0 Absent: 0

Senate Carrier ______ House Carrier ______

LC Number ______ . ______ of amendment

LC Title # ______ . ______ of engrossment

Emergency clause added or deleted

Statement of purpose of amendment

Date: 4-24-17
Roll Call Vote #: 2

2017 SENATE CONFERENCE COMMITTEE
ROLL CALL VOTES

BILL/RESOLUTION NO. 2013 as (re) engrossed

Senate Appropriations Committee

Action Taken
- ☐ **SENATE accede to House Amendments**
- ☐ **SENATE accede to House Amendments and further amend**
- ☐ **HOUSE recede from House amendments**
- ☐ **HOUSE recede from House amendments and amend as follows**

- ☐ **Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion: To strike part of Section 20, line 30 to end of section.

Motion Made by: Senator Grabinger Seconded by: Senator Wanzek

Senators				Yes	No	Representatives				Yes	No
Senator Wardner					N	Rep. Kempenich					N
Senator Wanzek					N	Rep. Brandenburg					N
Senator Grabinger				Y		Rep. Delzer					N
Total Senate Vote				1	2	Total Rep. Vote				0	3

Vote Count Yes: 1 No: 5 Absent: 0

Senate Carrier ______________ House Carrier ______________

LC Number ______________ . ______________ of amendment

LC Title # ______________ . ______________ of engrossment

Emergency clause added or deleted

Statement of purpose of amendment

Date: 4-24-17
Roll Call Vote #: 3

2017 SENATE CONFERENCE COMMITTEE
ROLL CALL VOTES

BILL/RESOLUTION NO. 2013 as (re) engrossed

Senate Appropriations Committee

Action Taken
- ☐ **SENATE accede to House Amendments**
- ☐ **SENATE accede to House Amendments and further amend**
- ☐ **HOUSE recede from House amendments**
- ☒ **HOUSE recede from House amendments and amend as follows**

- ☐ **Unable to agree**, recommends that the committee be discharged and a new committee be appointed

Motion Made by: Rep Delzer Seconded by: Senator Wanzek

Senators				Yes	No	Representatives				Yes	No
Senator Wardner				Y		Rep. Kempenich				Y	
Senator Wanzek				Y		Rep. Brandenburg				Y	
Senator Grabinger					N	Rep. Delzer				Y	
Total Senate Vote				2	1	Total Rep. Vote				3	0

Vote Count Yes: 5 No: 1 Absent: 0

Senate Carrier Wardner House Carrier Kempenich

LC Number 17.0521 . 02017 of amendment

LC Title # 17.0521 . 04000 of engrossment

Emergency clause added or deleted

Statement of purpose of amendment

REPORT OF CONFERENCE COMMITTEE

SB 2013, as engrossed: Your conference committee (Sens. Wardner, Wanzek, Grabinger and Reps. Kempenich, Brandenburg, Delzer) recommends that the **HOUSE RECEDE** from the House amendments as printed on SJ pages 1332-1343, adopt amendments as follows, and place SB 2013 on the Seventh order:

That the House recede from its amendments as printed on pages 1332-1343 of the Senate Journal and pages 1560-1571 of the House Journal and that Engrossed Senate Bill No. 2013 be amended as follows:

Page 1, line 2, after the first semicolon insert "to provide an appropriation to the state treasurer;"

Page 1, line 3, replace "and to provide an exemption" with "to create and enact a new section to chapter 57-51 of the of the North Dakota Century Code, relating to the energy impact fund; to amend and reenact subsection 5 of section 57-51-01 and sections 57-51-15 and 57-51.1-07.6 of the North Dakota Century Code, relating to oil and gas gross production tax definitions and allocations and the political subdivision allocation fund; to repeal section 57-51.1-07.6 of the North Dakota Century Code, relating to the political subdivision allocation fund; to provide exemptions; to provide for reports; to provide statements of legislative intent; to provide for a legislative management study; and to provide an effective date"

Page 1, line 7, after the first comma insert "the strategic investment and improvements fund, the energy impact fund,"

Page 1, replace lines 13 through 20 with:

"Salaries and wages	$6,123,516	($117,966)	$6,005,550
Operating expenses	2,019,637	(243,914)	1,775,723
Capital assets	0	3,600,000	3,600,000
Grants	99,300,000	(59,300,000)	40,000,000
Contingencies	100,000	0	100,000
Energy infrastructure and impact office	700,000	(700,000)	0
Total special funds	$108,243,153	($56,761,880)	$51,481,273
Full-time equivalent positions	33.00	(2.00)	31.00

SECTION 2. HEALTH INSURANCE INCREASE. The appropriation in section 1 of this Act includes $84,948 from special funds for increases in employee health insurance premiums from $1,130 to $1,241 per month."

Page 2, replace lines 2 and 3 with:

"Oil and gas impact grants - airports	$0	$25,000,000
Other grants - airports	0	15,000,000
Information technology project	0	3,600,000
Total special funds	$0	$43,600,000"

Page 2, replace lines 8 through 12 with:

"**SECTION 4. APPROPRIATION - STATE TREASURER - DISTRIBUTIONS TO NON-OIL-PRODUCING COUNTIES.** There is appropriated out of any moneys in the strategic investment and improvements fund in the state treasury, not otherwise appropriated, the sum of $8,000,000, or so much of the sum as may be necessary, and out of any moneys in the state disaster relief fund in the state treasury, not otherwise appropriated, the sum of $8,100,000, or so much of the sum as may be necessary, to the state treasurer for the purpose of providing distributions to non-oil-producing counties for the benefit of the organized and unorganized townships within each non-oil-producing county, for the biennium beginning July 1, 2017, and ending June 30, 2019. In August 2017, the state treasurer shall distribute $16,100,000, or so much of the sum as may be necessary, to non-oil-producing counties for the benefit of the organized and unorganized townships within each non-oil-producing county. The distribution to each non-oil-producing county must provide for an allocation of $10,000 to each organized and unorganized township within the county. The amount allocated to organized townships under this section must be paid by the county treasurer to each organized township. The amount allocated to unorganized townships under this section must be credited by the county treasurer to a special fund for unorganized township roads. The distributions under this section must be used for the maintenance and improvement of township paved and unpaved roads and bridges. A township is not eligible for an allocation of funds under this section if the township does not maintain any township roads. For purposes of this subsection, a "non-oil-producing county" means a county that received no allocation of funding or a total allocation under subsection 2 of section 57-51-15 of less than $5,000,000 for the period beginning September 1, 2015, and ending August 31, 2016. For the purposes of calculating the unobligated balance of the state disaster relief fund under section 57-51.1-07.5, the moneys appropriated in this section from the state disaster relief fund may not be considered an obligation of the state disaster relief fund until after July 31, 2017. The funding appropriated in this section is considered a one-time funding item.

SECTION 5. TRANSFER - POLITICAL SUBDIVISION ALLOCATION FUND TO ENERGY IMPACT FUND. The state treasurer shall transfer $8,000,000 from the political subdivision allocation fund to the energy impact fund during August 2017.

SECTION 6. TRANSFER - POLITICAL SUBDIVISION ALLOCATION FUND TO STRATEGIC INVESTMENT AND IMPROVEMENTS FUND. After the transfer in section 5 of this Act, the state treasurer shall transfer any amount remaining in the political subdivision allocation fund from the political subdivision allocation fund to the strategic investment and improvements fund during August 2017.

SECTION 7. TRANSFER - STRATEGIC INVESTMENT AND IMPROVEMENTS FUND TO ENERGY IMPACT FUND. The state treasurer shall transfer $3,000,000 from the strategic investment and improvements fund to the energy impact fund during August 2017."

Page 3, after line 23, insert:

"SECTION 11. EXEMPTION - FLOOD-IMPACTED POLITICAL SUBDIVISION INFRASTRUCTURE DEVELOPMENT GRANTS. Up to $1,325,500 appropriated from the general fund in section 10 of chapter 579 of the 2011 Session Laws for flood-impacted political subdivision infrastructure development grants, which was awarded but not yet reimbursed to the city of Minot for a landfill expansion project, is not subject to section 54-44.1-11, and any unexpended funds are available to reimburse the city of Minot during the biennium beginning July 1, 2017, and ending June 30, 2019.

SECTION 12. INFORMATION TECHNOLOGY PROJECT - BUDGET SECTION APPROVAL - LEGISLATIVE INTENT - AGENCY EFFICIENCIES. The capital assets line item and the total special funds line item in section 1 of this Act include $3,600,000 from the state lands maintenance fund for an information technology project. Of the $3,600,000, $1,800,000 may be spent only upon approval of the budget section. It is the intent of the sixty-fifth legislative assembly that during the 2017-18 interim, the governor and the commissioner of university and school lands achieve efficiencies and budgetary savings within the department of trust lands through the use of innovative ideas and through alternative solutions relating to information technology.

SECTION 13. OIL AND GAS IMPACT GRANT FUND - AIRPORT GRANTS. The grants line item and the total special funds line item in section 1 of this Act include the sum of $25,000,000 from the oil and gas impact grant fund for grants to airports, for the biennium beginning July 1, 2017, and ending June 30, 2019. Of the $25,000,000, the board of university and school lands shall award a grant of $20,000,000 to the Williston airport and a grant of $5,000,000 to the Dickinson airport. A grant may be awarded to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

SECTION 14. ENERGY IMPACT FUND - WILLISTON AIRPORT GRANT. The grants line item and the total special funds line item in section 1 of this Act include the sum of $15,000,000 from the energy impact fund for a grant to the Williston airport, for the biennium beginning July 1, 2017, and ending June 30, 2019. A grant may be awarded to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

SECTION 15. AMENDMENT. Subsection 5 of section 57-51-01 of the North Dakota Century Code is amended and reenacted as follows:

5. "Hub city" means~~, for the period beginning September 1, 2015, and ending August 31, 2017, a city with a population of twelve thousand five hundred or more, according to the last official decennial federal census, which has more than one percent of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota. "Hub city" means, after August 31, 2017,~~ a city with a population of twelve thousand five hundred or more, according to the last official decennial federal census, which has more than ~~one~~<u>two</u> percent of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota.

SECTION 16. AMENDMENT. Section 57-51-15 of the North Dakota Century Code is amended and reenacted as follows:

57-51-15. Gross production tax allocation.

The gross production tax must be allocated monthly as follows:

1. ~~First the~~<u>The</u> tax revenue collected under this chapter equal to one percent of the gross value at the well of the oil and one-fifth of the tax on gas must be deposited with the state treasurer ~~who shall~~<u>. The state treasurer shall allocate the funding in the following order</u>:

   a. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city, which is located in a county that received an allocation under subsection 2, a monthly amount that will provide a total allocation of three hundred seventy-five thousand dollars per fiscal year for each full or partial percentage point of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~<u>To</u> each hub city, which is located in a county that received an allocation under subsection 2 <u>in the most recently completed even-numbered fiscal year</u>, <u>the state treasurer shall allocate</u> a monthly amount that will provide a total allocation of three hundred seventy-five thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~;~~. For purposes of the allocations under this subdivision during the period beginning September 1, 2017, and ending August 31, 2018, the state treasurer shall use the following employment percentages:

(1) Thirty-three percent for the city of Williston;

(2) Seventeen percent for the city of Dickinson; and

(3) Four percent for the city of Minot.

b. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city, which is located in a county that did not receive an allocation under subsection 2, a monthly amount that will provide a total allocation of two hundred fifty thousand dollars per fiscal year for each full or partial percentage point of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city, which is located in a county that did not receive an allocation under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of two hundred fifty thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~;~~.

c. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city school district, which is located in a county that received an allocation under subsection 2, a monthly amount that will provide a total allocation of one hundred twenty-five thousand dollars per fiscal year for each full or partial percentage point of the hub city's private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city school district, which is located in a county that received an allocation under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one hundred twenty-five thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of the hub city's private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~, provided that hub~~. Hub city school districts, which are located in a county that did not receive an allocation under subsection 2 in the most recently completed even-numbered fiscal year, must be excluded from the allocations under this subdivision~~;~~. For purposes of the allocations under this subdivision during the period beginning September 1, 2017, and ending August 31, 2018, the state treasurer shall use the following employment percentages:

(1) Thirty-three percent for the city of Williston;

(2) Seventeen percent for the city of Dickinson; and

(3) Four percent for the city of Minot.

d. ~~Allocate to~~To each county that received more than five million dollars but less than thirty million dollars of total allocations under subsection 2 in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, the state treasurer shall allocate a monthly amount that will ~~provide a total allocation of one million five hundred thousand dollars per fiscal year to be added by the state treasurer~~be added to the allocations to school districts under subdivision b of subsection 5~~;~~

~~e. Credit revenues to the oil and gas impact grant fund, but not in an amount exceeding one hundred forty million dollars per biennium for the 2015-17 biennium, and not in an amount exceeding one hundred million dollars per biennium thereafter;~~

~~f. Credit eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding twenty million dollars in a state fiscal year and not in an amount exceeding forty million dollars per biennium;~~

~~g. Credit four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding seven million five hundred thousand dollars in a state fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars; and~~

~~h. Allocate the remaining revenues under subsection 3~~, as follows:

(1) To each county that received more than five million dollars but not exceeding ten million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million five hundred thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(2) To each county that received more than ten million dollars but not exceeding fifteen million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million two hundred fifty thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(3) To each county that received more than fifteen million dollars but not exceeding twenty million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(4) To each county that received more than twenty million dollars but not exceeding twenty-five million dollars of total allocations under subsection 2 in the most recently completed

even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of seven hundred fifty thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(5) To each county that received more than twenty-five million dollars but not exceeding thirty million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of five hundred thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

e. (1) For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding ten million dollars per biennium. For purposes of this paragraph, "biennium" means the period beginning September first of each odd-numbered calendar year and ending August thirty-first of the following odd-numbered calendar year.

(2) After August 31, 2019, the state treasurer shall allocate eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding twenty million dollars per fiscal year.

f. (1) For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding four million dollars per fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars.

(2) After August 31, 2019, the state treasurer shall allocate four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding seven million five hundred thousand dollars per fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars.

g. For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate the remaining revenues in the following order:

(1) Up to twenty-five million dollars to the oil and gas impact grant fund.

(2) Any remaining revenues under subsection 3.

h. After August 31, 2019, the state treasurer shall allocate the remaining revenues in the following order:

(1) Up to five million dollars per biennium to the oil and gas impact grant fund. For purposes of this paragraph, "biennium" means the period beginning September first of each odd-numbered calendar year and ending August thirty-first of the following odd-numbered calendar year.

(2) Any remaining revenues under subsection 3.

i. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

2. a. During the period beginning September 1, 2017, and ending August 31, 2019, for counties that received less than five million dollars of total allocations under this subsection in the most recently completed even-numbered fiscal year, then after deduction of the amount provided in subsection 1, the state treasurer shall allocate revenue collected under this chapter from oil and gas produced in each county as follows:

(1) The first five million dollars of collections received each fiscal year is allocated to the county.

(2) The remaining revenue collections received each fiscal year are allocated thirty percent to the county and seventy percent to the state for allocations under subsection 3.

b. During the period beginning September 1, 2017, and ending August 31, 2019, for counties that received five million dollars or more of total allocations under this subsection in the most recently completed even-numbered fiscal year, then after deduction of the amount provided in subsection 1, the state treasurer shall allocate revenue collected under this chapter from oil and gas produced in each county as follows:

(1) The first five million dollars of collections received each fiscal year is allocated to the county. From the first five million dollars allocated to the county, the state treasurer shall allocate an amount from each county to the energy impact fund to provide a total allocation of two million per fiscal year to the fund. The amount allocated from each county to the energy impact fund under this paragraph must be proportional the county's monthly oil and gas gross production tax revenue collected relative to the total monthly oil and gas gross production tax revenue collected from all the counties under this subdivision. The state treasurer shall allocate the amount remaining from this paragraph to the county under subsection 5. For the purposes of determining the counties that received five million dollars or more of total allocations under this subsection in the most recently completed even-numbered fiscal year under this section, any amounts withheld from the county for allocations to the energy impact are considered allocations to the county.

(2) The remaining revenue collections received each fiscal year are allocated thirty percent to the county and seventy percent to the state for allocations under subsection 3.

c. After deduction of the amount provided in subsection 1, annual revenue collected under this chapter from oil and gas produced in each county must be allocated after August 31, 2019, as follows:

~~a.~~(1) The first five million dollars is allocated to the county.

~~b.~~(2) Of all annual revenue exceeding five million dollars, thirty percent is allocated to the county.

d. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

3. After the allocations under subsections 1 and 2, the amount remaining is allocated first to provide for deposit of thirty percent of all revenue collected under this chapter in the legacy fund as provided in section 26 of article X of the Constitution of North Dakota and the remainder must be allocated to the state general fund. If the amount available for a monthly allocation under this subsection is insufficient to deposit thirty percent of all revenue collected under this chapter in the legacy fund, the state treasurer shall transfer the amount of the shortfall from the state general fund share of oil extraction tax collections and deposit that amount in the legacy fund.

4. For a county that received less than five million dollars of allocations under subsection 2 in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, revenues allocated to that county must be distributed at least quarterly by the state treasurer as follows:

   a. Forty-five percent must be distributed to the county treasurer and credited to the county general fund. However, the distribution to a county under this subdivision must be credited to the state general fund if in a taxable year after 2012 the county is not levying a total of at least ten mills for combined levies for county road and bridge, farm-to-market and federal aid road, and county road purposes.

   b. Thirty-five percent must be distributed to school districts within the county on the average daily attendance distribution basis for kindergarten through grade twelve students residing within the county, as certified to the state treasurer by the county superintendent of schools. However, a hub city school district must be omitted from distributions under this subdivision.

   c. Twenty percent must be distributed to the incorporated cities of the county. A hub city must be omitted from distributions under this subdivision. Distributions among cities under this subsection must be based upon the population of each incorporated city according to the last official decennial federal census. In determining the population of any city in which total employment increases by more than two hundred percent seasonally due to tourism, the population of that city for purposes of this subdivision must be increased by eight hundred percent.

   d. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

5. For a county that received five million dollars or more of allocations under subsection 2 in ~~state~~the most recently completed even-numbered fiscal

year ~~2014~~, revenues allocated to that county must be distributed at least quarterly by the state treasurer as follows:

a. Sixty percent must be distributed to the county treasurer and credited to the county general fund. However, the distribution to a county under this subdivision must be credited to the state general fund if in a taxable year after 2012 the county is not levying a total of at least ten mills for combined levies for county road and bridge, farm-to-market and federal aid road, and county road purposes.

b. Five percent must be distributed to school districts within the county on the average daily attendance distribution basis for kindergarten through grade twelve students residing within the county, as certified to the state treasurer by the county superintendent of schools. However, a hub city school district must be omitted from distributions under this subdivision.

c. Twenty percent must be distributed to the incorporated cities of the county. A hub city must be omitted from distributions under this subdivision. Distributions among cities under this subsection must be based upon the population of each incorporated city according to the last official decennial federal census. In determining the population of any city in which total employment increases by more than two hundred percent seasonally due to tourism, the population of that city for purposes of this subdivision must be increased by eight hundred percent.

d. Three percent must be allocated among the organized and unorganized townships of the county. The state treasurer shall allocate the funds available under this subdivision among townships in proportion to each township's road miles relative to the total township road miles in the county. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads, which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships.

e. Three percent must be allocated among the organized and unorganized townships in all the counties that received five million dollars or more of allocations under subsection 2 in the most recently completed ~~state~~<u>even-numbered</u> fiscal year. The amount available under this subdivision must be allocated by the state treasurer in an equal amount to each eligible organized and unorganized township. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads, which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships.

f. Nine percent must be distributed among hub cities. Sixty percent of funds available under this subdivision must be distributed to the hub city receiving the highest percentage of allocations to hub cities under subdivision a of subsection 1 for the quarterly period, thirty percent of funds available under this subdivision must be distributed to the hub city receiving the second highest percentage of such allocations, and ten percent of funds available under this subdivision must be distributed to the hub city receiving the third highest percentage of such allocations. <u>Hub cities, which are located in a</u>

county that did not receive an allocation under subsection 2 in the most recently completed even-numbered fiscal year, must be excluded from the allocations under this subsection. If fewer than three hub cities are eligible for the allocations under this subdivision, the state treasurer shall allocate the available funds in proportion to the amounts the eligible hub cities received under subdivision a of subsection 1.

g. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

6. Within thirty days after the end of each calendar year, the board of county commissioners of each county that has received an allocation under this section shall file a report for the calendar year with the commissioner, in a format prescribed by the commissioner, including:

   a. The county's statement of revenues and expenditures;

   b. The county's ending fund balances;

   c. The amounts allocated under this section to the county's general fund, the amounts expended from these allocations, and the purposes of the expenditures; and

   d. The amounts allocated under this section to or for the benefit of townships within the county, the amounts expended from these allocations, and the purposes of the expenditures.

   Within fifteen days after the time when reports under this subsection are due, the commissioner shall provide the reports to the legislative council compiling the information from reports received under this subsection.

7. Within thirty days after the end of each fiscal year ended June thirtieth, each school district that has received an allocation under this section shall file a report for the fiscal year ended June thirtieth with the commissioner, in a format prescribed by the commissioner, including:

   a. The school district's statement of revenue and expenditures;

   b. The school district's ending fund balances; and

   c. The amounts allocated under this section to the school district, the amounts expended from these allocations, and the purposes of the expenditures.

   Within fifteen days after the time when reports under this subsection are due, the commissioner shall provide the reports to the legislative council compiling the information from reports received under this subsection.

SECTION 17. A new section to chapter 57-51 of the North Dakota Century Code is created and enacted as follows:

Energy impact fund.

There is created in the state treasury the energy impact fund. The fund consists of all moneys deposited in the fund under section 57-51-15. The moneys in the fund may be spent pursuant to legislative appropriations.

SECTION 18. AMENDMENT. Section 57-51.1-07.6 of the North Dakota Century Code is amended and reenacted as follows:

57-51.1-07.6. Political subdivision allocation fund~~ - Oil and gas tax revenue allocations to political subdivisions - State treasurer - Continuing appropriation~~.

There is created in the state treasury the political subdivision allocation fund. The fund consists of oil and gas tax revenue deposited in the fund pursuant to this chapter. ~~All moneys in the fund are appropriated to the state treasurer on a continuing basis for the purpose of allocations to political subdivisions in oil-producing counties.~~

~~1.~~ ~~If the balance of the fund exceeds ten million dollars on March first of each odd-numbered year, within thirty-one days, the state treasurer shall allocate all moneys in the fund to eligible political subdivisions in oil-producing counties based on each political subdivision's oil and gas gross production tax allocations under subsection 4 or subsection 5 of section 57-51-15 in the most recently completed formula allocation year. The allocation to each eligible political subdivision must be proportional to each political subdivision's total oil and gas gross production tax allocation under subsection 4 or subsection 5 of section 57-51-15 in the most recently completed formula allocation year relative to the combined total of all oil and gas gross production tax allocations under subsection 4 and subsection 5 of section 57-51-15 in the most recently completed formula allocation year. For purposes of this subsection, "formula allocation year" means the period beginning September first of an odd-numbered year and ending August thirty-first of the following even-numbered year.~~

~~2.~~ ~~If the balance of the fund exceeds ten million dollars on August first of each odd-numbered year, within thirty-one days, the state treasurer shall allocate all moneys in the fund to eligible political subdivisions in oil-producing counties based on each political subdivision's oil and gas gross production tax allocations under subsection 4 or subsection 5 of section 57-51-15 in the most recently completed formula allocation year. The allocation to each eligible political subdivision must be proportional to each political subdivision's total oil and gas gross production tax allocation under subsection 4 or subsection 5 of section 57-51-15 in the most recently completed formula allocation year relative to the combined total of all oil and gas gross production tax allocations under subsection 4 and subsection 5 of section 57-51-15 in the most recently completed formula allocation year. For purposes of this subsection, "formula allocation year" means the period beginning September first of an odd-numbered year and ending August thirty-first of the following even-numbered year.~~

SECTION 19. REPEAL. Section 57-51.1-07.6 of the North Dakota Century Code is repealed.

SECTION 20. LEGISLATIVE INTENT - ENCOURAGEMENT OF ENERGY INFRASTRUCTURE INVESTMENT - COMMISSIONER OF UNIVERSITY AND SCHOOL LANDS - USE OF TERMS. It is the intent of the sixty-fifth legislative assembly that the state of North Dakota encourage the continued development of energy infrastructure that will help reduce instances of natural gas flaring and increase the market value received for oil and gas produced within the state generally and from state-owned lands specifically which will increase the value of royalties paid to the funds under the control of the board of university and school lands. Consistent with this intent, the commissioner of university and school lands shall continue to interpret the terms "gross production," "market value," and "gross proceeds of sale" in its lease form to mean a value determined at the producing well or associated production facility, or in the surrounding field or area, where the oil and gas was produced, before any post-production activities undertaken by the lessee, operator, or purchaser after the oil and gas has been transported from the producing well and associated production facility. These values must be determined by the amount received by the lessee in an arm's length contract, or in the absence of an arm's length contract, either a comparable sales method or a work-back calculation methodology consistent with state law.

SECTION 21. STUDY OF OIL AND GAS VALUATION - REPORT TO ENERGY DEVELOPMENT AND TRANSMISSION COMMITTEE.

1. During the 2017 18 interim, the tax department, in consultation with the board of university and school lands, the industrial commission, and other state agencies as necessary, shall study the valuation of oil and gas as used to determine mineral royalty payments and tax liability. The study must include consideration of the following:

   a. The methods used to calculate the value of oil and gas, including changes in custody, the basis for the value, any deductions or incentives applied to the value, and the point at which the value is determined.

   b. The impact of state and federal regulations, including gas capture requirements.

   c. The market competition for gas processing, including the possibility of rate setting by the public service commission.

   d. The reporting of any deductions or incentives applied to the value as included on mineral royalty statements and tax reporting documents.

2. The tax department shall report to the energy development and transmission committee by September 30, 2018, regarding the results and recommendations of the study.

SECTION 22. LEGISLATIVE MANAGEMENT STUDY - OIL AND GAS TAX REVENUE ALLOCATIONS TO HUB CITIES AND HUB CITY SCHOOL DISTRICTS.

1. During the 2017-18 interim, the legislative management shall consider studying oil and gas tax revenue allocations to hub cities and hub city school districts. The study must include consideration of the following:

   a. The current and historical oil and gas tax revenue allocations to hub cities and hub city school districts.

   b. Other state funding provided to hub cities and hub city school districts, including grants from the oil and gas impact grant fund, distributions from the strategic investment and improvements fund, state school aid payments, and payments from the state aid distribution fund and highway tax distribution fund.

   c. Local taxing and revenue levels in hub cities compared to cities in non-oil-producing counties, including mill levies, property tax values, local sales and use taxes, and other revenue sources.

d. The appropriate level of oil and gas tax revenue allocations to hub cities and hub city school districts based on infrastructure and other needs.

e. The estimated fiscal impact to hub cities, hub city school districts, other political subdivisions, and the state if the oil and gas tax revenue allocation formula would be changed to transition hub cities and hub city school districts from allocations under subsection 1 of section 57-51-15 to allocations under subsections 4 and 5 of section 57-51-15.

f. The estimated fiscal impact to hub cities, hub city school districts, other political subdivisions, and the state if the oil and gas tax revenue allocation formula would be changed to discontinue the allocations to hub cities and hub city school districts under subsection 1 of section 57-51-15.

2. The membership of the committee assigned the responsibility of the study must proportionately reflect the state's population distribution between oil-producing counties and non-oil-producing counties and must include members from the finance and taxation committees and the appropriations committees.

3. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-sixth legislative assembly.

SECTION 23. EFFECTIVE DATE. Sections 15 and 16 of this Act are effective for taxable events occurring after June 30, 2017. Section 19 of this Act becomes effective September 1, 2017. House Bill No. 1300, as approved by the sixty-fifth legislative assembly, becomes effective January 1, 2018."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2013 - Summary of Conference Committee Action

	Base Budget	Senate Version	Conference Committee Changes	Conference Committee Version	House Version	Comparison to House
State Treasurer						
Total all funds	$0	$0	$16,100,000	$16,100,000	$0	$16,100,000
Less estimated income	0	0	16,100,000	16,100,000	0	16,100,000
General fund	$0	$0	$0	$0	$0	$0
Department of Trust Lands						
Total all funds	$108,243,153	$13,565,176	$37,916,097	$51,481,273	$47,901,885	$3,579,388
Less estimated income	108,243,153	13,565,176	37,916,097	51,481,273	47,901,885	3,579,388
General fund	$0	$0	$0	$0	$0	$0
Bill total						
Total all funds	$108,243,153	$13,565,176	$54,016,097	$67,581,273	$47,901,885	$19,679,388
Less estimated income	108,243,153	13,565,176	54,016,097	67,581,273	47,901,885	19,679,388
General fund	$0	$0	$0	$0	$0	$0

Senate Bill No. 2013 - State Treasurer - Conference Committee Action

	Base Budget	Senate Version	Conference Committee Changes	Conference Committee Version	House Version	Comparison to House

Distributions to Non-Oil Townships			$16,100,000	$16,100,000		$16,100,000
Total all funds	$0	$0	$16,100,000	$16,100,000	$0	$16,100,000
Less estimated income	0	0	16,100,000	16,100,000	0	16,100,000
General fund	$0	$0	$0	$0	$0	$0
FTE	0.00	0.00	0.00	0.00	0.00	0.00

Department No. 120 - State Treasurer - Detail of Conference Committee Changes

	Adds Funding for Distributions to Townships in Non-Oil-Producing Counties[1]	Total Conference Committee Changes
Distributions to Non-Oil Townships	$16,100,000	$16,100,000
Total all funds	$16,100,000	$16,100,000
Less estimated income	16,100,000	16,100,000
General fund	$0	$0
FTE	0.00	0.00

[1] Funding of $8 million from the strategic investment and improvements fund and $8.1 million from the state disaster relief fund is added to provide a distribution of $10,000 to each organized and unorganized township in non-oil-producing counties.

This amendment also includes the following changes related to the State Treasurer:

- Adds a section to provide an appropriation to the State Treasurer for distributions to townships in non-oil-producing counties and to provide the criteria for the distributions.
- Provides for a transfer of $8 million from the political subdivision allocation fund to the energy impact fund.
- Provides for a transfer of the remaining amounts from the political subdivision allocation fund to the strategic investment and improvements fund.
- Provides for a transfer of $3 million from the strategic investment and improvements fund to the energy impact fund.

Senate Bill No. 2013 - Department of Trust Lands - Conference Committee Action

	Base Budget	Senate Version	Conference Committee Changes	Conference Committee Version	House Version	Comparison to House
Salaries and wages	$6,123,516	$6,218,736	($213,186)	$6,005,550	$5,828,470	$177,080
Operating expenses	2,019,637	1,775,723		1,775,723	1,752,698	23,025
Capital assets		5,250,000	(1,650,000)	3,600,000		3,600,000
Grants	99,300,000		40,000,000	40,000,000	40,000,000	
Energy Infrastructure and Impact Office	700,000	220,717	(220,717)		220,717	(220,717)
Contingencies	100,000	100,000		100,000	100,000	
Total all funds	$108,243,153	$13,565,176	$37,916,097	$51,481,273	$47,901,885	$3,579,388
Less estimated income	108,243,153	13,565,176	37,916,097	51,481,273	47,901,885	3,579,388
General fund	$0	$0	$0	$0	$0	$0
FTE	33.00	32.00	(1.00)	31.00	30.00	1.00

Department No. 226 - Department of Trust Lands - Detail of Conference Committee Changes

	Adjusts Funding for Health Insurance Increases[1]	Removes Funding for an FTE Position[2]	Adds Funding for Grants[3]	Reduces Funding for Information Technology Project[4]	Adjusts Funding for Energy Infrastructure and Impact Office[5]	Total Conference Committee Changes
Salaries and wages	($6,636)	($206,550)				($213,186)
Operating expenses						
Capital assets				(1,650,000)		(1,650,000)
Grants			40,000,000			40,000,000
Energy Infrastructure and Impact Office					(220,717)	(220,717)
Contingencies						
Total all funds	($6,636)	($206,550)	$40,000,000	($1,650,000)	($220,717)	$37,916,097
Less estimated income	(6,636)	(206,550)	40,000,000	(1,650,000)	(220,717)	37,916,097
General fund	$0	$0	$0	$0	$0	$0
FTE	0.00	(1.00)	0.00	0.00	0.00	(1.00)

[1] Funding for employee health insurance is adjusted to reflect the updated premium amount of $1,241 per month.

[2] Funding of $206,550 is removed for a project manager position. The House removed $406,655 for a geographic information system position ($200,105) and for a project manager position ($206,550), both of which were included in the Senate version.

[3] One-time funding of $25 million is added from the oil and gas impact grant fund for grants to the Williston airport ($20 million) and the Dickinson airport ($5 million). One-time funding of $15 million is added from the energy impact fund for a grant to the Williston airport. The House provided the same level of funding but did not use funding from the energy impact fund.

[4] Funding is reduced by $1.65 million to provide $3.6 million for an information technology project. Of the $3.6 million, $1.8 million is available only upon approval of the Budget Section pursuant to Section 9 of the bill. The Senate included $5.25 million, and the House removed the funding for the project.

[5] Funding is removed for the Energy Infrastructure and Impact Office because the funding is a duplication of the funding authorized for administrative expenses from the continuation of unspent 2015-17 biennium appropriation authority as identified in Section 11.

This amendment also provides the following changes related to the Department of Trust Lands:

- Identifies the health insurance increase.
- Removes a section to provide line item transfer authority.
- Provides an exemption to allow an unspent grant to a flood-impacted political subdivision to be available in the 2017-19 biennium, the same as the House.
- Identifies $25 million from the oil and gas impact grant fund for an oil impact grant of $20 million to the Williston airport and a grant of $5 million to the Dickinson airport. This funding is available to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. The House also included this funding designation.

- Identifies $15 million from the energy impact fund for a grant to the Williston airport. This funding is available to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. The House provided $15 million from the strategic investment and improvements fund and included the federal funding commitment provisions.
- Removes a section added by the House to add two advisory members that are appointed by the Speaker of the House and the President Pro Tempore to the board of university and school lands.
- Amends the oil and gas tax revenue allocation formulas (see the table below) and provides an effective date related to the formula changes.
- Removes a section added by the House to provide that the city of Williston use the proceeds from the sale of the existing airport, up to $27.5 million, to repay the Department of Trust Lands for the state's financial assistance provided for the new airport.
- Removes a section added by the House to provide a statement of legislative intent that hub cities not issue new bonds during the 2017-19 biennium based on anticipated future hub city oil tax revenue allocations.
- Provides a statement of legislative intent regarding efficiencies within the Department of Trust Lands, the same as the House.
- Provides a statement of legislative intent regarding the calculation of mineral royalties, the same as the House.
- Provides for a study by the Tax Department and other state agencies regarding the valuation of oil and gas for mineral royalties and tax liability.
- Provides for a Legislative Management study regarding the oil and gas tax revenue allocations to hub cities and hub city school districts. The House also included the study.
- Provides an effective date for House Bill No. 1300 relating to the requirement that the Department of Trust Lands be subject to the administrative rules process.

Senate Bill No. 2013 - Other Changes - Conference Committee Action

2017-19 Biennium Oil and Gas Tax Allocation Formulas		
Current Law	**House Version - Senate Bill No. 2013 [17.0521.02014]**	**Conference Committee Version - Senate Bill No. 2013 [17.0521.02017]**
Hub city definition	**Hub city definition**	**Hub city definition**
• After August 31, 2017, a hub city is based on mining employment.	• No change to current law.	• A hub city must have more than 2 percent mining employment compared to 1 percent under current law.
Hub city and hub city school district allocations	**Hub city and hub city school district allocations**	**Hub city and hub city school district allocations**
• Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment.	• Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment exceeding 2 percent.	• Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment exceeding 2 percent and specifies employment percentages for the first year.
• Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment.	• Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment exceeding 2 percent.	• Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment exceeding 2 percent. (Same as House)
• Hub city school districts receive an annual allocation of $125,000 per full or partial percentage point of mining employment, excluding hub city school districts located in non-oil-producing counties.	• Hub city school districts in oil-producing counties receive an annual allocation of $125,000 per full or partial percentage point of mining employment exceeding 2 percent.	• Hub city school districts in oil-producing counties receive an annual allocation of $125,000 per full or partial percentage point of mining employment exceeding 2 percent and specifies employment percentages for the first year.
Supplemental school district allocation	**Supplemental school district allocation**	**Supplemental school district allocation**

<table>
<tr>
<td>• Eligible counties receive an annual allocation of $1.5 million for distributions to school districts in the county.</td>
<td>• Changes the annual allocation to provide a specific amount based on the oil and gas tax allocations received by the county in the most recently completed even-numbered fiscal year. The specific amounts range from $500,000 to $1.5 million per year.</td>
<td>• Changes the annual allocation to provide a specific amount based on the oil and gas tax allocations received by the county in the most recently completed even-numbered fiscal year. The specific amounts range from $500,000 to $1.5 million per year. (Same as House)</td>
</tr>
<tr>
<td>North Dakota outdoor heritage fund allocations
• From the 1 percent of the 5 percent oil and gas gross production tax, 8 percent is allocated to the North Dakota outdoor heritage fund, up to $20 million per fiscal year.</td>
<td>North Dakota outdoor heritage fund allocations
• Decreases the amount allocated to the North Dakota outdoor heritage fund by changing the limit from $20 million per fiscal year to $10 million per biennium only for the 2017-19 biennium.</td>
<td>North Dakota outdoor heritage fund allocations
• Decreases the amount allocated to the North Dakota outdoor heritage fund by changing the limit from $20 million per fiscal year to $10 million per biennium only for the 2017-19 biennium. (Same as House)</td>
</tr>
<tr>
<td>Abandoned oil and gas well plugging and site reclamation fund allocations
• From the 1 percent of the 5 percent oil and gas gross production tax, 4 percent is allocated to the abandoned oil and gas well plugging and site reclamation fund, up to $7.5 million per fiscal year.</td>
<td>Abandoned oil and gas well plugging and site reclamation fund allocations
• Decreases the amount allocated to the abandoned oil and gas well plugging and site reclamation fund by changing the limit from $7.5 million per fiscal year to $4 million per fiscal year only for the 2017-19 biennium.</td>
<td>Abandoned oil and gas well plugging and site reclamation fund allocations
• Decreases the amount allocated to the abandoned oil and gas well plugging and site reclamation fund by changing the limit from $7.5 million per fiscal year to $4 million per fiscal year only for the 2017-19 biennium. (Same as House)</td>
</tr>
<tr>
<td>Oil and gas impact grant fund allocations
• Up to $100 million per biennium is allocated to the oil and gas impact grant fund.</td>
<td>Oil and gas impact grant fund allocations
• Decreases the allocation to the oil and gas impact grant fund from $100 million per biennium to $25 million per biennium for the 2017-19 biennium and provides an allocation of $5 million per biennium to the oil and gas impact grant fund after the 2017-19 biennium.</td>
<td>Oil and gas impact grant fund allocations
• Decreases the allocation to the oil and gas impact grant fund from $100 million per biennium to $25 million per biennium for the 2017-19 biennium and provides an allocation of $5 million per biennium to the oil and gas impact grant fund after the 2017-19 biennium. (Same as House)</td>
</tr>
<tr>
<td>Distributions to political subdivisions
• The distributions to political subdivisions in North Dakota Century Code Sections 57-51-15(4) and 57-51-15(5) are based on the oil and gas tax allocations received by a county in fiscal year 2014.</td>
<td>Distributions to political subdivisions
• Changes the basis for the distributions to political subdivisions in Sections 57-51-15(4) and 57-51-15(5) to reflect the oil and gas tax allocations received by a county in the most recently completed even-numbered fiscal year rather than fiscal year 2014.</td>
<td>Distributions to political subdivisions
• Changes the basis for the distributions to political subdivisions in Sections 57-51-15(4) and 57-51-15(5) to reflect the oil and gas tax allocations received by a county in the most recently completed even-numbered fiscal year rather than fiscal year 2014. (Same as House)</td>
</tr>
<tr>
<td>• From the 4 percent of the 5 percent oil and gas gross production tax, 30 percent of all revenue above $5 million is allocated to the county with the remaining 70 percent allocated to the state.</td>
<td>• No change to current law.</td>
<td>• From the first $5 million allocated to the county related to counties that received $5 million or more in the most recently completed even-numbered fiscal year, a total of $2 million per fiscal year is allocated to a newly created energy impact fund with the remainder allocated to the counties. This allocation change is only for the 2017-19 biennium.</td>
</tr>
<tr>
<td>• The distributions to political subdivisions are as follows:
<table>
<tr><th></th><th>Counties - Less Than $5 Million</th><th>Counties - $5 Million or More</th></tr>
<tr><td>County</td><td>45%</td><td>60%</td></tr>
<tr><td>Cities</td><td>20%</td><td>20%</td></tr>
<tr><td>Schools</td><td>35%</td><td>5%</td></tr>
<tr><td>Townships</td><td></td><td></td></tr>
<tr><td>Equal</td><td></td><td>3%</td></tr>
<tr><td>Road miles</td><td></td><td>3%</td></tr>
<tr><td>Hub cities</td><td></td><td>9%</td></tr>
</table></td>
<td>• The proposed changes to the distributions to political subdivisions are as follows:
<table>
<tr><th>Counties - Less Than $5 Million</th></tr>
<tr><td>45%</td></tr>
<tr><td>20%</td></tr>
<tr><td>35%</td></tr>
<tr><td></td></tr>
<tr><td></td></tr>
<tr><td></td></tr>
<tr><td></td></tr>
</table></td>
<td>• No change to current law.</td>
</tr>
<tr>
<td>• From the counties' share in counties that received $5 million or more of oil and gas tax allocations, 9 percent is distributed to the 3 hub cities with the highest percentage of mining employment.</td>
<td>• Clarifies the distribution to hub cities to exclude hub cities that are located in non-oil-producing counties and to provide proportional allocations if less than 3 hub cities qualify for the distributions.</td>
<td>• Clarifies the distribution to hub cities to exclude hub cities that are located in non-oil-producing counties and to provide proportional allocations if less than 3 hub cities qualify for the distributions. (Same as House)</td>
</tr>
<tr>
<td>Political subdivision allocation fund
• Allocations to the political subdivision allocation fund expire at the end of the the 2015-17 biennium. Distributions from the fund are made in March and August of odd-numbered fiscal years</td>
<td>Political subdivision allocation fund
• No change to current law.</td>
<td>Political subdivision allocation fund
• Removes the distributions to political subdivisions and repeals the fund on September 1, 2017.

Energy impact fund
• Creates a new section to Chapter 57-51 to establish the energy impact fund.</td>
</tr>
</table>

Engrossed SB 2013 was placed on the Seventh order of business on the calendar.

2017 TESTIMONY

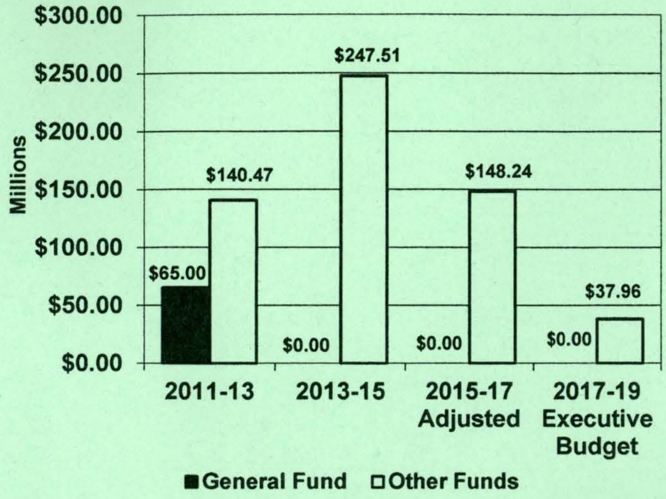
SB 2013

Department 226 - Department of Trust Lands
Senate Bill Nos. 2013 and 2073

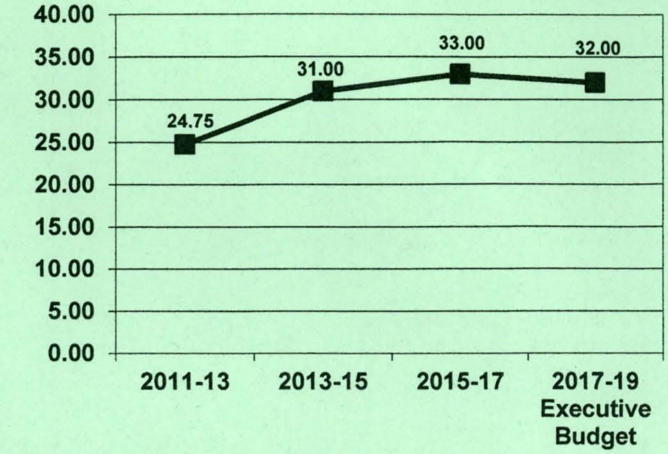
Executive Budget Comparison to Prior Biennium Appropriations

	FTE Positions	General Fund	Other Funds	Total
2017-19 Executive Budget	32.00	$0	$37,963,150	$37,963,150
2015-17 Adjusted Legislative Appropriations	33.00	0	148,243,153	148,243,153
Increase (Decrease)	(1.00)	$0	($110,280,003)	($110,280,003)

Agency Funding



FTE Positions



Executive Budget Comparison to Base Level

	General Fund	Other Funds	Total
2017-19 Executive Budget	$0	$37,963,150	$37,963,150
2017-19 Base Level	0	108,243,153	108,243,153
Increase (Decrease)	$0	($70,280,003)	($70,280,003)

Attached as an appendix is a detailed comparison of the executive budget to the agency's base level appropriations.

Executive Budget Highlights

	General Fund	Other Funds	Total
1. Provides funding for state employee salary and benefit increases, of which $27,974 is for salary increases and $91,584 is for health insurance increases	$0	$119,558	$119,558
2. Removes 2 FTE positions, including 1 energy infrastructure and impact office FTE position ($151,237) and 1 natural resources director FTE position ($259,307)	$0	($410,544)	($410,544)
3. Adds 1 geographic information system specialist FTE position, including $177,080 for salaries and wages and $23,025 for operating expenses	$0	$200,105	$200,105
4. Adds funding for building maintenance costs and utility cost increases	$0	$93,746	$93,746
5. Adds funding for professional development	$0	$45,000	$45,000
6. Reduces funding for operating costs related to professional services, information technology services and equipment, and travel	$0	($405,685)	($405,685)
7. Reduces funding for energy infrastructure and impact office operating expenses	$0	($168,500)	($168,500)
8. Removes funding for grants to political subdivisions from the oil and gas impact grant fund	$0	($99,300,000)	($99,300,000)
9. Adds one-time funding from the strategic investment and improvements fund for grants to airports		$24,100,000	$24,100,000

10.	Adds **one-time** funding for an information technology system replacement project	$0	$5,520,000	$5,520,000

Other Sections in Bill Recommended to be Added in Executive Budget (As Detailed in Senate Bill No. 2073)

Line item transfers - Section 3 allows the Commissioner of University and School Lands, upon approval of the Board of University and School Lands, to transfer funding between the various line items, including the contingencies line item. The Commissioner shall notify the Office of Management and Budget of each transfer made pursuant to this section.

Oil and gas impact grant fund - Section 4 identifies $221,735 from the oil and gas impact grant fund for administrative costs related to the oil and gas impact grant program.

Fund distributions - Sections 5 and 6 provide permanent fund income distributions to state institutions as follows:

	2015-17 Legislative Appropriation	2017-19 Executive Budget[1]	Increase (Decrease)
Common schools	$206,134,000	$288,264,000	$82,130,000
North Dakota State University	3,368,000	4,738,000	1,370,000
University of North Dakota	2,742,000	3,662,000	920,000
Youth Correctional Center	1,372,000	800,814	(571,186)
School for the Deaf	1,180,000	1,598,000	418,000
North Dakota State College of Science	1,066,000	1,535,984	469,984
State Hospital	1,078,000	1,459,984	381,984
Veterans' Home	434,000	711,984	277,984
Valley City State University	570,000	808,000	238,000
North Dakota Vision Services - School for the Blind	534,000	929,984	395,984
Mayville State University	382,000	542,000	160,000
Dakota College at Bottineau	78,000	275,984	197,984
Dickinson State University	78,000	275,984	197,984
Minot State University	78,000	275,984	197,984
Total	$219,094,000	$305,878,702	$86,784,702

[1]The amounts shown reflect the adjusted fund distributions. A performance audit conducted during the 2015-16 interim identified errors in the assignment of tracts of land to the proper trusts resulting in errors in past distributions from the trusts.

Strategic investment and improvements fund - Section 7 identifies $24.1 million from the strategic investment and improvements fund for grants to airports.

Continuing Appropriations

Unclaimed property - North Dakota Century Code Section 47-30.1-23 - Payments made to owners of unclaimed property.

Investments and farm loans - Sections 15-03-16 - Money manager and custodial fees and loan administration fees to maintain and enhance income earning potential of trusts' financial assets.

County services - Section 15-04-23 - Payments made to counties for various services provided that benefit school trust lands.

Land expenses - Sections 15-04-24 and 15-07-22 - Payments for appraisal fees, survey costs, surface lease refunds, weed and insect control, cleanup costs, capital improvement rent credits, fire protection, land rent, value survey costs, and other expenses.

In lieu of taxes - Section 57-02.3-07 - Payments made in lieu of property taxes.

Significant Audit Findings

The financial statement audit for the Department of Trust Lands conducted by Brady, Martz & Associates PC during the 2015-16 interim identified no significant audit findings.

The performance audit of the Department of Trust Lands conducted by the State Auditor during the 2015-16 interim identified significant audit findings and included the following recommendations:

Energy Infrastructure and Impact Office

- Ensure the application screen process for energy impact grants is transparent and provides fair treatment of all applications.
- Ensure grant recommendations comply with eligibility requirements.
- Include contingencies in the grant recommendations when the grant application project costs for larger projects are based on estimates rather than actual bids.
- Ensure grant payments are limited to the reimbursement of expenditures for projects outlined in the grant application and that local matching requirements are met.

- Obtain status updates for grants with outstanding balances in a more cost-effective manner by requiring status reports or telephone discussions, conduct site visits for grant awards based on risk, and ensure site visits clearly document the status of the grant project being monitored.

Unclaimed property

- Increase efforts to locate owners of unclaimed property.
- Ensure unclaimed property is complete, accurate, and consistently entered.
- Adequately safeguard unclaimed property and personal information submitted to the department.
- Eliminate the fee that certain owners pay to receive their unclaimed property, which has not been sold or liquidated by the department.
- Conduct periodic sales of unclaimed property and dispose of property with insubstantial commercial value.

Trust assets and department resources

- Ensure tracts of land and oil and gas royalty payments are associated with the proper trust and obtain guidance from legal counsel on correcting net assets and past distributions for incorrect tract assignments and royalty allocations.
- Ensure information submitted with oil and gas royalty payments is consistently obtained in an electronic format and conduct audits of oil and gas operators submitting royalty payments to the department.
- Ensure direct and indirect costs are properly applied to trusts, programs, and activities.
- Conduct a formal fraud risk assessment as required by the Office of Management and Budget policy.
- Ensure appropriate information technology systems exist, user manuals are established, and systems are used to the fullest extent possible.
- In conjunction with representatives of the State Historical Society, review and identify permanently retained records and records with archival value for transfer to the State Archives.

Major Related Legislation

House Bill No. 1300 - Requires the Department of Trust Lands to follow the administrative rules process by removing the department from the list of exempt agencies.

Senate Bill No. 2101 - Corrects Section 57-62-02 relating to the transfer of interest from the coal development trust fund to the general fund pursuant to constitutional requirements.

Senate Bill No. 2102 - Changes the provisions for the Commissioner of the Board of University and School Lands to provide information on the best use of land from a required report to an optional assessment.

Department of Trust Lands - Budget No. 226
Senate Bill Nos. 2013 and 2073
Base Level Funding Changes

	Executive Budget Recommendation			
	FTE Positions	General Fund	Other Funds	Total
2017-19 Biennium Base Level	33.00	$0	$108,243,153	$108,243,153
2017-19 Ongoing Funding Changes				
Base payroll changes			($73,683)	($73,683)
Salary increase - Performance			27,974	27,974
Health insurance increase			91,584	91,584
Removes FTE positions	(2.00)		(410,544)	(410,544)
Adds geographic information system FTE position	1.00		200,105	200,105
Adds funding for building and utility increases			93,746	93,746
Adds funding for professional development			45,000	45,000
Reduces operating expenses			(405,685)	(405,685)
Reduces energy impact operating expenses			(168,500)	(168,500)
Removes funding for energy impact grants			(99,300,000)	(99,300,000)
Total ongoing funding changes	(1.00)	$0	($99,900,003)	($99,900,003)
One-time funding items				
Adds funding for information technology project			$5,520,000	$5,520,000
Adds funding for grants to airports			24,100,000	24,100,000
Total one-time funding changes	0.00	$0	$29,620,000	$29,620,000
Total Changes to Base Level Funding	(1.00)	$0	($70,280,003)	($70,280,003)
2017-19 Total Funding	32.00	$0	$37,963,150	$37,963,150

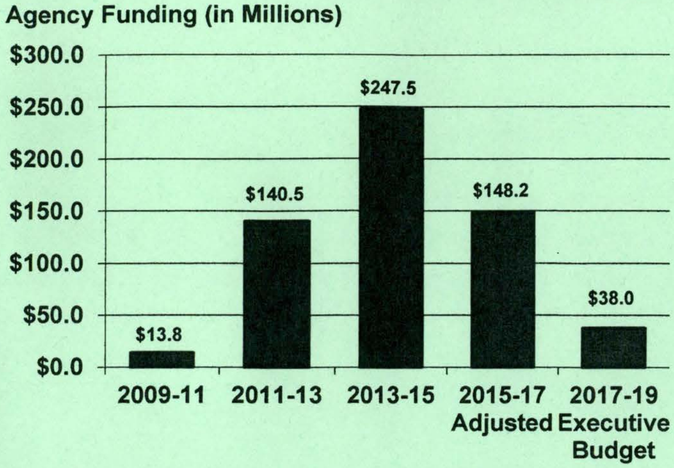
Other Sections in Department of Trust Lands - Budget No. 226

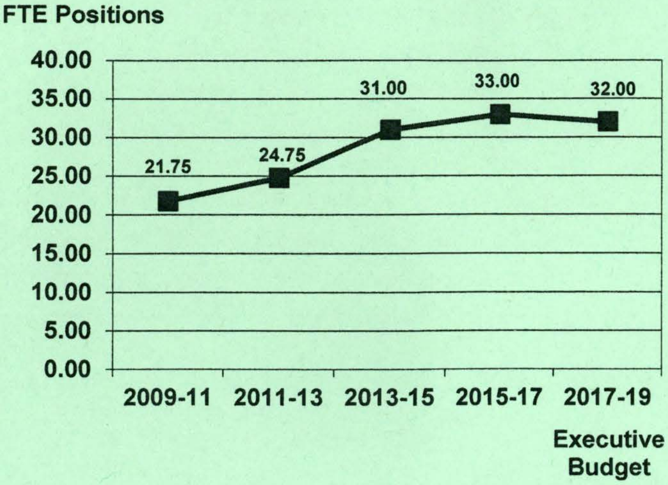
	Executive Budget Recommendation
Line item transfers	Section 3 allows the Commissioner of University and School Lands, upon approval of the Board of University and School Lands, to transfer funding between the various line items, including the contingencies line item. The Commissioner shall notify the Office of Management and Budget of each transfer made pursuant to this section.
Oil and gas impact grant fund	Section 4 identifies $221,735 from the oil and gas impact grant fund for administrative costs related to the oil and gas impact grant program.
Fund distributions	Sections 5 and 6 provide permanent fund income distributions to state institutions.
Strategic investment and improvements fund	Section 7 identifies $24.1 million from the strategic investment and improvements fund for grants to airports.

Department 226 - Department of Trust Lands

Historical Appropriations Information

Total Other Funds Appropriations Since 2009-11





Total Other Funds Appropriations					
	2009-11	2011-13	2013-15	2015-17 Adjusted	2017-19 Executive Budget
Total other funds appropriations	$13,792,561	$140,465,189	$247,506,969	$148,243,153	$37,963,150
Increase (decrease) from previous biennium	N/A	$126,672,628	$107,041,780	($99,263,816)	($110,280,003)
Percentage increase (decrease) from previous biennium	N/A	918.4%	76.2%	(40.1%)	(74.4%)
Cumulative percentage increase (decrease) from 2009-11 biennium	N/A	918.4%	1,694.5%	974.8%	175.2%

Major Increases (Decreases) in Total Other Funds Appropriations

2011-13 Biennium

1. Added funding for 3 FTE positions, including a mineral auditor position, an accounting and budget specialist position, and an office assistant position	$388,326
2. Added funding for temporary staff and salary reclassifications	$184,908
3. Added funding for operating expenses, including building repairs and maintenance	$510,440
4. Added funding for contingencies	$50,000
5. Added funding for grants to political subdivisions from the oil and gas impact grant fund	$125,000,000

2013-15 Biennium

1. Added funding for 6.25 FTE positions, including a grant administrator position, an accounting and budget specialist position for the oil and gas impact grants, a land management specialist position, a mineral title specialist position, an audit technician position, and 1.25 administrative assistant positions	$1,056,889
2. Added funding from the strategic investment and improvements fund for a private lands study	$50,000
3. Added funding for contingencies	$100,000
4. Added funding for grants to political subdivisions from the oil and gas impact grant fund	$105,000,000

2015-17 Biennium

1. Added funding for 2 FTE positions, including a land management position and an unclaimed property and compliance officer position	$385,246
2. Added funding for operating expenses related office space rental	$90,000
3. Added funding for the administration of oil and gas impact grants	$163,922
4. Reduced funding for contingencies	($100,000)
5. Reduced funding for grants to political subdivisions from the oil and gas impact grant fund	($100,000,000)

2017-19 Biennium (Executive Budget Recommendation)

1.	Provides funding for state employee salary and benefit increases, of which $27,974 is for salary increases and $91,584 is for health insurance increases	$119,558
2.	Removes 2 FTE positions, including 1 energy infrastructure and impact office FTE position ($151,237) and 1 natural resources director FTE position ($259,307)	($410,544)
3.	Adds 1 geographic information system specialist FTE position, including $177,080 for salaries and wages and $23,025 for operating expenses	$200,105
4.	Adds funding for building maintenance costs and utility cost increases	$93,746
5.	Adds funding for professional development	$45,000
6.	Reduces funding for operating costs related to professional services, information technology services and equipment, and travel	($405,685)
7.	Reduces funding for Energy Infrastructure and Impact Office operating expenses	($168,500)
8.	Removes funding for grants to political subdivisions from the oil and gas impact grant fund	($139,300,000)
9.	Adds one-time funding from the strategic investment and improvements fund for grants to airports	$24,100,000
10.	Adds one-time funding for an information technology system replacement project	$5,520,000

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SB 2013 + 2073

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DEPARTMENT OF
ND TRUST LANDS
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p. 1

Lance D. Gaebe, Commissioner

TESTIMONY OF LANCE GAEBE
COMMISSIONER
North Dakota Department of Trust Lands

SENATE BILL NOS. 2013 and 2073

SENATE APPROPRIATIONS COMMITTEE
January 20, 2017

Chairman Holmberg and members of the Senate Appropriations Committee, I am Lance Gaebe, Secretary for the Board of University and School Lands (Land Board). I am here to testify in support of the Department of Trust Lands' (Department) requested total special funds appropriation found in Senate Bill Nos. 2013 and 2073.

Along with my coworkers in the Department, we serve as the state agency under the direction and authority of the Land Board which is comprised of the Governor, Secretary of State, Attorney General, State Treasurer and Superintendent of Public Instruction.

The primary responsibility of the Board and the Department is to manage the Common Schools Trust Fund and 12 other permanent educational and institutional trust funds governed by Article IX of the North Dakota Constitution. These trust funds were established at statehood when the Federal Government granted 3.2 million acres of land to the state "for the support of common schools" and other public institutions. The State Constitution and statutes provide that the Land Board shall manage the land, minerals and proceeds of these trust funds for the exclusive benefit of the beneficiaries.

Other prominent roles within the Department are:

- Management of five additional funds
- The State Unclaimed Property Division
- The Energy Infrastructure and Impact Office

The Department has 33 authorized FTEs for these responsibilities.

Support for Education

A primary focus of the Land Board and Department is managing permanent trust assets to fund education and other governmental functions. The Department manages 708,000 surface acres that are leased to ranchers and farmers. On behalf of the permanent trusts, it also oversees 1.7 million mineral acres which are offered for oil, gas, coal, gravel and subsurface mineral leasing and production. Revenues are invested in a diversified portfolio of financial assets, actively managed by the Land Board as a permanent endowment.

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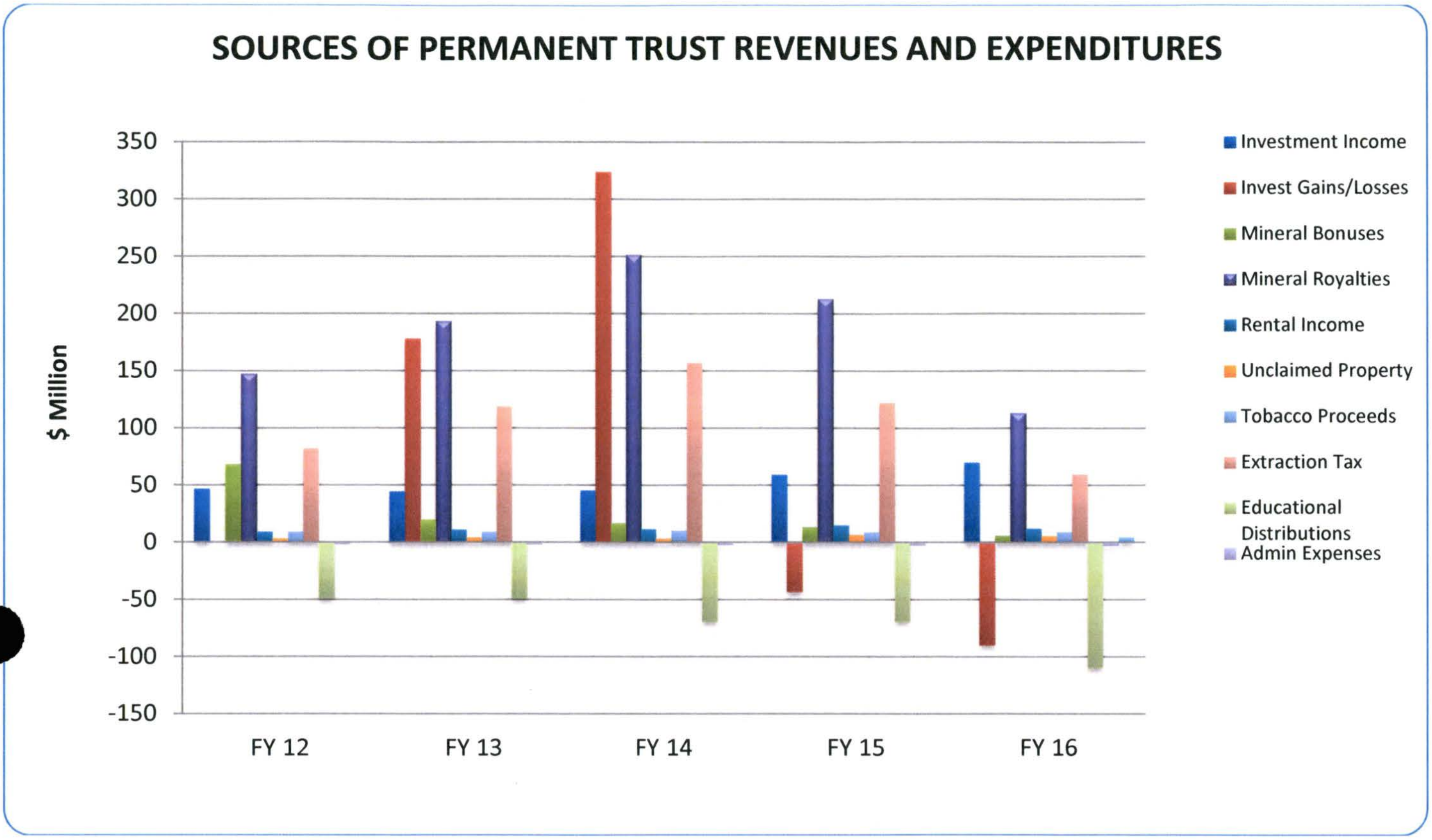

According to Article IX of the North Dakota Constitution, biennial distributions from the permanent trust funds must be ten percent of the five-year average value of trust financial assets. Equal amounts must be distributed during each year of the biennium.

The Common Schools Trust Fund distribution to the State's public schools will be $288.3 million during the 2017-2019 biennium; this is $82.1 million (or approximately 40%) more than the 2015-2017 biennium. The 2017-2019 distributions from the 12 other permanent trusts will increase by approximately 36% over the current biennium distributions to the beneficiaries.

Biennium	Total Biennial Distributions	% Increase from Previous Biennium
2009-11	$82.3 million	15.5%
2011-13	$ 98.5 million	19.7%
2013-15	$ 138.7 million	40.9%
2015-17	$ 219.1 million	58.0%

The distributions are appropriated in Section 4 of SB 2013 and the identical amounts are appropriated in Section 5 of SB 2073.

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The following table outlines the constitutionally mandated distribution amounts for each permanent trust for the 2017-19 biennium and it also includes comparisons to current biennial distributions

:

Trust Fund	**2015-2017 Bi. Distributions**	**2017-2019 Bi. Distributions** [1]	**Increase in Distributions**	**Percentage Increase in Distributions**
Common Schools	$ 206,134,000	**$ 288,264,000**	$ 82,130,000	39.8%
NDSU	3,368,000	**4,738,000**	1,370,000	40.7%
School for the Blind	456,000	**654,000**	198,000	43.4%
School for the Deaf	1,180,000	**1,598,000**	418,000	35.4%
State Hospital	1,000,000	**1,184,000**	184,000	18.4%
Ellendale [2]	546,000	**1,304,000**	758,000	138.8%[4]
Valley City	570,000	**808,000**	238,000	41.8%
Mayville	382,000	**542,000**	160,000	41.9%
Industrial School [3]	1,372,000	**1,422,000**	50,000	3.6%[4]
School of Science	988,000	**1,260,000**	272,000	27.5%
School of Mines	1,134,000	**1,444,000**	310,000	27.3%
Veteran's Home	356,000	**436,000**	80,000	22.5%
UND	1,608,000	**2,218,000**	610,000	37.9%
TOTAL	$ 219,094,000	**$ 305,872,000**	$ 86,778,000	39.6%

(1) These amounts are not subject to change as a result of any activity in the investment portfolio over the next two years. They are calculated based upon the formula in Article IX, §2 of the Constitution.
(2) The beneficiaries of the Ellendale Trust are: Dickinson State University, Minot State University, Dakota College at Bottineau, Veterans' Home, School for the Blind, State Hospital, and the State College of Science.
(3) The Youth Correctional Center is the beneficiary of the Industrial School Trust.
(4) The distributions to the Ellendale beneficiaries and the Youth Correction Center includes a one-time offsetting adjustment between the trusts because of a previous misallocation of mineral revenues (explanation on page 8).

The permanent trust funds growing balances will lead to even more funds being distributed to beneficiaries in future years.

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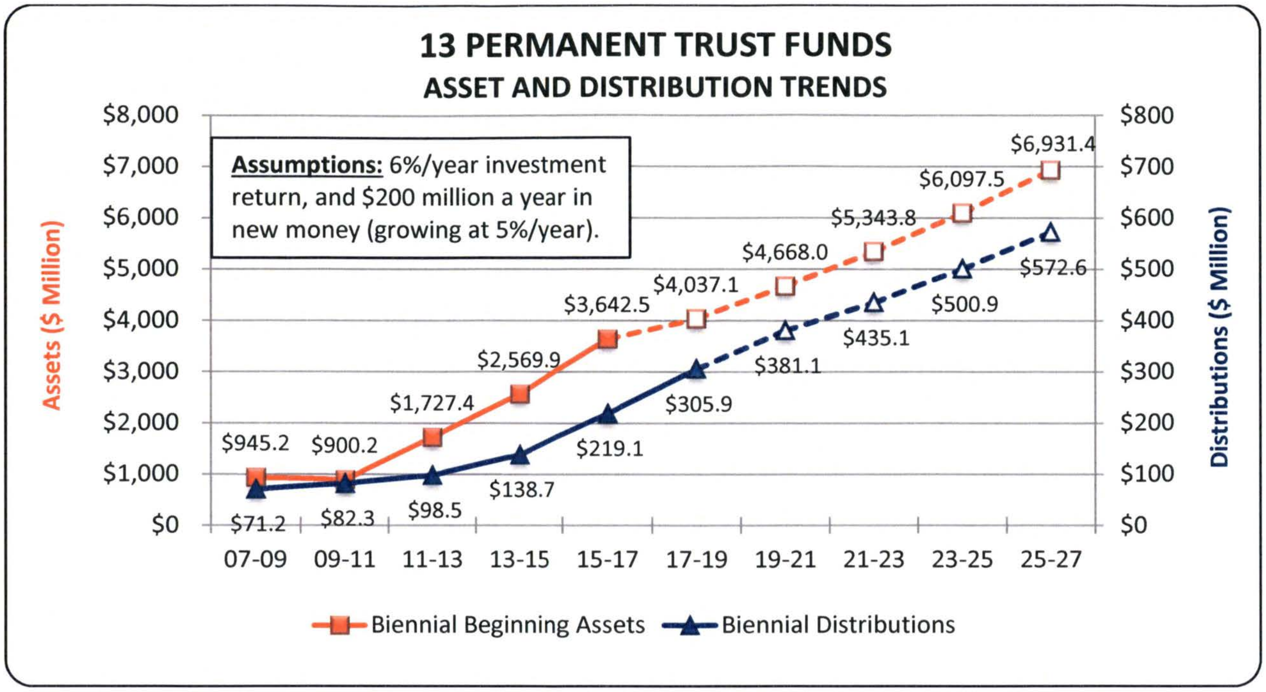

Other Funds
In addition to the constitutional trusts, the Land Board also manages:

- The Coal Development Trust Fund
- The Capitol Building Fund
- The Indian Cultural Education Trust
- The Oil and Gas Impact Grant Fund
- The Strategic Investment and Improvements Fund (SIIF) and its 800,000 mineral acres

The 2011 Legislature created the SIIF when it merged the former Lands and Minerals Trust Fund with the Permanent Oil Tax Trust Fund. It is anticipated that the SIIF will collect $266.8 million of income during the biennium, $190 million of which being generated from sovereign mineral leasing and production. The remainder is from investment income and oil and gas taxes. The $142.3 million set aside in an assigned fund balance, until resolution of potential title disputes related to certain riverbed issues. Although the courts have determined the State holds title to the ordinary high water mark, unresolved ownership issues related to riverbed leases, including with the federal government, remain.

Unclaimed Property
The Department also administers the responsibilities outlined in the Uniform Unclaimed Property Act. In this role the Department collects "unclaimed property" (uncashed checks, unused bank accounts, etc.), and processes owners' claims. This property is held in permanent trust for owners to claim, but the revenue from the investment of the property benefits the Common Schools Trust Fund.

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Energy Infrastructure and Impact Office
In addition, the Department operates the Energy Infrastructure and Impact Office (Energy Impact Office), which provides financial support to political subdivisions affected by energy development. Assistance is provided through both the oil and gas impact grant program and the coal impact loan program. The oil and gas impact program was authorized at $140 million for the current biennium, though only half of that amount is forecast to be collected and granted. The Energy Impact Office also distributes energy and flood grants from prior biennia.

2015-2017 Operations
Overall operating expenditures have remained stable during the present biennium. While the growth in energy activity has flattened, the Department continues to process a growing number of royalty transactions, continued leasing requests and steady requests for surface easements. The efforts to collect royalties due to the State and trusts has become more of a challenge and has prompted litigation.

The increase in numbers of transactions and funds under management has affected all divisions within the Department: Mineral Management, Surface Management, Investments, Revenue Compliance, Administrative and Information Technology, Unclaimed Property and the Energy Impact Office. The expansion through the early part of the decade was rapid in terms of both the growth in trust assets and in the Department's workload.

The Unclaimed Property Division has seen marked growth in both holder transfers and property claims. The growth in deposits can be attributed to enhanced education and unclaimed royalty proceeds, which have grown substantially as production in the state has expanded. Increases in property claims have resulted from additional outreach efforts.

The Energy Impact Office has been busy during the current biennium managing the reaction of disappointed grantees who anticipated funds based upon earmarks within the 2015 Legislature's appropriation of $140 million, only about half of which will actually be available this biennium.

The School Construction Loan Assistance Fund (SCLAF) was transferred from the Board to the Bank of North Dakota earlier this month. The November 2016 passage of Measure 2 regarding the foundation aid stabilization fund triggered a session law authorizing the transfer.

Mr. Chairman, we were asked to provide an update of current biennium spending as compared with the appropriation. With 25% of the biennium remaining, the Department is operating within its authorized appropriation.

	2015-17 Budget		
	2015-17 Appropriation	**Expenditures as of 12/31/16**	**% Remaining**
Salaries and Wages	**$6,123,516**	**$3,903,598**	***36%***
Contingencies	**100,000**	**-**	***100%***
Operating Expenses	**2,019,637**	**1,142,135**	***43%***
Energy Impact Office Admin.	**700,000**	**507,353**	***28%***

The Department was not impacted by adjustments made during the August 2016 Special Legislative Session, nor is it administering any one-time funding during the current biennium. The Department is not the direct recipient of any federal funds.

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Former Governor's 90 Percent Budget Request
To accommodate Former Governor Dalrymple's request for a 90 percent budget, the Department recommended two currently authorized FTEs be phased out-- a natural resources manager and the assistant Energy Impact Office administrator. The Department also submitted a reduced operating budget for travel, information technology software and licenses, data processing and technology fees. The request for operations funding authority for the EIIO was reduced from $700,000 to $207,000.

Comparison of Option Requests to the Executive Budget

	2015-17 Budget	2017-19 Budget		2017-19 Optional Budget Requests		
	2015-17 Appropriation	Proposed for 2017-19 Biennium	% of Change from Base Budget	2017-19 Optional Request	Proposed Optional for 2017-19	Executive Recommendation (Dalrymple)
SALARIES AND WAGES	$6,123,516	$5,864,209	-4.23%	$368,031	$6,232,240	$6,245,692
CONTINGENCIES	100,000	100,000	0.00%		100,000	100,000
OPERATING EXPENSES	2,019,637	1,727,698	-14.46%	46,050	1,773,748	1,775,723
CAPITAL ASSETS (comprehensive IT upgrade)	-	5,520,000				5,520,000
TOTAL	$8,243,153	$13,211,907		$414,081	$13,625,988	$13,641,415
FTE	33	31		2		32

Option Package
In its optional package request, the Department requested authorization for a Geographic Information Systems (GIS) specialist to assist with utilizing technology to produce customized electronic and traditional maps to support surface and minerals management. The GIS specialist would assist in the interpretation of digital land data. This specialist will be responsible for linking Department surface and minerals databases to the statewide GIS base map.

Presently, the Department uses basic maps and rudimentary GIS related tools to produce and manipulate data in association with its management of thousands of surface and mineral tracts and easements. A qualified GIS specialist would help to bring the Department up to the standards of our lessees, permittees and other state agencies. This Geographic Information Systems FTE is included in the executive budget (Dalrymple).

The Department manages and researches complicated historical records and title issues, thus it also requested a Mineral Title Specialist to assist with research and complex title issues, such as legal challenges to the State's sovereign lands claims.

There is currently a backlog of title research to be done on numerous claims, suspended royalties due to title disputes and related legal challenges. The requested FTE would require a legal background or formal landman training and certification. The mineral title FTE was not included in SB 2073.

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Information Technology Upgrade

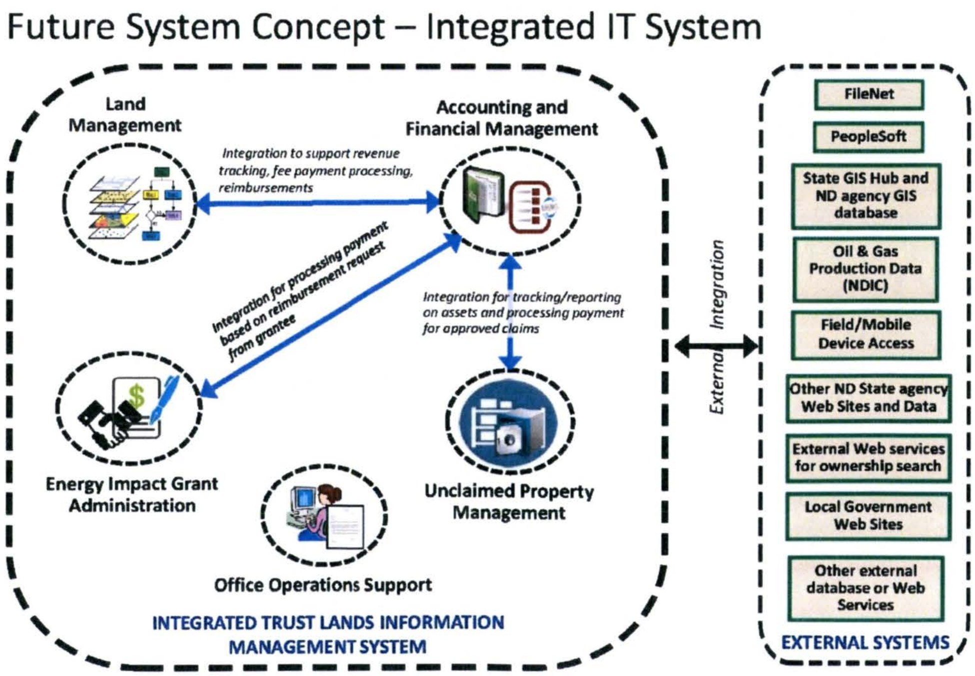
Software weaknesses within the Department's systems were emphasized throughout recent performance audit recommendations. The Department recognizes the need to update processes and systems to ensure data accuracy, enhance security and internal controls, and provide greater online functionality.

The Department has many disconnected manual and paper processes, along with multiple customized computer systems regarding:

- asset management
- surface and mineral leasing
- royalty collection
- rent compliance
- unclaimed property management
- grant and loan management

Many core systems were developed decades ago using designs and tools no longer supported by vendors. There have been some supplemental system improvements and purchases over time, but the current database structure has restricted many potential improvements.

In 2016, the Department hired a consulting firm, Major Oak, to undertake a process and systems analysis and to prepare specific process improvement recommendations. Through the business process modeling effort, Major Oak provided suggestions on solutions to further enhance controls, increase efficiencies, and boost productivity. Major Oak documented over 100 business processes in an effort to document core business requirements for a future information management system and to provide recommendations regarding build-versus-buy software options.



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Major Oak contacted peer organizations, software vendors, and various industry professionals and provided recommendations on system replacement options and estimated costs. Major Oak's estimate of a comprehensive system upgrade was incorporated in the Department's budget request and included in the executive recommendation as a one-time $5,520,000 capital asset. This is critical to resolving many of the data challenges highlighted by the Office of the State Auditor in 2016

Integrated Trust Lands Information Management Systems - Cost Projections

Cost in thousands	Land Management			Accounting		
Cost Projection Totals:	**Low**	**High**	**Average**	**Low**	**High**	**Average**
Implementation Timing (months)	30 months			12 months		
Implementation Cost	$1,426	$2,355	$1,891	$125	$150	$138
Total Annual Costs After Implementation	$295	$320	$308	$440	$440	$440
5-year Costs (Implementation Cost + Total Annual Cost)	**$1,722**	**$2,676**	**$2,199**	**$565**	**$590**	**$578**
	Unclaimed Property			**Grant Administration**		
Cost Projection Totals:	**Low**	**High**	**Average**	**Low**	**High**	**Average**
Implementation Timing (months)	12 months			6 months		
Implementation Cost	$125	$150	$138	$59	$107	$83
Total Annual Costs After Implementation	$440	$440	$440	$114	$225	$170
5-year Costs (Implementation Cost + Total Annual Cost)	**$565**	**$590**	**$578**	**$174**	**$332**	**$253**

We will appreciate your funding authorization for this project and we look forward to reporting to you in future session about the successful implementation of the system.

Correction of Mineral Tracts Recorded Within the Wrong Trust
One of the specific findings identified during the 2016 performance audit was the mistaken assignment of certain mineral tracts to the wrong trust.

When documents were transcribed in the 1940s, numerous mineral acre properties and files were incorrectly assigned to the YCC Trust, when they should have been assigned to the Ellendale Trust. Subsequently, all mineral revenues generated by those mineral tracts were incorrectly attributed to the wrong trust.

The Department examined the historical records of all of the producing mineral tracts currently identified as being owned by the YCC Trust. Twenty-six years' of revenue records for each of the 37 mistakenly assigned mineral tracts were reviewed.

The $6.1 million of mineral revenue and the related $1.1 million of investment income since 1989 was transferred from the YCC Trust to the Ellendale Trust in June, 2016.

The collective impact was that the YCC received approximately $621,000 more in distributions than it should have, and the seven beneficiaries of the Ellendale Trust received approximately $628,000 less. Section 6 of Senate Bill 2073 authorizes this one-time correction of distributions. The correction of past distributions is not included in Senate Bill 2013, but probably should be.

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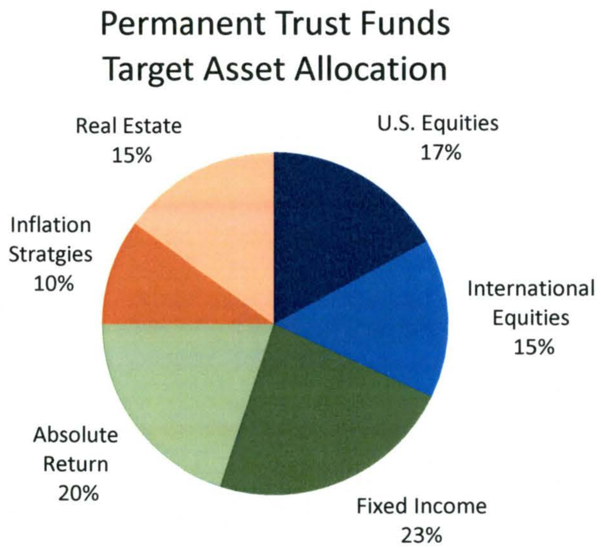
Agency Accomplishments
Performance within the Department is measured by its continued ability to manage the assets of 13 permanent trusts and six other funds under its control; to preserve fund value and purchasing power; to maintain stable distributions to beneficiaries; and to effectively manage the Energy Infrastructure and Impact Office and the Unclaimed Property Division.

The permanent trust fund financial assets have has increased from $908 million at the end of FY 2009 to $3.7 billion on June 30, 2016. Combined "other fund" financial assets managed by the Department have increased from $95.7 million on June 30, 2009 to $582 million on June 30, 2016.

	June 30, 2009	June 30, 2016
Permanent Trust Funds	$907,880,657	$3,720,729,900
Other Funds	95,700,411	582,061,892
	$1,003,581,068	$4,302,791,792

The Department developed a comprehensive Land Board Investment Policy Statement and implemented an entirely revised investment asset allocation for the permanent trust funds that includes not only stocks and bonds, but also absolute return strategies, emerging market equities, real estate and diversified inflation strategies.



	1 YR	3 YR	5 YR
Portfolio Returns as of 6/30/16	-0.6%	4.3%	5.2%

The Department issued 895 oil and gas leases on 74,761 mineral acres during FY 2015. During FY 2016, 714 leases involving 61,586 mineral acres were issued. At the end of FY 2015, the Board oversaw 8,853 active leases. As of the close of FY 2016 it managed 9,567 active oil and gas leases with 5,501 producing properties.

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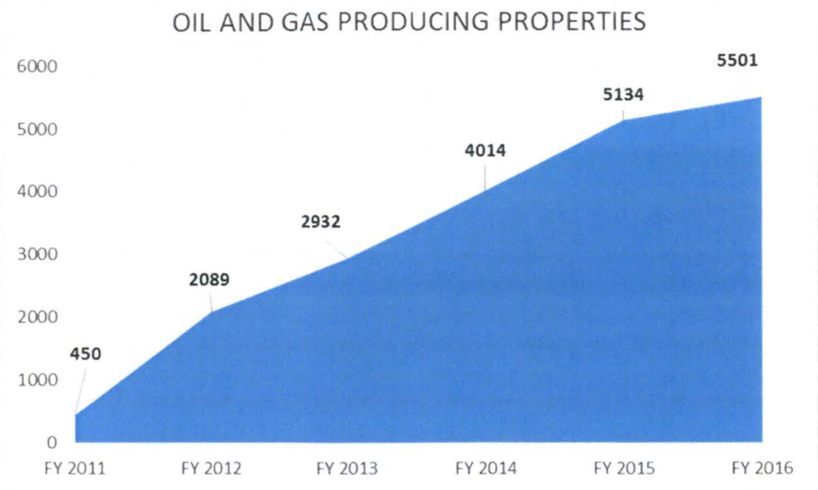
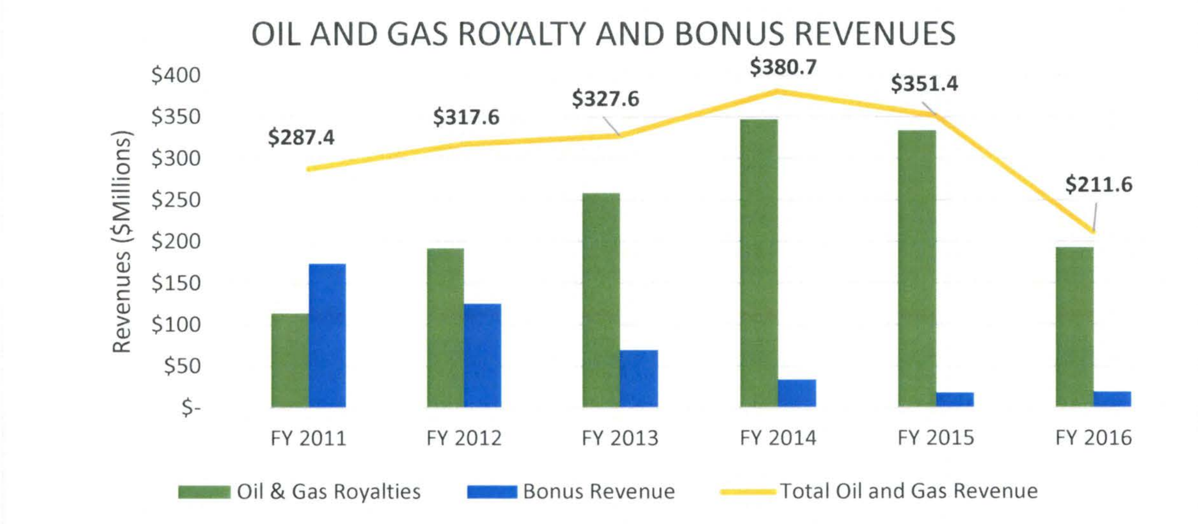
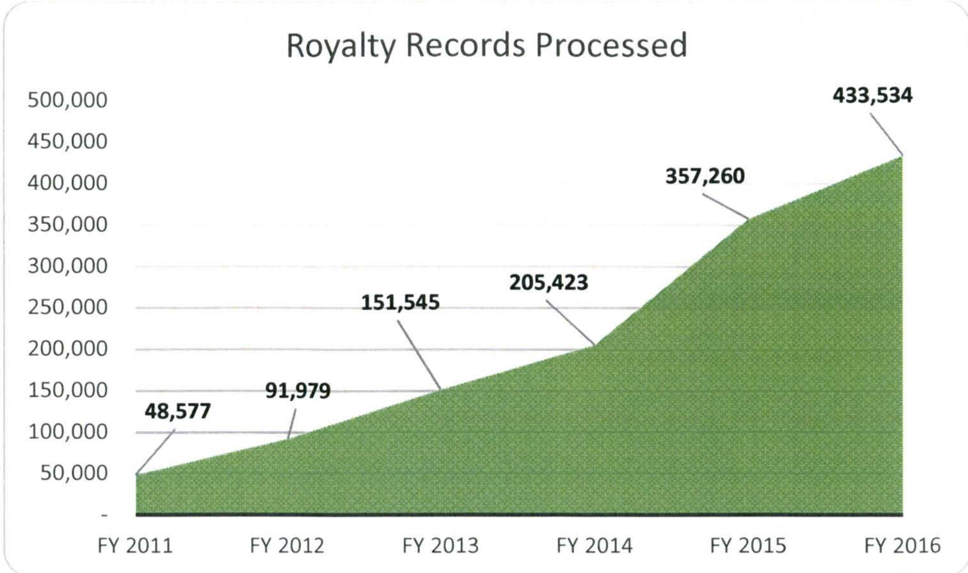


On behalf of the trusts and the State, the Department collected oil and gas royalties of $333.4 million and $18 million of bonus during FY 2015; and $192.2 million of royalties and $19.4 million of bonus during FY 2016.



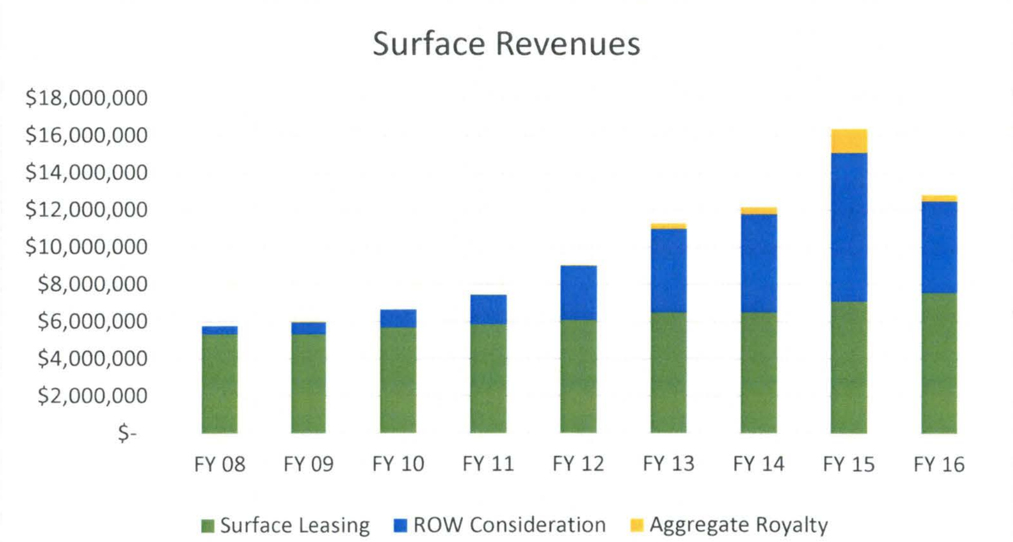
The Department has implemented a new electronic royalty reporting system which reduces manual data entry and eliminates annual third party vendor costs. This transition allowed a shift from data entry to an auditing focus. With the addition of an oil and gas royalty auditor position by the 2015 Legislature, a comprehensive oil and gas audit program has been implemented. There are currently eight ongoing oil and gas audits.

#1 p 11



Additional disputed royalties were collected and deposited in escrow during FY 2016, increasing the escrow balance from $18.7 million at the end of FY 2015 to $51.5 million as of June 30, 2016.

The Department processed 282 applications and issued 248 conveyances for easements, permits and surface damage agreements with total income in excess of $4.89 million in FY 2016. The trusts continue to have a 99% leasing rate for agricultural tracts, collecting $7,567,147 in surface rental income and $467,684 of construction aggregate royalties in FY 2016.



The Department also developed an online and mobile application for reclamation reporting systems to document, manage and verify the reclamation inspections.

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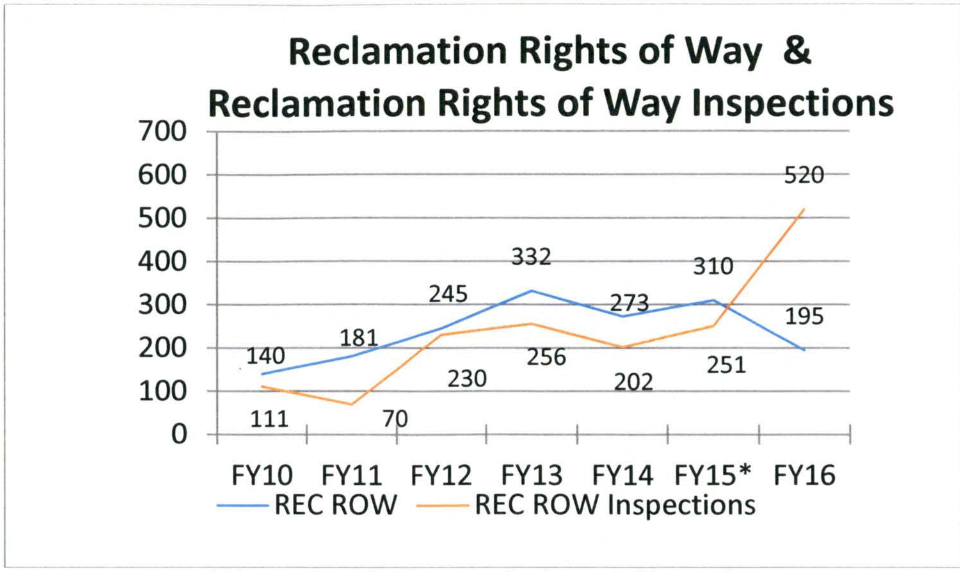
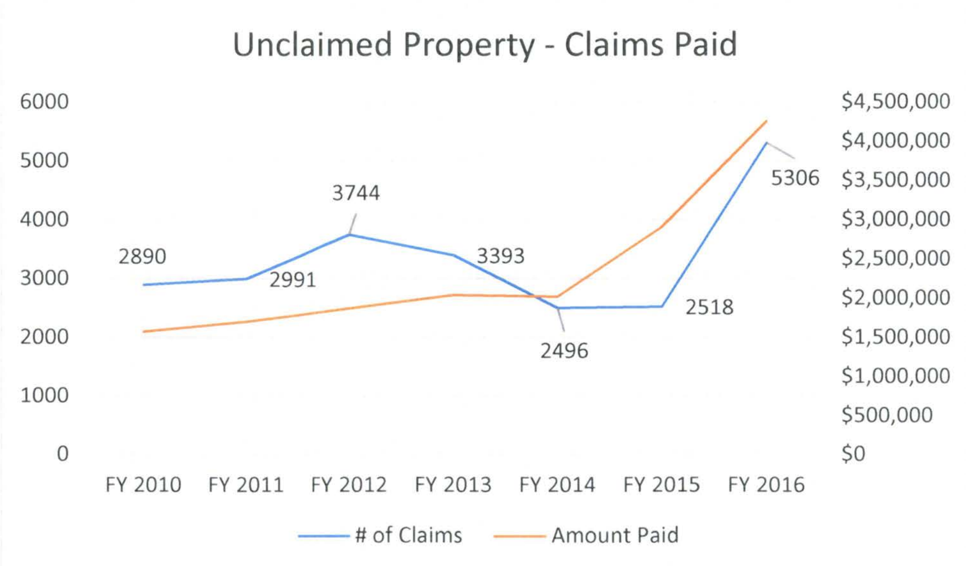


* New reclamation program implemented inspections

The Unclaimed Property Division approved 8,438 property claims totaling $8.55 million during fiscal years 2015 and 2016, compared to 5,891 property claims totaling $4.0 million during fiscal years 2013 and 2014. Much of the recent increase can be attributed to enhanced outreach efforts and increase in unclaimed oil royalties. Unclaimed securities valued at approximately $1.5 million are not reflected in the totals.



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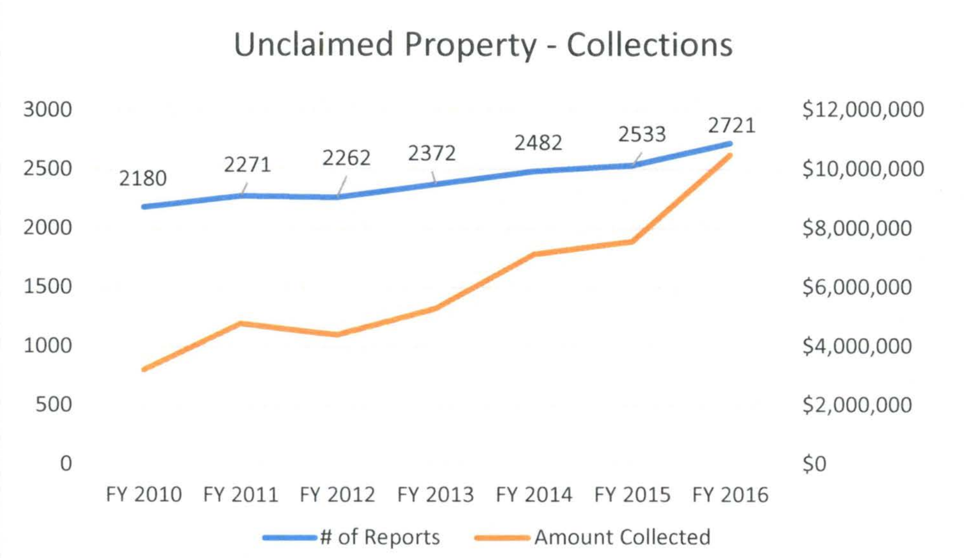

The Department administered a significantly expanded energy impact grant program through the Energy Infrastructure and Impact Office. Program award commitments increased from $8 million during 2009-2011 to $165 million during the 2011-2013 biennium. The program was further expanded to $240 million in the 2013-2015 biennium before being reduced to $139.3 million in the current biennium.

The Land Board authorized 266 grants totaling just under $50 million during the current biennium, with a large number of grant awards withheld due to lower revenues received from the oil production tax fund. Currently, there is a $90 million shortfall to entities identified by the 2015 Legislature.

Grants approved by the Land Board focus largely on assisting public safety, education improvements and health care. Some funds are also provided for rural transportation and other infrastructure projects.

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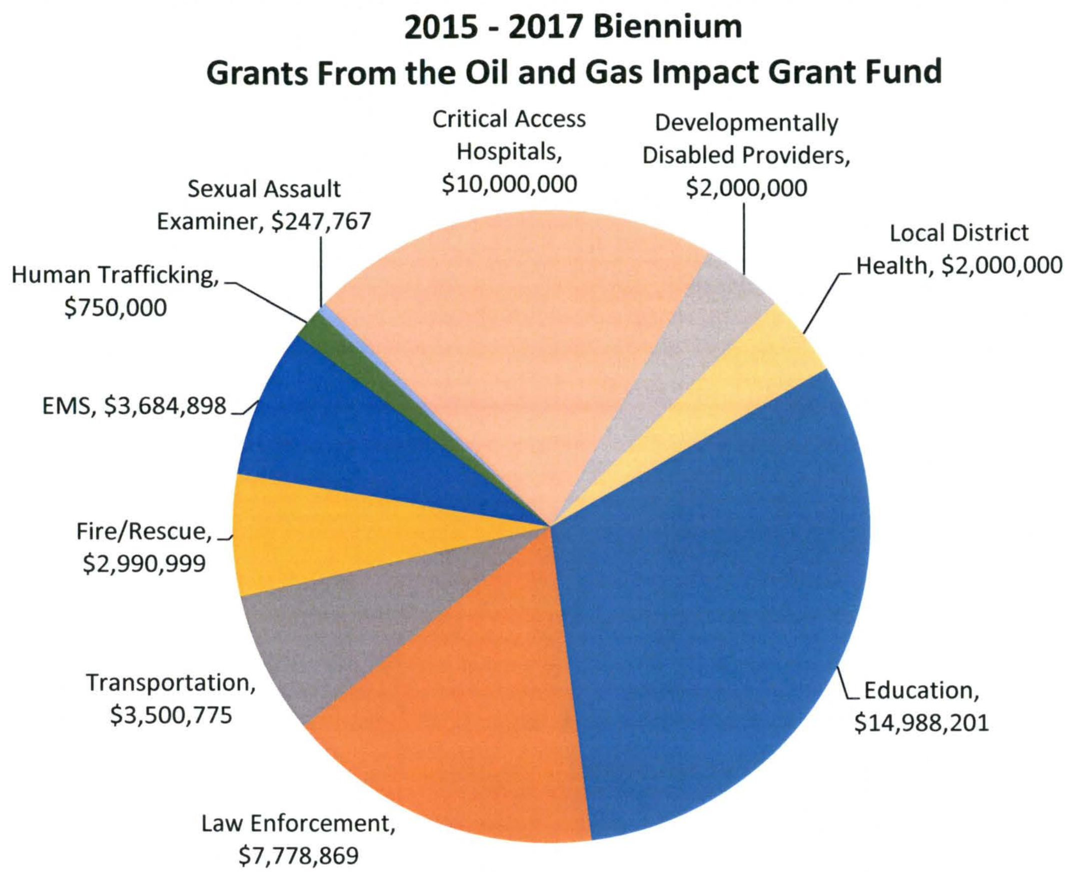

The average Energy Impact Office reimbursement payment increased from $9,032 in FY 2011 to $127,453 in FY 2016. There were 417 reimbursements made in FY 2011, totaling $3.76 million; in FY 2016, 904 reimbursements were processed totaled $115.2 million.

Agency Critical Issues

The low price of oil has lessened the pace of exploration and development and has reduced trust and State royalty income, but the overall workload has not diminished. Of the approximately 13,200 wells producing in North Dakota during June 2016, the Department collected royalties on approximately 5,500 properties, or 42%.

With the downturn there have been many changes, including business mergers and acquisitions, and unfortunately several bankruptcies. This has led to more division orders and assignments of leases that necessitate title work and staff review of archival records to resolve mineral acreage discrepancies and disputes. Although studies to determine sovereign lands have been implemented and the Supreme Court has affirmed the State's claim to the ordinary high water mark of navigable waters, these issues continue to be contested. These legal issues, along with documenting title will continue to take considerable Department and Attorney General's staff time. With title questions outstanding, substantial dollars remain held in either escrow or company suspense accounts while the Department works to resolve ownership issues and collect revenue.

The number of wells managed continues to increase, although not at the same pace as previous years. Transactions have increased due in part to enhanced collection efforts. There are continued requests for use of surface lands for pipelines and other easements. The Department commits substantial time evaluating and processing right-of-way and surface use applications and subsequent reclamation. It

#1
p15

is focused on improving the integrity of the natural resources it manages, while continuing its emphasis on range and crop land leasing, weed management, and land enhancements.

The Energy Infrastructure and Impact Office oversees the grants awarded from the Oil and Gas Impact Fund. Demand for grants outpaced available funding within the oil and gas impact grant fund, and the EIIO needed to implement suspensions and cash management to address the shortfall. The Legislature appropriated $139.3 million for energy impact grants in the 2015-2017 biennium, but revised forecasts indicate much less will be collected, thus grants that were legislatively identified will not be awarded.

Finally, the Department's information management systems need significant improvements. The business process modeling effort identified several opportunities for process improvements:

1. Automation of reporting data entry and royalty management/audit functions;
2. Automated and streamlined accounting processes to enhance accuracy and dependability;
3. Standardized secure fund transfers and ACH payment mechanisms;
4. Secure web applications for unclaimed property reporting and claim submittals;
5. Enhancing internal and public access to more data for review and analysis, and tabulating of aggregated or specific tract or transaction information;
6. Electronic file management storage and retrieval tools.

It is this comprehensive systems upgrade that is represented as the $5,520,000 of capital assets acquisition.

As fiduciary trust managers it is important the Department has resources to effectively and efficiently manage complicated transactions and collections. The workload has not diminished due to the energy industry activity levelling.

CONCLUSION
The Land Board's responsibility to preserve the trusts and maintain income stability for the trust beneficiaries continues to be met. All permanent and other trust funds remain in strong financial condition and are invested in safe and prudent manner. Land is prudently managed to provide a fair market rent income. Mineral leasing and development activities continue with strong revenues collected to enhance trust balances.

Unclaimed property continues to be safeguarded and ultimately returned to rightful owners via improved technologies and expanded outreach efforts.

The leasing and production of sovereign minerals has and will continue to contribute to substantial revenues for the SIIF to support state-wide infrastructure enhancements.

The future for the trusts and sovereign assets is very bright. I respectfully request your consideration to provide the Department with the means to manage the assets under the control of the Land Board as effectively as possible. We particularly appreciate your consideration of the capital asset IT project which we believe will enhance operations, accuracy, and public accessibility.

I look forward to working with the committee to explain this important Board and Department. It is a dynamic time in North Dakota, and the Department of Trust Lands is working in the heart of the activity related to energy growth, agricultural success, educating children, safeguarding and returning unclaimed property, and supporting western infrastructure.

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1-20-17 SB 2013-2073

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p1

Chairman Holmberg and members of the Senate Appropriations Committee:

I am Howard Klug, Mayor of Williston, and am here as a representative of the Williston Basin International Airport. I am seeking your support of Senate Bill 2073 to allow critical airport projects such as the new Williston Basin International Airport to continue to progress toward planned completion in 2019. I will also be expressing support for HB 1366 as this also positively impacts progress of airport development.

With the substantial growth and impacts from oil development in western North Dakota, the City of Williston has completed extensive planning efforts and thorough review of the environmental impacts of this vital transportation link for our region.

Our analysis showed significant growth in aviation activity from both corporate and commercial aircraft. It also identified operational challenges and deficiencies of our existing airfield and passenger terminal.

These deficiencies of the existing airport are twofold.

1. Failure to meet FAA design standards, specifically:
    a. The surface gradient standards – or slope of the runway. Fixing this issue would require lowering the west end of the runway and significant excavation through the adjacent property.
    b. The parallel taxiway is closer to the runway than allowed by FAA standards.
2. Operational
    a. The existing Runway has low weight bearing capacity
        i. The runway is designed to handle 25,000 pound weight capacity. Smaller regional jets are about 50,000 pounds and are causing damage to the pavement. Additionally, these small aircraft are being phased out of the industry, and being replaced by larger heavier aircraft.
    b. Existing runway length
        i. Currently the primary runway is 6,650' x 100' which is too short for the smallest regional jets to operate unrestricted. The plan is to build 7,500' by 150' to meet FAA standards and airline needs.

We evaluated the costs of resolving these issues at the existing airport and determined that most items can be resolved, however, this was determined to be an impractical solution for following reasons.

- Costs of fixing the airport are comparable to the relocation.
- The airfield would be closed for at least two years for construction.
- Relocation has fewer environmental impacts than repair of the current site

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1-20-17 SB 2013-2073

#2
P2

- There would be continued limitations on additional commercial air service.
- The relocation of the existing airport allows the redevelopment of the existing airport property to be complementary with Williston's current community plans.

The total project will be completed over the next 3-years at a total cost of approximately $234M. We have been working closely with the FAA and State Aeronautics Commission and our goal is to have shared cost with FAA funding approximately 50% and the State and City each spending approximately 25% or $59M.

Thank you for your consideration of SB 2073. I will stand for any questions.

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WILLISTON BASIN INTERNATIONAL AIRPORT

#2
p3

1-20-17 SB 2013 + 2073

LEGISLATIVE REQUEST

The North Dakota Legislature appropriated $39 million in the 2015-2016 biennium to assist the City of Williston in funding construction of the Williston Basin International Airport. Since that time, the award of these funds has been suspended until adequate funds have been received to support this commitment. The Williston Basin International Airport would like to respectfully request the $24.1 million for airport projects, including $20 million anticipated for this project, remain supported in Senate Bill 2073 to make sure that critical airport projects can continue progress throughout 2017-2018.

Additionally, we would like to extend our support for House Bill 1366 to fulfill appropriate from last biennium, which could not be fulfilled due to decrease oil revenue.

IMPLICATIONS

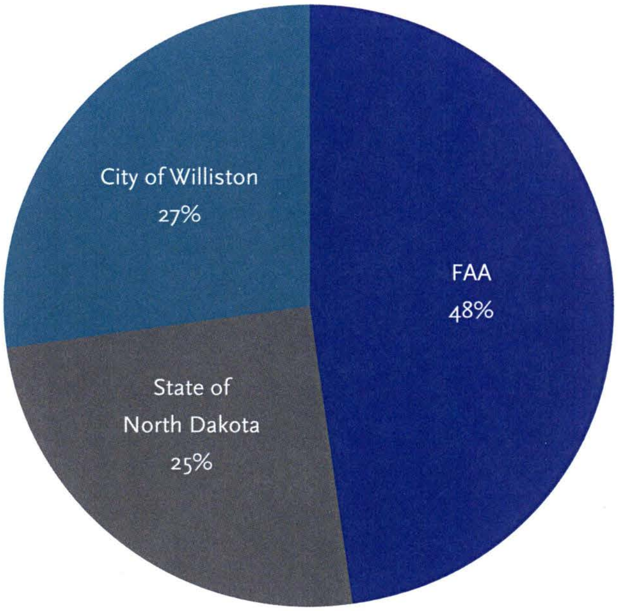
The reduction of state financial support may jeopardize the Federal Aviation Administration's (FAA) commitment to the Williston Basin International Airport replacement project. The combined effect of federal and state reductions will jeopardize the ability of the City of Williston to complete this project.

FUNDING OVERVIEW

The initial funding plan for the Williston Basin International Airport project included FAA funding 50 percent and the State of North Dakota and the City of Williston each funding 25 percent. As shown in the adjacent chart, the current anticipated funding percentages have changed slightly as the project has progressed.

Restoring the previously appropriated $39 million, paired with the $20 million from the 2013-2015 biennium, would fulfill the State of North Dakota's anticipated funding share of 25 percent.

ANTICIPATED FUNDING SOURCES



PROJECT STATUS

The City of Williston secured all land needed for the airport in 2016. Design is currently underway for a majority of the airfield projects, and construction is projected to start in spring 2017. To date, the FAA has granted $54 million to assist in funding these projects.

PROJECT SCHEDULE/COST

The goal is to open the airport in 2019.

TOTAL CONSTRUCTION COST:
$234 MILLION

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WILLISTON BASIN INTERNATIONAL AIRPORT

#2 P4

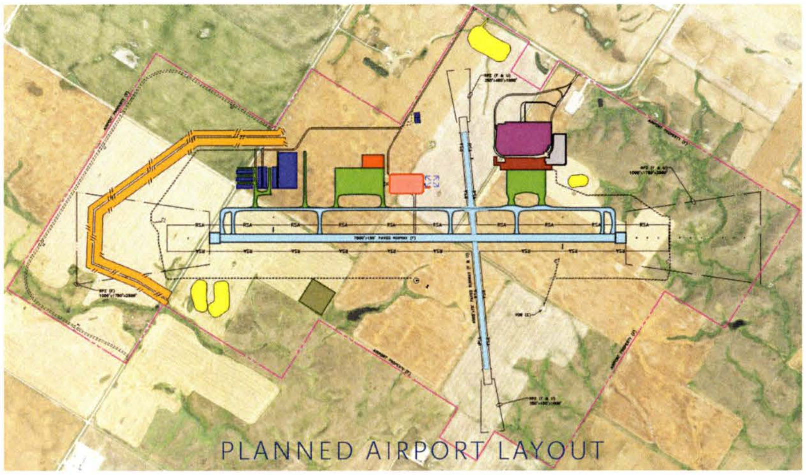
1-20-17 SB 2013 + 2073

CONTINUED OPERATIONS AT SLOULIN FIELD

There are multiple issues with continuing to operate at Sloulin Field:

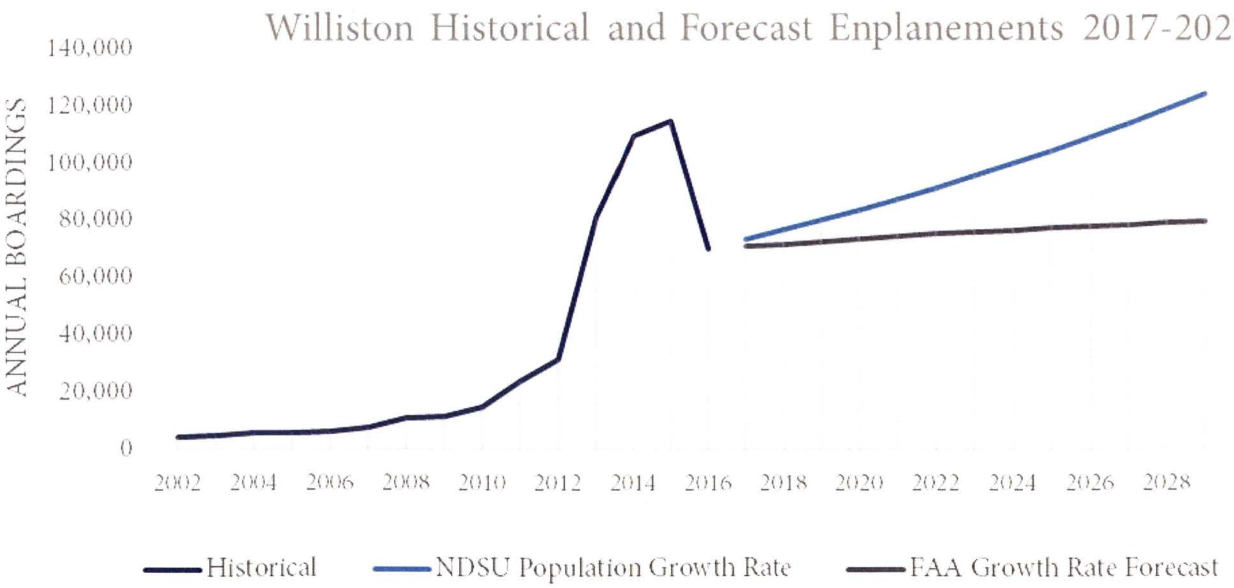
- Airfield does not meet FAA design standards for existing corporate and airline air traffic
- Pavement weight bearing capacity is 25,000 pounds, the 50-seat regional jets operated by United and Delta weight 50,000 pounds
- There are serious concerns that pavement at Sloulin Field will not last until the new airport is constructed

Reconstruction of Sloulin Field would be more expensive than relocation and would only partially comply with FAA Design Standards. This reconstruction would limit the airports ability to expand for future aviation needs and would require the airport to be closed for 18 to 24 months, leaving the region without this vital transportation link.


PLANNED AIRPORT LAYOUT

HISTORICAL AND FORECAST ACTIVITY

Passenger activity at Williston decreased in 2016 due to the downturn in oil prices. As shown in the chart below, gradual growth is anticipated throughout the future. Thus, the project has been designed to accommodate stable, gradual growth while maintaining the ability to react to future increases in demand. Flexibility has been designed into the project because growth rates are greatly affected by oil prices.



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1-20-17 SB 2013 + 2073

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p1

Chairman Holmberg and committee members:

I am Scott Decker, Mayor of Dickinson, and am here as a representative of the Dickinson airport. I am seeking your support of Senate Bill 2073 to allow critical airport projects such as at the Dickinson-Theodore Roosevelt Regional Airport to continue to progress throughout 2017-2018.

The Dickinson region has experienced substantial growth and impacts from oil development in western North Dakota. The airport has also seen increased aviation activity from both cooperate and commercial aircraft. As a result, Dickinson-Theodore Roosevelt Regional Airport has seen significant operational challenges, specifically the deterioration of our runway.

The existing Runway 14-32 was designed for smaller aircraft (less than 40,000 pounds), however, FAA Design Aircraft C and D-II and C-III,(traditionally more than 40,000 pounds) are operating at the Airport with greater frequency and are weakening the pavement. This has caused the runway to deteriorate at an accelerated pace and has raised safety concerns.

The existing Runway 14-32 has a deficient Runway Safety Area and is not long enough or strong enough to support existing and forecasted demand.

In coordination with the FAA, it was determined that to meet standards and current and forecasted demand, we must accomplish the following:

- Lengthen, shift and reconstruct existing Runway 14-32 to from 6,399 to 7,300 feet long to by 150 feet wide
- Construct a parallel taxiway 7,300 feet long by 50 feet wide, with 25 foot shoulders and turnarounds such that it can be used as an alternate landing surface when the primary runway is under construction
- Bring the runway safety area for Runway 14-32 in conformity with FAA design standards.
- Relocate or replace electronic aids to navigation (NAVAID) on the airfield
- Develop revised approach and departure instrument approach procedures to the primary runway
- Runway and taxiway lighting and signage for the longer runway and taxiways
- Land acquisition to support a 7,300 feet long runway and associated Runway Protection Zones
- Construct new airfield wildlife fence along new airport property

The total project is planned to be completed over the next 5-years at a total cost of approximately $65M. Through conversations with the FAA, we anticipate receiving $41M in federal funds. The remaining $24M would be comprised of both state and local funds.

Thank you for considering our aviation needs and I would stand for any questions.

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#3 P2

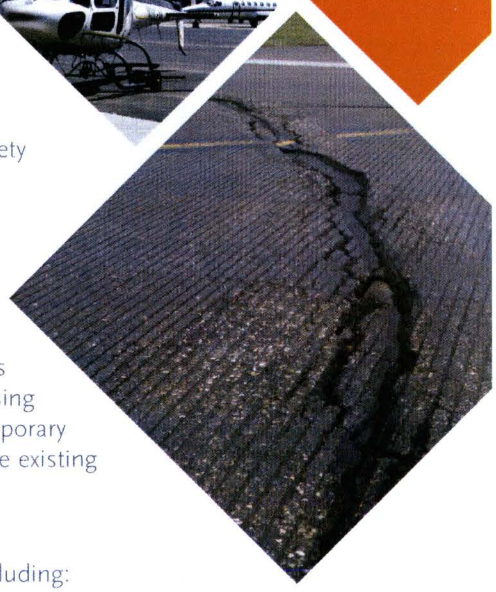
DICKINSON-THEODORE ROOSEVELT REGIONAL AIRPORT (DIK)

DICKINSON AIRPORT NEEDS

The Dickinson Region has experienced substantial growth and impacts from oil development in western North Dakota, and the additional aviation activity has resulted in operational challenges for the Dickinson-Theodore Roosevelt Regional Airport. To address these issues the Airport developed a multiyear master plan, which is currently being coordinated with the Federal Aviation Administration (FAA).

The plan identifies several issues and constraints to current airport operations, including the following:

- A need to lengthen and shift Runway 14-32 from 6,399 feet to 7,300 feet and widen from 100 feet to 150 feet per the existing and future critical aircraft.
- Runway 14-32 was designed for smaller aircraft (FAA Design Aircraft of B-II, traditionally less than 40,000 pounds). FAA Design Aircraft C and D-II and C-III,(traditionally more than 40,000 pounds) are operating at the Airport in greater frequency and are weakening the pavement of Runway 14-32. Based on pavement evaluations, the runway is deteriorating at an accelerated pace.
- For aircraft currently operating at the airfield, Runway 14-32 has a deficient Runway Safety Area and Runway Protection Zone both in length and width.



PROPOSED IMPROVEMENTS

PARALLEL TAXIWAY CONSTRUCTION AND RUNWAY 14-32 CONSTRUCTION

Existing pavement on Runway 14-32 requires full depth reconstruction in order to serve existing and anticipated critical aircraft. The current runway pavement strength is 37,500 pounds and should be constructed to 90,000 pounds. To avoid closing primary Runway 14-32 and losing commercial service for an extended period of time, the preferred alternative is to create a temporary runway by creating a new parallel taxiway, which will be used as a temporary runway while the existing runway is being completely reconstructed, shifted and extended.

Improvements proposed include the following:

- Lengthen and reconstruct existing Runway 14-32 to 7,300 feet long by 150 feet wide including:
  - > Runway safety area improvements for the Runway 14-32
  - > Relocate or replace electronic aids to navigation (NAVAID) on the airfield
  - > Develop revised approach and departure instrument approach procedures to the primary runway and full parallel taxiway when used as an alternative landing surface
  - > Runway and taxiway lighting and signage for the longer runway and taxiways
  - > Land acquisition to support a 7,300 feet long runway and associated Runway Protection Zones
  - > Construct new airfield wildlife fence along new airport property
- Construct a parallel taxiway 7,300 feet long by 50 feet wide, with 25 foot shoulders and turnarounds such that it can be used as an alternate landing surface when the primary runway is under construction

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DICKINSON-THEODORE ROOSEVELT REGIONAL AIRPORT (DIK)

#3 p3

FUNDING NEEDS

Anticipated Financial Needs:

Total Project Cost: $65M

Federal	State	Local
$41M	$20M	$4M

ESTIMATED CONSTRUCTION TIMELINE

2017	2018	2019	2020	2021
Finalize Environmental Assessment, Design Parallel Taxiway, Land Acquisition	Design Runway, Start Taxiway Construction, Wetland Mitigation, Acquire Snow Removal Equipment	Complete Taxiway Construction	Start Runway Construction	Complete Runway Construction
$4.5 MILLION	$13.9 MILLION	$12.2 MILLION	$17.1 MILLION	$17.4 MILLION

LEGISLATIVE REQUEST

The Dickinson-Theodore Roosevelt Regional Airport would like to respectfully request the $24.1 million for airport projects, including $4.1 million anticipated for Dickinson, remain supported in Senate Bill 2073 to make sure that critical airport projects can continue progress throughout 2017-2018. Additionally, we would like to extend our support for House Bill 1366 to fulfill appropriations from last biennium which could not be fulfilled due to decreased oil revenue.

p3.

1-20-17 SB2013 + 2073

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AAND

Airport Association of North Dakota

Matthew Remynse - President Anthony Dudas - Vice President
Samuel Seafeldt - Sec. / Treasurer
PO Box 1560 Jamestown, North Dakota 58402-1560
(701) 355-1808

January 20, 2017

SB2013

RE: Testimony to Senate Appropriation Committee on SB 2073

Chairman Homberg and members of the committee,

I am Matthew Remynse, the President of the Airport Association of North Dakota (AAND). AAND is the professional organization for North Dakota Airports and it serves to promote airports, aviation, and safety across North Dakota. Among its members are all eight commercial service airports, 70 of 81 general aviation airports and aviation engineering and planning firms. I want to thank you for the opportunity to speak here today and thank you for the past support of energy impacted airports. I'm here today on behalf of our association to express our support for SB 2073 and the $24 million identified in this bill for airports.

Airports are a vital driver of the state's economic development, and quality of life. North Dakota's 89 airports generate $1.56 billion annually in economic impact and touch all major industries including agriculture, healthcare, manufacturing, tourism, energy, and technology. In western North Dakota aviation is key to supporting business needs.

Airports in western North Dakota grew at an unprecedented rate in the first part of this decade surpassing many of the forecasted estimates. Unfortunately, airports were affected by the economic downturn just as many North Dakota industries were, but I see this as a positive. Airports have leveled off to an extent, and are now growing at a rate more manageable than the rate seen during the boom years. Although airports are growing at a gentler rate, the needs are still there and higher than ever because the activity never returned to pre-boom levels. Many of the western ND airports are still not built for the traffic that the boom brought, and that traffic continues. Now is the time to make a sound investment in western North Dakota Airports.

The project for the new Williston Airport broke ground last fall and the cost is estimated to be $250 million. The Dickinson Airport is in the design stage of its new runway project and the cost is estimated to be $65 million. The Federal Aviation Administration (FAA) normally

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p2

provides 90% grant funding for these projects but is unable to meets its commitments due to a number of large capital projects in the state. The North Dakota Aeronautic Commission's (NDAC) grant program is underfunded to meet the current needs of airports. This leaves very large local shares that airports are challenged with finding funding for. Local shares of this magnitude have never been seen by airports before. To cover their local share airports are seeking bonding or loans because these projects must move forward to meet the new demand and replace aging infrastructure. Energy Impact funding goes a long way to help airports develop in a financially responsible manner and to not be burdened by an unreasonable amount of debt.

In the 2015-2017 biennium the Legislature appropriated $48 million dollars for Energy Impact funding for oil impacted airports. Due to the downturn in commodity prices, only $3 million of the appropriated dollars were granted to airports. Our airports and the NDAC adapted well to the downturn and are now excited to see that the $4 million for Dickinson and the $20 million for Williston have been restored using Strategic Investment and Improvements Funds. However, there is still $21 million of previously appropriated funds for the Dickinson and Williston airports that have not been restored. The additional $21 million is still to needed to assist with their projects.

In conclusion, AAND supports the energy impact dollars that have been provided for the Dickinson and Williston Airports. I thank you for the opportunity to testify on SB 2073. I will take any questions at this time.

Respectfully,

Matthew Remynse
President, AAND

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www.land.nd.gov

SB 2013
1-30-17

DEPARTMENT OF
ND TRUST LANDS
INVESTING FOR EDUCATION

Lance D. Gaebe, Commissioner

#1

TESTIMONY OF LANCE GAEBE
COMMISSIONER
North Dakota Department of Trust Lands

SENATE BILL NOS. 2013 and 2073

SENATE APPROPRIATIONS COMMITTEE
January 20, 2017

Chairman Holmberg and members of the Senate Appropriations Committee, I am Lance Gaebe, Secretary for the Board of University and School Lands (Land Board). I am here to testify in support of the Department of Trust Lands' (Department) requested total special funds appropriation found in Senate Bill Nos. 2013 and 2073.

Along with my coworkers in the Department, we serve as the state agency under the direction and authority of the Land Board which is comprised of the Governor, Secretary of State, Attorney General, State Treasurer and Superintendent of Public Instruction.

The primary responsibility of the Board and the Department is to manage the Common Schools Trust Fund and 12 other permanent educational and institutional trust funds governed by Article IX of the North Dakota Constitution. These trust funds were established at statehood when the Federal Government granted 3.2 million acres of land to the state "for the support of common schools" and other public institutions. The State Constitution and statutes provide that the Land Board shall manage the land, minerals and proceeds of these trust funds for the exclusive benefit of the beneficiaries.

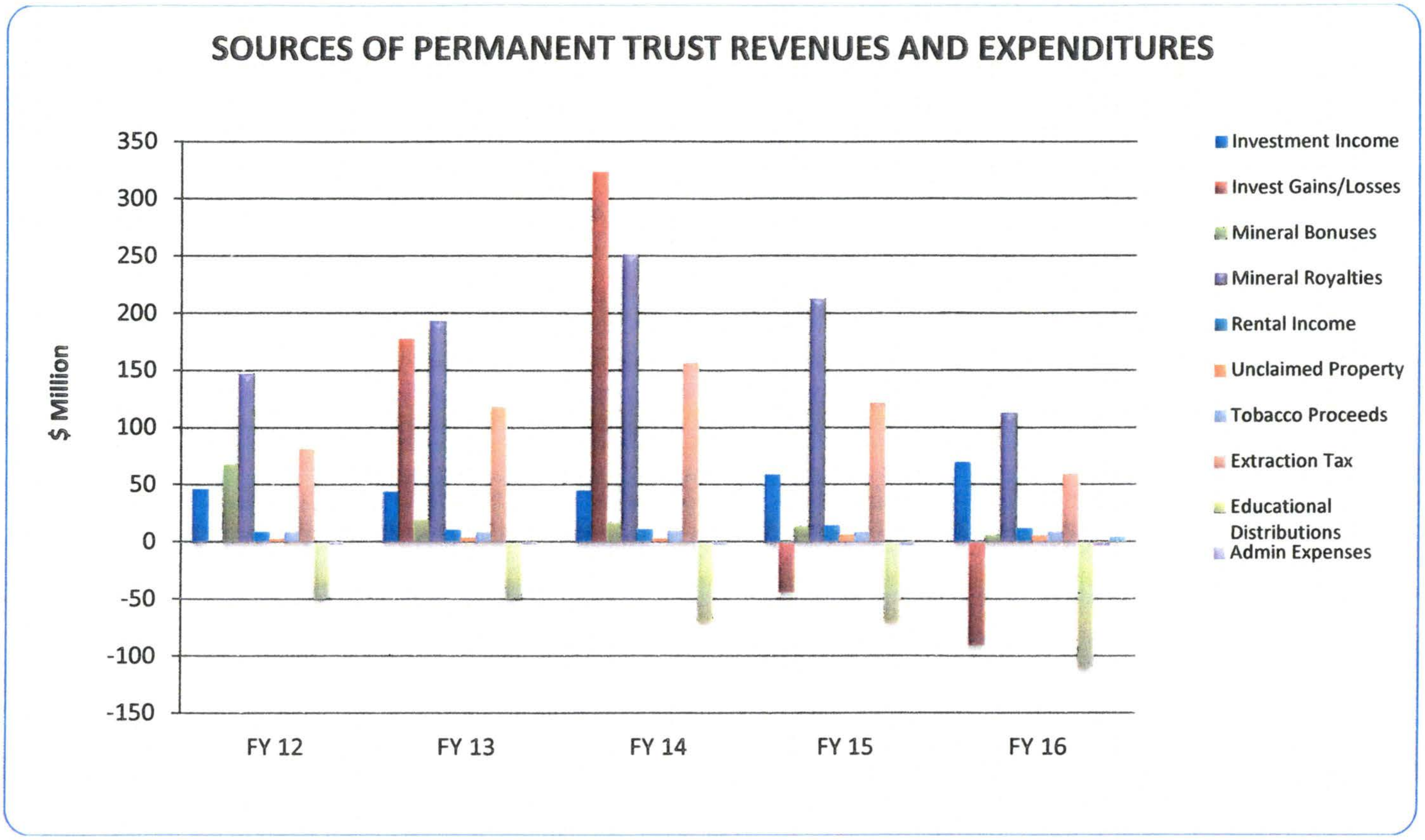
Other prominent roles within the Department are:

- Management of five additional funds
- The State Unclaimed Property Division
- The Energy Infrastructure and Impact Office

The Department has 33 authorized FTEs for these responsibilities.

Support for Education

A primary focus of the Land Board and Department is managing permanent trust assets to fund education and other governmental functions. The Department manages 708,000 surface acres that are leased to ranchers and farmers. On behalf of the permanent trusts, it also oversees 1.7 million mineral acres which are offered for oil, gas, coal, gravel and subsurface mineral leasing and production. Revenues are invested in a diversified portfolio of financial assets, actively managed by the Land Board as a permanent endowment.



According to Article IX of the North Dakota Constitution, biennial distributions from the permanent trust funds must be ten percent of the five-year average value of trust financial assets. Equal amounts must be distributed during each year of the biennium.

The Common Schools Trust Fund distribution to the State's public schools will be $288.3 million during the 2017-2019 biennium; this is $82.1 million (or approximately 40%) more than the 2015-2017 biennium. The 2017-2019 distributions from the 12 other permanent trusts will increase by approximately 36% over the current biennium distributions to the beneficiaries.

Biennium	Total Biennial Distributions	% Increase from Previous Biennium
2009-11	$82.3 million	15.5%
2011-13	$ 98.5 million	19.7%
2013-15	$ 138.7 million	40.9%
2015-17	$ 219.1 million	58.0%

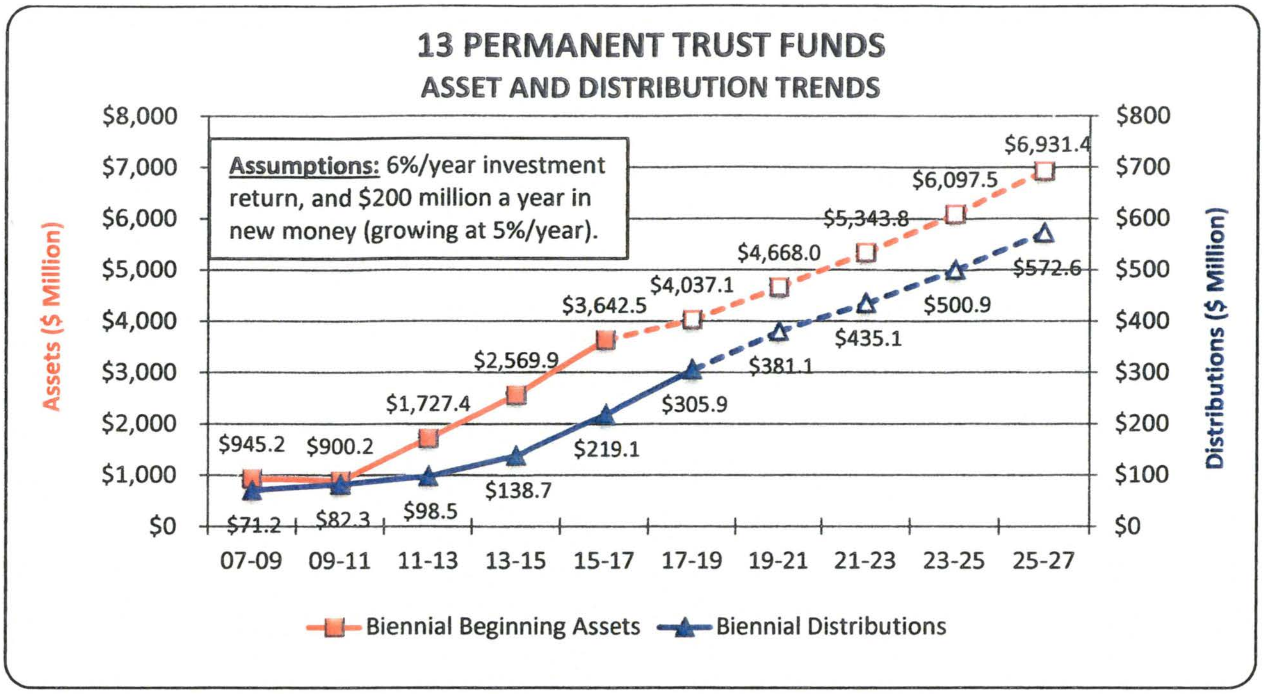
The distributions are appropriated in Section 4 of SB 2013 and the identical amounts are appropriated in Section 5 of SB 2073.

The following table outlines the constitutionally mandated distribution amounts for each permanent trust for the 2017-19 biennium and it also includes comparisons to current biennial distributions.

Trust Fund	2015-2017 Bi. Distributions	2017-2019 Bi. Distributions [1]	Increase in Distributions	Percentage Increase in Distributions
Common Schools	$ 206,134,000	**$ 288,264,000**	$ 82,130,000	39.8%
NDSU	3,368,000	**4,738,000**	1,370,000	40.7%
School for the Blind	456,000	**654,000**	198,000	43.4%
School for the Deaf	1,180,000	**1,598,000**	418,000	35.4%
State Hospital	1,000,000	**1,184,000**	184,000	18.4%
Ellendale [2]	546,000	**1,304,000**	758,000	138.8%[4]
Valley City	570,000	**808,000**	238,000	41.8%
Mayville	382,000	**542,000**	160,000	41.9%
Industrial School [3]	1,372,000	**1,422,000**	50,000	3.6%[4]
School of Science	988,000	**1,260,000**	272,000	27.5%
School of Mines	1,134,000	**1,444,000**	310,000	27.3%
Veteran's Home	356,000	**436,000**	80,000	22.5%
UND	1,608,000	**2,218,000**	610,000	37.9%
TOTAL	$ 219,094,000	**$ 305,872,000**	$ 86,778,000	39.6%

(1) These amounts are not subject to change as a result of any activity in the investment portfolio over the next two years. They are calculated based upon the formula in Article IX, §2 of the Constitution.
(2) The beneficiaries of the Ellendale Trust are: Dickinson State University, Minot State University, Dakota College at Bottineau, Veterans' Home, School for the Blind, State Hospital, and the State College of Science.
(3) The Youth Correctional Center is the beneficiary of the Industrial School Trust.
(4) The distributions to the Ellendale beneficiaries and the Youth Correction Center includes a one-time offsetting adjustment between the trusts because of a previous misallocation of mineral revenues (explanation on page 8).

The permanent trust funds growing balances will lead to even more funds being distributed to beneficiaries in future years.



Other Funds
In addition to the constitutional trusts, the Land Board also manages:

- The Coal Development Trust Fund
- The Capitol Building Fund
- The Indian Cultural Education Trust
- The Oil and Gas Impact Grant Fund
- The Strategic Investment and Improvements Fund (SIIF) and its 800,000 mineral acres

The 2011 Legislature created the SIIF when it merged the former Lands and Minerals Trust Fund with the Permanent Oil Tax Trust Fund. It is anticipated that the SIIF will collect $266.8 million of income during the biennium, $190 million of which being generated from sovereign mineral leasing and production. The remainder is from investment income and oil and gas taxes. The $142.3 million set aside in an assigned fund balance, until resolution of potential title disputes related to certain riverbed issues. Although the courts have determined the State holds title to the ordinary high water mark, unresolved ownership issues related to riverbed leases, including with the federal government, remain.

Unclaimed Property
The Department also administers the responsibilities outlined in the Uniform Unclaimed Property Act. In this role the Department collects "unclaimed property" (uncashed checks, unused bank accounts, etc.), and processes owners' claims. This property is held in permanent trust for owners to claim, but the revenue from the investment of the property benefits the Common Schools Trust Fund.

Energy Infrastructure and Impact Office
In addition, the Department operates the Energy Infrastructure and Impact Office (Energy Impact Office), which provides financial support to political subdivisions affected by energy development. Assistance is provided through both the oil and gas impact grant program and the coal impact loan program. The oil and gas impact program was authorized at $140 million for the current biennium, though only half of that amount is forecast to be collected and granted. The Energy Impact Office also distributes energy and flood grants from prior biennia.

2015-2017 Operations
Overall operating expenditures have remained stable during the present biennium. While the growth in energy activity has flattened, the Department continues to process a growing number of royalty transactions, continued leasing requests and steady requests for surface easements. The efforts to collect royalties due to the State and trusts has become more of a challenge and has prompted litigation.

The increase in numbers of transactions and funds under management has affected all divisions within the Department: Mineral Management, Surface Management, Investments, Revenue Compliance, Administrative and Information Technology, Unclaimed Property and the Energy Impact Office. The expansion through the early part of the decade was rapid in terms of both the growth in trust assets and in the Department's workload.

The Unclaimed Property Division has seen marked growth in both holder transfers and property claims. The growth in deposits can be attributed to enhanced education and unclaimed royalty proceeds, which have grown substantially as production in the state has expanded. Increases in property claims have resulted from additional outreach efforts.

The Energy Impact Office has been busy during the current biennium managing the reaction of disappointed grantees who anticipated funds based upon earmarks within the 2015 Legislature's appropriation of $140 million, only about half of which will actually be available this biennium.

The School Construction Loan Assistance Fund (SCLAF) was transferred from the Board to the Bank of North Dakota earlier this month. The November 2016 passage of Measure 2 regarding the foundation aid stabilization fund triggered a session law authorizing the transfer.

Mr. Chairman, we were asked to provide an update of current biennium spending as compared with the appropriation. With 25% of the biennium remaining, the Department is operating within its authorized appropriation.

	2015-17 Budget		
	2015-17 Appropriation	Expenditures as of 12/31/16	% Remaining
Salaries and Wages	$6,123,516	$3,903,598	*36%*
Contingencies	100,000	-	*100%*
Operating Expenses	2,019,637	1,142,135	*43%*
Energy Impact Office Admin.	700,000	507,353	*28%*

The Department was not impacted by adjustments made during the August 2016 Special Legislative Session, nor is it administering any one-time funding during the current biennium. The Department is not the direct recipient of any federal funds.

Former Governor's 90 Percent Budget Request

To accommodate Former Governor Dalrymple's request for a 90 percent budget, the Department recommended two currently authorized FTEs be phased out-- a natural resources manager and the assistant Energy Impact Office administrator. The Department also submitted a reduced operating budget for travel, information technology software and licenses, data processing and technology fees. The request for operations funding authority for the EIIO was reduced from $700,000 to $207,000.

Comparison of Option Requests to the Executive Budget

	2015-17 Budget	2017-19 Budget		2017-19 Optional Budget Requests		
	2015-17 Appropriation	Proposed for 2017-19 Biennium	% of Change from Base Budget	2017-19 Optional Request	Proposed Optional for 2017-19	Executive Recommendation (Dalrymple)
SALARIES AND WAGES	$6,123,516	$5,864,209	-4.23%	$368,031	$6,232,240	$6,245,692
CONTINGENCIES	100,000	100,000	0.00%		100,000	100,000
OPERATING EXPENSES	2,019,637	1,727,698	-14.46%	46,050	1,773,748	1,775,723
CAPITAL ASSETS (comprehensive IT upgrade)	-	5,520,000				5,520,000
TOTAL	$8,243,153	$13,211,907		$414,081	$13,625,988	$13,641,415
FTE	33	31		2		32

Option Package

In its optional package request, the Department requested authorization for a Geographic Information Systems (GIS) specialist to assist with utilizing technology to produce customized electronic and traditional maps to support surface and minerals management. The GIS specialist would assist in the interpretation of digital land data. This specialist will be responsible for linking Department surface and minerals databases to the statewide GIS base map.

Presently, the Department uses basic maps and rudimentary GIS related tools to produce and manipulate data in association with its management of thousands of surface and mineral tracts and easements. A qualified GIS specialist would help to bring the Department up to the standards of our lessees, permittees and other state agencies. This Geographic Information Systems FTE is included in the executive budget (Dalrymple).

The Department manages and researches complicated historical records and title issues, thus it also requested a Mineral Title Specialist to assist with research and complex title issues, such as legal challenges to the State's sovereign lands claims.

There is currently a backlog of title research to be done on numerous claims, suspended royalties due to title disputes and related legal challenges. The requested FTE would require a legal background or formal landman training and certification. The mineral title FTE was not included in SB 2073.

Information Technology Upgrade

Software weaknesses within the Department's systems were emphasized throughout recent performance audit recommendations. The Department recognizes the need to update processes and systems to ensure data accuracy, enhance security and internal controls, and provide greater online functionality.

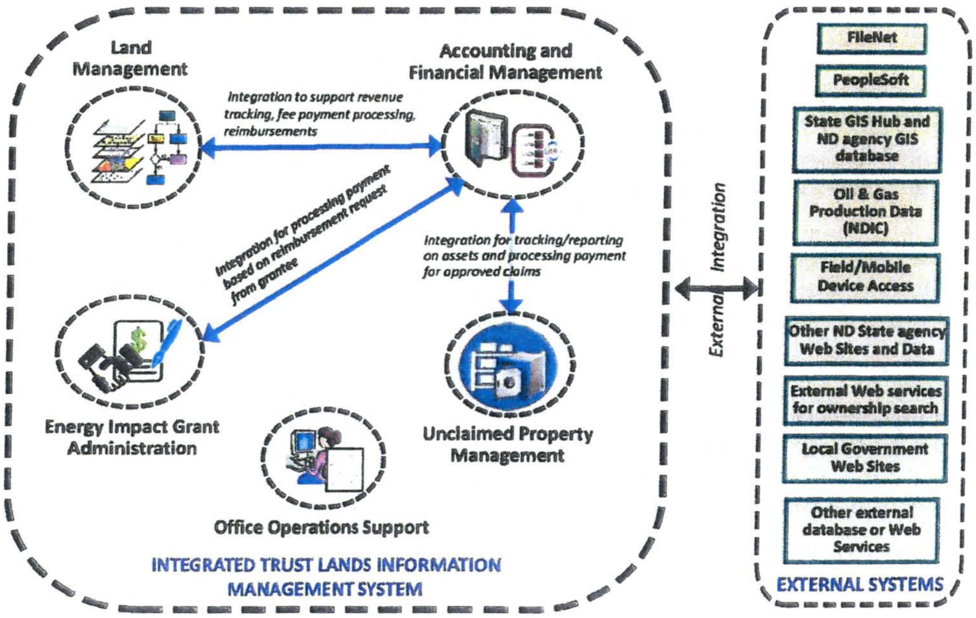
The Department has many disconnected manual and paper processes, along with multiple customized computer systems regarding:

- asset management
- surface and mineral leasing
- royalty collection
- rent compliance
- unclaimed property management
- grant and loan management

Many core systems were developed decades ago using designs and tools no longer supported by vendors. There have been some supplemental system improvements and purchases over time, but the current database structure has restricted many potential improvements.

In 2016, the Department hired a consulting firm, Major Oak, to undertake a process and systems analysis and to prepare specific process improvement recommendations. Through the business process modeling effort, Major Oak provided suggestions on solutions to further enhance controls, increase efficiencies, and boost productivity. Major Oak documented over 100 business processes in an effort to document core business requirements for a future information management system and to provide recommendations regarding build-versus-buy software options.

Future System Concept – Integrated IT System



Major Oak contacted peer organizations, software vendors, and various industry professionals and provided recommendations on system replacement options and estimated costs. Major Oak's estimate of a comprehensive system upgrade was incorporated in the Department's budget request and included in the executive recommendation as a one-time $5,520,000 capital asset. This is critical to resolving many of the data challenges highlighted by the Office of the State Auditor in 2016

Integrated Trust Lands Information Management Systems - Cost Projections

Cost in thousands	Land Management			Accounting		
Cost Projection Totals:	Low	High	Average	Low	High	Average
Implementation Timing (months)	30 months			12 months		
Implementation Cost	$1,426	$2,355	$1,891	$125	$150	$138
Total Annual Costs After Implementation	$295	$320	$308	$440	$440	$440
5-year Costs (Implementation Cost + Total Annual Cost)	**$1,722**	**$2,676**	**$2,199**	**$565**	**$590**	**$578**
	Unclaimed Property			Grant Administration		
Cost Projection Totals:	Low	High	Average	Low	High	Average
Implementation Timing (months)	12 months			6 months		
Implementation Cost	$125	$150	$138	$59	$107	$83
Total Annual Costs After Implementation	$440	$440	$440	$114	$225	$170
5-year Costs (Implementation Cost + Total Annual Cost)	**$565**	**$590**	**$578**	**$174**	**$332**	**$253**

We will appreciate your funding authorization for this project and we look forward to reporting to you in future session about the successful implementation of the system.

Correction of Mineral Tracts Recorded Within the Wrong Trust
One of the specific findings identified during the 2016 performance audit was the mistaken assignment of certain mineral tracts to the wrong trust.

When documents were transcribed in the 1940s, numerous mineral acre properties and files were incorrectly assigned to the YCC Trust, when they should have been assigned to the Ellendale Trust. Subsequently, all mineral revenues generated by those mineral tracts were incorrectly attributed to the wrong trust.

The Department examined the historical records of all of the producing mineral tracts currently identified as being owned by the YCC Trust. Twenty-six years' of revenue records for each of the 37 mistakenly assigned mineral tracts were reviewed.

The $6.1 million of mineral revenue and the related $1.1 million of investment income since 1989 was transferred from the YCC Trust to the Ellendale Trust in June, 2016.

The collective impact was that the YCC received approximately $621,000 more in distributions than it should have, and the seven beneficiaries of the Ellendale Trust received approximately $628,000 less. Section 6 of Senate Bill 2073 authorizes this one-time correction of distributions. The correction of past distributions is not included in Senate Bill 2013, but probably should be.

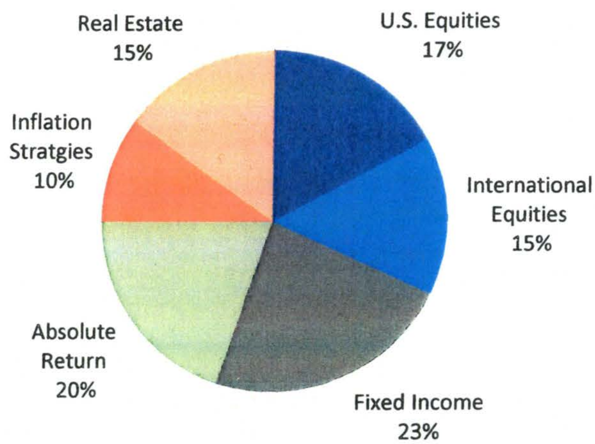
Agency Accomplishments
Performance within the Department is measured by its continued ability to manage the assets of 13 permanent trusts and six other funds under its control; to preserve fund value and purchasing power; to maintain stable distributions to beneficiaries; and to effectively manage the Energy Infrastructure and Impact Office and the Unclaimed Property Division.

The permanent trust fund financial assets have has increased from $908 million at the end of FY 2009 to $3.7 billion on June 30, 2016. Combined "other fund" financial assets managed by the Department have increased from $95.7 million on June 30, 2009 to $582 million on June 30, 2016.

	June 30, 2009	June 30, 2016
Permanent Trust Funds	$907,880,657	$3,720,729,900
Other Funds	95,700,411	582,061,892
	$1,003,581,068	$4,302,791,792

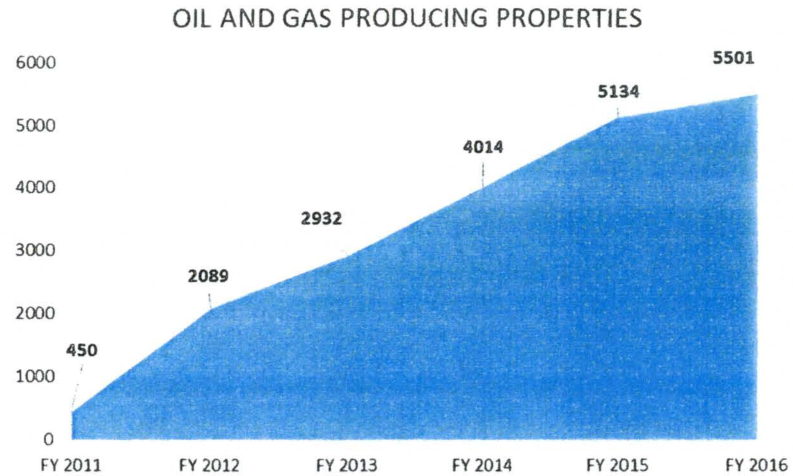
The Department developed a comprehensive Land Board Investment Policy Statement and implemented an entirely revised investment asset allocation for the permanent trust funds that includes not only stocks and bonds, but also absolute return strategies, emerging market equities, real estate and diversified inflation strategies.

Permanent Trust Funds
Target Asset Allocation

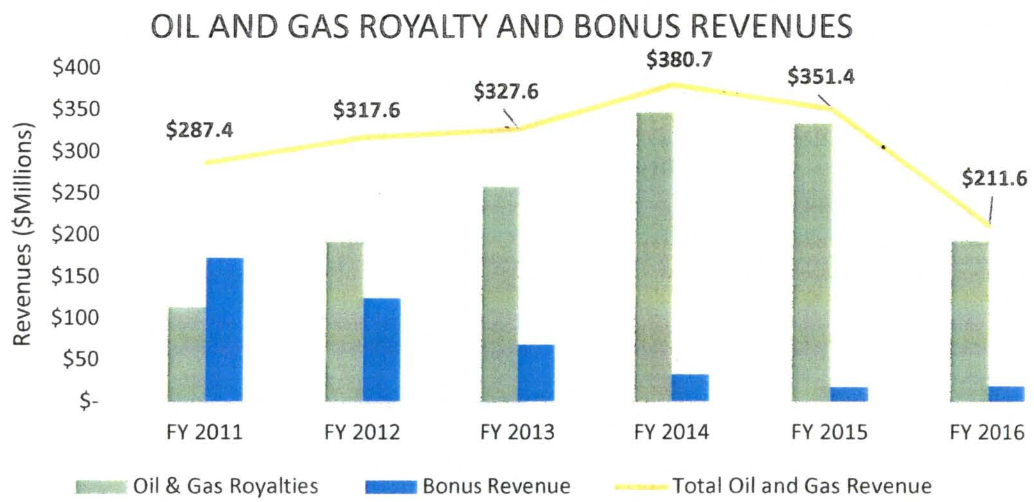


	1 YR	3 YR	5 YR
Portfolio Returns as of 6/30/16	-0.6%	4.3%	5.2%

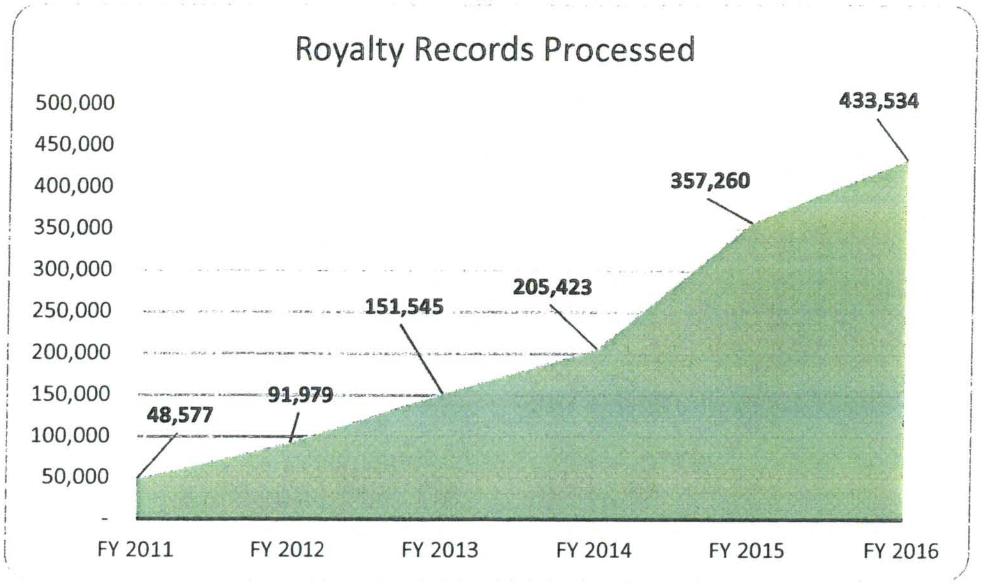
The Department issued 895 oil and gas leases on 74,761 mineral acres during FY 2015. During FY 2016, 714 leases involving 61,586 mineral acres were issued. At the end of FY 2015, the Board oversaw 8,853 active leases. As of the close of FY 2016 it managed 9,567 active oil and gas leases with 5,501 producing properties.



On behalf of the trusts and the State, the Department collected oil and gas royalties of $333.4 million and $18 million of bonus during FY 2015; and $192.2 million of royalties and $19.4 million of bonus during FY 2016.

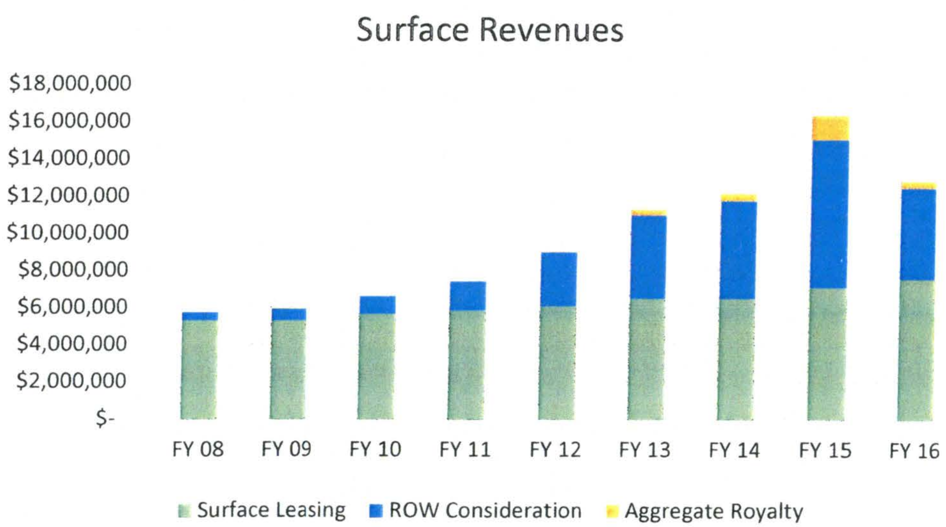


The Department has implemented a new electronic royalty reporting system which reduces manual data entry and eliminates annual third party vendor costs. This transition allowed a shift from data entry to an auditing focus. With the addition of an oil and gas royalty auditor position by the 2015 Legislature, a comprehensive oil and gas audit program has been implemented. There are currently eight ongoing oil and gas audits.

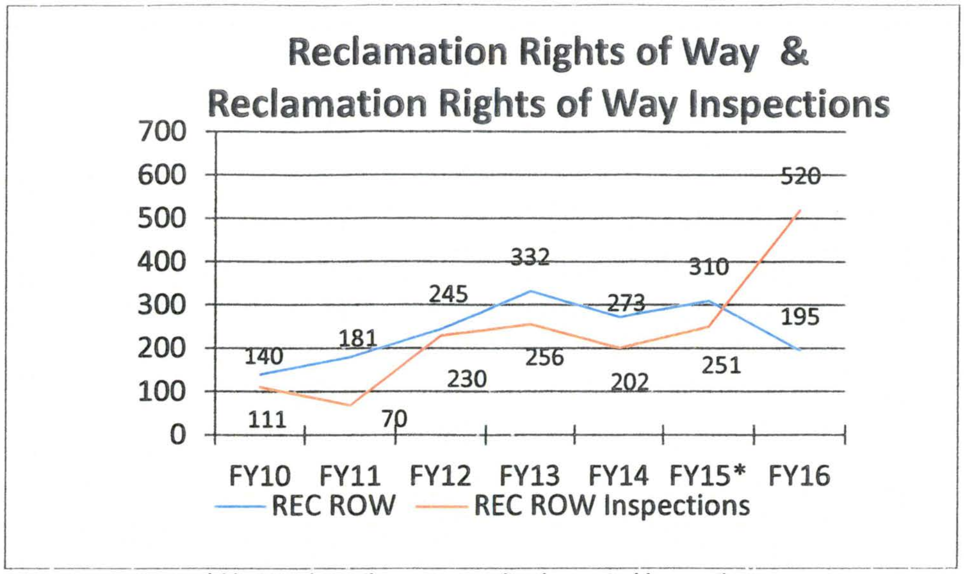


Additional disputed royalties were collected and deposited in escrow during FY 2016, increasing the escrow balance from $18.7 million at the end of FY 2015 to $51.5 million as of June 30, 2016.

The Department processed 282 applications and issued 248 conveyances for easements, permits and surface damage agreements with total income in excess of $4.89 million in FY 2016. The trusts continue to have a 99% leasing rate for agricultural tracts, collecting $7,567,147 in surface rental income and $467,684 of construction aggregate royalties in FY 2016.

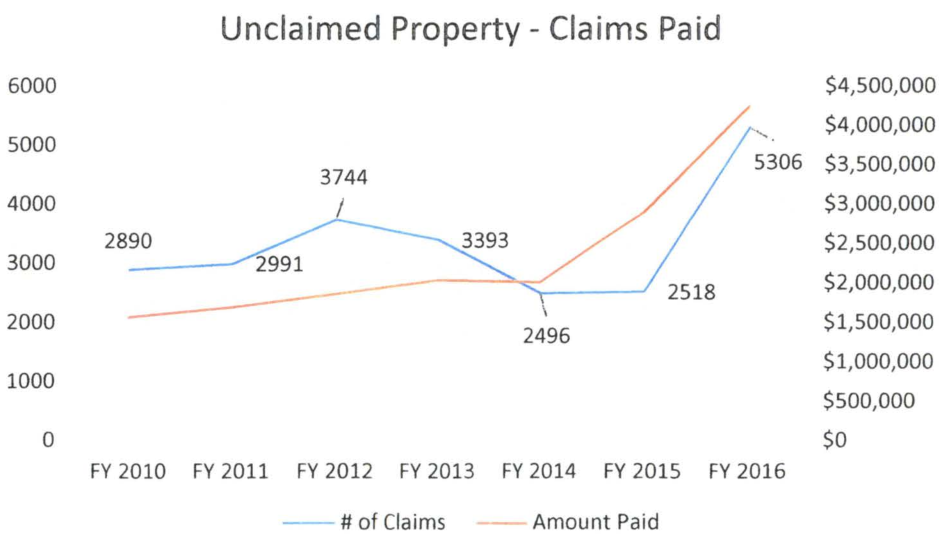


The Department also developed an online and mobile application for reclamation reporting systems to document, manage and verify the reclamation inspections.



* New reclamation program implemented inspections

The Unclaimed Property Division approved 8,438 property claims totaling $8.55 million during fiscal years 2015 and 2016, compared to 5,891 property claims totaling $4.0 million during fiscal years 2013 and 2014. Much of the recent increase can be attributed to enhanced outreach efforts and increase in unclaimed oil royalties. Unclaimed securities valued at approximately $1.5 million are not reflected in the totals.



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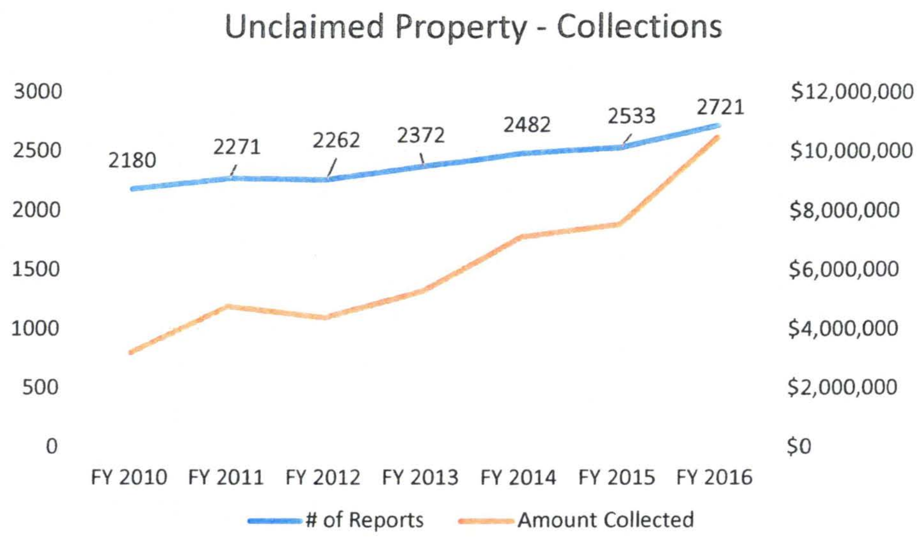
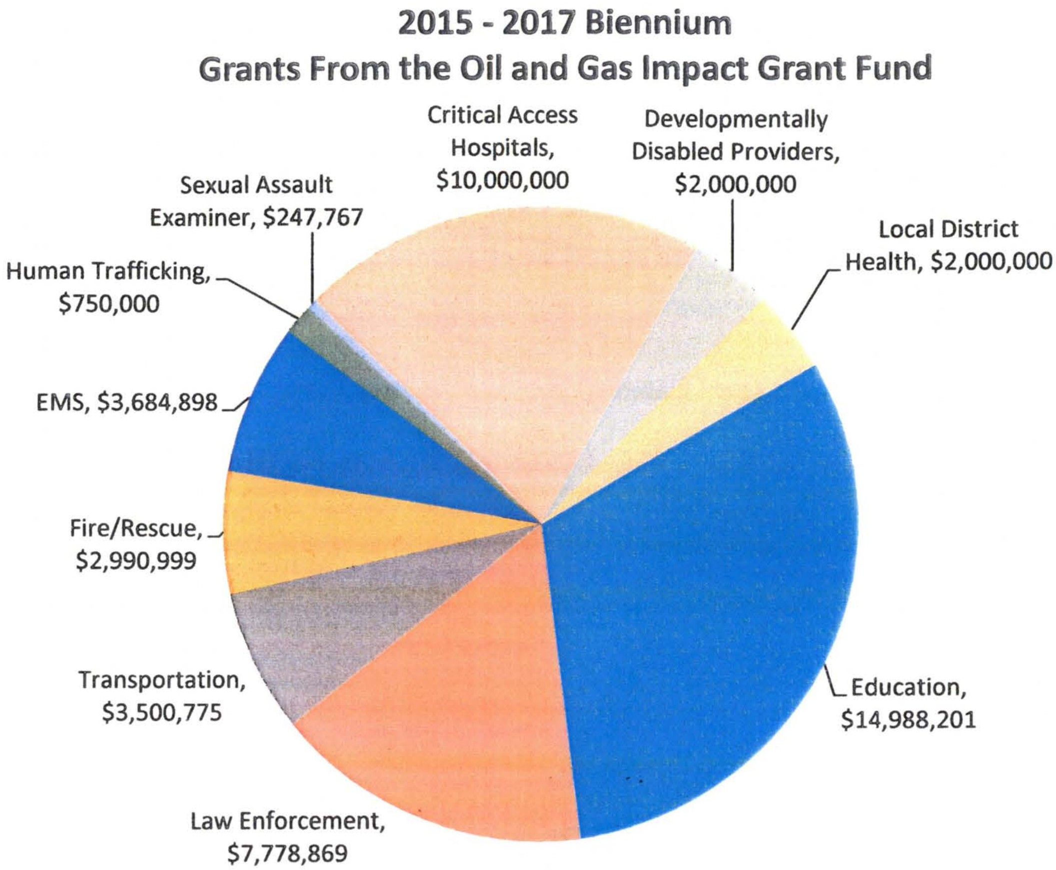


The Department administered a significantly expanded energy impact grant program through the Energy Infrastructure and Impact Office. Program award commitments increased from $8 million during 2009-2011 to $165 million during the 2011-2013 biennium. The program was further expanded to $240 million in the 2013-2015 biennium before being reduced to $139.3 million in the current biennium.

The Land Board authorized 266 grants totaling just under $50 million during the current biennium, with a large number of grant awards withheld due to lower revenues received from the oil production tax fund. Currently, there is a $90 million shortfall to entities identified by the 2015 Legislature.

Grants approved by the Land Board focus largely on assisting public safety, education improvements and health care. Some funds are also provided for rural transportation and other infrastructure projects.



The average Energy Impact Office reimbursement payment increased from $9,032 in FY 2011 to $127,453 in FY 2016. There were 417 reimbursements made in FY 2011, totaling $3.76 million; in FY 2016, 904 reimbursements were processed totaled $115.2 million.

Agency Critical Issues
The low price of oil has lessened the pace of exploration and development and has reduced trust and State royalty income, but the overall workload has not diminished. Of the approximately 13,200 wells producing in North Dakota during June 2016, the Department collected royalties on approximately 5,500 properties, or 42%.

With the downturn there have been many changes, including business mergers and acquisitions, and unfortunately several bankruptcies. This has led to more division orders and assignments of leases that necessitate title work and staff review of archival records to resolve mineral acreage discrepancies and disputes. Although studies to determine sovereign lands have been implemented and the Supreme Court has affirmed the State's claim to the ordinary high water mark of navigable waters, these issues continue to be contested. These legal issues, along with documenting title will continue to take considerable Department and Attorney General's staff time. With title questions outstanding, substantial dollars remain held in either escrow or company suspense accounts while the Department works to resolve ownership issues and collect revenue.

The number of wells managed continues to increase, although not at the same pace as previous years. Transactions have increased due in part to enhanced collection efforts. There are continued requests for use of surface lands for pipelines and other easements. The Department commits substantial time evaluating and processing right-of-way and surface use applications and subsequent reclamation. It is focused on improving the integrity of the natural resources it manages, while continuing its emphasis on range and crop land leasing, weed management, and land enhancements.

The Energy Infrastructure and Impact Office oversees the grants awarded from the Oil and Gas Impact Fund. Demand for grants outpaced available funding within the oil and gas impact grant fund, and the EIIO needed to implement suspensions and cash management to address the shortfall. The Legislature appropriated $139.3 million for energy impact grants in the 2015-2017 biennium, but revised forecasts indicate much less will be collected, thus grants that were legislatively identified will not be awarded.

Finally, the Department's information management systems need significant improvements. The business process modeling effort identified several opportunities for process improvements:

1. Automation of reporting data entry and royalty management/audit functions;
2. Automated and streamlined accounting processes to enhance accuracy and dependability;
3. Standardized secure fund transfers and ACH payment mechanisms;
4. Secure web applications for unclaimed property reporting and claim submittals;
5. Enhancing internal and public access to more data for review and analysis, and tabulating of aggregated or specific tract or transaction information;
6. Electronic file management storage and retrieval tools.

It is this comprehensive systems upgrade that is represented as the $5,520,000 of capital assets acquisition.

As fiduciary trust managers it is important the Department has resources to effectively and efficiently manage complicated transactions and collections. The workload has not diminished due to the energy industry activity levelling.

CONCLUSION

The Land Board's responsibility to preserve the trusts and maintain income stability for the trust beneficiaries continues to be met. All permanent and other trust funds remain in strong financial condition and are invested in safe and prudent manner. Land is prudently managed to provide a fair market rent income. Mineral leasing and development activities continue with strong revenues collected to enhance trust balances.

Unclaimed property continues to be safeguarded and ultimately returned to rightful owners via improved technologies and expanded outreach efforts.

The leasing and production of sovereign minerals has and will continue to contribute to substantial revenues for the SIIF to support state-wide infrastructure enhancements.

The future for the trusts and sovereign assets is very bright. I respectfully request your consideration to provide the Department with the means to manage the assets under the control of the Land Board as effectively as possible. We particularly appreciate your consideration of the capital asset IT project which we believe will enhance operations, accuracy, and public accessibility.

I look forward to working with the committee to explain this important Board and Department. It is a dynamic time in North Dakota, and the Department of Trust Lands is working in the heart of the activity related to energy growth, agricultural success, educating children, safeguarding and returning unclaimed property, and supporting western infrastructure.

SB 2013 Sub-Com
1-30-17
#2

Department of Trust Lands - Budget No. 226
Senate Bill No. 2013
Base Level Funding Changes

	Burgum Executive Budget Recommendation (Changes to Dalrymple Budget in Bold)				Senate Version				Senate Changes to Revised Executive Budget Increase (Decrease) - Executive Budget			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2017-19 Biennium Base Level	33.00	$0	$108,243,153	$108,243,153	33.00	$0	$108,243,153	$108,243,153	0.00	$0	$0	$0
2017-19 Ongoing Funding Changes												
Base payroll changes			($73,683)	($73,683)				$0			$73,683	$73,683
Salary increase - Performance				***0***				0				0
Health insurance increase			91,584	91,584				0			(91,584)	(91,584)
Employee portion of health insurance			***(46,478)***	***(46,478)***				0			46,478	46,478
Removes FTE positions	(2.00)		(410,544)	(410,544)				0	2.00		410,544	410,544
Adds geographic information system FTE position	1.00		200,105	200,105				0	(1.00)		(200,105)	(200,105)
Removes additional FTE position	***(1.00)***		***(200,105)***	***(200,105)***				0	1.00		200,105	200,105
Adds funding for building and utility increases			93,746	93,746				0			(93,746)	(93,746)
Adds funding for professional development			45,000	45,000				0			(45,000)	(45,000)
Reduces operating expenses			(405,685)	(405,685)				0			405,685	405,685
Reduces energy impact operating expenses			(168,500)	(168,500)				0			168,500	168,500
Removes funding for energy impact grants			(99,300,000)	(99,300,000)				0			99,300,000	99,300,000
Total ongoing funding changes	(2.00)	$0	($100,174,560)	($100,174,560)	0.00	$0	$0	$0	2.00	$0	$100,174,560	$100,174,560
One-time funding items												
Adds funding for information technology project			$5,520,000	$5,520,000				$0			($5,520,000)	($5,520,000)
Reduces capital assets - 3 percent			***(215,000)***	***(215,000)***				0			215,000	215,000
Adds funding for grants to airports			24,100,000	24,100,000				0			(24,100,000)	(24,100,000)
Total one-time funding changes	0.00	$0	$29,405,000	$29,405,000	0.00	$0	$0	$0	0.00	$0	($29,405,000)	($29,405,000)
Total Changes to Base Level Funding	(2.00)	$0	($70,769,560)	($70,769,560)	0.00	$0	$0	$0	2.00	$0	$70,769,560	$70,769,560
2017-19 Total Funding	31.00	$0	$37,473,593	$37,473,593	33.00	$0	$108,243,153	$108,243,153	2.00	$0	$70,769,560	$70,769,560
										N/A	188.9%	188.9%

Other Sections in Department of Trust Lands - Budget No. 226

	Burgum Executive Budget Recommendation (Changes to Dalrymple Budget in Bold)	Senate Version	
Line item transfers	Section 3 allows the Commissioner of University and School Lands, upon approval of the Board of University and School Lands, to transfer funding between the various line items, including the contingencies line item. The Commissioner shall notify the Office of Management and Budget of each transfer made pursuant to this section.		
Oil and gas impact grant fund	Section 4 identifies $221,735 from the oil and gas impact grant fund for administrative costs related to the oil and gas impact grant program.		
Fund distributions	Sections 5 and 6 provide permanent fund income distributions to state institutions.		
Strategic investment and improvements fund	Section 7 identifies $24.1 million from the strategic investment and improvements fund for grants to airports.		

SB 2013
Submitted later

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DEPARTMENT OF
ND TRUST LANDS
INVESTING FOR EDUCATION

Lance D. Gaebe, Commissioner

#3

Date: January 25, 2017
To: Chairman Holmberg
cc: Senate Appropriations Committee members
From: Lance Gaebe, Land Commissioner and Energy Infrastructure and Impact Office Director

Re: SB 2013 and SB 2073 - Status of 2015-2017 Energy Impact Grants

During the January 20, 2017 Committee hearing on SB 2013 and SB 2073, I presented summarized Energy Impact Grant information for the current biennium.

The Committee requested additional information on the status of grants within each sector as allocated by the 2015 Legislature. The Legislature appropriated $140 million, but because of a revenue shortfall, many of the areas designated by the Legislature to receive grants have not, and may not, receive funds. The fund is anticipated to collect $70.4 million in the biennium.

Attached is a compilation of the grants awarded in each area and the outstanding grant allocation remaining during 2015-2017 biennium. A possible spending plan for the remainder of the biennium will be considered by the Land Board at its next meeting on January 30, 2017.

2015-2017 Biennium Breakdown (Combining like FY Rounds)

Round or Award	#Applications	Amt of Projects	Amt Requested	#Awards	Amount Awarded
Airports FY 2016	28	$9,717,451	$3,531,497	28	$3,000,775
EMS FY 2016	43	$9,859,855	$7,467,128	32	$3,684,898
K-12 FY 2016	62	$15,000,193	$15,000,193	62	$14,988,201
Law Enforcement FY 2016	59	$22,102,479	$19,853,329	54	$7,778,869
Fire Districts	67	$22,745,202	$16,837,094	36	$2,990,999
Local District Health Units	3	$2,000,000	$2,000,000	3	$2,000,000
Emergency Request FY 2016	1	$1,300,000	$1,100,000	1	$500,000
Critical Access Hospitals	15	$23,333,247	$12,408,584	15	$10,000,000
Providers to Developmental Disabled	22	$2,000,000	$2,000,000	22	$2,000,000
Domestic Violence	3	$9,425,624	$2,178,280	0	$0
Sexual Assault Examiner	7	$309,733	$309,733	7	$247,767
Human Trafficking	6	$1,207,510	$1,207,510	6	$750,000
	316	**$119,001,294**	**$83,893,348**	**266**	**$47,941,508**
				Admin	$700,000

Collected in 2015-2017	$52,435,088
Projected Revenue (at $3m/mo)	$18,000,000

Remaining Allocations	
Sexual Assault Examiner	**$2,233**
Domestic Violence	**$2,000,000**
Nursing Homes/Basic Care	**$4,000,000**
Law Enforcement	**$1,221,131**
Bowman/Divide Counties	**$8,000,000**
City of Stanley	**$1,700,000**
City of Kenmare	**$500,000**
City of Berthold	**$200,000**
City of Burlington	**$100,000**
Williston Airport	**$39,000,000**
Dickinson Airport	**$4,600,000**
Other Airports	**$1,399,225**
K-12 Schools	**$15,011,799**
EMS	**$2,315,102**
Eligible General	**$5,000,000**
Fire Districts	**$9,001**
Contingency	**$6,300,000**
	$91,358,491

1

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DEPARTMENT OF
ND TRUST LANDS
INVESTING FOR EDUCATION

Lance D. Gaebe, Commissioner

Date: February 2, 2017

SB 2013
2-6-17
#1 p.1

To: Senate Appropriations Subcommittee Chairman Dever

cc: Subcommittee members: Senators Wanzek and Grabinger

From: Lance Gaebe, Commissioner of University and School Lands

Re: SB 2013 and Department of Trust Lands operations budget

At its initial meeting on January 30, the subcommittee requested:

1. A breakout of the Department of Trust Lands' budget request
2. An explanation of the mechanism of funding Department operations
3. A depiction/description of gross production and extraction tax distributions. The Oil and Gas Impact Grant Fund is funded by a portion of Oil and Gas Gross Production Tax collections.

In addition to providing the requested information, I am providing suggested amendments to SB 2013 that include the parts of SB 2073 that should be included in SB 2013.

Budget Request
The Department's budget summary is contained within an attached spreadsheet. The Department submitted a budget with reduced operations expenses and the reduction of two FTEs: a natural resource manager and a deputy administrator of the Energy Impact Office. These items can be appropriated as submitted.

The supplemental request was the authorization of two new FTEs: 1) GIS (geographic information system) specialist and 2) a mineral title specialist. The Department also requested authorization for a complete information technology upgrade for its accounting, lands management, unclaimed property and impact grants management. This amount was included in the executive recommendation at $5.5 million, however a portion of this cost for the grants management system should be allocated to the oil and gas impact grant fund. Thus the attached spreadsheet recommends that authorization for $270,000 of the project be authorized to be spent from the oil impact grant fund.

Funding Mechanics
There are no general funds appropriated for Department functions; all operations are funded from either trust fund revenues, unclaimed property income, or oil and gas impact grant funds.

Most of the Department's salary, operations and administrative costs are paid out of the State Lands Maintenance Fund, which is authorized under N.D.C.C. § 15-03-01.1. Money is periodically transferred from the various trusts and programs managed by the Department to the maintenance fund to pay for administrative costs.

Costs that can't be directly charged are allocated to the various trusts/programs managed by the Department based each trust's or fund's:

- FTEs time allocation,
- financial assets held, and
- mineral acreage
- and surface acreage owned.

SB 2013
2-6-17
#1 p 2

Costs that can be attributable to a specific trust or program are charged directly to that trust or program when possible. Examples of direct expenses include tract survey expenses, rent credits, and riverbed litigation expenses.

The Department also has continuing appropriation authority under NDCC Sections 15-04-24 and 15-07-22 for certain expenses related to managing and enhancing the value of assets under the Department's control. NDCC Section 57-02.3-07 authorizes continuing appropriation authority for payments made in lieu of property taxes.

The Energy Infrastructure and Impact Office salaries and operations are funded directly from the Oil and Gas Impact Grant Fund

Funds that are received by the Unclaimed Property Division are maintained in a separate account to pay owner claims and expenses; the income from the net proceeds benefits the Common Schools Trust Funds which supports educational funding. NDCC Section 47-30.1-23 contains continuing appropriation authority for payments made to owners of unclaimed property.

Oil and Gas Tax Distributions

The attached flow chart, which was prepared by Legislative Council, shows how Oil and Gas Gross Production Tax and Oil Extraction Tax revenues will be allocated, based on the January 2017 legislative forecast.

Suggested Amendments to SB 2013

- Delete the words "section 1" from Section 4 of the bill.
- Insert dollar amounts found in Section 6 of SB 2073, using language suggested by Adam Mathiak to explain the one-time distribution adjustment.
- Insert language similar to that found in Section 4 of SB 2073, related to the energy impact office, that gives the Board authority to use any funds received by or remaining in the oil impact grant fund after June 30, 2017 to pay expenses, fund capital expenditures (IT upgrade) or make grants in subsequent biennia in accordance with 57-62-03

SB 2013
2-6-17
#1 p. 3

Department of Trust Lands
Senate Bill No. 2013
2017-19 Base Level Funding Request

	2015-17 Current Appropriation	2017-19 Appropriation Request
SALARIES AND WAGES	$6,123,516	$6,232,240
Remove FTEs		
Director, Natural Resources		(259,307)
FTE Requests		
Geographic Information Systems Specialist II		177,080
Mineral Title Specialist		190,951
OPERATING EXPENDITURES	$2,019,637	$1,828,748
Increases Building and Utiltiies		*73,167*
Increases Professional Development		*48,000*
Reduces Operating Expenses		*(142,056)*
Reduces Professional Services		*(170,000)*
CONTINGENCIES	$100,000	$100,000
ONE-TIME FUNDING	$0	$5,250,000
Add for Information Technology Project		*5,250,000*

allocation formula that includes:

1. Salaries/Benefits dedicated to the trusts
2. Total investment assets by trust
3. Producing mineral properities
4. Non producing mineral properties
5. Surface acregage

SIDE NOTE:

Unclaimed Property allocation based on FTE (currently 3.5 FTEs)
Coal Trust allocation based on investment assets only.

Energy Impact Office
Senate Bill No. 2013
2017-19 Base Level Funding Request

NOTE: *Currentlly there is no funding source for the Energy Impact Office Operations*

OPERATING	$700,000	$207,000
Remove FTE - Administrative Officer I		(151,237)
Reduce as program phases out		(341,763)
If Energy Impact Office continues (see below):		$763,000
Restore FTE		151,237
Restore operating		341,763
One-time funding - Information Technology Project		270,000
GRANT FUNDING	$139,300,000	$184,100,000
Chapter 57-51-15 (1e) Revenues		100,000,000
Carryover over unfunded projects from 2015-17		60,000,000
and/or grants to airports (from SIIF)		24,100,000

W

SB 2013
2-6-17

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DEPARTMENT OF ND TRUST LANDS
INVESTING FOR EDUCATION

Lance D. Gaebe, Commissioner

#1 p. 4

Date: January 25, 2017
To: Chairman Holmberg
cc: Senate Appropriations Committee members
From: Lance Gaebe, Land Commissioner and Energy Infrastructure and Impact Office Director

Re: SB 2013 and SB 2073 - Status of 2015-2017 Energy Impact Grants

During the January 20, 2017 Committee hearing on SB 2013 and SB 2073, I presented summarized Energy Impact Grant information for the current biennium.

The Committee requested additional information on the status of grants within each sector as allocated by the 2015 Legislature. The Legislature appropriated $140 million, but because of a revenue shortfall, many of the areas designated by the Legislature to receive grants have not, and may not, receive funds. The fund is anticipated to collect $70.4 million in the biennium.

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Fire Districts	**$9,001**
Contingency	**$6,300,000**
	$91,358,491

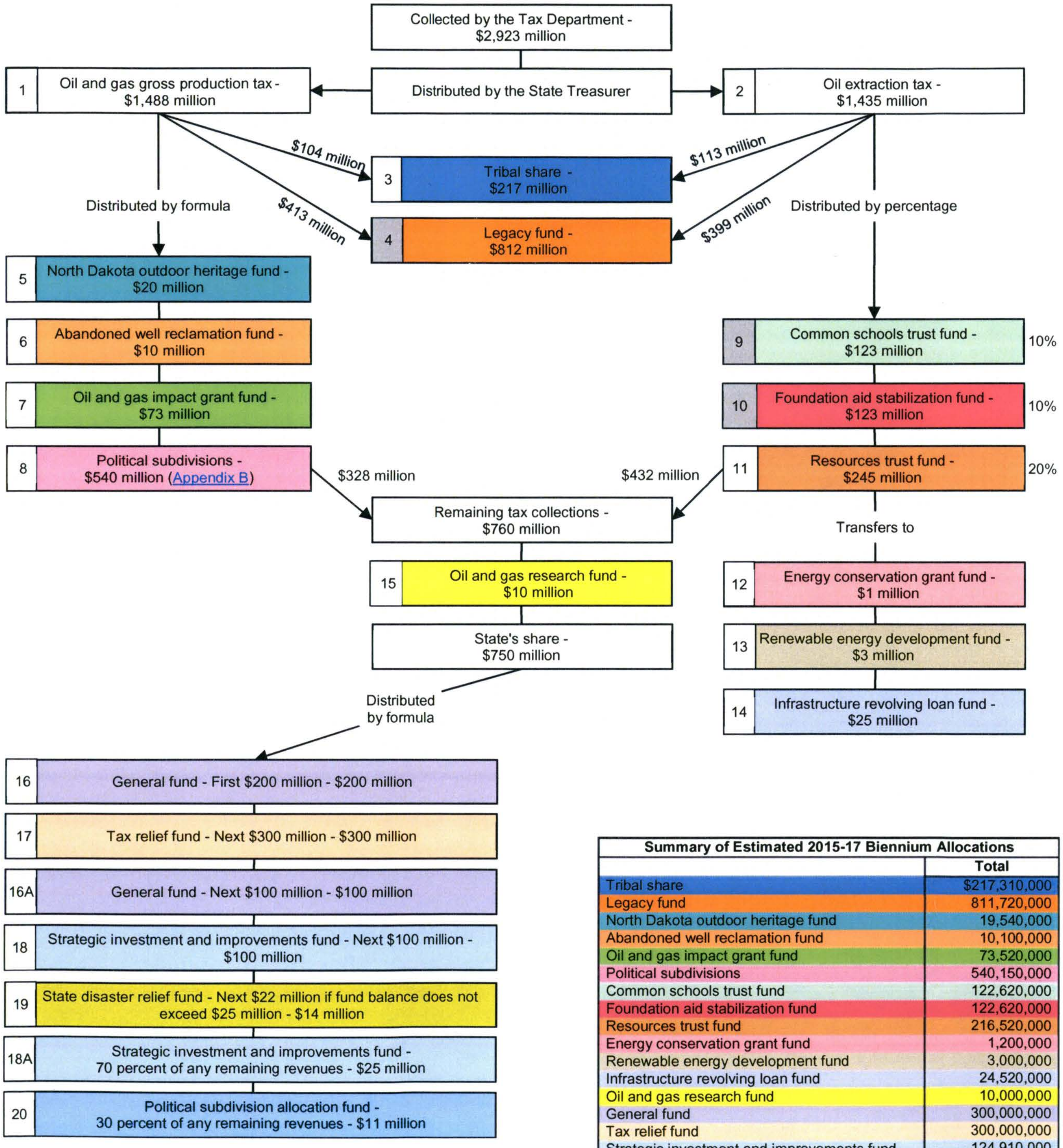
17.9056.04000 **Prepared by the Legislative Council staff**

2015-17 BIENNIUM REVISED OIL AND GAS TAX REVENUE - ALLOCATION FLOWCHART

SB 2013
2-6-17
#1 p.5

This memorandum provides information on the estimated allocation of oil and gas tax collections for the 2015-17 biennium based on the January 2017 legislative forecast. A summary of the funds is included in Appendix A, and a detailed schedule of the distributions to political subdivisions is included in Appendix B.

2015-17 BIENNIUM
January 2017 Legislative Forecast



Summary of Estimated 2015-17 Biennium Allocations	
	Total
Tribal share	$217,310,000
Legacy fund	811,720,000
North Dakota outdoor heritage fund	19,540,000
Abandoned well reclamation fund	10,100,000
Oil and gas impact grant fund	73,520,000
Political subdivisions	540,150,000
Common schools trust fund	122,620,000
Foundation aid stabilization fund	122,620,000
Resources trust fund	216,520,000
Energy conservation grant fund	1,200,000
Renewable energy development fund	3,000,000
Infrastructure revolving loan fund	24,520,000
Oil and gas research fund	10,000,000
General fund	300,000,000
Tax relief fund	300,000,000
Strategic investment and improvements fund	124,910,000
State disaster relief fund	14,640,000
Political subdivision allocation fund	10,680,000
Total	$2,923,050,000

Shading in number boxes represents constitutional allocations

ATTACH:2

SB 2013
#1 p.6 2-6-17

APPENDIX A

The table below provides a brief description of the taxes and funds included in the flowchart on the previous page.

Box	Tax/Fund	Description
1	Oil and gas gross production tax	North Dakota Century Code Section 57-51-02 provides for a tax of 5 percent of the gross value at the well of oil produced in North Dakota unless exempted and tax on gas of four cents times the gas base rate adjustment for each fiscal year as calculated by the Tax Department.
2	Oil extraction tax	Section 57-51.1-02, as amended by 2015 House Bill No. 1476, provides for a tax of 5 percent of the gross value at the well on the extraction of oil unless exempted. Prior to January 1, 2016, the oil extraction tax rate was 6.5 percent.
3	Tribal share	Chapter 57-51.2 provides the requirements for allocating oil and gas tax related to the oil production within the Fort Berthold Reservation. The oil and gas tax revenues are allocated 50 percent to the state and 50 percent to the Three Affiliated Tribes of the Fort Berthold Reservation.
4	Legacy fund	Section 26 of Article X of the Constitution of North Dakota provides for a deposit to the legacy fund of 30 percent of total revenue derived from taxes on oil and gas production and extraction.
5	North Dakota outdoor heritage fund	House Bill No. 1278 (2013) created the North Dakota outdoor heritage fund to preserve natural areas and public lands. House Bill No. 1176 (2015) amended Section 57-51-15 to provide 8 percent of revenues from the first 1 percent of the oil and gas gross production tax, up to $20 million per fiscal year, be deposited in the fund.
6	Abandoned oil and gas well plugging and site reclamation fund	House Bill No. 1333 (2013) and House Bill No. 1032 (2015) amended Section 57-51-15 to increase the allocations to the abandoned oil and gas well plugging and site reclamation fund. Based on current law, 4 percent of the first 1 percent of oil and gas gross production tax is allocated to the fund not to exceed $7.5 million per fiscal year and not in an amount that would bring the balance of the fund to more than $100 million.
7	Oil and gas impact grant fund	Section 57-51-15 (1989 House Bill No. 1302) establishes the oil and gas impact grant fund to provide grants to political subdivisions impacted by oil development. House Bill No. 1176 (2015) amended Section 57-51-15 to provide an allocation from the first 1 percent of the 5 percent oil and gas gross production tax, up to $140 million for the 2015-17 biennium. After the 2015-17 biennium, up to $100 million per biennium is to be deposited into the fund.
8	Political subdivisions	Oil and gas gross production taxes are apportioned to political subdivisions under Section 57-51-15 as amended by 2015 House Bill No. 1176. See Appendix B.
9	Common schools trust fund	Section 1 of Article IX of the Constitution of North Dakota provides for a common schools trust fund to be used to support the common schools of the state. Section 24 of Article X of the Constitution of North Dakota provides for a distribution of 10 percent of oil extraction taxes to the common schools trust fund to become part of the principal of the fund. The earnings are distributed through the state school aid payments.
10	Foundation aid stabilization fund	Section 24 of Article X of the Constitution of North Dakota provides for a distribution of 10 percent of oil extraction taxes to the foundation aid stabilization fund. Section 24, as amended by 2015 Senate Concurrent Resolution No. 4003 and approved by the voters, restricts a portion of the fund to offset state school aid payments due to a revenue shortfall and allows the remainder to be used for educational purposes.
11	Resources trust fund	Section 57-51.1-07 provides for a distribution of 20 percent of oil extraction taxes to the resources trust fund. Section 22 of Article X of the Constitution of North Dakota provides that the fund may be used, subject to legislative appropriation, for constructing water-related projects, including rural water systems, and funding of programs for energy conservation.
12	Energy conservation grant fund	Senate Bill No. 2014 (2013) amended Section 57-51.1-07 to provide for a transfer of one-half of 1 percent of the amount credited to the resources trust fund from the resources trust fund into the energy conservation grant fund, up to $1.2 million per biennium.
13	Renewable energy development fund	Senate Bill No. 2014 (2013) amended Section 57-51.1-07 to provide for a transfer of 5 percent of the amount credited to the resources trust fund from the resources trust fund into the renewable energy development fund, up to $3 million per biennium.
14	Infrastructure revolving loan fund	Senate Bill No. 2233 (2013) created an infrastructure revolving loan fund within the resources trust fund to provide loans for water projects. Ten percent of the oil extraction tax allocations deposited in the fund are designated for the infrastructure revolving loan fund.
15	Oil and gas research fund	Section 57-51.1-07.3 (2003 Senate Bill No. 2311) establishes the oil and gas research fund for the Oil and Gas Research Council to provide grants. Senate Bill No. 2014 (2013) amended Section 57-51.1-07.3 to provide that 2 percent of the state's share of the oil and gas tax revenues, up to $10 million per biennium, is to be deposited into the oil and gas research fund.
16 16A	General fund	The general fund is the chief operating fund of the state. Section 57-51.1-07.5 provides for an allocation of $300 million of the state's share of oil and gas tax revenues to the general fund.
17	Tax relief fund	Section 57-51.1-07.5 provides for the allocation of $300 million of the state's share of oil and gas tax revenues to the tax relief fund each biennium.
18 18A	Strategic investment and improvements fund	Section 15-08.1-08 provides for the strategic investment and improvements fund. The fund is to be used for one-time expenditures to improve state infrastructure or initiatives to improve the efficiency and effectiveness of state government. Section 57-51.1-07.5 provides for the distribution of certain oil tax revenues to the strategic investment and improvements fund.
19	State disaster relief fund	Section 37-17.1-27 provides for the state disaster relief fund to be used for the required state share of funding for expenses associated with presidential-declared disasters. Section 57-51.1-07.5 provides for the distribution of up to $22 million of oil tax revenues to the state disaster relief fund each biennium, but not in an amount that would bring the balance of the fund to more than $25 million.

Box	Tax/Fund	Description
20	Political subdivision allocation fund	House Bill No. 1377 (2015) creates a political subdivision allocation fund and amends Section 57 51.1 07.5 to provide allocations to political subdivisions for the 2015-17 biennium.

SB 2013
2-6-17
#1 p. 7

SB 2013
2-6-17

APPENDIX B

2015-17 BIENNIUM ESTIMATED DISTRIBUTIONS TO POLITICAL SUBDIVISIONS - 5 PERCENT OIL AND GAS GROSS PRODUCTION TAX COLLECTIONS

#1 p. 8

Oil and gas gross production tax - 5% tax

From the 1% of the 5% tax

Estimated Distributions

Estimated Distributions	
$82,190,000	$375,000 per fiscal year to hub cities[1] located in oil-producing counties for each full or partial percentage point of mining employment
$10,310,000	$250,000 per fiscal year to hub cities[1] located in non-oil-producing counties for each full or partial percentage point of mining employment
$27,400,000	$125,000 per fiscal year to hub city[1] school districts located in oil-producing counties for each full or partial percentage point of mining employment
$17,250,000	$1.5 million per fiscal year to certain counties that received more than $5 million of allocations for distributions to school districts
	Remainder to state (Allocated to state funds)

From the 4% of the 5% tax

	First $5 million	Over $5 million
State (Allocated to state funds)	0%	70%
Oil- and gas-producing counties	100%	30%

For a county that received less than $5 million

	Estimated Distributions
County general fund - 45% County must levy 10 mills for road purposes to be eligible	$3,740,000
Cities in the county[2] - 20%	$1,660,000
Schools in the county[2] - 35% Based on average daily attendance	$2,910,000

For a county that received $5 million or more

	Estimated Distributions
County general fund - 60% County must levy 10 mills for road purposes to be eligible	$236,820,000
Cities in the county[2] - 20%	$78,940,000
Schools in the county[2] - 5% Based on average daily attendance distribution basis	$19,730,000
Townships in the county - 3% Based on the proportion of township miles relative to township miles in the county	$11,840,000
Townships - 3% Distributed equally among all the townships in all the counties that received $5 million or more	$11,840,000
Hub cities[1] - 9% Distributed based on percentages: Williston 60%, Dickinson 30%, Minot 10%	$35,520,000

Summary of Estimated 2015-17 Biennium Distributions

	Total
Hub cities in oil-producing counties	$117,710,000
Hub cities in non-oil-producing counties	10,310,000
Hub city schools	27,400,000
Counties	240,560,000
Cities	80,600,000
Schools	39,890,000
Townships	23,680,000
Total	$540,150,000

[1]A "hub city" means a city with a population of 12,500 or more, according to the last official decennial federal census, which has more than 1 percent of its private covered employment engaged in oil- and gas-related employment, according to annual data compiled by Job Service North Dakota.

[2]Hub cities and hub city school districts are excluded from these allocations.

17.0521.01001
Title.
Fiscal No. 1

Prepared by the Legislative Council staff for
Senator Dever
February 15, 2017

SB 2013
2-15-17
#1

PROPOSED AMENDMENTS TO SENATE BILL NO. 2013

Page 1, line 2, remove the second "and"

Page 1, line 3, after "funds" insert "; and to provide an exemption"

Page 1, replace lines 13 through 19 with:

"Salaries and wages	$6,123,516	$95,220	$6,218,736
Operating expenses	2,019,637	(243,914)	1,775,723
Capital assets	0	5,250,000	5,250,000
Grants	99,300,000	(99,300,000)	0
Contingencies	100,000	0	100,000
Energy infrastructure and impact office	700,000	(479,283)	220,717
Total special funds	$108,243,153	($94,677,977)	$13,565,176
Full-time equivalent positions	33.00	(1.00)	32.00"

Page 1, line 20, after "**FUNDING**" insert "**- EFFECT ON BASE BUDGET - REPORT TO THE SIXTY-SIXTH LEGISLATIVE ASSEMBLY**"

Page 1, line 21, after "biennium" insert "and the 2017-19 biennium one-time funding items included in the appropriation in section 1 of this Act"

Page 1, replace lines 23 and 24 with:

"Information technology project	$0	$5,250,000
Total other funds	$0	$5,250,000

The 2017-19 biennium one-time funding amounts are not a part of the entity's base budget for the 2019-21 biennium. The commissioner of university and school lands shall report to the appropriations committees of the sixty-sixth legislative assembly on the use of this one-time funding for the biennium beginning July 1, 2017, and ending June 30, 2019."

Page 2, line 5, after "budget" insert "and the legislative council"

Page 2, line 6, remove "section 1 of"

Page 2, after line 24, insert:

"**SECTION 5. ONE-TIME ADJUSTMENT TO DISTRIBUTIONS TO STATE INSTITUTIONS.** Pursuant to article IX of the Constitution of North Dakota and in addition to the distributions in section 4 of this Act, the board of university and school lands shall distribute during the biennium beginning July 1, 2017, and ending June 30, 2019, the following one-time corrections resulting from the misallocation of prior mineral revenues, from the permanent funds managed for the benefit of the following entities:

North Dakota state college of science	$89,698
State hospital	89,698
Veterans' home	89,698
North Dakota vision services - school for the blind	89,698
Dakota college at Bottineau	89,698
Dickinson state university	89,698

Minot state university	89,698
Youth correctional center	(621,186)
Total	$6,700

SECTION 6. EXEMPTION - OIL AND GAS IMPACT GRANT FUND. The amount appropriated from the oil and gas impact grant fund for the energy infrastructure and impact office line item in section 1 of chapter 13 of the 2015 Session Laws and for oil and gas impact grants in section 5 of chapter 463 of the 2015 Session Laws is not subject to section 54-44.1-11. Any money deposited in the fund for taxable events occurring through June 30, 2017, and any unexpended funds from the appropriation are available for grants and administrative costs associated with the fund during the biennium beginning July 1, 2017, and ending June 30, 2019."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2013 - Department of Trust Lands - Senate Action

	Base Budget	Senate Changes	Senate Version
Salaries and wages	$6,123,516	$95,220	$6,218,736
Operating expenses	2,019,637	(243,914)	1,775,723
Capital assets		5,250,000	5,250,000
Grants	99,300,000	(99,300,000)	
Energy Infrastructure and Impact Office	700,000	(479,283)	220,717
Contingencies	100,000		100,000
Total all funds	$108,243,153	($94,677,977)	$13,565,176
Less estimated income	108,243,153	(94,677,977)	13,565,176
General fund	$0	$0	$0
FTE	33.00	(1.00)	32.00

Department No. 226 - Department of Trust Lands - Detail of Senate Changes

	Adjusts Funding for Base Payroll Changes[1]	Adds Funding for Health Insurance Increase[2]	Adjusts Funding for FTE Positions[3]	Adjusts Funding for Operating Expenses[4]	Adjusts Funding for Oil and Gas Impact Grants[5]	Adds One-Time Funding for an Information Technology Project[6]
Salaries and wages	$86,577	$90,870	($82,227)			
Operating expenses			23,025	(266,939)		
Capital assets						5,250,000
Grants					(99,300,000)	
Energy Infrastructure and Impact Office	(160,260)	714	(151,237)		(168,500)	
Contingencies						
Total all funds	($73,683)	$91,584	($210,439)	($266,939)	($99,468,500)	$5,250,000
Less estimated income	(73,683)	91,584	(210,439)	(266,939)	(99,468,500)	5,250,000
General fund	$0	$0	$0	$0	$0	$0
FTE	0.00	0.00	(1.00)	0.00	0.00	0.00

	Total Senate Changes
Salaries and wages	$95,220
Operating expenses	(243,914)
Capital assets	5,250,000
Grants	(99,300,000)
Energy Infrastructure and Impact Office	(479,283)
Contingencies	

Total all funds	($94,677,977)
Less estimated income	(94,677,977)
General fund	$0
FTE	(1.00)

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[1] Funding is adjusted for cost-to-continue 2015-17 biennium salaries and benefit increases and for other base payroll changes.

[2] Funding is added for increases in health insurance premiums from $1,130 to $1,249 per month.

[3] Funding is adjusted for FTE positions as follows:

- Removes 1 natural resources director FTE position ($259,307).
- Removes 1 energy infrastructure and impact office FTE position ($151,237).
- Adds 1 geographic information systems specialist FTE position ($200,105) and related operating expenses ($23,025).

[4] Funding for operating expenses is adjusted as follows:

	Total Other Funds
Adds funding for building maintenance costs and utility cost increases	$93,746
Adds funding for professional development	45,000
Reduces funding related to professional services, information technology services and equipment, and travel	(405,685)
	($266,939)

[5] Funding is reduced for energy infrastructure and impact office operating expenses ($168,500), and funding is removed for grants to political subdivisions from the oil and gas impact grant fund ($99,300,000).

[6] One-time funding of $5,250,000 is added for an information technology system replacement project.

This amendment also:

- Adds a section to allow the Commissioner of University and School Lands, upon approval of the Board of University and School Lands, to transfer funding between the various line items, including the contingencies line item. The Commissioner shall notify the Office of Management and Budget and the Legislative Council of each transfer made pursuant to this section.
- Provides permanent fund income distributions to state institutions and adds a new section to provide a one-time correcting adjustment to the distributions.
- Adds a section to provide an exemption for the amount appropriated from the oil and gas impact grant fund for administrative costs and oil impact grants for the 2015-17 biennium and for the deposits in the fund for taxable events through June 30, 2017, allowing the funding to continue to be available during the 2017-19 biennium.

SB 2013
2-15-17
#2

Department of Trust Lands - Budget No. 226
Senate Bill No. 2013
Base Level Funding Changes

	Burgum Executive Budget Recommendation (Changes to Dalrymple Budget in Bold)				Senate Version				Senate Changes to Revised Executive Budget Increase (Decrease) - Executive Budget			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2017-19 Biennium Base Level	33.00	$0	$108,243,153	$108,243,153	33.00	$0	$108,243,153	$108,243,153	0.00	$0	$0	$0
2017-19 Ongoing Funding Changes												
Base payroll changes			($73,683)	($73,683)			($73,683)	($73,683)				$0
Salary increase - Performance				***0***				0				0
Health insurance increase			91,584	91,584			91,584	91,584				0
Employee portion of health insurance			***(46,478)***	***(46,478)***				0			46,478	46,478
Removes FTE positions	(2.00)		(410,544)	(410,544)	(2.00)		(410,544)	(410,544)				0
Adds geographic information system FTE position	1.00		200,105	200,105	1.00		200,105	200,105				0
Removes additional FTE position	***(1.00)***		***(200,105)***	***(200,105)***				0	1.00		200,105	200,105
Adds funding for building and utility increases			93,746	93,746			93,746	93,746				0
Adds funding for professional development			45,000	45,000			45,000	45,000				0
Reduces operating expenses			(405,685)	(405,685)			(405,685)	(405,685)				0
Reduces energy impact operating expenses			(168,500)	(168,500)			(168,500)	(168,500)				0
Removes funding for energy impact grants			(99,300,000)	(99,300,000)			(99,300,000)	(99,300,000)				0
Total ongoing funding changes	(2.00)	$0	($100,174,560)	($100,174,560)	(1.00)	$0	($99,927,977)	($99,927,977)	1.00	$0	$246,583	$246,583
One-time funding items												
Adds funding for information technology project			$5,520,000	$5,520,000			$5,250,000	$5,250,000				($270,000)
Reduces capital assets - 3 percent			***(215,000)***	***(215,000)***				0			215,000	215,000
Adds funding for grants to airports			24,100,000	24,100,000				0			(24,100,000)	(24,100,000)
Total one-time funding changes	0.00	$0	$29,405,000	$29,405,000	0.00	$0	$5,250,000	$5,250,000	0.00	$0	($23,885,000)	($24,155,000)
Total Changes to Base Level Funding	(2.00)	$0	($70,769,560)	($70,769,560)	(1.00)	$0	($94,677,977)	($94,677,977)	1.00	$0	($23,638,417)	($23,908,417)
2017-19 Total Funding	31.00	$0	$37,473,593	$37,473,593	32.00	$0	$13,565,176	$13,565,176	1.00	$0	($23,638,417)	($23,908,417)
										N/A	(63.1%)	(63.8%)

Other Sections in Department of Trust Lands - Budget No. 226

	Burgum Executive Budget Recommendation (Changes to Dalrymple Budget in Bold)	Senate Version
Line item transfers	Section 3 allows the Commissioner of University and School Lands, upon approval of the Board of University and School Lands, to transfer funding between the various line items, including the contingencies line item. The Commissioner shall notify the Office of Management and Budget of each transfer made pursuant to this section.	Section 3 allows the Commissioner of University and School Lands, upon approval of the Board of University and School Lands, to transfer funding between the various line items, including the contingencies line item. The Commissioner shall notify the Office of Management and Budget and the Legislative Council of each transfer made pursuant to this section.
Fund distributions	Sections 5 and 6 provide permanent fund income distributions to state institutions.	Sections 4 and 5 provide permanent fund income distributions to state institutions.
Oil and gas impact grant fund	Section 4 identifies $221,735 from the oil and gas impact grant fund for administrative costs related to the oil and gas impact grant program.	Section 6 provides an exemption for the amount appropriated from the oil and gas impact grant fund for administrative costs and oil impact grants for the 2015-17 biennium and for the deposits in the fund for taxable events through June 30, 2017, to allow the funding to continue to be available during the 2017-19 biennium.

Other Sections in Department of Trust Lands - Budget No. 226

	Burgum Executive Budget Recommendation (Changes to Dalrymple Budget in Bold)	Senate Version	
Strategic investment and improvements fund	Section 7 identifies $24.1 million from the strategic investment and improvements fund for grants to airports.		

2

17.0521.01001
Title.
Fiscal No. 1

Prepared by the Legislative Council staff for
Senator Dever
February 15, 2017

SB 2013
2-15-17
#1

PROPOSED AMENDMENTS TO SENATE BILL NO. 2013

Page 1, line 2, remove the second "and"

Page 1, line 3, after "funds" insert "; and to provide an exemption"

Page 1, replace lines 13 through 19 with:

"Salaries and wages	$6,123,516	$95,220	$6,218,736
Operating expenses	2,019,637	(243,914)	1,775,723
Capital assets	0	5,250,000	5,250,000
Grants	99,300,000	(99,300,000)	0
Contingencies	100,000	0	100,000
Energy infrastructure and impact office	700,000	(479,283)	220,717
Total special funds	$108,243,153	($94,677,977)	$13,565,176
Full-time equivalent positions	33.00	(1.00)	32.00"

Page 1, line 20, after "**FUNDING**" insert "**- EFFECT ON BASE BUDGET - REPORT TO THE SIXTY-SIXTH LEGISLATIVE ASSEMBLY**"

Page 1, line 21, after "biennium" insert "and the 2017-19 biennium one-time funding items included in the appropriation in section 1 of this Act"

Page 1, replace lines 23 and 24 with:

"Information technology project	$0	$5,250,000
Total other funds	$0	$5,250,000

The 2017-19 biennium one-time funding amounts are not a part of the entity's base budget for the 2019-21 biennium. The commissioner of university and school lands shall report to the appropriations committees of the sixty-sixth legislative assembly on the use of this one-time funding for the biennium beginning July 1, 2017, and ending June 30, 2019."

Page 2, line 5, after "budget" insert "and the legislative council"

Page 2, line 6, remove "section 1 of"

Page 2, after line 24, insert:

"**SECTION 5. ONE-TIME ADJUSTMENT TO DISTRIBUTIONS TO STATE INSTITUTIONS.** Pursuant to article IX of the Constitution of North Dakota and in addition to the distributions in section 4 of this Act, the board of university and school lands shall distribute during the biennium beginning July 1, 2017, and ending June 30, 2019, the following one-time corrections resulting from the misallocation of prior mineral revenues, from the permanent funds managed for the benefit of the following entities:

North Dakota state college of science	$89,698
State hospital	89,698
Veterans' home	89,698
North Dakota vision services - school for the blind	89,698
Dakota college at Bottineau	89,698
Dickinson state university	89,698

Minot state university	89,698
Youth correctional center	(621,186)
Total	$6,700

SECTION 6. EXEMPTION - OIL AND GAS IMPACT GRANT FUND. The amount appropriated from the oil and gas impact grant fund for the energy infrastructure and impact office line item in section 1 of chapter 13 of the 2015 Session Laws and for oil and gas impact grants in section 5 of chapter 463 of the 2015 Session Laws is not subject to section 54-44.1-11. Any money deposited in the fund for taxable events occurring through June 30, 2017, and any unexpended funds from the appropriation are available for grants and administrative costs associated with the fund during the biennium beginning July 1, 2017, and ending June 30, 2019."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2013 - Department of Trust Lands - Senate Action

	Base Budget	Senate Changes	Senate Version
Salaries and wages	$6,123,516	$95,220	$6,218,736
Operating expenses	2,019,637	(243,914)	1,775,723
Capital assets		5,250,000	5,250,000
Grants	99,300,000	(99,300,000)	
Energy Infrastructure and Impact Office	700,000	(479,283)	220,717
Contingencies	100,000		100,000
Total all funds	$108,243,153	($94,677,977)	$13,565,176
Less estimated income	108,243,153	(94,677,977)	13,565,176
General fund	$0	$0	$0
FTE	33.00	(1.00)	32.00

Department No. 226 - Department of Trust Lands - Detail of Senate Changes

	Adjusts Funding for Base Payroll Changes[1]	Adds Funding for Health Insurance Increase[2]	Adjusts Funding for FTE Positions[3]	Adjusts Funding for Operating Expenses[4]	Adjusts Funding for Oil and Gas Impact Grants[5]	Adds One-Time Funding for an Information Technology Project[6]
Salaries and wages	$86,577	$90,870	($82,227)			
Operating expenses			23,025	(266,939)		
Capital assets						5,250,000
Grants					(99,300,000)	
Energy Infrastructure and Impact Office	(160,260)	714	(151,237)		(168,500)	
Contingencies						
Total all funds	($73,683)	$91,584	($210,439)	($266,939)	($99,468,500)	$5,250,000
Less estimated income	(73,683)	91,584	(210,439)	(266,939)	(99,468,500)	5,250,000
General fund	$0	$0	$0	$0	$0	$0
FTE	0.00	0.00	(1.00)	0.00	0.00	0.00

	Total Senate Changes
Salaries and wages	$95,220
Operating expenses	(243,914)
Capital assets	5,250,000
Grants	(99,300,000)
Energy Infrastructure and Impact Office	(479,283)
Contingencies	

Total all funds	($94,677,977)
Less estimated income	(94,677,977)
General fund	$0
FTE	(1.00)

[1] Funding is adjusted for cost-to-continue 2015-17 biennium salaries and benefit increases and for other base payroll changes.

[2] Funding is added for increases in health insurance premiums from $1,130 to $1,249 per month.

[3] Funding is adjusted for FTE positions as follows:

- Removes 1 natural resources director FTE position ($259,307).
- Removes 1 energy infrastructure and impact office FTE position ($151,237).
- Adds 1 geographic information systems specialist FTE position ($200,105) and related operating expenses ($23,025).

[4] Funding for operating expenses is adjusted as follows:

	Total Other Funds
Adds funding for building maintenance costs and utility cost increases	$93,746
Adds funding for professional development	45,000
Reduces funding related to professional services, information technology services and equipment, and travel	(405,685)
	($266,939)

[5] Funding is reduced for energy infrastructure and impact office operating expenses ($168,500), and funding is removed for grants to political subdivisions from the oil and gas impact grant fund ($99,300,000).

[6] One-time funding of $5,250,000 is added for an information technology system replacement project.

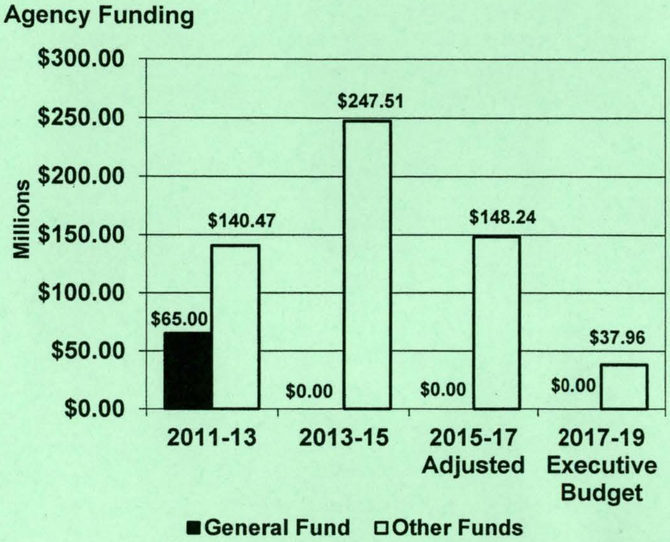
This amendment also:

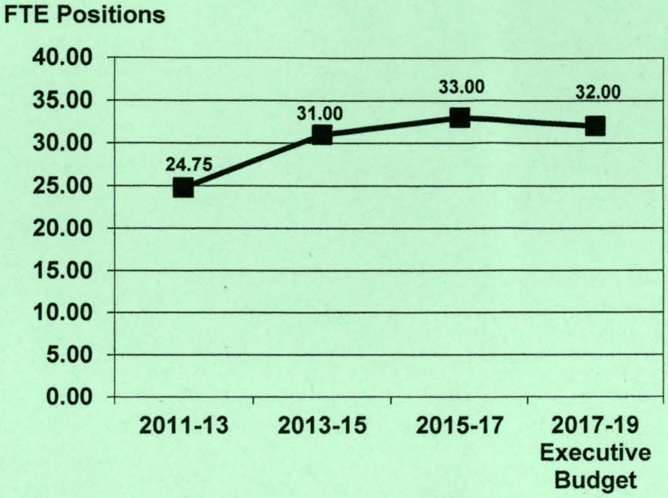
- Adds a section to allow the Commissioner of University and School Lands, upon approval of the Board of University and School Lands, to transfer funding between the various line items, including the contingencies line item. The Commissioner shall notify the Office of Management and Budget and the Legislative Council of each transfer made pursuant to this section.
- Provides permanent fund income distributions to state institutions and adds a new section to provide a one-time correcting adjustment to the distributions.
- Adds a section to provide an exemption for the amount appropriated from the oil and gas impact grant fund for administrative costs and oil impact grants for the 2015-17 biennium and for the deposits in the fund for taxable events through June 30, 2017, allowing the funding to continue to be available during the 2017-19 biennium.

Department 226 - Department of Trust Lands
Senate Bill No. 2013

Dalrymple Executive Budget Comparison to Prior Biennium Appropriations

	FTE Positions	General Fund	Other Funds	Total
2017-19 Dalrymple Executive Budget	32.00	$0	$37,963,150	$37,963,150
2015-17 Adjusted Legislative Appropriations	33.00	0	148,243,153	148,243,153
Increase (Decrease)	(1.00)	$0	($110,280,003)	($110,280,003)





Dalrymple Executive Budget Comparison to Base Level

	General Fund	Other Funds	Total
2017-19 Dalrymple Executive Budget	$0	$37,963,150	$37,963,150
2017-19 Base Level	0	108,243,153	108,243,153
Increase (Decrease)	$0	($70,280,003)	($70,280,003)

First House Action

Attached is a comparison worksheet detailing first house changes to base level funding and the executive budget.

Dalrymple and Burgum Executive Budget Highlights (With First House Changes in Bold)

	General Fund	Other Funds	Total
1. Provides funding for state employee salary and benefit increases, of which $27,974 is for salary increases and $91,584 is for health insurance increases. (The Burgum budget removed funding for salary increases and provided for employees to pay for a portion of health insurance.) **The Senate removed funding for the salary increases.**	$0	$119,558	$119,558
2. Removes 2 FTE positions, including 1 FTE energy infrastructure and impact office position ($151,237) and 1 FTE natural resources director position ($259,307)	$0	($410,544)	($410,544)
3. Adds 1 FTE geographic information system specialist position, including $177,080 for salaries and wages and $23,025 for operating expenses. (The Burgum budget removed this FTE position.) **The Senate included this FTE position.**	$0	$200,105	$200,105
4. Adds funding for building maintenance costs and utility cost increases	$0	$93,746	$93,746
5. Adds funding for professional development	$0	$45,000	$45,000
6. Reduces funding for operating costs related to professional services, information technology services and equipment, and travel	$0	($405,685)	($405,685)
7. Reduces funding for energy infrastructure and impact office operating expenses	$0	($168,500)	($168,500)

8. Removes funding for grants to political subdivisions from the oil and gas impact grant fund	$0	($99,300,000)	($99,300,000)
9. Adds one-time funding from the strategic investment and improvements fund for grants to airports		$24,100,000	$24,100,000
10. Adds **one-time** funding for an information technology system replacement project. (The Burgum budget reduced the funding by $215,000, from $5,520,000 to $5,305,000.) **The Senate provided $5,250,000 for an information technology system replacement project.**	$0	$5,520,000	$5,520,000

Other Sections in Senate Bill No. 2013

Line item transfers - Section 3 allows the Commissioner of University and School Lands, upon approval of the Board of University and School Lands, to transfer funding between the various line items, including the contingencies line item. The Commissioner shall notify the Office of Management and Budget and the Legislative Council of each transfer made pursuant to this section.

Fund distributions - Sections 4 and 5 provide permanent fund income distributions to state institutions as follows:

	2015-17 Legislative Appropriation	2017-19 Executive Budget[1]	Increase (Decrease)
Common schools	$206,134,000	$288,264,000	$82,130,000
North Dakota State University	3,368,000	4,738,000	1,370,000
University of North Dakota	2,742,000	3,662,000	920,000
Youth Correctional Center	1,372,000	800,814	(571,186)
School for the Deaf	1,180,000	1,598,000	418,000
North Dakota State College of Science	1,066,000	1,535,984	469,984
State Hospital	1,078,000	1,459,984	381,984
Veterans' Home	434,000	711,984	277,984
Valley City State University	570,000	808,000	238,000
North Dakota Vision Services - School for the Blind	534,000	929,984	395,984
Mayville State University	382,000	542,000	160,000
Dakota College at Bottineau	78,000	275,984	197,984
Dickinson State University	78,000	275,984	197,984
Minot State University	78,000	275,984	197,984
Total	$219,094,000	$305,878,702	$86,784,702

[1]The amounts shown reflect the adjusted fund distributions. A performance audit conducted during the 2015-16 interim identified errors in the assignment of tracts of land to the proper trusts resulting in errors in past distributions from the trusts.

Oil and gas impact grant fund - Section 6 provides an exemption for the amount appropriated from the oil and gas impact grant fund for administrative costs and oil impact grants for the 2015-17 biennium and for the deposits in the fund for taxable events through June 30, 2017, to allow the funding to continue to be available during the 2017-19 biennium.

Continuing Appropriations

Unclaimed property - North Dakota Century Code Section 47-30.1-23 - Payments made to owners of unclaimed property.

Investments and farm loans - Sections 15-03-16 - Money manager and custodial fees and loan administration fees to maintain and enhance income earning potential of trusts' financial assets.

County services - Section 15-04-23 - Payments made to counties for various services provided that benefit school trust lands.

Land expenses - Sections 15-04-24 and 15-07-22 - Payments for appraisal fees, survey costs, surface lease refunds, weed and insect control, cleanup costs, capital improvement rent credits, fire protection, land rent, value survey costs, and other expenses.

In lieu of taxes - Section 57-02.3-07 - Payments made in lieu of property taxes.

Significant Audit Findings

The financial statement audit for the Department of Trust Lands conducted by Brady, Martz & Associates PC during the 2015-16 interim identified no significant audit findings.

The performance audit of the Department of Trust Lands conducted by the State Auditor during the 2015-16 interim identified significant audit findings and included the following recommendations:

Energy Infrastructure and Impact Office

- Ensure the application screen process for energy impact grants is transparent and provides fair treatment of all applications.
- Ensure grant recommendations comply with eligibility requirements.

- Include contingencies in the grant recommendations when the grant application project costs for larger projects are based on estimates rather than actual bids.
- Ensure grant payments are limited to the reimbursement of expenditures for projects outlined in the grant application and that local matching requirements are met.
- Obtain status updates for grants with outstanding balances in a more cost-effective manner by requiring status reports or telephone discussions, conduct site visits for grant awards based on risk, and ensure site visits clearly document the status of the grant project being monitored.

Unclaimed property

- Increase efforts to locate owners of unclaimed property.
- Ensure unclaimed property is complete, accurate, and consistently entered.
- Adequately safeguard unclaimed property and personal information submitted to the department.
- Eliminate the fee that certain owners pay to receive their unclaimed property, which has not been sold or liquidated by the department.
- Conduct periodic sales of unclaimed property and dispose of property with insubstantial commercial value.

Trust assets and department resources

- Ensure tracts of land and oil and gas royalty payments are associated with the proper trust and obtain guidance from legal counsel on correcting net assets and past distributions for incorrect tract assignments and royalty allocations.
- Ensure information submitted with oil and gas royalty payments is consistently obtained in an electronic format and conduct audits of oil and gas operators submitting royalty payments to the department.
- Ensure direct and indirect costs are properly applied to trusts, programs, and activities.
- Conduct a formal fraud risk assessment as required by the Office of Management and Budget policy.
- Ensure appropriate information technology systems exist, user manuals are established, and systems are used to the fullest extent possible.
- In conjunction with representatives of the State Historical Society, review and identify permanently retained records and records with archival value for transfer to the State Archives.

Major Related Legislation

House Bill No. 1199 - Defines the ordinary high-water mark used to determine sovereign minerals within the boundary of Lake Sakakawea.

House Bill No. 1300 - Requires the Department of Trust Lands to follow the administrative rules process by removing the department from the list of exempt agencies.

House Bill No. 1384 - Transfers the unclaimed property administration from the Department of Trust Lands to the State Treasurer's office.

Senate Bill No. 2101 - Corrects Section 57-62-02 relating to the transfer of interest from the coal development trust fund to the general fund pursuant to constitutional requirements.

Senate Bill No. 2102 - Changes the provisions for the Commissioner of the Board of University and School Lands to provide information on the best use of land from a required report to an optional assessment.

Senate Bill No. 2134 - Defines the ordinary high-water mark used to determine sovereign minerals within Missouri River reservoirs.

Senate Bill No. 2245 - Requires the Commissioner of the Board of University and School Lands to provide a list of land parcels that may qualify for use as wetlands mitigation to the Agriculture Commissioner by July 1, 2018.

Department of Trust Lands - Budget No. 226
Senate Bill No. 2013
Base Level Funding Changes

	Burgum Executive Budget Recommendation (Changes to Dalrymple Budget in Bold)				Senate Version			
	FTE Positions	General Fund	Other Funds	Total	FTE Positions	General Fund	Other Funds	Total
2017-19 Biennium Base Level	33.00	$0	$108,243,153	$108,243,153	33.00	$0	$108,243,153	$108,243,153
2017-19 Ongoing Funding Changes								
Base payroll changes			($73,683)	($73,683)			($73,683)	($73,683)
Salary increase - Performance				***0***				0
Health insurance increase			91,584	91,584			91,584	91,584
Employee portion of health insurance			***(46,478)***	***(46,478)***				0
Removes FTE positions	(2.00)		(410,544)	(410,544)	(2.00)		(410,544)	(410,544)
Adds FTE geographic information system position	1.00		200,105	200,105	1.00		200,105	200,105
Removes additional FTE position	***(1.00)***		***(200,105)***	***(200,105)***				0
Adds funding for building and utility increases			93,746	93,746			93,746	93,746
Adds funding for professional development			45,000	45,000			45,000	45,000
Reduces operating expenses			(405,685)	(405,685)			(405,685)	(405,685)
Reduces energy impact operating expenses			(168,500)	(168,500)			(168,500)	(168,500)
Removes funding for energy impact grants			(99,300,000)	(99,300,000)			(99,300,000)	(99,300,000)
Total ongoing funding changes	(2.00)	$0	($100,174,560)	($100,174,560)	(1.00)	$0	($99,927,977)	($99,927,977)
One-time funding items								
Adds funding for information technology project			$5,520,000	$5,520,000			$5,250,000	$5,250,000
Reduces capital assets - 3 percent			***(215,000)***	***(215,000)***				0
Adds funding for grants to airports			24,100,000	24,100,000				0
Total one-time funding changes	0.00	$0	$29,405,000	$29,405,000	0.00	$0	$5,250,000	$5,250,000
Total Changes to Base Level Funding	(2.00)	$0	($70,769,560)	($70,769,560)	(1.00)	$0	($94,677,977)	($94,677,977)
2017-19 Total Funding	31.00	$0	$37,473,593	$37,473,593	32.00	$0	$13,565,176	$13,565,176

Other Sections in Department of Trust Lands - Budget No. 226

	Burgum Executive Budget Recommendation (Changes to Dalrymple Budget in Bold)	Senate Version
Line item transfers	Section 3 allows the Commissioner of University and School Lands, upon approval of the Board of University and School Lands, to transfer funding between the various line items, including the contingencies line item. The Commissioner shall notify the Office of Management and Budget of each transfer made pursuant to this section.	Section 3 allows the Commissioner of University and School Lands, upon approval of the Board of University and School Lands, to transfer funding between the various line items, including the contingencies line item. The Commissioner shall notify the Office of Management and Budget and the Legislative Council of each transfer made pursuant to this section.
Fund distributions	Sections 5 and 6 provide permanent fund income distributions to state institutions.	Sections 4 and 5 provide permanent fund income distributions to state institutions.

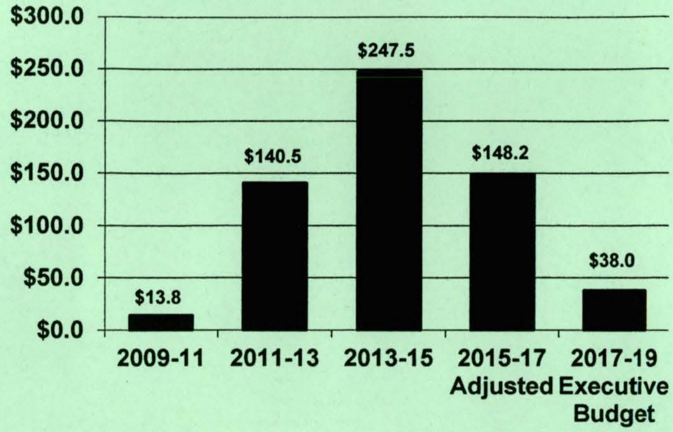
Other Sections in Department of Trust Lands - Budget No. 226

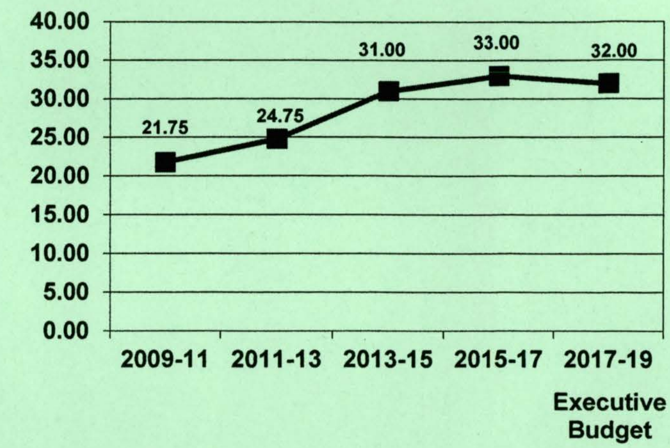
	Burgum Executive Budget Recommendation (Changes to Dalrymple Budget in Bold)	Senate Version
Oil and gas impact grant fund	Section 4 identifies $221,735 from the oil and gas impact grant fund for administrative costs related to the oil and gas impact grant program.	Section 6 provides an exemption for the amount appropriated from the oil and gas impact grant fund for administrative costs and oil impact grants for the 2015-17 biennium and for the deposits in the fund for taxable events through June 30, 2017, to allow the funding to continue to be available during the 2017-19 biennium.
Strategic investment and improvements fund	Section 7 identifies $24.1 million from the strategic investment and improvements fund for grants to airports.	

Department 226 - Department of Trust Lands

Historical Appropriations Information

Total Other Funds Appropriations Since 2009-11





Total Other Funds Appropriations					
	2009-11	2011-13	2013-15	2015-17 Adjusted	2017-19 Dalrymple Executive Budget
Total other funds appropriations	$13,792,561	$140,465,189	$247,506,969	$148,243,153	$37,963,150
Increase (decrease) from previous biennium	N/A	$126,672,628	$107,041,780	($99,263,816)	($110,280,003)
Percentage increase (decrease) from previous biennium	N/A	918.4%	76.2%	(40.1%)	(74.4%)
Cumulative percentage increase (decrease) from 2009-11 biennium	N/A	918.4%	1,694.5%	974.8%	175.2%

Major Increases (Decreases) in Total Other Funds Appropriations

2011-13 Biennium

1. Added funding for 3 FTE positions, including a mineral auditor position, an accounting and budget specialist position, and an office assistant position	$388,326
2. Added funding for temporary staff and salary reclassifications	$184,908
3. Added funding for operating expenses, including building repairs and maintenance	$510,440
4. Added funding for contingencies	$50,000
5. Added funding for grants to political subdivisions from the oil and gas impact grant fund	$125,000,000

2013-15 Biennium

1. Added funding for 6.25 FTE positions, including a grant administrator position, an accounting and budget specialist position for the oil and gas impact grants, a land management specialist position, a mineral title specialist position, an audit technician position, and 1.25 administrative assistant positions	$1,056,889
2. Added funding from the strategic investment and improvements fund for a private lands study	$50,000
3. Added funding for contingencies	$100,000
4. Added funding for grants to political subdivisions from the oil and gas impact grant fund	$105,000,000

2015-17 Biennium

1. Added funding for 2 FTE positions, including a land management position and an unclaimed property and compliance officer position	$385,246
2. Added funding for operating expenses related office space rental	$90,000
3. Added funding for the administration of oil and gas impact grants	$163,922
4. Reduced funding for contingencies	($100,000)

5. Reduced funding for grants to political subdivisions from the oil and gas impact grant fund	($100,000,000)

2017-19 Biennium (Dalrymple and Burgum Executive Budget Recommendations)

1. Provides funding for state employee salary and benefit increases, of which $27,974 is for salary increases and $91,584 is for health insurance increases. (The Burgum budget removed funding for salary increases and provided for employees to pay for a portion of health insurance.) **The Senate removed funding for the salary increases.**	$119,558
2. Removes 2 FTE positions, including 1 FTE energy infrastructure and impact office position ($151,237) and 1 FTE natural resources director position ($259,307)	($410,544)
3. Adds 1 FTE geographic information system specialist position, including $177,080 for salaries and wages and $23,025 for operating expenses. (The Burgum budget removed this FTE position.) **The Senate included this FTE position.**	$200,105
4. Adds funding for building maintenance costs and utility cost increases	$93,746
5. Adds funding for professional development	$45,000
6. Reduces funding for operating costs related to professional services, information technology services and equipment, and travel	($405,685)
7. Reduces funding for Energy Infrastructure and Impact Office operating expenses	($168,500)
8. Removes funding for grants to political subdivisions from the oil and gas impact grant fund	($139,300,000)
9. Adds one-time funding from the strategic investment and improvements fund for grants to airports	$24,100,000
10. Adds one-time funding for an information technology system replacement project. (The Burgum budget reduced the funding by $215,000, from $5,520,000 to $5,305,000.) **The Senate provided $5,250,000 for an information technology system replacement project.**	$5,520,000

March 6, 2017 SB2013 Attachment A

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DEPARTMENT OF
ND TRUST LANDS
INVESTING FOR EDUCATION

Lance D. Gaebe, Commissioner

TESTIMONY OF LANCE GAEBE
COMMISSIONER
North Dakota Department of Trust Lands

SENATE BILL NO. 2013

HOUSE APPROPRIATIONS COMMITTEE
March 6, 2017

Chairman Brandenburg and members of the House Appropriations Sub-committee, I am Lance Gaebe, the Commissioner and Secretary for the Board of University and School Lands (Land Board). I am here to testify in support of the Department of Trust Lands' (Department) requested total special funds appropriation found in SB 2013.

Along with my coworkers in the Department, we serve as the administrative agency under the direction and authority of the Land Board which is comprised of the Governor, Secretary of State, Attorney General, State Treasurer and Superintendent of Public Instruction.

The primary responsibility of the Board and the Department is to manage the Common Schools Trust Fund and 12 other permanent educational and institutional trust funds governed by Article IX of the North Dakota Constitution. These trust funds were established at statehood when the Federal Government granted 3.2 million acres of land to the state "for the support of common schools" and other public institutions. The State Constitution and statutes provide that the Land Board shall manage the land, minerals and proceeds of these trust funds for the exclusive benefit of the beneficiaries.

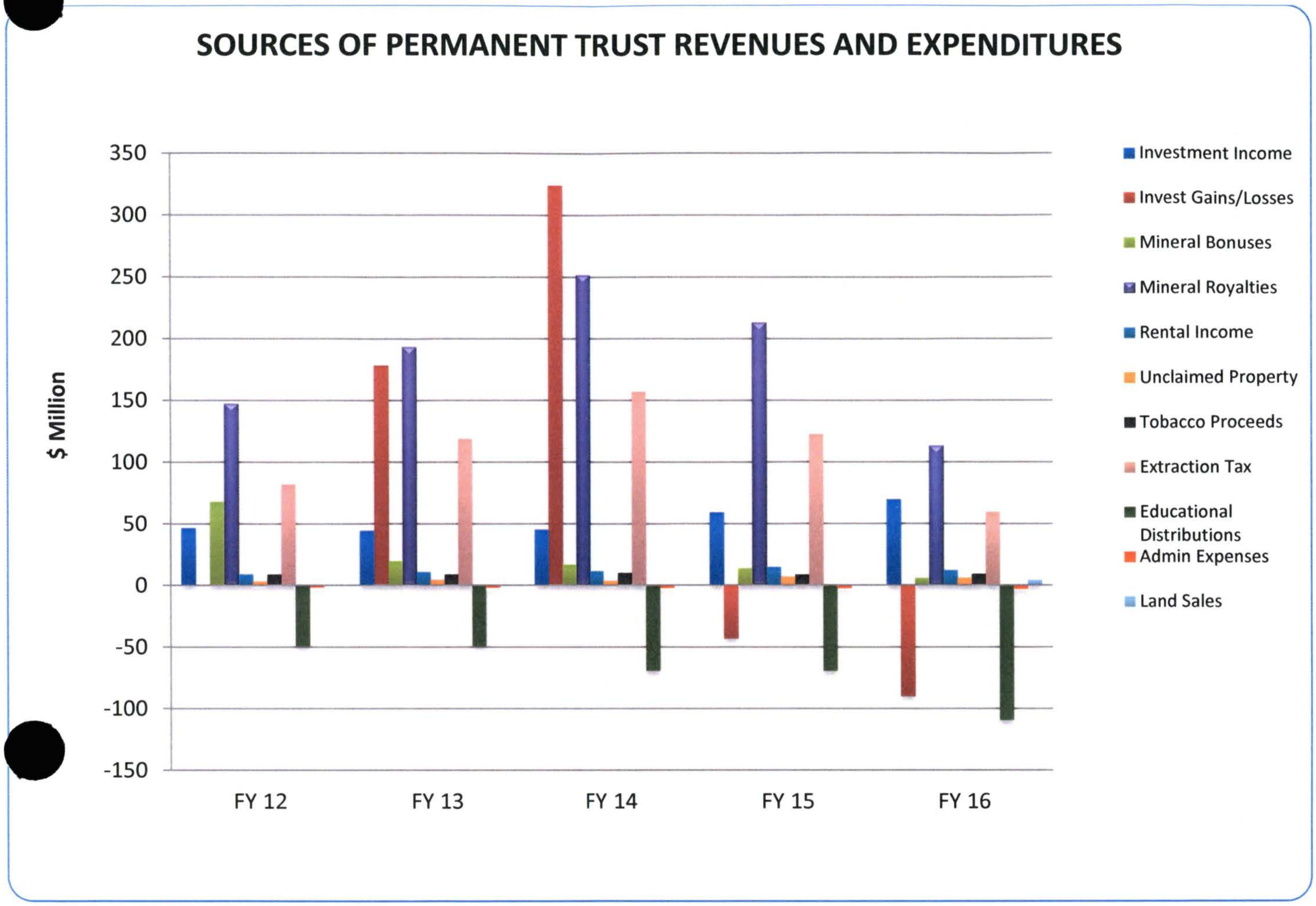
Other prominent roles within the Department are:

- Management of five additional funds
- The State Unclaimed Property Division
- The Energy Infrastructure and Impact Office

The Department has 33 authorized FTEs for these responsibilities.

Support for Education

A primary focus of the Land Board and Department is managing permanent trust assets to fund education and other governmental functions. The Department manages over 700,000 surface acres that are leased to ranchers and farmers. On behalf of the permanent trusts, it also oversees 1.7 million mineral acres which are offered for oil, gas, coal, gravel and subsurface mineral leasing and production. Revenues are invested in a diversified portfolio of financial assets, actively managed by the Land Board as a permanent endowment.



According to Article IX of the North Dakota Constitution, biennial distributions from the permanent trust funds must be ten percent of the five-year average value of trust financial assets, calculated the year prior to the biennium. Equal amounts must be distributed during each year of the biennium.

The Common Schools Trust Fund distribution to the State's public schools will be $288.3 million during the 2017-2019 biennium; this is $82.1 million (approximately 40%) more than the 2015-2017 biennium. The 2017-2019 distributions from the 12 other permanent trusts will increase by approximately 36% over the current biennium distributions to the beneficiaries.

Biennium	Total Biennial Distributions	% Increase from Previous Biennium
2009-11	$82.3 million	15.5%
2011-13	$ 98.5 million	19.7%
2013-15	$ 138.7 million	40.9%
2015-17	$ 219.1 million	58.0%

The distributions are appropriated in Section 4 of SB 2013.

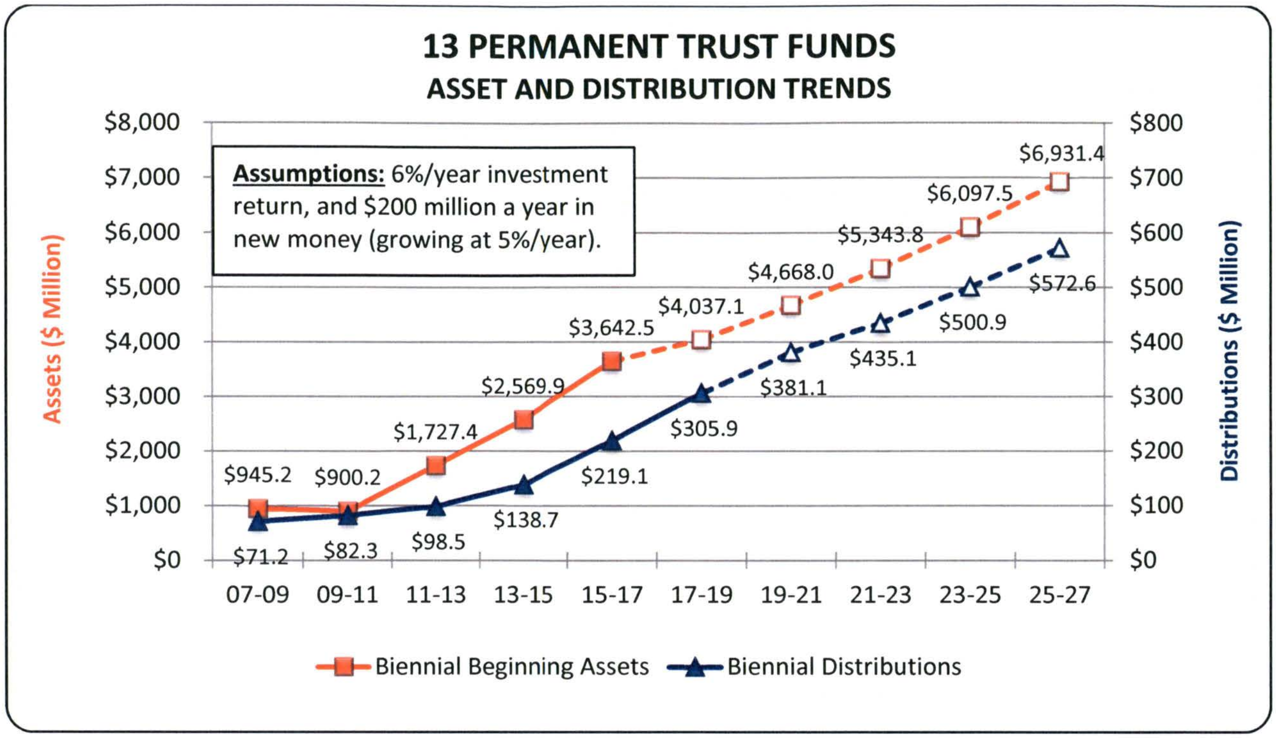
The following table outlines the constitutionally mandated distribution amounts for each permanent trust for the 2017-19 biennium and it also includes comparisons to current biennial distributions.

:

Trust Fund	2015-2017 Bi. Distributions	2017-2019 Bi. Distributions [1]	Increase in Distributions	Percentage Increase in Distributions
Common Schools	$ 206,134,000	**$ 288,264,000**	$ 82,130,000	39.8%
NDSU	3,368,000	**4,738,000**	1,370,000	40.7%
School for the Blind	456,000	**654,000**	198,000	43.4%
School for the Deaf	1,180,000	**1,598,000**	418,000	35.4%
State Hospital	1,000,000	**1,184,000**	184,000	18.4%
Ellendale [2]	546,000	**1,304,000**	758,000	138.8%[4]
Valley City	570,000	**808,000**	238,000	41.8%
Mayville	382,000	**542,000**	160,000	41.9%
Industrial School [3]	1,372,000	**1,422,000**	50,000	3.6%[4]
School of Science	988,000	**1,260,000**	272,000	27.5%
School of Mines	1,134,000	**1,444,000**	310,000	27.3%
Veteran's Home	356,000	**436,000**	80,000	22.5%
UND	1,608,000	**2,218,000**	610,000	37.9%
TOTAL	$ 219,094,000	**$ 305,872,000**	$ 86,778,000	39.6%

(1) These amounts are not subject to change as a result of any activity in the investment portfolio over the next two years. They are calculated based upon the formula in Article IX, §2 of the Constitution.
(2) The beneficiaries of the Ellendale Trust are: Dickinson State University, Minot State University, Dakota College at Bottineau, Veterans' Home, School for the Blind, State Hospital, and the State College of Science.
(3) The Youth Correctional Center is the beneficiary of the Industrial School Trust.
(4) The distributions to the Ellendale beneficiaries and the Youth Correction Center includes a one-time offsetting adjustment between the trusts because of a previous misallocation of mineral revenues (explanation on page 8).

- The permanent trust funds' growing balances will lead to even more funds being distributed to beneficiaries in future years.



Other Funds

In addition to the constitutional trusts, the Land Board also manages:

- The Coal Development Trust Fund
- The Capitol Building Fund
- The Indian Cultural Education Trust
- The Oil and Gas Impact Grant Fund
- The Strategic Investment and Improvements Fund (SIIF) and its 800,000 mineral acres

The 2011 Legislature created the SIIF when it merged the former Lands and Minerals Trust Fund with the Permanent Oil Tax Trust Fund.

It is anticipated that the SIIF will collect $266.8 million of income during the biennium, $190 million being generated from sovereign mineral leasing and production. The remainder is from investment income and oil and gas taxes. $142.3 million is set aside in an assigned fund balance, until resolution of potential title disputes related to certain riverbed issues. Although the courts have determined the State holds title to the ordinary high water mark, unresolved ownership issues related to riverbed leases, including with the federal government, remain. Two bills, SB 2134 and HB 1199, currently under consideration by this Legislature, if passed would dramatically reduce the balance and the revenue forecast of the SIIF. If these bills pass, an appropriation authority will need to be included to permit the Land Board to distribute refunds to operators and lessees.

Unclaimed Property
The Department also administers the responsibilities outlined in the Uniform Unclaimed Property Act. In this role the Department collects "unclaimed property" (uncashed checks, unused bank accounts, etc.), and processes owners' claims. This property is permanently held for owners to claim, but the revenue from the investment of the property benefits the Common Schools Trust Fund.

Energy Infrastructure and Impact Office
Additionally, the Department operates the Energy Infrastructure and Impact Office, which provides financial support to political subdivisions affected by energy development. Assistance is provided through both the oil and gas impact grant program and the coal impact loan program. The oil and gas impact program was authorized at $140 million for the current biennium, though only half of that amount is forecast to be collected and granted. The Energy Impact Office also distributes energy and flood grants from prior biennia.

2015-2017 Operations
Overall operating expenditures have remained stable during the present biennium. While the growth in energy activity has flattened, the Department continues to process a growing number of royalty transactions, continued leasing requests and steady applications for surface easements. The efforts to collect royalties due to the State for production of its minerals has become more of a challenge and has prompted litigation.

The increase in numbers of transactions and funds under management has affected all divisions within the Department: Mineral Management, Surface Management, Investments, Revenue Compliance, Administrative and Information Technology, Unclaimed Property and the Energy Impact Office. The expansion through the early part of the decade was rapid in terms of both the growth in trust assets and in the Department's workload.

The Unclaimed Property Division has seen marked growth in both holder transfers and property claims. The growth in deposits can be attributed to enhanced education and unclaimed royalty proceeds, which have grown substantially as mineral production in the state has expanded. Increases in property claims have resulted from additional outreach efforts.

The Energy Impact Office has been busy during the current biennium managing the reaction of disappointed grantees who anticipated funds based upon earmarks within the 2015 Legislature's appropriation of $140 million, only about half of which will actually be available this biennium.

The School Construction Assistance Loan Fund (SCALF) was transferred from the Land Board to the Bank of North Dakota earlier this year. The November 2016 passage of Measure 2 regarding the foundation aid stabilization fund triggered a session law authorizing the transfer.

Mr. Chairman, we were asked to provide an update of current biennium spending as compared with the appropriation. With 25 percent of the biennium remaining, the Department is operating within its authorized appropriation.

	2015-17 Budget		
	2015-17 Appropriation	Expenditures as of 12/31/16	% Remaining
Salaries and Wages	**$6,123,516**	**$3,903,598**	***36%***
Contingencies	**100,000**	**-**	***100%***
Operating Expenses	**2,019,637**	**1,142,135**	***43%***
Energy Impact Office Admin.	**700,000**	**507,353**	***28%***

The Department was not impacted by adjustments made during the August 2016 Special Legislative Session, nor is it administering any one-time funding during the current biennium. The Department is not the direct recipient of any federal funds.

Ninety Percent Budget Request
To accommodate former Governor Dalrymple's request for a 90 percent budget, the Department recommended two currently authorized FTEs be phased out - a natural resources manager and the assistant Energy Impact Office administrator. The Department also submitted a reduced operating budget for travel, information technology software and licenses, data processing and technology fees. The request for operations funding authority for the Energy Impact Office was reduced from $700,000 to $207,000.

Comparison of Option Requests to the Executive Budget

	2015-17 Budget	2017-19 Budget		2017-19 Optional Budget Requests			
	2015-17 Appropriation	Proposed for 2017-19 Biennium	2017-19 Optional Request	Proposed Optional for 2017-19	Executive Recommendation (Dalrymple)	Executive Recommendation (Burgum)	**Senate Adoption**
SALARIES AND WAGES	$6,123,516	$5,864,209	$368,031	$6,232,240	$6,245,692	$5,881,283	**$6,218,736**
CONTINGENCIES	100,000	100,000		100,000	100,000	100,000	**100,000**
OPERATING EXPENSES	2,019,637	1,727,698	46,050	1,773,748	1,775,723	1,775,723	**1,775,723**
CAPITAL ASSETS (comprehensive IT upgrade)	-	5,520,000			5,520,000	5,305,000	**5,250,000**
TOTAL	$8,243,153	$13,211,907	$414,081	$13,625,988	$13,641,415	24,100,000	
Grants	140,000,000				$24,100,000	24,100,000	**0**
FTE	33	31	2	33	32	31	**32**

Option Package
In its optional package request, the Department requested authorization for a Geographic Information Systems (GIS) specialist to assist with utilizing technology to produce customized electronic and traditional maps to support surface and minerals management. The GIS specialist would assist in the interpretation of digital land data. This specialist would be responsible for linking Department surface and minerals databases to the statewide GIS base map.

Presently, the Department uses basic maps and rudimentary GIS related tools to produce and manipulate data in association with its management of thousands of surface and mineral tracts and easements. A qualified GIS specialist would help to bring the Department up to the standards of our lessees, permittees and other state agencies. This Geographic Information Systems FTE is included in the SB 2013 as adopted by the Senate.

The Department manages and researches complicated historical records and title issues, thus it also requested a Mineral Title Specialist to assist with research on chain of title and complex ownership issues, including assistance with legal challenges to the State's sovereign lands claims.

There is currently a backlog of title research to be done on numerous claims, royalties suspended due to title disputes, and litigation-related discovery and documentation. The requested FTE would require a legal background or formal landman training and certification. The mineral title FTE was not included in SB 2013 as passed by the Senate.

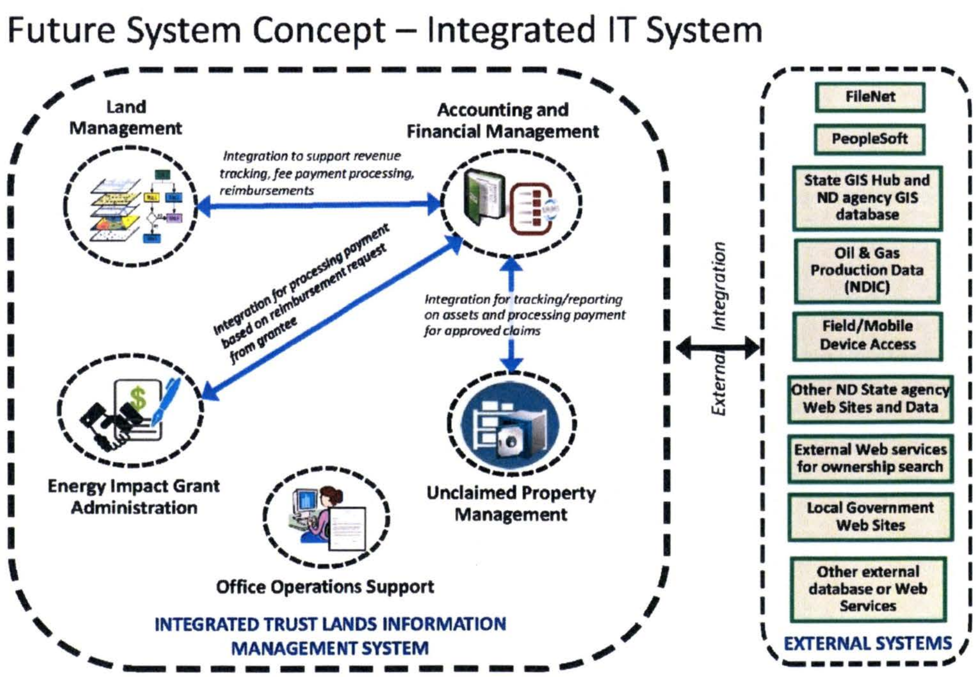
Information Technology Upgrade
Software weaknesses within the Department's systems were emphasized throughout recent performance audit recommendations. The Department recognizes the need to update processes and systems to ensure data accuracy, enhance security and internal controls, and provide greater online functionality.

The Department has many disconnected manual and paper processes, along with multiple customized computer systems in the areas of:

- asset management
- accounting
- surface and mineral leasing
- royalty collection
- rent compliance
- unclaimed property management
- grant and loan management

Many core systems were developed decades ago using designs and tools no longer supported by vendors. There have been some supplemental system improvements and purchases over time, but the current database structure has restricted many potential improvements.

In 2016, the Department hired a consulting firm, Major Oak, to undertake a process and systems analysis and to prepare specific process improvement recommendations. Through the business process modeling effort, Major Oak provided suggestions on solutions to further enhance controls, increase efficiencies, and boost productivity. Major Oak documented over 100 business processes in



an effort to document core business requirements for a future information management system and to provide recommendations regarding build-versus-buy software options.
Major Oak contacted peer organizations, software vendors, and various industry professionals and provided recommendations on system replacement options and estimated costs. Major Oak's estimate of a comprehensive system upgrade was incorporated in the Department's budget request and included in the executive recommendation as a one-time $5,520,000 capital asset. This is critical to resolving many of the data challenges highlighted by the Office of the State Auditor in 2016.

Integrated Trust Lands Information Management Systems - Cost Projections

Cost in thousands	Land Management			Accounting		
Cost Projection Totals:	**Low**	**High**	**Average**	**Low**	**High**	**Average**
Implementation Timing (months)	30 months			12 months		
Implementation Cost	$1,426	$2,355	$1,891	$125	$150	$138
Total Annual Costs After Implementation	$295	$320	$308	$440	$440	$440
5-year Costs (Implementation Cost + Total Annual Cost)	**$1,722**	**$2,676**	**$2,199**	**$565**	**$590**	**$578**
	Unclaimed Property			**Grant Administration**		
Cost Projection Totals:	**Low**	**High**	**Average**	**Low**	**High**	**Average**
Implementation Timing (months)	12 months			6 months		
Implementation Cost	$125	$150	$138	$59	$107	$83
Total Annual Costs After Implementation	$440	$440	$440	$114	$225	$170
5-year Costs (Implementation Cost + Total Annual Cost)	**$565**	**$590**	**$578**	**$174**	**$332**	**$253**

We will appreciate your funding authorization for this project and we look forward to reporting to you in future session about the successful implementation of the system. The Senate reduced the appropriation for this project to $5,250,000.

Correction of Mineral Tracts Recorded Within the Wrong Trust
One of the specific findings identified during the 2016 performance audit was the mistaken assignment of certain mineral tracts to the wrong trust.

When documents were transcribed in the 1940s, numerous mineral acre properties and files were incorrectly assigned to the YCC Trust, when they should have been assigned to the Ellendale Trust. Subsequently, all mineral revenues generated by those mineral tracts were incorrectly attributed to the wrong trust.

The Department examined the historical records of all of the producing mineral tracts currently identified as being owned by the YCC Trust. Twenty-six years' of revenue records for each of the 37 mistakenly assigned mineral tracts were reviewed.

The $6.1 million of mineral revenue and the related $1.1 million of investment income since 1989 was transferred from the YCC Trust to the Ellendale Trust in June, 2016.

The collective impact was that the YCC received approximately $621,000 more in distributions than it should have, and the seven beneficiaries of the Ellendale Trust received approximately $628,000 less. Section 5 of SB 2013 authorizes this one-time correction of distributions.

Agency Accomplishments

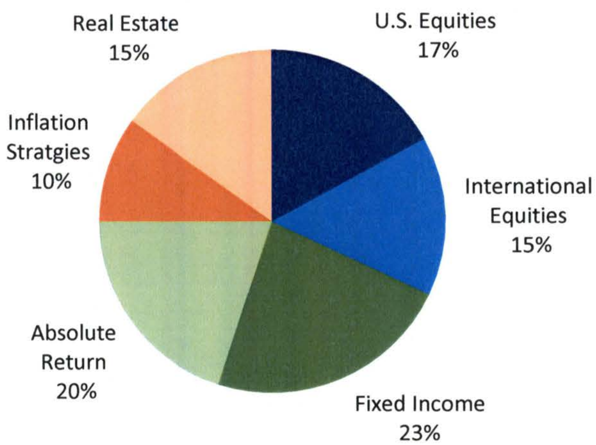
Performance within the Department is measured by its continued ability to manage the assets of 13 permanent trusts and six other funds under its control; to preserve fund value and purchasing power; to maintain stable distributions to beneficiaries; and to effectively manage the Energy Infrastructure and Impact Office and the Unclaimed Property Division.

The permanent trust fund financial assets have increased from $908 million at the end of FY 2009 to $3.7 billion on June 30, 2016. Combined "other fund" financial assets managed by the Department have increased from $95.7 million on June 30, 2009 to $582 million on June 30, 2016.

	June 30, 2009	June 30, 2016
Permanent Trust Funds	$907,880,657	$3,720,729,900
Other Funds	95,700,411	582,061,892
	$1,003,581,068	$4,302,791,792

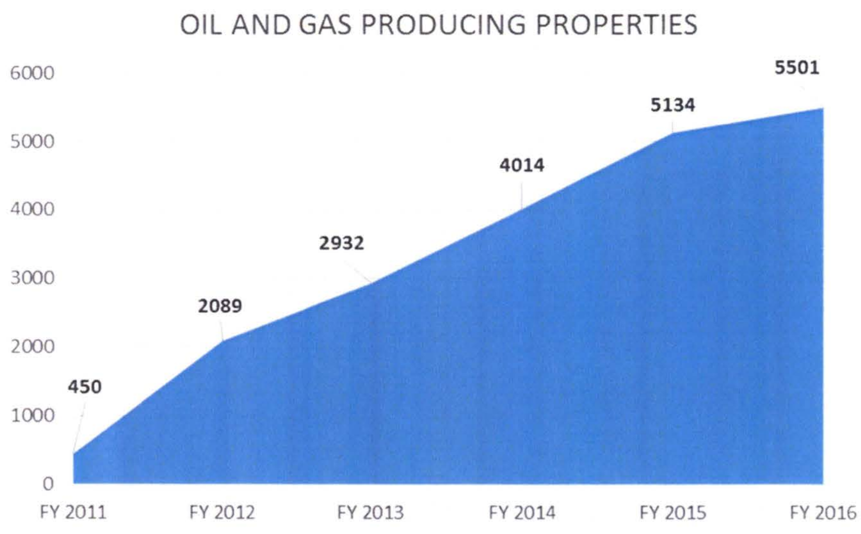
The Department developed a comprehensive Land Board Investment Policy Statement and implemented an entirely revised investment asset allocation for the permanent trust funds that includes not only stocks and bonds, but also absolute return strategies, emerging market equities, real estate and diversified inflation strategies.

Permanent Trust Funds
Target Asset Allocation

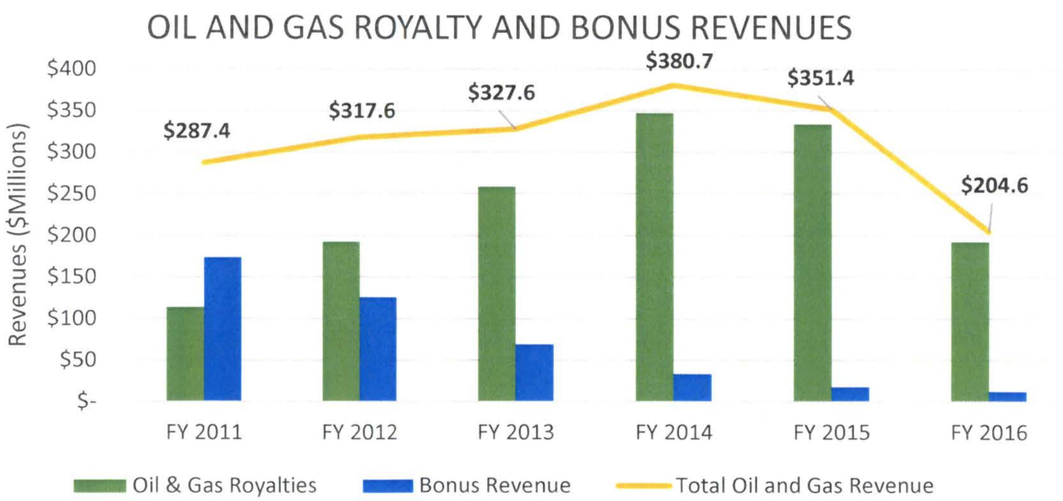


	1 YR	3 YR	5 YR
Portfolio Returns as of 6/30/16	-0.6%	4.3%	5.2%

The Department issued 895 oil and gas leases on 74,761 mineral acres during FY 2015. During FY 2016, 714 leases involving 61,586 mineral acres were issued. At the end of FY 2015, the Board oversaw 8,853 active leases. As of the close of FY 2016 it managed 9,567 active oil and gas leases with 5,501 producing properties.



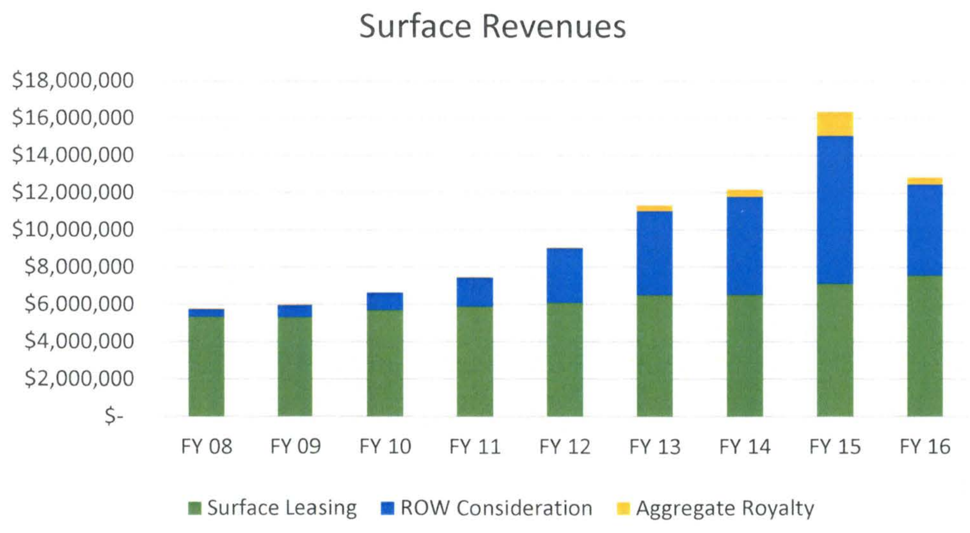
On behalf of the trusts and the State, the Department collected oil and gas royalties of $333.4 million and $18 million of bonus during FY 2015; and $192.2 million of royalties and $12.4 million of bonus during FY 2016.



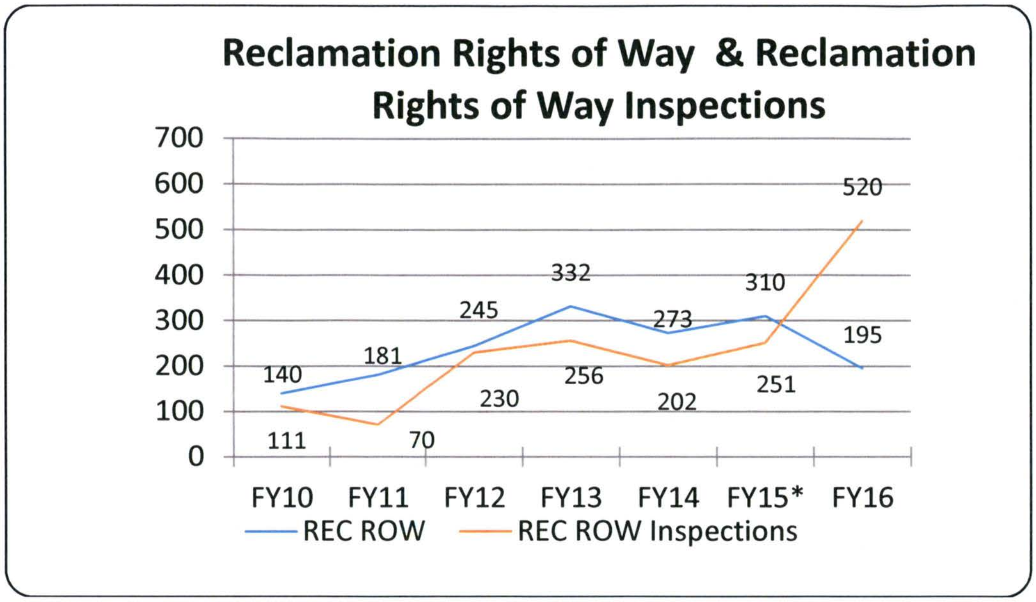
The Department has implemented a new electronic royalty reporting system which reduces manual data entry and eliminates annual third party vendor costs. This transition allowed a shift from data entry to an auditing focus. With the addition of an oil and gas royalty auditor position by the 2015 Legislature, a comprehensive oil and gas audit program has been implemented. There are currently eight ongoing oil and gas audits.

Additional disputed royalties were collected and deposited in escrow during FY 2016, increasing the escrow balance from $18.7 million at the end of FY 2015 to $51.5 million as of June 30, 2016.

In the surface management area, the Department processed 282 applications and issued 248 conveyances for easements, permits and surface damage agreements with total income in excess of $4.89 million in FY 2016. The trusts continue to have a 99 percent leasing rate for agricultural tracts, collecting $7,567,147 in surface rental income and $467,684 of construction aggregate royalties in FY 2016.

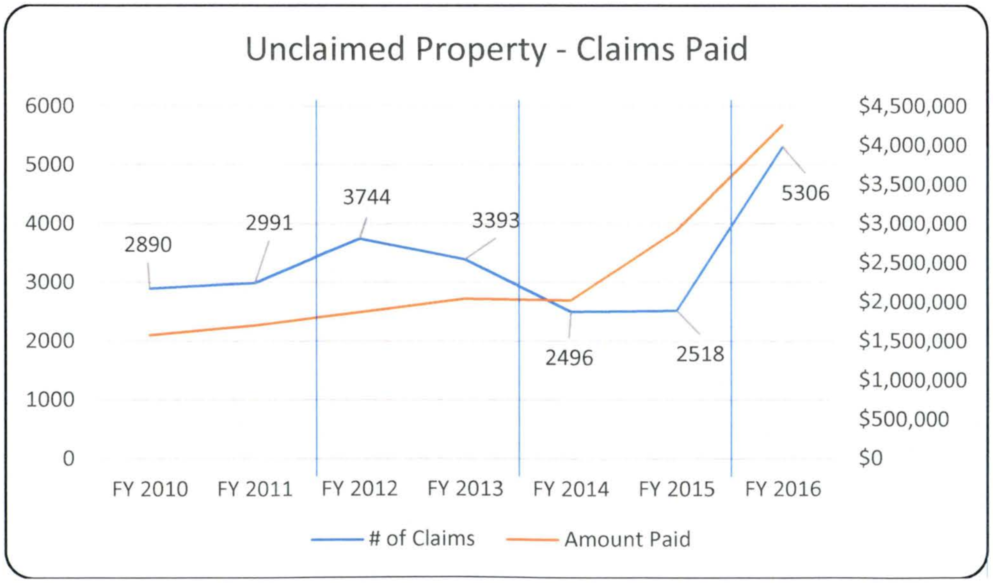


- The Department also developed an online and mobile application for reclamation reporting systems designed to document, manage and verify reclamation inspections.



* New reclamation program implemented inspections

- The Unclaimed Property Division approved 5,306 property claims totaling $4.25 million during fiscal year 2016 alone, compared to 5,889 property claims totaling $4.9 million during fiscal years 2014 and 2015. Much of the recent increase can be attributed to enhanced outreach efforts.



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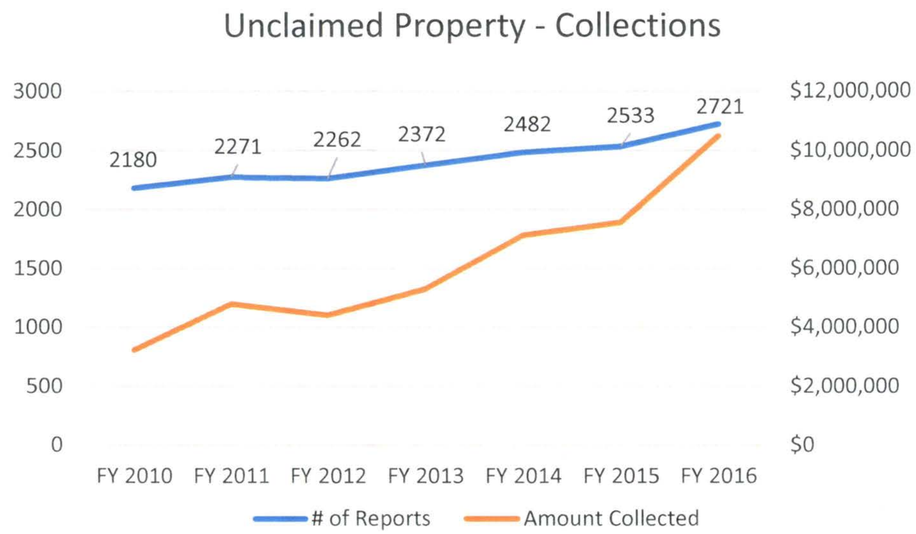
Increases in collections can be attributed to increased education and compliance efforts and an increased in collections of unclaimed oil royalties. Unclaimed securities valued at approximately $1.5 million are not reflected in the totals collected.



The Department administered a significantly expanded energy impact grant program through the Energy Infrastructure and Impact Office. Program award commitments increased from $8 million during 2009-2011 to $165 million during the 2011-2013 biennium. The program was further expanded to $240 million in the 2013-2015 biennium before being reduced to $139.3 million in the current biennium.

The Land Board authorized 272 grants totaling just over $52 million during the current biennium, with a large number of grant awards withheld due to lower revenues received from the oil production tax fund. Currently, there is a $69 million shortfall to entities identified by the 2015 Legislature.

Grants approved by the Land Board focus largely on assisting public safety, education improvements and health care. Some funds are also provided for rural transportation and other necessary infrastructure projects.

The 2015 Legislature appropriated $140 million, but because of a revenue shortfall, many of the areas designated by the Legislature to receive grants have not, and may not, receive funds. The fund is anticipated to collect $70.6 million within this biennium. The compilation in the following chart identifies the outstanding grant allocation remaining, with further grants that may be approved by the Land Board later this spring.

The Senate added section 6 to SB 2013 to permit the granting and expenditure of funds in the 2017-2019 biennium which will generated, but not be collected until after the close of the current biennium. Some carryover funds may also be used for program administration to validate grant documentation and reimbursements.

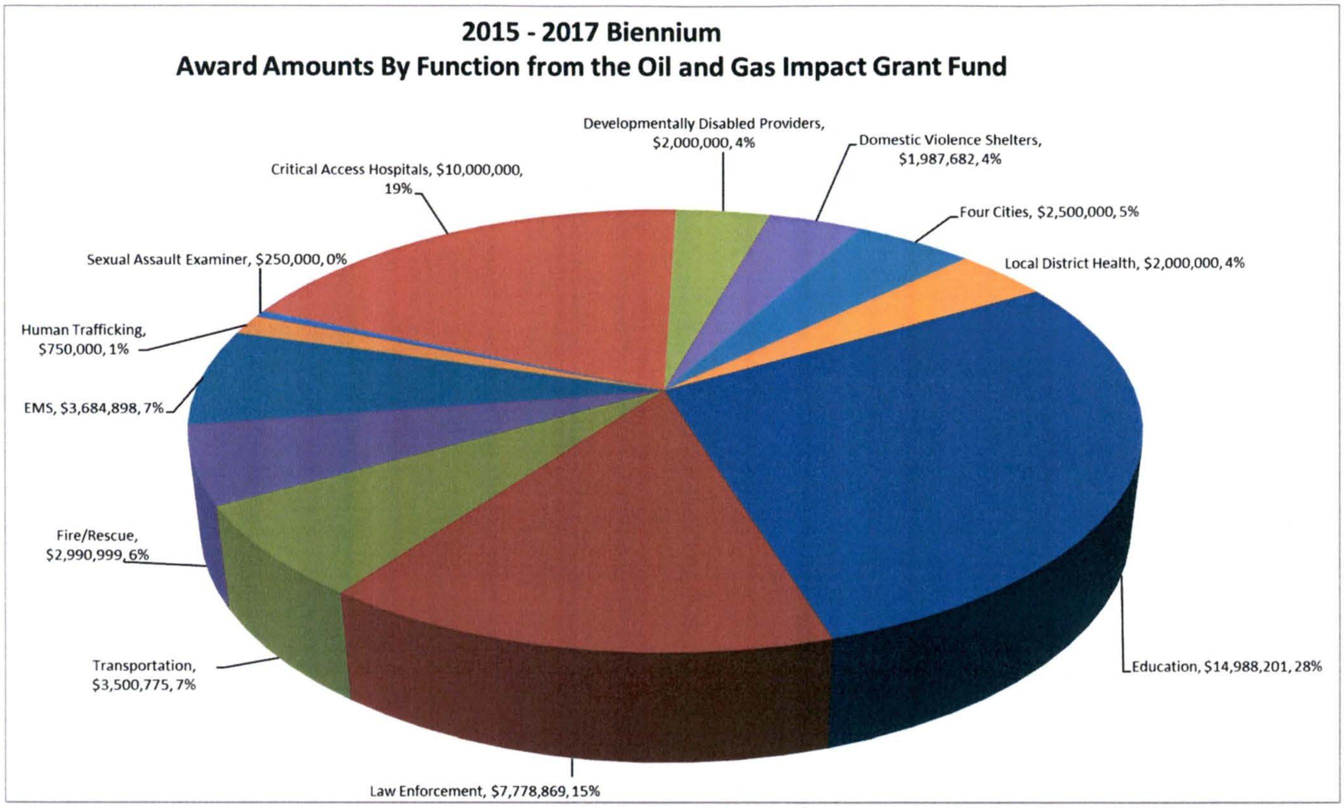
2015-2017 Biennium Breakdown (Combining like FY Rounds)

Round or Award	#Applications	Amt of Projects	Amt Requested	#Awards	Amount Awarded
Airports FY 2016	28	$9,717,451	$3,531,497	28	$3,000,775
EMS FY 2016	43	$9,859,855	$7,467,128	32	$3,684,898
K-12 FY 2016	62	$15,000,193	$15,000,193	62	$14,988,201
Law Enforcement FY 2016	59	$22,102,479	$19,853,329	54	$7,778,869
Fire Districts	67	$22,745,202	$16,837,094	36	$2,990,999
Local District Health Units	3	$2,000,000	$2,000,000	3	$2,000,000
Emergency Request FY 2016	1	$1,300,000	$1,100,000	1	$500,000
Critical Access Hospitals	15	$23,333,247	$12,408,584	15	$10,000,000
Providers to Developmental Disabled	22	$2,000,000	$2,000,000	22	$2,000,000
Domestic Violence	2	$5,823,654	$2,000,000	2	$1,987,682
Sexual Assault Examiner	10	$309,733	$309,733	7	$250,000
City of Stanley	1	$1,500,000	$1,500,000	1	$1,500,000
City of Kenmare	1	$700,000	$700,000	1	$700,000
City of Berthold	1	$200,000	$200,000	1	$200,000
City of Burlington	1	$100,000	$100,000	1	$100,000
	322	**$117,899,324**	**$86,215,068**	**272**	**$52,431,423**
As of: March 3, 2017				Admin	$700,000

2015-2017 Collected To Date	$55,663,894
Projected Revenue (at $3m/mo)	$15,000,000
Expected Allocations	$70,663,894
Unmet Allocations	$69,336,106

$140,000,000

Remaining Allocations	
EMS	**$2,315,102**
Law Enforcement	**$1,221,131**
Bowman/Divide Counties	**$8,000,000**
Williston Airport	**$39,000,000**
Dickinson Airport	**$4,600,000**
Other Airports	**$1,399,225**
K-12 Schools	**$15,011,799**
Nursing Homes/Basic Care	**$4,000,000**
Eligible General	**$5,000,000**
Fire Districts	**$9,001**
Contingency	**$6,300,000**
Total =	**$86,856,258**



The average Energy Impact Office reimbursement payments increased from $9,032 in FY 2011 to $127,453 in FY 2016. There were 417 reimbursements made in FY 2011, totaling $3.76 million; in FY 2016, 904 reimbursements were processed totaling $115.2 million.

Agency Critical Issues

The low price of oil has lessened the pace of exploration and development and has reduced trust and State royalty income, but the overall workload has not diminished. Of the approximately 13,200 wells producing in North Dakota during June 2016, the Department collected royalties on approximately 5,500 properties, or 42%.

With the downturn there have been many changes, including business mergers and acquisitions, and unfortunately several bankruptcies. This has led to more division orders and assignments of leases that necessitate title work and staff review of archival records to resolve mineral acreage discrepancies and disputes. Although studies to determine sovereign lands have been implemented and the Supreme Court has affirmed the State's claim to the ordinary high water mark of navigable waters, these issues continue to be contested. These legal issues, along with documenting title will continue to take considerable Department and Attorney General's staff time. With title questions outstanding, substantial dollars remain held in either escrow or company suspense accounts while the Department works to resolve ownership issues and collect revenue.

The number of wells managed continues to increase, although not at the same pace as previous years. Transactions have increased due in part to enhanced collection efforts. There are continued requests for use of surface lands for pipelines and other easements. The Department commits substantial time evaluating and processing right-of-way and surface use applications and subsequent reclamation. The Department is focused on improving the integrity of the natural resources it manages, while continuing the emphasis on range and crop land leasing, weed management, and land enhancements.

The Energy Infrastructure and Impact Office oversees the grants awarded from the Oil and Gas Impact Fund. Demand for grants outpaced available funding within the oil and gas impact grant fund, and the Energy Impact Office needed to implement suspensions and cash management to address the shortfall. The Legislature appropriated $139.3 million for energy impact grants in the 2015-2017 biennium, but revised forecasts indicate much less will be collected, thus grants that were legislatively identified will not be awarded.

Finally, the Department's information management systems need significant improvements. The business process modeling effort identified several opportunities for process improvements:

1. Automation of reporting data entry and royalty management/audit functions;
2. Automated and streamlined accounting processes to enhance accuracy and dependability;
3. Standardized secure fund transfers and ACH payment mechanisms;
4. Secure web applications for unclaimed property reporting and claim submittals;
5. Enhancing internal and public access to more data for review and analysis, and tabulating of aggregated or specific tract or transaction information;
6. Electronic file management storage and retrieval tools.

It is this comprehensive systems upgrade that is represented as the $5.52 million of capital assets acquisition, amended by the Senate to $5.25 million.

As fiduciary trust managers it is important the Department has resources to effectively and efficiently manage complicated transactions and collections. The workload has not diminished due to the energy industry activity levelling.

CONCLUSION

The Land Board's responsibility to preserve the trusts and maintain income stability for the trust beneficiaries continues to be met. All permanent and other trust funds remain in strong financial condition and are invested in a safe and prudent manner. Land is prudently managed to provide a fair market rent income. Mineral leasing and development activities continue with strong revenues collected to enhance trust balances.

Unclaimed property continues to be safeguarded and ultimately returned to rightful owners via improved technologies and expanded outreach efforts.

The leasing and production of sovereign minerals has and will continue to contribute to substantial revenues for the SIIF to support state-wide infrastructure enhancements.

The future for the trusts and sovereign assets is very bright. I respectfully request your consideration to provide the Department with the means to manage the assets under the control of the Land Board as effectively as possible. We particularly appreciate your consideration of the capital asset IT project which we believe will enhance operations, accuracy, and secure public accessibility.

I look forward to working with the committee to explain this important Board and Department. It is a dynamic time in North Dakota, and the Department of Trust Lands is working in the heart of the activity related to energy growth, agricultural success, educating children, safeguarding and returning unclaimed property, and supporting western infrastructure.

March 8, 2017 SB2013 Attachment A

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DEPARTMENT OF ND TRUST LANDS
INVESTING FOR EDUCATION

Lance D. Gaebe, Commissioner

Date: March 8, 2017

To: House Appropriations Subcommittee Chairman Brandenburg

cc: Subcommittee members

From: Lance Gaebe, Commissioner of University and School Lands

Re: SB 2013 and Department of Trust Lands budget follow-up

At its initial hearing on SB 2013 on March 6, the subcommittee requested:

1. Explanation of funding source for operations and capital asset IT project;
2. Additional detail of the IT project cost estimates;
3. Current value of individual trusts;
4. Recent historical utilization of the Contingency appropriation line item;
5. An assessment of the recent decline in royalty related more to production or price; and
6. Balances of open (committed but unpaid) Energy Impact grants.

1) Funding Mechanics

There are no general funds appropriated for Department of Trust Lands' (Department) functions; all operations are funded from either trust fund revenues, unclaimed property income, or oil and gas impact grant funds.

The Department's salaries, operations and administrative costs are paid out of the State Lands Maintenance Fund, which is authorized under N.D.C.C. § 15-03-01.1. Funds are periodically transferred from the various trusts and programs managed by the Department to the maintenance fund to pay for administrative costs.

Costs that can't be directly charged are allocated to the various trusts/programs managed by the Department based upon each trust or fund's:

- FTEs time allocation;
- Financial assets held;
- Mineral acreage - leased and inactive; and
- Surface acres owned.

Costs that can be attributable to a specific trust or program are charged directly to that trust or program when possible. Examples of direct expenses include tract survey expenses, rent credits, and riverbed litigation expenses.

The Department has continuing appropriation authority under N.D.C.C. §§ 15-04-24 and 15-07-22 for certain expenses related to managing and enhancing the value of assets. N.D.C.C. § 57-02.3-07 authorizes continuing appropriation authority for payments made in lieu of property taxes.

The Energy Infrastructure and Impact Office (Energy Impact) salaries and operations are funded directly from the Oil and Gas Impact Grant Fund. Funds that are received by the Unclaimed Property Division (Unclaimed Property) are maintained in a separate account to pay owner claims; the income from the net proceeds benefits the Common Schools Trust Fund which supports educational funding. N.D.C.C. § 47-30.1-23 contains continuing appropriation authority for payments made to owners of unclaimed property.

2) Information Technology Costs

The costs of a one-time information technology upgrade for accounting and lands management would be allocated to the maintenance fund on a prorated basis among the funds based upon value. In the case of the upgrades for Energy Impact and Unclaimed Property, these programs would pay the costs from within their funds.

Appendix A (attached) shows a portion of the information technology cost evaluation as prepared by Major Oak Consulting in its review of options for the overhaul of the Department's Land Management, accounting, Energy Impact and Unclaimed Property systems. Major Oak's cost estimates did not include contracted project management, ITD server and project management, and procurement costs.

3) Current Financial Value of Trusts and Funds

The Committee requested the current value of the permanent and other trust funds. The following is an unaudited 2016 year-end summary and comparison to 2015 values:

Board of University and School Lands

Schedule of Total Assets (unaudited)

Assets by Trust:	December 31, 2016	December 31, 2015
Common Schools	$3,664,782,024	$3,305,709,738
North Dakota State University	59,823,624	53,987,629
School for the Blind	9,246,710	7,463,658
School for the Deaf	19,116,679	17,736,254
State Hospital	13,234,365	12,269,670
Ellendale	17,192,860	8,337,210
Valley City State University	10,502,130	9,521,353
Mayville State University	6,709,668	6,170,058
Youth Correctional Center	19,150,100	24,497,787
State College of Science	15,078,241	13,975,014
School of Mines	17,307,795	15,929,942
Veterans Home	4,908,603	4,564,463
University of North Dakota	27,579,798	25,359,353
Capitol Building	6,075,758	6,616,929
Strategic Investment and Improvements	365,553,252	367,515,181
Coal Development	69,123,286	68,149,554
Indian Cultural Education Trust	1,181,980	1,112,140
School Construction Assistance Loan Fund	153,217,664	150,817,781
Total	**$4,479,784,537**	**$4,099,733,714**
Assets by Type:		
Cash	$24,455,368	$27,652,641
Receivables	18,364,825	16,564,856
Investments	4,217,669,804	3,816,971,523
Office Building (Net of Depreciation)	588,448	632,377
Farm Loans	8,813,838	11,918,354
Energy Construction Loans	1,255,818	1,319,976
Coal Development Impact Loans	12,988,494	13,636,425
School Construction Loans	43,397,204	49,740,027
School Construction Loans (SCALF)	143,012,155	149,979,240
Due From/Due To Other Trusts and Agencies	9,238,583	11,318,295
Total	**$4,479,784,537**	**$4,099,733,714**

4) Utilization of the Contingency Line Item Appropriation

Senate Bill 2013 contains a recommended line item appropriation authority for contingency expenses. This funding has infrequently been accessed but is requested in the event of an unexpected shortfall, a Board directed expenditure, or an unanticipated major repair on the Department's land or office building.

The Legislature has historically authorized the contingency, but only accessed in 2012 for the purchase of a photo copier and off-road utility vehicle.

CONTINGENCIES LINE ITEM

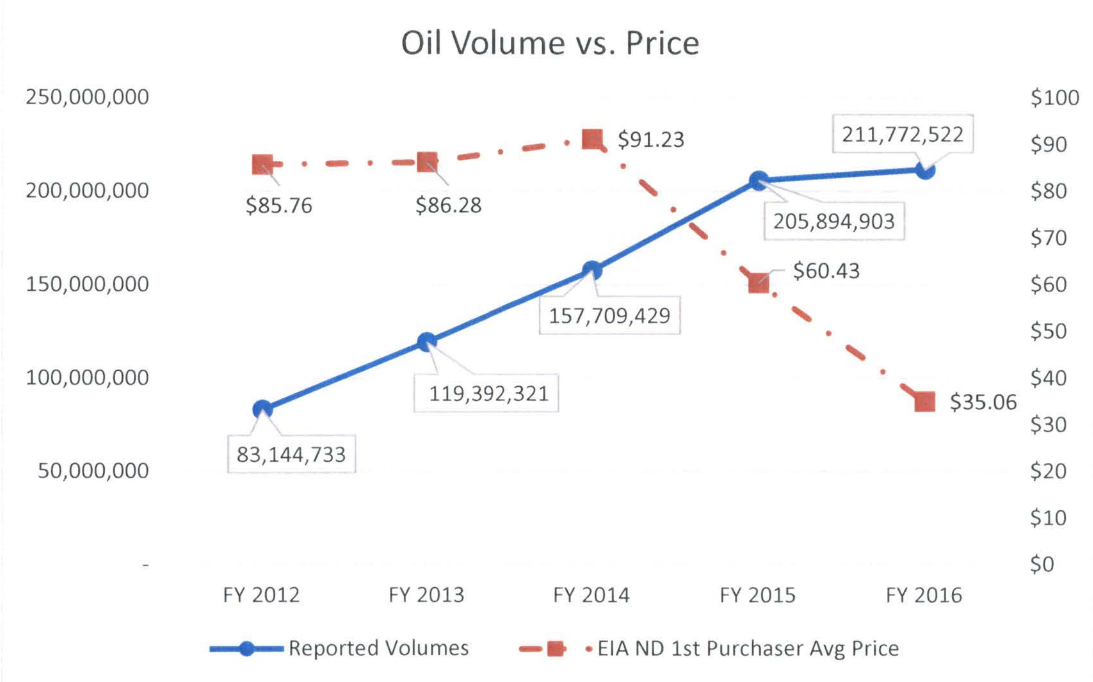
Biennium	*Total*	*Expenditures Used*
2009-11	$ 50,000	$ -
2011-13	$ 100,000	$ 40,000
2013-15	$ 200,000	$ -
2015-17	$ 100,000	$ -
2017-19	$ 100,000	$ -

** Transferred to Capital Asset expenditure line for the following purchases:

Posted	Amount	Line Descr	Descr
41472	8,460.10	MARCO INC	KONICA COPIER
41360	21,141.00	JOES SPORT CENTER INC	Utility Vehicle (UTV)
41395	4,409.00	OPEN ROAD HONDA	UTV TRACK SYSTEM
41455	5,085.00	ACME TOOLS #120	UTV TRAILER
	$ 39,095.10		

5) Royalty Decline Due to Price and Production

The Committee requested an assessment of the recent drop in royalty collections by the trusts and the SIIF. The production volume has consistently increased, but the effect of the price received has markedly dropped the collected royalty.



6) Balance of Awarded Energy Impact Grants

In the prior biennia $135 million and $240 million were appropriated. In the current biennium $140 million was appropriated but because of the revenue short-fall only $54.4 million has been awarded. The following is a summary of the balance of grants that have been awarded, but have a balance remaining to be distributed. Subsequent pages provide details on each grant with a balance.

	Appropriation	Remaining
2011 - 2013	$ 135,000,000	$ 223,907
2013 - 2015	$ 240,000,000	$ 23,003,123
2015 - 2017	$ 52,431,423 (awarded)	$ 12,424,157

Grant	Political Sub	Awarded	Amount Paid	Amount Remaining	Biennium Balance
G130029	CITY OF ARNEGARD	$100,000.00	$99,946.71	$53.29	
G130061	CITY OF MARMARTH	$2,845.00	$0.00	$2,845.00	
G130081	CITY OF STANLEY	$100,000.00	$93,391.16	$6,608.84	
G130254	CLINTON TOWNSHIP	$14,400.00	$0.00	$14,400.00	Biennium
G130267	GOOSENECK TOWNSHIP	$100,000.00	$0.00	$100,000.00	2011-2013
G130269	MISSOURI RIDGE TOWNSHIP	$100,000.00	$0.00	$100,000.00	$223,907.13
G140002	CITY OF SOUTH HEART	$2,112,344.00	$2,022,803.12	$89,540.88	
G140063	EIGHT MILE PSD #6	$37,159.00	$35,629.13	$1,529.87	
G140065	MINOT INTERNATIONAL AIRPORT	$805,000.00	$801,165.03	$3,834.97	
G140075	SLOULIN INTERNATIONAL AIRPORT	$50,000.00	$19,865.34	$30,134.66	
G140167	KILLDEER AREA AMBULANCE DISTRICT	$398,600.00	$379,218.85	$19,381.15	
G140196	BURKE CENTRAL PSD #36	$49,600.00	$44,066.00	$5,534.00	
G140213	RICHARDTON-TAYLOR PSD	$25,000.00	$17,196.93	$7,803.07	
G140224	DICKINSON STATE UNIVERSITY	$800,000.00	$0.00	$800,000.00	
G140228	DIVIDE COUNTY	$107,415.00	$106,568.68	$846.32	
G140243	TRENTON TOWNSHIP	$133,600.00	$94,533.87	$39,066.13	
G140271	RAINBOW TOWNSHIP	$200,000.00	$199,986.06	$13.94	
G140274	CRANE CREEK TOWNSHIP	$200,000.00	$0.00	$200,000.00	
G140282	PHERRIN TOWNSHIP	$200,000.00	$0.00	$200,000.00	
G140285	DUNN COUNTY	$200,000.00	$0.00	$200,000.00	
G140297	SLOULIN INTERNATIONAL AIRPORT	$554,641.00	$335,309.82	$219,331.18	
G140300	SLOULIN INTERNATIONAL AIRPORT	$13,925.00	$0.00	$13,925.00	
G140308	WATFORD CITY MUNICIPAL AIRPORT	$400,000.00	$250,395.91	$149,604.09	
G150009	CITY OF ALEXANDER	$1,000,000.00	$19,600.00	$980,400.00	
G150012	CITY OF ROSS	$1,000,000.00	$16,825.15	$983,174.85	
G150020	CITY OF CROSBY	$2,000,000.00	$1,383,035.51	$616,964.49	
G150027	CITY OF RAY	$3,818,952.00	$3,000,142.07	$818,809.93	
G150039	LONE TREE PSD #6	$140,000.00	$133,034.56	$6,965.44	
G150041	BURKE CENTRAL PSD #36	$21,584.00	$21,165.00	$419.00	
G150061	BOWBELLS PSD #14	$220,000.00	$139,000.00	$81,000.00	
G150073	CITY OF TIOGA	$289,356.00	$277,416.00	$11,940.00	
G150078	SIOUX YELLOWSTONE FIRE DISTRICT	$27,500.00	$26,031.33	$1,468.67	
G150081	ALEXANDER RURAL FIRE DISTRICT	$232,000.00	$215,897.00	$16,103.00	
G150089	BILLINGS CO. RURAL FIRE DIST.	$13,000.00	$0.00	$13,000.00	
G150095	STANLEY RURAL AMBULANCE SERVICE	$300,000.00	$0.00	$300,000.00	
G150109	BOWBELLS PSD #14	$15,100.00	$14,724.00	$376.00	
G150123	DIVIDE COUNTY PSD #1	$24,000.00	$18,141.20	$5,858.80	
G150126	MINOT INTERNATIONAL AIRPORT	$21,065.00	$0.00	$21,065.00	
G150129	MINOT INTERNATIONAL AIRPORT	$22,744.00	$0.00	$22,744.00	
G150139	MOHALL AIRPORT AUTHORITY	$9,000.00	$0.00	$9,000.00	
G150143	TIOGA AIRPORT AUTHORITY	$15,190.00	$4,559.75	$10,630.25	
G150147	BENTINCK TOWNSHIP	$40,000.00	$27,247.00	$12,753.00	
G150153	GROVER TOWNSHIP	$22,000.00	$0.00	$22,000.00	
G150154	HAMLET TOWNSHIP	$40,000.00	$0.00	$40,000.00	
G150159	CHATFIELD TOWNSHIP	$25,000.00	$24,884.10	$115.90	

G150166	SCOTIA TOWNSHIP	$36,000.00	$33,098.50	$2,901.50	
G150167	RAY PARK DISTRICT	$300,000.00	$0.00	$300,000.00	
G150168	HAMERLY TOWNSHIP	$20,000.00	$16,292.50	$3,707.50	
G150169	MOUNT ROSE TOWNSHIP	$20,000.00	$0.00	$20,000.00	
G150171	JAMES HILL TOWNSHIP	$102,600.00	$36,667.93	$65,932.07	
G150177	FERTILE VALLEY TOWNSHIP	$14,525.00	$0.00	$14,525.00	
G150185	OSBORN TOWNSHIP	$300,000.00	$0.00	$300,000.00	
G150189	HASTINGS TOWNSHIP	$52,192.00	$37,844.09	$14,347.91	
G150202	MINNEHAHA TOWNSHIP	$100,000.00	$0.00	$100,000.00	
G150204	BIG STONE TOWNSHIP	$57,600.00	$47,858.11	$9,741.89	
G150205	ARNEGARD TOWNSHIP	$200,000.00	$136,255.90	$63,744.10	
G150212	DUNN COUNTY	$182,224.00	$125,389.12	$56,834.88	
G150215	BATTLEVIEW TOWNSHIP	$24,000.00	$0.00	$24,000.00	
G150216	BATTLEVIEW TOWNSHIP	$12,000.00	$11,802.62	$197.38	
G150217	BATTLEVIEW TOWNSHIP	$72,000.00	$0.00	$72,000.00	
G150219	SADDLE BUTTE TOWNSHIP	$237,000.00	$124,458.70	$112,541.30	
G150221	BOTTINEAU COUNTY	$36,000.00	$25,283.10	$10,716.90	
G150225	TRENTON TOWNSHIP	$64,000.00	$0.00	$64,000.00	
G150227	STONY CREEK TOWNSHIP	$250,000.00	$223,085.30	$26,914.70	
G150228	ELKHORN TOWNSHIP	$35,000.00	$5,400.00	$29,600.00	
G150230	PHERRIN TOWNSHIP	$300,000.00	$0.00	$300,000.00	
G150234	BLAINE TOWNSHIP	$8,000.00	$0.00	$8,000.00	
G150237	THORSON TOWNSHIP	$300,000.00	$206,745.37	$93,254.63	
G150240	BURKE TOWNSHIP	$141,140.00	$0.00	$141,140.00	
G150241	BEACH CIVIL TOWNSHIP	$300,000.00	$68,831.23	$231,168.77	
G150245	MONT TOWNSHIP	$20,000.00	$0.00	$20,000.00	
G150250	HENRY TOWNSHIP	$40,000.00	$23,307.50	$16,692.50	
G150251	BRANDON TOWNSHIP	$15,000.00	$7,118.00	$7,882.00	
G150258	PALMER TOWNSHIP	$75,000.00	$50,320.00	$24,680.00	
G150265	DUNN COUNTY	$117,776.00	$0.00	$117,776.00	
G150268	LINCOLN VALLEY TOWNSHIP	$200,000.00	$110,979.68	$89,020.32	
G150273	SENTINEL CIVIL TOWNSHIP	$30,000.00	$0.00	$30,000.00	
G150283	SLOULIN INTERNATIONAL AIRPORT	$56,700.00	$35,007.30	$21,692.70	
G150284	SLOULIN INTERNATIONAL AIRPORT	$17,583,091.00	$3,602,978.99	$13,980,112.01	
G150290	DEBING TOWNSHIP	$205,378.00	$0.00	$205,378.00	
G150291	DUNN COUNTY	$205,378.00	$0.00	$205,378.00	Biennium
G150293	TROY TOWNSHIP	$205,378.00	$146,846.71	$58,531.29	2013-2015
G150295	WILLISTON TOWNSHIP	$205,378.00	$0.00	$205,378.00	$23,003,122.94
G160001	MINOT INTERNATIONAL AIRPORT	$46,800.00	$31,045.66	$15,754.34	
G160004	DICKINSON MUNICIPAL AIRPORT	$69,712.00	$62,741.01	$6,970.99	
G160005	DICKINSON MUNICIPAL AIRPORT	$265,774.00	$244,590.40	$21,183.60	
G160010	WESTHOPE MUNICIPAL AIRPORT	$87,696.00	$35,858.55	$51,837.45	
G160014	CITY OF WILLISTON	$369,324.00	$306,867.17	$62,456.83	
G160016	STANLEY RURAL AMBULANCE SERVICE	$200,000.00	$0.00	$200,000.00	
G160020	RAY AMBULANCE DISTRICT	$50,000.00	$49,262.88	$737.12	
G160022	WESTHOPE AMBULANCE SERVICE	$92,750.00	$24,050.00	$68,700.00	
G160026	RENVILLE COUNTY RURAL AMBULANCE	$60,000.00	$54,500.00	$5,500.00	

G160040	CITY OF TIOGA	$72,000.00	$42,700.69	$29,299.31
G160047	BELFIELD PSD #013	$59,165.00	$49,923.16	$9,241.84
G160051	BOWBELLS PSD #14	$39,498.00	$17,150.00	$22,348.00
G160052	BOWMAN PSD	$276,734.00	$0.00	$276,734.00
G160053	BURKE CENTRAL PSD #36	$75,531.00	$75,402.43	$128.57
G160055	CENTRAL ELEMENTARY SCHOOL DISTRICT	$88,583.00	$0.00	$88,583.00
G160060	EIGHT MILE PSD #6	$209,514.00	$0.00	$209,514.00
G160062	GLENBURN PSD #26	$192,611.00	$189,273.55	$3,337.45
G160064	HALLIDAY SCHOOL DISTRICT	$90,135.00	$19,377.78	$70,757.22
G160067	HORSE CREEK PSD #32	$15,394.00	$9,418.27	$5,975.73
G160069	KILLDEER PSD	$830,999.00	$547,651.94	$283,347.06
G160071	LONE TREE PSD #6	$56,251.00	$26,927.55	$29,323.45
G160073	MARMARTH SCHOOL DISTRICT	$62,866.00	$0.00	$62,866.00
G160077	MOHALL LANSFORD SHERWOOD PSD	$403,754.00	$335,228.80	$68,525.20
G160084	PARSHALL SCHOOL DISTRICT #3	$268,932.00	$10,076.46	$258,855.54
G160087	RICHARDTON-TAYLOR PSD	$80,226.00	$0.00	$80,226.00
G160088	SAWYER PSD #16	$1,163.00	$0.00	$1,163.00
G160097	TWIN BUTTES PUBLIC SCHOOL DISTRICT	$87,937.00	$21,225.00	$66,712.00
G160101	WASHBURN PUBLIC SCHOOL DISTRICT #4	$73,662.00	$39,022.22	$34,639.78
G160103	WHITE SHIELD PSD #85	$31,731.00	$0.00	$31,731.00
G160106	CITY OF WILLISTON	$596,935.00	$327,499.06	$269,435.94
G160109	DUNN COUNTY	$325,566.00	$202,859.68	$122,706.32
G160110	GOLDEN VALLEY COUNTY	$73,350.00	$28,471.89	$44,878.11
G160111	BURKE COUNTY	$71,428.00	$36,805.50	$34,622.50
G160112	STARK COUNTY	$118,823.00	$110,015.03	$8,807.97
G160113	MCKENZIE COUNTY	$904,500.00	$607,247.12	$297,252.88
G160114	HETTINGER COUNTY	$15,885.00	$8,588.70	$7,296.30
G160115	BILLINGS COUNTY	$143,367.00	$87,398.27	$55,968.73
G160116	WARD COUNTY	$149,541.00	$87,162.96	$62,378.04
G160121	STARK COUNTY	$342,244.00	$215,621.64	$126,622.36
G160122	WILLIAMS COUNTY	$646,460.00	$90,582.69	$555,877.31
G160123	SHERIDAN COUNTY	$1,400.00	$1,053.98	$346.02
G160124	ADAMS COUNTY	$154,044.00	$87,685.59	$66,358.41
G160125	WILLIAMS COUNTY	$267,147.00	$164,775.43	$102,371.57
G160129	WARD COUNTY	$210,514.00	$120,249.20	$90,264.80
G160130	MOUNTRAIL COUNTY	$124,092.00	$68,675.42	$55,416.58
G160131	WILLIAMS COUNTY	$149,542.00	$50,835.55	$98,706.45
G160132	MCKENZIE COUNTY	$273,564.00	$209,643.29	$63,920.71
G160133	MOUNTRAIL COUNTY	$61,972.00	$45,533.29	$16,438.71
G160134	BOTTINEAU COUNTY	$11,250.00	$4,249.77	$7,000.23
G160135	CITY OF WILLISTON	$77,162.00	$45,164.82	$31,997.18
G160136	WARD COUNTY	$77,162.00	$15,907.59	$61,254.41
G160138	CITY OF BEULAH	$8,273.00	$2,200.96	$6,072.04
G160140	CITY OF MINOT	$31,500.00	$23,314.13	$8,185.87
G160141	CITY OF BISMARCK	$71,250.00	$41,979.20	$29,270.80

G160143	CITY OF POWERS LAKE	$75,873.00	$57,631.07	$18,241.93
G160144	CITY OF WATFORD CITY	$443,057.00	$237,067.74	$205,989.26
G160145	CITY OF MINOT	$128,128.00	$74,190.16	$53,937.84
G160146	CITY OF ARNEGARD	$142,100.00	$69,100.23	$72,999.77
G160147	CITY OF SURREY	$68,753.00	$47,300.21	$21,452.79
G160148	CITY OF KILLDEER	$218,996.00	$132,415.90	$86,580.10
G160149	CITY OF BELFIELD	$209,245.00	$104,941.42	$104,303.58
G160150	CITY OF BERTHOLD	$20,587.00	$19,978.38	$608.62
G160151	CITY OF DICKINSON	$86,194.00	$84,534.85	$1,659.15
G160152	CITY OF TIOGA	$257,592.00	$238,691.69	$18,900.31
G160153	CITY OF BURLINGTON	$53,178.00	$11,631.57	$41,546.43
G160154	CITY OF KENMARE	$112,055.00	$67,531.94	$44,523.06
G160157	WILLIAMS COUNTY	$200,000.00	$17,600.00	$182,400.00
G160158	CITY OF MINOT	$200,000.00	$5,570.28	$194,429.72
G160159	CITY OF DICKINSON	$200,000.00	$68,407.77	$131,592.23
G160168	PARSHALL RURAL FIRE DISTRICT	$130,917.00	$0.00	$130,917.00
G160170	EPPING RURAL FIRE DISTRICT	$37,260.00	$34,446.96	$2,813.04
G160172	BILLINGS CO. RURAL FIRE PROTECTION	$26,740.00	$16,230.00	$10,510.00
G160174	CITY OF WILLISTON	$198,000.00	$0.00	$198,000.00
G160191	RHAME RURAL FIRE DISTRICT	$9,000.00	$0.00	$9,000.00
G160192	RHAME RURAL FIRE DISTRICT	$5,400.00	$4,819.03	$580.97
G160193	GOLVA RURAL FIRE DISTRICT	$58,500.00	$0.00	$58,500.00
G160196	MISSOURI RIDGE TOWNSHIP	$500,000.00	$0.00	$500,000.00
G160198	DICKINSON MUNICIPAL AIRPORT	$62,600.00	$34,400.00	$28,200.00
G160199	DICKINSON MUNICIPAL AIRPORT	$70,000.00	$40,190.34	$29,809.66
G160201	DICKINSON MUNICIPAL AIRPORT	$236,750.00	$213,250.00	$23,500.00
G160203	DICKINSON MUNICIPAL AIRPORT	$98,750.00	$59,250.00	$39,500.00
G160204	MINOT INTERNATIONAL AIRPORT	$12,675.00	$9,250.00	$3,425.00
G160205	MINOT INTERNATIONAL AIRPORT	$234,875.00	$228,421.34	$6,453.66
G160206	GARRISON MUNICIPAL AIRPORT	$8,407.00	$7,282.54	$1,124.46
G160214	UPPER MISSOURI DISTRICT HEALTH UNIT	$542,700.00	$177,888.39	$364,811.61
G160215	FIRST DISTRICT HEALTH UNIT	$489,500.00	$401,370.06	$88,129.94
G160216	SOUTHWESTERN DISTRICT HEALTH UNIT	$967,800.00	$814,090.15	$153,709.85
G160235	CITY OF BISMARCK	$171,060.00	$89,318.28	$81,741.72
G160236	MERCER COUNTY	$10,131.00	$8,839.75	$1,291.25
G160237	CITY OF BISMARCK	$27,419.00	$14,802.00	$12,617.00
G160238	CITY OF JAMESTOWN	$12,785.00	$5,858.09	$6,926.91
G160239	PEMBINA COUNTY	$6,886.00	$6,442.08	$443.92
G160240	CITY OF WILLISTON	$14,486.00	$5,899.48	$8,586.52
G160241	GRAND FORKS COUNTY	$5,000.00	$4,975.72	$24.28
G160242	CITY OF BISMARCK	$314,786.00	$27,190.41	$287,595.59
G160243	MOUNTRAIL COUNTY	$79,398.00	$0.00	$79,398.00
G160244	CITY OF WATFORD CITY	$109,900.00	$0.00	$109,900.00
G160245	WARD COUNTY	$71,892.00	$0.00	$71,892.00
G160246	CITY OF WILLISTON	$79,448.00	$18,247.53	$61,200.47
G160247	CITY OF BISMARCK	$94,576.00	$0.00	$94,576.00

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G170020	CITY OF BISMARCK	$745.00	$0.00	$745.00	
G170021	CITY OF BISMARCK	$744.00	$0.00	$744.00	
G170022	CITY OF JAMESTOWN	$744.00	$0.00	$744.00	
G170023	DOMESTIC VIOLENCE & RAPE CRISIS CENTER	$1,000,000.00	$0.00	$1,000,000.00	
G170024	FAMILY CRISIS SHELTER	$987,682.00	$0.00	$987,682.00	
G170025	CITY OF STANLEY	$1,700,000.00	$0.00	$1,700,000.00	
G170026	CITY OF KENMARE	$500,000.00	$0.00	$500,000.00	Biennium
G170027	CITY OF BERTHOLD	$200,000.00	$0.00	$200,000.00	2015-2017
G170028	CITY OF BURLINGTON	$100,000.00	$0.00	$100,000.00	$12,424,157.36

APPENDIX A

North Dakota Department of Trust Lands

Cost Projections for Software and Implementation for the Integrated Trust Lands Information Management System (ITLIMS)

Prepared by Major Oak Consulting, October 2016

Note: These cost projections have been compiled based on research by Major Oak--including costs for similar IT projects in other states and budgeting estimates provided by selected vendors. The figures in this spreadsheet use cost estimation data from software vendors which is compiled in Spreadsheet: B-Cost Figures from Vendors. Vendors were provided background information about ITLIMS and DTL needs and provided estimates for budget planning (not as formal bids). In the tables below "Low" and "High" values are AVERAGES of the estimates from all vendors providing data for the cost category (i.e. NOT the lowest or highest single vendor estimate. It is the opinion that these cost projections are conservative (high side of expected ranges). In a competitive procurement, costs for software and implementation services will come in well within these ranges. Cost estimates do NOT include DTL staff costs, contracted implementation project management support (if desired), or ITD server and related support costs.

COST PROJECTIONS FOR IT SYSTEM DEVELOPMENT AND ONGOING ANNUAL COSTS--FOR ALL 4 MAJOR SYSTEM AREAS (dollar amounts are in thousands)

	LM: Land Management (7)			FM: Financial Accounting/Mgmt (8)			UP: Unclaimed Property (9)			Grant Administration (10)		
Cost Category	Low	High	Average	Low	High	Average	Low	High	Average	Low	High	Average
Initial software license (1)	$325	$425	$375	$60	$78	$69	$0	$0	$0	$0	$0	$0
Annual cloud-based Subscription (2)	$225	$225	$225	$81	$122	$102	$110	$110	$110	$25	$50	$38
Software configuration and implementation services (3)	$928	$1,560	$1,244	$81	$143	$112	$0	$0	$0	$21	$28	$25
Software maintenance and support (4)	$65	$80	$73	$21	$31	$26	$0	$0	$0	$15	$26	$21
Migration of existing data (5)	$57	$137	$97	$10	$20	$15	$5	$10	$8	$0	$5	$3
Other Implementation costs (6)	$150	$300	$225	$25	$50	$38	$10	$30	$20	$20	$40	$30
Vendors providing cost estimate information:	Spatial Dimensions, Quorum Business Solutions, GCR-PCC			Abila, NetSuite, Blackbaud, Microsoft Dynamics			Kelmar			FluidReview, StreamLink, Fluxx, Smart Simple, MicroEdge		

TOTALS FOR DIFFERENT SYSTEM HOSTING SCENARIOS--OPTIONS FOR ON-PREMISE HOSTING vs CLOUD-BASED SERVICE

NOTE: Because different vendors provide different software products and services, for on-premise hosting by clients and/or Cloud-based service subscription, there are different potential options for a hosting approach among the 4 components of ITLIMS. Scenarios A, B, and C explained below are the 3 realistic hosting options.

	LM: Land Management (7)			FM: Financial Accounting/Mgmt (8)			UP: Unclaimed Property (9)			Grant Administration (10)		
	Low	High	Average	Low	High	Average	Low	High	Average	Low	High	Average
Cost Projection Totals:												
Scenario A: Host on-Premise LM, FM (UP and GA are cloud-based services)												
-Initial implementation:	$1,460	$2,422	$1,941	$176	$290	$233	$125	$150	$138	$45	$95	$70
-Annual Costs after development:	$65	$80	$73	$21	$31	$26	$110	$110	$110	$25	$50	$38
Scenario B: Host on-Premise LM only (other 3 systems are cloud-based)												
-Initial implementation:	$1,460	$2,422	$1,941	$197	$335	$266	$125	$150	$138	$66	$123	$95
-Annual Costs after development:	$65	$80	$73	$81	$122	$102	$110	$110	$110	$25	$50	$38
Scenario C: All Cloud-based												
-Initial implementation:	$1,360	$2,222	$1,791	$197	$335	$266	$125	$150	$138	$66	$103	$85
-Annual Costs after development:	$225	$225	$225	$81	$122	$102	$110	$110	$110	$25	$50	$38

AVERAGE COSTS--Average of all Three Hosting Scenarios (in thousands of dollars):

	LM: Land Management (7)			FM: Financial Accounting/Mgmt (8)			UP: Unclaimed Property (9)			Grant Administration (10)		
	Low	High	Average	Low	High	Average	Low	High	Average	Low	High	Average
Cost Projection Totals:												
Implementation Timing (months) (11)	30 months			12 months			12 months			6 months		
Implementation Cost (12):	$1,426	$2,355	$1,891	$190	$320	$255	$125	$150	$138	$59	$107	$83
Annual Cost After Implementation:	$118	$128	$123	$61	$92	$76	$110	$110	$110	$25	$50	$38
Total Annual Costs After Implementation	$296	$321	$308	$244	$366	$305	$440	$440	$440	$114	$225	$170
5-year Costs (Implementation Cost + Total Annual Cost):	**$1,722**	**$2,676**	**$2,199**	**$435**	**$686**	**$560**	**$565**	**$590**	**$578**	**$174**	**$332**	**$253**

Total Costs (LM + FN + UP + GA)	Low	High	Average
Implementation Cost (12):	$1,801	$2,932	$2,366
Annual Cost After Implementation:	$315	$380	$347
Total Annual Costs After Implementation	$1,094	$1,352	$1,223
5-year Costs (Implementation Cost + Total Annual Cost):	**$2,895**	**$4,284**	**$3,590**

FOOTNOTES:

(1) Up-front purchase of SW license for vendors with the traditional licensing model--big license payment at procurement and on-going annual support costs

(2) Annual subscription costs for those vendors which offer a Cloud-based service

(3) Includes all start-up costs and development work for full deployment: SW installation and configuration, setting up user accounts, customizing user interface, creating forms for data entry and display, database schema creation, customizing workflows, report design, testing, training, etc.

(4) Annual SW maintenance and support for those vendors offering a traditional upfront license purchase.

(5) Migration of existing DTL data into a well-defined schema of the new system. Includes designing automated tools for the migration and carrying out the data migration followed by testing and quality assurance checks. Mainly a concern for the land (surface and mineral) data.

(6) Other possible start-up or management costs including: a) services for pre-migration database documentation/organization, b) GIS and SQL Server database quality and content improvements, c) use of consultant services to support procurement (RFP prep, proposal review, work with DTL selection team), and, d) other contractor or vendor costs during planning, procurement, and start-up not specifically identified at this time.

(7) GIS-based system for map-based query and display; workflow automation; status tracking, field-based inspections, fee generation, document management and reporting, public portal. Replaces current systems for surface and mineral land management.

(8) Cash management, general ledger, budgeting, AP, revenue management, fund accounting, payment processing, financial reconciliation, reporting,

(9) Unclaimed property management including receipt and logging of property from holders, tracking, claims submittal and processing, owner searches and authentication, reporting

(10) Energy Impact Grant administration with Web-based portal for grant advertisement and application, review and scoring of applications, grant award, project tracking, acceptance and payment of reimbursement requests

(11) Estimated time from initiation of implementation work to a completion point in which all system capabilities are implemented and operationally deployed

(12) Implementation work includes software installation and set-up, configuration of user interfaces, workflow automation design and configuration, design of forms and reports, custom application development, migration of existing data, integration of external systems, and user training. Includes costs associated with footnotes #3 and #5.

March 17, 2017 SB2013 Attachment A

2015-2017 Biennium Breakdown (Combining like FY Rounds)

Round or Award	#Applications	Amt of Projects	Amt Requested	#Awards	Amount Awarded
Airports FY 2016	28	$9,717,451	$3,531,497	28	$3,000,775
EMS FY 2016	43	$9,859,855	$7,467,128	32	$3,684,898
K-12 FY 2016	62	$15,000,193	$15,000,193	62	$14,988,201
Law Enforcement FY 2016	59	$22,102,479	$19,853,329	54	$7,778,869
Fire Districts	67	$22,745,202	$16,837,094	36	$2,990,999
Local District Health Units	3	$2,000,000	$2,000,000	3	$2,000,000
Emergency Request FY 2016	1	$1,300,000	$1,100,000	1	$500,000
Human Trafficking	6	$1,207,510	$1,207,510	6	$750,000
Critical Access Hospitals	15	$23,333,247	$12,408,584	15	$10,000,000
Providers to Developmental Disabled	22	$2,000,000	$2,000,000	22	$2,000,000
Domestic Violence Shelters	2	$5,823,654	$2,000,000	2	$1,987,682
Sexual Assault Examiner	10	$309,733	$309,733	7	$250,000
City of Stanley	1	$9,000,000	$1,500,000	1	$1,500,000
City of Kenmare	1	$1,300,000	$700,000	1	$700,000
City of Berthold	1	$400,000	$200,000	1	$200,000
City of Burlington	1	$500,000	$100,000	1	$100,000
EMS FY 2017					
Law Enforcement FY 2017					
	322	**$126,599,324**	**$86,215,068**	**272**	**$52,431,423**
			2015-2017 Grant Adjustments		-$684,869
				Net Awards	**$51,746,554**
As of: March 16, 2017				Admin	$700,000

2015-2017 Collected To Date	$60,141,026
Projected Revenue (at $3m/mo)	$12,000,000
Administrative Costs (Thru Dec31)	-487,919
Expected Allocations	$71,653,107
Available To Award Today:	$7,906,553
Unmet Allocations	$68,346,893

Remaining Allocations	
EMS	**$2,315,102**
Law Enforcement	**$1,221,131**
Bowman/Divide Counties	**$8,000,000**
Williston Airport	**$39,000,000**
Dickinson Airport	**$4,600,000**
Other Airports	**$1,399,225**
K-12 Schools	**$15,011,799**
Nursing Homes/Basic Care	**$4,000,000**
Eligible General	**$5,000,000**
Fire Districts	**$9,001**
Contingency	**$6,300,000**
Total =	**$86,856,258**

April 5, 2017 SB2013 Attachment A

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DEPARTMENT OF ND TRUST LANDS
INVESTING FOR EDUCATION

Lance D. Gaebe, Commissioner

Date: March 31, 2017

To: House Appropriations Subcommittee Chairman Brandenburg

cc: Subcommittee members

From: Lance Gaebe, Commissioner of University and School Lands

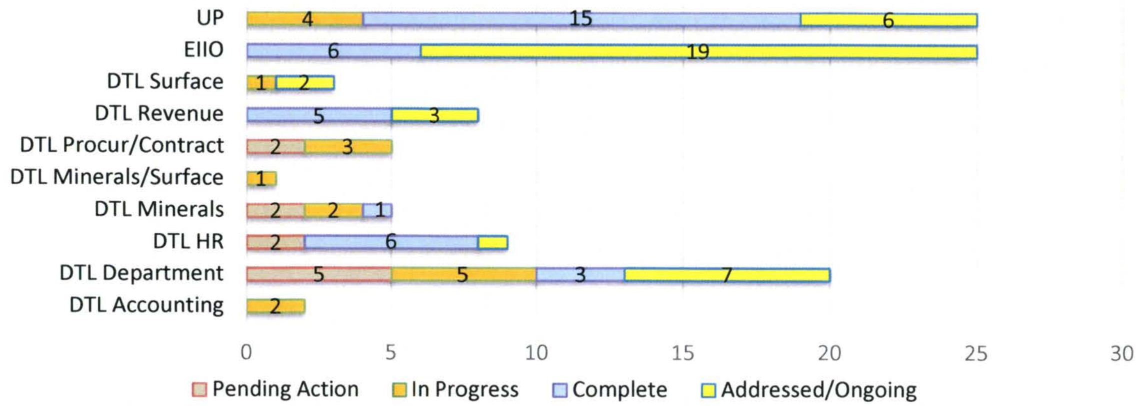
Re: SB 2013 and Department of Trust Lands budget follow-up

During its March 20, 2017 follow-up hearing on Senate Bill 2013, the Sub-committee requested an update relating to the performance audit report conducted on the Department of Trust Lands. The State Auditor's review included the 2011-2015 responsibilities and activities of the Energy Infrastructure and Impact Office, the Unclaimed Property Division, and Trust Assets and Department Resources.

Following the release of the audit, the Department built an improvement tracking tool to record and gauge progress on each of the recommendations. This database details the recommendation, the Department response, a time stamped improvement tracking log, policy summaries or plans, and the location of any related documents.

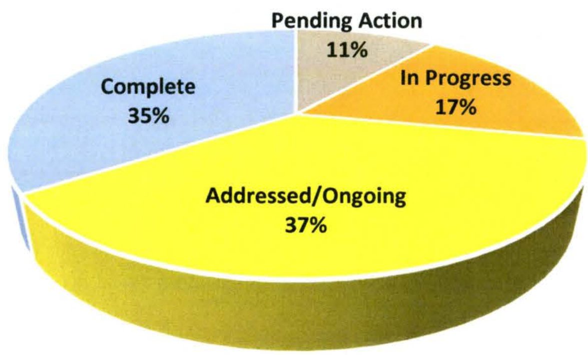
The attached information was provided to the Board of University and School Lands at its March 30, 2017 meeting, and depicts progress on the various accumulated recommendations. Assessments and process modifications are completed or underway in all areas.

Status of DTL Performance Audit Recommended Improvements by Operational Area



Pending Action:	Efforts to address the recommendation have not yet started.
In Progress:	Efforts are underway to address or implement the recommendation but have not yet been completed.
Complete:	Efforts to accomplish the recommendation have been finalized.
Addressed/Ongoing	Efforts have been initiated to address the recommendation, and monitoring is ongoing without an expected end or conclusion.

Status of DTL Performance Audit Recommended Improvements Compiled



RECOMMENDATION SUMMARY BY FUNCTIONAL AREA

Dept. of Trust Lands ACCOUNTING	
DTL 2-04.a	Direct Cost Allocation
DTL 2-04.b	Non-direct Cost Allocation
DEPARTMENT	
DTL 1-11.a	Highest and Best Use
DTL 1-11.b	Highest and Best Use
DTL 2-01.a	Fiduciary Responsibility
DTL 2-01.b	Expenditure of Public Funds
DTL 2-01.c	Culture of Accountability
DTL 2-05	OMB Fraud Risk Assessment
DTL 2-06.a	Losing Impartiality
DTL 2-06.b	Adverse Effect on integrity
DTL 4-01.a	IT Systems
DTL 4-01.b	IT User Manuals
DTL 4-01.c	Effective Use of IT
DTL 4-02.a	Formal Policies and Procedures
DTL 4-02.b	Standardized Policies and Procedures
DTL 4-02.c	Periodic Review of Policies and Procedures
DTL 4-03.a	Centralized Policies and Procedures
DTL 4-03.b	Periodic Policy Acknowledgement
DTL 4-04	Internal Controls
DTL 4-05.a	Records Retention
DTL 4-05.b	Records Retention
ENERGY IMPACT	
EIIO 1-01.a	Emergency/Contingency Funds Procedures
EIIO 1-01.b	Communicate Emergency/Contingency Procedures
EIIO 1-02.a	Identify complete application in screening
EIIO 1-02.b	Score only complete applications
EIIO 1-02.c	Scoring-Priority points & compound criteria
EIIO 1-02.d	Define scoring point scale
EIIO 1-02.e	Document screening process
EIIO 1-03	Recommendations meet eligibility requirements
EIIO 1-04	Eligible applications given consideration
EIIO 1-05	Projects recommended are achievable
EIIO 1-06	Ensure priority in law followed
EIIO 1-07	Include contingencies in recommendations on estimates vs bids
EIIO 1-08	Ensure awards do not exceed state law maximum
EIIO 1-09.a	Land Board provide authority on minor scope changes
EIIO 1-09.b	Required scope changes approved by Land Board
EIIO 1-10.a	Limit grant payments to projects/items
EIIO 1-10.b	Local match & special conditions met
EIIO 1-10.c	Reimbursement adequately supported
EIIO 1-10.d	Expenditures claimed not reimbursed twice

EIIO 1-11.a	Status updates via status reports or phone
EIIO 1-11.b	Risk-based site visits
EIIO 1-11.c	Document site visits status & intent
EIIO 1-12.a	Other counties eligible for distribution?
EIIO 1-12.b	County provided distribution eligible?
EIIO 1-13	Advisory committees/subcommittees comply open meetings
DTL HR	
DTL 3-01	Ensuring Minimum Qualifications
DTL 3-02.a	Hiring Best Practices
DTL 3-02.b	Hiring Practice Training
DTL 3-03	Veteran's Preference
DTL 3-04	FTE Legislative Intent
DTL 3-05	Salary Administration
DTL 3-06.a	Legislative Salary Increases
DTL 3-06.b	Frequency of Performance Reviews
DTL 3-07	Performance Review Forms
DTL MINERALS	
DTL 1-01.b	Correcting Net Assets
DTL 1-07.a	Data Change Documentation
DTL 1-07.b	Lease Agreement Corrections
DTL 1-09.a	On-line Mineral Auctions
DTL 1-09.b	On-line Mineral Auctions
DTL MINERALS/SURFACE	
DTL 1-01.a	Trust Assignments
PROCUREMENT/CONTRACT	
DTL 2-02	Procurement Laws
DTL 2-03.a	Written Service Contracts
DTL 2-03.b	Contract Insurance Provisions
DTL 2-03.c	AG Contract Terms
DTL 2-03.d	Legal Review of Contracts
DTL REVENUE COMPLIANCE	
DTL 1-02.a	Decimal Interest/Internal
DTL 1-02.b	Decimal Interest/External
DTL 1-03.a	Trust Allocation/Royalty
DTL 1-04.a	Royalty Electronic Reporting
DTL 1-04.b	Royalty Audits
DTL 1-05.a	Royalty Interest Rate
DTL 1-05.b	Interest Assessment Policy
DTL 1-06	Royalty Penalty
DTL 1-03.b	Correcting Net Assets
DTL SURFACE	
DTL 1-08	Fair Market Value
DTL 1-10.a	Grazing Association Agreement
DTL 1-10.b	Act on Lease Violations

UNCLAIMED PROPERTY	
UP 1-01	Complete and Accurate Search Utilities
UP 1-02.a	Increase efforts to locate owners
UP 1-02.b	Efforts to locate owners is fair
UP 1-03.a	Monitor Reporting Compliance
UP 1-03.b	Audit ND entities
UP 1-04	Holder compliance training
UP 1-05	Negative Reporting
UP 1-06.a	Written Authorization to Report Early
UP 1-06.b	Property not abandoned until requirements met
UP 1-07	Complete, Accurate, and Consistent Data
UP 1-08	Accurate Inventory of Tangible Property
UP 1-09	Timely Inventory of Tangible Property
UP 1-10.a	Entering "Aggregate" Properties
UP 1-10.b	Lower Aggregate Amount
UP 1-11	Safeguard Unclaimed Property
UP 1-12	Safeguard Confidential/Sensitive Information
UP 1-13	Claim Processing Consistency
UP 1-14	Stock Transfer Fees
UP 1-15.a	State Agency Property/Budget Section
UP 1-15.b	State Agency “Donation” Option
UP 1-15.c	Publication of State Agency Property
UP 1-16	Tangible Property Management/Disposition
UP 1-17	Establish Administrative Code
UP 1-18	Records Retention and Disposition
UP 1-19	Effective Program Administration

April 5, 2017 SB 2013 Attachment B

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DEPARTMENT OF ND TRUST LANDS
INVESTING FOR EDUCATION

Lance D. Gaebe, Commissioner

Date: April 5, 2017

To: House Appropriations Government Operations Subcommittee

cc: Appropriations Committee Chairman Delzer

From: Lance Gaebe, Commissioner of University and School Lands

Re: SB 2013 and Department of Trust Lands budget supplemental request

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The Department has appreciated working with the Subcommittee in its review of SB 2013, the appropriations bill for the Commissioner of University and School Lands (Department of Trust Lands)

As you know, the Department's submitted budget reduced its authorized FTE by two, but also requested a supplemental FTE for a GIS (geographic information systems) technician.

The Legislature is considering two bills that will have marked impact on the Department's operations, but neither authorizes an appropriation for operations costs or positions to support their implementation. If passed, House Bill 1300 and Senate Bill 2134 will have a dramatic effect on the Department and the Land Board.

House Bill 1300 will make the Board of University and School Lands (Board) an Administrative Agency under N.D.C.C. 28-32 for most of its responsibilities. The bill will replace existing Board authority to make rules with administrative processes and it will implement adjudicative proceedings for most Board decisions

Senate Bill 2134 adopts an alternate definition of sovereign minerals within Missouri River reservoirs than how the Board has leased the historical ordinary high water mark of the River as it existed prior to inundation. The bill implements a study to determine the location of sovereign lands, which does not involve the Department. However, following adoption of the study, the bill directs the Board to adjust State mineral leases and provide refunds.

The bills are adopted, it will necessitate the authorization of three FTEs and additional operating costs.

For the implementation of HB 1300, the Department requests an Administrative Staff Officer and a Legal Assistant to assist with drafting and adopting of rules and with the ongoing processes relating to adjudicative proceedings under the Administrative Agencies Practice Act (AAPA) as of January 1, 2018.

HB 1300 exempts some areas of the Board's responsibilities from the AAPA: including managing escheat and gifts within trusts; energy impact grants; and investments. However responsibilities for sales, leases, contracts, permits, disposal, and appraisement would all be subject to the AAPA.

There will costs associated with developing and publishing administrative rules. Additional ongoing costs will be incurred for legal assistance and administrative hearing officers to conduct adjudicative proceedings. These costs will need to be appropriated from outside of the constitutional trust funds because the constitution states that these funds must not be diverted from the benefit of the common schools and other beneficiaries.

Under the Constitution and statutes, the Board has at least 85 existing sets of rules, policies and procedures related to management of land, oil and gas leasing, coal, easements, land sales and auctions. Under the AAPA, these rules will need to be prioritized, revised into the form and style of administrative code, published, reviewed in hearings, and presented for administrative rules committee consideration.

Given the aggressive time-frame to implement rules relating to most Board responsibilities, the estimated fiscal impact considers the need for additional staff to help manage the process and for additional legal expenses.

The bill will also necessitate expanded legal consultation from the Office of the Attorney General to ensure compliance with the AAPA for the Board's non-exempt duties. The legal review of existing rules, policies and procedures to identify which are subject to the rule making requirement and the subsequent drafting and revision of rules is estimated at $10,000 per month.

Under the AAPA, adjudicative proceedings for proposed orders and rule exception hearings require a state hearing officer whose rates are $165 per hour. Comparable state agency use of the Office of Administrative hearings derived an estimated average of 35 hours per month, starting in January 2018. This totals $103,950 in 2017-2019 and $138,600 in 2019-2021.

The legal review of existing Board rules, policies, and procedures to identify which are subject to the AAPA rule requirement plus subsequent attorney assistance in drafting proposed administrative rules is estimated at $10,000 per month from now through the 2017-2019 biennium and $2,500 per month during the 2019-2021 biennium. Estimated totals are $20,000 in the current biennium, $240,000 in the 2017-2019 biennium and $60,000 in 2019-2021.

The estimated expenditure includes salary, benefits and associated overhead for two additional staff. One Administrative Staff Officer III with an estimated fixed monthly salary of $5,680 (Grade L) and the second, a Legal Assistant II with an average monthly salary of $4,781 (Grade J). With benefits, supplies, travel and fixtures these positions are estimated at $204,673 per biennium for the staff officer and $183,097 per biennium for the legal assistant.

The administrative processes required by the bill will create processes and delays that may reduce bonus, royalty, and easement revenues to the 13 constitutional trust funds, the Capitol Building Fund, the Indian Cultural Education Trust Fund and the Strategic Investment and Improvements Fund; but the scope of the impact cannot be determined. Because the negative revenue impact to the Common Schools Trust Fund and 12 other trusts identified in Article IX of the Constitution, may violate provisions of Section 2 of this Article, some provisions may not be able to be implemented.

With respect the responsibilities anticipated as a result of SB 2134, the Department also requests the authorization a mineral title specialist that was submitted as part of its optional budget request. Besides assistance with the current backlog of title research to be done on historic claims, the FTE will assist in the mapping and lease amendments and lease replacements for an estimated 25,000 of mineral acres. SB 2134 has a delayed impact because an Industrial Commission Study may take nearly one year, but once adopted, tight time-frames for refunds are stipulated. With six-months and within two-years of study adoptions are bother referenced.

The requested FTE would require a legal background or formal landman training and certification. The mineral title FTE was not included in SB 2013 as passed by the Senate. The Mineral Title Specialist would be a Grade L position at $5,680 per month and costing an estimated $206,976 with benefits and overhead..

Present Department staff is fully engaged with day-to-day responsibility managing trust and State assets, complying with existing statutory requirements and deadlines, implementing performance audit recommendations and preparing for information technology upgrades. The existing staff cannot implement the requirements of the bill without additional staff and funding.

Without the approval and funding for at these three FTEs, and an appropriation from a source outside of the trusts for legal and administrative hearings costs of compliance with the AAPA, it is improbable that the Board and Department can accomplish the objectives of the bill by the January 2018 effective date. Immediate authorization and funding for legal and FTE costs may help to implement critical rules before 2018.

Additionally, the version of SB 2134 that was recently considered by the House, the Board and Department do not have the authority to distribute funds from the SIIF. In order to accommodate these refunds, the Legislature will need to approve appropriation authority of $186,385,381 for the return of the bonus, rent and royalty dollars within the Strategic Investment and Improvements Fund.

None of the identified appropriations, costs or FTEs are included in the proposed appropriation budget for the Commissioner of University and School Lands.

April 5, 2017 SB2013 Att C

17.0521.02007
Title.

Prepared by the Legislative Council staff for
Representative Streyle
April 4, 2017

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2013

Page 1, line 3, remove "and"

Page 1, line 3, after "exemption" insert "; and to provide legislative intent"

Page 3, after line 23, insert:

"**SECTION 7. LEGISLATIVE INTENT - ENCOURAGEMENT OF ENERGY INFRASTRUCTURE INVESTMENT - COMMISSIONER OF UNIVERSITY AND SCHOOL LANDS - USE OF TERMS.** It is the intent of the sixty-fifth legislative assembly that the state of North Dakota encourage the continued development of energy infrastructure that will help reduce instances of natural gas flaring and increase the market value received for oil and gas produced within the state, which will increase the value of royalties paid. Consistent with this intent, for the biennium beginning July 1, 2017, and ending June 30, 2019, the commissioner of university and school lands shall continue to interpret the terms "gross production," "market value," and "gross proceeds of sale" in its lease form to mean a value determined at the producing well or associated production facility, or in the surrounding field or area, where the oil and gas was produced, prior to any post-production activities undertaken by the lessee, operator, or purchaser after the oil and gas has been transported from the producing well and associated production facility. These values must be determined by the amount received by the lessee in an arm's length contract, or in the absence of an arm's length contract, either a comparable sales method or a work-back calculation methodology consistent with state law."

Renumber accordingly

April 5, 2017 SB2013 Attachment A

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2013

Page 1, line 3, remove "and"

Page 1, line 2, after "exemption" insert "; and to provide legislative intent"

Page 3, after line 23, insert:

SECTION 7. LEGISLATIVE INTENT – ENCOURAGEMENT OF ENERGY INFRASTRUCTURE INVESTMENTS – COMMISSIONER OF UNIVERSITY AND SCHOOL LANDS – USE OF TERMS. It is the intent of the sixty-fifth legislative assembly that the state of North Dakota encourage the continued development of energy infrastructure that will help reduce instances of natural gas flaring and increase the market value received for oil and gas produced within the state <u>generally and from state owned lands specifically</u> which will increase the value of royalties paid <u>to the funds under the control of the board of university and school lands</u>. Consistent with this intent, ~~for the biennium beginning July 1, 2017, and ending June 30, 2019,~~ the commissioner of university and school lands shall continue to interpret the terms "gross production," "market value," and "gross proceeds of sale" in its lease from to mean a value determined at the producing well or associated production facility, or in the surrounding field or area, where the oil and gas was produced, prior to any post-production activities undertaken by the lessee, operator, or purchaser after the oil and gas has been transported from the producing well and associated production facility. These values must be determined by the amount received by the lessee in an arm's length contract, or in the absence of an arm's length contract, either a comparable sales method or a work-back calculation methodology consistent with state law."

Renumber accordingly

April 5, 2017 SB2013 Attachment B

17.0521.02009
Title.
Fiscal No. 1

Prepared by the Legislative Council staff for
House Appropriations Committee
April 5, 2017

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2013

Page 1, line 3, replace "and" with "to amend and reenact subsection 5 of section 57-51-01 and section 57-51-15 of the North Dakota Century Code, relating to oil and gas gross production tax definitions and allocations;"

Page 1, line 3, after "exemption" insert "; to provide for funding repayments; to provide statements of legislative intent; to provide for a legislative management study; and to provide an effective date"

Page 1, line 7, after the first comma insert "the strategic investment and improvements fund,"

Page 1, replace lines 13 through 20 with:

"Salaries and wages	$6,123,516	($295,046)	$5,828,470
Operating expenses	2,019,637	(266,939)	1,752,698
Grants	99,300,000	(59,300,000)	40,000,000
Contingencies	100,000	0	100,000
Energy infrastructure and impact office	700,000	(479,283)	220,717
Total special funds	$108,243,153	($60,341,268)	$47,901,885
Full-time equivalent positions	33.00	(3.00)	30.00

SECTION 2. HEALTH INSURANCE INCREASE. The appropriation in section 1 of this Act includes $89,948 from special funds for increases in employee health insurance premiums from $1,130 to $1,241 per month."

Page 2, replace lines 2 and 3 with:

"Oil and gas impact grants - airports	$0	$25,000,000
Other grants - airports	0	15,000,000
Total special funds	$0	$40,000,000"

Page 3, after line 23, insert:

"**SECTION 8. OIL AND GAS IMPACT GRANT FUND - AIRPORT GRANTS.** The grants line item and the total special funds line item in section 1 of this Act include the sum of $25,000,000 from the oil and gas impact grant fund for grants to airports, for the biennium beginning July 1, 2017, and ending June 30, 2019. Of the $25,000,000, the board of university and school lands shall award a grant of $20,000,000 to the Williston airport and a grant of $5,000,000 to the Dickinson airport. A grant may be awarded to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

SECTION 9. STRATEGIC INVESTMENT AND IMPROVEMENTS FUND - WILLISTON AIRPORT GRANT. The grants line item and the total special funds line item in section 1 of this Act include the sum of $15,000,000 from the strategic investment and improvements fund for a grant to the Williston airport, for the biennium beginning July 1, 2017, and ending June 30, 2019. A grant may be awarded to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

SECTION 10. AMENDMENT. Subsection 5 of section 57-51-01 of the North Dakota Century Code is amended and reenacted as follows:

5. "Hub city" means~~, for the period beginning September 1, 2015, and ending August 31, 2017, a city with a population of twelve thousand five hundred or more, according to the last official decennial federal census, which has more than one percent of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota. "Hub city" means, after August 31, 2017,~~ a city with a population of twelve thousand five hundred or more, according to the last official decennial federal census, which has more than one percent of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota.

SECTION 11. AMENDMENT. Section 57-51-15 of the North Dakota Century Code is amended and reenacted as follows:

57-51-15. Gross production tax allocation.

The gross production tax must be allocated monthly as follows:

1. ~~First the~~The tax revenue collected under this chapter equal to one percent of the gross value at the well of the oil and one-fifth of the tax on gas must be deposited with the state treasurer ~~who shall~~. The state treasurer shall allocate the funding in the following order:

   a. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city, which is located in a county that received an allocation under subsection 2, a monthly amount that will provide a total allocation of three hundred seventy-five thousand dollars per fiscal year for each full or partial percentage point of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city, which is located in a county that received an allocation under subsection 2 of this section in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of three hundred seventy-five thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~;~~.

   b. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city, which is located in a county that did not receive an allocation under subsection 2, a monthly amount that will provide a total allocation of two hundred fifty thousand dollars per fiscal year for each full or partial percentage point of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city, which is located in a county that did not receive an allocation under subsection 2 of this section in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of two hundred fifty thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~;~~.

c. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city school district, which is located in a county that received an allocation under subsection 2, a monthly amount that will provide a total allocation of one hundred twenty-five thousand dollars per fiscal year for each full or partial percentage point of the hub city's private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city school district, which is located in a county that received an allocation under subsection 2 of this section in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one hundred twenty-five thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of the hub city's private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~, provided that hub~~. Hub city school districts, which are located in a county that did not receive an allocation under subsection 2 of this section in the most recently completed even-numbered fiscal year, must be excluded from the allocations under this subdivision~~;~~.

d. ~~Allocate to~~To each county that received more than five million dollars but less than thirty million dollars of total allocations under subsection 2 of this section in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, the state treasurer shall allocate a monthly amount that will ~~provide a total allocation of one million five hundred thousand dollars per fiscal year to be added by the state treasurer~~be added to the allocations to school districts under subdivision b of subsection 5~~;~~

~~e. Credit revenues to the oil and gas impact grant fund, but not in an amount exceeding one hundred forty million dollars per biennium for the 2015-17 biennium, and not in an amount exceeding one hundred million dollars per biennium thereafter;~~

~~f. Credit eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding twenty million dollars in a state fiscal year and not in an amount exceeding forty million dollars per biennium;~~

~~g. Credit four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding seven million five hundred thousand dollars in a state fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars; and~~

~~h. Allocate the remaining revenues under subsection 3~~ of this section, as follows:

(1) To each county that received more than five million dollars but not exceeding ten million dollars of total allocations under subsection 2 of this section in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million five hundred thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5 of this section.

(2) To each county that received more than ten million dollars but not exceeding fifteen million dollars of total allocations under subsection 2 of this section in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million two hundred fifty thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5 of this section.

(3) To each county that received more than fifteen million dollars but not exceeding twenty million dollars of total allocations under subsection 2 of this section in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5 of this section.

(4) To each county that received more than twenty million dollars but not exceeding twenty-five million dollars of total allocations under subsection 2 of this section in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of seven hundred fifty thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5 of this section.

(5) To each county that received more than twenty-five million dollars but not exceeding thirty million dollars of total allocations under subsection 2 of this section in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of five hundred thousand dollars per fiscal year. The allocation must distributed to school districts within the county pursuant to subdivision b of subsection 5 of this section.

e. (1) For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding ten million dollars per biennium. For purposes of this paragraph, "biennium" means the period beginning September first of each odd-numbered calendar year and ending August thirty-first of the following odd-numbered calendar year.

(2) After August 31, 2019, the state treasurer shall allocate eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding twenty million dollars per fiscal year.

f. (1) For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding four million dollars per fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars.

(2) After August 31, 2019, the state treasurer shall allocate four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding seven million five hundred thousand dollars per fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars.

g. For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate the remaining revenues in the following order:

(1) Up to twenty-five million dollars to the oil and gas impact grant fund.

(2) Any remaining revenues under subsection 3.

h. After August 31, 2019, the state treasurer shall allocate the remaining revenues in the following order:

(1) Up to five million dollars per biennium to the oil and gas impact grant fund. For purposes of this paragraph, "biennium" means the period beginning September first of each odd-numbered calendar year and ending August thirty-first of the following odd-numbered calendar year.

(2) Any remaining revenues under subsection 3.

i. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

2. After deduction of the amount provided in subsection 1 of this section, annual revenue collected under this chapter from oil and gas produced in each county must be allocated as follows:

a. The first five million dollars is allocated to the county.

b. Of all annual revenue exceeding five million dollars, thirty percent is allocated to the county.

3. After the allocations under subsections 1 and 2 of this section, the amount remaining is allocated first to provide for deposit of thirty percent of all revenue collected under this chapter in the legacy fund as provided in section 26 of article X of the Constitution of North Dakota and the

remainder must be allocated to the state general fund. If the amount available for a monthly allocation under this subsection is insufficient to deposit thirty percent of all revenue collected under this chapter in the legacy fund, the state treasurer shall transfer the amount of the shortfall from the state general fund share of oil extraction tax collections and deposit that amount in the legacy fund.

4. For a county that received less than five million dollars of allocations under subsection 2 <u>of this section</u> in ~~state~~<u>the most recently completed even-numbered</u> fiscal year ~~2014~~, revenues allocated to that county must be distributed at least quarterly by the state treasurer as follows:

   a. Forty-five percent must be distributed to the county treasurer and credited to the county general fund. However, the distribution to a county under this subdivision must be credited to the state general fund if in a taxable year after 2012 the county is not levying a total of at least ten mills for combined levies for county road and bridge, farm-to-market and federal aid road, and county road purposes.

   b. Thirty-five percent must be distributed to school districts within the county on the average daily attendance distribution basis for kindergarten through grade twelve students residing within the county, as certified to the state treasurer by the county superintendent of schools. However, a hub city school district must be omitted from distributions under this subdivision.

   c. Twenty percent must be distributed to the incorporated cities of the county. A hub city must be omitted from distributions under this subdivision. Distributions among cities under this subsection must be based upon the population of each incorporated city according to the last official decennial federal census. In determining the population of any city in which total employment increases by more than two hundred percent seasonally due to tourism, the population of that city for purposes of this subdivision must be increased by eight hundred percent.

   <u>d.</u> <u>For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.</u>

5. For a county that received five million dollars or more of allocations under subsection 2 <u>of this section</u> in ~~state~~<u>the most recently completed even-numbered</u> fiscal year ~~2014~~, revenues allocated to that county must be distributed at least quarterly by the state treasurer as follows:

   a. Sixty percent must be distributed to the county treasurer and credited to the county general fund. However, the distribution to a county under this subdivision must be credited to the state general fund if in a taxable year after 2012 the county is not levying a total of at least ten mills for combined levies for county road and bridge, farm-to-market and federal aid road, and county road purposes.

   b. Five percent must be distributed to school districts within the county on the average daily attendance distribution basis for kindergarten through grade twelve students residing within the county, as certified to the state treasurer by the county superintendent of schools. However, a hub city school district must be omitted from distributions under this subdivision.

c. Twenty percent must be distributed to the incorporated cities of the county. A hub city must be omitted from distributions under this subdivision. Distributions among cities under this subsection must be based upon the population of each incorporated city according to the last official decennial federal census. In determining the population of any city in which total employment increases by more than two hundred percent seasonally due to tourism, the population of that city for purposes of this subdivision must be increased by eight hundred percent.

d. ~~Three~~One percent must be allocated among the organized and unorganized townships of the county. The state treasurer shall allocate the funds available under this subdivision among townships in proportion to each township's road miles relative to the total township road miles in the county. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads, which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships.

e. ~~Three~~One percent must be allocated among the organized and unorganized townships in all the counties that received five million dollars or more of allocations under subsection 2 of this section in the most recently completed ~~state~~even-numbered fiscal year. The amount available under this subdivision must be allocated by the state treasurer in an equal amount to each eligible organized and unorganized township. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads, which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships.

f. Four percent must be allocated among the organized and unorganized townships in all the non-oil-producing counties. The amount available under this subdivision must be allocated by the state treasurer in an equal amount to each eligible organized and unorganized township. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads, which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships. For purposes of this subdivision, "non-oil-producing counties" means the counties that received no allocation or a total allocation of less than five million dollars under subsection 2 of this section in the most recently completed even-numbered fiscal year.

g. Nine percent must be distributed among hub cities. Sixty percent of funds available under this subdivision must be distributed to the hub city receiving the highest percentage of allocations to hub cities under subdivision a of subsection 1 for the quarterly period, thirty percent of funds available under this subdivision must be distributed to the hub city receiving the second highest percentage of such allocations, and ten percent of funds available under this subdivision must be distributed to the hub city receiving the third highest percentage of such allocations. Hub cities, which are located in a county that did not receive an allocation under subsection 2 of this section in the most recently completed even-numbered fiscal year, must be excluded from the allocations under this subsection. If fewer than three hub cities are eligible for the allocations under this subdivision, the state treasurer shall allocate the available funds in proportion to the amounts the eligible hub cities received under subdivision a of subsection 1 of this section.

h. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

6. Within thirty days after the end of each calendar year, the board of county commissioners of each county that has received an allocation under this section shall file a report for the calendar year with the commissioner, in a format prescribed by the commissioner, including:

   a. The county's statement of revenues and expenditures;

   b. The county's ending fund balances;

   c. The amounts allocated under this section to the county's general fund, the amounts expended from these allocations, and the purposes of the expenditures; and

   d. The amounts allocated under this section to or for the benefit of townships within the county, the amounts expended from these allocations, and the purposes of the expenditures.

   Within fifteen days after the time when reports under this subsection are due, the commissioner shall provide the reports to the legislative council compiling the information from reports received under this subsection.

7. Within thirty days after the end of each fiscal year ended June thirtieth, each school district that has received an allocation under this section shall file a report for the fiscal year ended June thirtieth with the commissioner, in a format prescribed by the commissioner, including:

   a. The school district's statement of revenue and expenditures;

   b. The school district's ending fund balances; and

   c. The amounts allocated under this section to the school district, the amounts expended from these allocations, and the purposes of the expenditures.

   Within fifteen days after the time when reports under this subsection are due, the commissioner shall provide the reports to the legislative council compiling the information from reports received under this subsection.

SECTION 12. DEPARTMENT OF TRUST LANDS - WILLISTON AIRPORT FUNDING REPAYMENTS - DEPOSIT. The city of Williston shall use the proceeds from the sale of the existing Williston airport, excluding any proceeds used to repay the

Bank of North Dakota for outstanding loans related to the new airport, for repaying the department of trust lands up to $27,500,000 for a portion of the state's financial assistance provided for the new Williston airport. The department of trust lands shall deposit any funds received under this section in the strategic investment and improvements fund.

SECTION 13. LEGISLATIVE INTENT - HUB CITY BONDING. It is the intent of the sixty-fifth legislative assembly that during the period beginning July 1, 2017, and ending June 30, 2019, hub cities, as defined in section 57-51-01, not issue any new bonds based on anticipated future hub city oil tax revenue allocations under section 57-51-01.

SECTION 14. LEGISLATIVE INTENT - AGENCY EFFICIENCIES. It is the intent of the sixty-fifth legislative assembly that during the 2017-18 interim, the governor and the commissioner of university and school lands achieve efficiencies and budgetary savings within the department of trust lands through the use of innovative ideas and through alternative solutions relating to information technology.

SECTION 15. LEGISLATIVE MANAGEMENT STUDY - OIL AND GAS TAX REVENUE ALLOCATIONS TO HUB CITIES AND HUB CITY SCHOOL DISTRICTS.

1. During the 2017-18 interim, the legislative management shall consider studying oil and gas tax revenue allocations to hub cities and hub city school districts. The study must include consideration of the following:

    a. The current and historical oil and gas tax revenue allocations to hub cities and hub city school districts.

    b. Other state funding provided to hub cities and hub city school districts, including grants from the oil and gas impact grant fund, distributions from the strategic investment and improvements fund, state school aid payments, and payments from the state aid distribution fund and highway tax distribution fund.

    c. Local taxing and revenue levels in hub cities compared to cities in non-oil-producing counties, including mill levies, property tax values, local sales and use taxes, and other revenue sources.

    d. The appropriate level of oil and gas tax revenue allocations to hub cities and hub city school districts based on infrastructure and other needs.

    e. The estimated fiscal impact to hub cities, hub city school districts, other political subdivisions, and the state if the oil and gas tax revenue allocation formula would be changed to transition hub cities and hub city school districts from allocations under subsection 1 of section 57-51-15 to allocations under subsections 4 and 5 of section 57-51-15.

    f. The estimated fiscal impact to hub cities, hub city school districts, other political subdivisions, and the state if the oil and gas tax revenue allocation formula would be changed to discontinue the allocations to hub cities and hub city school districts under subsection 1 of section 57-51-15.

2. The membership of the committee assigned the responsibility of the study must proportionately reflect the state's population distribution between oil-producing counties and non-oil-producing counties and must include members from the finance and taxation committees and the appropriations committees.

3. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-sixth legislative assembly.

SECTION 16. EFFECTIVE DATE. Sections 10 and 11 of this Act are effective for taxable events occurring after June 30, 2017."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2013 - Department of Trust Lands - House Action

	Base Budget	Senate Version	House Changes	House Version
Salaries and wages	$6,123,516	$6,218,736	($390,266)	$5,828,470
Operating expenses	2,019,637	1,775,723	(23,025)	1,752,698
Capital assets		5,250,000	(5,250,000)	
Grants	99,300,000		40,000,000	40,000,000
Energy Infrastructure and Impact Office	700,000	220,717		220,717
Contingencies	100,000	100,000		100,000
Total all funds	$108,243,153	$13,565,176	$34,336,709	$47,901,885
Less estimated income	108,243,153	13,565,176	34,336,709	47,901,885
General fund	$0	$0	$0	$0
FTE	33.00	32.00	(2.00)	30.00

Department No. 226 - Department of Trust Lands - Detail of House Changes

	Adjusts Funding for Health Insurance Increases[1]	Removes Funding for FTE Positions[2]	Removes Funding for an Information Technology Project[3]	Adds Funding for Grants[4]	Total House Changes
Salaries and wages	($6,636)	($383,630)			($390,266)
Operating expenses		(23,025)			(23,025)
Capital assets			(5,250,000)		(5,250,000)
Grants				40,000,000	40,000,000
Energy Infrastructure and Impact Office					
Contingencies					
Total all funds	($6,636)	($406,655)	($5,250,000)	$40,000,000	$34,336,709
Less estimated income	(6,636)	(406,655)	(5,250,000)	40,000,000	34,336,709
General fund	$0	$0	$0	$0	$0
FTE	0.00	(2.00)	0.00	0.00	(2.00)

[1] Funding for employee health insurance is adjusted to reflect the updated premium amount of $1,241 per month.

[2] Funding is removed as follows:

- $200,105 is removed for a geographic information system position, which was added by the Senate. Of the $200,105, $177,080 relates to salaries and wages, and $23,025 relates to operating expenses.
- $206,550 is removed for a project manager position.

[3] One-time funding of $5.25 million is removed for an information technology project. The Senate added this funding.

[4] One-time funding of $25 million is added from the oil and gas impact grant fund for grants to the Williston airport ($20 million) and the Dickinson airport ($5 million). One-time funding of $15 million is added from the strategic investment and improvements fund for a grant to the Williston airport.

This amendment also:

- Identifies the health insurance increase.
- Identifies $25 million from the oil and gas impact grant fund for an oil impact grant of $20 million to the Williston airport and a grant of $5 million to the Dickinson airport. This funding is available to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project.
- Identifies $15 million from the strategic investment and improvements fund for a grant to the Williston airport. This funding is available to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project.
- Amends the oil and gas tax revenue allocation formulas (see the table below) and provides an effective date related to the formula changes.
- Provides that the city of Williston use the proceeds from the sale of the existing airport, up to $27.5 million, to repay the Department of Trust Lands for the state's financial assistance provided for the new airport.
- Provides a statement of legislative intent that hub cities not issue new bonds during the 2017-19 biennium based on anticipated future hub city oil tax revenue allocations.
- Provides a statement of legislative intent regarding efficiencies within the Department of Trust Lands.
- Provides for a Legislative Management study by a committee with proportional geographic representation and members of the Finance and Taxation and Appropriations Committees regarding the oil and gas tax revenue allocations to hub cities and hub city school districts.

Senate Bill No. 2013 - Other Changes - House Action

Current Law	Proposed Changes
Hub city definition •After August 31, 2017, a hub city is based on mining employment.	**Hub city definition** •No change to current law.
Hub city and hub city school district allocations •Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment. •Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment. •Hub city school districts receive an annual allocation of $125,000 per full or partial percentage point of mining employment, excluding hub city school districts located in non-oil-producing counties.	**Hub city and hub city school district allocations** •Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment exceeding 2 percent. •Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment exceeding 2 percent. •Hub city school districts in oil-producing counties receive an annual allocation of $125,000 per full or partial percentage point of mining employment exceeding 2 percent.
Supplemental school district allocation •Eligible counties receive an annual allocation of $1.5 million for distributions to school districts in the county.	**Supplemental school district allocation** •Changes the annual allocation to provide a specific amount based on the oil and gas tax allocations received by the county in the most recently completed even-numbered fiscal year. The specific amounts range from $500,000 to $1.5 million per year.

North Dakota outdoor heritage fund allocations

- From the 1 percent of the 5 percent oil and gas gross production tax, 8 percent is allocated to the North Dakota outdoor heritage fund, up to $20 million per fiscal year.

Abandoned oil and gas well plugging and site reclamation fund allocations

- From the 1 percent of the 5 percent oil and gas gross production tax, 4 percent is allocated to the abandoned oil and gas well plugging and site reclamation fund, up to $7.5 million per fiscal year.

Oil and gas impact grant fund allocations

- Up to $100 million per biennium is allocated to the oil and gas impact grant fund.

Distributions to political subdivisions

- The distributions to political subdivisions in North Dakota Century Code Sections 57-51-15(4) and 57-51-15(5) are based on the oil and gas tax allocations received by a county in fiscal year 2014.
- From the 4 percent of the 5 percent oil and gas gross production tax, 30 percent of all revenue above $5 million is allocated to the county with the remaining 70 percent allocated to the state.
- The distributions to political subdivisions are as follows:

	Counties - Less Than $5 Million	Counties - $5 Million Or More
County general fund	45%	60%
Cities	20%	20%
Schools	35%	5%
Townships (equal)		3%
Townships (road miles)		3%
Hub cities		9%

- From the counties' share in counties that received $5 million or more of oil and gas tax allocations, 9 percent is distributed to the three hub cities with the highest percentage of mining employment.

North Dakota outdoor heritage fund allocations

- Decreases the amount allocated to the North Dakota outdoor heritage fund by changing the limit from $20 million per fiscal year to $10 million for the 2017-19 biennium.

Abandoned oil and gas well plugging and site reclamation fund allocations

- Decreases the amount allocated to the abandoned oil and gas well plugging and site reclamation fund by changing the limit from $7.5 million per fiscal year to $4 million per fiscal year for the 2017-19 biennium.

Oil and gas impact grant fund allocations

- Decreases the allocation to the oil and gas impact grant fund from $100 million per biennium to $25 million per biennium for the 2017-19 biennium and provides an allocation of $5 million per biennium to the oil and gas impact grant fund after the 2017-19 biennium.

Distributions to political subdivisions

- Changes the basis for the distributions to political subdivisions in Sections 57-51-15(4) and 57-51-15(5) to reflect the oil and gas tax allocations received by a county in the most recently completed even-numbered fiscal year rather than fiscal year 2014.
- No change to current law.
- The proposed changes to the distributions to political subdivisions are as follows:

	Counties - Less Than $5 Million	Counties - $5 Million Or More
County general fund	45%	60%
Cities	20%	20%
Schools	35%	5%
Townships (equal)		1%
Townships (road miles)		1%
Townships (non-oil)		4%
Hub cities		9%

- Clarifies the distribution to hub cities to exclude hub cities that are located in non-oil-producing counties and to provide proportional allocations if less than three hub cities qualify for the distributions.

april 5, 2017 SB2013 Att C

17.0521.02002
Title.

Prepared by the Legislative Council staff for
Representative Streyle
March 17, 2017

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2013

Page 1, line 3, replace "an exemption" with "exemptions"

Page 3, after line 23, insert:

"**SECTION 6. EXEMPTION - FLOOD-IMPACTED POLITICAL SUBDIVISION INFRASTRUCTURE DEVELOPMENT GRANTS.** Up to $1,325,500 appropriated from the general fund in section 10 of chapter 579 of the 2011 Session Laws for flood-impacted political subdivision infrastructure development grants, which was awarded but not yet reimbursed to the city of Minot for a landfill expansion project, is not subject to section 54-44.1-11, and any unexpended funds are available to reimburse the city of Minot during the biennium beginning July 1, 2017, and ending June 30, 3019."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

This amendment provides an exemption for a grant to the city of Minot for a landfill expansion project allowing Minot to be receive the grant payments during the 2017-19 biennium.

April 6, 2017 SB2013 attachment A

17.0521.02010
Title.

Prepared by the Legislative Council staff for
House Appropriations - Government
Operations Division Committee
April 5, 2017

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2013

Page 1, line 3, remove "and"

Page 1, line 3, after "exemption" insert "; and to provide legislative intent"

Page 3, after line 23, insert:

"**SECTION 7. LEGISLATIVE INTENT - ENCOURAGEMENT OF ENERGY INFRASTRUCTURE INVESTMENT - COMMISSIONER OF UNIVERSITY AND SCHOOL LANDS - USE OF TERMS.** It is the intent of the sixty-fifth legislative assembly that the state of North Dakota encourage the continued development of energy infrastructure that will help reduce instances of natural gas flaring and increase the market value received for oil and gas produced within the state generally and from state-owned lands specifically, which will increase the value of royalties paid to the funds under the control of the board of university and school lands. Consistent with this intent, the commissioner of university and school lands shall continue to interpret the terms "gross production," "market value," and "gross proceeds of sale" in its lease form to mean a value determined at the producing well or associated production facility, or in the surrounding field or area, where the oil and gas was produced, prior to any post-production activities undertaken by the lessee, operator, or purchaser after the oil and gas has been transported from the producing well and associated production facility. These values must be determined by the amount received by the lessee in an arm's length contract, or in the absence of an arm's length contract, either a comparable sales method or a work-back calculation methodology consistent with state law."

Renumber accordingly

April 6, 2017 SB2013 Attachment B

Oil and Gas Gross Production Tax Allocations to Counties - NDCC 57-51-15(2)						
Fiscal Year 2014			Fiscal Year 2016			
Rank	County	Allocations	Rank	County	Allocations	Percentage Change From 2014
1	McKenzie	$94,045,886	1	McKenzie	$65,762,067	(30.1%)
2	Mountrail	$73,119,005	2	Mountrail	$35,618,201	(51.3%)
3	Williams	$50,039,092	3	Williams	$33,802,379	(32.4%)
4	Dunn	$44,571,441	4	Dunn	$27,799,957	(37.6%)
5	Divide	$16,490,725	5	Divide	$8,948,808	(45.7%)
6	Bowman	$11,164,425	6	Bowman	$6,527,560	(41.5%)
7	Stark	$9,826,760	7	Burke	$5,610,845	(38.0%)
8	Burke	$9,047,522	8	Stark	$5,236,669	(46.7%)
9	Billings	$8,074,720	9	Billings	$5,189,049	(35.7%)
10	Bottineau	$5,830,890	10	Bottineau	$2,405,044	(58.8%)
11	Golden Valley	$3,697,066	11	Golden Valley	$958,386	(74.1%)
12	Renville	$2,928,323	12	Renville	$898,268	(69.3%)
13	McLean	$2,228,686	13	McLean	$553,886	(75.1%)
14	Slope	$1,787,690	14	Slope	$531,585	(70.3%)
15	Ward	$127,885	15	McHenry	$66,921	(26.1%)
16	McHenry	$90,526	16	Ward	$36,085	(71.8%)
17	Mercer	$2,206	17	Mercer	$0	(100.0%)

Based on Fiscal Year 2014
Total townships (statewide) - 2,051
Townships in the top ten oil-producing counties - 498
Townships in the remaining 43 non-oil-producing counties - 1,553

Based on Fiscal Year 2016
Total townships (statewide) - 2,051
Townships in the top nine oil-producing counties - 443
Townships in the remaining 43 non-oil-producing counties - 1,608

SB 2013 Conf.
4-18-17

17.0521.02014
Title.03000
Fiscal No. 3

Prepared by the Legislative Council staff for
House Appropriations Committee
April 6, 2017

#1

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2013

Page 1, line 3, replace "and to provide an exemption" with "to amend and reenact section 15-01-01, subsection 5 of section 57-51-01, and section 57-51-15 of the North Dakota Century Code, relating to oil and gas gross production tax definitions and allocations; to provide for funding repayments; to provide exemptions; to provide for reports; to provide statements of legislative intent; to provide for a legislative management study; and to provide an effective date"

Page 1, line 7, after the first comma insert "the strategic investment and improvements fund,"

Page 1, replace lines 13 through 20 with:

"Salaries and wages	$6,123,516	($295,046)	$5,828,470
Operating expenses	2,019,637	(266,939)	1,752,698
Grants	99,300,000	(59,300,000)	40,000,000
Contingencies	100,000	0	100,000
Energy infrastructure and impact office	700,000	(479,283)	220,717
Total special funds	$108,243,153	($60,341,268)	$47,901,885
Full-time equivalent positions	33.00	(3.00)	30.00

SECTION 2. HEALTH INSURANCE INCREASE. The appropriation in section 1 of this Act includes $89,948 from special funds for increases in employee health insurance premiums from $1,130 to $1,241 per month."

Page 2, replace lines 2 and 3 with:

"Oil and gas impact grants - airports	$0	$25,000,000
Other grants - airports	0	15,000,000
Total special funds	$0	$40,000,000"

Page 3, after line 23, insert:

"SECTION 8. EXEMPTION - FLOOD-IMPACTED POLITICAL SUBDIVISION INFRASTRUCTURE DEVELOPMENT GRANTS. Up to $1,325,500 appropriated from the general fund in section 10 of chapter 579 of the 2011 Session Laws for flood-impacted political subdivision infrastructure development grants, which was awarded but not yet reimbursed to the city of Minot for a landfill expansion project, is not subject to section 54-44.1-11, and any unexpended funds are available to reimburse the city of Minot during the biennium beginning July 1, 2017, and ending June 30, 2019.

SECTION 9. OIL AND GAS IMPACT GRANT FUND - AIRPORT GRANTS. The grants line item and the total special funds line item in section 1 of this Act include the sum of $25,000,000 from the oil and gas impact grant fund for grants to airports, for the biennium beginning July 1, 2017, and ending June 30, 2019. Of the $25,000,000, the board of university and school lands shall award a grant of $20,000,000 to the Williston airport and a grant of $5,000,000 to the Dickinson airport. A grant may be awarded to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

SECTION 10. STRATEGIC INVESTMENT AND IMPROVEMENTS FUND - WILLISTON AIRPORT GRANT. The grants line item and the total special funds line item in section 1 of this Act include the sum of $15,000,000 from the strategic investment and improvements fund for a grant to the Williston airport, for the biennium beginning July 1, 2017, and ending June 30, 2019. A grant may be awarded to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

SECTION 11. AMENDMENT. Section 15-01-01 of the North Dakota Century Code is amended and reenacted as follows:

15-01-01. Board - Membership - Officers.

The governor, secretary of state, state treasurer, attorney general, and superintendent of public instruction shall constitute the "board of university and school lands". The governor must be the chairman, the secretary of state must be the vice chairman, and the commissioner of university and school lands must be the secretary of the board. In the absence of the commissioner at any meeting of the board, the deputy commissioner of university and school lands shall act as secretary. When acting as the board of university and school lands, the members of the board shall act in person and may not be represented by any assistant, clerk, or deputy. The speaker of the house and the president pro tempore of the senate each shall appoint one individual to advise the board. The individual appointed to advise the board may attend and participate in all meetings of the board, but may not vote.

SECTION 12. AMENDMENT. Subsection 5 of section 57-51-01 of the North Dakota Century Code is amended and reenacted as follows:

5. "Hub city" means~~, for the period beginning September 1, 2015, and ending August 31, 2017, a city with a population of twelve thousand five hundred or more, according to the last official decennial federal census, which has more than one percent of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota. "Hub city" means, after August 31, 2017,~~ a city with a population of twelve thousand five hundred or more, according to the last official decennial federal census, which has more than one percent of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota.

SECTION 13. AMENDMENT. Section 57-51-15 of the North Dakota Century Code is amended and reenacted as follows:

57-51-15. Gross production tax allocation.

The gross production tax must be allocated monthly as follows:

1. ~~First the~~The tax revenue collected under this chapter equal to one percent of the gross value at the well of the oil and one-fifth of the tax on gas must be deposited with the state treasurer ~~who shall~~. The state treasurer shall allocate the funding in the following order:

   a. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city, which is located in a county that received an allocation under subsection 2, a monthly amount that will~~

~~provide a total allocation of three hundred seventy-five thousand dollars per fiscal year for each full or partial percentage point of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city, which is located in a county that received an allocation under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of three hundred seventy-five thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~;~~.

b. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city, which is located in a county that did not receive an allocation under subsection 2, a monthly amount that will provide a total allocation of two hundred fifty thousand dollars per fiscal year for each full or partial percentage point of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city, which is located in a county that did not receive an allocation under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of two hundred fifty thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~;~~.

c. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city school district, which is located in a county that received an allocation under subsection 2, a monthly amount that will provide a total allocation of one hundred twenty-five thousand dollars per fiscal year for each full or partial percentage point of the hub city's private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city school district, which is located in a county that received an allocation under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one hundred twenty-five thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of the hub city's private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~, provided that hub~~. Hub city school districts, which are located in a county that did not receive an allocation under subsection 2 in the most recently completed even-numbered fiscal year, must be excluded from the allocations under this subdivision~~;~~.

d. ~~Allocate to~~To each county that received more than five million dollars but less than thirty million dollars of total allocations under subsection 2 in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, the state treasurer shall allocate a monthly amount that will ~~provide a total allocation of one million five hundred thousand dollars per fiscal year to be added by the state treasurer~~be added to the allocations to school districts under subdivision b of subsection 5~~;~~

~~e.~~ ~~Credit revenues to the oil and gas impact grant fund, but not in an amount exceeding one hundred forty million dollars per biennium for the 2015-17 biennium, and not in an amount exceeding one hundred million dollars per biennium thereafter;~~

~~f.~~ ~~Credit eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding twenty million dollars in a state fiscal year and not in an amount exceeding forty million dollars per biennium;~~

~~g.~~ ~~Credit four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding seven million five hundred thousand dollars in a state fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars; and~~

~~h.~~ ~~Allocate the remaining revenues under subsection 3~~ as follows:

(1) To each county that received more than five million dollars but not exceeding ten million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million five hundred thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(2) To each county that received more than ten million dollars but not exceeding fifteen million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million two hundred fifty thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(3) To each county that received more than fifteen million dollars but not exceeding twenty million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(4) To each county that received more than twenty million dollars but not exceeding twenty-five million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of seven hundred fifty thousand dollars per fiscal year. The allocation

must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(5) To each county that received more than twenty-five million dollars but not exceeding thirty million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of five hundred thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

e. (1) For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding ten million dollars per biennium. For purposes of this paragraph, "biennium" means the period beginning September first of each odd-numbered calendar year and ending August thirty-first of the following odd-numbered calendar year.

(2) After August 31, 2019, the state treasurer shall allocate eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding twenty million dollars per fiscal year.

f. (1) For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding four million dollars per fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars.

(2) After August 31, 2019, the state treasurer shall allocate four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding seven million five hundred thousand dollars per fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars.

g. For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate the remaining revenues in the following order:

(1) Up to twenty-five million dollars to the oil and gas impact grant fund.

(2) Any remaining revenues under subsection 3.

h. After August 31, 2019, the state treasurer shall allocate the remaining revenues in the following order:

(1) Up to five million dollars per biennium to the oil and gas impact grant fund. For purposes of this paragraph, "biennium" means the period beginning September first of each odd-numbered

calendar year and ending August thirty-first of the following odd-numbered calendar year.

(2) Any remaining revenues under subsection 3.

i. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

2. After deduction of the amount provided in subsection 1, annual revenue collected under this chapter from oil and gas produced in each county must be allocated as follows:

   a. The first five million dollars is allocated to the county.

   b. Of all annual revenue exceeding five million dollars, thirty percent is allocated to the county.

3. After the allocations under subsections 1 and 2, the amount remaining is allocated first to provide for deposit of thirty percent of all revenue collected under this chapter in the legacy fund as provided in section 26 of article X of the Constitution of North Dakota and the remainder must be allocated to the state general fund. If the amount available for a monthly allocation under this subsection is insufficient to deposit thirty percent of all revenue collected under this chapter in the legacy fund, the state treasurer shall transfer the amount of the shortfall from the state general fund share of oil extraction tax collections and deposit that amount in the legacy fund.

4. For a county that received less than five million dollars of allocations under subsection 2 in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, revenues allocated to that county must be distributed at least quarterly by the state treasurer as follows:

   a. Forty-five percent must be distributed to the county treasurer and credited to the county general fund. However, the distribution to a county under this subdivision must be credited to the state general fund if in a taxable year after 2012 the county is not levying a total of at least ten mills for combined levies for county road and bridge, farm-to-market and federal aid road, and county road purposes.

   b. Thirty-five percent must be distributed to school districts within the county on the average daily attendance distribution basis for kindergarten through grade twelve students residing within the county, as certified to the state treasurer by the county superintendent of schools. However, a hub city school district must be omitted from distributions under this subdivision.

   c. Twenty percent must be distributed to the incorporated cities of the county. A hub city must be omitted from distributions under this subdivision. Distributions among cities under this subsection must be based upon the population of each incorporated city according to the last official decennial federal census. In determining the population of any city in which total employment increases by more than two hundred percent seasonally due to tourism, the population of that city for purposes of this subdivision must be increased by eight hundred percent.

d. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

5. For a county that received five million dollars or more of allocations under subsection 2 in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, revenues allocated to that county must be distributed at least quarterly by the state treasurer as follows:

a. Sixty percent must be distributed to the county treasurer and credited to the county general fund. However, the distribution to a county under this subdivision must be credited to the state general fund if in a taxable year after 2012 the county is not levying a total of at least ten mills for combined levies for county road and bridge, farm-to-market and federal aid road, and county road purposes.

b. Five percent must be distributed to school districts within the county on the average daily attendance distribution basis for kindergarten through grade twelve students residing within the county, as certified to the state treasurer by the county superintendent of schools. However, a hub city school district must be omitted from distributions under this subdivision.

c. Twenty percent must be distributed to the incorporated cities of the county. A hub city must be omitted from distributions under this subdivision. Distributions among cities under this subsection must be based upon the population of each incorporated city according to the last official decennial federal census. In determining the population of any city in which total employment increases by more than two hundred percent seasonally due to tourism, the population of that city for purposes of this subdivision must be increased by eight hundred percent.

d. ~~Three~~One percent must be allocated among the organized and unorganized townships of the county. The state treasurer shall allocate the funds available under this subdivision among townships in proportion to each township's road miles relative to the total township road miles in the county. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads, which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships.

e. ~~Three~~One percent must be allocated among the organized and unorganized townships in all the counties that received five million dollars or more of allocations under subsection 2 in the most recently completed ~~state~~even-numbered fiscal year. The amount available under this subdivision must be allocated by the state treasurer in an equal amount to each eligible organized and unorganized township. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads, which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships.

f. Four percent must be allocated among the organized and unorganized townships in all the non-oil-producing counties. The amount available under this subdivision must be allocated by the state treasurer in an equal amount to each eligible organized and unorganized township. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships. For purposes of this subdivision, "non-oil-producing counties" means the counties that received no allocation or a total allocation of less than five million dollars under subsection 2 in the most recently completed even-numbered fiscal year.

g. Nine percent must be distributed among hub cities. Sixty percent of funds available under this subdivision must be distributed to the hub city receiving the highest percentage of allocations to hub cities under subdivision a of subsection 1 for the quarterly period, thirty percent of funds available under this subdivision must be distributed to the hub city receiving the second highest percentage of such allocations, and ten percent of funds available under this subdivision must be distributed to the hub city receiving the third highest percentage of such allocations. Hub cities, which are located in a county that did not receive an allocation under subsection 2 in the most recently completed even-numbered fiscal year, must be excluded from the allocations under this subsection. If fewer than three hub cities are eligible for the allocations under this subdivision, the state treasurer shall allocate the available funds in proportion to the amounts the eligible hub cities received under subdivision a of subsection 1.

h. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

6. Within thirty days after the end of each calendar year, the board of county commissioners of each county that has received an allocation under this section shall file a report for the calendar year with the commissioner, in a format prescribed by the commissioner, including:

   a. The county's statement of revenues and expenditures;

   b. The county's ending fund balances;

   c. The amounts allocated under this section to the county's general fund, the amounts expended from these allocations, and the purposes of the expenditures; and

   d. The amounts allocated under this section to or for the benefit of townships within the county, the amounts expended from these allocations, and the purposes of the expenditures.

   Within fifteen days after the time when reports under this subsection are due, the commissioner shall provide the reports to the legislative council compiling the information from reports received under this subsection.

7. Within thirty days after the end of each fiscal year ended June thirtieth, each school district that has received an allocation under this section shall file a report for the fiscal year ended June thirtieth with the commissioner, in a format prescribed by the commissioner, including:

   a. The school district's statement of revenue and expenditures;

   b. The school district's ending fund balances; and

   c. The amounts allocated under this section to the school district, the amounts expended from these allocations, and the purposes of the expenditures.

   Within fifteen days after the time when reports under this subsection are due, the commissioner shall provide the reports to the legislative council compiling the information from reports received under this subsection.

SECTION 14. DEPARTMENT OF TRUST LANDS - WILLISTON AIRPORT FUNDING REPAYMENTS - DEPOSIT. The city of Williston shall use the proceeds from the sale of the existing Williston airport, excluding any proceeds used to repay the Bank of North Dakota for outstanding loans related to the new airport, for repaying the department of trust lands up to $27,500,000 for a portion of the state's financial assistance provided for the new Williston airport. The department of trust lands shall deposit any funds received under this section in the strategic investment and improvements fund.

SECTION 15. LEGISLATIVE INTENT - HUB CITY BONDING. It is the intent of the sixty-fifth legislative assembly that during the period beginning July 1, 2017, and ending June 30, 2019, hub cities, as defined in section 57-51-01, not issue any new bonds based on anticipated future hub city oil tax revenue allocations under section 57-51-01.

SECTION 16. LEGISLATIVE INTENT - AGENCY EFFICIENCIES. It is the intent of the sixty-fifth legislative assembly that during the 2017-18 interim, the governor and the commissioner of university and school lands achieve efficiencies and budgetary savings within the department of trust lands through the use of innovative ideas and through alternative solutions relating to information technology.

SECTION 17. LEGISLATIVE INTENT - ENCOURAGEMENT OF ENERGY INFRASTRUCTURE INVESTMENT - COMMISSIONER OF UNIVERSITY AND SCHOOL LANDS - USE OF TERMS. It is the intent of the sixty-fifth legislative assembly that the state of North Dakota encourage the continued development of energy infrastructure that will help reduce instances of natural gas flaring and increase the market value received for oil and gas produced within the state generally and from state-owned lands specifically which will increase the value of royalties paid to the funds under the control of the board of university and school lands. Consistent with this intent, the commissioner of university and school lands shall continue to interpret the terms "gross production," "market value," and "gross proceeds of sale" in its lease form to mean a value determined at the producing well or associated production facility, or in the surrounding field or area, where the oil and gas was produced, before any post-production activities undertaken by the lessee, operator, or purchaser after the oil and gas has been transported from the producing well and associated production facility. These values must be determined by the amount received by the lessee in an arm's length contract, or in the absence of an arm's length contract, either a comparable sales method or a work-back calculation methodology consistent with state law.

SECTION 18. LEGISLATIVE MANAGEMENT STUDY - OIL AND GAS TAX REVENUE ALLOCATIONS TO HUB CITIES AND HUB CITY SCHOOL DISTRICTS.

1. During the 2017-18 interim, the legislative management shall consider studying oil and gas tax revenue allocations to hub cities and hub city school districts. The study must include consideration of the following:

    a. The current and historical oil and gas tax revenue allocations to hub cities and hub city school districts.

    b. Other state funding provided to hub cities and hub city school districts, including grants from the oil and gas impact grant fund, distributions from the strategic investment and improvements fund, state school aid payments, and payments from the state aid distribution fund and highway tax distribution fund.

    c. Local taxing and revenue levels in hub cities compared to cities in non-oil-producing counties, including mill levies, property tax values, local sales and use taxes, and other revenue sources.

    d. The appropriate level of oil and gas tax revenue allocations to hub cities and hub city school districts based on infrastructure and other needs.

    e. The estimated fiscal impact to hub cities, hub city school districts, other political subdivisions, and the state if the oil and gas tax revenue allocation formula would be changed to transition hub cities and hub city school districts from allocations under subsection 1 of section 57-51-15 to allocations under subsections 4 and 5 of section 57-51-15.

    f. The estimated fiscal impact to hub cities, hub city school districts, other political subdivisions, and the state if the oil and gas tax revenue allocation formula would be changed to discontinue the allocations to hub cities and hub city school districts under subsection 1 of section 57-51-15.

2. The membership of the committee assigned the responsibility of the study must proportionately reflect the state's population distribution between oil-producing counties and non-oil-producing counties and must include members from the finance and taxation committees and the appropriations committees.

3. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-sixth legislative assembly.

SECTION 19. EFFECTIVE DATE. Sections 12 and 13 of this Act are effective for taxable events occurring after June 30, 2017."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2013 - Department of Trust Lands - House Action

	Base Budget	Senate Version	House Changes	House Version
Salaries and wages	$6,123,516	$6,218,736	($390,266)	$5,828,470
Operating expenses	2,019,637	1,775,723	(23,025)	1,752,698
Capital assets		5,250,000	(5,250,000)	
Grants	99,300,000		40,000,000	40,000,000
Energy Infrastructure and Impact Office	700,000	220,717		220,717
Contingencies	100,000	100,000		100,000
Total all funds	$108,243,153	$13,565,176	$34,336,709	$47,901,885
Less estimated income	108,243,153	13,565,176	34,336,709	47,901,885
General fund	$0	$0	$0	$0
FTE	33.00	32.00	(2.00)	30.00

Department No. 226 - Department of Trust Lands - Detail of House Changes

	Adjusts Funding for Health Insurance Increases[1]	Removes Funding for FTE Positions[2]	Removes Funding for an Information Technology Project[3]	Adds Funding for Grants[4]	Total House Changes
Salaries and wages	($6,636)	($383,630)			($390,266)
Operating expenses		(23,025)			(23,025)
Capital assets			(5,250,000)		(5,250,000)
Grants				40,000,000	40,000,000
Energy Infrastructure and Impact Office					
Contingencies					
Total all funds	($6,636)	($406,655)	($5,250,000)	$40,000,000	$34,336,709
Less estimated income	(6,636)	(406,655)	(5,250,000)	40,000,000	34,336,709
General fund	$0	$0	$0	$0	$0
FTE	0.00	(2.00)	0.00	0.00	(2.00)

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[1] Funding for employee health insurance is adjusted to reflect the updated premium amount of $1,241 per month.

[2] Funding is removed as follows:

- $200,105 is removed for a geographic information system position, which was added by the Senate. Of the $200,105, $177,080 relates to salaries and wages, and $23,025 relates to operating expenses.
- $206,550 is removed for a project manager position.

[3] One-time funding of $5.25 million is removed for an information technology project. The Senate added this funding.

[4] One-time funding of $25 million is added from the oil and gas impact grant fund for grants to the Williston airport ($20 million) and the Dickinson airport ($5 million). One-time funding of $15 million is added from the strategic investment and improvements fund for a grant to the Williston airport.

This amendment also:

- Identifies the health insurance increase.
- Provides an exemption to allow an unspent grant to a flood-impacted political subdivision to be available in the 2017-19 biennium.
- Identifies $25 million from the oil and gas impact grant fund for an oil impact grant of $20 million to the Williston airport and a grant of $5 million to the Dickinson airport. This funding is available

to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project.

- Identifies $15 million from the strategic investment and improvements fund for a grant to the Williston airport. This funding is available to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project.
- Adds two advisory members that are appointed by the Speaker of the House and the President Pro Tempore to the board of university and school lands.
- Amends the oil and gas tax revenue allocation formulas (see the table below) and provides an effective date related to the formula changes.
- Provides that the city of Williston use the proceeds from the sale of the existing airport, up to $27.5 million, to repay the Department of Trust Lands for the state's financial assistance provided for the new airport.
- Provides a statement of legislative intent that hub cities not issue new bonds during the 2017-19 biennium based on anticipated future hub city oil tax revenue allocations.
- Provides a statement of legislative intent regarding efficiencies within the Department of Trust Lands.
- Provides a statement of legislative intent regarding the calculation of mineral royalties.
- Provides for a Legislative Management study by a committee with proportional geographic representation and members of the Finance and Taxation and Appropriations Committees regarding the oil and gas tax revenue allocations to hub cities and hub city school districts.

Senate Bill No. 2013 - Other Changes - House Action

Current Law	Proposed Changes
Hub city definition	**Hub city definition**
•After August 31, 2017, a hub city is based on mining employment.	•No change to current law.
Hub city and hub city school district allocations	**Hub city and hub city school district allocations**
•Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment.	•Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment exceeding 2 percent.
•Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment.	•Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment exceeding 2 percent.
•Hub city school districts receive an annual allocation of $125,000 per full or partial percentage point of mining employment, excluding hub city school districts located in non-oil-producing counties.	•Hub city school districts in oil-producing counties receive an annual allocation of $125,000 per full or partial percentage point of mining employment exceeding 2 percent.
Supplemental school district allocation	**Supplemental school district allocation**
•Eligible counties receive an annual allocation of $1.5 million for distributions to school districts in the county.	•Changes the annual allocation to provide a specific amount based on the oil and gas tax allocations received by the county in the most recently completed even-numbered fiscal year. The specific amounts range from $500,000 to $1.5 million per year.
North Dakota outdoor heritage fund allocations	**North Dakota outdoor heritage fund allocations**
•From the 1 percent of the 5 percent oil and gas gross production tax, 8 percent is allocated to the North Dakota outdoor heritage fund, up to $20 million per fiscal year.	•Decreases the amount allocated to the North Dakota outdoor heritage fund by changing the limit from $20 million per fiscal year to $10 million for the 2017-19 biennium.
Abandoned oil and gas well plugging and site reclamation fund allocations	**Abandoned oil and gas well plugging and site reclamation fund allocations**
•From the 1 percent of the 5 percent oil and gas gross production tax, 4 percent is allocated to the abandoned oil and gas well plugging and site reclamation fund, up to $7.5 million per fiscal year.	•Decreases the amount allocated to the abandoned oil and gas well plugging and site reclamation fund by changing the limit from $7.5 million per fiscal year to $4 million per fiscal year for the 2017-19 biennium.
Oil and gas impact grant fund allocations	**Oil and gas impact grant fund allocations**
•Up to $100 million per biennium is allocated to the oil and gas impact grant fund.	•Decreases the allocation to the oil and gas impact grant fund from $100 million per biennium to $25 million per biennium for the 2017-19 biennium and provides an allocation of $5 million per biennium to the oil and gas impact grant fund after the 2017-19 biennium.

Current law	Proposed change
Distributions to political subdivisions	**Distributions to political subdivisions**
• The distributions to political subdivisions in North Dakota Century Code Sections 57-51-15(4) and 57-51-15(5) are based on the oil and gas tax allocations received by a county in fiscal year 2014.	• Changes the basis for the distributions to political subdivisions in Sections 57-51-15(4) and 57-51-15(5) to reflect the oil and gas tax allocations received by a county in the most recently completed even-numbered fiscal year rather than fiscal year 2014.
• From the 4 percent of the 5 percent oil and gas gross production tax, 30 percent of all revenue above $5 million is allocated to the county with the remaining 70 percent allocated to the state.	• No change to current law.
• The distributions to political subdivisions are as follows:	• The proposed changes to the distributions to political subdivisions are as follows:

Current law:

	Counties - Less Than $5 Million	Counties - $5 Million Or More
County general fund	45%	60%
Cities	20%	20%
Schools	35%	5%
Townships (equal)		3%
Townships (road miles)		3%
Hub cities		9%

Proposed change:

	Counties - Less Than $5 Million	Counties - $5 Million Or More
County general fund	45%	60%
Cities	20%	20%
Schools	35%	5%
Townships (equal)		1%
Townships (road miles)		1%
Townships (non-oil)		4%
Hub cities		9%

Current law	Proposed change
• From the counties' share in counties that received $5 million or more of oil and gas tax allocations, 9 percent is distributed to the three hub cities with the highest percentage of mining employment.	• Clarifies the distribution to hub cities to exclude hub cities that are located in non-oil-producing counties and to provide proportional allocations if less than three hub cities qualify for the distributions.

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17.9668.08000 **Prepared for Representative Delzer**

2017-19 BIENNIUM OIL AND GAS TAX ALLOCATION FORMULAS - PROPOSED CHANGES

The schedule below compares current law to proposed changes for the 2017-19 biennium oil and gas tax allocation formulas.

2017-19 Biennium Oil and Gas Tax Allocation Formulas	
Current Law	**Proposed Changes - Engrossed Senate Bill No. 2013 with Amendments [17.0521.02014]**
Hub city definition • After August 31, 2017, a hub city is based on mining employment.	**Hub city definition** • No change to current law.
Hub city and hub city school district allocations • Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment.	**Hub city and hub city school district allocations** • Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment exceeding 2 percent.
• Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment.	• Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment exceeding 2 percent.
• Hub city school districts receive an annual allocation of $125,000 per full or partial percentage point of mining employment, excluding hub city school districts located in non-oil-producing counties.	• Hub city school districts in oil-producing counties receive an annual allocation of $125,000 per full or partial percentage point of mining employment exceeding 2 percent.
Supplemental school district allocation • Eligible counties receive an annual allocation of $1.5 million for distributions to school districts in the county.	**Supplemental school district allocation** • Changes the annual allocation to provide a specific amount based on the oil and gas tax allocations received by the county in the most recently completed even-numbered fiscal year. The specific amounts range from $500,000 to $1.5 million per year.
North Dakota outdoor heritage fund allocations • From the 1 percent of the 5 percent oil and gas gross production tax, 8 percent is allocated to the North Dakota outdoor heritage fund, up to $20 million per fiscal year.	**North Dakota outdoor heritage fund allocations** • Decreases the amount allocated to the North Dakota outdoor heritage fund by changing the limit from $20 million per fiscal year to $10 million per biennium only for the 2017-19 biennium.
Abandoned oil and gas well plugging and site reclamation fund allocations • From the 1 percent of the 5 percent oil and gas gross production tax, 4 percent is allocated to the abandoned oil and gas well plugging and site reclamation fund, up to $7.5 million per fiscal year.	**Abandoned oil and gas well plugging and site reclamation fund allocations** • Decreases the amount allocated to the abandoned oil and gas well plugging and site reclamation fund by changing the limit from $7.5 million per fiscal year to $4 million per fiscal year only for the 2017-19 biennium.
Oil and gas impact grant fund allocations • Up to $100 million per biennium is allocated to the oil and gas impact grant fund.	**Oil and gas impact grant fund allocations** • Decreases the allocation to the oil and gas impact grant fund from $100 million per biennium to $25 million per biennium for the 2017-19 biennium and provides an allocation of $5 million per biennium to the oil and gas impact grant fund after the 2017-19 biennium.
Distributions to political subdivisions • The distributions to political subdivisions in North Dakota Century Code Sections 57-51-15(4) and 57-51-15(5) are based on the oil and gas tax allocations received by a county in fiscal year 2014.	**Distributions to political subdivisions** • Changes the basis for the distributions to political subdivisions in Sections 57-51-15(4) and 57-51-15(5) to reflect the oil and gas tax allocations received by a county in the most recently completed even-numbered fiscal year rather than fiscal year 2014.
• From the 4 percent of the 5 percent oil and gas gross production tax, 30 percent of all revenue above $5 million is allocated to the county with the remaining 70 percent allocated to the state.	• No change to current law.

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2017-19 Biennium Oil and Gas Tax Allocation Formulas	
Current Law	**Proposed Changes - Engrossed Senate Bill No. 2013 with Amendments [17.0521.02014]**
• The distributions to political subdivisions are as follows: (see table A below)	• The proposed changes to the distributions to political subdivisions are as follows: (see table B below)
• From the counties' share in counties that received $5 million or more of oil and gas tax allocations, 9 percent is distributed to the 3 hub cities with the highest percentage of mining employment.	• Clarifies the distribution to hub cities to exclude hub cities that are located in non-oil-producing counties and to provide proportional allocations if less than 3 hub cities qualify for the distributions.
	Other related sections • Appropriates $25 million from the oil and gas impact grant fund to the Department of Trust Lands for oil impact grants of $20 million to the Williston airport and $5 million to the Dickinson airport. This funding is available to the Williston airport only when any related federal funding is committed and available to be spent. • Appropriates $15 million from the strategic investment and improvements fund to the Department of Trust Lands for a grant to the Williston airport. • Provides that the city of Williston use the proceeds from the sale of the existing airport, up to $27.5 million to repay the Department of Trust Lands for the state's financial assistance provided for the new airport. • Provides a statement of legislative intent that hub cities not issue new bonds during the 2017-19 biennium based on anticipated future hub city oil tax revenue allocations. • Provides for a Legislative Management study by a committee with proportional geographic representation and members of the finance and taxation and the appropriations committees regarding oil and gas gross production tax allocations to hub cities and hub city school districts, including possible changes to the allocation formulas.

Current Law:

	Counties - Less Than $5 Million	Counties - $5 Million Or More
County general fund	45%	60%
Cities	20%	20%
Schools	35%	5%
Townships (equal)		3%
Townships (road miles)		3%
Hub cities		9%

Proposed Changes:

	Counties - Less Than $5 Million	Counties - $5 Million Or More
County general fund	45%	60%
Cities	20%	20%
Schools	35%	5%
Townships (equal)		1%
Townships (road miles)		1%
Townships (non-oil)		4%
Hub cities		9%

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ESTIMATED OIL AND GAS TAX ALLOCATIONS

The schedule below provides information on the estimated oil and gas tax allocations for the 2017-19 biennium based on current law and the proposed changes in **House Bill No. 1152 and Senate Bill No. 2013**. The estimated allocations are based on an average oil price of $47 per barrel for the entire 2017-19 biennium and are based on average daily oil production of 925,000 barrels per day for the 1st year of the 2017-19 biennium and 950,000 barrels per day for the 2nd year of the 2017-19 biennium. The employment percentages are estimated for the 2017-19 biennium based on the most recent data available from Job Service North Dakota.

2017-19 Biennium Oil and Gas Tax Allocations	Current Law	Proposed Changes
Three Affiliated Tribes	$223,210,000	$223,210,000
Legacy fund	869,060,000	869,060,000
North Dakota outdoor heritage fund	21,410,000	10,870,000
Abandoned well reclamation fund	10,700,000	8,430,000
Oil and gas impact grant fund	104,110,000	29,110,000
Political subdivisions[1]	509,110,000	500,490,000
Common schools trust fund	133,550,000	133,550,000
Foundation aid stabilization fund	133,550,000	133,550,000
Resources trust fund	267,100,000	267,100,000
Oil and gas research fund	10,000,000	10,000,000
General fund	300,000,000	400,000,000
Tax relief fund	300,000,000	300,000,000
Budget stabilization fund	0	100,000,000
Lignite research fund	0	3,000,000
Strategic investment and improvements fund	216,270,000	131,700,000
State disaster relief fund	22,000,000	0
Total oil and gas tax revenue allocations	$3,120,070,000	$3,120,070,000

[1]The amounts shown for the allocations to political subdivisions reflect 1 month of allocations based on the 2015-17 biennium allocation formulas and 23 months based on the 2017-19 biennium formulas, and the amounts include the following:

	Employment Percentages			
	Current Law	Proposed Changes	Current Law	Proposed Changes
Hub Cities				
Williston[2]	35	33	$49,690,000	$47,990,000
Dickinson[2]	19	17	26,100,000	24,520,000
Minot[2]	6	4	8,450,000	6,970,000
Mandan	2		1,130,000	170,000
Bismarck[3]			80,000	80,000
West Fargo[3]			100,000	100,000
Jamestown[3]			40,000	40,000
Fargo[3]			0	0
Grand Forks[3]			40,000	40,000
Total hub cities	62	54	$85,630,000	$79,910,000
Hub city school districts			15,440,000	14,000,000
Counties			255,790,000	255,050,000
Cities (excluding hub cities)			85,590,000	85,590,000
Schools (excluding hub city school districts)			41,380,000	40,960,000
Townships in oil-producing counties			25,280,000	8,900,000
Townships in non-oil-producing counties			0	16,080,000
Total			$509,110,000	$500,490,000

[2]The amounts shown for these hub cities include distributions from the 9 percent allocation under the 4 percent of the 5 percent oil and gas gross production tax. Under current law, the distributions include the following: Williston, $22,750,000; Dickinson, $11,380,000; and Minot, $3,790,000. Under the proposed changes, the distributions include the following: Williston, $22,480,000; Dickinson, $11,240,000; and Minot, $3,750,000.

The distributions decrease under the proposed changes because the distributions in Bottineau County would be based on the percentages for a county that received less than $5 million of total oil and gas gross production tax allocations resulting in a decrease in oil and gas tax gross production tax collections available for the 9 percent allocation.

[3]The amounts shown for these hub cities reflect estimated allocations for August 2017 during which the allocation formulas for the 2015-17 biennium remain in effect since the 2017-19 biennium formulas become effective in September 2017.

NOTE: The amounts reflected in these schedules are preliminary estimates. **The actual amounts allocated for the 2017-19 biennium may differ significantly from these amounts** based on actual oil price and oil production.

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DEPARTMENT OF
ND TRUST LANDS
INVESTING FOR EDUCATION

Lance D. Gaebe, Commissioner

Date: April 18, 2017

To: Members of the Conference Committee on Senate Bill 2013

cc: Board of University and School Lands

From: Lance Gaebe, Commissioner of University and School Lands

Re: SB 2013 and Department of Trust Lands' budget request

The Department of Trust Lands has appreciated working with the Legislature in its review of SB 2013, the appropriations bill for the Commissioner of University and School Lands and Department of Trust Lands (Department).

At the request of the Governor, the Department submitted a budget which reduced its authorized operating and salary expenses by ten percent, including dropping its authorized FTE count by two.

In a supplemental request, the Department sought FTE authority for a GIS (geographic information systems) technician and a mineral title specialist. The Department also requested budget authority to implement a comprehensive information technology system upgrade (IT project) as a one-time $5.5 million capital asset. This project is critical to resolving many of the data challenges highlighted by the State Auditor in 2016. The three-year project involves accounting; lands, minerals and royalty management; GIS capabilities; unclaimed property; and energy impact grants management.

The Senate passed SB 2013 with reductions in operating expenses, one FTE less than the Department's current authorization, and a slight reduction of funding authority to $5.2 million for the IT project.

In later action, the House of Representatives:

a) Reduced currently authorized FTEs from 33 to 30.

b) Eliminated the entire $5.2 million authority for the comprehensive IT project - and added language that "the governor and the commissioner of university and school lands achieve efficiencies and budgetary savings within the department of trust lands through the use of innovative ideas and through alternative solutions relating to information technology."

c) Provided a carryover exemption for the remaining balance of $1.325 million for a Flood Impact Grant awarded to Minot in 2012.

d) Reduced the Energy Impact Grant program from $140 million to $25 million and earmarked $20 million to the Williston airport and $5 million to the Dickinson airport, essentially eliminating the discretionary Energy Impact Grant Program.

e) Added $15 million from the Strategic Investment and Improvements Fund for a Williston airport grant.

f) Added intent language encouraging the Board / Commissioner to interpret "gross production," "market value" and "gross proceeds of sale" of the Board's oil and gas lease to the advantage of producers - "to encourage the continued development of energy infrastructure that will help reduce instances of natural gas flaring and increase the market value received for oil and gas produced within the state . . ." The amendment was added at the request of Continental Resources.

g) Added substantial language related to a revised formula for distribution of Gross Production Tax to hub cities, western school districts and counties, and to townships both within and outside of oil counties. The Bill changes allocations to the Outdoor Heritage Fund, the Abandoned Well Fund and the Oil and Gas Impact Grant Fund.

h) Added an amendment to add two nonvoting advisory members to the Land Board, one appointed by the Speaker of the House and the other appointed by the President Pro Tempore of the Senate.

On behalf of the Board and the Department, I request the Conference Committee:

1) **Restore the spending authority for the three-year $5.5 million IT project.**
   - The business process modeling consultant identified several opportunities for process improvements:
     - Automation of reporting data entry and royalty management/audit functions;
     - Automated and streamlined accounting processes to enhance accuracy and dependability;
     - Standardized secure fund transfers and ACH payment mechanisms;
     - Secure web applications for unclaimed property reporting and claim submittals;
     - Enhanced internal and public access to more data for review and analysis, and tabulated aggregated or specific tract or transaction information;
     - Electronic file management storage and retrieval tools.

2) **Remove the provision which adds advisory members to the constitutionally established Board of University and School Lands.**

3) **Remove the statement of legislative intent which misrepresents that it is the Board's practice to allow deductions to royalties on the price paid on gross proceeds of oil and gas sales.**

4) **Reauthorize two FTEs:**

   - One project manager to oversee the design, preparation, and implementation of the comprehensive IT project; and
   - One GIS specialist to assist with electronic maps and digital data to support surface and minerals management; and to enhance access to data by lessees, permittees and other state agencies.

Additionally, the Legislature is considering HB 1300 and SB 2134 that, if passed, will have obvious impact on the Department and Board operations. Neither authorizes an appropriation for costs to support implementation.

HB 1300 will make the Board an Administrative Agency under N.D.C.C. ch. 28-32. The bill will replace existing statutory authority to adopt rules with administrative processes and it will implement adjudicative proceedings for most Board decisions.

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The Department's estimate of the fiscal impact included additional ongoing costs that will be incurred for legal assistance and administrative hearing officers to conduct adjudicative proceedings; and estimated the need for two additional staff to help manage the process. The Department's fiscal estimate of legal, administrative, drafting and hearings costs exceeded $600,000 in each of the next two biennia.

The Department requests that the conference committee authorize:

5) **Funding for costs and an Administrative Staff Officer and a Legal Assistant to assist with drafting and adopting rules and with processes relating to adjudicative proceedings under the Administrative Agencies Practice Act (AAPA).**

The estimated expenditures included salary, benefits and associated overhead for two additional staff - one Administrative Staff Officer III (Grade L - $204,673 per biennium) and a Legal Assistant II (Grade J - $183,097).

The additional authority for legal costs and administrative hearing officer expense to conduct adjudicative proceedings should be appropriated from outside of the constitutional trust funds because the Constitution states that permanent trusts must not be diverted from the benefit of the common schools and other beneficiaries.

As there is an aggressive time-frame to implement rules relating to most Board responsibilities, it will be difficult for the Board and Department to comply with the AAPA by the August 1, 2017 effective date, the Department also requests:

6) **The committee implement a two-year delay in the effective date of HB 1300.**

SB 2134 adopts a definition of sovereign minerals within Missouri River reservoirs different from how the Board has leased based upon the historical ordinary high water mark of the River. The bill implements a study to determine the location of sovereign lands, which does not involve the Department. However, following adoption of the study, the bill directs an adjustment of State mineral leases and refunds within specified six-month and two-year timeframes.

To accommodate the adjustment of an estimated 450 leases on up to 25,000 acres, the Department will need additional staff resources. SB 2134 has a delayed impact because an Industrial Commission Study may take nearly one year, but once adopted the tight timeframes for refunds are stipulated and the Department requests:

7) **Authorization for an additional mineral title specialist**.

The requested FTE would have a legal background or formal landman training and certification. The Mineral Title Specialist (Grade L) costs an estimated $206,976 per biennium with benefits and overhead.

Present Department staff is fully engaged with day-to-day responsibility managing trust and State assets, complying with existing statutory requirements and deadlines, implementing performance audit recommendations, and preparing for information technology upgrades. The existing staff cannot implement the requirements of these bills without additional staff and funding.

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FIRST ENGROSSMENT

SB 2013 Conf.

Sixty-fifth Legislative Assembly of North Dakota

ENGROSSED SENATE BILL NO. 2013

4-24-17

Introduced by

Appropriations Committee

#1

A BILL for an Act to provide an appropriation for defraying the expenses of the commissioner of university and school lands; to provide an appropriation to the state treasurer; to provide for transfers; to provide for distributions from permanent funds; ~~and to provide an exemption~~to create and enact a new section to chapter 57-51 of the North Dakota Century Code, relating to the energy impact fund; to amend and reenact subsection 5 of section 57-51-01 and sections 57-51-15 and 57-51.1-07.6 of the North Dakota Century Code, relating to oil and gas gross production tax definitions and allocations and the political subdivision allocation fund; to provide exemptions; to provide for reports; to provide statements of legislative intent; to provide for a legislative management study; and to provide an effective date.

BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:

SECTION 1. APPROPRIATION. The funds provided in this section, or so much of the funds as may be necessary, are appropriated from special funds derived from the state lands maintenance fund, the strategic investment and improvements fund, the energy impact fund, and the oil and gas impact grant fund in the state treasury, to the commissioner of university and school lands for the purpose of defraying the expenses of the commissioner of university and school lands, for the biennium beginning July 1, 2017, and ending June 30, 2019, as follows:

	Base Level	Adjustments or Enhancements	Appropriation
~~Salaries and wages~~	~~$6,123,516~~	~~$95,220~~	~~$6,218,736~~
~~Operating expenses~~	~~2,019,637~~	~~(243,914)~~	~~1,775,723~~
~~Capital assets~~	~~0~~	~~5,250,000~~	~~5,250,000~~
~~Grants~~	~~99,300,000~~	~~(99,300,000)~~	~~0~~
~~Contingencies~~	~~100,000~~	~~0~~	~~100,000~~

~~Energy infrastructure and impact office~~	~~700,000~~	~~(479,283)~~	~~220,717~~
~~Total special funds~~	~~$108,243,153~~	~~($94,677,977)~~	~~$13,565,176~~
~~Full-time equivalent positions~~	~~33.00~~	~~(1.00)~~	~~32.00~~
Salaries and wages	$6,123,516	($117,966)	$6,005,550
Operating expenses	2,019,637	(243,914)	1,775,723
Capital assets	0	3,600,000	3,600,000
Grants	99,300,000	(59,300,000)	40,000,000
Contingencies	100,000	0	100,000
Energy infrastructure and impact office	700,000	(700,000)	0
Total special funds	$108,243,153	($56,761,880)	$51,481,273
Full-time equivalent positions	33.00	(2.00)	31.00

SECTION 2. HEALTH INSURANCE INCREASE. The appropriation in section 1 of this Act includes $84,948 from special funds for increases in employee health insurance premiums from $1,130 to $1,241 per month.

SECTION 3. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO THE SIXTY-SIXTH LEGISLATIVE ASSEMBLY. The following amounts reflect the one-time funding items approved by the sixty-fourth legislative assembly for the 2015-17 biennium and the 2017-19 biennium one-time funding items included in the appropriation in section 1 of this Act:

One-Time Funding Description	2015-17	2017-19
~~Information technology project~~	~~$0~~	~~$5,250,000~~
~~Total other funds~~	~~$0~~	~~$5,250,000~~
Oil and gas impact grants - airports	$0	$25,000,000
Other grants - airports	0	15,000,000
Information technology project	0	3,600,000
Total special funds	$0	$43,600,000

The 2017-19 biennium one-time funding amounts are not a part of the entity's base budget for the 2019-21 biennium. The commissioner of university and school lands shall report to the appropriations committees of the sixty-sixth legislative assembly on the use of this one-time funding for the biennium beginning July 1, 2017, and ending June 30, 2019.

~~**SECTION 4. APPROPRIATION LINE ITEM TRANSFERS.** Upon approval of the board of university and school lands, the commissioner of university and school lands may transfer~~

~~between the various line items in section 1 of this Act, including transfers from the contingencies line item to all other line items. The commissioner shall notify the office of management and budget and the legislative council of each transfer made pursuant to this section.~~

SECTION 4. APPROPRIATION - STATE TREASURER - DISTRIBUTIONS TO NON-OIL-PRODUCING COUNTIES. There is appropriated out of any moneys in the strategic investment and improvements fund in the state treasury, not otherwise appropriated, the sum of $8,000,000, or so much of the sum as may be necessary, and out of any moneys in the state disaster relief fund in the state treasury, not otherwise appropriated, the sum of $8,100,000, or so much of the sum as may be necessary, to the state treasurer for the purpose of providing distributions to non-oil-producing counties for the benefit of the organized and unorganized townships within each non-oil-producing county, for the biennium beginning July 1, 2017, and ending June 30, 2019. In August 2017, the state treasurer shall distribute $16,100,000, or so much of the sum as may be necessary, to non-oil-producing counties for the benefit of the organized and unorganized townships within each non-oil-producing county. The distribution to each non-oil-producing county must provide for an allocation of $10,000 to each organized and unorganized township within the county. The amount allocated to organized townships under this section must be paid by the county treasurer to each organized township. The amount allocated to unorganized townships under this section must be credited by the county treasurer to a special fund for unorganized township roads. The distributions under this section must be used for the maintenance and improvement of township paved and unpaved roads and bridges. A township is not eligible for an allocation of funds under this section if the township does not maintain any township roads. For purposes of this subsection, a "non-oil-producing county" means a county that received no allocation of funding or a total allocation under subsection 2 of section 57-51-15 of less than $5,000,000 for the period beginning September 1, 2015, and ending August 31, 2016. For the purposes of calculating the unobligated balance of the state disaster relief fund under section 57-51.1-07.5, the moneys appropriated in this section from the state disaster relief fund may not be considered an obligation of the state disaster relief fund until after July 31, 2017. The funding appropriated in this section is considered a one-time funding item.

SECTION 5. TRANSFER - POLITICAL SUBDIVISION ALLOCATION FUND TO ENERGY IMPACT FUND. The state treasurer shall transfer $8,000,000 from the political subdivision allocation fund to the energy impact fund during August 2017.

SECTION 6. TRANSFER - POLITICAL SUBDIVISION ALLOCATION FUND TO STRATEGIC INVESTMENT AND IMPROVEMENTS FUND. After the transfer in section 5 of this Act, the state treasurer shall transfer any amount remaining in the political subdivision allocation fund from the political subdivision allocation fund to the strategic investment and improvements fund during August 2017.

SECTION 7. TRANSFER - STRATEGIC INVESTMENT AND IMPROVEMENTS FUND TO ENERGY IMPACT FUND. The state treasurer shall transfer $3,000,000 from the strategic investment and improvements fund to the energy impact fund during August 2017.

SECTION 8. DISTRIBUTIONS TO STATE INSTITUTIONS. Pursuant to article IX of the Constitution of North Dakota, the board of university and school lands shall distribute during the biennium beginning July 1, 2017, and ending June 30, 2019, the following amounts, from the permanent funds managed for the benefit of the following entities:

Commons schools	$288,264,000
North Dakota state university	4,738,000
University of North Dakota	3,662,000
Youth correctional center	1,422,000
School for the deaf	1,598,000
North Dakota state college of science	1,446,286
State hospital	1,370,286
Veterans' home	622,286
Valley City state university	808,000
North Dakota vision services - school for the blind	840,286
Mayville state university	542,000
Dakota college at Bottineau	186,286
Dickinson state university	186,286
Minot state university	186,286
Total	$305,872,002

SECTION 9. ONE-TIME ADJUSTMENT TO DISTRIBUTIONS TO STATE INSTITUTIONS. Pursuant to article IX of the Constitution of North Dakota and in addition to the distributions in section 4 of this Act, the board of university and school lands shall distribute during the biennium beginning July 1, 2017, and ending June 30, 2019, the following one-time corrections resulting from the misallocation of prior mineral revenues, from the permanent funds managed for the benefit of the following entities:

North Dakota state college of science	$89,698
State hospital	89,698
Veterans' home	89,698
North Dakota vision services - school for the blind	89,698
Dakota college at Bottineau	89,698
Dickinson state university	89,698
Minot state university	89,698
Youth correctional center	(621,186)
Total	$6,700

SECTION 10. EXEMPTION - OIL AND GAS IMPACT GRANT FUND. The amount appropriated from the oil and gas impact grant fund for the energy infrastructure and impact office line item in section 1 of chapter 13 of the 2015 Session Laws and for oil and gas impact grants in section 5 of chapter 463 of the 2015 Session Laws is not subject to section 54-44.1-11. Any money deposited in the fund for taxable events occurring through June 30, 2017, and any unexpended funds from the appropriation are available for grants and administrative costs associated with the fund during the biennium beginning July 1, 2017, and ending June 30, 2019.

SECTION 11. EXEMPTION - FLOOD-IMPACTED POLITICAL SUBDIVISION INFRASTRUCTURE DEVELOPMENT GRANTS. Up to $1,325,500 appropriated from the general fund in section 10 of chapter 579 of the 2011 Session Laws for flood-impacted political subdivision infrastructure development grants, which was awarded but not yet reimbursed to the city of Minot for a landfill expansion project, is not subject to section 54-44.1-11, and any unexpended funds are available to reimburse the city of Minot during the biennium beginning July 1, 2017, and ending June 30, 2019.

SECTION 12. INFORMATION TECHNOLOGY PROJECT - BUDGET SECTION APPROVAL - LEGISLATIVE INTENT - AGENCY EFFICIENCIES. The capital assets line item and the total special funds line item in section 1 of this Act include $3,600,000 from the state lands maintenance fund for an information technology project. Of the $3,600,000, $1,800,000 may be spent only upon approval of the budget section. It is the intent of the sixty-fifth legislative assembly that during the 2017-18 interim, the governor and the commissioner of university and school lands achieve efficiencies and budgetary savings within the department of trust lands through the use of innovative ideas and through alternative solutions relating to information technology.

SECTION 13. OIL AND GAS IMPACT GRANT FUND - AIRPORT GRANTS. The grants line item and the total special funds line item in section 1 of this Act include the sum of $25,000,000 from the oil and gas impact grant fund for grants to airports, for the biennium beginning July 1, 2017, and ending June 30, 2019. Of the $25,000,000, the board of university and school lands shall award a grant of $20,000,000 to the Williston airport and a grant of $5,000,000 to the Dickinson airport. A grant may be awarded to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

SECTION 14. ENERGY IMPACT FUND - WILLISTON AIRPORT GRANT. The grants line item and the total special funds line item in section 1 of this Act include the sum of $15,000,000 from the energy impact fund for a grant to the Williston airport, for the biennium beginning July 1, 2017, and ending June 30, 2019. A grant may be awarded to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

SECTION 15. AMENDMENT. Subsection 5 of section 57-51-01 of the North Dakota Century Code is amended and reenacted as follows:

5. "Hub city" means~~, for the period beginning September 1, 2015, and ending August 31, 2017, a city with a population of twelve thousand five hundred or more, according to the last official decennial federal census, which has more than one percent of its private covered employment engaged in oil and gas-related employment, according to~~

~~annual data compiled by job service North Dakota. "Hub city" means, after August 31, 2017,~~ a city with a population of twelve thousand five hundred or more, according to the last official decennial federal census, which has more than ~~one~~two percent of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota.

SECTION 16. AMENDMENT. Section 57-51-15 of the North Dakota Century Code is amended and reenacted as follows:

57-51-15. Gross production tax allocation.

The gross production tax must be allocated monthly as follows:

1. ~~First the~~The tax revenue collected under this chapter equal to one percent of the gross value at the well of the oil and one-fifth of the tax on gas must be deposited with the state treasurer~~ who shall~~. The state treasurer shall allocate the funding in the following order:

   a. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city, which is located in a county that received an allocation under subsection 2, a monthly amount that will provide a total allocation of three hundred seventy-five thousand dollars per fiscal year for each full or partial percentage point of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city, which is located in a county that received an allocation under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of three hundred seventy-five thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~;~~. For purposes of the allocations under this subdivision during the period beginning September 1, 2017, and ending August 31, 2018, the state treasurer shall use the following employment percentages:

      (1) Thirty-three percent for the city of Williston;

      (2) Seventeen percent for the city of Dickinson; and

(3) Four percent for the city of Minot.

b. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city, which is located in a county that did not receive an allocation under subsection 2, a monthly amount that will provide a total allocation of two hundred fifty thousand dollars per fiscal year for each full or partial percentage point of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city, which is located in a county that did not receive an allocation under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of two hundred fifty thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~;~~.

c. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city school district, which is located in a county that received an allocation under subsection 2, a monthly amount that will provide a total allocation of one hundred twenty-five thousand dollars per fiscal year for each full or partial percentage point of the hub city's private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city school district, which is located in a county that received an allocation under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one hundred twenty-five thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of the hub city's private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~, provided that hub~~. Hub city school districts, which are located in a county that did not receive an allocation under subsection 2 in the most recently completed even-numbered fiscal year, must be excluded from the allocations under this subdivision~~;~~. For purposes of the allocations under this subdivision during the period beginning September 1, 2017, and ending August 31, 2018, the state treasurer shall use the following employment percentages:

(1) Thirty-three percent for the city of Williston;

(2) Seventeen percent for the city of Dickinson; and

(3) Four percent for the city of Minot.

d. ~~Allocate to~~To each county that received more than five million dollars but less than thirty million dollars of total allocations under subsection 2 in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, the state treasurer shall allocate a monthly amount that will ~~provide a total allocation of one million five hundred thousand dollars per fiscal year to be added by the state treasurer~~be added to the allocations to school districts under subdivision b of subsection 5~~;~~

~~e. Credit revenues to the oil and gas impact grant fund, but not in an amount exceeding one hundred forty million dollars per biennium for the 2015-17 biennium, and not in an amount exceeding one hundred million dollars per biennium thereafter;~~

~~f. Credit eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding twenty million dollars in a state fiscal year and not in an amount exceeding forty million dollars per biennium;~~

~~g. Credit four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding seven million five hundred thousand dollars in a state fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars; and~~

~~h. Allocate the remaining revenues under subsection 3~~, as follows:

(1) To each county that received more than five million dollars but not exceeding ten million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million five hundred thousand dollars per fiscal year. The allocation must be

distributed to school districts within the county pursuant to subdivision b of subsection 5.

(2) To each county that received more than ten million dollars but not exceeding fifteen million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million two hundred fifty thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(3) To each county that received more than fifteen million dollars but not exceeding twenty million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(4) To each county that received more than twenty million dollars but not exceeding twenty-five million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of seven hundred fifty thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(5) To each county that received more than twenty-five million dollars but not exceeding thirty million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of five hundred thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

e. (1) For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding ten million dollars per biennium. For purposes of this paragraph, "biennium" means the period beginning September first of each odd-numbered calendar year and ending August thirty-first of the following odd-numbered calendar year.

(2) After August 31, 2019, the state treasurer shall allocate eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding twenty million dollars per fiscal year.

f. (1) For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding four million dollars per fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars.

(2) After August 31, 2019, the state treasurer shall allocate four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding seven million five hundred thousand dollars per fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars.

g. For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate the remaining revenues in the following order:

(1) Up to twenty-five million dollars to the oil and gas impact grant fund.

(2) Any remaining revenues under subsection 3.

h. After August 31, 2019, the state treasurer shall allocate the remaining revenues in the following order:

(1) Up to five million dollars per biennium to the oil and gas impact grant fund. For purposes of this paragraph, "biennium" means the period beginning September first of each odd-numbered calendar year and ending August thirty-first of the following odd-numbered calendar year.

(2) Any remaining revenues under subsection 3.

i. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

2. a. During the period beginning September 1, 2017, and ending August 31, 2019, for counties that received less than five million dollars of total allocations under this subsection in the most recently completed even-numbered fiscal year, then after deduction of the amount provided in subsection 1, the state treasurer shall allocate revenue collected under this chapter from oil and gas produced in each county as follows:

(1) The first five million dollars of collections received each fiscal year is allocated to the county.

(2) The remaining revenue collections received each fiscal year are allocated thirty percent to the county and seventy percent to the state for allocations under subsection 3.

b. During the period beginning September 1, 2017, and ending August 31, 2019, for counties that received five million dollars or more of total allocations under this subsection in the most recently completed even-numbered fiscal year, then after deduction of the amount provided in subsection 1, the state treasurer shall allocate revenue collected under this chapter from oil and gas produced in each county as follows:

(1) The first five million dollars of collections received each fiscal year is allocated to the county. From the first five million dollars allocated to the county, the state treasurer shall allocate an amount from each county to the energy impact fund to provide a total allocation of two million per fiscal year to the fund. The amount allocated from each county to the energy impact fund under this paragraph must be proportional the county's monthly oil and gas gross production tax revenue collected relative to the total monthly oil and gas gross production tax revenue collected from all the counties under this subdivision. The state treasurer shall allocate the amount remaining from this paragraph to the county under subsection 5. For the purposes of determining the counties that received five million dollars or more of total

allocations under this subsection in the most recently completed even-numbered fiscal year under this section, any amounts withheld from the county for allocations to the energy impact are considered allocations to the county.

(2) The remaining revenue collections received each fiscal year are allocated thirty percent to the county and seventy percent to the state for allocations under subsection 3.

c. After deduction of the amount provided in subsection 1, annual revenue collected under this chapter from oil and gas produced in each county must be allocated after August 31, 2019, as follows:

~~a.~~(1) The first five million dollars is allocated to the county.

~~b.~~(2) Of all annual revenue exceeding five million dollars, thirty percent is allocated to the county.

d. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

3. After the allocations under subsections 1 and 2, the amount remaining is allocated first to provide for deposit of thirty percent of all revenue collected under this chapter in the legacy fund as provided in section 26 of article X of the Constitution of North Dakota and the remainder must be allocated to the state general fund. If the amount available for a monthly allocation under this subsection is insufficient to deposit thirty percent of all revenue collected under this chapter in the legacy fund, the state treasurer shall transfer the amount of the shortfall from the state general fund share of oil extraction tax collections and deposit that amount in the legacy fund.

4. For a county that received less than five million dollars of allocations under subsection 2 in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, revenues allocated to that county must be distributed at least quarterly by the state treasurer as follows:

a. Forty-five percent must be distributed to the county treasurer and credited to the county general fund. However, the distribution to a county under this subdivision must be credited to the state general fund if in a taxable year after 2012 the county is not levying a total of at least ten mills for combined levies for county road and bridge, farm-to-market and federal aid road, and county road purposes.

b. Thirty-five percent must be distributed to school districts within the county on the average daily attendance distribution basis for kindergarten through grade twelve students residing within the county, as certified to the state treasurer by the county superintendent of schools. However, a hub city school district must be omitted from distributions under this subdivision.

c. Twenty percent must be distributed to the incorporated cities of the county. A hub city must be omitted from distributions under this subdivision. Distributions among cities under this subsection must be based upon the population of each incorporated city according to the last official decennial federal census. In determining the population of any city in which total employment increases by more than two hundred percent seasonally due to tourism, the population of that city for purposes of this subdivision must be increased by eight hundred percent.

d. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

5. For a county that received five million dollars or more of allocations under subsection 2 in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, revenues allocated to that county must be distributed at least quarterly by the state treasurer as follows:

a. Sixty percent must be distributed to the county treasurer and credited to the county general fund. However, the distribution to a county under this subdivision must be credited to the state general fund if in a taxable year after 2012 the county is not levying a total of at least ten mills for combined levies for county road and bridge, farm-to-market and federal aid road, and county road purposes.

b. Five percent must be distributed to school districts within the county on the average daily attendance distribution basis for kindergarten through grade twelve students residing within the county, as certified to the state treasurer by the county superintendent of schools. However, a hub city school district must be omitted from distributions under this subdivision.

c. Twenty percent must be distributed to the incorporated cities of the county. A hub city must be omitted from distributions under this subdivision. Distributions among cities under this subsection must be based upon the population of each incorporated city according to the last official decennial federal census. In determining the population of any city in which total employment increases by more than two hundred percent seasonally due to tourism, the population of that city for purposes of this subdivision must be increased by eight hundred percent.

d. Three percent must be allocated among the organized and unorganized townships of the county. The state treasurer shall allocate the funds available under this subdivision among townships in proportion to each township's road miles relative to the total township road miles in the county. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads, which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships.

e. Three percent must be allocated among the organized and unorganized townships in all the counties that received five million dollars or more of allocations under subsection 2 in the most recently completed ~~state~~even-numbered fiscal year. The amount available under this subdivision must be allocated by the state treasurer in an equal amount to each eligible organized and unorganized township. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads, which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships.

f. Nine percent must be distributed among hub cities. Sixty percent of funds available under this subdivision must be distributed to the hub city receiving the highest percentage of allocations to hub cities under subdivision a of subsection 1 for the quarterly period, thirty percent of funds available under this subdivision must be distributed to the hub city receiving the second highest percentage of such allocations, and ten percent of funds available under this subdivision must be distributed to the hub city receiving the third highest percentage of such allocations. Hub cities, which are located in a county that did not receive an allocation under subsection 2 in the most recently completed even-numbered fiscal year, must be excluded from the allocations under this subsection. If fewer than three hub cities are eligible for the allocations under this subdivision, the state treasurer shall allocate the available funds in proportion to the amounts the eligible hub cities received under subdivision a of subsection 1.

h. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

6. Within thirty days after the end of each calendar year, the board of county commissioners of each county that has received an allocation under this section shall file a report for the calendar year with the commissioner, in a format prescribed by the commissioner, including:

a. The county's statement of revenues and expenditures;

b. The county's ending fund balances;

c. The amounts allocated under this section to the county's general fund, the amounts expended from these allocations, and the purposes of the expenditures; and

d. The amounts allocated under this section to or for the benefit of townships within the county, the amounts expended from these allocations, and the purposes of the expenditures.

Within fifteen days after the time when reports under this subsection are due, the commissioner shall provide the reports to the legislative council compiling the information from reports received under this subsection.

7. Within thirty days after the end of each fiscal year ended June thirtieth, each school district that has received an allocation under this section shall file a report for the fiscal year ended June thirtieth with the commissioner, in a format prescribed by the commissioner, including:

a. The school district's statement of revenue and expenditures;

b. The school district's ending fund balances; and

c. The amounts allocated under this section to the school district, the amounts expended from these allocations, and the purposes of the expenditures.

Within fifteen days after the time when reports under this subsection are due, the commissioner shall provide the reports to the legislative council compiling the information from reports received under this subsection.

SECTION 17. A new section to chapter 57-51 of the North Dakota Century Code is created and enacted as follows:

Energy impact fund.

There is created in the state treasury the energy impact fund. The fund consists of all moneys deposited in the fund under 57-51-15. The moneys in the fund may be spent pursuant to legislative appropriations.

SECTION 18. AMENDMENT. Section 57-51.1-07.6 of the North Dakota Century Code is amended and reenacted as follows:

57-51.1-07.6. Political subdivision allocation fund~~ - Oil and gas tax revenue allocations to political subdivisions - State treasurer - Continuing appropriation~~.

There is created in the state treasury the political subdivision allocation fund. The fund consists of oil and gas tax revenue deposited in the fund pursuant to this chapter. ~~All moneys in the fund are appropriated to the state treasurer on a continuing basis for the purpose of allocations to political subdivisions in oil-producing counties.~~

~~1. If the balance of the fund exceeds ten million dollars on March first of each odd-numbered year, within thirty-one days, the state treasurer shall allocate all moneys in the fund to eligible political subdivisions in oil-producing counties based on each political subdivision's oil and gas gross production tax allocations under subsection 4 or subsection 5 of section 57-51-15 in the most recently completed formula allocation year. The allocation to each eligible political subdivision must be proportional to each political subdivision's total oil and gas gross production tax allocation under subsection 4 or subsection 5 of section 57-51-15 in the most recently completed formula allocation year relative to the combined total of all oil and gas gross production tax allocations under subsection 4 and subsection 5 of section 57-51-15 in the most recently completed formula allocation year. For purposes of this subsection, "formula allocation year" means the period beginning September first of an~~

~~odd-numbered year and ending August thirty-first of the following even-numbered year.~~

~~2. If the balance of the fund exceeds ten million dollars on August first of each odd-numbered year, within thirty-one days, the state treasurer shall allocate all moneys in the fund to eligible political subdivisions in oil-producing counties based on each political subdivision's oil and gas gross production tax allocations under subsection 4 or subsection 5 of section 57-51-15 in the most recently completed formula allocation year. The allocation to each eligible political subdivision must be proportional to each political subdivision's total oil and gas gross production tax allocation under subsection 4 or subsection 5 of section 57-51-15 in the most recently completed formula allocation year relative to the combined total of all oil and gas gross production tax allocations under subsection 4 and subsection 5 of section 57-51-15 in the most recently completed formula allocation year. For purposes of this subsection, "formula allocation year" means the period beginning September first of an odd-numbered year and ending August thirty-first of the following even-numbered year.~~

SECTION 19. REPEAL. Section 57-51.1-07.6 of the North Dakota Century Code is repealed.

SECTION 20. LEGISLATIVE INTENT - ENCOURAGEMENT OF ENERGY INFRASTRUCTURE INVESTMENT - COMMISSIONER OF UNIVERSITY AND SCHOOL LANDS - USE OF TERMS. It is the intent of the sixty-fifth legislative assembly that the state of North Dakota encourage the continued development of energy infrastructure that will help reduce instances of natural gas flaring and increase the market value received for oil and gas produced within the state generally and from state-owned lands specifically which will increase the value of royalties paid to the funds under the control of the board of university and school lands. Consistent with this intent, the commissioner of university and school lands shall continue to interpret the terms "gross production," "market value," and "gross proceeds of sale" in its lease form to mean a value determined at the producing well or associated production facility, or in the surrounding field or area, where the oil and gas was produced, before any post-production activities undertaken by the lessee, operator, or purchaser after the oil and gas has been transported from the producing well and associated production facility. These values must be determined by the amount received by the lessee in an arm's length contract, or in the absence of an arm's length contract, either a comparable sales method or a work-back calculation methodology consistent with state law.

SECTION 21. LEGISLATIVE MANAGEMENT STUDY - OIL AND GAS TAX REVENUE ALLOCATIONS TO HUB CITIES AND HUB CITY SCHOOL DISTRICTS.

1. During the 2017-18 interim, the legislative management shall consider studying oil and gas tax revenue allocations to hub cities and hub city school districts. The study must include consideration of the following:
   a. The current and historical oil and gas tax revenue allocations to hub cities and hub city school districts.
   b. Other state funding provided to hub cities and hub city school districts, including grants from the oil and gas impact grant fund, distributions from the strategic investment and improvements fund, state school aid payments, and payments from the state aid distribution fund and highway tax distribution fund.
   c. Local taxing and revenue levels in hub cities compared to cities in non-oil-producing counties, including mill levies, property tax values, local sales and use taxes, and other revenue sources.
   d. The appropriate level of oil and gas tax revenue allocations to hub cities and hub city school districts based on infrastructure and other needs.
   e. The estimated fiscal impact to hub cities, hub city school districts, other political subdivisions, and the state if the oil and gas tax revenue allocation formula would be changed to transition hub cities and hub city school districts from allocations under subsection 1 of section 57-51-15 to allocations under subsections 4 and 5 of section 57-51-15.
   f. The estimated fiscal impact to hub cities, hub city school districts, other political subdivisions, and the state if the oil and gas tax revenue allocation formula would be changed to discontinue the allocations to hub cities and hub city school districts under subsection 1 of section 57-51-15.
2. The membership of the committee assigned the responsibility of the study must proportionately reflect the state's population distribution between oil-producing

counties and non-oil-producing counties and must include members from the finance and taxation committees and the appropriations committees.

3. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-sixth legislative assembly.

SECTION 22. EFFECTIVE DATE. Sections 15 and 16 of this Act are effective for taxable events occurring after June 30, 2017. Section 19 of this Act becomes effective September 1, 2017. House Bill No. 1300, as approved by the sixty-fifth legislative assembly, becomes effective January 1, 2018.

SB 2013 Conf.
4-24-17
#2

PROPOSED AMENDMENT TO SENATE BILL NO. 2013

SECTION ___. EXEMPTION - WELLHEAD GAS FLARING. Notwithstanding any other provision of law or any industrial commission regulations, during the biennium beginning July 1, 2017, and ending June 30, 2019, the industrial commission shall allow operators to flare wellhead gas if the operator provides sufficient documentation to demonstrate that the gas has no value at the wellhead or that capturing and selling the gas would result in an operating loss.

CURRENT LAW
(Highlighting added for emphasis)

38-08-06.4. Flaring of gas restricted - Imposition of tax - Payment of royalties - Industrial commission authority.

1. As permitted under rules of the industrial commission, gas produced with crude oil from an oil well may be flared during a one-year period from the date of first production from the well.
2. After the time period in subsection 1, flaring of gas from the well must cease and the well must be:
   a. Capped;
   b. Connected to a gas gathering line;
   c. Equipped with an electrical generator that consumes at least seventy-five percent of the gas from the well;
   d. Equipped with a system that intakes at least seventy-five percent of the gas and natural gas liquids volume from the well for beneficial consumption by means of compression to liquid for use as fuel, transport to a processing facility, production of petrochemicals or fertilizer, conversion to liquid fuels, separating and collecting over fifty percent of the propane and heavier hydrocarbons; or
   e. Equipped with other value-added processes as approved by the industrial commission which reduce the volume or intensity of the flare by more than sixty percent.
3. An electrical generator and its attachment units to produce electricity from gas and a collection system described in subdivision d of subsection 2 must be considered to be personal property for all purposes.
4. For a well operated in violation of this section, the producer shall pay royalties to royalty owners upon the value of the flared gas and shall also pay gross production tax on the flared gas at the rate imposed under section 57-51-02.2.
5. The industrial commission may enforce this section and, for each well operator found to be in violation of this section, may determine the value of flared gas for purposes of payment of royalties under this section and its determination is final.
6. A producer may obtain an exemption from this section from the industrial commission upon application that shows to the satisfaction of the industrial commission that connection of the well to a natural gas gathering line is economically infeasible at the time of the application or in the foreseeable future or that a market for the gas is not available and that equipping the well with an electrical generator to produce electricity from gas or employing a collection system described in subdivision d of subsection 2 is economically infeasible.

SB 2013 Conf.
4-24-17

PROPOSED AMENDMENT TO SENATE BILL NO. 2013

#3

SECTION 20. STUDY OF OIL AND GAS VALUATION - REPORT TO ENERGY DEVELOPMENT AND TRANSMISSION COMMITTEE.

1. During the 2017-18 interim, the tax department, in consultation with the board of university and school lands, the industrial commission, and any other necessary state agencies, shall study the valuation of oil and gas as used to determine mineral royalty payments and tax liability. The study must include consideration of the following:
    a. The methods used to calculate the value of oil and gas, including changes in custody, the basis for the value, any deductions or incentives applied to the value, and the point at which the value is determined.
    b. The impact of state and federal regulations, including gas capture requirements.
    c. The market competition for gas processing, including the possibility of rate setting by the public service commission.
    d. The reporting of any deductions or incentives applied to the value as included on mineral royalty statements and tax reporting documents.
2. The tax department shall report to the energy development and transmission committee by September 30, 2018, regarding the results and recommendations of the study.

SB 2013

4-24-17

#4

17.0521.02016
Title.
Fiscal No. 2

Prepared by the Legislative Council staff for
Conference Committee
April 21, 2017

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2013

That the House recede from its amendments as printed on pages 1332-1343 of the Senate Journal and pages 1560-1571 of the House Journal and that Engrossed Senate Bill No. 2013 be amended as follows:

Page 1, line 2, after the first semicolon insert "to provide an appropriation to the state treasurer;"

Page 1, line 3, replace "and to provide an exemption" with "to create and enact a new section to chapter 57-51 of the of the North Dakota Century Code, relating to the energy impact fund; to amend and reenact subsection 5 of section 57-51-01 and sections 57-51-15 and 57-51.1-07.6 of the North Dakota Century Code, relating to oil and gas gross production tax definitions and allocations and the political subdivision allocation fund; to provide exemptions; to provide for reports; to provide statements of legislative intent; to provide for a legislative management study; and to provide an effective date"

Page 1, line 7, after the first comma insert "the strategic investment and improvements fund, the energy impact fund,"

Page 1, replace lines 13 through 20 with:

"Salaries and wages	$6,123,516	($117,966)	$6,005,550
Operating expenses	2,019,637	(243,914)	1,775,723
Capital assets	0	3,600,000	3,600,000
Grants	99,300,000	(59,300,000)	40,000,000
Contingencies	100,000	0	100,000
Energy infrastructure and impact office	700,000	(700,000)	0
Total special funds	$108,243,153	($56,761,880)	$51,481,273
Full-time equivalent positions	33.00	(2.00)	31.00

SECTION 2. HEALTH INSURANCE INCREASE. The appropriation in section 1 of this Act includes $84,948 from special funds for increases in employee health insurance premiums from $1,130 to $1,241 per month."

Page 2, replace lines 2 and 3 with:

"Oil and gas impact grants - airports	$0	$25,000,000
Other grants - airports	0	15,000,000
Information technology project	0	3,600,000
Total special funds	$0	$43,600,000"

Page 2, replace lines 8 through 12 with:

"**SECTION 4. APPROPRIATION - STATE TREASURER - DISTRIBUTIONS TO NON-OIL-PRODUCING COUNTIES.** There is appropriated out of any moneys in the strategic investment and improvements fund in the state treasury, not otherwise appropriated, the sum of $8,000,000, or so much of the sum as may be necessary, and out of any moneys in the state disaster relief fund in the state treasury, not otherwise appropriated, the sum of $8,100,000, or so much of the sum as may be necessary, to the state treasurer for the purpose of providing distributions to non-oil-producing counties for the benefit of the organized and unorganized townships within each non-oil-producing county, for the biennium beginning July 1, 2017, and ending June 30, 2019. In August 2017, the state treasurer shall distribute $16,100,000, or so much of the sum as may be necessary, to non-oil-producing counties for the benefit of the organized and unorganized townships within each non-oil-producing county. The distribution to each non-oil-producing county must provide for an allocation of $10,000 to each organized and unorganized township within the county. The amount allocated to organized townships under this section must be paid by the county treasurer to each organized township. The amount allocated to unorganized townships under this section must be credited by the county treasurer to a special fund for unorganized township roads. The distributions under this section must be used for the maintenance and improvement of township paved and unpaved roads and bridges. A township is not eligible for an allocation of funds under this section if the township does not maintain any township roads. For purposes of this subsection, a "non-oil-producing county" means a county that received no allocation of funding or a total allocation under subsection 2 of section 57-51-15 of less than $5,000,000 for the period beginning September 1, 2015, and ending August 31, 2016. For the purposes of calculating the unobligated balance of the state disaster relief fund under section 57-51.1-07.5, the moneys appropriated in this section from the state disaster relief fund may not be considered an obligation of the state disaster relief fund until after July 31, 2017. The funding appropriated in this section is considered a one-time funding item.

SECTION 5. TRANSFER - POLITICAL SUBDIVISION ALLOCATION FUND TO ENERGY IMPACT FUND. The state treasurer shall transfer $8,000,000 from the political subdivision allocation fund to the energy impact fund during August 2017.

SECTION 6. TRANSFER - POLITICAL SUBDIVISION ALLOCATION FUND TO STRATEGIC INVESTMENT AND IMPROVEMENTS FUND. After the transfer in section 5 of this Act, the state treasurer shall transfer any amount remaining in the political subdivision allocation fund from the political subdivision allocation fund to the strategic investment and improvements fund during August 2017.

SECTION 7. TRANSFER - STRATEGIC INVESTMENT AND IMPROVEMENTS FUND TO ENERGY IMPACT FUND. The state treasurer shall transfer $3,000,000 from the strategic investment and improvements fund to the energy impact fund during August 2017."

Page 3, after line 23, insert:

"**SECTION 11. EXEMPTION - FLOOD-IMPACTED POLITICAL SUBDIVISION INFRASTRUCTURE DEVELOPMENT GRANTS.** Up to $1,325,500 appropriated from the general fund in section 10 of chapter 579 of the 2011 Session Laws for flood-impacted political subdivision infrastructure development grants, which was awarded but not yet reimbursed to the city of Minot for a landfill expansion project, is not subject to section 54-44.1-11, and any unexpended funds are available to reimburse the city of Minot during the biennium beginning July 1, 2017, and ending June 30, 2019.

SECTION 12. INFORMATION TECHNOLOGY PROJECT - BUDGET SECTION APPROVAL - LEGISLATIVE INTENT - AGENCY EFFICIENCIES. The capital assets line item and the total special funds line item in section 1 of this Act include $3,600,000 from the state lands maintenance fund for an information technology project. Of the $3,600,000, $1,800,000 may be spent only upon approval of the budget section. It is the intent of the sixty-fifth legislative assembly that during the 2017-18 interim, the governor and the commissioner of university and school lands achieve efficiencies and budgetary savings within the department of trust lands through the use of innovative ideas and through alternative solutions relating to information technology.

SECTION 13. OIL AND GAS IMPACT GRANT FUND - AIRPORT GRANTS. The grants line item and the total special funds line item in section 1 of this Act include the sum of $25,000,000 from the oil and gas impact grant fund for grants to airports, for the biennium beginning July 1, 2017, and ending June 30, 2019. Of the $25,000,000, the board of university and school lands shall award a grant of $20,000,000 to the Williston airport and a grant of $5,000,000 to the Dickinson airport. A grant may be awarded to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

SECTION 14. ENERGY IMPACT FUND - WILLISTON AIRPORT GRANT. The grants line item and the total special funds line item in section 1 of this Act include the sum of $15,000,000 from the energy impact fund for a grant to the Williston airport, for the biennium beginning July 1, 2017, and ending June 30, 2019. A grant may be awarded to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

SECTION 15. AMENDMENT. Subsection 5 of section 57-51-01 of the North Dakota Century Code is amended and reenacted as follows:

5. "Hub city" means~~, for the period beginning September 1, 2015, and ending August 31, 2017, a city with a population of twelve thousand five hundred or more, according to the last official decennial federal census, which has more than one percent of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota. "Hub city" means, after August 31, 2017,~~ a city with a population of twelve thousand five hundred or more, according to the last official decennial federal census, which has more than ~~one~~<u>two</u> percent of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota.

SECTION 16. AMENDMENT. Section 57-51-15 of the North Dakota Century Code is amended and reenacted as follows:

57-51-15. Gross production tax allocation.

The gross production tax must be allocated monthly as follows:

1. ~~First the~~<u>The</u> tax revenue collected under this chapter equal to one percent of the gross value at the well of the oil and one-fifth of the tax on gas must be deposited with the state treasurer ~~who shall~~<u>. The state treasurer shall allocate the funding in the following order</u>:

   a. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city, which is located in a county that received an allocation under subsection 2, a monthly amount that will provide a total allocation of three hundred seventy-five thousand dollars per fiscal year for each full or partial percentage point of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North~~

~~Dakota and after August 31, 2017, allocate to~~To each hub city, which is located in a county that received an allocation under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of three hundred seventy-five thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~;~~. For purposes of the allocations under this subdivision during the period beginning September 1, 2017, and ending August 31, 2018, the state treasurer shall use the following employment percentages:

(1) Thirty-three percent for the city of Williston;

(2) Seventeen percent for the city of Dickinson; and

(3) Four percent for the city of Minot.

b. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city, which is located in a county that did not receive an allocation under subsection 2, a monthly amount that will provide a total allocation of two hundred fifty thousand dollars per fiscal year for each full or partial percentage point of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city, which is located in a county that did not receive an allocation under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of two hundred fifty thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~;~~.

c. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city school district, which is located in a county that received an allocation under subsection 2, a monthly amount that will provide a total allocation of one hundred twenty-five thousand dollars per fiscal year for each full or partial percentage point of the hub city's private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city school district, which is located in a county that received an allocation under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one hundred twenty-five thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of the hub city's private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~, provided that hub~~. Hub city school districts, which are located in a county that did not receive an allocation under subsection 2 in the most recently completed even-numbered fiscal year, must be excluded from the allocations under this subdivision~~;~~. For purposes of the allocations under this subdivision during the period beginning September 1, 2017, and ending August 31, 2018, the state treasurer shall use the following employment percentages:

(1) Thirty-three percent for the city of Williston;

(2) Seventeen percent for the city of Dickinson; and

(3) Four percent for the city of Minot.

d. ~~Allocate to~~To each county that received more than five million dollars but less than thirty million dollars of total allocations under subsection 2 in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, the state treasurer shall allocate a monthly amount that will ~~provide a total allocation of one million five hundred thousand dollars per fiscal year to be added by the state treasurer~~be added to the allocations to school districts under subdivision b of subsection 5~~;~~

~~e. Credit revenues to the oil and gas impact grant fund, but not in an amount exceeding one hundred forty million dollars per biennium for the 2015-17 biennium, and not in an amount exceeding one hundred million dollars per biennium thereafter;~~

~~f. Credit eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding twenty million dollars in a state fiscal year and not in an amount exceeding forty million dollars per biennium;~~

~~g. Credit four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding seven million five hundred thousand dollars in a state fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars; and~~

~~h. Allocate the remaining revenues under subsection 3~~, as follows:

(1) To each county that received more than five million dollars but not exceeding ten million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million five hundred thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(2) To each county that received more than ten million dollars but not exceeding fifteen million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million two hundred fifty thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(3) To each county that received more than fifteen million dollars but not exceeding twenty million dollars of total allocations under

subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(4) To each county that received more than twenty million dollars but not exceeding twenty-five million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of seven hundred fifty thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(5) To each county that received more than twenty-five million dollars but not exceeding thirty million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of five hundred thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

e. (1) For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding ten million dollars per biennium. For purposes of this paragraph, "biennium" means the period beginning September first of each odd-numbered calendar year and ending August thirty-first of the following odd-numbered calendar year.

(2) After August 31, 2019, the state treasurer shall allocate eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding twenty million dollars per fiscal year.

f. (1) For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding four million dollars per fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars.

(2) After August 31, 2019, the state treasurer shall allocate four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding seven million five hundred thousand dollars per fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars.

g. For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate the remaining revenues in the following order:

(1) Up to twenty-five million dollars to the oil and gas impact grant fund.

(2) Any remaining revenues under subsection 3.

h. After August 31, 2019, the state treasurer shall allocate the remaining revenues in the following order:

(1) Up to five million dollars per biennium to the oil and gas impact grant fund. For purposes of this paragraph, "biennium" means the period beginning September first of each odd-numbered calendar year and ending August thirty-first of the following odd-numbered calendar year.

(2) Any remaining revenues under subsection 3.

i. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

2. a. During the period beginning September 1, 2017, and ending August 31, 2019, for counties that received less than five million dollars of total allocations under this subsection in the most recently completed even-numbered fiscal year, then after deduction of the amount provided in subsection 1, the state treasurer shall allocate revenue collected under this chapter from oil and gas produced in each county as follows:

(1) The first five million dollars of collections received each fiscal year is allocated to the county.

(2) The remaining revenue collections received each fiscal year are allocated thirty percent to the county and seventy percent to the state for allocations under subsection 3.

b. During the period beginning September 1, 2017, and ending August 31, 2019, for counties that received five million dollars or more of total allocations under this subsection in the most recently completed even-numbered fiscal year, then after deduction of the amount provided in subsection 1, the state treasurer shall allocate revenue collected under this chapter from oil and gas produced in each county as follows:

(1) The first five million dollars of collections received each fiscal year is allocated to the county. From the first five million dollars allocated to the county, the state treasurer shall allocate an amount from each county to the energy impact fund to provide a total allocation of two million per fiscal year to the fund. The amount allocated from each county to the energy impact fund under this paragraph must be proportional the county's monthly oil and gas gross production tax revenue collected relative to the total monthly oil and gas gross production tax revenue collected from all the counties under this subdivision. The state treasurer

shall allocate the amount remaining from this paragraph to the county under subsection 5. For the purposes of determining the counties that received five million dollars or more of total allocations under this subsection in the most recently completed even-numbered fiscal year under this section, any amounts withheld from the county for allocations to the energy impact are considered allocations to the county.

(2) The remaining revenue collections received each fiscal year are allocated thirty percent to the county and seventy percent to the state for allocations under subsection 3.

c. After deduction of the amount provided in subsection 1, annual revenue collected under this chapter from oil and gas produced in each county must be allocated after August 31, 2019, as follows:

~~a.~~(1) The first five million dollars is allocated to the county.

~~b.~~(2) Of all annual revenue exceeding five million dollars, thirty percent is allocated to the county.

d. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

3. After the allocations under subsections 1 and 2, the amount remaining is allocated first to provide for deposit of thirty percent of all revenue collected under this chapter in the legacy fund as provided in section 26 of article X of the Constitution of North Dakota and the remainder must be allocated to the state general fund. If the amount available for a monthly allocation under this subsection is insufficient to deposit thirty percent of all revenue collected under this chapter in the legacy fund, the state treasurer shall transfer the amount of the shortfall from the state general fund share of oil extraction tax collections and deposit that amount in the legacy fund.

4. For a county that received less than five million dollars of allocations under subsection 2 in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, revenues allocated to that county must be distributed at least quarterly by the state treasurer as follows:

   a. Forty-five percent must be distributed to the county treasurer and credited to the county general fund. However, the distribution to a county under this subdivision must be credited to the state general fund if in a taxable year after 2012 the county is not levying a total of at least ten mills for combined levies for county road and bridge, farm-to-market and federal aid road, and county road purposes.

   b. Thirty-five percent must be distributed to school districts within the county on the average daily attendance distribution basis for kindergarten through grade twelve students residing within the county, as certified to the state treasurer by the county superintendent of schools. However, a hub city school district must be omitted from distributions under this subdivision.

   c. Twenty percent must be distributed to the incorporated cities of the county. A hub city must be omitted from distributions under this subdivision. Distributions among cities under this subsection must be based upon the population of each incorporated city according to the last official decennial federal census. In determining the population of any city in which total employment increases by more than two hundred percent seasonally due to tourism, the population of that city for purposes of this subdivision must be increased by eight hundred percent.

d. <u>For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.</u>

5. For a county that received five million dollars or more of allocations under subsection 2 in ~~state~~<u>the most recently completed even-numbered</u> fiscal year ~~2014~~, revenues allocated to that county must be distributed at least quarterly by the state treasurer as follows:

a. Sixty percent must be distributed to the county treasurer and credited to the county general fund. However, the distribution to a county under this subdivision must be credited to the state general fund if in a taxable year after 2012 the county is not levying a total of at least ten mills for combined levies for county road and bridge, farm-to-market and federal aid road, and county road purposes.

b. Five percent must be distributed to school districts within the county on the average daily attendance distribution basis for kindergarten through grade twelve students residing within the county, as certified to the state treasurer by the county superintendent of schools. However, a hub city school district must be omitted from distributions under this subdivision.

c. Twenty percent must be distributed to the incorporated cities of the county. A hub city must be omitted from distributions under this subdivision. Distributions among cities under this subsection must be based upon the population of each incorporated city according to the last official decennial federal census. In determining the population of any city in which total employment increases by more than two hundred percent seasonally due to tourism, the population of that city for purposes of this subdivision must be increased by eight hundred percent.

d. Three percent must be allocated among the organized and unorganized townships of the county. The state treasurer shall allocate the funds available under this subdivision among townships in proportion to each township's road miles relative to the total township road miles in the county. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads, which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships.

e. Three percent must be allocated among the organized and unorganized townships in all the counties that received five million dollars or more of allocations under subsection 2 in the most recently completed ~~state~~<u>even-numbered</u> fiscal year. The amount available under this subdivision must be allocated by the state treasurer in an equal amount to each eligible organized and unorganized township. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads, which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships.

f. Nine percent must be distributed among hub cities. Sixty percent of funds available under this subdivision must be distributed to the hub city receiving the highest percentage of allocations to hub cities under subdivision a of subsection 1 for the quarterly period, thirty percent of funds available under this subdivision must be distributed to the hub city receiving the second highest percentage of such allocations, and ten percent of funds available under this subdivision must be distributed to the hub city receiving the third highest percentage of such allocations. Hub cities, which are located in a county that did not receive an allocation under subsection 2 in the most recently completed even-numbered fiscal year, must be excluded from the allocations under this subsection. If fewer than three hub cities are eligible for the allocations under this subdivision, the state treasurer shall allocate the available funds in proportion to the amounts the eligible hub cities received under subdivision a of subsection 1.

h. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

6. Within thirty days after the end of each calendar year, the board of county commissioners of each county that has received an allocation under this section shall file a report for the calendar year with the commissioner, in a format prescribed by the commissioner, including:

a. The county's statement of revenues and expenditures;

b. The county's ending fund balances;

c. The amounts allocated under this section to the county's general fund, the amounts expended from these allocations, and the purposes of the expenditures; and

d. The amounts allocated under this section to or for the benefit of townships within the county, the amounts expended from these allocations, and the purposes of the expenditures.

Within fifteen days after the time when reports under this subsection are due, the commissioner shall provide the reports to the legislative council compiling the information from reports received under this subsection.

7. Within thirty days after the end of each fiscal year ended June thirtieth, each school district that has received an allocation under this section shall file a report for the fiscal year ended June thirtieth with the commissioner, in a format prescribed by the commissioner, including:

a. The school district's statement of revenue and expenditures;

b. The school district's ending fund balances; and

c. The amounts allocated under this section to the school district, the amounts expended from these allocations, and the purposes of the expenditures.

Within fifteen days after the time when reports under this subsection are due, the commissioner shall provide the reports to the legislative council compiling the information from reports received under this subsection.

SECTION 17. A new section to chapter 57-51 of the North Dakota Century Code is created and enacted as follows:

<u>Energy impact fund.</u>

<u>There is created in the state treasury the energy impact fund. The fund consists of all moneys deposited in the fund under 57-51-15. The moneys in the fund may be spent pursuant to legislative appropriations.</u>

SECTION 18. AMENDMENT. Section 57-51.1-07.6 of the North Dakota Century Code is amended and reenacted as follows:

57-51.1-07.6. Political subdivision allocation fund~~ - Oil and gas tax revenue allocations to political subdivisions - State treasurer - Continuing appropriation~~.

There is created in the state treasury the political subdivision allocation fund. The fund consists of oil and gas tax revenue deposited in the fund pursuant to this chapter. ~~All moneys in the fund are appropriated to the state treasurer on a continuing basis for the purpose of allocations to political subdivisions in oil-producing counties.~~

~~1.~~ ~~If the balance of the fund exceeds ten million dollars on March first of each odd-numbered year, within thirty-one days, the state treasurer shall allocate all moneys in the fund to eligible political subdivisions in oil-producing counties based on each political subdivision's oil and gas gross production tax allocations under subsection 4 or subsection 5 of section 57-51-15 in the most recently completed formula allocation year. The allocation to each eligible political subdivision must be proportional to each political subdivision's total oil and gas gross production tax allocation under subsection 4 or subsection 5 of section 57-51-15 in the most recently completed formula allocation year relative to the combined total of all oil and gas gross production tax allocations under subsection 4 and subsection 5 of section 57-51-15 in the most recently completed formula allocation year. For purposes of this subsection, "formula allocation year" means the period beginning September first of an odd-numbered year and ending August thirty-first of the following even-numbered year.~~

~~2.~~ ~~If the balance of the fund exceeds ten million dollars on August first of each odd-numbered year, within thirty-one days, the state treasurer shall allocate all moneys in the fund to eligible political subdivisions in oil-producing counties based on each political subdivision's oil and gas gross production tax allocations under subsection 4 or subsection 5 of section 57-51-15 in the most recently completed formula allocation year. The allocation to each eligible political subdivision must be proportional to each political subdivision's total oil and gas gross production tax allocation under subsection 4 or subsection 5 of section 57-51-15 in the most recently completed formula allocation year relative to the combined total of all oil and gas gross production tax allocations under subsection 4 and~~

~~subsection 5 of section 57-51-15 in the most recently completed formula allocation year. For purposes of this subsection, "formula allocation year" means the period beginning September first of an odd-numbered year and ending August thirty-first of the following even-numbered year.~~

SECTION 19. REPEAL. Section 57-51.1-07.6 of the North Dakota Century Code is repealed.

SECTION 20. LEGISLATIVE INTENT - ENCOURAGEMENT OF ENERGY INFRASTRUCTURE INVESTMENT - COMMISSIONER OF UNIVERSITY AND SCHOOL LANDS - USE OF TERMS. It is the intent of the sixty-fifth legislative assembly that the state of North Dakota encourage the continued development of energy infrastructure that will help reduce instances of natural gas flaring and increase the market value received for oil and gas produced within the state generally and from state-owned lands specifically which will increase the value of royalties paid to the funds under the control of the board of university and school lands. Consistent with this intent, the commissioner of university and school lands shall continue to interpret the terms "gross production," "market value," and "gross proceeds of sale" in its lease form to mean a value determined at the producing well or associated production facility, or in the surrounding field or area, where the oil and gas was produced, before any post-production activities undertaken by the lessee, operator, or purchaser after the oil and gas has been transported from the producing well and associated production facility. These values must be determined by the amount received by the lessee in an arm's length contract, or in the absence of an arm's length contract, either a comparable sales method or a work-back calculation methodology consistent with state law.

SECTION 21. LEGISLATIVE MANAGEMENT STUDY - OIL AND GAS TAX REVENUE ALLOCATIONS TO HUB CITIES AND HUB CITY SCHOOL DISTRICTS.

1. During the 2017-18 interim, the legislative management shall consider studying oil and gas tax revenue allocations to hub cities and hub city school districts. The study must include consideration of the following:

   a. The current and historical oil and gas tax revenue allocations to hub cities and hub city school districts.

   b. Other state funding provided to hub cities and hub city school districts, including grants from the oil and gas impact grant fund, distributions from the strategic investment and improvements fund, state school aid payments, and payments from the state aid distribution fund and highway tax distribution fund.

   c. Local taxing and revenue levels in hub cities compared to cities in non-oil-producing counties, including mill levies, property tax values, local sales and use taxes, and other revenue sources.

   d. The appropriate level of oil and gas tax revenue allocations to hub cities and hub city school districts based on infrastructure and other needs.

   e. The estimated fiscal impact to hub cities, hub city school districts, other political subdivisions, and the state if the oil and gas tax revenue allocation formula would be changed to transition hub cities and hub city school districts from allocations under subsection 1 of section 57-51-15 to allocations under subsections 4 and 5 of section 57-51-15.

f. The estimated fiscal impact to hub cities, hub city school districts, other political subdivisions, and the state if the oil and gas tax revenue allocation formula would be changed to discontinue the allocations to hub cities and hub city school districts under subsection 1 of section 57-51-15.

2. The membership of the committee assigned the responsibility of the study must proportionately reflect the state's population distribution between oil-producing counties and non-oil-producing counties and must include members from the finance and taxation committees and the appropriations committees.

3. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-sixth legislative assembly.

SECTION 22. EFFECTIVE DATE. Sections 15 and 16 of this Act are effective for taxable events occurring after June 30, 2017. Section 19 of this Act becomes effective September 1, 2017. House Bill No. 1300, as approved by the sixty-fifth legislative assembly, becomes effective January 1, 2018."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2013 - Summary of Conference Committee Action

	Base Budget	Senate Version	Conference Committee Changes	Conference Committee Version	House Version	Comparison to House
State Treasurer						
Total all funds	$0	$0	$16,100,000	$16,100,000	$0	$16,100,000
Less estimated income	0	0	16,100,000	16,100,000	0	16,100,000
General fund	$0	$0	$0	$0	$0	$0
Department of Trust Lands						
Total all funds	$108,243,153	$13,565,176	$37,916,097	$51,481,273	$47,901,885	$3,579,388
Less estimated income	108,243,153	13,565,176	37,916,097	51,481,273	47,901,885	3,579,388
General fund	$0	$0	$0	$0	$0	$0
Bill total						
Total all funds	$108,243,153	$13,565,176	$54,016,097	$67,581,273	$47,901,885	$19,679,388
Less estimated income	108,243,153	13,565,176	54,016,097	67,581,273	47,901,885	19,679,388
General fund	$0	$0	$0	$0	$0	$0

Senate Bill No. 2013 - State Treasurer - Conference Committee Action

	Base Budget	Senate Version	Conference Committee Changes	Conference Committee Version	House Version	Comparison to House
Distributions to Non-Oil Townships			$16,100,000	$16,100,000		$16,100,000
Total all funds	$0	$0	$16,100,000	$16,100,000	$0	$16,100,000
Less estimated income	0	0	16,100,000	16,100,000	0	16,100,000
General fund	$0	$0	$0	$0	$0	$0
	0.00	0.00	0.00	0.00	0.00	0.00

FTE

Department No. 120 - State Treasurer - Detail of Conference Committee Changes

	Adds Funding for Distributions to Townships in Non-Oil-Producing Counties[1]	Total Conference Committee Changes
Distributions to Non-Oil Townships	$16,100,000	$16,100,000
Total all funds	$16,100,000	$16,100,000
Less estimated income	16,100,000	16,100,000
General fund	$0	$0
FTE	0.00	0.00

[1] Funding of $8 million from the strategic investment and improvements fund and $8.1 million from the state disaster relief fund is added to provide a distribution of $10,000 to each organized and unorganized township in non-oil-producing counties.

This amendment also includes the following changes related to the State Treasurer:

- Adds a section to provide an appropriation to the State Treasurer for distributions to townships in non-oil-producing counties and to provide the criteria for the distributions.
- Provides for a transfer of $8 million from the political subdivision allocation fund to the energy impact fund.
- Provides for a transfer of the remaining amounts from the political subdivision allocation fund to the strategic investment and improvements fund.
- Provides for a transfer of $3 million from the strategic investment and improvements fund to the energy impact fund.

Senate Bill No. 2013 - Department of Trust Lands - Conference Committee Action

	Base Budget	Senate Version	Conference Committee Changes	Conference Committee Version	House Version	Comparison to House
Salaries and wages	$6,123,516	$6,218,736	($213,186)	$6,005,550	$5,828,470	$177,080
Operating expenses	2,019,637	1,775,723		1,775,723	1,752,698	23,025
Capital assets		5,250,000	(1,650,000)	3,600,000		3,600,000
Grants	99,300,000		40,000,000	40,000,000	40,000,000	
Energy Infrastructure and Impact Office	700,000	220,717	(220,717)		220,717	(220,717)
Contingencies	100,000	100,000		100,000	100,000	
Total all funds	$108,243,153	$13,565,176	$37,916,097	$51,481,273	$47,901,885	$3,579,388
Less estimated income	108,243,153	13,565,176	37,916,097	51,481,273	47,901,885	3,579,388
General fund	$0	$0	$0	$0	$0	$0
FTE	33.00	32.00	(1.00)	31.00	30.00	1.00

Department No. 226 - Department of Trust Lands - Detail of Conference Committee Changes

	Adjusts Funding for Health Insurance Increases[1]	Removes Funding for an FTE Position[2]	Adds Funding for Grants[3]	Reduces Funding for Information Technology Project[4]	Adjusts Funding for Energy Infrastructure and Impact	Total Conference Committee Changes

					Office[5]	
Salaries and wages	($6,636)	($206,550)				($213,186)
Operating expenses						
Capital assets				(1,650,000)		(1,650,000)
Grants			40,000,000			40,000,000
Energy Infrastructure and Impact Office					(220,717)	(220,717)
Contingencies						
Total all funds	($6,636)	($206,550)	$40,000,000	($1,650,000)	($220,717)	$37,916,097
Less estimated income	(6,636)	(206,550)	40,000,000	(1,650,000)	(220,717)	37,916,097
General fund	$0	$0	$0	$0	$0	$0
FTE	0.00	(1.00)	0.00	0.00	0.00	(1.00)

[1] Funding for employee health insurance is adjusted to reflect the updated premium amount of $1,241 per month.

[2] Funding of $206,550 is removed for a project manager position. The House removed $406,655 for a geographic information system position ($200,105) and for a project manager position ($206,550), both of which were included in the Senate version.

[3] One-time funding of $25 million is added from the oil and gas impact grant fund for grants to the Williston airport ($20 million) and the Dickinson airport ($5 million). One-time funding of $15 million is added from the energy impact fund for a grant to the Williston airport. The House provided the same level of funding but did not use funding from the energy impact fund.

[4] Funding is reduced by $1.65 million to provide $3.6 million for an information technology project. Of the $3.6 million, $1.8 million is available only upon approval of the Budget Section pursuant to Section 9 of the bill. The Senate included $5.25 million, and the House removed the funding for the project.

[5] Funding is removed for the Energy Infrastructure and Impact Office because the funding is a duplication of the funding authorized for administrative expenses from the continuation of unspent 2015-17 biennium appropriation authority as identified in Section 7.

This amendment also provides the following changes related to the Department of Trust Lands:

- Identifies the health insurance increase.
- Removes a section to provide line item transfer authority.
- Provides an exemption to allow an unspent grant to a flood-impacted political subdivision to be available in the 2017-19 biennium, the same as the House.
- Identifies $25 million from the oil and gas impact grant fund for an oil impact grant of $20 million to the Williston airport and a grant of $5 million to the Dickinson airport. This funding is available to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. The House also included this funding designation.
- Identifies $15 million from the energy impact fund for a grant to the Williston airport. This funding is available to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. The House provided $15 million from the strategic investment and improvements fund and included the federal funding commitment provisions.
- Removes a section added by the House to add two advisory members that are appointed by the Speaker of the House and the President Pro Tempore to the board of university and school lands.
- Amends the oil and gas tax revenue allocation formulas (see the table below) and provides an effective date related to the formula changes.
- Removes a section added by the House to provide that the city of Williston use the proceeds from the sale of the existing airport, up to $27.5 million, to repay the Department of Trust Lands for the state's financial assistance provided for the new airport.

- Removes a section added by the House to provide a statement of legislative intent that hub cities not issue new bonds during the 2017-19 biennium based on anticipated future hub city oil tax revenue allocations.
- Provides a statement of legislative intent regarding efficiencies within the Department of Trust Lands, the same as the House.
- Provides a statement of legislative intent regarding the calculation of mineral royalties, the same as the House.
- Provides for a Legislative Management study regarding the oil and gas tax revenue allocations to hub cities and hub city school districts. The House also included the study.
- Provides an effective date for House Bill No. 1300 relating to the requirement that the Department of Trust Lands be subject to the administrative rules process.

Senate Bill No. 2013 - Other Changes - Conference Committee Action

2017-19 Biennium Oil and Gas Tax Allocation Formulas		
Current Law	**House Changes - Engrossed Senate Bill No. 2013 with Amendments [17.0521.02014]**	**Conference Committee Changes - Engrossed Senate Bill No. 2013 with Amendments [17.0521.02016]**
Hub city definition	**Hub city definition**	**Hub city definition**
•After August 31, 2017, a hub city is based on mining employment.	•No change to current law.	•A hub city must have more than 2 percent mining employment compared to 1 percent under current law.
Hub city and hub city school district allocations	**Hub city and hub city school district allocations**	**Hub city and hub city school district allocations**
•Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment.	•Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment exceeding 2 percent.	•Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment exceeding 2 percent and specifies employment percentages for the first year.
•Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment.	•Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment exceeding 2 percent.	•Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment exceeding 2 percent. (Same as House)
•Hub city school districts receive an annual allocation of $125,000 per full or partial percentage point of mining employment, excluding hub city school districts located in non-oil-producing counties.	•Hub city school districts in oil-producing counties receive an annual allocation of $125,000 per full or partial percentage point of mining employment exceeding 2 percent.	•Hub city school districts in oil-producing counties receive an annual allocation of $125,000 per full or partial percentage point of mining employment exceeding 2 percent and specifies employment percentages for the first year.
Supplemental school district allocation	**Supplemental school district allocation**	**Supplemental school district allocation**
•Eligible counties receive an annual allocation of $1.5 million for distributions to school districts in the county.	•Changes the annual allocation to provide a specific amount based on the oil and gas tax allocations received by the county in the most recently completed even-numbered fiscal year. The specific amounts range from $500,000 to $1.5 million per year.	•Changes the annual allocation to provide a specific amount based on the oil and gas tax allocations received by the county in the most recently completed even-numbered fiscal year. The specific amounts range from $500,000 to $1.5 million per year. (Same as House)
North Dakota outdoor heritage fund allocations	**North Dakota outdoor heritage fund allocations**	**North Dakota outdoor heritage fund allocations**
•From the 1 percent of the 5 percent oil and gas gross production tax, 8 percent is allocated to the North Dakota outdoor heritage fund, up to $20 million per fiscal year.	•Decreases the amount allocated to the North Dakota outdoor heritage fund by changing the limit from $20 million per fiscal year to $10 million per biennium only for the 2017-19 biennium.	•Decreases the amount allocated to the North Dakota outdoor heritage fund by changing the limit from $20 million per fiscal year to $10 million per biennium only for the 2017-19 biennium. (Same as House)
Abandoned oil and gas well plugging and site reclamation fund allocations	**Abandoned oil and gas well plugging and site reclamation fund allocations**	**Abandoned oil and gas well plugging and site reclamation fund allocations**

- From the 1 percent of the 5 percent oil and gas gross production tax, 4 percent is allocated to the abandoned oil and gas well plugging and site reclamation fund, up to $7.5 million per fiscal year.

- Decreases the amount allocated to the abandoned oil and gas well plugging and site reclamation fund by changing the limit from $7.5 million per fiscal year to $4 million per fiscal year only for the 2017-19 biennium.

- Decreases the amount allocated to the abandoned oil and gas well plugging and site reclamation fund by changing the limit from $7.5 million per fiscal year to $4 million per fiscal year only for the 2017-19 biennium. (Same as House)

Oil and gas impact grant fund allocations

- Up to $100 million per biennium is allocated to the oil and gas impact grant fund.

Oil and gas impact grant fund allocations

- Decreases the allocation to the oil and gas impact grant fund from $100 million per biennium to $25 million per biennium for the 2017-19 biennium and provides an allocation of $5 million per biennium to the oil and gas impact grant fund after the 2017-19 biennium.

Oil and gas impact grant fund allocations

- Decreases the allocation to the oil and gas impact grant fund from $100 million per biennium to $25 million per biennium for the 2017-19 biennium and provides an allocation of $5 million per biennium to the oil and gas impact grant fund after the 2017-19 biennium. (Same as House)

Distributions to political subdivisions

- The distributions to political subdivisions in North Dakota Century Code Sections 57-51-15(4) and 57-51-15(5) are based on the oil and gas tax allocations received by a county in fiscal year 2014.

- From the 4 percent of the 5 percent oil and gas gross production tax, 30 percent of all revenue above $5 million is allocated to the county with the remaining 70 percent allocated to the state.

- The distributions to political subdivisions are as follows:

	Counties - Less Than $5 Million	Counties - $5 Million or More
County	45%	60%
Cities	20%	20%
Schools	35%	5%
Townships		
Equal		3%
Road miles		3%
Hub cities		9%

- From the counties' share in counties that received $5 million or more of oil and gas tax allocations, 9 percent is distributed to the 3 hub cities with the highest percentage of mining employment.

Distributions to political subdivisions

- Changes the basis for the distributions to political subdivisions in Sections 57-51-15(4) and 57-51-15(5) to reflect the oil and gas tax allocations received by a county in the most recently completed even-numbered fiscal year rather than fiscal year 2014.

- No change to current law.

- The proposed changes to the distributions to political subdivisions are as follows:

	Counties - Less Than $5 Million	Counties - $5 Million or More
County	45%	60%
Cities	20%	20%
Schools	35%	5%
Townships		
Equal		1%
Road miles		1%
Non-oil		4%
Hub cities		9%

- Clarifies the distribution to hub cities to exclude hub cities that are located in non-oil-producing counties and to provide proportional allocations if less than 3 hub cities qualify for the distributions.

Distributions to political subdivisions

- Changes the basis for the distributions to political subdivisions in Sections 57-51-15(4) and 57-51-15(5) to reflect the oil and gas tax allocations received by a county in the most recently completed even-numbered fiscal year rather than fiscal year 2014. (Same as House)

- From the first $5 million allocated to the county related to counties that received $5 million or more in the most recently completed even-numbered fiscal year, a total of $2 million per fiscal year is allocated to a newly created energy impact fund with the remainder allocated to the counties. This allocation change is only for the 2017-19 biennium.

- No change to current law.

- Clarifies the distribution to hub cities to exclude hub cities that are located in non-oil-producing counties and to provide proportional allocations if less than 3 hub cities qualify for the distributions. (Same as House)

Political subdivision allocation fund

Political subdivision allocation fund

Political subdivision allocation fund

• Allocations to the political subdivision allocation fund expire at the end of the the 2015-17 biennium. Distributions from the fund are made in March and August of odd-numbered fiscal years	• No change to current law.	• Removes the distributions to political subdivisions and repeals the fund on September 1, 2017. **Energy impact fund** • Creates a new section to Chapter 57-51 to establish the energy impact fund.

2017-19 BIENNIUM OIL AND GAS TAX ALLOCATION FORMULAS - PROPOSED CHANGES

SB 2013 - Conference
4-24-17
#5

The schedule below compares current law to proposed changes for the 2017-19 biennium oil and gas tax allocation formulas and other sections included in Senate Bill No. 2013.

2017-19 Biennium Oil and Gas Tax Allocation Formulas		
Current Law	**House Changes - Engrossed Senate Bill No. 2013 with Amendments [17.0521.02014]**	**Conference Committee Changes - Engrossed Senate Bill No. 2013 with Amendments [17.0521.02016]**
Hub city definition • After August 31, 2017, a hub city is based on mining employment.	**Hub city definition** • No change to current law.	**Hub city definition** • A hub city must have more than 2 percent mining employment compared to 1 percent under current law.
Hub city and hub city school district allocations • Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment.	**Hub city and hub city school district allocations** • Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment exceeding 2 percent.	**Hub city and hub city school district allocations** • Hub cities located in oil-producing counties receive an annual allocation of $375,000 per full or partial percentage point of mining employment exceeding 2 percent and specifies employment percentages for the first year.
• Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment.	• Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment exceeding 2 percent.	• Hub cities located in non-oil-producing counties receive an annual allocation of $250,000 per full or partial percentage point of mining employment exceeding 2 percent. (Same as House)
• Hub city school districts receive an annual allocation of $125,000 per full or partial percentage point of mining employment, excluding hub city school districts located in non-oil-producing counties.	• Hub city school districts in oil-producing counties receive an annual allocation of $125,000 per full or partial percentage point of mining employment exceeding 2 percent.	• Hub city school districts in oil-producing counties receive an annual allocation of $125,000 per full or partial percentage point of mining employment exceeding 2 percent and specifies employment percentages for the first year.
Supplemental school district allocation • Eligible counties receive an annual allocation of $1.5 million for distributions to school districts in the county.	**Supplemental school district allocation** • Changes the annual allocation to provide a specific amount based on the oil and gas tax allocations received by the county in the most recently completed even-numbered fiscal year. The specific amounts range from $500,000 to $1.5 million per year.	**Supplemental school district allocation** • Changes the annual allocation to provide a specific amount based on the oil and gas tax allocations received by the county in the most recently completed even-numbered fiscal year. The specific amounts range from $500,000 to $1.5 million per year. (Same as House)
North Dakota outdoor heritage fund allocations • From the 1 percent of the 5 percent oil and gas gross production tax, 8 percent is allocated to the North Dakota outdoor heritage fund, up to $20 million per fiscal year.	**North Dakota outdoor heritage fund allocations** • Decreases the amount allocated to the North Dakota outdoor heritage fund by changing the limit from $20 million per fiscal year to $10 million per biennium only for the 2017-19 biennium.	**North Dakota outdoor heritage fund allocations** • Decreases the amount allocated to the North Dakota outdoor heritage fund by changing the limit from $20 million per fiscal year to $10 million per biennium only for the 2017-19 biennium. (Same as House)
Abandoned oil and gas well plugging and site reclamation fund allocations • From the 1 percent of the 5 percent oil and gas gross production tax, 4 percent is allocated to the abandoned oil and gas well plugging and site reclamation fund, up to $7.5 million per fiscal year.	**Abandoned oil and gas well plugging and site reclamation fund allocations** • Decreases the amount allocated to the abandoned oil and gas well plugging and site reclamation fund by changing the limit from $7.5 million per fiscal year to $4 million per fiscal year only for the 2017-19 biennium.	**Abandoned oil and gas well plugging and site reclamation fund allocations** • Decreases the amount allocated to the abandoned oil and gas well plugging and site reclamation fund by changing the limit from $7.5 million per fiscal year to $4 million per fiscal year only for the 2017-19 biennium. (Same as House)

<table>
<tr><th colspan="3">2017-19 Biennium Oil and Gas Tax Allocation Formulas</th></tr>
<tr><th>Current Law</th><th>House Changes -
Engrossed Senate Bill No. 2013 with Amendments [17.0521.02014]</th><th>Conference Committee Changes -
Engrossed Senate Bill No. 2013 with Amendments [17.0521.02016]</th></tr>
<tr>
<td>Oil and gas impact grant fund allocations
Up to $100 million per biennium is allocated to the oil and gas impact grant fund.</td>
<td>Oil and gas impact grant fund allocations
Decreases the allocation to the oil and gas impact grant fund from $100 million per biennium to $25 million per biennium for the 2017-19 biennium and provides an allocation of $5 million per biennium to the oil and gas impact grant fund after the 2017-19 biennium.</td>
<td>Oil and gas impact grant fund allocations
Decreases the allocation to the oil and gas impact grant fund from $100 million per biennium to $25 million per biennium for the 2017-19 biennium and provides an allocation of $5 million per biennium to the oil and gas impact grant fund after the 2017-19 biennium. (Same as House)</td>
</tr>
<tr>
<td>Distributions to political subdivisions
The distributions to political subdivisions in North Dakota Century Code Sections 57-51-15(4) and 57-51-15(5) are based on the oil and gas tax allocations received by a county in fiscal year 2014.</td>
<td>Distributions to political subdivisions
Changes the basis for the distributions to political subdivisions in Sections 57-51-15(4) and 57-51-15(5) to reflect the oil and gas tax allocations received by a county in the most recently completed even-numbered fiscal year rather than fiscal year 2014.</td>
<td>Distributions to political subdivisions
Changes the basis for the distributions to political subdivisions in Sections 57-51-15(4) and 57-51-15(5) to reflect the oil and gas tax allocations received by a county in the most recently completed even-numbered fiscal year rather than fiscal year 2014. (Same as House)</td>
</tr>
<tr>
<td>From the 4 percent of the 5 percent oil and gas gross production tax, 30 percent of all revenue above $5 million is allocated to the county with the remaining 70 percent allocated to the state.</td>
<td>No change to current law.</td>
<td>From the first $5 million allocated to counties that received $5 million or more in the most recently completed even-numbered fiscal year, a total of $2 million per fiscal year is allocated to a newly created energy impact fund with the remainder allocated to the counties. This allocation change is only for the 2017-19 biennium.</td>
</tr>
<tr>
<td>The distributions to political subdivisions are as follows:
<table>
<tr><th></th><th>Counties - Less Than $5 Million</th><th>Counties - $5 Million Or More</th></tr>
<tr><td>County</td><td>45%</td><td>60%</td></tr>
<tr><td>Cities</td><td>20%</td><td>20%</td></tr>
<tr><td>Schools</td><td>35%</td><td>5%</td></tr>
<tr><td>Townships</td><td></td><td></td></tr>
<tr><td>Equal</td><td></td><td>3%</td></tr>
<tr><td>Road miles</td><td></td><td>3%</td></tr>
<tr><td>Hub cities</td><td></td><td>9%</td></tr>
</table></td>
<td>The proposed changes to the distributions to political subdivisions are as follows:
<table>
<tr><th></th><th>Counties - Less Than $5 Million</th><th>Counties - $5 Million Or More</th></tr>
<tr><td>County</td><td>45%</td><td>60%</td></tr>
<tr><td>Cities</td><td>20%</td><td>20%</td></tr>
<tr><td>Schools</td><td>35%</td><td>5%</td></tr>
<tr><td>Townships</td><td></td><td></td></tr>
<tr><td>Equal</td><td></td><td>1%</td></tr>
<tr><td>Road miles</td><td></td><td>1%</td></tr>
<tr><td>Non-oil</td><td></td><td>4%</td></tr>
<tr><td>Hub cities</td><td></td><td>9%</td></tr>
</table></td>
<td>No change to current law.</td>
</tr>
<tr>
<td>From the counties' share in counties that received $5 million or more of oil and gas tax allocations, 9 percent is distributed to the 3 hub cities with the highest percentage of mining employment.</td>
<td>Clarifies the distribution to hub cities to exclude hub cities that are located in non-oil-producing counties and to provide proportional allocations if less than 3 hub cities qualify for the distributions.</td>
<td>Clarifies the distribution to hub cities to exclude hub cities that are located in non-oil-producing counties and to provide proportional allocations if less than 3 hub cities qualify for the distributions. (Same as House)</td>
</tr>
<tr>
<td>Political subdivision allocation fund
Allocations to the political subdivision allocation fund expire at the end of the 2015-17 biennium. Distributions from the fund are made in March and August of odd-numbered fiscal years.</td>
<td>Political subdivision allocation fund
No change to current law.</td>
<td>Political subdivision allocation fund
Removes the distributions to political subdivisions and repeals the fund on September 1, 2017.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Energy impact fund
Creates a new section to Chapter 57-51 to establish the energy impact fund.</td>
</tr>
</table>

2017-19 Biennium Oil and Gas Tax Allocation Formulas		
Current Law	**House Changes - Engrossed Senate Bill No. 2013 with Amendments [17.0521.02014]**	**Conference Committee Changes - Engrossed Senate Bill No. 2013 with Amendments [17.0521.02016]**
	Other related sections	**Other related sections**
	• Appropriates $25 million from the oil and gas impact grant fund to the Department of Trust Lands for oil impact grants of $20 million to the Williston airport and $5 million to the Dickinson airport. This funding is available to the Williston airport only when any related federal funding is committed and available to be spent.	• Appropriates $25 million from the oil and gas impact grant fund to the Department of Trust Lands for oil impact grants of $20 million to the Williston airport and $5 million to the Dickinson airport. This funding is available to the Williston airport only when any related federal funding is committed and available to be spent. (Same as House)
	• Appropriates $15 million from the strategic investment and improvements fund to the Department of Trust Lands for a grant to the Williston airport.	• Appropriates $15 million from the energy impact fund to the Department of Trust Lands for a grant to the Williston airport.
		• Appropriates $8 million from the strategic investment and improvements fund and $8.1 million from the state disaster relief fund to the State Treasurer for distributions to townships in non-oil-producing counties.
		• Provides for a transfer of $8 million from the political subdivision allocation fund to the energy impact fund.
		• Provides for a transfer of the remaining amount from the political subdivision allocation fund to the strategic investment and improvements fund.
		• Provides for a transfer of $3 million from the strategic investment and improvements fund to the energy impact fund.
	• Provides that the city of Williston use the proceeds from the sale of the existing airport, up to $27.5 million to repay the Department of Trust Lands for the state's financial assistance provided for the new airport.	
	• Provides a statement of legislative intent that hub cities not issue new bonds during the 2017-19 biennium based on anticipated future hub city oil tax revenue allocations.	
	• Provides for a Legislative Management study by a committee with proportional geographic representation and members of the finance and taxation and the appropriations committees regarding oil and gas gross production tax allocations to hub cities and hub city school districts, including possible changes to the allocation formulas.	• Provides for a Legislative Management study by a committee with proportional geographic representation and members of the Finance and Taxation and the Appropriations Committees regarding oil and gas gross production tax allocations to hub cities and hub city school districts, including possible changes to the allocation formulas. (Same as House)

ESTIMATED OIL AND GAS TAX ALLOCATIONS

The schedule below provides information on the estimated oil and gas tax allocations for the 2017-19 biennium based on current law and the **proposed changes in House Bill No. 1152 and Senate Bill No. 2013**. The estimated allocations are based on an average oil price of $47 per barrel for the entire 2017-19 biennium and are based on average daily oil production of 925,000 barrels per day for the 1st year of the 2017-19 biennium and 950,000 barrels per day for the 2nd year of the 2017-19 biennium. The employment percentages are estimated for the 2017-19 biennium based on the most recent data available from Job Service North Dakota.

2017-19 Biennium Oil and Gas Tax Allocations

	Current Law	Proposed Changes - HB 1152 and SB 2013
Three Affiliated Tribes	$223,210,000	$223,210,000
Legacy fund	869,060,000	869,060,000
North Dakota outdoor heritage fund	21,410,000	10,870,000
Abandoned well reclamation fund	10,700,000	8,430,000
Oil and gas impact grant fund	104,110,000	29,110,000
Energy impact fund	0	4,000,000
Political subdivisions[1]	509,110,000	496,490,000
Common schools trust fund	133,550,000	133,550,000
Foundation aid stabilization fund	133,550,000	133,550,000
Resources trust fund	267,100,000	267,100,000
Oil and gas research fund	10,000,000	10,000,000
General fund	300,000,000	400,000,000
Tax relief fund	300,000,000	200,000,000
Budget stabilization fund	0	75,000,000
Lignite research fund	0	3,000,000
Strategic investment and improvements fund	216,270,000	253,670,000
State disaster relief fund	22,000,000	3,030,000
Total oil and gas tax revenue allocations	$3,120,070,000	$3,120,070,000

[1]The amounts shown for the allocations to political subdivisions reflect 1 month of allocations based on the 2015-17 biennium allocation formulas and 23 months based on the 2017-19 biennium formulas, and the amounts include the following:

	Employment Percentages			
	Current Law	Proposed Changes	Current Law	Proposed Changes
Hub Cities				
Williston[2]	35	33	$49,690,000	$47,770,000
Dickinson[2]	19	17	26,100,000	24,420,000
Minot[2]	6	4	8,450,000	6,930,000
Mandan	2		1,130,000	170,000
Bismarck[3]			80,000	80,000
West Fargo[3]			100,000	100,000
Jamestown[3]			40,000	40,000
Fargo[3]			0	0
Grand Forks[3]			40,000	40,000
Total hub cities	62	54	$85,630,000	$79,550,000
Hub city school districts			15,440,000	14,000,000
Counties			255,790,000	252,650,000
Cities (excluding hub cities)			85,590,000	84,790,000
Schools (excluding hub city school districts)			41,380,000	40,760,000
Townships in oil-producing counties			25,280,000	24,740,000
Total			$509,110,000	$496,490,000

[2]The amounts shown for these hub cities include distributions from the 9 percent allocation under the 4 percent of the 5 percent oil and gas gross production tax. Under current law, the distributions include the following: Williston, $22,750,000; Dickinson, $11,380,000; and Minot, $3,790,000. Under the proposed changes, the distributions include the following: Williston, $22,270,000; Dickinson, $11,130,000; and Minot, $3,710,000.

The distributions decrease under the proposed changes because the distributions in Bottineau County would be based on the percentages for a county that received less than $5 million of total oil and gas gross production tax allocations resulting in a decrease in oil and gas tax gross production tax collections available for the 9 percent allocation.

[3]The amounts shown for these hub cities reflect estimated allocations for August 2017 during which the allocation formulas for the 2015-17 biennium remain in effect since the 2017-19 biennium formulas become effective in September 2017.

NOTE: The amounts reflected in these schedules are preliminary estimates. **The actual amounts allocated for the 2017-19 biennium may differ significantly from these amounts** based on actual oil price and oil production.