2009 SENATE APPROPRIATIONS

SB 2013

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2013

Senate Appropriations Committee

☐ Check here for Conference Committee

Hearing Date: 01-09-09

Recorder Job Number: 6754

Committee Clerk Signature

Minutes:

Chairman Holmberg called the committee hearing to order at 10:40 am in reference to SB 2013, in regards to defraying the expenses of the commissioner of university and school land, to provide for distribution amounts from permanent funds; and to provide a transfer to the general fund. He stated we want everyone to have the opportunity to testify. He reminded everyone to sign the register today even if they don't want to testify.

Gary D. Preszler, Secretary for the Board of University and School Lands and Commissioner for the State Land Department testified in favor of SB 2103 and provided written testimony # 1 in support of the bill. I will touch on sections 1, 4, 5 and 6 of the bill. The budget request's most significant proposed change from the current biennium is the addition of three FTE's.

Chairman Holmberg asked how many testifiers today. Then asked Mr. Preszler If there is no objection from you, this is your budget, then we will focus on section 2 of the bill. Give us an oversight on this or have someone give us some insight on this portion which is the oil and gas impact grant fund.

Jeff Engleson, Director, Energy Development Impact Office (EDIO) of the North Dakota State Land Department testified in favor of SB 2013 and presented written testimony # 2 in support of SB 2013. He stated the primary change relates to raising the cap on energy

development impact grants (page 2) He referred to the charts entitled Grant Requests/Awards by Political Subdivision and County and also testified on the chart entitled Grant Awards By Function.

Chairman Holmberg asked Joe from OMB to explain the caps further.

Joe Morrissette, OMB Analyst (08.33) I'll just have a couple of comments regarding section 7 of this bill that was added, not at the Land Department's request but added as executive budgets. The change in the county caps is also part of the same section as the change to the cap on the energy development impact fund so that is why it was appropriated to this bill. The executive budget proposed to increase each of the caps in the various population categories by (08.50) and he also gave the estimated fiscal impact per year based on the price and production assumptions used to increase the caps by the dollar amount of the executive forecasts.

Senator Krauter based upon what has happened over the last two years and the studies that have been done, and the quantity of applications you receive, how do you rate those applications?

Jeff Engleson: all the requests are legitimate in that the need for funding is very real. Maybe some don't fit under this program. Crosby needs a whole new water system for their town. is it related to oil and gas, no. they didn't get the money for that. It has to be a direct impact f oil and gas involvement. (10.26) Most of the requests are related to transportation issues.

Senator Krauter we received data regarding the tax collection all over the state and it says that 17% is related to oil and gas . What process did you go through to come up to the dollar amount you did?

Joe Morrissette it was not based on an analysis of request or need it was just an amount they arrived at as a way to increase allocations from that fund and share some of that increase.

Senator Fischer: If the Crosby water system is outdated because of the impact of oil and people coming in the Crosby would it have gotten more consideration then? It can't handle a big boom of people coming in because of the oil industry. (12.44)

Jeff Engleson it would have gotten more consideration. If the town is booming and need more water, because of the oil impact, yes, but that was not necessarily the case here. It's a fifty year old system. It is true more people are moving in because of the industry.

Vicky Steiner, Executive Director for the North Dakota Association of Oil and Gas Producing Counties testified in favor of SB 2013 and provided written testimony # 3. (15.17) We support taking the caps off the formula which increases the amount from this bill.

The point today is there are 5 counties facing cap issues. The gross production tax is not working at this time. We can get across the message how serious this situation is. I hope you look at addressing it. We're asking for additional funding. The state has an investment in that oil industry. (see testimony). (24/07)

Jack Olson, Assistant Director of Planning and Programming for North Dakota Department of Transportation (NDDOT) stated NDDOT is neutral on the bill. He provided written testimony # 4 and had a power point presentation which shows the impact the oil industry has on the infrastructure in North Dakota.(26.07) to (32.49)

Senator Christmann asked what happens if the county decides the damage is so great. Would they shut the business down? He was told they could but was sure the county would try to cooperate with the oil companies, some will adjust some of their movements.

Senator Krauter asked what is the cost of the railroad crossing?

Jack Olson: We have a fund that will allow us to do 8 to 10 crossings. That money is 90% federal funds. Once a crossing is in place, the railroad has a certain amount of funds to maintain it. The crossing surface is with the federal government.

Ken G. Halvorson, Mountrail County sheriff testified in favor of SB 2013 and provided written testimony # 5 in support of the bill. (46.27)

Cliff Ferebee, Dunn County Commissioner testified in favor of SB 2013. (45.21) He talked about the traffic increase on their roads and the damage to the roads and the cost the County has to build and keep up the roads.

Tim R. Steffan, Dunn County Commissioner testified in favor of SB 2013 and provided written testimony # 6 entitled Energy Development Impact Office Statement of Goals. He stated they appreciate your consideration removing the caps on the counties.

Ron Ness, President of the North Dakota Petroleum Council testified in favor of SB 2013 and provided written testimony # 7 in support of the bill stating the oil industry supports funding to the counties.

Senator Mathern asked if oil companies ever pay for the road construction.

Ron Ness stated they have made substantial contributions. They have even helped purchase a fire truck in one of the communities.

Senator Seymour they were supporting it in Mountrail co.

V. Chair Bowman stated all the roads to the wells are paid by the oil companies. To get to that oil site that is where the damage is done .

Senator Krauter is anybody going to speak from the school point of view, busing and safety issues. It would be good Superintendant Wills gave scenario about 2 year old bus, and it wasn't covered under warranty, it came to the point they couldn't use the bus anymore.

Representative Francis J. Wald, District 37: testified in favor of the bill. I want to thank the 52.08 re the bus they borrowed the bus, we need to remove the caps I can't emphasize the importance of us to remove that cap and asked the committee to give it their utmost consideration

V. **Chair Bowman** we've had this problem in our county for quite a few years. I have a map that shows you all the roads. You get a big rain, you get the mud, the oil companies don't stop and the road is torn up, you can't do anything about that. The answer is to take the cap off the production. He further discussed the needs addressing this issue.

Senator Mathern what do you think is the rational for the opposition to this. Why wasn't the cap lifted?

V. Chair Bowman it goes back many years ago, it was capped in 83, I am just guessing. I suppose it is the budget. How many of you realize when a county puts out all this money, that money circulates. It employs a lot of people. That money is going right back into the economy. The needs that we still have one stretch we can't get to right in the heart I'll help with this bill.

Chairman Holmberg there are several people interested Gary will come back on the 21st at 2;00 We will focus on the budget in the land department.

Other written testimony submitted for the committee's consideration are as follows: No verbal testimony given.

Written testimony #8: Effects of petroleum Industry Activities on Cost of Providing County government Services in North Dakota (submitted by Dean A. Bangsund and F. Larry Leistritz.

Written testimony # 9 letter from Brad Bekkedahl, Williston City Finance Commissioner and Past President, ND Association of Oil and Gas producing Counties in support of the bill.

Written testimony # 10 letter from John Kautzman, Williston Auditor in support of SB 2013 with two possible changes.

Written testimony # 11 letter from Greg Boschee, Mountrail county Commissioner in support of SB 2013.

Meeting closed on SB 2013.

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2013

Senate Appropriations Committee

☐ Check here for Conference Committee

Hearing Date: 01-21-09

Recorder Job Number: 7456

Committee Clerk Signature	Rose Laning

Minutes:

Chairman Holmberg called the committee hearing to order at 2:30 pm in regards to SB 2013 concerning the Land Department budget.

Gary Preszler, State Land Commissioner, North Dakota State Land Department

(Written testimony # 1) Testified in favor of SB 2013

Showed map of Available ND State Land Mineral Leases showing the Bakken, Birdbear, Mission Canyon, and Three Forks Plays

Senator Lindaas: On your chart, is each square is a quarter or section?

Gary Preszler: They are quarters.

(Continuing page 2)

19:03

Senator Wardner: When they meandered around the lake, did that section of land or that quarter of land have 160 acres in it - or a section of 640 acres? Do you have the amount in it?

Gary Preszler: That area occupied certainly a space of probably equivalent to 160 acres. As the land was sold, or the estate was settled, the patents were excluded for that area of the lake. What happens is the lake occupies an area of land and there are minerals associated with that area. When you drill a well, if there is a lake on that land, that's part of your spacing of the wells, and it includes that lake.

(Continuing on page 3)

26:00

Senator Christmann: How long are you doing wind turbine easements for?

Gary Preszler: The one we are doing now is for a 35 year term with an option for two five year renewals.

33:42

Gary Preszler: The trust fund still remains strong and despite the financial markets, what I see here from the land department is going forward. Oil and gas development continues to the extent of what they are forecasting. There is going to be a significant shift from the stand point from where the trust funds received their source of revenue in the future, and the amount of the revenue that they should be able to generate.

V. Chair Bowman was disgruntled with the oil impact grants given to Bowman County which is a production end of oil production. Section 7 disappeared from the bill which leaves that area of the state with very little grant money. The committee needs to know difference between impact grants & production. He brought a map of Bowman County oil production. There are several roads that need to be re-done or re-built. They made a lot of money and put the money back into the roads. Without the production tax in there, the oil field might as well be shut down because it won't do the county any good. They take every dime that they can possibly afford, and not only put it in to the county roads, but also into township roads. We have got to be able to have that production back in this bill or another bill has to get through.

Gary Preszler: Engrossed SB 2013, you are correct that Section 7 was amended out. I want to point out page 1 on line 16. The money is still there as far as the budget. The statute would still say $6 M so that you have a conflict with the statute and the bill as it exists today.

V. Chair Bowman: The increase in the grant money does not affect unless you make the decision on how much you're going to give to oil producing counties. The grant money is a wonderful thing for a county that just starts getting the production – like Dunn County, Mountrail County because they have all of this impact and no revenue coming in. The grant money can be used to help them get started to buy equipment, to buy trucks, road graders, everything they need for that impact. After impact is initially done, and now you have all the drilling taking place over and above what the cap was, the production part kicks in and gives those counties the extra money they need to build those roads. I don't know who suggested taking that out, but I will research it and find out the reasoning for taking it out. It wasn't because of the impact money. The grant money goes to schools, ambulances, townships, all those entities affected by oil production can apply for those grants. The major cost to Dunn and Mountrail Counties is their roads and they need a considerable amount more money than what's in this bill to catch up.

Gary Preszler: The governor's recommendation was put in Section 7 and I'm not that involved with drafting amendments. The fact that it was amended out didn't mean that there's no other consideration on that. I'm guessing that's not part or did not go along with our budget deal itself.

V. Chair Bowman: Wasn't that the original language in the bill? That was the language that was in it two years ago when I got the extra million dollars. All they did was raise it one million dollars and now it's totally dissipated someplace. It just disappeared.

Senator Mathern: Didn't it disappear on Senate floor and was put in another bill that was produced one day or two days later. We have to be careful how bills are split.

V. Chair Bowman: That's a good point but that doesn't mean that we can't add it back to the bill now that it's here.

Gary Preszler: However that's addressed in other bills, there will be fiscal notes. It will come back to this committee and you need to get that amount that was changed from the current $6M, you need to hold that from the standpoint of SB 2013.

Senator Mathern: On these trust funds that you enumerate on page 2 of your testimony, are those trust funds comprised of both cash, and land and mineral acres.

Gary Preszler: At the time of statehood the enabling act conveyed the land, some of that land was sold off. The proceeds of that land were put into a trust fund that is still there today. So there are investments that represent mineral assests, so when I talk about $810 M dollars, what I'm really referring to is the financial assets. That is what is being invested in stocks and bonds and cash. That wouldn't include the value for land – we haven't appraised the land. It wouldn't include the value for mineral acres.

Senator Mathern: Is there a legal requirement that we don't move money from the corpus of the trust? Are these evaluated all together so that when we move money out of them to use that we don't go beyond the initial value of the land?

Gary Preszler: Yes, there are. For example, there are constitutional prohibitions against moving the money from the trust fund into the general fund to use. The land was given for a specific purpose and when the state accepted it, they agreed to accept it on terms, and that is the preservation of the corpus.

Senator Seymour: inquired about the FTEs and asked how many FTEs did he have when he took office and how many will you have if you get the FTEs?.

Gary Preszler: We had authorized one more than they currently have. We gave that up in the first biennium and that's the number they've maintained. Since 2001, we had one position that we had and gave it up. We've stayed at 18.75 since 2001.

Senator Robinson: On page 2 of testimony, the issue of the Ellendale trust and that was split equally, why was it not split with all the entities? How did they determine the 7 that we see here with the dollars.

Gary Preszler: Ellendale State College is still referenced in the state constitution and because it's still referenced, there was still created a trust board to determine how it was to be split. So those 7 entities received equal portions. I don't know the history of the board as to who was on it.

Senator Robinson: It was a legislative action at the time.

Gary Preszler: Yes.

Chairman Holmberg asked for any other questions. Hearing none, closed the hearing on SB 2013.

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2013

Senate Appropriations Committee

☐ Check here for Conference Committee

Hearing Date: February 10, 2009

Recorder Job Number: 9137

Committee Clerk Signature	Rose Laning

Minutes:

Chairman Holmberg called the committee hearing to order on SB 2013 which is an engrossed bill.

Senator Wardner, District 37

This is the budget of the commissioner of University and School lands. The caps were taken out of the bill and this is the first engrossment. The reason for the amendments is that they took out the policy, but left in the grant dollars.

Senator Mathern asked who or what would not be funded if we take $10 M out?

Senator Wardner said normally the Impact fund is funded at $6 M. The Governor proposed $14 M to take it up to $20 M. Those are the grants for oil counties. The Legislators have different ideas of how that money should go out instead of through the Energy Impact Fund that they take the caps off and use it there. This is still $4M more than the last biennium.

Senator Mathern was curious about the net impact and wanted to know who gets less and who gets more.

Senator Wardner The Energy Impact Fund gets $10M less.

Senator Mathern wanted to know who gets the money from the Energy Impact Fund.

Senator Wardner said it could be schools, counties, cities, roads, park or fire districts.

Senator Mathern questioned the formula for distribution.

Chairman Holmberg stated that according to the formula, the money goes to counties where there is more impact.

Senator Wardner stated that when the caps are taken off, that is the monies that comes from the production tax. That money goes to the counties which share it with the counties, cities and schools.

Senator Krauter asked why the full amount is being removed and back to the amount they had before because now it's going into a different pot where it's based upon grant applications and the other pot is based on formula

V. Chair Bowman explained that all language for distribution and grant money.

Senator Christmann asked if SB 2229 a new bill that was created by the split or is it something else and **V. Chair Bowman** said that is the bill, but wondered if they could put the two bills together – both SB 2229 and SB 2013.

Chairman Holmberg informed them of the hearing scheduled for Monday.

Senator Wardner said this is just the budget of land department. There is no general fund dollars.

Chairman Holmberg said we'll take this up later and is a companion bill to SB 2229.

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2013

Senate Appropriations Committee

☐ Check here for Conference Committee

Hearing Date: 02-17-09

Recorder Job Number: 9529

Committee Clerk Signature	Alice Delzer

Minutes:

Chairman Holmberg opened the hearing on SB 2013. It is the budget for university and school lands. (11.32)

Senator Wardner explained the bill and the amendments that he handed out the other day. But did not explain them because they were waiting until we got SB 2229. He made comments concerning the money in this bill and the caps in this bill and SB 2229.

Senator Wardner moved the amendments. Seconded by V. Chair Bowman.

Senator Krauter stated he believes we can take the caps off and keep that dollar amount in there. I am not going to give in. (13.50) This is crucial to counties in western North Dakota. We can do this and some of the larger counties that have federal lands will be doing good. But there is other counties that need those dollars. I need to resist this.

Senator Mathern stated he is from the east and stated we need to do this. It behooves us all to see that western North Dakota is funded for this energy development.

Senator Wardner talked more about the bill and the involvement of the different people, such as commissioners, with this bill.(16.20) There was further discussion regarding removing the caps.

Senator Robinson stated he always thought it is important as we move toward crossover that we send out of here the support of where the senator is coming from so we don't send a message to the House that we are ok without these numbers. My feeling is we do our best.

Senator Warner I want to restate my argument that there are different types of grants. He stated he will support this bill either way.

Senator Mathern made further comments concerning the money and the costs of keeping up the roads.

Senator Krauter stated the reality is that we are all in this together. There are many counties involved. He again stated he won't support the amendments.

V. Chair Bowman stated we are cutting on one side and increasing considerably on the other side. By increasing the production side of the caps, we'll free up a lot of money for the other counties that haven't reached the cap because the need won't be as great. He continued to talk more about this issue. (21.09) It is a win-win deal for everybody. If we take off the caps, it will help everyone. All those counties where there was a lot of production 20 years ago, the caps hurt them. If we can pass out the amendments and the bill I will feel very comfortable to go back to my people and tell them what we have done.

Senator Wardner I guess if we could have both that would be great. I have some concerns about the Permanent Oil Trust Fund. We are going to have a bill here tomorrow, which is called the governor's property tax bill which is going to take money and put it the schools and reduce the mill cap. My biggest concern about that particular funding, and I happen to be the prime sponsor on the bill, can we sustain it? I am a little bit concerned. Everybody is reaching into this fund, the Permanent Oil Trust Fund. A little bit here, and little more there, and pretty soon we won't be able to sustain that property tax. I know this isn't the one that is going to kill,

but it is still part of the process where everybody wants to reach in there. I want to be sure we take care of that property tax relief if we possibly can and it is sustainable.

Senator Krauter Just a response to Senator Wardner even after we take money out of the Permanent Oil Trust Fund there is still a great deal there. This is the right stuff to the counties in western North Dakota.

Chairman Holmberg asked for a roll call vote on the amendment #98032.0201. If you vote yes you vote to attach these amendments; if you vote no you vote to leave the bill as introduced by the governor.

Senator Krauter if you vote yes you are cutting the governor's budget.

Chairman Holmberg you are reducing one line. He went on to explain more concerning both bills, 2229 and 2013. Would you call the roll on the amendment.(25.13)

A ROLL CALL VOTE WAS TAKEN ON THE AMENDMENT. 7 YEAS, 6 NAYS, 1 ABSENT. The amendment passed.

Senator Wardner moved Do Pass as Amended. Seconded by V. Chair Bowman . A ROLL CALL VOTE WAS TAKEN WITH 13 YEAS, 1 NAY, 0 ABSENT. Senator Wardner will carry the bill. The hearing was closed on SB 2013.

FISCAL NOTE

Requested by Legislative Council
04/09/2009

Amendment to: Reengrossed SB 2013

1A. **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.*

	2007-2009 Biennium		2009-2011 Biennium		2011-2013 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues			($8,500,000)			
Expenditures						
Appropriations						

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

2007-2009 Biennium			2009-2011 Biennium			2011-2013 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

The change reduces the distribution to the General Fund from the Lands and Minerals Trust from $43.5 million to $35 million for the biennium.

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 5.

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.*

The reduced revenue projection results from lower oil prices, reduced lease bonuses and lower investment returns.

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.*

None.

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 is also included in the executive budget or relates to a continuing appropriation.*

None.

Name:	Keith Bayley	**Agency:**	Land dept.
Phone Number:	328-1912	**Date Prepared:**	04/10/2009

FISCAL NOTE

Requested by Legislative Council
02/18/2009

Amendment to: Engrossed SB 2013

1A. **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.*

	2007-2009 Biennium		2009-2011 Biennium		2011-2013 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues				($4,000,000)		($4,000,000)
Expenditures				$110,341		$110,341
Appropriations				$4,000,000		$4,000,000

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

2007-2009 Biennium			2009-2011 Biennium			2011-2013 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
			$1,950,000	$660,000	$370,000	$1,950,000	$660,000	$370,000

2A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

Increases funding for the oil and gas impact grant program from $6 million to $10 million. Corresponding expenditures are shown above.

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.*

The $4 million of additional funding for this program would result in a reduction of funds being deposited into the permanent oil tax trust fund. The additional funding includes $110,341 of additional salaries and operating costs. Based on the past 5 biennia of grant rounds it is estimated that $2.98 million of additional grants would be made to counties, cities and school districts, with the balance ($910,000) going to townships, fire districts and other political subs. The actual amounts will vary depending on the amount and type of grant requests made.

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.*

The $4.0 million in additional funding for this program is money that would have been deposited into the permanent oil tax trust fund.

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 $110,341 in additional expenditures includes salary for one full-time FTE operating expenses.

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 is also included in the executive budget or relates to a continuing appropriation.*

The $3,890,000 increase in the appropriation is the amount of additional grants expected to be made during each biennium. The total EDIO $10 million grant money is a reduction from $20 million allocated in the Executive Budget.

Name:	Keith Bayley	**Agency:**	Land Dept.

Phone Number:	328-1912	**Date Prepared:**	02/19/2009

FISCAL NOTE

Requested by Legislative Council
01/14/2009

Amendment to: SB 2013

1A. **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.*

	2007-2009 Biennium		2009-2011 Biennium		2011-2013 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues				($14,000,000)		($14,000,000)
Expenditures				$110,341		$110,341
Appropriations				$14,000,000		$14,000,000

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

2007-2009 Biennium			2009-2011 Biennium			2011-2013 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
			$5,000,000	$2,300,000	$900,000	$5,000,000	$2,300,000	$900,000

2A. **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 1, increases funding for the oil and gas impact grant program from $6 million to $20 million. Corresponding expenditures are shown above.

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 1:
The $14 million of additional funding for this program would result in a reduction of funds being deposited into the permanent oil tax trust fund. The additional funding includes $110,341 of additional salaries and operating costs. Based on the past 5 biennia of grant rounds it is estimated that $8.2 million of additional grants would be made to counties, cities and school districts, with the balance ($5.7 million) going to townships, fire districts and other political subs. The actual amounts will vary depending on the amount and type of grant requests made.

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.*

Section 1:
The $14.0 million in additional funding for this program is money that would have been deposited into the permanent oil tax trust fund, and is included in the governor's 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.*

Section 1:
The $110,341 in additional expenditures includes salary for one full-time FTE and $8,177 of additional operating expenses, and is included in the governor's executive budget.

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 is also included in the executive budget or relates to a continuing appropriation.*

Section 1:

The $13,977,759 increase in appropriation is the amount of additional grants expected to be made during each biennium and is included in the governor's executive budget.

Name:	keith bayley	**Agency:**	land dept.
Phone Number:	328-1912	**Date Prepared:**	01/16/2009

FISCAL NOTE

Requested by Legislative Council
01/02/2009

Bill/Resolution No.: SB 2013

1A. **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.*

	2007-2009 Biennium		2009-2011 Biennium		2011-2013 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues				($21,700,000)		($21,700,000)
Expenditures				$110,341		$110,341
Appropriations				$14,000,000		$14,000,000

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

2007-2009 Biennium			2009-2011 Biennium			2011-2013 Biennium		
Counties	Cities	School Districts	Counties	Cities	School Districts	Counties	Cities	School Districts
			$12,700,000	$2,300,000	$900,000	$12,700,000	$2,300,000	$900,000

2A. **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 7, paragraph 1 increases funding for the oil and gas impact grant program from $6 million to $20 million. Corresponding expenditures are shown above.

Section 7, paragraph 2 raises the cap levels for gross production taxes distributed to counties.

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 7, paragraph 1:
The $14 million of additional funding for this program would result in a reduction of funds being deposited into the permanent oil tax trust fund. The additional funding includes $110,341 of additional salaries and operating costs. Based on the past 5 biennia of grant rounds it is estimated that $8.2 million of additional grants would be made to counties, cities and school districts, with the balance ($5.7 million) going to townships, fire districts and other political subs. The actual amounts will vary depending on the amount and type of grant requests made.

Section 7, paragraph 2:
The estimated $7.7 million of additional funding for counties will result in a $7.7 million decrease in monies being deposited into the permanent oil tax trust fund. The revenues received by counties are further distributed to cities (20%) and school districts (35%) using a formula that weighs in enrollments and in some cases, seasonal employment.

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.*

Section 7, paragraph 1:
The $14.0 million in additional funding for this program is money that would have been deposited into the permanent oil tax trust fund, and is included in the governor's executive budget.

Section 7, paragraph 2:
The estimated $7.7 million of additional funding for counties will result in a $7.7 million decrease in monies being deposited into the permanent oil tax trust fund. This impact has been included in the governor's 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.

Section 7, paragraph 1:
The $110,341 in additional expenditures includes salary for one full-time FTE and $8,177 of additional operating expenses, and is included in the governor's executive budget.

Section 7, paragraph 2:
No change in expenditures.

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 is also included in the executive budget or relates to a continuing appropriation.*

Section 7, paragraph 1:
The $13,977,759 increase in appropriation is the amount of additional grants expected to be made during each biennium and is included in the governor's executive budget.

Section 7, paragraph 2:
No change in appropriations.

Name:	Keith Bayley	**Agency:**	Land Dept.
Phone Number:	328-1912	**Date Prepared:**	01/07/2009

98032.0102
Title.0200

Prepared by the Legislative Council staff for
Senator Stenehjem
January 12, 2009

PROPOSED AMENDMENTS TO SENATE BILL NO. 2013

Page 1, line 2, remove "to amend and reenact subsections 1 and 2 of section 57-51-15 of"

Page 1, remove line 3

Page 1, line 4, remove "taxes;"

Page 3, remove lines 3 through 31

Page 4, remove lines 1 through 28

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT:

This amendment removes Section 7 relating to the maximum allocations of oil and gas gross production tax collections to the oil and gas impact grant fund and to counties.

Date: 2-16-09
Roll Call Vote #: 1

2009 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2013

Senate _____ Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number amendments 0201

Action Taken ☐ Do Pass ☐ Do Not Pass ☐ Amended

Motion Made By Wardner Seconded By Bowman

Representatives	Yes	No	Representatives	Yes	No
Senator Wardner	✓		Senator Robinson		✓
Senator Fischer			Senator Lindaas		✓
V. Chair Bowman	✓		Senator Warner		✓
Senator Krebsbach	✓		Senator Krauter		✓
Senator Christmann	✓		Senator Seymour		✓
Chairman Holmberg	✓		Senator Mathern		✓
Senator Kilzer	✓				
V. Chair Grindberg	✓				

Total Yes 7 No 6

Absent 1

Floor Assignment _____

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

yes attach amend.
~~Cutting~~ reducing 1 line

98032.0201
Title. 0301
Fiscal No. 1

Prepared by the Legislative Council staff for
Senator Wardner
February 10, 2009

PROPOSED AMENDMENTS TO ENGROSSED SENATE BILL NO. 2013

Page 1, line 16, replace "13,889,659" with "3,889,659" and replace "19,777,759" with "9,777,759"

Page 1, line 18, replace "14,682,024" with "4,682,024" and replace "23,806,148" with "13,806,148"

Page 1, line 21, replace "$20,000,000" with "$10,000,000"

Renumber accordingly

A copy of the statement of purpose of amendment is attached.

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2013 - Land Department - Senate Action

	Executive Budget	Senate Changes	Senate Version
Salaries and wages	$3,228,437		$3,228,437
Operating expenses	739,952		739,952
Capital assets	10,000		10,000
Grants	19,777,759	(10,000,000)	9,777,759
Contingencies	50,000		50,000
Total all funds	$23,806,148	($10,000,000)	$13,806,148
Less estimated income	23,806,148	(10,000,000)	13,806,148
General fund	$0	$0	$0
FTE	21.75	0.00	21.75

Department No. 226 - Land Department - Detail of Senate Changes

	Reduces Funding for Grants[1]	Total Senate Changes
Salaries and wages		
Operating expenses		
Capital assets		
Grants	(10,000,000)	(10,000,000)
Contingencies		
Total all funds	($10,000,000)	($10,000,000)
Less estimated income	(10,000,000)	(10,000,000)
General fund	$0	$0
FTE	0.00	0.00

[1] This amendment reduces funding for oil and gas impact grants by $10 million from the oil and gas impact grant fund from $19,777,759 to $9,777,759.

Date: 2-16-09
Roll Call Vote #: 2

2009 SENATE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2013

Senate _____ Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number _____

Action Taken ☑ Do Pass ☐ Do Not Pass ☑ Amended

Motion Made By Wardner Seconded By Bowman

Representatives	Yes	No	Representatives	Yes	No
Senator Fischer	✓		Senator Warner	✓	
Senator Christmann	✓		Senator Robinson		✓
Senator Krebsbach	✓		Senator Krauter	✓	
Senator Bowman	✓		Senator Lindaas	✓	
Senator Kilzer	✓		Senator Mathern	✓	
Senator Grindberg	✓		Senator Seymour	✓	
Senator Wardner	✓				
Chairman Holmberg	✓				

Total Yes 13 No 1

Absent 0

Floor Assignment Wardner

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

REPORT OF STANDING COMMITTEE

SB 2013, as engrossed: Appropriations Committee (Sen. Holmberg, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (13 YEAS, 1 NAY, 0 ABSENT AND NOT VOTING). Engrossed SB 2013 was placed on the Sixth order on the calendar.

Page 1, line 16, replace "13,889,659" with "3,889,659" and replace "19,777,759" with "9,777,759"

Page 1, line 18, replace "14,682,024" with "4,682,024" and replace "23,806,148" with "13,806,148"

Page 1, line 21, replace "$20,000,000" with "$10,000,000"

Renumber accordingly

A copy of the statement of purpose of amendment is on file in the Legislative Council Office.

2009 HOUSE APPROPRIATIONS

SB 2013

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2013

House Appropriations Committee
Government Operations Division

☐ Check here for Conference Committee

Hearing Date: 2/27/09

Recorder Job Number: 9875

Committee Clerk Signature	Lori Engleson

Minutes:

Chairman Delzer opened the hearing on Senate Bill 2013. Roll was taken at a previous hearing.

Attached Testimony

Testimony of Gary Preszler- Attachment 2013.2.27.09A

Testimony of Jeff Engleson- Attachment 2013.2.27.09B

Testimony of Vicky Steiner- Attachment 2013.2.27.09C

Jeff Engleson, Deputy Commissioner, presented the written testimony of Gary Preszler, Commissioner of the State Land Department who was out ill and could not attend the hearing.

Vice Chairman Thoreson: How far along are you on the electronic conversion project right now?

Jeff Engleson, Deputy Commissioner, defers the question to Mike Brand, Director of Surface Management.

Mike Brand: We have 100% of the land files which are... scanned and digitized. We have about 90% of our easements. When that is finally available on the internet to the public. We also have, we're also about 15 or 20% done with all of our patent records so that the public will

be able to check and see those documents. So that is where we are on the project. We are probably 80% done with the land side of it.

Vice Chairman Thoreson: Will this be done automatically electronically from now on?

Mike Brand: It will all be done electronically. In our office everything will be digital. As we convert our files, we convert our working process....

Mr. Engleson continued with his testimony.

Representative Kempenich: How do you allocate out your salaries?

Jeff Engleson, Deputy Commissioner: It is allocated in various ways depending on the function. Certain costs related to land are allocated out based on the amount of acreage each trust owns. Minerals would be the same. Investment-wise, we have an investment pool.

Representative Kempenich: Do you use investment managers basically. Do you use the same people or do you use different people.

Jeff Engleson, Deputy Commissioner: We manage our own funds. We do use outside money managers. Some are the same as the State Investment Board. Others are different. We have very different things we're trying to accomplish with our money. Our function is to generate income each year to pay out where they are more long term. We need interest and income. They don't.

Representative Kempenich: Can you bring that stuff when you come back?

Jeff Engleson, Deputy Commissioner: I can give you some general information on that.

Vice Chairman Thoreson: With the budget, we're going to be having a subcommittee. Rep. Kempenich, Rep. Dosch and Rep. Meyer will be working on that one.

Representative Meyer: When we meet for subcommittee can you bring a list of what is in the funds.

Jeff Engleson, Deputy Commissioner: Yes.

Representative Dosch: If you could also, just the impact of the recent investment environment. The gains and losses on the accounts.

Jeff Engleson, Deputy Commissioner: I can tell you now our total return loss on investments was about 22% per calendar year 2008. Much less than the stock market because we have a pretty conservative investment style. Even being conservative, it was a tough year. The fact is we will still generate the income we need to pay out.

Mr. Engleson continued with his testimony on page three regarding the request for three FTEs

Representative Kempenich: Are these people on staff now as temporaries?

Jeff Engleson, Deputy Commissioner: No, not right now. We are trying to take care of the backlog. We do have some temporary people on that help, support-type temporary people. We don't have the funding.

Representative Kempenich: That's why I ask. We've had other agencies come in already, and they've had basically people that they are going to hire, but they've hired them as temporaries until we get through with the budgeting process.

Jeff Engleson, Deputy Commissioner: We are looking for land man type people so it might be tough to get someone temporary. They are in pretty high demand in western North Dakota.

Representative Kempenich: We've done some stuff with the Oil and Gas Division, because it ebbs and flows on these FTEs.

Vice Chairman Thoreson: How much of a back log are you looking at right now? Do you have a way of measuring that?

Jeff Engleson, Deputy Commissioner: I can't give you a real answer right now. We have a couple of years work of mineral stuff to do. Basically ownership and management of our minerals. That is something that by not getting it done, it costs us money because we can't lease it if we don't know what we own.

Mr. Engleson continued with his testimony on page three regarding the three requested FTEs. Should the funding in the EDIO stay at the $10 million amount that is currently in this bill versus the $20 that was originally in it, we probably won't need a new position. We may need just a part of a position. If that happens we would request that we still get the rest of that position to work in the minerals area.

Representative Kempenich: Isn't there some designations where you get navigable? Does the federal government have some claims on that if it's navigable versus non-navigable rivers? And then private property in North Dakota. How does that work?

Jeff Engleson, Deputy Commissioner: The state owns all navigable waters. We look at those as they are the highways of the 1800's. The federal government doesn't claim ownership of anything. Now you have the reservoir.

Vice Chairman Thoreson: And that's what you're trying to define?

Jeff Engleson, Deputy Commissioner: Underneath the reservoir, we will own the riverbed, the channel that is underneath the reservoir we still will own. That's another project we will be working on. It's a study that will involve taking maps from the 50's and earlier and determining what acreage we own at that point in time. After that point in time, it was no longer a natural river. The state would still own the riverbed underneath the big lake. With leases going as high as they have been, it's work a lot of money.

Vice Chairman Thoreson: Is this being predicated because of the costs now?

Jeff Engleson, Deputy Commissioner: Really they have not drilled under the lake. The technology wasn't there to do the horizontals like it is now.

Vice Chairman Thoreson: So the new technology is driving the reason for this.

Jeff Engleson, Deputy Commissioner: Yes.

Mr. Engleson continued with his testimony on page four. Our major initiative right now is we need to figure out what we own under all those sovereign lands. Not knowing has cost us money. We haven't been able to lease out stuff. We won't lease what we don't know. We have some in the past, but right now until we figure it out, with some of these leases going for thousands of dollars an acre there's real money to be had by getting this done. In the case of lakes and non-navigable rivers, the owners own to the middle of the river or a lake. Constitutional Measure #1 which the citizens of North Dakota passed in November 2006 is going to change the way we manage the trust funds. Right now we pay out interest and income. That will allow for a total return approach to managing trust funds which if we focus less on interest, you focus on growing the trusts, and as the trusts grow, the distributions grow along with it. You pay out on a percentage of assets. After we passed it in North Dakota, we also had to change the State Enabling Act so it is in the US Congress right now. It's gotten by the senate. It's in the house right now. We're hoping it passes before June 30th. Either way our distributions would be about the same for the 2009-2011 biennium.

Vice Chairman Thoreson: What is the biggest reason for the filibuster there.

Jeff Engleson, Deputy Commissioner: That finally ended. The one particular senator is no longer in there. He was trying to hold up everything in energy and natural resources last year. It did go out in an omnibus bill which is SB 22.

Mr. Engleson continued with his testimony on page seven on continuing appropriation.

Representative Meyer: Who in your office or does someone in the state audit your royalty statements?

Jeff Engleson, Deputy Commissioner: We have staff that reviews that and manages those.

Representative Meyer: There are several bills this session regarding that. I was wondering if by the breakdown on the royalty statements that the State Land Department, if you can

determine the 18% interest factor when it kicks in after 150 days? Is that delineated on your royalty statements, or do you just look at it and say we got this much money and that was great.

Jeff Engleson, Deputy Commissioner: That is not my area of expertise.

Representative Meyer: Your office audits or does our state auditor audit our federal auditing component there. Who audits these statements to make sure they are accurate?

Jeff Engleson, Deputy Commissioner: It is someone in our office. We don't have someone outside do it. We've been managing royalties for a lot of years so we're pretty good at keeping on top of what we should get and when we should get it.

Representative Meyer: When you negotiate your surface owners, are those contracts ever leased on what you do when they are coming in and drilling on the State Land Department's surface? Are those a standard contract? How does that work?

Jeff Engleson, Deputy Commissioner: Again, that is not my area of expertise, but I do believe it is a negotiated thing. As far as surface damages, we don't want to set the market. We find out what the oil companies are paying other people in the area. We generally will negotiate within that range. We don't want to be the person setting the highest rates. We don't think that is the government's roll. We want to make sure we get a reasonable compensation based on what other people in the area are getting.

Representative Meyer: Are those open record documents?

Jeff Engleson, Deputy Commissioner: Everything we have is open record.

Representative Meyer: So If I would request one of your surface owner agreements, I can just get that, correct?

Jeff Engleson, Deputy Commissioner: I believe so.

Representative Glassheim: Do you have any sense in the next two years what your projecting going forward? Are we going to be dropping off in production and leases and rig counts, or you looking for stable or of a slight increase. You talk about robust leasing activity, what is your projection for the next few years.

Jeff Engleson, Deputy Commissioner: Again I am probably not the perfect person for that, but we have seen continued leasing activity. Do I expect the drilling rigs to go down? I'd say probably some if the price stays where it is. I don't see the price staying this low. I think that because they already have an investment in our leases they will stick around. We do expect continued activity.

Representative Glassheim: In the last couple of months you are not seeing a continued decline in the number of leases or new leases.

Jeff Engleson, Deputy Commissioner: ... If the acreage is in the right spot they will pay for it. From everything I've heard, things are slowing down.

Representative Kempenich: Do you follow the federal guidelines more so than the private leases when you are looking at leasing.

Jeff Engleson, Deputy Commissioner: No, I would not necessarily say we follow the feds. We have our own forms and policies and such that relate to our leases.

Representative Kempenich: When the federal government leases, it is a little different than a private lease. It isn't exactly what a private party would get from a lease versus what the federal government would get from a lease. Are the leases like three years then most of the time?

Jeff Engleson, Deputy Commissioner: Our leases are at five-year leases. Right now everything is at 1/6th. All our leases go up for a public auction.

Representative Kempenich: A lot of times when you lease from the federal government there are some contingencies. Sometimes the companies will pay a little more because there are some restrictions.

Representative Meyer: This is just a follow up to Representative Kempenich's question here. What we are seeing out there now with private leases are the ones that are bumping up against the five years that they are doing these topping leases of where they come out and for the extension for two years with the same kind of lease? Is that offered at all? Is the State Land Department approached with that kind of offer ever? Can you do it under policy?

Jeff Engleson, Deputy Commissioner: We don't do it. We have five year leases. If there is imminent drilling, we e will provide extensions occasionally.

Representative Meyer: What has been the longest extension that you have granted under those circumstances? Do you rewrite the lease or just give them the extension?

Jeff Engleson, Deputy Commissioner: I believe recently we had one that was a couple months. Right now we are looking at one for a little longer than that, but we will get paid well for it.

Mr. Engleson presented his written testimony regarding the Energy Development Impact Office.

Representative Glassheim: Could you just explain how you account for the huge bump in 05-07 in requests and then kind of settle down to a relatively stable, 22, 24, 29.

Jeff Engleson, Deputy Commissioner: The biggest distorting factor in 2005-2007 is Williams County asked for $17 million to build their law enforcement center.

Chairman Delzer: We have already dealt with this in 1225 and a little bit with 1304. I think there is a bill 2229 and another one out there also. In the end I do not believe this is going to be the vehicle where this issue goes forward because other bills are stand alone bills instead

part of the budget. The information is good for us to hear. I do not believe this will be the vehicle that is used to put this issue forward.

Mr. Engleson continued explaining his testimony.

Representative Kempenich: The Senate reduced it from $20million to $10million. That's the problem with the impact. It's supposed to be something to catch up while this is happening. All the other production and extraction tax, that's an after the fact type issue. If we do this now even in this current biennium, you're tapped out for right now. Where are we at with this biennium.

Jeff Engleson, Deputy Commissioner: There is another round yet this biennium. The money will be allocated out by June 30th.

Representative Kempenich: (inaudible).

Jeff Engleson, Deputy Commissioner: There's $2.9 million left for the current biennium. There is also at least one bill out there that is adding money for the current biennium.

Representative Kempenich: Would you do what you added into the rounds you're going to go out on or would you have to have another grant round on that?

Jeff Engleson, Deputy Commissioner: My intent would be to get it out there sooner than later so that they can use it on road projects this summer.

Representative Kempenich: That's the whole problem right now. It's now more of a problem than it is two years or four years down the road.

Mr. Engleson continued with his testimony.

Vicky Steiner, Executive Director, North Dakota Association of Oil and Gas Producing Counties presented her written testimony.

Vice Chairman Thoreson: Was that issue brought up to the Senate?

Vicky Steiner: No. It was done in Senate Appropriations, and there wasn't any discussion about a one-time infusion. House Appropriations also brought that idea forward. The Senate will be discussing it in 1225 next week.

Representative Meyer: The $5 million was just one time. It wasn't over the biennium. It wasn't $10 million.

Vicky Steiner: That is correct. The House version has a $5 million infusion. But it still raises the cap to $8 million on the House side, and this raises the cap to $10 million on the Senate side.

Representative Berg: I'd like to get all these moving parts, if we could, summarized as best we can. So we have obviously 1225 and 2229. Maybe you could just recap because some of the bills are going to increase the money that automatically flows to the counties. Some of the bills are affecting this fund.

Vicky Steiner: 1304 is the house bill that takes the caps off. It also has a change for the large cities so smaller cities also share a little bit better in that distribution. It also says after the existing cap is reached, the new money coming off over the top of the existing cap will also be redistributed a little bit differently. Townships will come into that scenario. It would be 45% of the counties, 35% to township/school infrastructure fund. Then 20% to cities. 1304 does complicate the formula, but it also makes it what I would consider a little bit more valuable in terms of where it funnels the money. 1304 does not deal with the impact fund. 1225 is dealing with the impact funds I just said, raising the cap from $6 million to $8 million permanently and then a $5 million one-time, that's it. The SB 2229 takes the caps off the counties. The governor had $20 million in 2013. He removed $10 million from the Land Department budget and brought it over into 2229 as to offset the fiscal note that would come when the caps would come off the counties. 2013 had $10 million left in it as a permanent amount of money for the

cap for impact. During the interim, our bill was 2051 coming through the session from the Interim Taxation Committee. They took the cap off the impact fund there, and I think that's something that we did not bring forward. The impact fund has never not had a cap, and our association has never had a position where we were expecting that to come off. As far as we're concerned, as you're dealing with dollar amounts, we're fine with that. We are not expecting the cap to be taken off that fund.

Representative Berg: So what would that generate if the cap was taken off?

Vicky Steiner: I think it might have been $27 million, but I'm not positive.

Representative Kempenich: That is the whole problem with this whole oil thing is the numbers we've seen down in full committee was ranging between $36 and $32. So it shows you how much the numbers change. It really doesn't mean much right now. The impact money that we've got right here is something that the damage or the impact is taking place right now. That's why this subject is kind of different than like 1304 is basically on perspective income. This is the here and now on the impact money.

Vicky Steiner: Representative Kempenich is correct. We had $45 million worth of damage in one year, and we had a $3 million a year impact fund which was not enough. The two issues are different, and 1304 moves us into the future and hopefully will take care of some of the larger counties' needs. You definitely need to have an impact fund to fill in the gaps as Jeff Engleson said.

Representative Berg: I am still trying to get a handle on this. Obviously 2013 is what we have before us, and that's the money as it relates to the impact fund. 1225 only deals with the impact fund. Adds a $5 million one-time plus raises the cap to $8 million. That bill and this bill kind of tie together. The funding part of it needs to match up with the policy part. 2229 really

does two things. It takes the caps off the counties, and then it also addresses this impact fund, raising that to $10 million.

Vicky Steiner: I believe that the impact dollars were left in 2013.

Representative Berg: $10 million are. Not the $20 million. But 2229 really does two things. It addresses removing the cap on the counties, that money flows in, and it increases the cap for the impact fund to $10 million.

Vicky Steiner: I'm not sure if the impact dollars are in 2229. The policy is.

Representative Berg: The dollars are here. What the Senate did is they took $10 million out of here and put it in 2229 to offset the fiscal note of the bill that passed.

Vicky Steiner: Correct. I'd have to double check. I don't believe the impact dollars, there's $20 million the governor had set aside for impact.

Representative Berg: So then 1304 just takes the caps off the county. That was the impact of $39 million.

Vicky Steiner: Yes, it took the caps off the counties.

Representative Berg: 2051. What is the status of 2051?

Vicky Steiner: That was hog housed. They gutted it out and then they put in the North Dakota Oil and Gas Research Council's increase from $3 million to $6 million.

Vice Chairman Thoreson: Any additional testimony on SB 2013.

Representative Meyer: Could we be provided a royalty statement from the State Land Department, and the indicator of if the producing well had not paid royalties for 150 days, the breakdown on the 18% interest?

Vice Chairman Thoreson closed the hearing on Senate Bill 2013.

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2013

House Appropriations Committee
Government Operations Division

☐ Check here for Conference Committee

Hearing Date: 3/13/09

Recorder Job Number: 10941

Committee Clerk Signature Tonya Voeseli

Minutes:

Chairman Delzer opened the discussion on the Land Department.

Representative Kempenich: I think we need to remove section two.

Chairman Delzer: They want that out?

Representative Kempenich: We got to take it out because it INAUDIBLE

Chairman Delzer: We also have to do something about number six.

Representative Kempenich: INAUDIBLE

Chairman Delzer: The real question is do we want to take $36million out of there? Is that the right amount?

Representative Kempenich: That is what he indicated here. There was some testimony that he gave us. I think $36million is what they are forecasting.

Chairman Delzer: Does that change the numbers in section five?

Representative Kempenich: I don't think it does. They have not taken any decreases in their trust funds. I asked him, do these numbers change and he said section five will not change.

Chairman Delzer: What is the contingency money? Even section three of the bill, what do we need that in for? They have made all of their oil impact grants have they not? There isn't any of that that is going to be carried forward.

Representative Kempenich: I am trying to find that here.

Chairman Delzer: What is the addition of the $3.889million in the grants line?

Representative Kempenich: Was that brought forward in this biennium? They are in a loan program in here someplace.

Chairman Delzer: The Senate left them both FTEs?

Representative Kempenich: I thought there was two funded and one not funded. He said he needed two.....

Chairman Delzer: The Senate did not remove any FTEs. The only thing the Senate did was change that $10million. Do they need all three of those positions?

Representative Kempenich: They have two right now that they need. We got to arguing about the third one and I asked him what if we put it on a need basis like we did with oil and gas where if activity stays up there it will trigger it and I think it is hard to do with them because it is hard to base it on need. He said if I don't need it I won't use it.

Chairman Delzer: One of the issues that we have is I don't know that this bill should be done until the oil impact stuff is done.

Representative Kempenich: That is the other issue is that with the one person that we are talking about was dealing with that impact. If it went the way the Governor had it set up he was going to add somebody.

Representative Meyer: A lot of it was with the title disputes on the leases.

Chairman Delzer: Let's have an amendment that takes out number three on the green sheet.

Lori Laschkewitsch, OMB: The Land Department would need that section three to carry over the money. Although the money has been authorized it is not necessarily distributed.

Chairman Delzer: Let's ask for one that takes out number three on the green sheet, which is the FTE for the oil impact grant administrator position and operating expenses $121,094.

Representative Kempenich: That was one thing that he said is that with all of the title disputes and things in the office they would be kept busy.

Representative Dosch: Once they get everything mapped out with the river and where that goes through then they have to go back and research section by section who owns it and stuff so there is going to be a considerable amount of work.

Chairman Delzer: Have we ever passed anything with a sunset on the FTE?

Becky Keller, Legislative Council: This time around we have said where the FTE is only available for the 09-11 biennium.

Chairman Delzer: Is this something that should be done so that they would have to justify this position again in two years.

Representative Meyer: The third one or the first two?

Chairman Delzer: One of the first two.

Representative Kempenich: I think the third is gone.

Chairman Delzer: The third one I don't think we need at all because that is not going to end up being that high. Becky, why don't you do that, trigger one of those two so that it has to be re-justified to the next legislative assembly. Representative Dosch is that OK?

Representative Dosch: I guess it does not hurt. I guess if they need it fine.

Chairman Delzer: Theoretically they have to justify them all of the time but sometimes unless we point them out and bring them forward you would just say well they had it last time so they must need it again.

Representative Dosch: I would not have a problem with that. It is for a specific project. Once this mapping and research is done they may not need both of them.

Representative Meyer: There again it totally depends on oil. These title disputes are huge.

Chairman Delzer: There is nothing wrong with keying that. Section two of the bill needs to be removed. Section six we need to change that to $36million. Did anybody ask them what the contingency is for?

Lori Laschkewitsch, OMB: The contingency has typically been in their budget for quite a few years in the event that they end up with land issues or things where they need to go out and do maintaining the leases and if they run out of money in their operating they have the contingency amount available.

Chairman Delzer: I think you can draw those amendments as a final draft. Is there any equity money in here? Yes there is we need to have an amendment to take that out.

Representative Meyer: I did request a copy of one of their royalty statements and it is pretty interesting if you want copies. It is substantially different than how a private person gets it. Also an interesting little thing too, that they accrue interest at 18% starting from day one if it goes over to the 151st day. A private entity is never allowed to do that. It starts at the 151st day.

Chairman Delzer closed the discussion.

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2013

House Appropriations Committee
Government Operations Division

☐ Check here for Conference Committee

Hearing Date: 3/19/09

Recorder Job Number: 11311

Committee Clerk Signature Tonya Vee

Minutes:

Chairman Delzer discussed the amendment list for 2013.

Chairman Delzer:.... The Oil impact grant administrator, the equity funding and remove section two and amend section six to reflect $35million available for transfer to the General Fund. Employee term limit, what is that? That would be the one that we are leaving. Are there any further amendments on 2013 that we want to have a discussion about.

Representative Kempenich: You included that reduction of $36million.

Chairman Delzer: It was down to $35million is what this one says.

Representative Kempenich: They had in their testimony 36.

Chairman Delzer: Brady change that to 36. It doesn't make any changes to five? This is all other funds.

Representative Kempenich: They were pretty solid on those distribution funds. What the Commissioner stated was that they are conservative investments and that they have not been impacted to the degree that others have. They run on a 5-6 year average on it and there is no problem meeting these numbers. There was another section but I can't find it.

Chairman Delzer: Section two is on there. It has to do with the oil impact grants. I think 2229 is going to end up being the vehicle for that issue.

Representative Kempenich: I just wanted this to be a clean bill.

Chairman Delzer: Committee members we will have a list like this the same way we did in the first half and then we will just go down them and vote on each thing when we do it. Then the Council will put the amendment together for us.

Representative Meyer: Where is 2229 currently?

Chairman Delzer: I think it is still sitting in Finance and Tax, either that or it might be in Appropriations. I don't have my computer on.

Representative Kempenich: Do you have the amendment?

Chairman Delzer: I don't have the amendment but I have a list of possible amendments.

Representative Kempenich: I was just going to say like on three where it goes through section seven two because it changes some of the dollar amounts and stuff but I am assuming they will go through it because when you take two out it affects section seven too. 2229 will affect those sections anyways for different sizes of populations so I guess it doesn't matter which ever one is last done I just wanted to make sure this bill was fairly clean.

Chairman Delzer: Three is just the carry forward of any money in the grants.

Representative Kempenich: It is not three it is section seven of the bill.

Chairman Delzer: I don't have a section seven.

Representative Kempenich: Maybe they took it out already. OK they did. They removed it. The Senate amendments removed that already.

Chairman Delzer: 2229 is down in Appropriations.

Chairman Delzer closed the discussion of amendments for 2013.

2009 HOUSE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2013

House Appropriations Committee

☐ Check here for Conference Committee

Hearing Date: April 3, 2009

Recorder Job Number: 11713

Committee Clerk Signature	Shirley Branning

Minutes:

Chairman Svedjan: Brought the Committee to discussion of SB 2013 State Land Department, coming from Government Operations and calling on Rep. Meyer, carrier, to explain the amendment.

Rep. Meyer explained amendment .0301 (Attachment A). The Governor had originally put in $20M.in the Oil Impacts Grants fund which would have been set at $6M. The Senate dropped this recommendation to $10 million and we removed that recommendation. Language has been moved to SB 2229. The Land Department had requested 2 FTEs in the mineral management division, due to increased workloads in the royalty audits and the administration of mineral leases. We did leave one FTE in the next biennium only. The state still owns the under the Lake Sakakawea which wasn't important until we can drill horizontally under the lake.

We also amended Section # 6 which was originally projected to be $43.5M, reduced to $35M because of the drop in oil revenues. Move the Amendment .0301.

Rep. Kempenich: Second.

Chairman Svedjan: Calling for a voice vote to adopt Amendment .0301. **Amendment adopted.**

Rep. Meyer: Next, is the Land Appropriation budget, just as you can see. **Move a Do Pass as Amended.**

Rep. Delzer: Second.

Rep. Skarphol: I would ask that an amendment be added for the Conference Committee for discussion with regard to the Land Department. There are acreages belonging to the State that have been leased since before the discovery of oil in North Dakota that has never been drilled that are being retained by leases because of production elsewhere. It is possible to break these leases and I don't' think the Land Department has been aggressive enough to do this. There is land around Tioga that has been leased since 1949. It is time for the Land Department to become more aggressive so the state could more adequately utilize their resources. I make that a motion that that be discussed in the Conference Committee.

Rep. Meyer: Second.

Chairman Svedjan: Is there a reason why you would want to delay it?

Chairman Skarphol: We could add it on here but I am not prepared to come up with the language. If Council can put together that language and then revisit this budget, fine. But if you want to get this outta here, I would make the motion with regard to the Conference Committee as opposed to here.

Chairman Svedjan: When you get into Conference Committee, are you not supposed to conference what's before you?

Rep. Berg: It won't take that long to take it up again. A third party has leased the surface since 1949 or some mineral acres?

Rep. Skarphol: The land was leased by Amerada Petroleum. The mineral acreage is held , on two sections of land that in today's environment that is not getting developed. That acreage should have generated revenue over the last 50 or sixty years and it's never even been drilled

on. That is not acceptable and I would offer a substitute motion that we have an amendment prepared in putting more pressure on the Land Department to become more aggressive about pursuing the release of held acreage for the purpose of the release and production of the State's resources. It is to make them become more aggressive.

Rep. Berg: When they lease the minerals, that lease would come up and they would rebid it or was it a onetime lease that seems to be going on forever.

Rep. Skarphol: . . Leases made in 1949 did not have the kind of leases we have today, not in separate tracts. This has resulted in that acreage just being held out there. I think we should pursue the release of those acreages. If the release results in drilling, that's wonderful. If the company doesn't want to drill it, let it go and let someone else have the opportunity to develop it.

Rep. Wald: Second. That is a very important issue and I think we should fix the bill before it leaves this section.

Chairman Svedjan: My understanding is that this substitute motion would do that. If this passes, Chairman Skarphol, would you be willing to work with Council on getting the appropriate language?

Rep. Onstad: This will address only State lands or other leases in similar situations. I agree with that perception. I'm assuming it's a typical contract that the state signed it as well

Chairman Skarphol: I don't believe that we can affect the private leases but we can have the State pursue their interests. If a precedent is set by the State's pursuing of that it may contribute to the ability of land owners to follow up and do the same.

Rep. Onstad: I agree with that perception but I assume it is a typical contract that the State signed that the land owner signs, too, when it came to that multiple tracts all under one lease.

Rep. Meyer: We probably should leave in the other FTE. Never mind. Laughter

Chairman Svedjan: On the motion to amend, which has to do with the releasing of State hold mineral acres, Voice Vote taken. Amendment adopted.

Rep. Meyer: Move SB 2013 as amended.

Rep. Ekstrom: Second.

Rep. Delzer: I think this is fine, but 3 or 4 of us need to get together and make sure that the amendment does what we think it should before we take it to the floor.

Chairman Svedjan: I will ensure that that happens. When we get the amendments back and it is time for me sign the Standing Committee report, I will see that that takes place. Rep. Meyer will be in on that. Proceed with the roll call vote on SB 2013 as amended.

Vote Taken: Yes 24 No 0 Absent 1. Motion Carried. Carrier: Rep. Meyer.

Attachment A
4/3/09

98032.0301
Title.
Fiscal No. 1

Prepared by the Legislative Council staff for
House Appropriations - Government
Operations
March 19, 2009

PROPOSED AMENDMENTS TO REENGROSSED SENATE BILL NO. 2013

Page 1, line 13, replace "728,113" with "593,432" and replace "3,228,437" with "3,093,756"

Page 1, line 18, replace "4,682,024" with "4,547,343" and replace "13,806,148" with "13,671,467"

Page 1, line 19, replace "3.00" with "2.00" and replace "21.75" with "20.75"

Page 1, remove lines 20 through 23

Page 2, line 31, replace "$43,500,000" with "$35,000,000"

Page 2, after line 31, insert:

"**SECTION 6. FULL-TIME EQUIVALENT AUTHORIZATION.** One full-time equivalent position relating to minerals management included in section 1 of this Act is authorized only for the biennium beginning July 1, 2009, and ending June 30, 2011."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT - LC 98032.0301 FN 1

A copy of the statement of purpose of amendment is attached.

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2013 - Land Department - House Action

	Executive Budget	Senate Version	House Changes	House Version
Salaries and wages	$3,228,437	$3,228,437	($134,681)	$3,093,756
Operating expenses	739,952	739,952		739,952
Capital assets	10,000	10,000		10,000
Grants	19,777,759	9,777,759		9,777,759
Contingencies	50,000	50,000		50,000
Total all funds	$23,806,148	$13,806,148	($134,681)	$13,671,467
Less estimated income	23,806,148	13,806,148	(134,681)	13,671,467
General fund	$0	$0	$0	$0
FTE	21.75	21.75	(1.00)	20.75

Department No. 226 - Land Department - Detail of House Changes

	Removes Salary Equity Funding[1]	Removes FTE Position[2]	Total House Changes
Salaries and wages	($13,587)	($121,094)	($134,681)
Operating expenses			
Capital assets			
Grants			
Contingencies			
Total all funds	($13,587)	($121,094)	($134,681)
Less estimated income	(13,587)	(121,094)	(134,681)
General fund	$0	$0	$0
FTE	0.00	(1.00)	(1.00)

[1] This amendment removes salary equity funding included in the executive recommendation.

[2] This amendment removes one FTE grants administrator position included in the executive recommendation.

This amendment also:

- Removes Section 2 of the bill identifying funding from the oil and gas impact grant fund.
- Adds a section to authorize one FTE minerals mangement position for the 2009-11 biennium only.
- Amends Section 6 of the bill to reduce the amount available for transfer from the lands and minerals trust fund to the general fund from $43.5 million to $35 million.

Date: 4/1/09
Roll Call Vote #: 2

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2013

House House Appropriations- Government Operations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number 98032.0301

Action Taken Do Pass As Amendment

☐ Voice Vote ☒ Roll Call Vote

Motion Made By Representative Berg: Seconded By Representative Meyer:

Representatives	Yes	No	Representatives	Yes	No
Chairman Delzer	X		Representative Glassheim	X	
Vice Chairman Thoreson	X		Representative Meyer	X	
Representative Kempenich	X		Representative Kaldor		
Representative Berg	X				
Representative Dosch	X				

Total (Yes) 7 No 0

Absent 1

Floor Assignment Representative Meyer:

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

Date: 4/3/09
Roll Call Vote #: 1

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2013

Full House Appropriations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number .0301

Action Taken Adopt amendment .0301

Motion Made By Meyer Seconded By Kempenich

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan					
Vice Chairman Kempenich					
Rep. Skarphol			Rep. Kroeber		
Rep. Wald			Rep. Onstad		
Rep. Hawken			Rep. Williams		
Rep. Klein					
Rep. Martinson					
Rep. Delzer			Rep. Glassheim		
Rep. Thoreson			Rep. Kaldor		
Rep. Berg			Rep. Meyer		
Rep. Dosch					
Rep. Pollert			Rep. Ekstrom		
Rep. Bellew			Rep. Kerzman		
Rep. Kreidt			Rep. Metcalf		
Rep. Nelson					
Rep. Wieland					

Total (Yes) _____ No _____

Absent _____

Floor Assignment Voice Vote - carries

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

Date: 4/3/09
Roll Call Vote #: 2

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2013

Full House Appropriations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number .0301

Action Taken Do Pass as Amended by .0301

Motion Made By Meyer Seconded By Delzer

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan					
Vice Chairman Kempenich					
Rep. Skarphol			Rep. Kroeber		
Rep. Wald			Rep. Onstad		
Rep. Hawken			Rep. Williams		
Rep. Klein					
Rep. Martinson					
Rep. Delzer			Rep. Glassheim		
Rep. Thoreson			Rep. Kaldor		
Rep. Berg			Rep. Meyer		
Rep. Dosch					
Rep. Pollert			Rep. Ekstrom		
Rep. Bellew			Rep. Kerzman		
Rep. Kreidt			Rep. Metcalf		
Rep. Nelson					
Rep. Wieland					

Total (Yes) _____ No _____

Absent _____

Floor Assignment _____

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

Date: 4/3/09
Roll Call Vote #: 3

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2013

Full House Appropriations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number TBD

Action Taken Add lang. for Land Dept. to be more aggressive of exploring land.

Motion Made By Skarphol Seconded By Wald

Subst. motion

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan					
Vice Chairman Kempenich					
Rep. Skarphol			Rep. Kroeber		
Rep. Wald			Rep. Onstad		
Rep. Hawken			Rep. Williams		
Rep. Klein					
Rep. Martinson					
Rep. Delzer			Rep. Glassheim		
Rep. Thoreson			Rep. Kaldor		
Rep. Berg			Rep. Meyer		
Rep. Dosch					
Rep. Pollert			Rep. Ekstrom		
Rep. Bellew			Rep. Kerzman		
Rep. Kreidt			Rep. Metcalf		
Rep. Nelson					
Rep. Wieland					

Total (Yes) _____ No _____

Absent _____

Floor Assignment Voice Vote - carries

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

Releasing of state held mineral leases

98032.0303
Title.0400
Fiscal No. 1

Prepared by the Legislative Council staff for
House Appropriations
April 6, 2009

VR
4/7/09
10:

PROPOSED AMENDMENTS TO REENGROSSED SENATE BILL NO. 2013

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

Page 1, line 3, after "fund" insert "; and to amend and reenact section 15-05-09 of the North Dakota Century Code, relating to board of university and school lands oil and gas leases"

Page 1, line 13, replace "728,113" with "593,432" and replace "3,228,437" with "3,093,756"

Page 1, line 18, replace "4,682,024" with "4,547,343" and replace "13,806,148" with "13,671,467"

Page 1, line 19, replace "3.00" with "2.00" and replace "21.75" with "20.75"

Page 1, remove lines 20 through 23

Page 2, line 31, replace "$43,500,000" with "$35,000,000"

Page 2, after line 31, insert:

"**SECTION 6. FULL-TIME EQUIVALENT AUTHORIZATION.** One full-time equivalent position relating to minerals management included in section 1 of this Act is authorized only for the biennium beginning July 1, 2009, and ending June 30, 2011.

SECTION 7. AMENDMENT. Section 15-05-09 of the North Dakota Century Code is amended and reenacted as follows:

15-05-09. Leases for oil, gas, and other products. The board of university and school lands may lease ~~any~~ lands under its control believed to contain oil, gas, coal, cement materials, sodium sulfate, sand and gravel, road material, building stone, chemical substances, metallic ores, or colloidal or other clays and may ~~make and establish~~ adopt rules ~~and regulations~~ for development and drilling operations. The commissioner of university and school lands shall review each oil and gas lease held by production on the effective date of this Act and take the steps necessary to sever those lands outside the spacing unit of the well holding the lease by production from the leasehold."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT - LC 98032.0303 FN 1

A copy of the statement of purpose of amendment is attached.

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No. 2013 - Land Department - House Action

	Executive Budget	Senate Version	House Changes	House Version
Salaries and wages	$3,228,437	$3,228,437	($134,681)	$3,093,756
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Less estimated income	23,806,148	13,806,148	(134,681)	13,671,467
General fund	$0	$0	$0	$0
FTE	21.75	21.75	(1.00)	20.75

Department No. 226 - Land Department - Detail of House Changes

	Removes Salary Equity Funding[1]	Removes FTE Position[2]	Total House Changes
Salaries and wages	($13,587)	($121,094)	($134,681)
Operating expenses			
Capital assets			
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Contingencies			
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General fund	$0	$0	$0
FTE	0.00	(1.00)	(1.00)

[1] This amendment removes salary equity funding included in the executive recommendation.

[2] This amendment removes one FTE grants administrator position included in the executive recommendation.

This amendment also:

- Removes Section 2 of the bill identifying funding from the oil and gas impact grant fund.
- Adds a section to authorize one FTE minerals mangement position for the 2009-11 biennium only.
- Amends Section 6 of the bill to reduce the amount available for transfer from the lands and minerals trust fund to the general fund from $43.5 million to $35 million.
- Adds a section amending Section 15-05-09 relating to oil and gas leases.

Date: 4/3/09
Roll Call Vote #: 4

2009 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 2013

Full House Appropriations Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number TBD

Action Taken Do Pass as Amended

Motion Made By Meyer Seconded By Ekstrom

Representatives	Yes	No	Representatives	Yes	No
Chairman Svedjan	✓				
Vice Chairman Kempenich	✓				
Rep. Skarphol	✓		Rep. Kroeber	✓	
Rep. Wald	✓		Rep. Onstad	✓	
Rep. Hawken	✓		Rep. Williams	—	—
Rep. Klein	✓				
Rep. Martinson	✓				
Rep. Delzer	✓		Rep. Glassheim	✓	
Rep. Thoreson	✓		Rep. Kaldor	✓	
Rep. Berg	✓		Rep. Meyer	✓	
Rep. Dosch	✓				
Rep. Pollert	✓		Rep. Ekstrom	✓	
Rep. Bellew	✓		Rep. Kerzman	✓	
Rep. Kreidt	✓		Rep. Metcalf	✓	
Rep. Nelson	✓				
Rep. Wieland	✓				

Total (Yes) 24 No 0

Absent 1

Floor Assignment Rep. Meyer

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

REPORT OF STANDING COMMITTEE

SB 2013, as reengrossed: Appropriations Committee (Rep. Svedjan, Chairman) recommends **AMENDMENTS AS FOLLOWS** and when so amended, recommends **DO PASS** (24 YEAS, 0 NAYS, 1 ABSENT AND NOT VOTING). Reengrossed SB 2013 was placed on the Sixth order on the calendar.

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

Page 1, line 3, after "fund" insert "; and to amend and reenact section 15-05-09 of the North Dakota Century Code, relating to board of university and school lands oil and gas leases"

Page 1, line 13, replace "728,113" with "593,432" and replace "3,228,437" with "3,093,756"

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Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT - LC 98032.0303 FN 1

A copy of the statement of purpose of amendment is on file in the Legislative Council Office.

2009 SENATE APPROPRIATIONS

CONFERENCE COMMITTEE

SB 2013

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2013

Senate Appropriations Committee

☒ Check here for Conference Committee

Hearing Date: 04-21-09

Recorder Job Number: 12052

Committee Clerk Signature	Alice Delzer

Minutes:

Chairman Wardner: Called the committee to order at 10:30 in reference to SB 2013. Let the record show all conferees are present. Senator Grindberg, Senator Mathern and Representatives Kempenich, Dosch, and Shirley Meyer were present. Also from Legislative Council we have Becky Keller and Joe Morrissette from OMB. First of all I would like the House to go over their amendments. I picked out three amendments that we are going to start with and I am hoping that we can come to an agreement on these. I think we can take some things off the table in this conference committee. With that would someone from the house go over the amendments? You don't need to defend them you just need to list them so we are all in agreement and I see you have a proposed amendment I would like you to discuss that at the appropriate time when we go through it.

Rep. Kempenich: The first thing we did was we pulled out the equity on all of them. We reduced down the FTE request and made it a full time position stretching it out for just one biennium and then we took out the other FTE request. That was on Section 6 in front of the amendments. The other section 7 was addition language, what happened with that is it was an amendment that got put on and there were concerns when it came over that they were old leases. Some least back as far back as twenty or thirty years. Some you just signed a lease saying you had 2000 acres and it didn't matter whether the two thousand acres was

continuous or spread throughout the county. If it was listed on the least contract and there was a production or it was drilled it tied up the whole lease. So it was brought up with this amendment that there was some school land and there were some quarters, 3 or 4 miles apart that a well was on and it tied up this other quarter too. What this amendment was attempting to do, is basically the commissioner would review the oil and gas lease held by production and on the effective date of this takes action necessary to severe those lands outside of the spacing unit holding that lease outside of production. That is basically directing the commissioner to break that old lease and renegotiate the lease. And the other one on the first page is dealing with the FTE part of it and the equity part of it. Then on page one we did remove the equity fund, when the Senate sent it over there was twenty million dollars in there for impact money, and that has taken on a new life of its own. I think there are three bills that have it in, so we removed it out of this one. The forecast revenue will be lower than what was brought in to start with at forty three and a half to thirty five million, so it reduced that number down.

Chairman Wardner: Is that last dot section 7?

Rep. Kempenich: Yes that is section seven. There was an FTE running that grant number.

Chairman Wardner: What I would like to do is discuss the first dot which removed section 2 of the bill, identifying funding from the oil and gas impact grant fund, and number 2, I would like to discuss dot 3, which says amend section 6 of the bill which reduces the amount of land for transfer from the land and mineral trust fund to the general fund from 43.5 million to 35 million. Then if we have time, we will go to amendment number two. Up above the amendment we lose one empty grant administrative position including the executive recommendation and discuss that. So with that if we can get through those three during this time it would be great. To start out with, number one removes section 2 of the bill we took ten million out of it and stuck in another bill 2229 and I think there was ten million and we put it in you took it out. I

agree it is in 1225, which is still in the Senate the increase is in the energy impact is in that particular bill. Also in 1304, it is in there too, but in that bill it is sitting at 6 million. Is there any comment from the committee with that particular issue?

Rep. Meyer: We were told in our committee that they simply want to remove this entire section and deal with it in different pieces of legislation. As far as I am concerned it was fine, we met at twelve million, and it was the Governors recommendation. That was the advice we were given.

Rep. Kempenich: Ours was coming from what leadership wanted to do and interested parties in the oil patch. There were 3 bills floating around at that time that were dealing with basically the same issue and the idea was to keep them. So what happened last session with too many bills floating around it started getting fuddled up on the appropriation part of it. So we wanted to keep the impact money in one spot. It wasn't really the land department budget issue; it is the oil and gas counties issues. And that is who was driving that train.

Senator Grindberg: If we remove this section what does it mean for the 2013 biennium?

Rep. Kempenich: Nothing, it just removes the language. One of those bills is going to have to pass.

Senator Grindberg: If we pull this out 1225 or 1304, what happens two years from now when we come back for impact money is it is back in the land department?

Rep. Kempenich: Yes, that is the language and what those bills say. That won't change anything, that is where the section of code is.

Rep. Meyer: That was a question I had several times when we were meeting with this, can I ask legislative council on their take on how fast this would happen? My concern is if 1225 dies and 1304 dies, do we end up with no money in the impact fund?

Becky: If both 1225 and1304 both do not address the impact grant it will remain at 6 million. So there would still be six million available for impact grants. Currently in 2013 there is ten

million for the grants, actually 9.7 million for the grants. We didn't' know where 1225 and 1304 are going so we haven't adjusted that.

Chairman Wardner: Just a little update, 1304 will be in conference committee, as far as increasing, both sides are talking about that, it is not a done deal. On 1225 there is a move to kill 1225, it is still alive, and it is not done. I would agree with the House on this item that it would be eliminated from this bill. Unless there are any more comments, we are going to check it off as we agreed and move forward. We will move to the 3rd dot, where it says amend section 6 of the bill to reduce the amount available to transfer from the land and minerals trust fund to the general fund in 4325 to thirty five million. I suspect that is because that is all there is, but I would like a comment from counsel or OMB.

Commissioner Gary Preszler: To word it best that is a result of our forecast. When OMB got their March numbers from, "economy dotcom", and the legislature adjusted the price per barrel of oil in the forecast. What we did is move it back and looked at the numbers and decided to use the same numbers everybody else was using. We just adjusted it to the price of oil.

Senator Mathern: Isn't the amount of transfer related to a formula so we really need an amount here, as the price moves there is a different amount that moves?

Commissioner Gary Preszler: The money in the land and mineral trust fund is basically all available through the legislature. Any money that is there is transferred out at the end of the biennium. About your question on the budget, we have always used a specific dollar number that dollar number is based upon the forecast of the next biennium and on what we will receive in bonus money, in royalties, as well as loans that are part of that and investment income we have to forecast those numbers.

Senator Mathern: So if there are more earnings than 35 million they will stay in the trust fund?

Commissioner Gary Preszler: That's correct they carry over to the next biennium.

Chairman Wardner: From the chair stand point it is a non debatable issue.

Senator Grindberg: When you close out this biennium what is left, did it ride up and down with the prices?

Commissioner Gary Preszler: I believe the number was 15 or 16.5 million we are looking at more than double. We have met that 16.5 million and we've got additional money beyond that.

Senator Grindberg: As you put your budget together, based on that, as estimated at the time of oil, you forecast at 43.5 million that is a significant forecast jump and now we are amending it back down to 35?

Commissioner Gary Preszler: We are really budgeting three years into the future as to what kind of production rates, what the price of oil is but it is no secret that the land mineral trust has been a significant beneficiary of all this activity. It is exactly what you are seeing.

Chairman Mathern: Do you do any analysis of the price or do you just accept what you set in the budget forecast? Would your analysis reflect this or is this even analyzed, or do you just pick a low ball number?

Commissioner Gary Preszler: When we did our forecast in March 2008 we based it upon our historic numbers for production. What we were currently seeing from the statement is of wells coming on line, and what we thought the price of oil would be. The number we adjusted from March was basically those usual numbers. In March 2008 the price of oil was over $100.00 a barrel.

Chairman Wardner: We will agree with that and move one. I'd like to move to the second amendment of the day, the one that talks about removing the FTE grants administrative position included in the executive recommendations and that is in section six. Now I would like to hear your rationale of this issue.

Rep. Kempenich: What was brought up when we were talking about this is either a quarter or halt time FTE position. We didn't think we needed a FTE in grants and so we did get some more title search work done.

Chairman Wardner: I remember that we added two FTE's and in section 6 it would be one time? Are you cutting one or are you taking one of the two and making them a part-time or biennium person?

Becky Keller: We left them both in but only one is good for the 2009 to 2011 biennium.

Rep. Kempenich: We have done that with minerals and based it on the number of rigs in the past, and that is what the talk was on this big rush here the next two years to get this done and see where we are at.

Chairman Wardner: My understanding is that we do have an emergency here because we have lands underneath the streams out there that need to be claimed for the state of North Dakota. With all this drilling time is of the essence and I would like the commissioner to make a comment about what I just said.

Commissioner Gary Preszler: I passed out to legislative council some proposed amendments. It would be to restore the FTE in section six of the second engrossment to the House amendments by removing section six it would limit the FTE in the next biennium. And basically I am trying to hire a career person, but how do you go out to the market place and tell that person you are hiring them for only two years. I would much rather see the FTE allowed to fill it and when we come back in two years you will be able to review the FTE and will all have better information about what our needs are. If you recall my testimony in both the House and the Senate that governing executive budgeted moved that FTE for specifically EDIO and we said we don't really think we will need a FTE a 100 percent of the time on EDIO grants. Our plan is that our adjustment director is handling the EDIO grants and he is going to handle this

grant starting next week for this year. For the most part we are going to take care of this fiscal year but I need to get him back to working 100 percent on investments because we will be having over a billion dollars of investments to manage. When we don't have him in EDIO, I will need him in management. These bonuses were paid anywhere 4200 dollars an acre to 4900 dollars per acre. I have a sale coming up on May 5, and here is a list I can't accept these nominations because they are mostly of rivers and lakes. I can't accept this because we don't know what we owe. What we are looking at here is potentially a million dollars per river mile and we need to get this done. As far as the additional amendments, I have 8000 leases outstanding and that is part of managing leases and making sure that we are dealing with whether those leases should be released. I already did that, I had my office run a list what we could get released, there is about 62 on there and I figured 4 or 5 could get released. The rest of them are contractual, you don't get them release unless you have a valid reason to go to court and get the courts release. We try to work with them and get voluntary releases, and that is what we need to do. This is the list we are focusing on and are already doing.

Chairman Wardner: Our time is up. We will start out next time with this issue and then move to dot number 2 and then to the last dot the 4th dot. So when we come next time, we will start with FTE and move to the other FTE. We are in recess until we meet again.

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2013 conference committee

Senate Appropriations Committee

☒ Check here for Conference Committee

Hearing Date: April 22, 2009

Recorder Job Number: 12095

Committee Clerk Signature	Rose Laning

Minutes:

Senator Wardner called the conference committee hearing to order on SB 2013 concerning the land department budget. Roll call was taken. Committee members present were: **Senator Wardner, Senator Grindberg, Senator Mathern, Rep. Kempenich, Rep. Dosch** and **Rep. Meyer.**

Senator Wardner: We'll do discussion until chairman **Rep. Kempenich** comes in. **(turned on recorder)** This removes one FTE – the grants administrator position in the executive recommendation and we heard the commissioner talk about it yesterday to remind you that in the Senate, when they came to us, we added two FTEs as mineral management positions and we also added this one FTE for administration of the EDIO (Energy Development Impact Office) grant program. That person would help with that, but also be helping with the mineral management position, so he would actually be doing two things.

Rep. Meyer: One of the reasons this was removed in the House was because it had come over to us with a $20M dollar increase in a $6M grant in EDIO office. This came over to us with a $20 M from the governor's budget in the grants line. When that was dropped back down to $6M, or they thought there wasn't going to be a $20 M from all the other three bills that were going and taking place at that time. To administer the $6M EDIO grant currently, it takes ¼

FTE. We thought that even if it dropped down to $8 M, we would not need 1 FTE to administer the grant. That was logic on why that was removed.

Senator Wardner: Then the House's feeling was that the current person that handles the Energy Impact Office grants, about a quarter of their time is there and they still have time to work on other things. That's one of the things he mentioned that he needed this current individual to work on other things.

Rep. Meyer: Right, but that was the logic of why they decided to remove it because with $20 M, they would fulltime FTE doing this, but if it dropped down to six or eight million, they felt that it was being done effectively at one quarter FTE. They thought that was the justification for removing that.

Senator Mathern: Would the House recognize the need that the impact grants will go up and will be in HB1304 or HB1225. When we remove this, if we do, that $20 M down from $6 M, we are assuming it will increase someplace else.

Senator Wardner: We anticipate there will be more money in the Energy Impact Office; however, I'm not going to tell you exactly how much because I don't know. That's going to be negotiated.

Rep. Meyer: That was our concern. We just wanted to reflect that if ¼ FTE was effectively handling $6M. When we get into these other positions in mineral management, they will have huge amount of workload to do. Also, even if they get that done, when the mapping gets done, and when the survey gets done and they start putting this in and identifying the lands and finding we own this under the sovereign lands – the minerals. I believe you could take this other person and have them start doing the royalty audit. They are currently 12-18 months behind on their royalty audits.

Senator Wardner: I appreciate that explanation because now we understand. We're going to leave that set, unless there are other comments on that and we're going to go to the 2nd dot down on the FTE in mineral management. Remember, the Senate had put two in there, the House left the one and put the other one on a temporary – a 2 year biennium basis. We heard yesterday from the commissioner that he felt it would be difficult for him to hire a person for 2 years for that particular job. I'd like to entertain some discussion on that particular amendment.

Senator Mathern: I find it interesting that we're talking about equity pay in many of our other bills and it basically comes to how do we get professionals in terms of a pay structure and longevity.

(**Rep. Kempenich** came in)

Senator Wardner: We did start without you, but we're not taking any votes without you. We went through #2 down below. Rep. Meyer kind of explained what your thinking was on that, so we've moved down to the 2nd dot. We were just talking about that one biennium FTE that is in the mineral management position.

Rep. Dosch: I think we understood where commissioner stood and I agree with what he was saying.

Rep. Kempenich: Truthfully, we don't need that number. With what they have planned, they could roll that into the grants person too, instead of having the deputy deal with that. They could use ¼ of that persons time on the grant side of things too. They don't have anyone hired per se right now, but they probably figured they could keep them and say we'll just take that time frame out of there. They could use another grants person, but when you're looking at a quarter time and we'd have to add another FTE to this. I don't think we want to do that.

Rep. Meyer: Just for clarification, you're saying just remove the 2009-11 biennium person.

Senator Wardner: I am going to get hold of commissioner and double check. He went so fast yesterday. We wanted him to answer questions and he took off on us and he was giving testimony. I'm not sure if we extend and make this a permanent one that is for only a biennium. If he can combine it with the Energy Impact Grants and it works out for them. Then he could use two and not three. I will check with him on that. I'm not ready to make a statement on the FTE that you took out for the Energy Impact Office. At least I understand your rationale because it came over with... When it left the Senate, it had $20 M. I shouldn't say that, when we worked on the bill, to start out with, it had $20 M. Then we took $10 M out over here and put it in SB 2229, but we left that FTE, so I'd like to check that out. This is good. I think we moved forward. We have an understanding on these FTEs. I'd like to go to the last dot.

Rep. Kempenich: I think it's getting done, but not as fast as some members would like to think on these leases. They have ones they are dealing with. The other amendment – the dry lake north of Stanley, it's mostly an alkali flat. I've been up there and seen it. Most of the time in the fall of the year, it has white dust blowing at me. There is no way that is navigable. The state engineer says it's not navigable, but some checks have been held up and this has been going on for a couple of years. That's one of the issues going on, but that amendment won't address the issue – the non-navigable part because you're going to need the state engineer involved. There are a lot more people involved than the commissioner. Those issues are issues, but I don't think we need to address these.

Senator Wardner: You're thinking we can take that part out.

Rep. Kempenich: Yeah, that's a chance to take that out.

Senator Wardner: I'm going to wrap this up. It looks like our two bodies have kind of come to a tentative agreement on the equity. Maybe tomorrow.... We're so close.

Rep. Kempenich: We're meeting again at 2:30 today.

Senator Wardner: Maybe I should go up and have him move this to tomorrow morning.

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. 2013

Senate Appropriations Committee

☒ Check here for Conference Committee

Hearing Date: 04-23-09

Recorder Job Number: 12157

Committee Clerk Signature	Alice Delzer (doc uploaded)

Minutes:

Chairman Wardner opened the conference committee hearing at 9:00 am in reference to SB 2013 . Let the record show all conferees are present. They are Senators Grindberg, Mathern, Representatives Kempenich, Dosch, Meyer. Becky Keller, Legislative Council and Joe Morriessette, OMB present.

Chairman Wardner states, we had agreed on a couple things previous, we agreed to remove section two. We also agreed on the 3rd dot down, the Senate agreed to go along with that. We kind of agreed on the second dot. The 4th dot down, section 7, if I recall it is not an issue so that would come out. Then the equity the council is drafting the language the way it is to be agreed upon. The agreement that is drawn between the House and Senate at this time.

Dosch, says, it is my understanding it is going to be an overall equity, all we need to take out the equity in here.

Grindberg says that the Senate bills have it out.

Wardner responds, we are down to one last issue, FTE grants administration position. It is someone who worked with the grants but then also works over in the mineral management position. Our position is to keep that FTE.

Kempenich, asks, so you want three.

Wardner, yes and the reason these are special funds, we feel this people will help bring more revenue in. The more people we have working on this issue, catching up, will help bring more dollars to the fund, in the end it will be a plus to the state.

Kempenich, says, ours in there is presented as the grant officer. Even on the second one we weren't real comfortable doing two land people, mainly it is at the lake, but there are other issues, going forward, there probably is justification to keep those two on, they can put them on or take them off, they are authorized to do that. I don't think the amount will change much from what we're currently at. I don't know how we'll resist that, put in the 3rd FTE.

Wardner, states, I am going to read from the testimony on our side. 2 FTE mineral management one is for EDIO, but should a full FTE not be necessary to manage the EDIO grant program, any available time will be utilized in business management, including programming time. I get the feeling there they have work for him, besides working with the energy. The committee asks Deputy Commissioner Glen to come up to testify.

Dep. Commission Glen we asked for 3, the Governor put two positions for the department, the work load if we don't need that position 2 to 4 years down the line, historically we've given back positions when we don't need them.

Wardner, said he has a thought that maybe this one could be a 2 year position. The commissioner said I can't hire someone for two years.

Dep. Glen, It is pretty difficult to hire someone and then tell them there is work for only two years. Gary has mentioned that, it would be hard for us to hire 3 people by July 1, maybe if we got funding for one year of the biennium, so hire the two, then if we need another by July 1 of the next year we could use that.

Mathern, wonders if the House would consider this position in light of what we heard. Sounds like it was inappropriately defined. Had it been defined like the dept wanted maybe the House wouldn't have these concerns.

Kempenwich, it was presented as tied to the impact offices and was presented that way. It was going to take more than quarter time to operate that. The thing is knowing how the oil patch works, it ebbs and flows, but when it does slow up it does like slamming a door. That is one of my issues looking at I don't think the dept has enough money in their budget when they are busy, to hire that person. The two are probably justifiable at this time. The last couple of years have been extraordinary, we've gone through these booms why is it such a pressure right now. The two have been justified, where there is an issue and where it plays at right now, up along the river and Lake Sakakawea. Over the time frame there are issues where the activity is now, there should be identification going forward, they should be able to clip the two people they have like this grant application, if the Deputy Commissioner wants to get back into the investment of things. Down the road one of these positions is going to have some time to be able to do some of the granting. Right now it is up to the committee, I am going to have to resist.

Wardner, I feel they didn't get it done in the past because there was no sense of urgency, but now there it is, they want to wrap it up and continue to out there and do this work in the field whether the oil activity goes down or up they want to get it done in the future.

Jeff, that is exactly right. It's something that hasn't been worth the money in the past. Figuring out how that river is an expensive proposition, it never made sense because there was not the demand but the demand is there now. Once we get it it's done, yes, it should generate revenues going forward. Now is the time.

Wardner, it is my understanding that right now landmen are kind of down, this would be a good opportunity to find those people with those skills to work in the department.

Jeff, agrees, especially young ones, there are opportunities to hire qualified people to work with minerals.

Wardner, can you some more about the advanced automotive initiative, because that apparently would a part of this person's job description.

Jeff, we are trying to do is coordinate all our systems so that when we first issue a lease to production to development to drilling wells that we have a system that integrates all of that. We have automated our surface system, I understand it is working well, all our mail is digital, we are looking at doing the same thing with oil and gas.

Wardner, this position how much time would you predict that they work on the grants. Lets say there is 10 million in grants to distribute out in the oil country.

Jeff, what we're looking at right now in 1304 is on and they have added more duties. Right now we have a quarter of a position allocated to it, I can tell you, it's been more than that, especially with the boom, it has taken more than a quarter position. It's taken more of my time easy and that doesn't count clerical and administrative help. As we see it especially with new recording requirements it's going to be half time total of different people's time.

Wardner, In HB 1304, they are working on it, you say they are putting more requirements in as far as reporting.

Jeff, yes, what they are doing as it stands right now, some of this money will go to townships, and the counties will divvy that out to the townships. Each year the counties will have to report to me, I am then supposed to provide a report for Legislative Council based on that. That report would be first due in 2010, right before your back again.

Kempenich, You direct the impact grants that the townships and cities apply for now. It really isn't an added burden.

Jeff, I think there will be less people requesting money, but it may take a little bit off , it's the reporting requirements that are our concerns . Right now, any funding that isn't coming out of the grants to pay for that is coming out of trust funds, trust funds are paying my salary. If there is going to be extra duties, we need to make sure its funded from the grants, we are really pushing whether or not the trust finds are subsidizing operation of that program.

Wardner, I made the comment and that is, this position will pay for itself. By having this position in the department, work is going to get done where it's going to bring more revenue. Could you give a couple of examples or why we'll get more revenue because of this position.

Commissioner, the way to look at the 3rd position, remember in my testimony I said the land dept. will receive an interest in 1 out of every 8 of wells. What I am concerned about the rate of activity that's picking up in 2008. Potentially the Baaken right now could have 10,000 wells drilled. That means we will have interest in over a 1000 wells. My concern is that we will be able to handle that type of activity. By the two positions we're asking for I'm going to have my hands full trying to hire and train those people by July 1. I can't really use that 3rd person right now. The 3rd person, if the activity continues I will need that person. I can give you a list that deals with sales of former owners, mineral issues with railroad right of ways, with school sites. If that activity continues to develop, even at 40 rigs today we are still putting on 5 or 6 new well per month. If you don't anything, for the position, my tool as manager of the department will be to opt to go to the emergency commission. Not trying to miss those opportunities, we want to be able to handle those type of wells.

Kenpenich, I am not against it if there is a need. It ebbs and flows, if that is what you had in mind. There are issues that's why there are amendments floating around. I am trying figure

out what kind of activity to tie this to. The thing is there has to be, when it drops off it really drops off and when it goes up you can't afford them. That's the sad part of how it all works out there.

Meyer, can't we just implement some language we authorize the position and after that when there down with their training the position is authorized and the dept if its needed can just go ahead and hire the person.

Wardner our time is up we will be meeting in a half hour again. I would like to meet with the Department and see if we can come up with some language we both can live with. So we can all agree on. Recess till 10:00.

2009 SENATE STANDING COMMITTEE MINUTES

Bill/Resolution No. SB 2013 conference committee

Senate Appropriations Committee

☒ Check here for Conference Committee

Hearing Date: April 23, 2009 (10:00 am)

Recorder Job Number: 12147

Committee Clerk Signature	Rose Laning

Minutes:

Senator Wardner called the conference committee hearing to order on SB 2013 which concerns the Universities and Land Department. The minutes were to reflect that all members are present: **Senators Wardner, Grindberg, Mathern and Representatives Kempenich, Dosch** and **Meyer.**

Senator Wardner: (3:21) We'll be going over list of discussion points – see attached # 1. Equity funding will be taken out and handled in OMB Bill.

Rep. Kempenich: We will have the new Amendment to debate and talk about.

Senator Mathern: I'm opposed to taking the equity out. Two reasons, the process for the proper amount was determined to be in there. 2nd I don't know what OMB number will be.

Senator Wardner: I appreciate your comments. #2 FTE Grants Administrator – fully funded, but can't be hired until the budget section gives its OK. #3 Removes oil and gas Impact Grants. Joe will you explain that?

Joe Morrissette, OMB: The way the bill would pass if you left it at the House version it would be $9.8 Million in grant authority and that is based on $10 Million being transferred. The bills that are out there are either at a $6 Million or $8 Million level so this would be excessive authority that the department wouldn't have the funds to spend.

Senator Mathern: What if the other two bills went up to $20 Million, would this limit the ability to spend that?

Joe Morrissette: It would, there would have to be some language in one of those bills giving spending authority.

Senator Mathern: Can't we just take it out of here.

Joe Morrissette: It would have to be appropriated somewhere. It hasn't been held that way in the past. The salaries and grants have always been in the land department bill.

Rep. Kempenich: Why would we revert back to section 2 if we left that in? Why would it revert back to $10M? The current language is $6M.

Joe Morrissette: In section 1 of the bill the grant's line reflects $10M.

Rep. Kempenich: So you are going to change section 1 & 2. I think we should change it back to what it is right now and let the other bills reflect changes in grants.

Rep. Meyer: If we do that then they don't have authority to spend that, correct?

Rep. Kempenisch: No they would because they will be operating under current law. What's in there now is $6M. If they change anything it will be in that line. That's what is currently in law. If they adjust it, it will be based off that number. If it does change anything, we'll have to take that part out in section 1 and write the correct language. The other bills will get drafted at current language and current enhancement. That should have been taken care of when we originally took care of that amendment. It's just authority. That isn't a big deal to change that language.

Becky Keller, Legislative Council: I don't understand what he's saying.

Rep. Kempenich: We have to go back to the basic language in the original.

Discussion followed on clarification of what Rep. Kempenich was saying.

Rep. Kempenich: That bill will have to reflect current law and not based off of anything that is in this bill here.

Senator Wardner: If we put $6M back on the line item. When the other legislation is drafted, it will only be the amount above $6M.

Becky Keller: There won't be any spending authority to spend it. Are you going to add it because it's not there now?

Rep. Kempenich: It will be in 1304.

Senator Wardner: It's the mechanics here that we want to make sure of.

Rep. Meyer: You're talking about putting appropriation on 1304 and the authority to spend that will be on there too?

Senator Wardner: That is what Joe is saying that its' always been in this bill

Joe Morrissette: If you don't make any adjustments here it's ok, but there will be extra authority.

Senator Wardner: I'm comfortable with leaving it alone. Lets' say the next conference committee comes in with $12 M.

Rep. Kempenich: We've never had type of authorship.

Senator Wardner: I'm ok and if committee is ok. If they need more, then if they go above that amount, they have to put in authority for spending it.

Senator Wardner: Are we comfortable with that.

Senator Mathern: I'm not. We've laid another burden on that other bill. I don't live in oil patch.

Rep. Kempenich: This isn't part of current language.

Senator Wardner: If they take it out, they have to put in spending authority.

Rep. Kempenich: They have to add that money too. I have to check.

Senator Wardner: I don't want some number that they think restricts them. Whenever that conference committee meets, tell them you have the amount and you make appropriation.

Gary Preszler, Commissioner, Department of Banking and Financial Institutions, State of North Dakota: If you had dropped it back down to $6M in grant level but you put a paragraph in there to say that if HB 1304 has a higher appropriation then the bill will adjust to that amount and then get it back into the budget bill.

Rep. Kempenich: Tie it in.

Gary Preszler: The 5.88 is a net number. The governor put that in at $20M the net is taking out. You have to designate the net amount to distribute to counties. The other trust funds needed to distribute program.

Senator Wardner: Do you draft amendments for 1304?

Becky Keller: No

Senator Wardner: We are going to go with bringing it down to $6M and putting the language in there that Gary mentioned. #4 – authorizes FTE and takes the sunset off the position. #5 We agreed to that change in the transfer of monies. #6 we take out Section 7 oil and gas lease.

Senator Wardner: The chair would entertain a motion and we'll further amend.

Rep. Kempenich moved that the House will recede from its amendments in the House Journal, pages 1317-1318 and page 1248 in the Senate Journal and the Legislative Council will draw up the amendments as agreed upon.

Rep. Meyer seconded.

Senator Mathern said he will oppose the motion based on equity.

A Roll Call vote was taken. Yea: 5 Nay: 1 Absent: 0

Senator Wardner adjourned the hearing.

State Land Department
Conference Committee
April 21, 2009

PROPOSED AMENDMENTS TO SECOND ENGROSSMENT WITH HOUSE AMENDMENTS TO REENGROSSED SENATE BILL NO. 2013

Page 1, line 2, after second semi-colon insert "and"

Page 1, line 3, remove "and to amend and reenact section 15-05-09 of the North" and insert a period

Page 1, line 4, remove line 4

Page 1, line 14, replace "$593,432" with "$680,772" and replace "3,093,756" with "$3,181,096"

Page 1, line 15, replace 64,252 with 0 and replace 739,952 with 675,700

Page 1, line 19, replace "$4,547,343" with "$4,570,431" and replace $13,671,467" with "$13,694,555"

Page 1, line 19, replace "2.00" with "3.00" and replace "20.75" with "21.75"

Page 2, remove lines 28 through 30

Page 3, remove lines 1 through 10

Renumber accordingly

98032.0306
Title. 0500
Fiscal No. 1

Prepared by the Legislative Council staff for
Conference Committee
April 23, 2009

PROPOSED AMENDMENTS TO REENGROSSED SENATE BILL NO. 2013

That the House recede from its amendments as printed on page 1248 of the Senate Journal and pages 1317 and 1318 of the House Journal and that Reengrossed Senate Bill No. 2013 be amended as follows:

Page 1, line 13, replace "728,113" with "714,526" and replace "3,228,437" with "3,214,850"

Page 1, line 18, replace "4,682,024" with "4,668,437" and replace "13,806,148" with "13,792,561"

Page 1, remove lines 20 through 23

Page 2, line 31, replace "$43,500,000" with "$35,000,000"

Page 2, after line 31, insert:

"**SECTION 6. FULL-TIME EQUIVALENT AUTHORIZATION - BUDGET SECTION APPROVAL.** Section 1 of this Act includes one full-time equivalent position relating to grants administration which may be filled only upon budget section approval.

SECTION 7. ADDITIONAL FUNDING - APPROPRIATION. In addition to the funds appropriated in the grants line item in section 1 of this Act, there is appropriated any additional funds that may be authorized by the sixty-first legislative assembly for deposit in the oil and gas impact grant fund to the land department for providing oil and gas impact grants, for the biennium beginning July 1, 2009, and ending June 30, 2011."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT - LC 98032.0306 FN 1

A copy of the statement of purpose of amendment is attached.

STATEMENT OF PURPOSE OF AMENDMENT:

Senate Bill No: 2013 - Land Department - Conference Committee Action

	Executive Budget	Senate Version	Conference Committee Changes	Conference Committee Version	House Version	Comparison to House
Salaries and wages	$3,228,437	$3,228,437	($13,587)	$3,214,850	$3,093,756	$121,094
Operating expenses	739,952	739,952		739,952	739,952	
Capital assets	10,000	10,000		10,000	10,000	
Grants	19,777,759	9,777,759		9,777,759	9,777,759	
Contingencies	50,000	50,000		50,000	50,000	
Total all funds	$23,806,148	$13,806,148	($13,587)	$13,792,561	$13,671,467	$121,094
Less estimated income	23,806,148	13,806,148	(13,587)	13,792,561	13,671,467	121,094
General fund	$0	$0	$0	$0	$0	$0
FTE	21.75	21.75	0.00	21.75	20.75	1.00

Department No. 226 - Land Department - Detail of Conference Committee Changes

	Removes Salary Equity Funding[1]	Total Conference Committee Changes
Salaries and wages	($13,587)	($13,587)
Operating expenses		
Capital assets		
Grants		
Contingencies		
Total all funds	($13,587)	($13,587)
Less estimated income	(13,587)	(13,587)
General fund	$0	$0
FTE	0.00	0.00

[1] This amendment removes salary equity funding included in the executive recommendation, the same as the House version.

This amendment also:

- Removes Section 2 of the bill identifying funding from the oil and gas impact grant fund.
- Adds a section requiring Budget Section approval to hire a grants administrator. The House had removed this position.
- Amends Section 6 of the bill to reduce the amount available for transfer from the lands and minerals trust fund to the general fund from $43.5 million to $35 million, the same as the House version.
- Adds a section providing spending authority for additional oil and gas impact grant funds that may become available.

REPORT OF CONFERENCE COMMITTEE
(ACCEDE/RECEDE)

Bill Number SB 2013 (, as (re)engrossed): Date: April 23, 2009

Your Conference Committee Senate Appropriations Senate Conference Room

For the Senate:	YES	NO	For the House:	YES	NO
✓ Wardner	✓		✓ Kempenich	✓	
✓ Grindberg	✓		✓ Dosch	✓	
✓ Mathern		✓	✓ Meyer	✓	

recommends that the (SENATE/HOUSE) (ACCEDE to) (RECEDE from)

the (Senate/House) amendments on (SJ/HJ) page(s) 1317 - 1318 SJ 1248

✓, and place SB 2013 on the Seventh order.

✓, adopt (~~further~~) amendments as follows, and place _____ on the Seventh order:

____, having been unable to agree, recommends that the committee be discharged and a new committee be appointed.

((Re)Engrossed) SB 2013 was placed on the Seventh order of business on the calendar.

DATE: April 23, 2009
CARRIER: _____

LC NO.	of amendment
LC NO.	of engrossment
Emergency clause added or deleted	
Statement of purpose of amendment	

MOTION MADE BY: Rep Kempenich

SECONDED BY: Rep. Meyer

VOTE COUNT 5 YES 1 NO 0 ABSENT

REPORT OF CONFERENCE COMMITTEE

SB 2013, as reengrossed: Your conference committee (Sens. Wardner, Grindberg, Mathern and Reps. Kempenich, Dosch, S. Meyer) recommends that the **HOUSE RECEDE** from the House amendments on SJ page 1248, adopt amendments as follows, and place SB 2013 on the Seventh order:

That the House recede from its amendments as printed on page 1248 of the Senate Journal and pages 1317 and 1318 of the House Journal and that Reengrossed Senate Bill No. 2013 be amended as follows:

Page 1, line 13, replace "728,113" with "714,526" and replace "3,228,437" with "3,214,850"

Page 1, line 18, replace "4,682,024" with "4,668,437" and replace "13,806,148" with "13,792,561"

Page 1, remove lines 20 through 23

Page 2, line 31, replace "$43,500,000" with "$35,000,000"

Page 2, after line 31, insert:

"**SECTION 6. FULL-TIME EQUIVALENT AUTHORIZATION - BUDGET SECTION APPROVAL.** Section 1 of this Act includes one full-time equivalent position relating to minerals management which may be filled only upon budget section approval.

SECTION 7. ADDITIONAL FUNDING - APPROPRIATION. In addition to the funds appropriated in the grants line item in section 1 of this Act, there is appropriated any additional funds that may be authorized by the sixty-first legislative assembly for deposit in the oil and gas impact grant fund to the land department for providing oil and gas impact grants, for the biennium beginning July 1, 2009, and ending June 30, 2011."

Renumber accordingly

STATEMENT OF PURPOSE OF AMENDMENT - LC 98032.0307 FN 1

A copy of the statement of purpose of amendment is on file in the Legislative Council Office.

SB 2013 STATE LAND DEPARTMENT

Conference Committee Discussion Points

1. Equity funding — Take out. It will be handled in OMB Bill HB 1015

2. FTE Grants Administrator — Full fund. Cannot be hired until the Budget Section gives it's ok.

3. Removes Oil and Gas Impact Grants — Was Remove. Senate is ok.

4. Authorize FTE — Takes the sunset off of this position.

5. Changes General Fund Transfer from $43.5 M to $35 M — Was changed. Senate is ok.

6. Section 7 oil and gas leases. — Take out.

2009 TESTIMONY

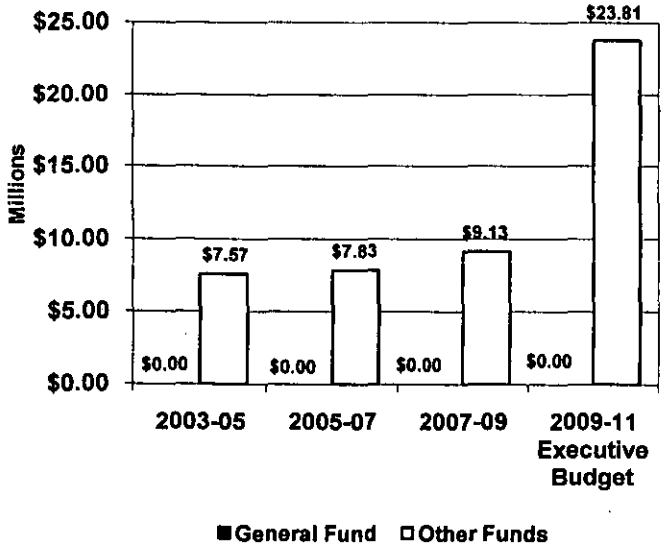
SB 2013

Department 226 - Land Department
Senate Bill No. 2013

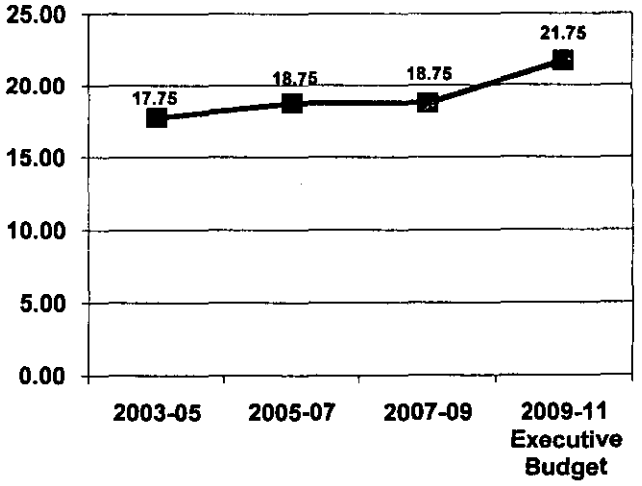
	FTE Positions	General Fund	Other Funds	Total
2009-11 Executive Budget	21.75	$0	$23,806,148	$23,806,148
2007-09 Legislative Appropriations	18.75	0	9,134,008	9,134,008[1]
Increase (Decrease)	3.00	$0	$14,672,140	$14,672,140

[1]The 2007-09 appropriation amounts include $9,984 of other funds for the agency's share of the $10 million funding pool appropriated to the Office of Management and Budget for special market equity adjustments for classified employees.

Agency Funding



FTE Positions



First House Action

Attached is a summary of first house changes.

Executive Budget Highlights
(With First House Changes in Bold)

	General Fund	Other Funds	Total
1. Provides funding to address salary equity issues		$13,587	$13,587
2. Adds funding for 2 FTE minerals management positions ($243,774) and related operating expenses ($26,385)		$270,159	$270,159
3. Adds funding for 1 FTE oil impact grant administrator position ($112,917) and related operating expenses ($8,177)		$121,094	$121,094
4. Increases funding for oil impact grants ($13,889,659) and the administration of the grant program ($110,341) from the current level of $6 million to $20 million. **The Senate reduced this funding by $10 million.**		$14,000,000	$14,000,000

Other Sections in Bill

Section 2 - Identifies that $10 million of the agency's special fund appropriation is from the oil and gas impact grant fund. The fund is used for providing oil and gas development impact grants and the administration of the oil and gas development impact grant program.

Continuing Appropriations

Unclaimed property - North Dakota Century Code (NDCC) Section 47-30.1-23 - Payments made to owners of unclaimed property.

Investments and farm loans - NDCC Sections 15-03-13 and 15-03-04.1 - Money manager and custodial fees and loan administration [illegible]s to maintain and enhance income earning potential of trusts' financial assets.

[illegible]nty services - NDCC Section 15-04-23 - Payments made to counties for various services provided that benefit school trust lands.

[illegible]nd expenses - NDCC Sections 15-04-24 and 15-07-22 - Payments for appraisal fees, survey costs, surface lease refunds, weed [illegible]d insect control, cleanup costs, capital improvement rent credits, fire protection, land rent, value survey costs, and other expenses.

In lieu of taxes - NDCC Section 57-02.3-07 - Payments made in lieu of property taxes.

Developmentally disabled loan fund program - NDCC Section 15-08.1-09 - Repayment of developmentally disabled loan fund program Nos. 2 and 3 from the lands and minerals trust fund to the common schools trust fund.

Major Related Legislation

House Bill No. 1225 - This bill provides an appropriation of $5 million from the permanent oil tax trust fund to the Energy Develop. mpact Office for the allocation of oil and gas impact grants to political subdivisions and increases the allocation of oil and gas tax venues to the oil and gas impact grant fund by $2 million, from $6 million to $8 million.

Senate Bill No. 2229 - This bill increases the maximum amount of oil and gas tax revenues that may be deposited in the oil and gas impact grant fund by $4 million per biennium, from $6 million to $10 million.

ATTACH:1

ATEMENT OF PURPOSE OF AMENDMENT:

ate Bill No. 2013 - Funding Summary

	Executive Budget	Senate Changes	Senate Version
Land Department			
Salaries and wages	$3,228,437		$3,228,437
Operating expenses	739,952		739,952
Capital assets	10,000		10,000
Grants	19,777,759	(10,000,000)	9,777,759
Contingencies	50,000		50,000
Total all funds	$23,806,148	($10,000,000)	$13,806,148
Less estimated income	23,806,148	(10,000,000)	13,806,148
General fund	$0	$0	$0
FTE	21.75	0.00	21.75
Bill Total			
Total all funds	$23,806,148	($10,000,000)	$13,806,148
Less estimated income	23,806,148	(10,000,000)	13,806,148
General fund	$0	$0	$0
FTE	21.75	0.00	21.75

Senate Bill No. 2013 - Land Department - Senate Action

	Executive Budget	Senate Changes	Senate Version
Salaries and wages	$3,228,437		$3,228,437
Operating expenses	739,952		739,952
Capital assets	10,000		10,000
Grants	19,777,759	(10,000,000)	9,777,759
Contingencies	50,000		50,000
Total all funds	$23,806,148	($10,000,000)	$13,806,148
Less estimated income	23,806,148	(10,000,000)	13,806,148
General fund	$0	$0	$0
FTE	21.75	0.00	21.75

Department 226 - Land Department - Detail of Senate Changes

	Reduces Funding for Grants[1]	Total Senate Changes
Salaries and wages		
Operating expenses		
Capital assets		
Grants	(10,000,000)	(10,000,000)
Contingencies		
Total all funds	($10,000,000)	($10,000,000)
Less estimated income	(10,000,000)	(10,000,000)
General fund	$0	$0
FTE	0.00	0.00

[1] This amendment reduces funding for oil and gas impact grants by $10 million from the oil and gas impact grant fund from),777,759 to $9,777,759.

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Gary D. Preszler, Commissioner

TESTIMONY OF GARY D. PRESZLER
STATE LAND COMMISSIONER
North Dakota State Land Department

IN SUPPORT OF SENATE BILL NO. 2013

SENATE APPROPRIATIONS COMMITTEE
January 9, 2009

Chairman Holmberg, members of the Senate Appropriations Committee, I am Gary D. Preszler, Secretary for the Board of University and School Lands and Commissioner for the State Land Department.

I am here to testify in support of the Land Department's requested total special funds appropriation. My testimony is specifically limited to sections 1, 4, 5 and 6 of the bill. Within the total appropriation request is $20,000,000 to fund the oil and gas development impact grants under the Energy Development Impact Office (EDIO). Jeff Engleson, the Director of the EDIO will cover the grant fund appropriation request contained in sections, 1, 2, 3, and 7(1). The remaining subsections under section 7 do not involve the Department directly, but Mr. Engleson will provide data and explain the prepared Fiscal Note. Except for the EDIO grants, the remaining request of $4,028,389 covers the administrative expenses to operate the Land Department.

The budget request's most significant proposed change from the current biennium is the addition of three (3) FTEs. These positions are necessary due to the increasing workload managing the oil and gas mineral leasing and production activity.

DEPARTMENT PURPOSE

The Land Grant to the State from the federal government and the State Constitution provides that the Board of University and School Lands shall manage the land, minerals and proceeds from the land for the exclusive benefit of the institutions for which they were granted. The income earned is to be distributed for the exclusive benefit of those trust beneficiaries.

Income is generated through prudent management of trust assets, consisting of over 714,000 surface acres, over 2.5 million mineral acres, approximately $874 million in trust fund financial assets, which includes nearly $34 million in unclaimed property. The surface acres are leased to ranchers and farmers across the state. The 2.5 million mineral acres are offered for oil, gas, coal, gravel and scoria leasing. Revenues from all sources are deposited in trust funds and are invested in the Farm Loan Pool administered by the Bank of North Dakota, U.S. Treasury and foreign notes and bonds, and corporate bonds and stocks. The Board also recently approved a loan participation program with the Bank of North Dakota for loans made to the State Mill and Elevator, and approved a recommendation to provide financing to housing developers in western communities now impacted with housing shortages caused by the expanding oil and oil service

sectors. The income from these investments, together with surface and mineral rentals, is distributable to North Dakota schools (public grades K-12), educational and other public institutions at specified intervals throughout the biennium.

The following is a list of beneficiaries of the various trust funds administered by the Land Department pursuant to Article IX of the North Dakota Constitution:

1) Common Schools
2) Capitol Building
3) North Dakota State University
4) Mayville State University
5) School for the Blind
6) Industrial School
7) School of the Deaf
8) State College of Science
9) State Hospital
10) School of Mines
11) Ellendale State College *
12) Veteran's Home
13) Valley City State University
14) University of North Dakota

* The Ellendale State College Trust is split equally between 7 beneficiaries: Dickinson State University, Minot State University, MSU-Bottineau, Veteran's Home, School of the Blind, State Hospital, and State College of Science.

The Board also manages the Indian Cultural Education Trust, Land and Minerals Trust Fund, Coal Development Trust Fund, and the Capitol Building Fund.

REVENUE ACTIVITY

Minerals Division - Oil And Gas Potential for Significant Growth

The current oil development activity in the Bakken system, including the recent prolific results in the Three Forks/Sanish Sands formation and other plays spurred on by technology advances is well known. The Department continues to experience robust leasing activity resulting in significant revenues from lease bonus money and production royalties. Should the Bakken ultimately be developed to the full extent that many experts are now predicting, the opportunity for growth for the trust fund beneficiaries is enormous.

The Department currently receives royalties from over 500 producing wells. A good rule-of-thumb for looking at the drilling activity benefit to the trusts is that for every ten wells that are completed, the Trusts we manage will have an interest in at least one. This means that in the past two years we have been adding about six new wells per month to our books.

Previously, the Department managed mineral assets by addressing problems as they were identified. That may have served our needs in the past, but with the development potential we are seeing in the Bakken resource, it is prudent and optimal to proactively take advantage of the opportunities that exist.

Managing all this activity is more than just depositing bonus and royalty checks. Since the Bakken leasing activity began in 2004, we are now leasing areas that have never been leased before. Further, because entire townships are now being drilled or planned to be drilled based on NDIC established spacing, title issues which may have existed since statehood that have never been dealt with, are being identified as drilling title problems and need to be resolved. Before the Middle Bakken play commenced, the Department's Minerals Division Director allocated about 1/4th of his time related to lease management. Several other employees similarly only spent part of their total time on royalty check processing, auditing, and ministerial functions related to lease sales and lease assignment processing. Today, it is clear that to properly manage these mineral assets, a fully-staffed Minerals Division is needed. Without the staff to adequately address lease issues,

opportunities will be missed and issues will not get resolved, resulting in royalties being held in non-interest bearing suspense accounts.

Examples of some of the primary issues that are now being identified that need extensive work include determining mineral ownership under the state's sovereign lands. The State Engineer is mandated with the responsibility for managing the beds of navigable lakes and streams (sovereign lands) and the Board has the responsibility for managing the minerals under the sovereign lands for the General Fund; a dual and interdependent responsibility. The Century Code defines "Sovereign Lands" as, "those areas, including beds and islands, lying within the ordinary high watermark (OHWM) of navigable lakes and streams". The only way to actually determine the OHWM is by reviewing different vegetation types in an on-the-ground survey. Further, the OHWM can and does move over time and as the river moves and as lakes rise and fall, the boundary to the states sovereign lands change as does the location of the state's mineral interests.

In the Western part of the state the Missouri and Yellowstone rivers are considered navigable and as such are sovereign lands. Over the years, the courts have only been presented with the question and ruled on a few lakes as to sovereignty, such as Painted Woods Lake, and Upper Des Lacs Lake in the Western part of the state. But for many lakes, a determination has never been made. I have estimated that the Department has over 80 lakes (many located in Mountrail and Burke counties) that may be impacted by oil development and leased by the Department as sovereign lands. Upon further review, most of these lakes may not meet the definition of sovereign lands and will only create a title dispute if no action is taken.

Surveying and mapping the states sovereign lands (principally the Missouri and Yellowstone Rivers) will identify more acreage not previously included in our database. This will result in additional leases offered and bonuses received and in future royalty payments. A large part of the two rivers are in core areas of exploitation.

Last year the Board commenced several projects with the goal of determining state ownership interest. A contract was awarded to an engineering firm to survey and delineate the ordinary high water mark for approximately a 58-mile stretch of the Missouri and Yellowstone rivers from approximately Williston to the Montana line. The project has an expected completion date of September 2009. Recently, the Board also authorized proceeding with bids for work to delineate another approximately 58 miles of river under Lake Sakakawea. That area stretches from the Fort Berthold reservation North boundary to near Williston. The Department developed procedures to review lakes and with the State Engineer will jointly determine the State's ability to assert state ownership. Several wells have already been drilled under lakes In Mountrail and Burke counties, which makes that area a high priority.

Foreclosed properties is another area that always presents a challenge as mineral ownership oftentimes can only be ascertained from performing actual title work in the County Recorder's Office. The mortgagor's mineral ownership, if any, is rarely known when property is taken as collateral.

Once a well is completed, leases need to be actively managed to ensure terms are followed. This will become an even bigger task as the number of wells increase.

Besides oil, there is also a growing interest in almost any kind of energy-related resources. Current pending inquires which are in various stages of review include:

1. ***Uranium.***
   A. An application to lease for uranium mining has just been received. Previous leasing activity, along with work done on lease terms and conditions, date back to the 1970s.
   B. The ND Geological Survey recently promulgated rules for Uranium In-situ Leach and extraction. The rules were adopted in response to a growing interest which will likely mean Department receipt of applications for leasing.
2. ***Calcium Chloride.*** An inquiry to lease for calcium chloride brine extraction was initially received one year ago. A lease form and acceptable terms needs to be finalized. This past year the company reentered an existing well on fee lands to test the resource potential.
3. ***Potash.*** An inquiry to lease for potash was recently received. No formal requests have been received.
4. ***Wind.*** It is expected that the Department will soon consummate the first Wind Energy Easement Agreement with a wind developer. As this renewable resource is developed opportunities will exist to host more wind turbines on state land.

Investments

Total permanent trust financial assets are approximately $784 million, not including values for surface acres or mineral holdings. The trust investments have not been immune from the carnage suffered in the financial markets as few investors or sectors have escaped the down markets. The trusts have been fortunate, however, to receive new money from rising oil revenues to help offset market losses.

Distributions (See Section 5)

At the August 2008 Land Board meeting, the Board approved distributions for all permanent trusts for the 2009-2011 biennium. The distributions were determined based on the principles outlined in NDCC 15-03-05.2, which states that:

> ***"The board shall distribute only that portion of a fund's income that is consistent with the long-term goals of preserving the purchasing power of the fund while maintaining income stability to the fund beneficiaries."***

The table below outlines both budgeted permanent trust distributions for the 2007-09 biennium and projected distributions for the 2009-11 biennium. Actual distributions will equal budgeted amounts for all trusts during the current biennium. The table shows total proposed distributions for 2009-11are approximately $10.8 million (15.3%) greater than actual distributions for the current biennium.

Trust Fund	Budgeted 2007-2009 Bi. Distributions	Proposed 2009-2011 Bi. Distributions	Proposed Inc./Dec. in Distributions	Percentage Inc./Dec. in Distributions
COMMON	$ 66,800,000	$ 77,000,000	$10,200,000	15.3%
NDSU	1,070,000	1,230,000	160,000	15.0%
BLIND	176,000	206,000	30,000	17.0%
DEAF	310,000	356,000	46,000	14.8%
ST HOSP	390,000	452,000	62,000	15.9%
ELLENDALE	168,000	196,000	28,000	16.7%
VALLEY	226,000	260,000	34,000	15.0%
MAYVILLE	156,000	178,000	22,000	14.1%
INDUSTRIAL	378,000	438,000	60,000	15.9%
SCIENCE	338,000	382,000	44,000	13.0%
MINES	370,000	422,000	52,000	14.1%
VETERANS	214,000	248,000	34,000	15.9%
UND	604,000	692,000	88,000	14.6%
Total	$ 71,200,000	$ 82,060,000	$ 10,860,000	15.3%

The proposed distributions are estimated amounts achievable under either the current income and interest approach, or the new formula should Constitutional Measure No.1be implemented before July 1, 2009. These amounts should also be achievable despite the recent market downturn. This is due to the fact that distributions are funded from largely the fixed income investments held in the portfolio which have not been as negatively impacted relative to the credit markets. Further, fixed income investments have not been reduced through rebalancing to equities as the stock market has dramatically fallen.

Distributions for 2009-2011 from the Common Schools Trust fund are projected to be $10.2 million more (15.3%) than distributions for the current biennium.

All of the other 12 remaining permanent trusts also will receive increases of at least 13% for the next biennium.

SURFACE LANDS ACCOMPLISHMENTS

Several projects to improve internal efficiencies and provide better service to the public include, completing scanning and converting to electronic files all of the land files and easement documents. This allows the public to be able to better access records showing previously granted easements. Further, with the recent high oil activity as a surface owner there are an increasing number of requests for well site agreements, roads and pipeline easements. Automating the records and the process has allowed us to respond to these requests more quickly and not hold up drilling plans.

Proposed 2009-2011 Biennium Budget request.

Three additional FTEs are included within the budget appropriation request. Two FTE are for the minerals management division to effectively manage the increased workload relating to royalty audits and administration of mineral leases, including resolving title issues and enforcing lease terms. One FTE is for the administration of the EDIO grant program. Should a full FTE not be necessary to manage the EDIO grant program, any available time will be utilized in minerals management, including programming time for an advanced automation initiative.

CONSTITUTIONAL MEASURE NO. 1

On November 7, 2006, North Dakota voters overwhelmingly approved Constitutional Measure #1. The final vote was 67.23% for Measure No. 1 versus 32.77% against the Measure. Although North Dakota voters approved Measure No. 1, implementing it still requires federal legislation. Senate Bill No. 1740 has been held in the Senate Energy and Natural Resources Committee for all of 2008 due to a filibuster. We expect the bill to move forward in the new Congress.

CONTINUING APPROPRIATION EXPENDITURES

In 2008 the Board authorized, under continuing appropriation authority, the awarding of the contract for the Montana line to Williston Missouri and Yellowstone river survey. A contract was awarded recently to a firm at a cost of approximately $250,000 with a project expected completion date of September 2009. Further, in 2008 the Board also authorized proceeding with bids for work to delineate another approximately 58 miles of river under Lake Sakakawea. Both costs for these surveys will be paid from the Land and Minerals Trust Fund. As previously stated, both of these surveys are necessary to determine the state's ownership interest in minerals in areas that are seeing aggressive oil drilling.

CONCLUSION

The Board's responsibility to preserve the purchasing power of the trusts and maintain income stability for the trust beneficiaries continues to be met as the funds remain strong despite recent turmoil in the financial markets. All permanent and other trust funds remain in sound financial condition. Surface land is effectively managed providing for a fair market return of grazing lease income. Mineral leasing and development activity continues to be very active with large bonuses being collected, and exploration potential is viewed as looking very promising for enhancing royalties received. There is huge potential for significant growth to occur for the benefit of trust fund beneficiaries as further exploitation of the Bakken system occurs. Unclaimed property collections continue to accumulate assets held for owners and unclaimed property administration is efficient in the processing of a record number of claim applications. The future for the trusts is very bright.

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ND STATE LAND DEPARTMENT
Helping to Fund Education

Gary D. Preszler, Commissioner

1

TESTIMONY OF GARY D. PRESZLER
STATE LAND COMMISSIONER
North Dakota State Land Department

IN SUPPORT OF ENGROSSED SENATE BILL NO. 2013

SENATE APPROPRIATIONS COMMITTEE
January 21, 2009

Chairman Holmberg, members of the Senate Appropriations Committee, I am Gary D. Preszler, Secretary for the Board of University and School Lands and Commissioner for the State Land Department.

I am here to testify in support of the Land Department's requested total special funds appropriation. My testimony is specifically limited to sections 1, 4, 5 and 6 of the bill. Within the total appropriation request is $20,000,000, as requested by the Governor, to fund the oil and gas development impact grants under the Energy Development Impact Office (EDIO). Jeff Engleson, the Director of the EDIO testified on sections, 1, 2, and 3 on January 9, 2009, before this committee. Except for the EDIO grants, the remaining request of $4,028,389 covers the administrative expenses to operate the Land Department.

The budget request's most significant proposed change from the current biennium is the addition of three (3) FTEs. These positions are necessary due to the increasing workload managing the oil and gas mineral leasing and production activity.

DEPARTMENT PURPOSE

The Land Grant to the State from the federal government and the State Constitution provides that the Board of University and School Lands shall manage the land, minerals and proceeds from the land for the exclusive benefit of the institutions for which they were granted. The income earned is to be distributed for the exclusive benefit of those trust beneficiaries.

Income is generated through prudent management of trust assets, consisting of over 714,000 surface acres, over 2.5 million mineral acres, approximately $874 million in trust fund financial assets, which includes nearly $34 million in unclaimed property. The surface acres are leased to ranchers and farmers across the state. The 2.5 million mineral acres are offered for oil, gas, coal, gravel and scoria leasing. Revenues from all sources are deposited in trust funds and are invested in the Farm Loan Pool administered by the Bank of North Dakota, U.S. Treasury and foreign notes and bonds, and corporate bonds and stocks. The Board also recently approved a loan participation program with the Bank of North Dakota for loans made to the State Mill and Elevator, and approved a recommendation to provide financing to housing developers in western communities now impacted with housing shortages caused by the expanding oil and oil service sectors. The income from these investments, together with surface and mineral rentals, is

distributable to North Dakota schools (public grades K-12), educational and other public institutions at specified intervals throughout the biennium.

The following is a list of beneficiaries of the various trust funds administered by the Land Department pursuant to Article IX of the North Dakota Constitution:

1) Common Schools
2) Capitol Building
3) North Dakota State University
4) Mayville State University
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8) State College of Science
9) State Hospital
10) School of Mines
11) Ellendale State College *
12) Veteran's Home
13) Valley City State University
14) University of North Dakota

* The Ellendale State College Trust is split equally between 7 beneficiaries: Dickinson State University, Minot State University, MSU-Bottineau, Veteran's Home, School of the Blind, State Hospital, and State College of Science.

The Board also manages the Indian Cultural Education Trust, Land and Minerals Trust Fund, Coal Development Trust Fund, and the Capitol Building Fund.

REVENUE ACTIVITY

Minerals Division - Oil And Gas Potential for Significant Growth

The current oil development activity in the Bakken system, including the recent prolific results in the Three Forks/Sanish Sands formation and other plays spurred on by technology advances is well known. The Department continues to experience robust leasing activity resulting in significant revenues from lease bonus money and production royalties. Should the Bakken ultimately be developed to the full extent that many experts are now predicting, the opportunity for growth for the trust fund beneficiaries is enormous.

The Department currently receives royalties from over 500 producing wells. A good rule-of-thumb for looking at the drilling activity benefit to the trusts is that for every ten wells that are completed, the Trusts we manage will have an interest in at least one. This means that in the past two years we have been adding about six new wells per month to our books.

Previously, the Department managed mineral assets by addressing problems as they were identified. That may have served our needs in the past, but with the development potential we are seeing in the Bakken resource, it is prudent and optimal to proactively take advantage of the opportunities that exist.

Managing all this activity is more than just depositing bonus and royalty checks. Since the Bakken leasing activity began in 2004, we are now leasing areas that have never been leased before. Further, because entire townships are now being drilled or planned to be drilled based on NDIC established spacing, title issues which may have existed since statehood that have never been dealt with, are being identified as drilling title problems and need to be resolved. Before the Middle Bakken play commenced, the Department's Minerals Division Director allocated about 1/4th of his time related to lease management. Several other employees similarly only spent part of their total time on royalty check processing, auditing, and ministerial functions related to lease sales and lease assignment processing. Today, it is clear that to properly manage these mineral assets, a fully-staffed Minerals Division is needed. Without the staff to adequately address lease issues,

opportunities will be missed and issues will not get resolved, resulting in royalties being held in non-interest bearing suspense accounts.

Examples of some of the primary issues that are now being identified that need extensive work include determining mineral ownership under the state's sovereign lands. The State Engineer is mandated with the responsibility for managing the beds of navigable lakes and streams (sovereign lands) and the Board has the responsibility for managing the minerals under the sovereign lands for the General Fund; a dual and interdependent responsibility. The Century Code defines "Sovereign Lands" as, "those areas, including beds and islands, lying within the ordinary high watermark (OHWM) of navigable lakes and streams". The only way to actually determine the OHWM is by reviewing different vegetation types in an on-the-ground survey. Further, the OHWM can and does move over time and as the river moves and as lakes rise and fall, the boundary to the states sovereign lands change as does the location of the state's mineral interests.

In the Western part of the state the Missouri and Yellowstone rivers are considered navigable and as such are sovereign lands. Over the years, the courts have only been presented with the question and ruled on a few lakes as to sovereignty, such as Painted Woods Lake, and Upper Des Lacs Lake in the Western part of the state. But for many lakes, a determination has never been made. I have estimated that the Department has over 80 lakes (many located in Mountrail and Burke counties) that may be impacted by oil development and leased by the Department as sovereign lands. Upon further review, most of these lakes may not meet the definition of sovereign lands and will only create a title dispute if no action is taken.

Surveying and mapping the states sovereign lands (principally the Missouri and Yellowstone Rivers) will identify more acreage not previously included in our database. This will result in additional leases offered and bonuses received and in future royalty payments. A large part of the two rivers are in core areas of exploitation.

Last year the Board commenced several projects with the goal of determining state ownership interest. A contract was awarded to an engineering firm to survey and delineate the ordinary high water mark for approximately a 58-mile stretch of the Missouri and Yellowstone rivers from approximately Williston to the Montana line. The project has an expected completion date of September 2009. Recently, the Board also authorized proceeding with bids for work to delineate another approximately 58 miles of river under Lake Sakakawea. That area stretches from the Fort Berthold reservation North boundary to near Williston. The Department developed procedures to review lakes and with the State Engineer will jointly determine the State's ability to assert state ownership. Several wells have already been drilled under lakes In Mountrail and Burke counties, which makes that area a high priority.

Foreclosed properties is another area that always presents a challenge as mineral ownership oftentimes can only be ascertained from performing actual title work in the County Recorder's Office. The mortgagor's mineral ownership, if any, is rarely known when property is taken as collateral.

Once a well is completed, leases need to be actively managed to ensure terms are followed. This will become an even bigger task as the number of wells increase.

Besides oil, there is also a growing interest in almost any kind of energy-related resources. Current pending inquires which are in various stages of review include:

1. **Uranium.**
   A. An application to lease for uranium mining has just been received. Previous leasing activity, along with work done on lease terms and conditions, date back to the 1970s.
   B. The ND Geological Survey recently promulgated rules for Uranium In-situ Leach and extraction. The rules were adopted in response to a growing interest which will likely mean Department receipt of applications for leasing.
2. **Calcium Chloride.** An inquiry to lease for calcium chloride brine extraction was initially received one year ago. A lease form and acceptable terms needs to be finalized. This past year the company reentered an existing well on fee lands to test the resource potential.
3. **Potash.** An inquiry to lease for potash was recently received. No formal requests have been received.
4. **Wind.** It is expected that the Department will soon consummate the first Wind Energy Easement Agreement with a wind developer. As this renewable resource is developed opportunities will exist to host more wind turbines on state land.

Investments

Total permanent trust financial assets are approximately $784 million, not including values for surface acres or mineral holdings. The trust investments have not been immune from the carnage suffered in the financial markets as few investors or sectors have escaped the down markets. The trusts have been fortunate, however, to receive new money from rising oil revenues to help offset market losses.

Distributions (See Section 5)

At the August 2008 Land Board meeting, the Board approved distributions for all permanent trusts for the 2009-2011 biennium. The distributions were determined based on the principles outlined in NDCC 15-03-05.2, which states that:

> *"The board shall distribute only that portion of a fund's income that is consistent with the long-term goals of preserving the purchasing power of the fund while maintaining income stability to the fund beneficiaries."*

The table below outlines both budgeted permanent trust distributions for the 2007-09 biennium and projected distributions for the 2009-11 biennium. Actual distributions will equal budgeted amounts for all trusts during the current biennium. The table shows that total proposed distributions for 2009-11 are approximately $10.8 million (15.3%) greater than actual distributions for the current biennium.

Trust Fund	Budgeted 2007-2009 Bi. Distributions	Proposed 2009-2011 Bi. Distributions	Proposed Inc./Decr. in Distributions	Percentage Inc./Decr. in Distributions
COMMON	$ 66,800,000	$ 77,000,000	$10,200,000	15.3%
NDSU	1,070,000	1,230,000	160,000	15.0%
BLIND	176,000	206,000	30,000	17.0%
DEAF	310,000	356,000	46,000	14.8%
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UND	604,000	692,000	88,000	14.6%
Total	$ 71,200,000	$ 82,060,000	$ 10,860,000	15.3%

The proposed distributions are estimated amounts achievable under either the current income and interest approach, or the new formula should Constitutional Measure No.1be implemented before July 1, 2009. These amounts should also be achievable despite the recent market downturn. This is due to the fact that distributions are funded from largely the fixed income investments held in the portfolio which have not been as negatively impacted relative to the credit markets. Further, fixed income investments have not been reduced through rebalancing to equities as the stock market has dramatically fallen.

Distributions for 2009-2011 from the Common Schools Trust fund are projected to be $10.2 million more (15.3%) than distributions for the current biennium.

All of the other 12 remaining permanent trusts also will receive increases of at least 13% for the next biennium.

SURFACE LANDS ACCOMPLISHMENTS

Several projects to improve internal efficiencies and provide better service to the public include, completing scanning and converting to electronic files all of the land files and easement documents. This allows the public to be able to better access records showing previously granted easements. Further, with the recent high oil activity as a surface owner there are an increasing number of requests for well site agreements, roads and pipeline easements. Automating the records and the process has allowed us to respond to these requests more quickly and not hold up drilling plans.

Proposed 2009-2011 Biennium Budget request.

Three additional FTEs are included within the budget appropriation request. Two FTE are for the minerals management division to effectively manage the increased workload relating to royalty audits and administration of mineral leases, including resolving title issues and enforcing lease terms. One FTE is for the administration of the EDIO grant program. Should a full FTE not be necessary to manage the EDIO grant program, any available time will be utilized in minerals management, including programming time for an advanced automation initiative.

CONSTITUTIONAL MEASURE NO. 1

On November 7, 2006, North Dakota voters overwhelmingly approved Constitutional Measure #1. The final vote was 67.23% for Measure No. 1 versus 32.77% against the Measure. Although North Dakota voters approved Measure No. 1, implementing it still requires federal legislation. Senate Bill No. 1740 has been held in the Senate Energy and Natural Resources Committee for all of 2008 due to a filibuster. We expect the bill to move forward in the new Congress.

CONTINUING APPROPRIATION EXPENDITURES

In 2008 the Board authorized, under continuing appropriation authority, the awarding of the contract for the Montana line to Williston Missouri and Yellowstone river survey. A contract was awarded recently to a firm at a cost of approximately $250,000 with a project expected completion date of September 2009. Further, in 2008 the Board also authorized proceeding with bids for work to delineate another approximately 58 miles of river under Lake Sakakawea. Both costs for these surveys will be paid from the Land and Minerals Trust Fund. As previously stated, both of these surveys are necessary to determine the state's ownership interest in minerals in areas that are seeing aggressive oil drilling.

CONCLUSION

The Board's responsibility to preserve the purchasing power of the trusts and maintain income stability for the trust beneficiaries continues to be met as the funds remain strong despite recent turmoil in the financial markets. All permanent and other trust funds remain in sound financial condition. Surface land is effectively managed providing for a fair market return of grazing lease income. Mineral leasing and development activity continues to be very active with large bonuses being collected, and exploration potential is viewed as looking very promising for enhancing royalties received. There is huge potential for significant growth to occur for the benefit of trust fund beneficiaries as further exploitation of the Bakken system occurs. Unclaimed property collections continue to accumulate assets held for owners and unclaimed property administration is efficient in the processing of a record number of claim applications. The future for the trusts is very bright.

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Gary D. Preszler, Commissioner

TESTIMONY OF GARY D. PRESZLER
STATE LAND COMMISSIONER
North Dakota State Land Department

IN SUPPORT OF REENGROSSED SENATE BILL NO. 2013

HOUSE GOVERNMENT OPERATIONS DIVISION
February 27, 2009

Chairman Delzer, members of the House Government Operations Division of the Appropriations Committee, I am Gary D. Preszler, Secretary for the Board of University and School Lands and Commissioner for the State Land Department.

I am here to testify in support of the Land Department's requested total special funds appropriation. My testimony is specifically limited to sections 1, 4, 5 and 6 of the bill. Within the total appropriation request is $10,000,000 (amended in the Senate from $20 million to $10 million), as requested by the Governor, to fund the oil and gas development impact grants under the Energy Development Impact Office (EDIO). Jeff Engleson, the Director of the EDIO will testify on the portions related to the EDIO grants. The Senate further amended SB2013 to remove Section 7 of the Bill pertaining to the county caps on the production tax. Except for the EDIO grants, the remaining request of $4,028,389 covers the administrative expenses to operate the Land Department.

The budget request's most significant proposed change from the current biennium is the addition of three (3) FTEs. These positions are necessary due to the increasing workload managing the oil and gas mineral leasing and production activity.

DEPARTMENT MISSION AND PURPOSE

The Land Grant to the State from the federal government and the State Constitution provides that the Board of University and School Lands shall manage the land, minerals and proceeds from the land for the exclusive benefit of the institutions for which they were granted. The income earned is to be distributed for the exclusive benefit of those trust beneficiaries.

Income is generated through prudent management of trust assets, consisting of over 714,000 surface acres, over 2.5 million mineral acres, and approximately $874 million in trust fund financial assets, which includes nearly $34 million in unclaimed property. The surface acres are leased to ranchers and farmers across the state. The 2.5 million mineral acres are offered for oil, gas, coal, gravel and scoria leasing. Revenues from all sources are deposited in trust funds and are invested in the Farm Loan Pool administered by the Bank of North Dakota, U.S. Treasury and foreign notes and bonds, and corporate bonds and stocks. The Board also recently approved a loan participation program with the Bank of North Dakota for loans made to the State Mill and Elevator, and approved a recommendation to provide financing to housing developers in western communities now impacted with housing shortages caused by the expanding oil and oil service sectors. The income from these investments, together with surface and mineral rentals, is

distributable to North Dakota schools (public grades K-12), educational and other public institutions at specified intervals throughout the biennium.

The following is a list of beneficiaries of the various trust funds administered by the Land Department pursuant to Article IX of the North Dakota Constitution:

1) Common Schools
2) Capitol Building
3) North Dakota State University
4) Mayville State University
5) School for the Blind
6) Industrial School
7) School of the Deaf
8) State College of Science
9) State Hospital
10) School of Mines
11) Ellendale State College *
12) Veteran's Home
13) Valley City State University
14) University of North Dakota

* The Ellendale State College Trust is split equally between 7 beneficiaries: Dickinson State University, Minot State University, MSU-Bottineau, Veteran's Home, School of the Blind, State Hospital, and State College of Science.

The Board also manages the Indian Cultural Education Trust, Land and Minerals Trust Fund, Coal Development Trust Fund, and the Capitol Building Fund.

BUDGET SPECIFIC INFORMATION OVERVIEW

2005-2007 Actual Expenditures

Over 78 percent of the actual expenditures are salaries and benefits.

The primary addition in the 2005-2007 budget request was to start a document imaging project for Department files.

In 2007, the Department began the project by scanning surface land files. Existing electronic records were also linked into the FileNet® system. The goal is to eliminate physical storage costs and provide for greater efficiency in searching and retrieving file information.

The Enterprise FileNet® system maintained by ITD provided the platform. Department staff are providing much of the time for developing the index framework, and will perform the task of purging and scanning records. Implementation costs have been approximately $23,000 with biennial maintenance cost running about $20,000. Both the implementation and maintenance costs are being paid for and included in the budget operating line.

The Surface Division has completed all of the land files, and largely completed electronic scanning of easement and right-of-way files. The process has greatly increased efficiency as we are able to more easily track and process various requests from the public. Eliminating the paper files has also greatly improved response time to various requests. The Minerals and Unclaimed Property Divisions are also planned to be converted to electronic records storage.

2007-2009 Ongoing Funding and Current Estimates 2007-2009 Expenditures and Anticipated Unspent GF

Since the operating monies are paid from the State Lands Maintenance Fund which is funded by the Trust Funds managed by the Board, there is no turn-back to the General Fund. Instead, remaining budgeted monies remain in the Trust Funds for the benefit of Trust Fund beneficiaries.

The current biennial actual expenses are projected to come in approximately $150,000 under budget, excluding the contingency line.

There are no one-time funding requests in the current budget.

2009-2011 Budget Needs

The largest budget change from the current biennial request is for the addition of three FTEs. All FTEs being requested are related to the increased oil activity. As you know, the Bakken potential is presenting significant opportunity for growth for the trust funds, including the General Fund, the beneficiary of the Land and Minerals Trust Fund.

All this new activity is not without added work. Leasing and drilling activity has moved into areas that have never been leased before, and as a result, title issues from long ago arise that need to be resolved.

Three additional FTEs are included within the budget appropriation request. Two FTEs are for the minerals management division to effectively manage the increased workload relating to royalty audits and administration of mineral leases, including resolving title issues and enforcing lease terms. One FTE is for the administration of the EDIO grant program. Should a full FTE not be necessary to manage the EDIO grant program, any available time will be utilized in minerals management, including programming time for an advanced automation initiative.

The specific initiatives that are planned for the additional FTEs are more fully discussed later in the testimony.

Major Budget Variances-2007-2009 Estimates of Income and Expenditures 2009-2011 Recommended Appropriations and Estimated Income Compared to 2007-2009 Appropriations and Estimated Income

The major budget variance is the proposed addition of three FTEs. All other line items are reoccurring and are adjusted for normal price changes.

Income projections for the Land and Minerals Trust Fund are discussed later.

MAJOR AGENCY INITIIATIVES AND PROGRAM CHANGES

The current oil development activity in the Bakken system, including the recent prolific results in the Three Forks/Sanish Sands formation and other plays spurred on by technology advances is well known. The Department continues to experience robust leasing activity resulting in significant revenues from lease bonus money and production royalties. Should the Bakken ultimately be developed to the full extent that many experts are now predicting, the opportunity for growth for the trust fund beneficiaries is enormous.

The Department currently receives royalties from over 550 producing wells. A good rule-of-thumb for looking at the drilling activity benefit to the trusts is that for every ten wells that are completed, the Trusts we manage will have an interest in at least one. This means that in the past two years we have been adding about six new wells per month to our books.

Previously, the Department managed mineral assets by addressing problems as they were identified. That may have served our needs in the past, but with the development potential we are seeing in the Bakken resource, it is prudent and optimal to proactively take advantage of the opportunities that exist.

Since the Bakken leasing activity began in 2004, we have begun leasing areas that have never been leased before. Further, because entire townships are now being drilled or planned to be drilled based on NDIC established spacing, title issues which may have existed since statehood that have never been dealt with, are being identified as drilling title problems and need to be resolved. Before the Middle Bakken play commenced, the Department's Minerals Division Director allocated about 1/4th of his time related to lease management. Several other employees similarly only spent part of their total time on royalty check processing, auditing, and ministerial functions related to lease sales and lease assignment processing. Today, it is clear that to properly manage these mineral assets, a fully-staffed Minerals Division is needed. Without the staff to adequately address lease issues, opportunities will be missed and issues will not get resolved, resulting in royalties being held in non-interest bearing suspense accounts.

The Board manages the Land and Minerals Trust Fund for the General Fund that includes as sovereign lands the beds of navigable lakes and streams. The Land and Minerals Trust Fund consists of over 700,000 mineral acres. The Century Code defines "Sovereign Lands" as, "those areas, including beds and islands, lying within the ordinary high watermark of navigable lakes and streams". The Administrative Code further defines the "Ordinary High Water Mark" (OHWM) as, "that line below which the action of the water is frequent enough either to prevent the growth of vegetation or to restrict its growth to predominantly wetland species". In January 2007 the State Engineer published guidelines for determining the OHWM. The only way to actually determine the OHWM is an on-the-ground survey by reviewing different vegetation types.

A major initiative will be to determine accurate acreage calculations for state sovereign lands.

In June 2008, the Board authorized initiating an RFP to survey all of the Yellowstone and the Missouri rivers from the Montana line to approximately Williston, or the upper lake elevation of Lake Sakakawea. A contract has been awarded ($249,000) to a local engineering firm with the field work planned for the summer of 2009 with a final report submitted in the fall of 2009. The State Engineer will contribute up to 25% of the cost. Once the survey information has been completed, the Department will have to review on a tract-by-tract basis to adjust acreage amount on our database and add tracts that previously were not listed.

The Army Corps of Engineers under the Takings Act did not condemn the state's interest for the sovereign lands under the lake. Consequently, the state still owns the mineral rights under the old river channel under Lake Sakakawea. In October 2008, the Board further agreed to proceed with a RFP to have the Missouri river under Lake Sakakawea mapped, from just east of Williston to the north boundary of the Fort Berthold reservation, a distance of approximately 60 miles. Since an on-the-ground survey of OHWM for the original river under Lake Sakakawea cannot be done, the best way to delineate the OHWM is by interpretation of stereo aerial photography of the Missouri River before the reservoir filled. An outside firm with expertise in the use of a stereo scope along with a botanist experienced in Missouri River riparian vegetation can best perform this work. An outside firm also provides some independence to the process which will be beneficial to achieving stipulations of interests with riparian landowners. This project is currently awaiting more detailed legal research before the RFP is published.

A large number of lakes also need to be reviewed for evidence that the lake is "navigable" and consequently sovereign lands. This project is urgent as several wells have already been drilled under lakes and have created title disputes.

Foreclosed properties is another area that always presents a challenge as mineral ownership oftentimes can only be ascertained from performing actual title work in the County Recorder's

Office. The mortgagor's mineral ownership, if any, is rarely known when property is taken as collateral.

Once a well is completed, leases need to be actively managed to ensure terms are followed. This will become an even bigger task as the number of wells increase.

Besides oil, there is also a growing interest in almost any kind of energy-related resources. The additional FTEs will assist in developing and managing these resources. Current pending inquires which are in various stages of review include:

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AGENCY'S LONG-TERM PLAN FOR IMPROVIING EFFICIENCY AND EFFECTIVENESS

The Bakken oil development presents tremendous opportunity for the permanent trusts and the General Fund through the Land and Minerals Trust. The size of this potential resource will require lease management to more proactively manage leasing opportunities. All the title issues that previously went unnoticed need to be addressed in order that development does not get curtailed.

Document imaging needs are planned for the Minerals and Unclaimed Property Divisions. Both Divisions will greatly benefit from electronic filing and storage of information.

The amount of unclaimed property continues to increase and with that is the demand to timely process holder reporting and owner claims.

REVENUE ACTIVITY

INVESTMENTS

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DISTRIBUTIONS (See Section 5)

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The table below outlines both budgeted permanent trust distributions for the 2007-09 biennium and projected distributions for the 2009-11 biennium. Actual distributions will equal budgeted amounts for all trusts during the current biennium. The table shows that total proposed distributions for 2009-11 are approximately $10.8 million (15.3%) greater than actual distributions for the current biennium.

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All of the other 12 remaining permanent trusts also will receive increases of at least 13% for the next biennium.

LAND AND MINERALS TRUST FUND DISTRIBUTION TO GENERAL FUND

Income projections for the Land and Minerals Trust Fund and the related amount available to transfer to the General Fund is being projected downward for the March projections due to ND oil prices and the continuing stacking of drilling rigs. We are now estimating that the amount available to transfer as of June 30, 2011 will be $36 million, a reduction of $7.5 million from the $43.5 million projected at budget submission.

SURFACE LANDS ACCOMPLISHMENTS

Several projects to improve internal efficiencies and provide better service to the public include, completing scanning and converting to electronic files all of the land files and easement documents. This allows the public to be able to better access records showing previously granted easements. Further, with the recent high oil activity, because we are also a surface owner, there are an increasing number of requests for well site agreements, roads and pipeline easements. Automating the records and the process has allowed us to respond to these requests more quickly and not hold up drilling plans.

CONSTITUTIONAL MEASURE NO. 1

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CONTINUING APPROPRIATION EXPENDITURES

Expenses to operate the day-to-day functions of the Land Department, such as salaries and benefits, travel expenses, and all the inter-agency billings for fleet services and legal advice through the Attorneys General Office is paid under the budget appropriation requests. Continuing appropriation expenditures are paid for costs related directly to manage a Trust Fund asset. For example, this includes expenses for spraying, land appraisals, or surveying costs.

The largest continuing appropriation expenditure that is pending was 2008 Board authorization for the contract for the Missouri and Yellowstone River survey. A contract was awarded recently to a firm at a cost of $249,000 with a project expected completion date of September 2009. Further, in 2008 the Board also authorized proceeding with bids for work to delineate another approximately 58 miles of river under Lake Sakakawea. Both costs for these surveys will be paid from the Land and Minerals Trust Fund. As previously stated, both of these surveys are necessary to determine the state's ownership interest in minerals in areas that are seeing aggressive oil drilling.

CONCLUSION

The Board's responsibility to preserve the purchasing power of the trusts and maintain income stability for the trust beneficiaries continues to be met as the funds remain strong despite recent turmoil in the financial markets. All permanent and other trust funds remain in sound financial condition. Surface land is effectively managed providing for a fair market return of grazing lease income. Mineral leasing and development activity continues to be very active with large bonuses being collected, and exploration potential is viewed as looking very promising for enhancing royalties received. There is huge potential for significant growth to occur for the benefit of trust fund beneficiaries as further exploitation of the Bakken system occurs. Unclaimed property collections continue to accumulate assets held for owners and unclaimed property administration is efficient in the processing of a record number of claim applications. The future for the trusts is very bright.

PERMANENT EDUCATIONAL TRUST ASSETS

The first section of this performance report shows combined data for the 13 permanent educational trust funds managed by the Board. The assets of the trusts are invested in a pool. Each trust owns a proportionate share of the investments in the pool and shares accordingly in the profits, losses and income generated by those investments.

The long range goal for the trusts is to have both principal and income grow at a rate greater than, or equal to, the rate of inflation. In order to accomplish this goal, the Land Board has adopted an asset allocation that includes a 49% allocation to fixed income assets (including cash) and a 51% allocation to equities and convertible securities. Throughout this report, when the term "equities" or "equity securities" is used, it includes convertible securities and Real Estate Investment Trusts (REITs).

Portfolio Highlights

⇒ Total trust assets fell by $91.70 million during the quarter ended December 31, 2008, as the combined equity and convertible securities portfolio posted its fifth consecutive quarterly loss.

⇒ The combined equity portfolio posted a total return loss of -25.21% for the quarter, by far its worst quarterly performance since equities were added to the portfolio in 1990. Royalty, oil extraction tax and surface rental collections during the quarter helped offset some of the $110.03 million lost by the combined equity portfolio during the quarter.

⇒ Although the normal asset allocation for the trusts is 51% equities and 49% fixed income, the current target percentage allocation for fixed income is 58.6%. Board policy does not allow rebalancing from fixed income assets to equities when the value of the equity portfolio goes down. The target allocation for fixed income assets will stay at $480.46 million until total trust assets climb to a new high.

⇒ The average yield on cost of the yield-oriented fixed income portfolio fell 32 basis points during the quarter, to 5.30%. This compares to an average yield of 5.66% during fiscal year 2008 and 5.90% during fiscal year 2007. The primary driver was a sharp decline in the yield of Payden GNMA Fund.

⇒ With the current economic turmoil, low Treasury rates, and recent government actions to help bailout the financial industry, the Commissioner expects that the average yield of the yield-oriented fixed income portfolio will continue to decline going forward.

⇒ $2.9 million worth of farm loans were funded during the quarter ended December 31, 2008, as demand remained strong. $12.9 million worth of loans were funded during calendar year 2008; this is the most loans funded in one year since 1996.

⇒ Every account in the combined equity portfolio posted a return of -20% or lower during the quarter ended December 31, 2008. For the trailing year, the Delaware (DIA) REIT portfolio was the best performing portfolio, posting a loss of more than -34%.

⇒ The Western Asset Management futures and enhanced cash strategy portion of NTGA Enhanced S&P 500 portfolio continued to perform poorly as credit spreads climbed to historic highs during the quarter. A conference call with was held with Western and NTGA in mid-January to discuss both past performance and future expectations for the portfolio. Although the Commissioner continues to have concerns, much of the underperformance to date should be recoverable over the next few years as credit markets stabilize.

⇒ Although the current turmoil in both equity and fixed income markets has reduced the value of the overall investment portfolio substantially, the Commissioner still expects all of the permanent trusts to meet budgeted distributions for both fiscal year 2009 and for the 2009-11 biennium.

Asset Allocation

For the schedule below, and all others that follow, the BND and Payden & Rygel fixed income securities portfolios, the farm loan pool, and developmentally disabled loans are valued at cost. All other portfolios, including cash equivalents, high yield bonds, international bonds, the GNMA/Short Bond account, Treasury Inflation Protected Securities (TIPS), convertible securities, equities and REITs are valued at market.

COMPARATIVE ASSET ALLOCATION SCHEDULE

Date	Total Assets	Fixed Income	Convertible Securities	Sm/Mid Cap Equities	Large Cap Equities	International Equities	REITS
6/30/08 Rebalanced	$949,692,000	$480,457,000 50.6%	$92,007,000 9.7%	$92,007,000 9.7%	$138,010,000 14.5%	$92,007,000 9.7%	$55,204,000 5.8%
12/31/08 Actual	**$820,317,000**	**$493,715,000 60.2%**	**$64,733,000 7.9%**	**$63,274,000 7.7%**	**$96,856,000 11.8%**	**$64,344,000 7.8%**	**$37,395,000 4.6%**
12/31/08 Target	$820,317,000	$480,457,000 58.6%	$66,639,000 8.1%	$66,639,000 8.1%	$99,959,000 12.2%	$66,639,000 8.1%	$39,984,000 4.9%

Total Trust Assets

- Total trust assets fell by $91.70 million during the quarter ended December 31, 2008, as the combined equity and convertible securities portfolio posted its fifth consecutive quarterly loss.
- The combined equity portfolio posted a total return loss of -25.21% for the quarter, by far its worst quarterly performance since equities were added to the portfolio in 1990. Royalty, oil extraction tax and surface rental collections during the quarter helped offset some of the $110.03 million lost by the combined equity portfolio during the quarter.
- Total trust assets have declined by $160.20 million (more than 16%) since they reached a month end peak of $980.52 million in May, 2008.
- Although the current turmoil in both equity and fixed income markets has reduced the value of the overall investment portfolio substantially, the Commissioner still expects all of the permanent trusts to meet budgeted distributions for both fiscal year 2009 and for the 2009-11 biennium.

Fixed Income Assets

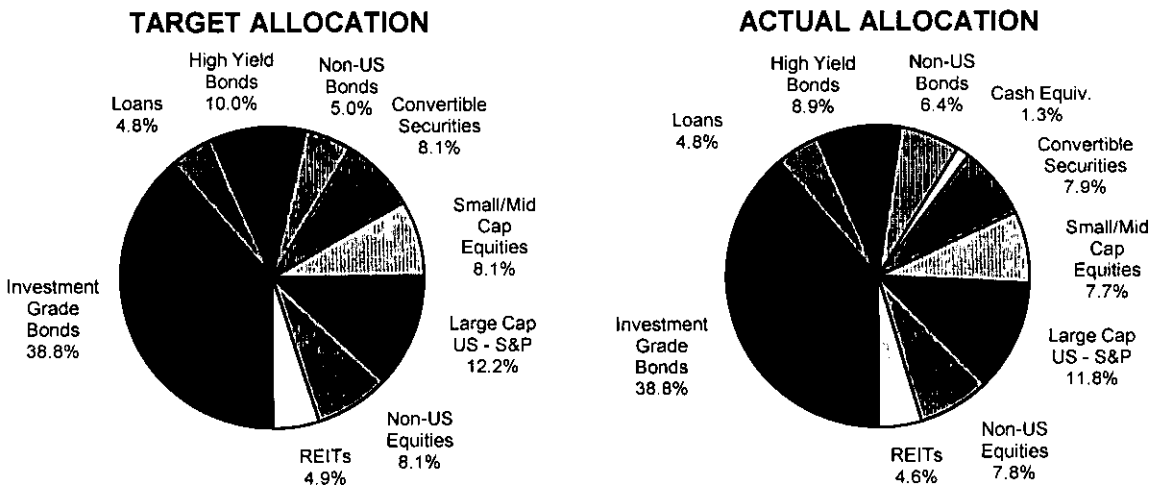
- The dollar amount allocated to fixed income investments as of December, 2008 was approximately $13.26 million more than the $480.46 target allocation for that date. The primary reason for this overweight position was the strong cash flows during a quarter when minimal rebalancing was done due to the volatile nature of both fixed income and equity markets.
- Although the normal asset allocation for the trusts is 51% equities and 49% fixed income, the current target percentage allocation for fixed income is 58.6%. Board policy does not allow rebalancing from fixed income assets to equities when the value of the equity portfolio goes down. The target allocation for fixed income assets will stay at $480.46 million until total trust assets climb to a new high.
- The fixed income portfolio has posted negative returns the past two quarters, however, fixed income grew as a percentage of assets because of the large losses experienced in the combined equity portfolio.
- With the current turmoil in the credit markets, the Commissioner and staff continue to explore various ways to further diversify the fixed income portfolio while also capitalizing on the opportunities created by credit spreads that are now at or near historic highs.

Equity and Convertible Securities

- The actual value of the combined equity and convertible securities portfolio was approximately $326.60 million as of December 31, 2008, or approximately 39.8% of the overall investment portfolio.
- The target allocation for the combined equity portfolio was 41.4% at the end of the quarter and will most likely remain below its normal 51% target allocation for quite some time, as it could be a while before total trust assets once again climb to a new all time high.
- Every individual portfolio within the combined equity portfolio posted total return losses of -20% or worse during the quarter; this resulted in every equity portfolio being substantially underweighted at quarter's end. The convertible securities, which returned approximately -20% for the quarter, was the least bad performing portfolio portion of the equity portfolio.
- Although no rebalancing was performed during the quarter, at quarter's end, $12.0 million of cash was moved from fixed income portfolio to equities to help bring the portfolio closer to its target allocation for December 31, 2008.

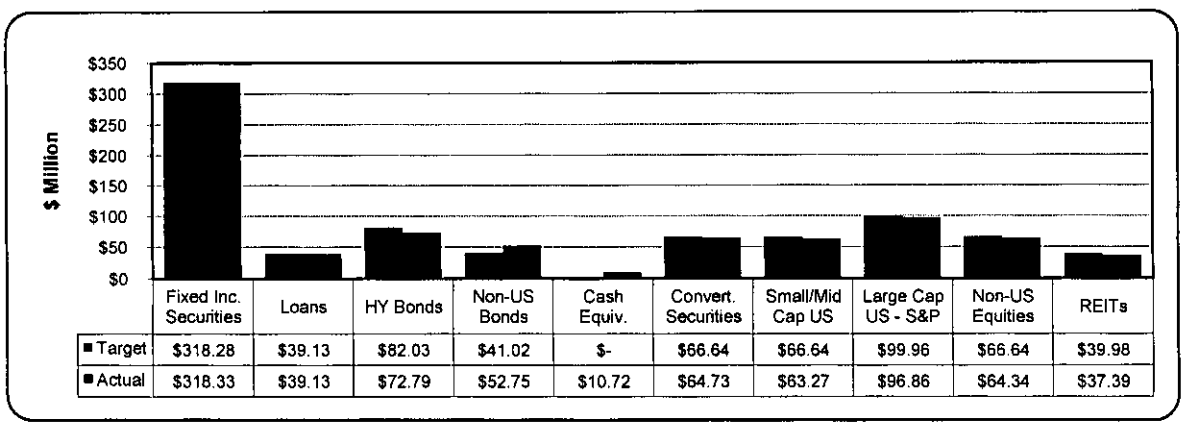
The pie charts below compare the target asset allocation for each asset class as of December 31, 2008 to the actual percentage of assets allocated to each asset class.

TARGET ASSET ALLOCATION VS. ACTUAL ALLOCATION AS OF DECEMBER 31, 2008



The bar chart below shows the target dollar amounts allocated to each asset class as of December 31, 2008 versus the actual allocation for that date.

TARGET ASSET ALLOCATION VS. ACTUAL ALLOCATION AS OF DECEMBER 31, 2008



	Fixed Inc. Securities	Loans	HY Bonds	Non-US Bonds	Cash Equiv.	Convert. Securities	Small/Mid Cap US	Large Cap US - S&P	Non-US Equities	REITs
■ Target	$318.28	$39.13	$82.03	$41.02	$-	$66.64	$66.64	$99.96	$66.64	$39.98
■ Actual	$318.33	$39.13	$72.79	$52.75	$10.72	$64.73	$63.27	$96.86	$64.34	$37.39

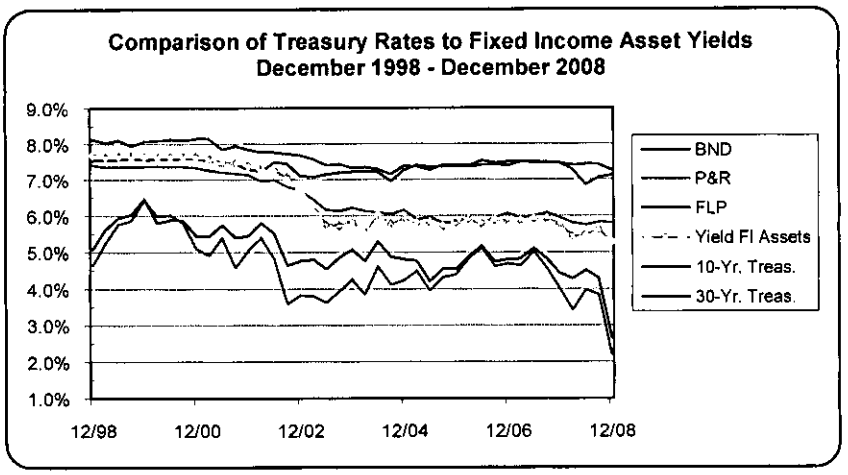
Fixed Income Assets

The purpose of the fixed income portfolio is to generate the long-term, predictable income and cash flows needed to meet distribution goals. With the Board's adoption of the DiMeo Schneider "Near Term" asset allocation, the target allocation percentage to fixed income assets (now including cash equivalents) will no longer change over time. It will remain at 49% until the Land Board adopts a different allocation.

The BND and Payden & Rygel securities portfolios and the Developmentally Disabled Loan and Farm Loan Pool programs are managed and evaluated on a yield basis. The permanent trusts also have allocations to the Payden & Rygel GNMA and Short Bond Funds, TIPS, international bonds, high yield bonds, and cash equivalents. Due to the nature of these portfolios, they are managed and evaluated on a total return basis.

Interest Rates

- Treasury yields fell to historic lows across all maturities of the yield curve during the quarter. 3-month T-bills were yielding 0.08% on December 31, 2008, while 3-year Treasuries were at 1.00%. Fear ruled, as investors continued to rush to the perceived safety of U.S. government T-bonds and T-bills.



- In December, the Fed lowered the target fed funds rate to a range of 0% - 0.25%, began purchasing commercial paper and other assets to improve liquidity in the markets, and started implementing other programs to address the current financial crises.

- 10-year Treasury bonds were yielding 2.21% on December 31, 2008, down from 3.85% 3 months earlier. 30-year Treasury bonds were yielding 2.68%, As compared to 4.31% on September 30, 2008.

Yield-Oriented Fixed Income Assets

Combined Yield-Oriented Portfolio

- The average yield on cost of the yield-oriented fixed income portfolio fell 32 basis points during the quarter, to 5.30%. This compares to an average yield of 5.66% during fiscal year 2008 and 5.90% during fiscal year 2007. The primary driver was a sharp decline in the yield of Payden GNMA Fund.

- With the current economic turmoil, low Treasury rates, and recent government actions to help bailout the financial industry, the Commissioner expects that the average yield of the yield-oriented fixed income portfolio will continue to decline going forward.

- Increasing demand for farm loans and the Board's decision to increase the high yield bond target allocation from 8% to 10% should help minimize the decline in portfolio yield over the next year or two.

The schedule on the top of page 5 shows the average yield on cost earned by the yield-oriented fixed income assets for the quarter ended December 31, 2008, for the first six months of fiscal year 2009, and for the fiscal years ended June 30, 2008. The Payden GNMA/Short Bond Fund account is included in the yield calculations because, even though the funds are managed for total return, the assets are dedicated to the Board's yield-oriented portfolio.

FIXED INCOME ASSETS MANAGED FOR YIELD FOR PERIODS ENDED DECEMBER 31, 2008 AND JUNE 30, 2008					
Manager/Asset Class	**12/31/08 Alloc. ($ million)**	**% of Total Portfolio**	**Qtr. Ended 12/31/08**	**FY 2009 YTD**	**FY Ended 6/30/08**
Bank of North Dakota	$ 5.76	0.7%	7.28%	7.35%	7.46%
Payden & Rygel Long Term	$122.87	15.0%	5.81%	5.82%	5.91%
Avg. Yield on Cost – Fixed Income Securities	**$128.63**	**15.7%**	**5.92%**	**5.90%**	**5.99%**
Farm Loan Pool	$ 37.82	4.6%	7.13%	7.10%	7.28%
DD Loans #2 & #3	$ 1.31	0.2%	9.00%	9.00%	9.00%
Avg. Yield on Cost – Loans	**$ 39.13**	**4.8%**	**7.20%**	**7.17%**	**7.38%**
Payden & Rygel GNMA/Short Bond Funds	$ 97.60	11.9%	3.80%	4.14%	4.42%
Avg. Yield on Cost – All Fixed Income Investments	**$265.36**	**32.4%**	**5.30%**	**5.45%**	**5.66%**
Primary Objective - Yield-Oriented Fixed Income Assets			7.50%	7.50%	7.50%

Bank of North Dakota

- This AAA rated portfolio includes GNMA project notes and other long-term government-backed mortgage-related securities. Cash is withdrawn from the portfolio as principal is repaid; there is no reason to reinvest in these securities under current market conditions.
- The average yield of the portfolio was 7.28% for the quarter ended December 31, 2008, 15 basis points less than the yield earned during the previous quarter.
- During the quarter, principal pay downs totaled approximately $308,000. $540,000 of principal cash was transferred out of the account to the Payden Cash account during the quarter.

Payden and Rygel - Long-Term

- The Payden & Rygel Long-Term portfolio had a yield of 5.81% during the quarter ended December 31, 2008, 3 basis points less than the yield earned during the previous quarter. The yield was 10 basis points less than the average yield earned during fiscal year 2008.
- At quarter's end, the portfolio consisted of approximately 61% mortgage and asset-backed securities, 33% investment grade corporate bonds, and 6% cash equivalents and short-term securities.
- Payden once again made few changes to the portfolio during the quarter. Payden sold one commercial mortgage-backed security and one corporate credit (Boston Properties) and reinvested the proceeds, along with normal mortgage principal pay downs, into two government backed mortgage securities and cash equivalents.

Farm Loan Pool

- The average yield of the farm loan pool was 7.13% during the quarter ended December 31, 2008, up 7 basis points over the yield earned the previous quarter. The average yield of this portfolio was 7.28% during fiscal year 2008.
- Although the yield of this portfolio has gone up the past 2 quarters, this is basically a result of BND putting excess cash in the portfolio to work funding new loans. The general trend for this portfolio will be for the yield to continue to decline going forward. The reasons for this are twofold. First, with interest rates as low as they are, most new loans being funded in the portfolio at rate of around 7%. In addition, all new loans are subject to the higher 50 basis point fee structure that was put into place last in 2007.
- $2.9 million worth of farm loans were funded during the quarter ended December 31, 2008, as demand remained strong. $12.9 million worth of loans were funded during calendar year 2008; this is the most loans funded in one year since 1996.

Total Return Fixed Income Assets

The schedule on the top of page 6 shows the dollar amount and percentage of assets invested in each total return fixed income portfolio as of December 31, 2008. The schedule also compares the total return earned by each portfolio to the benchmark return for the account over various time periods.

FIXED INCOME ASSETS MANAGED FOR TOTAL RETURN FOR PERIODS ENDED DECEMBER 31, 2008								
MANAGER - Strategy Index	12/31/08 Allocation ($ mil.)	% of Total Portfolio	Last Qtr. (%)	Last 1 Year (%)	Last 3 Years (%)	Last 5 Years (%)	Since Inception (%)	Inception Date
PAYDEN & RYGEL-GNMA/Short Bond	**$97.60**	**11.9%**	**2.14**	**4.32**	**4.90**	**3.77**	**4.41**	**3/8/02**
NORTHERN TRUST – TIPS Index Fund	**$92.10**	**11.2%**	**-2.22**	**-1.75**	**3.32**	**N/A**	**4.23**	**6/1/04**
Barclays Capital TIPS Index			-3.48	-2.35	3.06	N/A	4.03	
EVERGREEN – Intl. Fixed Income	**$52.75**	**6.4%**	**5.45**	**6.78**	**4.60**	**N/A**	**4.79**	**4/5/04**
ML Broad Global Bond (Ex-US) – Hedged			4.45	5.48	4.33	N/A	4.79	
LAZARD – High Yield Bonds	**$72.79**	**8.9%**	**-13.07**	**-17.62**	**-2.26**	**0.91**	**0.91**	**1/1/04**
Merrill Lynch HY Bond Index			-17.46	-26.21	-5.59	-0.84	-0.84	
Merrill Lynch HY BB/B Index			-15.66	-23.60	-4.60	-0.27	-0.27	
PAYDEN & RYGEL- Cash Management	**$ 10.72**	**1.3%**	**0.08**	**2.30**	**4.19**	**3.34**	**4.21**	**8/1/95**
6 Month T-Bill			0.79	3.13	4.44	3.39	4.13	

Payden & Rygel - GNMA/Short Bond Funds

- The purpose of this account is to provide a low risk fixed income investment vehicle that will generate additional yield over short-term interest rates until such time that new money allocated to the fixed income portfolio can be invested in yield-oriented investment strategies at more acceptable rates.
- There is no specific benchmark for this portfolio; however both of these funds are highly rated for risk adjusted returns by Morningstar. Both the GNMA and Short Bond Funds had overall Morningstar ratings of "4 stars" on December 31, 2008.

Northern Trust Investments – TIPS Index Fund

- This fund is designed to track the performance of the Barclays Capital (formerly Lehman Brothers) TIPS Index. Recent problems with Northern Trust's securities lending program, along with valuation issues caused by the current credit crises, have caused tracking error of this portfolio to increase substantially over the past two quarters.
- The Commissioner expects tracking error to return to more normal levels going forward.

Evergreen Investments – Hedged International Bonds

- This account is a fully hedged portfolio of non-US investment grade corporate bonds, sovereign (government) bonds and mortgage backed securities. Guidelines allow up to 5% of the portfolio to be invested in non-US high yield securities; on December 31, 2008, approximately 4% of the portfolio was invested in these securities.
- Evergreen outperformed the benchmark for this account by 100 basis point for the quarter ended December 31, 2008, and has also outperformed the index for the trailing one and three-year periods there ended. Evergreen has matched the index since inception of this account in April 2004.

Lazard Asset Management – High Yield Bonds

- The Lazard portfolio has outperformed both benchmarks for the account by substantial amounts for all periods shown in the table above. Most of that outperformance was generated over the past 6 months, as the credit crises hurt lower quality securities far more than higher quality ones.
- Lazard continues to believe that over time, a quality focus to high yield investing will generate higher returns, with less volatility, than the overall high yield market. In addition, they expect higher quality bonds to have a much lower default rate during the current weak economic environment.

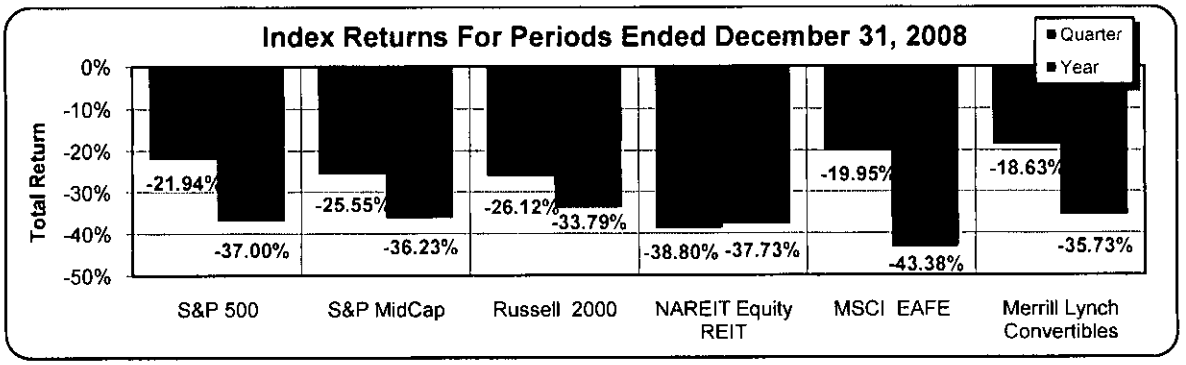
Payden & Rygel - Cash Management

- Payden & Rygel underperformed the benchmark for the quarter and the trailing one, three and five-year periods ended December 31, 2008. They have outperformed by a small margin since inception.
- The flight to quality over the past six months is responsible for most of the underperformance. Although this is a low risk portfolio, holding any security that wasn't a Treasury security has had a major negative impact on performance over the past 6 months.

Equity and Convertible Securities

Index Returns

The chart below shows the returns posted by the various indices used to monitor the performance of the combined equity and convertible securities portfolio.



Portfolio Returns

The schedule below summarizes the position of the combined equity and convertible securities portfolio as of December 31, 2008, and the portfolio's performance since the Board first adopted an asset allocation plan in August 1995. It shows the dollar amount invested in each equity asset class as of December 31, 2008, as well as the percentage of the total investment portfolio that it represents. The schedule also compares the total return earned by each of the current equity and convertible managers to the benchmark return for the account over various time periods. Lastly, it shows the total return earned by the combined equity and convertibles portfolio for various time periods since inception of the Board's initial asset allocation plan.

EQUITY & CONVERTIBLE SECURITIES NET RETURNS FOR PERIODS ENDED DECEMBER 31, 2008

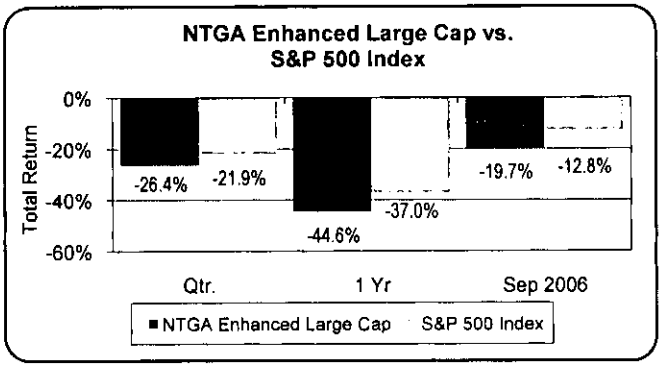
Asset Class MANAGER Benchmark/Index	12/31/08 Allocation ($ mil.)	% of Total Portfolio	Last Qtr. (%)	Last 1 Year (%)	Last 3 Years (%)	Last 5 Years (%)	Since Inception (%)	Inception Date
Large Cap U.S. Equities								
NORTHERN TRUST – Enhanced S&P 500	**$71.53**	**8.7%**	**-26.35**	**-44.60**	**N/A**	**N/A**	**-19.74**	**9/1/06**
S&P 500			-21.94	-37.00	N/A	N/A	-12.75	
STATE STREET – S&P 500 Index	**$25.33**	**3.1%**	**-21.91**	**N/A**	**N/A**	**N/A**	**-30.40**	**4/1/08**
S&P 500			-21.94	N/A	N/A	N/A	-30.43	
Small//Mid Cap U.S. Equities								
NORTHERN TRUST – Small/Mid Cap	**$63.27**	**7.7%**	**-26.13**	**-40.25**	**-10.77**	**-2.28**	**6.64**	**3/1/96**
NTGA Benchmark (composite index + 2.00%)			-25.38	-32.73	-6.43	1.45	7.50	
Real Estate Investment Trusts (REITs)								
DELAWARE INVESTMENT ADVISERS	**$37.39**	**4.6%**	**-35.87**	**-34.39**	**5.75**	**1.62**	**2.31**	**12/1/03**
NAREIT Equity REIT			-38.80	-37.73	5.56	0.91	1.58	
International Equities								
STATE STREET – International Alpha	**$64.34**	**7.8%**	**-22.31**	**-45.74**	**N/A**	**N/A**	**-11.74**	**2/1/06**
MSCI EAFE			-19.95	-43.38	N/A	N/A	-9.43	
Convertible Securities								
TRUST COMPANY OF THE WEST	**$64.73**	**7.9%**	**-20.03**	**-37.03**	**-10.11**	**-4.80**	**5.76**	**6/30/90**
Merrill Lynch All Convertibles			-18.63	-35.73	-8.82	-3.75	6.67	
Combined Equity and Convertibles	**$326.59**	**39.8%**	**-25.21**	**-40.89**	**-10.81**	**-2.59**	**5.02**	**8/1/95**

All total return figures for periods of 1 year or greater have been annualized.

Combined Equity and Convertible Securities Portfolio

- The combined equity and convertible securities portfolio posted a total return loss of -25.21% during the quarter ended December 31, 2008. This is the fifth consecutive quarterly loss for the equity portfolio, which is now down more than 44% over the past 15 months.
- Every account in the combined equity portfolio posted a return of -20% or lower during the quarter ended December 31, 2008. For the trailing year, the Delaware (DIA) REIT portfolio was the best performing portfolio, posting a loss of more than -34%.
- DIA was the only manager to outperform its benchmark during the quarter ended December 31, 2008, and was also the only manager to outperform during the trailing year there ended.

Northern Trust (NTGA) - Enhanced S&P 500

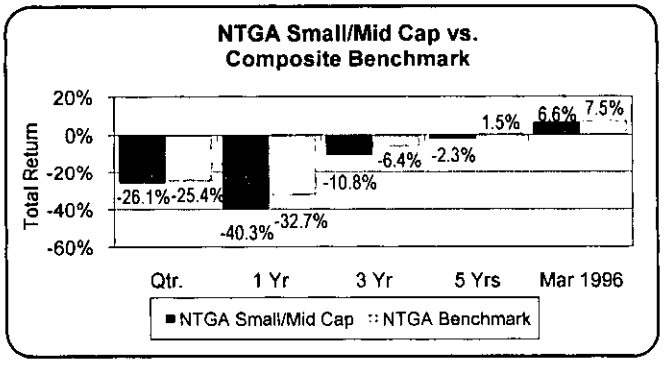


- The NTGA Enhanced S&P 500 portfolio underperformed the index by 441 basis points for the quarter ended December 31, 2008 and has also underperformed the index by large amounts for the trailing year and since inception in September 2006.
- The Western Asset Management futures and enhanced cash strategy portion of the portfolio continues to be the problem as the credit crises continued to expand and spreads widened to historic levels. As investors fled risk, any fixed income portfolio that held securities other than Treasuries underperformed by a wide margin during the quarter.
- The Goldman Sachs quantitative portion of the portfolio outperformed the benchmark by a small margin for both the quarter and trailing year ended December 31, 2008. The Goldman portion of this portfolio has underperformed the index by less than 100 basis points per year since inception of the account.
- A conference call with was held with Western and NTGA in mid-January to discuss both past performance and future expectations for the portfolio. Although the Commissioner continues to have concerns, much of the underperformance to date should be recoverable over the next few years as credit markets stabilize. No new monies will be added to this portfolio for the foreseeable future.

State Street Global Advisors (SSGA) – S&P 500 Index

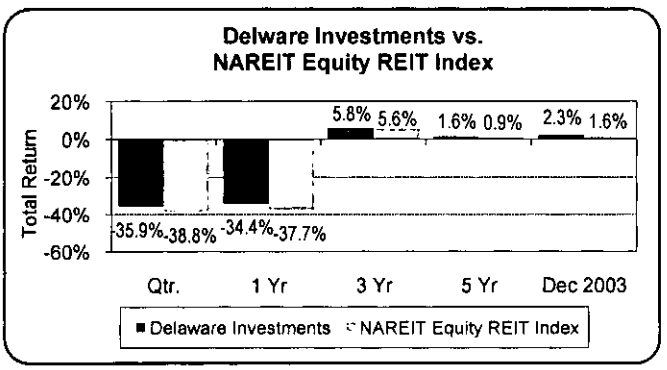
- This index portfolio, which was funded in March, 2008 due to the poor performance of the NTGA Enhanced portfolio, continues to perform as expected.

Northern Trust (NTGA) - Small/Mid Cap



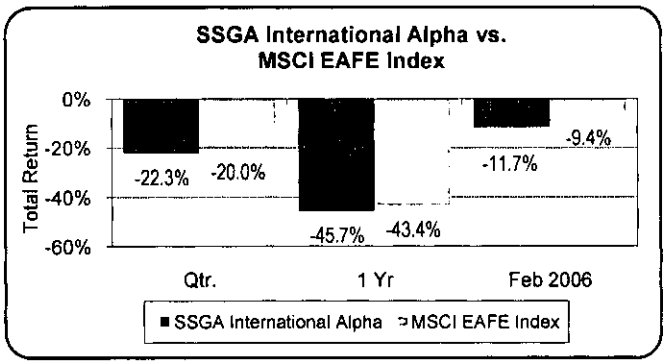
- During the quarter ended December 31, 2008, NTGA underperformed the custom benchmark for this account by 75 basis points. The poor performance of this portfolio over the past year has pulled down since inception returns to below benchmark performance.
- The benchmark for this account is 200 basis points more than a composite index which is calculated using 60% of the return of the Russell 2000 Index and 40% of the return of the S&P Mid Cap Index.
- Although below benchmark, this portfolio's since inception return compares favorably to small and mid cap index returns without the 200 basis point "hurdle". Since inception, NTGA has generated these returns with less volatility than the comparable indexes.
- 7 out of 10 managers in this portfolio outperformed during the quarter. Those that underperformed did so significantly, with the biggest detractor from performance being overweights in the energy sector.

Delaware Investment Advisers (DIA)



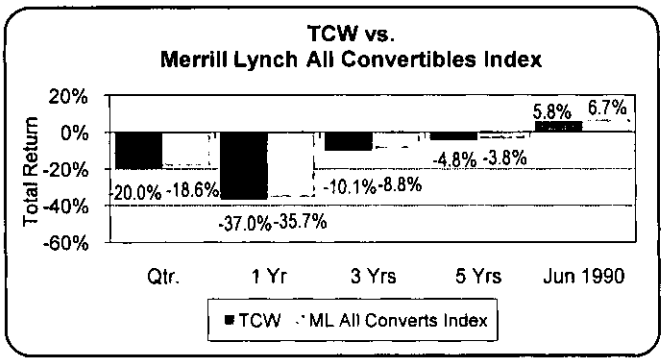
- DIA outperformed the NAREIT Equity REIT Index by 293 basis points during the quarter ended December 31, 2008. They have now outperformed the index for the trailing one, three and five-year periods there ended.
- Investments in the lodging and office sectors added to performance during the quarter, while investments in regional malls and shopping centers hurt performance. For the trailing year, the apartments and self-storage sectors were big contributors to performance, while regional malls and shopping centers detracted from performance.
- Considering the sharp downturn in real estate markets and weak short-term prospects of a turnaround, the Commissioner granted Delaware's request to temporarily hold slightly more cash than normal in the portfolio.

State Street Global Advisors (SSGA)



- The SSGA International Alpha account underperformed the benchmark EAFE Index by approximately 230 basis points during the quarter ended December 31, 2008, and has underperformed the index by a similar amount for the trailing year and since inception of the account.
- The fear and uncertainty that have driven equity markets over the past year continue to hurt the performance of quantitative strategies such as the one used by SSGA.
- Stock selection in Japan hurt performance for the quarter, especially in the financial, technology hardware and equipment industries. In Europe, stock selection in the staples and healthcare sectors helped performance, while investments in the discretionary sector detracted from performance. The portfolio was also hurt by investments in European auto manufacturers during the quarter.

Trust Company of the West (TCW)



- TCW underperformed the Merrill Lynch All Convertible Securities Index by 140 basis points for the quarter ended December 31, 2008. They have underperformed by from 90–130 basis points for all other periods shown in the chart to the right.
- The poor performance of convertible securities during the quarter was once again the direct result of both falling equity market and widening credit spreads.
- Although the larger cap, quality focus of this portfolio helped performance during the quarter, it was not enough to offset the negative impact of holding in the financial, energy, transportation and basic material.
- With almost no new issuance of convertible securities during the quarter, the overall convertibles market fell from $275 billion on September 30, 2008 to $192 billion on December 31, 2008.

OTHER TRUSTS MANAGED BY THE LAND BOARD

The Capitol Building Trust was created for the construction and maintenance of "public buildings at the capital". **The Land and Minerals Trust** was created to account for all income derived from the sale, lease and management of sovereign lands and minerals formerly managed by the Bank of North Dakota. Because the entire balance of both of these trusts can be appropriated by the legislature each biennium, trust assets are invested in conservative, short term fixed income securities, such as short-term investment funds, U.S. T-Bills and BND CDs, which tend to have maturities of 2 years or less.

	12/31/08 Asset Balance	Current Yield	Benchmark/ Index
Capitol Building Trust	$ 1,437,000	1.38%	N/A
Land & Minerals Trust	$ 36,284,000	2.03%	N/A

- The Land & Minerals Trust funded a $20 million credit facility to the State Mill in December 2008, which helped increase the yield of the trust. The yield on the Capitol Building trust fell during the quarter as the interest rates earned on money market funds fell to historic lows.

The Coal Development Trust Fund is a permanent fund, from which the Land Board issues loans to energy impacted counties, cities and school districts as provided in NDCC section 57-62-03, and loans to school districts pursuant to NDCC chapter 15-60. The Land Board is responsible for investing all funds that have not been loaned to political subdivisions. Because the legislature has control over how and when these funds will be loaned, fund assets are invested in conservative fixed income investments, including U.S. Treasuries, corporate bonds, and asset-backed securities, that tend to have maturities in the 1 to 5 year range. The income earned by this fund is transferred to the General Fund each year.

	12/31/08 Asset Balances	Current Yield	Benchmark/ Index
Coal Development Trust Fund			
Coal Warrants	$ 5,284,000	4.22%	Yield - N/A
School Construction Loans	$ 34,208,000	2.14%	Yield - N/A
Marketable Securities	$ 21,033,000	**See total return data below**	
Total	$ 60,525,000		

- A 2004 Northwood school construction loan was reamortized during the quarter. Two new loans, including one to Northwood school district, were funded during the quarter.

Payden and Rygel – Coal

- Payden & Rygel underperformed the Merrill Lynch 1-3 Year Treasury Index by more than 270 basis points during the quarter ended December 31, 2008. The poor performance of the portfolio over the past year is the primary reason for the underperformance for all periods shown in the table below.
- The fear that has been driving markets over the past six month continued, as investors fled to the perceived safety of Treasury securities and spreads climbed to all time highs.
- The recent underperformance should lead to future outperformance when credit markets return to more normal levels. Payden does not have any major concerns about the bonds currently held in this portfolio and the cash flows they generate.

	12/31/08 Asset Balance	Last Qtr. (%)	Last 1 Year (%)	Last 3 Years (%)	Last 5 Years (%)	Since Inception (%)	Inception Date
Payden & Rygel Coal Dev.	**$21.03**	**-0.08**	**0.84**	**3.81**	**2.80**	**4.74**	**8/1/95**
ML 1-3 Year Treasury Index		2.69	6.60	5.95	4.06	5.17	

Tim Steffan

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Energy Development Impact Office
Statement of Goals

The primary goal of the office is to ensure that local subdivisions hosting energy activity are not required to bear a disproportionate share of the costs associated with that activity (both in its "boom" and "bust" cycles.) The guiding principle of the office is to ensure that the benefit to all of the people of North Dakota, from the extraction of energy resources, will not be gained at the expense of those whose lives or property are disturbed, without adequate compensation, in the process.

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ND STATE LAND DEPARTMENT
Helping to Fund Education

Gary D. Preszler, Commissioner

TESTIMONY OF JEFF ENGLESON
Director, Energy Development Impact Office
North Dakota State Land Department

IN SUPPORT OF SENATE BILL NO. 2013

Senate Appropriations Committee
January 9, 2009

PURPOSE

The mission of the Energy Development Impact Office (EDIO) is to provide financial assistance to local units of government that are affected by energy activity in the state. Over the years, the EDIO has helped counties, cities, schools districts and other local units of government (organized townships, fire and ambulance districts, etc.) deal with both the booms and the busts associated with energy development in North Dakota. The EDIO became a part of the Land Department in 1989.

Since 1991, the EDIO has made grants only for impacts related to oil and gas development. Funding for these grants is appropriated by the State Legislature from a portion of the 5% Oil & Gas Gross Production Tax. For the 2007-09 biennium, the amount available to this program is capped at $6.0 million; prior to the current biennium, the cap was $5.0 million per biennium.

The Director of the EDIO is responsible for making all decisions related to the oil impact grant program. The Board of University and School Lands is the appellate for applicants not satisfied with the decisions made by the director. Over time, very few appeals have been made.

CURRENT PROGRAM

The EDIO is managed under NDCC Chapter 57-62. NDCC 57-62-05 and 57-62-06 provide the following guidance to the EDIO Director:

- Grants should be used "to meet initial impacts affecting basic government services, and directly necessitated" by oil and gas development impact. Basic government services does not mean marriage or guidance counseling, programs to alleviate other sociological impacts or programs to meet secondary impacts.
- The amount of tax an entity is entitled to from real property and from other tax or fund distribution formulas provided by law must be considered when determining grants.

The following award criteria are used when making grants to political subdivisions:

- A grantee must demonstrate the negative impact caused by oil and gas development in the area.
- A grantee must demonstrate its tax effort and financial need.
- The funds granted must be used to alleviate the hardship caused by oil and gas development.

Under current state law, a portion of the gross production taxes collected by the state flow back to counties, cities and school districts. There are others here today that can better explain the details of the formula used to distribute these funds, so I will not address that issue. However, organized townships, fire and ambulance districts, and many other political subdivisions do not share in any of the gross production taxes collected by the state even though those entities can be greatly impacted by oil and gas development in a given area.

HISTORIC INFORMATION

One of the great things about this program is that the EDIO Director has always had flexibility in administering the oil and gas impact grant program. This has allowed the program to adapt to changing needs as drilling activity has moved from one area of the state to another, and as oil and gas development has gone through both boom and bust cycles. The attached tables provide a breakdown of grants requested and awarded over the past 5 biennia by political subdivision type, by county, and by function.

These tables contain a lot of information; however, there are a few specific things I'd like to point out:

- The amount of grant requests has increased substantially over the past nine years, from a total of $22.7 million for the 1999-01 biennium to $29.1 million in fiscal year 2008 alone.
- The amount of grants awarded to counties has decreased over the past nine years, while the amount awarded to organized townships has increased. This is partly a result of the fact that the amount of tax revenue going to many counties has increased in recent years as both production and oil prices have risen. It is also partly a result of the program recognizing that organized townships have major, direct impacts from oil and gas development, but do not receive any share of the production tax revenues collected by the state.
- The amount of grants awarded to political subdivisions in Bowman County had decreased, while the amount of grants awarded to entities in Mountrail and Dunn counties has increased. This is result of the focus of development activity moving from the Cedar Hills area in Bowman County in the late 1990s and early part of this decade to the Bakken play in the Mountrail and Dunn County areas in more recent years.
- The one thing that hasn't really changed much over the years is the fact that the vast majority of the grants awarded (85%-90%) have been for transportation related projects/functions and for fire and ambulance related equipment and services. This reflects the program's recognition that these government services are probably the services most directly impacted by oil development.

As these tables show, the flexibility of the EDIO program has allowed the EDIO Director to try to balance the needs of the various political subdivisions at any given point in time with the resources available. The tables also show that this program allows the EDIO Director to address the fact that there are many political subdivisions that are directly impacted by oil and gas development, but which do not receive an adequate amount of tax revenues to help defray the cost of reducing those impacts.

PROPOSED CHANGES

Section 7 of SB 2013 contains two provisions that affect the EDIO.

- The proposed change to NDCC 57-51-15, subsection 1 increases the gross production tax revenue cap for the EDIO office oil grant program from $6.0 million a biennium to $20.0 million a biennium.
- The proposed changes to NDCC 57-51-15, subsection 2, increase the gross production tax revenue caps related to the share of the gross production tax revenues that go back to the counties, cities and school districts that are impacted by oil and gas development.

Although I will focus my testimony on NDCC 57-51-15, subsection 1, any increase in the amount of funding provided to counties, cities and school districts via the gross production tax funding formula will have an impact on the amount of money needed by the oil impact grant program to help those entities.

The current budget for the EDIO is $6.0 million per biennium. Of that amount, $5,888,100 is used to provide grants to political subdivisions and $111,900 is used to administer the program. At the present time, the Land Department dedicates about 25% of one FTE to perform the functions of the EDIO, although the actual time involved in administering the program is probably somewhat more than currently allocated. The proposed changes to NDCC 15-51-15, subsection 1 increase the budget of the EDIO to $20.0 million per biennium, of which $222,241 would be appropriated to administer the program, with the balance dedicated to oil impact grants. An additional FTE has been added the Land Department budget to handle the increased workload involved in expanding the program by $14.0 million. The FTE and additional operating expenses involved in operating the program are in line with what we would expect to need if this program is expanded as proposed.

Although the proposed changes to NDCC 15-51-15, subsection 2 have no direct impact on the EDIO, as stated previously, any additional funding that goes directly to political subdivisions would lessen the need for funds from the EDIO oil impact grant program. It is clear from my involvement with the EDIO over the years that there is a need to provide additional funding directly to the counties, cities and school district impacted by the oil and gas development; others here today will specifically address those needs.

Providing more funding directly to impacted political subdivisions will allow those entities to address their specific needs better and will allow the EDIO oil impact grant program to focus on "filling in the gaps" for those entities that either receive no funding, or inadequate funding, under the gross production tax distribution formula. I would encourage you to look at the gross production tax funding formula closely.

FISCAL NOTE

The fiscal note provided with this bill was prepared by Land Department staff with assistance from the Tax Department. It shows a decrease of $21.7 million per biennium going into the permanent oil tax trust fund. Of that amount, $14.0 million would go into the EDIO for increased grants and operating expenses and $7.7 million would go to counties as a result of raising the caps in the current gross production tax distribution formula. The increase in expenditures is related to the increased cost of administering the oil impact grant program, while the increase in appropriations is the $14.0 in increase in funding included for the EDIO.

The fiscal effects on counties, cities, and school districts are as follows. Based on the past 5 biennia of grant rounds, it is estimated that an additional $5.0 million per biennium of grants would go to counties, $2.3 million per biennium to cities, and $0.9 million per biennium to school districts. It is projected that the remaining increase in grants each biennium ($5.7 million) would go to townships, fire and ambulance services and other political subdivisions.

The Tax Department provided data to the Land Department that shows that the changes proposed to the gross production tax distribution caps would result of an additional $7.7 million of funds per biennium going to counties. The revenues received by the counties are then further distributed to cities (20%) and school districts (35%) using a formula that considers enrollments, populations and in some cases, seasonal employment. The Land Department does not determine these figures and does not have the information needed to do so.

ENERGY DEVELOPMENT IMPACT OFFICE

Grant Requests/Awards By Political Subdivision and County

1999-01 Biennium Through Fiscal Year 2008

(all dollar amounts shown are in millions)

Breakdown By Political Subdivision Class

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

Breakdown By County

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

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

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

Function	2001-03 Biennium FY 2002	FY 2003	2003-05 Biennium FY 2004	FY 2005	2005-07 Biennium FY 2006	FY 2007	FY 2008
Law Enforcement	0.1%	0.8%	0.9%	0.6%	1.8%	0.2%	0.3%
Education	6.7%	7.1%	7.4%	8.0%	4.4%	4.2%	2.8%
Health	3.9%	3.8%	4.9%	4.9%	2.4%	1.4%	2.6%
Transportation	74.5%	69.2%	65.3%	68.1%	74.8%	78.9%	75.8%
Recreation	0.3%	0.0%	0.2%	0.0%	0.0%	0.0%	0.0%
Fire Protection	11.4%	15.0%	15.7%	16.4%	14.8%	13.7%	17.4%
Housing	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Planning	0.0%	0.1%	0.0%	0.0%	0.0%	0.5%	0.0%
Potable Water	0.2%	1.4%	1.6%	0.4%	1.3%	0.7%	0.0%
Sewage Treatment	0.0%	0.4%	1.1%	0.0%	0.0%	0.0%	0.0%
Water and Sewer	0.2%	0.2%	2.1%	0.4%	0.6%	0.3%	0.8%
Local Administration	0.0%	2.1%	0.0%	1.1%	0.0%	0.0%	0.2%
Other	2.6%	0.0%	0.8%	0.0%	0.0%	0.0%	0.1%
TOTAL	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

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ND STATE LAND DEPARTMENT
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Gary D. Preszler, Commissioner

TESTIMONY OF JEFF ENGLESON
Director, Energy Development Impact Office
North Dakota State Land Department

IN SUPPORT OF REENGROSSED SENATE BILL NO. 2013

House Government Operations Division
February 27, 2009

Chairman Delzer, members of the House Government Operations Division of the Appropriations Committee, my name is Jeff Engleson, I am the Director of the Energy Development Impact Office.

PURPOSE

The mission of the Energy Development Impact Office (EDIO) is to provide financial assistance to local units of government that are affected by energy activity in the state. Over the years, the EDIO has helped counties, cities, schools districts and other local units of government (organized townships, fire and ambulance districts, etc.) deal with both the booms and the busts associated with energy development in North Dakota. The EDIO became a part of the Land Department in 1989.

Since 1991, the EDIO has made grants only for impacts related to oil and gas development. Funding for these grants is appropriated by the State Legislature from a portion of the 5% Oil & Gas Gross Production Tax. For the 2007-09 biennium, the amount available to this program is capped at $6.0 million; prior to the current biennium, the cap was $5.0 million per biennium.

The Director of the EDIO is responsible for making all decisions related to the oil impact grant program. The Board of University and School Lands is the appellate body for applicants not satisfied with the decisions made by the director. Over time, very few appeals have been made.

CURRENT PROGRAM

The EDIO is administered under NDCC Chapter 57-62. NDCC 57-62-05 and 57-62-06 provide the following guidance to the EDIO Director:

- Grants should be used "to meet initial impacts affecting basic government services, and directly necessitated" by oil and gas development impact. Basic government services does not mean marriage or guidance counseling, programs to alleviate other sociological impacts or programs to meet secondary impacts.
- The amount of tax an entity is entitled to from real property and from other tax or fund distribution formulas provided by law must be considered when determining grants.

The following award criteria are used when making grants to political subdivisions:

- A grantee must demonstrate the negative impact caused by oil and gas development in the area.
- A grantee must demonstrate its tax effort and financial need.
- The funds granted must be used to alleviate the hardship caused by oil and gas development.

Each year, the EDIO Director travels for about a month in western North Dakota, meeting with representatives of counties, cities, schools, organized townships, fire and ambulance districts and other entities that have applied for grants under this program. In 2008, 376 grant requests were received from 278 different political subdivisions. The total amount of grants requested in 2008 was $29.1 million. In addition to the grant rounds, the Director has also participated in the ND Petroleum Council's "Oil Can!" program, the Williston Basin Expo and other events in an effort to educate the public about this program and learn more about the problems associated with oil development.

The EDIO is only one of the ways that funding gets back to western North Dakota to help deal with the impacts of oil and gas development. Under current state law, a portion of the gross production taxes collected by the state flow back to counties, cities and school districts. I will not go over the details of the gross production tax distribution formula today; there are others that can better explain it to you. However, it is important to note that organized townships, fire and ambulance districts, and many other political subdivisions do not share in any of the gross production taxes collected by the state even though these entities can be greatly impacted by oil and gas development in a given area.

HISTORIC INFORMATION

One of the great things about the oil impact grant program is that the EDIO Director has always had flexibility in administering it. This has allowed the program to adapt to changing needs as drilling activity has moved from one area of the state to another, and as oil and gas development has gone through both boom and bust cycles. The attached tables provide a breakdown of grants requested and awarded over the past 5 biennia by political subdivision type, by county, and by function.

These tables contain a lot of information; however, there are a few specific things I'd like to point out:

- The amount of grant requests has increased substantially over the past nine years, from a total of $22.7 million for the 1999-01 biennium to $29.1 million in fiscal year 2008 alone.
- The amount of grants awarded to counties has decreased over the past nine years, while the amount awarded to organized townships has increased. This is partly a result of the fact that the amount of tax revenue going to many counties has increased in recent years as both production and oil prices have risen. It is also partly a result of the program recognizing that organized townships have major, direct impacts from oil and gas development, but do not receive any share of the production tax revenues collected by the state.
- The amount of grants awarded to political subdivisions in Bowman County has decreased, while the amount of grants awarded to entities in Mountrail and Dunn counties has increased. This is result of the focus of development activity moving from the Cedar Hills area in Bowman County in the late 1990s and early part of this decade to the Bakken play in the Mountrail and Dunn County areas in more recent years.
- The one thing that hasn't really changed much over the years is the fact that the vast majority of the grants awarded (85%-90%) have been for transportation related projects/functions and for fire and ambulance related equipment and services. This reflects the program's recognition that these government services are probably the services most directly impacted by oil development.

As these tables show, the flexibility of the EDIO program has allowed the EDIO Director to try to balance the needs of the various political subdivisions at any given point in time with the resources available. The tables also show that this program allows the EDIO Director to address the fact that there are many political subdivisions that are directly impacted by oil and gas development, but which do not receive an adequate amount of tax revenues or other funding to help defray the cost of reducing those impacts.

PROPOSED CHANGES

Reengrossed SB 2013 increases the amount of funding that goes to the oil impact grant program from $6.0 million per biennium to $10.0 million per biennium. The $10.0 million currently in this bill is one-half of the $20.0 million included in the Governor's budget recommendation.

The costs of administering this program are paid directly out of the funds allocated to it. Reengrossed SB 2013 increases the appropriation available to administer this program from $111,900 during the current biennium to $222,241. It also adds one FTE to the Land Department to administer the program.

The EDIO supports the oil impact grant program and believes there is a tremendous need for additional funding to flow back to western North Dakota to help deal with the impacts of oil and gas development. Although we take no specific position as to how much funding flows back to impacted areas and exactly how that funding flows back to those areas, I would like to take this time to make a few of comments about this bill and how the proposed changes could impact the way that the EDIO oil impact grant program is administered.

- The amount of funding needed for this program is directly related to the amount of gross production taxes that flow to counties, cities and schools under NDCC 57-51-15(2). If the Legislature provides more funding directly to these political subdivisions under NDCC 57-51-15(2), then there would be less need for grants for those entities from the oil impact grant fund. It is clear to me, as the EDIO Director, that there is a real need for additional funding directly to counties, cities and schools via the gross production tax distribution formula. There is also a need for additional funding for the oil impact grant program. The questions are, how much total funding is needed and what is the best way to get those funds back to those areas that need them?

- The EDIO has historically focused on "filling in the gaps" for those entities that receive either no funding or inadequate funding under the gross production tax distribution formula. Increasing funds available for this program to $20.0 million per biennium, as was originally proposed in this bill, would have changed the nature of the program and would have made the EDIO an integral part of financing transportation infrastructure in western North Dakota. However, increasing the amount of funding for this program to $10.0 million per biennium, as is currently proposed in this bill, will help the oil impact program do a better job at filling in those funding gaps without changing the nature of the program.

- The current budget for the EDIO is $6.0 million per biennium, of which $111,900 is used to administer the program. At the present time, the Land Department dedicates about 25% of one FTE to perform the functions of the EDIO, although the actual time involved in administering the program is somewhat more than currently allocated. Increasing funds available for this program to $20.0 million per biennium, as was originally proposed in this bill, would change the very nature of the program and would require the one FTE and the $110,341 of additional expenses currently included in this bill. However, if the amount of funding provided to this program increases to $10.0 million per biennium, as is currently proposed in this bill, there would still be additional costs and time involved in administering the program, but the basic nature of the program would not change. In my opinion, dedicating a total of one-half of an FTE to the program would be adequate, with some additional funding to pay for the added salary and travel expenses needed.

- There are various bills still alive in both the House and Senate that deal with both the EDIO funding and the gross production tax distribution formula.

With those comments and explanations, I will gladly answer any questions you may have

North Dakota Petroleum Council

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Senate Bill 2013

Senate Appropriations

January 9, 2009

Chairman Holmberg and members of the Committee. My name is Ron Ness. I am the President of the North Dakota Petroleum Council. The North Dakota Petroleum Council represents 160 companies involved in all aspects of the oil and gas industry and has been representing the industry since 1952.

As you know the level of oil and gas activity over the past two years has increased substantially. Maintaining a quality road infrastructure in these areas is critical to the ability to develop the state's oil resources. We strongly support additional funding for oil and gas producing counties, our industry is paying the tax a portion intended for impacts to these areas and a sufficient portion should be returned to these counties.

The oil tax distribution formula is broken and needs repair. The current lag between drilling activity and actual oil production resulting in tax revenues flowing to the state and ultimately to the counties must be addressed. The biggest impacts occur early in an oil play prior to the majority of the tax revenues returning to the counties. Counties with new production do not have the budget/resources to maintain their roads when the impacts hit. There is no reason, with the tremendous amount of wealth that oil production has brought to our state, why counties where the wealth is generated are begging the state to have more of the revenue flowing back to their counties to assist with significant road impacts.

Our member companies paid over $400 million in oil production taxes to North Dakota in fiscal year 2008, and yet several of them have recognized the dire straits of budgets in certain counties and have made contributions to counties for vehicles, fire trucks, and bridges.

ND companies should not be put in that situation when our state is experiencing historic economic times. This bill will likely see much debate but we hope that you can find the right level of funding to address the counties funding issues.

OIL INDUSTRY FACTS:

JANUARY 2007	**JANUARY 2009**
ND 9th largest oil producing state	**4th**
ND produces 113,000 barrels of oil per day	**204,000 barrels per day**
There are 42 rigs drilling new wells	**76 drilling rigs**
More than 3,600 producing oil wells	**4,200 producing wells**

Effects of Petroleum Industry on County Government Costs in North Dakota

Dean A. Bangsund
F. Larry Leistritz

Report prepared for the North Dakota Association of Oil and Gas Producing Counties

Objective

Document how changes in oil and gas exploration and production have affected the cost of providing county government services in North Dakota

Approach

- Survey county officials -- ask county officials to document the effects on their individual office
- Use survey results to generate projections of cost increases for oil and gas producing counties

Survey

What did we ask?

- General (non-road) offices
  - Changes in office workload
  - Changes in cost of providing services
  - Ability to offset costs from new/increased fees & charges
- Road departments
  - Information on maintenance, repair, and construction operations on impacted and non-impacted roads

Survey
Response Rate

- 59 offices/departments in 14 counties (only Ward and Bottineau Counties absent)
  - 13 road departments
  - 4 or more responses each from offices of auditor, sheriff, treasurer, r. of deeds, social services, c. of court, & tax equalization
  - equates to about a 30 percent response rate

General County Offices

With respect to only changes in petroleum sector activities in the past 12 months

- 79% of offices reported increased workloads
- Offices internalized the additional workload (added staff, extra hours for existing staff, purchased equipment)
- Increased workload = increased costs (69 percent of offices with increased workloads reported costs increased, compared to 10% of offices without changes in workload)
- Overall, about 60% of general offices reported cost increases

General Offices
Areas of Additional Expense

Expense Types	Number	Percent
More supplies/inputs	25	89.3
Added equipment	21	75.0
Increased hours for staff	20	71.4
Hired full-time staff	12	42.9
Higher wage rates	11	39.3
More clients/applicants	10	35.7
More training/recruitment	8	28.6
Hired part-time staff	5	17.9

General Offices
Cost Projections

- Survey responses stratified based on county-level changes in petroleum output in last two years
  - Do not assume impacts equal in all counties
- Survey responses averaged across all county offices
  - Avoid estimating costs for specific offices

General Offices
Cost Projections

High Impact Counties Billings, Bowman, Dunn, McKenzie, Mountrail, and Williams	
Average net cost increase per general office in last 12 months (average of all offices with and without cost increases)	$24,769
Estimated number of county offices multiplied by average net cost increase per office	$1,659,000

General Offices
Cost Projections

Moderate Impact Counties	
Average net cost increase per general office in last 12 months (average of all offices with and without cost increases)	$10,662
Estimated number of county offices multiplied by average net cost increase per office	$1,120,000

General Offices
Cost Projections

Estimate of Cost Increases over Past 12 Months	
High Impact Counties (about $276,000 per county)	$1,659,000
Moderate Impact Counties (about $112,000 per county)	$1,120,000
All Counties	$2,779,000

Road Departments
Unique Challenges

- Effects in each county are different
  - Miles of roads affected
  - Type, capacities, characteristics of impacted roads
  - Geographic distribution of oil activity within county
  - Intensity of road use / traffic patterns
  - Costs for road operations
- Escalating input costs (e.g., gravel, fuel) not tied to petroleum sector use of roads
- In absence of petroleum industry, still have road maintenance costs

Road Departments
Unique Challenges

- Need to evaluate costs over broader time frames (majority of road operations not performed on all roads each year)
- Complex problem -- does not lend itself to relying on a single answer from road departments
- A different questionnaire and analysis was used

Road Departments
Questionnaire

- County officials provided the following for impacted and non-impacted roads
  - Miles, by road type
  - 12 separate maintenance, repair, and reconstruction/surfacing operations
    - Cost per mile
    - Frequency of need
    - Miles of need in next three years
  - Questionnaire developed by Dan Brosz, Brosz Engineering, Bowman, ND

Road Departments
General Findings

- Impacted vs non-impacted roads
  - Frequency of need is substantially higher (i.e., how often a particular operation is required)
  - Greater disparity with the most costly operations (e.g., reconstruction, resurfacing)
  - Nearly all road operations more expensive ($/mile) to perform on impacted roads than on non-impacted roads

Road Departments
Cost Projections

- Cost of maintaining impacted roads
- Cost in absence of oil industry
  - Applied non-impacted road data to impacted roads
    - Cost per mile by road operation
    - Frequency of need by road operation by road type
    - Miles impacted by road type
- Difference between the two estimates

Road Departments

Cost Projections 2008 through 2010

		Avg Cost Analysis		Ratio Analysis	
Counties*	Impacted Roads (6,700 miles)	Non-impacted Status	Net Cost Increase	Non-impacted Status	Net Cost Increase
	---------- 000s of 2007 dollars ----------				
Total**	110,880	22,030	88,850	24,830	86,050
Avg Annual	36,960	7,343	29,617	8,277	28,683
Avg Annual Per County	3,360	668	**2,692**	752	**2,608**

*Counties with useable data from survey were Billings, Bowman, Burke, Dunn, Golden Valley, McHenry, McKenzie, Renville, Slope, Stark, and Williams.

**Does not include snow removal, weed control, or mowing.

Summary

Cost Projections

Costs	Low Estimate	High Estimate
Roads Responding Non-responding*	$34.1 million $2.65 million x 11 counties $1 million x 5 counties	$42.4 million $2.65 million x 11 counties $2.65 million x 5 counties
General Offices	$2.8 million	$2.8 million
Total (2007 $)	$36.9 million	$45.2 million

* Regards assumptions on costs for road impacts in counties that did not respond to the survey. Personal interview with Mountrail County revealed $1 million increase in road costs from FY07 to FY08.

Conclusions

- Expansion of oil and gas sector has led to increased workload for majority of county offices
- Increased workloads = increased costs
- Financial impacts of oil and gas on maintenance of rural roads are substantial

Final Thoughts

- Financial burden of increasing costs of providing county services?
  - Are current levels of tax re-distributions sufficient?
  - Effect on county residents/tax payers?

Acknowledgements

- Vicky Steiner, ND Association of Oil and Gas Producing Counties
- Dan Brosz, Brosz Engineering, Inc., Bowman, ND

OIL AND GAS IMPACTED COUNTY ROAD COST SURVEY

Item No	COUNTY ROAD INVENTORY	TOTAL MILES ASPHALT	TOTAL MILES GRAVEL
1	COUNTY COLLECTORS (Federal Aid and others that serve as major collectors)		
2	MINOR COUNTY COLLECTORS (Most roads leading to the County and State Collectors)		
3	OTHER COUNTY ROADS (Secondary roads that are like township roads)		

COUNTY

	MAINTENANCE COSTS and FREQUENCY	COST		FREQUENCY			MILES OF NEED NEXT 3 YEARS
5	ASPHALT OVERLAY (1-1/2" or less will be considered maintenance)		per mile	every		years	
6	ASPHALT CHIP SEAL (Include oil, chips, equipment and labor to complete)		per mile	every		years	
7	ASPHALT REPAIR (include cold mix, patching and crack sealing)		per mile	every		years	
8	BLADING GRAVEL ROADS (Include equipment, labor, fuel and repairs)		per mile			per month	
9	GRAVEL SURFACING REPAIRS (spot graveling, 2" lift or less for maintenance)		per mile	every		years	
10	GRAVEL CRUSHING (Include equipment, fuel, labor, testing and royalty)		per ton/CY	<-Circle ton or CY			
11	GRAVEL HAULING AND LAYING (Based on average haul miles in County) (Include loading, hauling, laying and all other costs)		per ton/CY	<-Circle ton or CY			

	RECONSTRUCTION COSTS and FREQUENCY	COST		FREQUENCY			MILES OF NEED NEXT 3 YEARS
12	MINE AND BLEND REHAB (Includes Milling, 0" to 2" Graveling, and Chip Seal)		per mile	every		years	
13	ASPHALT SURFACE TREATMENT (Includes 3"or Thicker Graveling and Chip Seal)		per mile	every		years	
14	ASPHALT OVERLAY (Includes milling and 2" to 3" overlay)		per mile	every		years	
15	NEW HOT BIT PAVING (Includes 3" to 5" for new pavement)(Specify thickness in notes)		per mile	every		years	
16	GRAVEL RESURFACING (3" to 4")(Based on average haul miles in County) (Include loading, hauling, laying and all other costs)		per mile	every		years	
17	NEW GRAVEL SURFACING (4" to 6" -Specify)(Based on average haul miles in County)		per mile	every		years	
18	ROAD RECONSTRUCTION(Needed to improve safety/widening to accommodate surfacing) (Cost for Dirt Work, Culverts, Erosion Control, etc., do not include surfacing)		per mile				

Survey Goal

The purpose of this survey is to gather insights into how increased oil and gas exploration and production have affected the provision and cost of county government services. This is not an in-depth analysis, but rather the survey is designed to provide a cursory or peripheral assessment of the impacts of increased activity in the petroleum industry on local governments in western North Dakota.

Survey Instructions

(1) Please limit your assessment of the effects of oil and gas activity to the last 12 months. We are not concerned about effects that may have happened more than 1 year ago.

(2) To the best of your ability, please consider all of your responses with respect to just the effects of increased activity in the petroleum industry. We recognize that the provision of public services and the costs to provide those services change over time, so again, try to only describe those changes that are a result of the additional business activity associated with oil and gas exploration and production in your county.

(3) Please call Vicky Steiner (701-290-1339) if you have any questions.

(4) Please complete the questionnaire by February 8, 2008.

(5) Please return this form to your county Auditor's Office. The county auditor will collect the forms and mail them to NDSU for analysis.

Please fill in the following information.

County _____

Office or Department _____

Your name and Position _____

(1) Has there been an increase in services provided or change in workload in your office/department due to increases in oil and gas exploration and extraction in your county? (Please circle and check all that apply)

Yes If yes, how has your office/department handled the increased workload?

____ added additional staff

____ more hours for existing staff

____ purchased more equipment

____ outsourced some of the work load

(2) Have increases in oil and gas exploration and production in your county changed the cost of providing public services in your office or department? (please circle)

Yes — Please estimate the approximate cost increase over the past 12 months $_____

No — Please skip to Question 4

Don't Know

(3) What would be the reasons for increases in your office/department's operating costs due to increased oil and gas activity in your county? (Please check all that apply)

___ increased wage rates for office personnel
___ more hours for existing personnel
___ hired additional part-time employees
___ hired additional full-time employees
___ had to incur increased training and recruitment expenses due to higher than normal employee turnover or additional hiring
___ purchase/lease/acquire additional equipment or upgrade existing equipment sooner than expected (please clarify: _____)
___ had to purchase more supplies and inputs than normal (e.g., fuel, electricity, paper, computer services, communications, etc.)
___ costs went up because of an increased number of customers and/or servicing an larger population base and/or more applicants for our programs
___ other reasons (please specify _____)
___ don't know

(4) Has your office or department offset cost increases in the last year by increasing rates/fees or by adding new/additional fees? (please circle)

Yes — Please estimate the approximate revenue increase due to higher fees or new fees added over the past 12 months $_____

No — Our office or department has not increased existing fees or added any new fees

Don't Know

(5) Please comment on any other fiscal effects on your office or department that are a direct result of increased oil and gas activity in your county (add additional sheets if necessary)

THANK YOU–please return this form to the County Auditor's Office.

8.

Effects of Petroleum Industry Activities on Cost of Providing County Government Services in North Dakota

Report prepared for
the North Dakota Association of Oil and Gas Producing Counties

Submitted by
Dean A. Bangsund
F. Larry Leistritz

July, 2008

Acknowledgments

Two individuals were helpful in providing data and information used in this study. Our appreciation and thanks are extended to:

Vicky Steiner, ND Association of Oil and Gas Producing Counties
Dan Brosz, Brosz Engineering Inc., Bowman, ND

The authors also wish to recognize the efforts of the county government officials who took the time to complete the survey. Without support and cooperation from those individuals, this study would not have been possible.

The authors assume responsibility for any errors of omission, logic, or otherwise. Any opinions, findings, or conclusions expressed in this publication are those of the authors and do not necessarily reflect the views of the ND Association of Oil and Gas Producing Counties.

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Introduction

Western North Dakota has been experiencing a boom in oil and gas activity in recent years. The history of oil production in North Dakota can be characterized by periods of boom and decline. Commercial oil and gas production in the state did not start until the mid 1950s. Shortly after oil production began, oil production in the state increased substantially until the mid 1960s. The late 1960s and most of the 1970s saw a slow decline in oil production. Starting in the late 1970s, oil production again began to increase, and this upturn resulted in a substantial change in the level of petroleum activities in the state.

The oil boom of the early 1980s has been well documented, and peak oil production in the early 1980s remains the milestone against which subsequent production has been measured. Consistent with cycles of boom and bust, oil production in the state precipitously declined in the 1980s, and increased again in the mid- to late-1990s. However, the rapid increase in production in the late 1990s quickly subsided, and production again declined for several years.

The current boom in oil activity started in the early 2000s. Current production in North Dakota now exceeds the all time production highs found in the early 1980s. While a number of factors have lead to the latest boom in oil production, the increase in the petroleum sector is not limited to an increase in oil flow or gas output. All phases of the petroleum sector have seen tremendous increases in activity levels. For example, the number of drilling rigs, often a measure of the level of exploration, has gone from under 20 in 2003 to around 70 in May of 2008.

Historically, periods of increasing and decreasing oil activity have occurred in nearly all of the oil producing counties in North Dakota. The nature of oil exploration and production are driven by a complex set of factors, many of which are related to technology and the ability to discover and extract oil and gas from new geologic formations. The current oil boom is no exception. Advances in drilling technologies, increased oil prices, and the ability of companies to target new oil reservoirs is readily apparent in the oil activity in North Dakota. While increases in oil activity are up throughout the oil producing region in ND, much of the increase in activity is associated with the Bakken formation. Much of this increase in oil exploration and production related to the Bakken formation is occurring in counties that historically have had very little oil activity.

Increases in oil exploration and production have impacts on local infrastructure (e.g., roads) and the provision of governmental services (e.g., law enforcement). Some counties (e.g., Billings County) have gone through the boom/bust cycles of oil activity, while other counties (e.g., Mountrail) are experiencing those changes for the first time. As a result, the ability to manage those changes are not necessarily equal among county governments, nor are the resource bases (e.g., personnel, funding) equal among all counties affected by changes in the oil production.

Oil industry activities can create challenges for small, rural governments to handle the increased demands on the provision of government services and maintenance of local infrastructure. The state recognized those issues many decades ago, and dedicated a portion of the gross production tax collected from oil and gas production to be returned to local

governments. It is often debated whether the level of tax re-distribution from state collected taxes is sufficient to offset local costs of providing government services. An additional consideration is that counties that have had small amounts of oil production in the recent past are not positioned to receive revenues to fund the cost increases associated with recent spikes in oil exploration. This is precisely the problem in some areas of ND that are now experiencing substantial increases in oil industry activity which puts a burden on government services before revenues from oil production can be redistributed. Still additional concerns exist on whether limits on revenue re-distribution are adequate to compensate local governments for additional costs.

Project Scope

The overall goal of this study was to examine how recent increases in oil and gas exploration and production have affected the cost of providing county government services in North Dakota. The interim legislative taxation committee, beginning in early 2008, sought information on how oil production and exploration have impacted the costs of providing government services. Through a separate process, cities and school districts have assessed their cost increases. This study was designed to provide insights on how increased oil and gas activity has affected the provision of county government services. These cost assessments will be used to address potential changes to the oil impact fund or other measures that may assist local governments in areas of high oil and gas activity.

Data Sources and Procedures

A survey of county governments in 16 oil and gas producing counties in North Dakota was conducted in February, 2008. The distribution of survey materials (i.e., questionnaires, cover letters) was conducted by the North Dakota Association of Oil and Gas Producing Counties.

The survey was comprised of two separate questionnaires: one questionnaire was developed for road departments and another for all other county offices (Appendix). Copies of the questionnaires were mailed to each county auditor, with instructions for the county auditor to distribute the questionnaires to offices/departments in the county. Each office was then responsible for filling out the questionnaire and returning it to the Auditor's office.

The survey was designed to solicit information on how increased oil and gas activity in the county affected the various county government departments/offices. For the non-road departments, a series of questions were structured to determine 1) if an increase in oil and gas activity has led to an increase in the provision of services by the county office, 2) what the office or department has done to handle the increased work load, 3) the change in the cost of providing services for the department over the past year, 4) the specific reasons for an increase in costs, and 5) if the office or department has been able to offset cost increases with additional fees or revenues. For the road departments, a separate questionnaire was developed to track the costs of maintaining roads impacted by oil and gas activity. The design of the questionnaire was to determine the cost of maintaining county roads in areas of oil and gas exploration and

production, and compare those costs to the costs of providing similar services on roads in the county that were not impacted by oil and gas activities. In most counties, oil and gas activities do not affect county roads equally throughout the county.

The sample size for the survey approximates a census of county governments affected by oil and gas activity in ND. However, due to less than 100 percent participation by all counties and departments, the survey represents a sample of county government offices in the counties affected by oil and gas activity. Since the survey represents a sample of counties affected by oil and gas activity, it was necessary to extrapolate survey information to project a cost estimate for all oil and gas producing counties. The techniques used to extrapolate the survey information to generate estimates of the changes in costs of providing county government services are presented and discussed in following sections.

Results

Petroleum exploration and extraction in North Dakota has been expanding for several years. Two key measures of identifying changes in the level of oil industry activity are oil production and drilling activity. Oil production in December of 2005, 2006, and 2007 was compared among the oil producing counties in North Dakota. Comparisons of oil output in December were used as a proxy for annual output in each county. Despite tremendous increases in statewide oil production since 2005, increases in oil production have not been uniform across all oil-producing counties (Table 1). In absolute (i.e., barrels per month) and in percentage terms from 2005 through 2007, the change in oil output has been greatest in Mountrail County. Dunn County has also seen a substantial increase in oil output since 2005--a 146 percent increase. Bowman and Williams Counties have also had substantial increases in monthly oil production from 2005 to 2007, although those increases do not represent as large of a percentage change as found in Mountrail and Dunn Counties.

From 2005 to 2007, oil production in the state went from 35.7 million barrels to over 45 million barrels. In percentage terms, statewide oil production increased 26 percent in two years. Drilling statistics also mirror the same level of changes in oil activity in the state. Total drilling rigs in the state were 33 in January of 2006, compared to 53 in December of 2007. Drilling rigs in North Dakota in May of 2008 were 71 (Department of Mineral Resources 2008). Total producing oil wells in the state increased from an average of 3,391 in 2005 to 3,759 in 2007. Clearly, if measured by oil production, drilling activity, and producing wells, the petroleum industry has undergone tremendous increase in activity in the state in the past two years.

Evidence throughout western ND indicates that the petroleum industry is having a substantial effect on local governments, local economies, labor force, housing, and other economic and social institutions. The provision of government services is part of the fabric of effects felt in many areas of western North Dakota.

Table 1. Change in Oil Production, by County, North Dakota, 2005 through 2007

County	December Oil Production (barrels)			Percentage Change		
	2005	2006	2007	2005 to 2006	2006 to 2007	2005 to 2007
Billings	377,779	418,448	387,507	10.8	-7.4	2.6
Bottineau	181,249	168,327	145,420	-7.1	-13.6	-19.8
Bowman	1,318,821	1,475,596	1,480,079	11.9	0.3	12.2
Burke	63,676	71,862	78,465	12.9	9.2	23.2
Divide	53,994	64,288	65,017	19.1	1.1	20.4
Dunn	75,870	102,570	187,019	35.2	82.3	146.5
Golden Valley	78,814	68,951	54,330	-12.5	-21.2	-31.1
McHenry	1,983	2,271	2,339	14.5	3.0	18.0
McKenzie	463,505	499,217	540,479	7.7	8.3	16.6
McLean	4,273	3,221	3,115	-24.6	-3.3	-27.1
Mountrail	21,247	59,802	204,569	181.5	242.1	862.8
Renville	60,651	64,070	65,090	5.6	1.6	7.3
Slope	47,359	59,350	38,004	25.3	-36.0	-19.8
Stark	175,277	151,078	132,059	-13.8	-12.6	-24.7
Ward	4,917	5,291	4,286	7.6	-19.0	-12.8
Williams	292,721	342,859	388,164	17.1	13.2	32.6

Survey Response

Response to the survey appears to be representative of the counties affected by oil and gas activity in North Dakota. Some response was obtained from 14 counties. Only Bottineau and Ward Counties did not respond. Response across departments was also representative. A total of 53 departments in 14 counties provided useable responses to the written questionnaire. An additional six road departments filled out the road cost questionnaire, but did not complete the written departmental questionnaire. Combining responses to both questionnaires, a total of 59 useable responses were obtained.

A survey response rate is difficult to estimate. First, it is unknown how many of each county's offices/departments received a questionnaire. Offices that never received a questionnaire should not be included in estimating a survey response rate. Second, some

counties share certain offices/officers with neighboring counties, although both counties list the office. Finally, how many of a county's functions should the study include? Should the job development officer be considered equally with the county auditor? Should the county library be counted the same as the sheriff's department? Not all counties have the same number of offices, although nearly all have the primary county offices (e.g., auditor, treasurer, sheriff, etc.). Based on the offices that did respond to the survey, this study estimated that there were 176 departments/offices in the 16 counties. Specifically, the offices included in the study were auditor, treasurer, recorder, clerk of court, states attorney, sheriff, road/highway, social services, emergency services, tax equalization, extension, and veterans services. Many miscellaneous offices/functions/services were not included. The most common services/offices not included were library, fair, coroner, council on aging, and parks or recreation. Based on the above definition of 176 offices in the 16 counties, the overall response rate for the survey was just over 30 percent.

Responses across all county offices were not uniform, but reasonably balanced (Table 2). Collectively, the offices of sheriff, auditor, register of deeds, and roads/highways represented over half of all responses (36 of 59 total responses).

Table 2. Survey Responses by County Department, Oil and Gas Producing Counties, North Dakota, 2007

County Department	Number of Responses	Percentage
Auditor	7	11.9
Sheriff	9	15.3
Treasurer	4	6.8
Register of Deeds	7	11.9
Social Services	4	6.8
States Attorney	2	3.4
Clerk of Court	4	6.8
Tax Equalization	4	6.8
Emergency Services	2	3.4
Highways/Road	13	22.0
Miscellaneous[a]	3	5.1
Total Responses	59	100.0

[a] Included janitorial, weed control, and job development.

Survey Results

Instructions for interpreting the questions on the survey were very specific. County officials were asked to only answer the questions with respect to how increases in oil and gas activity in their county have affected their office over the past 12 months. The importance of only considering the effects of increased oil industry activity was stressed in the instructions and in the wording of all questions since many factors could influence the cost of delivering county services.

The first issue on the questionnaire dealt with workload for the county office (Appendix). Specifically, the first question asked if the county office has experienced an increase in services provided or a change in workload due to increases in oil and gas activity. A total of 53 offices answered the question. Forty-two of the 53 total responses (79 percent) indicated that county office workloads had increased over the past year due to increases in petroleum industry activities (Table 3).

Table 3. Responses to Changes in Workload for County Offices, Oil and Gas Producing Counties, North Dakota, 2007

Has increased oil industry activities increased county office workloads?	Number of Responses	Percentage
Yes	42	79.2
If yes, how has office dealt with increased workloads?		
added additional staff	15	na
more hours for existing staff	30	na
purchased additional equipment	18	na
outsourced some of the work load	3	na
other (write-in) responses	24	na
No	10	18.9
Don't Know	1	1.9
Total Responses	53	100.0

If the office experienced an increase in their workload due to changes in the level of oil and gas activities in the county, the office was then asked to identify what measures were taken to handle the increased workload . Of the 42 offices that experienced an increased workload, 15 offices added additional staff, 30 offices were requiring staff to work more hours, 18 offices

purchased additional equipment, 3 offices outsourced some of the work, and 24 offices described other measures (Table 3). (Note: offices could select more than one option so multiple responses were possible). In most cases, the 24 write-in responses to the question were mostly comments about the work load and represented a re-iteration of some variation of the prior options. However, several departments did indicate work priorities and schedules were adjusted to accommodate oil activity requests.

County offices were subsequently asked if increased activities in the petroleum industry changed the cost of providing public services. Since a number of factors might affect the costs of delivering public services and since some of those factors may not be tied to the amount of public services (e.g., escalating wage rates, other input costs), the question was not conditional on changes in office workload. Alternatively, there was no requirement that the county office must have experienced an increased workload to have incurred increased costs.

Forty-two departments indicated that they have experienced an increase in office workload due to increases in petroleum industry activities in their county. Twenty nine of those 42 departments (69 percent) indicated that costs of providing services had increased (Table 4). One department reported costs had increased even though their workload had not changed. If the number of departments that indicated an increase in costs is compared to the total number of survey responses, about 57 percent (30 offices out of 53 responses) of all county offices experienced an increase in costs in the last year due to expanded oil and gas activity in their county.

Table 4. Survey Response to Change in Costs of Providing County Services, Oil and Gas Producing Counties, North Dakota, 2007

Change in Workload (n)	Increase in Costs (n)
Yes (42)	Yes (29)
	No (10)
	Don't Know (3)
No (10)	Yes (1)
	No (9)
Don't Know (1)	Don't Know (1)

The question regarding if the office or department has experienced an increase in costs also contained a statement that asked for an estimate of the change in costs over the past 12

months. Only 24 of the 30 departments that indicated that costs had increased gave an estimate of the actual cost increase. The 6 offices that did not report the actual increase just omitted that portion of the question. Of the 24 departments that provided an estimate of the cost increase, 5 were highway departments. Thus, 19 of the 24 general county departments provided a cost estimate. All of the 6 highway departments that filled out the general questionnaire (see Appendix) also provided estimates of cost increases. However, the survey was designed so that cost changes to the county highway/road departments would come from information obtained in the road cost questionnaire instead of the general office questionnaire.

The cost increase over the past year for the 19 general departments (i.e., providing an estimate of the increase) was $697,600 or $36,716 per office (Table 5). An additional question was also provided to determine, for those county offices that experienced a cost increase, had the office been able to offset any of the cost increase by charging higher fees or adding new revenues over the same period. Of the 19 general offices that reported cost increases, only 2 of those offices (10.5 percent) reported offsetting some cost increases with higher fees or new charges. The amount of the offset for those 19 offices was $75,500 or 10.8 percent of the total reported cost increase. Recalculating the cost increase to include revenue offsets, the average net cost increase per county office (non-road) was estimated at $32,742 over the last year.

Table 5. Estimates of Cost Increases by County Offices, Oil and Gas Producing Counties, North Dakota, 2007

Has the cost of providing county services changed as result of increased petroleum industry activity (n)	Survey respondents providing an estimate of the increase in costs (n)	Classification of county office providing cost estimates (n)	Average per-office cost increase over the past 12 months for those offices reporting cost increases[a]
Yes (30)	Yes (24)	General offices (19)	$36,716
		Road departments (6)	not used
	No (6)	General offices (6)	na
		Road departments (0)	na
No (19)	na	na	na
Don't Know (4)	na	na	na

[a] Cost estimates do not include offsetting revenues. Increases in road costs were derived from the road cost questionnaires.
na–not applicable.

The issue of revenue collection for counties is much too complex to fully explore given the time and resources available to this study. A few caveats are presented here, even though the topic is largely outside the scope of this study. Counties receive revenues from a multitude of sources, and the effects of increased oil activity can influence those revenues in many forms. Property values can be bid up, which can increase the tax base, but also increases the tax paid by county residents–some of which can be used by counties. However, in those cases, without offsetting changes in tax rates, the burden of increased costs falls on the residents of the counties; individuals who may or may not benefit from an increase in petroleum industry activities. While the county offices were asked in the survey to indicate if they had increased fees or added new charges to offset costs, most county offices do not and probably can not look to fees/permits/fines or other collections as a means to offset costs. Again, some of those increases would fall on county residents. Counties do receive a share of the Gross Production Tax, and those revenues can increase with changes in oil production and value, but the dollar value of those transfers is limited by state statutes. In some isolated cases, oil companies have made direct financial contributions to counties in an effort to assist in offsetting some road development and maintenance costs. However, those contributions can not be considered a reliable source of revenue for county governments since those situations are rare and are obviously not made equally by all companies to all counties in western ND. So, despite reports of assistance directly from oil companies, private financial assistance cannot be expected to address the larger issues of county-wide increases in the cost of providing public services. Essentially, the rapid increase in costs of providing public services presents real problems for most county governments in western North Dakota.

The net cost increase for the general county offices, based only on those that indicated they had incurred cost increases, was estimated to be over $32,000 per office per year. The scope of the study prevented the survey from collecting information on each county's operating budget or other related issues. Thus, due to a lack of data, it is problematic to put the reported cost increases in perspective to the size of operating budgets. Besides, those percentages would be of little assistance in estimating a collective assessment of cost increases. The survey did ask for county offices to indicate the reasons for increases in operating costs due to increased oil activity. In other words, if they actually incurred an increase in costs, what items were paid for with those increased expenditures.

Of the 30 county offices that reported cost increases, 28 of those offices answered the survey question regarding what the increased expenditures represented. The most common reason listed (25 out of 28 offices) was the purchase of additional supplies and inputs (e.g., office supplies, communications, fuel, computer services, etc.) over what the office would normally require/use (Table 6). The next most cited reason (21 out of 28 offices) was that the office needed to purchase/lease/acquire additional equipment and/or upgrade existing equipment sooner than expected. Following closely with 20 of the 28 offices was increased expenses for additional hours worked by staff. The following reasons were reported with similar frequency (about 10 of the 28 offices)--costs increased due to higher number of customers/clients/people serviced, hired additional full-time staff, and increased the wage rates for existing staff. Hiring part-time employees and incurring additional training/recruitment expenses had the lowest frequency among the reasons cited (Table 6).

Each county office, on average, listed over four reasons why the office had increased expenditures. Clearly, the increase in costs is not due to just one type of expenditure or just one area of operation. Increase in labor costs from both an increasing wage rate and additional hours, increased use of inputs and supplies, and additional equipment/capital purchases were all common areas where county offices incurred additional expenses.

Table 6. Reasons for Increases in Operating Costs due to Increased Oil Activity for County Offices, Oil and Gas Producing Counties, North Dakota, 2007

Specific Reasons for Cost Increases	Number of Responses	Percentage[a]
Increased use of supplies and inputs (e.g., computer services, paper, communications)	25	89.3
Purchase/lease/acquire additional equipment, upgrade existing equipment sooner than planned	21	75.0
Increased hours for existing personnel	20	71.4
Hiring additional full-time employees	12	42.9
Increased wage rates for office personnel	11	39.3
Increased number of customers/clients, servicing a larger population base, more applicants for county programs	10	35.7
Increased training and recruitment expenses due to additional hiring and employee turnover greater than normal	8	28.6
Hiring additional part-time employees	5	17.9
Other reasons[b]	10	35.7

[a] Represents the frequency reported for that reason divided by the 28 total responses to the question. Percentages will not total to 100 due to multiple answers.

[b] Some of the other reasons included additional meetings, more building cleaning and maintenance, converting old and existing records to electronic formats, handling specialized requests from landmen, increased travel for county officers.

Cost Projections

Survey responses were used to develop projections (estimates) of the increased costs of providing county services for all 16 of the oil and gas producing counties. Several approaches were considered. Road departments were considered separately from all other county offices.

General Offices

The first approach considered in forecasting cost increases to all oil and gas producing counties in ND would be to use survey responses for a specific office (e.g., auditor) and apply the survey average cost increase to that county office in all 16 counties. After a cost estimate was generated for each office, that cost increase would be summed for all of the offices, thereby providing an overall estimate of the cost increase in each county. In order for this approach to work, the survey average for each individual office would need to be representative of oil and gas activity effects on that office across the 16 oil and gas producing counties. For some offices (e.g., auditor, sheriff), survey responses are representative of the effects of increased oil and gas activity on the cost increase for that particular office because responses were collected from a large number of counties (i.e., in some cases over 50 percent of affected counties). However, for other offices, too few survey responses were available to place sufficient confidence that the survey results would be representative of the cost increases for all counties (see Table 2). In examining the number of survey responses by office it was clear that too many offices had too few survey responses for this approach to provide reliable projections of cost increases for just individual county offices.

An alternative approach would be generate an average cost per office by using all survey responses, regardless of the county or type of office represented by the response. In this approach, the cost increases for auditor, treasurer, sheriff, and all the other county offices responding to the survey would be averaged into single per-office estimate, and then applied to each county based on the number of offices in that county. A key drawback to this approach is that the impacts or effects of oil activities are implicitly treated equally across all counties. This assumption may not be a problem if proportionally equal numbers of responses came from counties with high oil and gas activity and from counties with more moderate oil and gas activity. Unfortunately, the impacts of the petroleum industry on the cost of providing county government services are not equal among the 16 counties, nor are the number of survey responses equal among the counties. The counties with substantial changes in oil and gas activities in the past few years accounted for the majority of survey responses. All things equal, the counties having the most trouble dealing with recent increases in oil and gas activities are perhaps the ones that would be most willing to respond or participate in the survey.

To correct for the problem of treating all counties equally, survey responses were stratified based on the level of change in petroleum sector activities within the county in the past two years. Survey responses were divided into 1) counties which have had the most change in oil output, both in absolute and percentage terms and 2) counties that have experienced more moderate changes in petroleum sector output in the last two years. Billings, Bowman, Dunn, McKenzie, Mountrail, and Williams Counties were considered high impact counties, based on

changes in oil exploration and extraction in the past two years (see Table 1). The remaining 10 counties were considered moderate impact counties.

For each county group, an average net (costs less increases in fee revenues) cost increase was estimated for all general offices that provided a cost estimate (some offices indicated that costs had increased, but provided no dollar estimate). It was assumed that offices that indicated they had experienced a cost increase, but did not provide a monetary estimate of the cost increase, would have a cost increase that was equal to the average per office cost increase. The number of offices indicating a cost increase was then multiplied by the average cost increase per office. The total dollar amount of the cost increases were then divided by the total number of offices responding, less the number of offices that provided 'do not know' responses to the question of having a cost increase. By dividing the total cost estimate by the total number of offices responding to the survey (less the 'do not know' responses), an average cost increase per office was estimated. The end result is an average cost increase that takes into consideration that some county offices did report a cost increase. The final average cost increase per office can be multiplied by the number of offices in the county group to project total cost increases for those counties (Table 7).

Road Departments

Estimating the cost increases incurred by county road departments due to increases in oil and gas exploration and production is somewhat complex. All county road departments, throughout the state, have incurred increases in their operating costs from increases in the price of basic inputs (e.g., gravel, fuel, labor) and from escalating equipment expenses (e.g., tires, lubrication, price of new equipment). Therefore, operating costs for county road departments will increase even when traffic patterns or traffic volumes do not change. However, the petroleum industry has tremendous effects on traffic volumes and traffic patterns on rural roads within areas where the industry is actively exploring or currently producing oil and gas. The key issue in this study was to identify how changes in oil and gas exploration and extraction affected the operating costs for county road departments and avoid including within those operating costs any increases in expenses that are not linked to the petroleum industry's use of rural roads.

The road cost questionnaire, developed by Dan Brosz of Brosz Engineering in Bowman, was designed to separately collect cost information for county roads that are impacted and roads that are not impacted by oil and gas activities. Two separate forms were developed. County road departments were instructed to complete both an impacted road form and a non-impacted road form (see Appendix for road cost forms). The goal was that information from both forms would be used to estimate the cost effects of oil and gas activities on county road departments.

Table 7. Projections of the Change in Costs of Providing County Government Services (Excluding Road Departments) Due to Changes in Oil Industry Activities, North Dakota, 2007

Forecasting Step/Explanation	Survey Responses	Cost Estimates
	High Impact Counties[a]	
Average of the net cost increase reported per county office		$35,777
Number of county offices providing a monetary increase	13	
Number of county offices reporting a cost increase	18	
Number of county offices multiplied by average cost increase		$643,985
Number of county offices indicating no cost increases	8	
Number of county offices with useable responses	26	
Average net cost increase across all county offices		$24,769
Estimated number of county offices in high impact counties	67	
Estimated increase in county government costs		$1,659,000
	Moderate Impact Counties	
Average of the net cost increase reported per county office		$27,417
Number of county offices providing a monetary increase	6	
Number of county offices reporting a cost increase	7	
Number of county offices multiplied by average cost increase		$191,917
Number of county offices indicating no cost increases	11	
Number of county offices with useable responses	18	
Average net cost increase across all county offices		$10,662
Estimated number of county offices in high impact counties	105	
Estimated increase in county government costs		$1,120,000
Total cost increases in all counties, all general county departments		$2,779,000

[a] High impact counties were Billings, Bowman, Dunn, McKenzie, Mountrail, and Williams.

The survey solicited per-mile costs, frequency of need, and miles of need for most road maintenance, repair, and construction operations performed by county governments (Table 8). Snow and ice maintenance, ditch mowing, and weed control were not included in the survey. The frequency of county road operations, on a per-mile basis, was included to provide an indication of how often each road maintenance or construction activity was performed relative to the number of miles in the county (see Appendix). Obviously, not all activities on every road would be expected to occur each year, so the frequency of some road operations would, on a per-mile basis, be less than the total miles of roads in the county. Yet other road operations, such as blading gravel roads, occur several times per month, and so would represent a level of need substantially greater than the total miles of roads in the county.

To arrive at an estimate of the cost to the county for performing each type of road operation, the number of miles of need for the next three years for each road operation was multiplied by the per-mile cost. The total costs to the county for all of the road operations were then summed. Miles of need, determined by the county, was a function of how often (frequency) that road operation was required and the total miles of that road type in the county. If completed properly, the questionnaire accounted for the per-mile costs for various county road operations, accounted for the frequency at which those operations were needed, accounted for the number of miles requiring those operations in the next three years, and collected that information separately for impacted and non-impacted roads. The road forms were designed to provide for a direct comparison of the cost of maintaining roads impacted by oil and gas activities and the costs of maintaining roads that were not impacted by oil and gas activities.

Two issues arose with regards to the survey of county road departments. Unfortunately, comparing the total costs of maintaining oil impacted roads with the costs of maintaining roads not affected by oil and gas does not provide the true measure of the impact of oil and gas activities on county road departments. The second issue was that several counties only filled out the impacted roads form.

In the first issue, what is needed is the amount of additional expense in road maintenance caused by oil and gas activities. Stated alternatively, the correct figure is the net cost increase on impacted roads, not the total cost of maintaining those roads or the difference in total costs between impacted roads and non-impacted roads. In the absence of oil and gas activities, the county would still need to maintain all roads in the county. Thus, the correct assessment was to estimate the maintenance cost on the impacted roads, assuming a per-mile cost and frequency of need similar to that of the non-impacted roads, and then subtract those costs from the estimated cost on the impacted roads to arrive a net cost to the county. The above approach is the reason why only returning the impacted road form created problems for determining the net costs of oil and gas activities on road operations.

Table 8. County Road Repair, Maintenance, and Construction Activities Contained in the Road Cost Survey, Oil and Gas Producing Counties, North Dakota, 2007

Maintenance Operations
Asphalt Overlay (1.5 inch or less)
Asphalt Chip Seal (labor, chips, oil)
Asphalt Repair (cold mix, patching, crack sealing)
Blading Gravel Roads (equipment, fuel, labor, repairs)
Gravel Surface Repairs (spot graveling, 2 inch lift or less)
Reconstruction Operations
Mine and Blend Rehab (milling, 0-2 inch asphalt, chip seal, loading, hauling, laying)
Asphalt Surface Treatment (3 inch or greater asphalt & chip seal, loading, hauling, laying)
Asphalt Overlay (milling, 2-3 inch overlay, loading, hauling, laying)
New Hot Bit Paving (3-5 inch new pavement)
Gravel Resurfacing (3-4 inch gravel, loading, hauling, laying, blading)
New Gravel Surfacing (4-6 inch gravel, loading, hauling, laying, blading)
Road Reconstruction (width improvement, preparation for surfacing, dirt work, culverts, erosion control, does not include surfacing)

The oil and gas industry has somewhat different effects in each county, depending upon the basic capacity (i.e., width, load limit, surface type) of county roads, how many road miles are impacted, how much traffic volume is generated on the impacted roads, and any per-mile cost differential for the county between operations on impacted versus non-impacted roads. To sort out all of the individual road effects in each county is beyond the scope of this study; however, what the survey did reveal is that, in most cases, the per-mile costs were somewhat higher for the same operation on impacted roads as for the same operation on non-impacted roads (Table 9). While average per-mile costs for operations on impacted versus non-impacted roads did not differ greatly in each county (Table 9), there were substantial per-mile cost differences among the counties for the same road operation. Also contributing to differences between counties was the number of miles of county roads affected by oil and gas activities (Table 10). Essentially, the nature of the impacts from oil and gas activities on county roads are somewhat different in each county.

Table 9. Estimated Average Per-mile Costs for Selected Road Operations, Oil and Gas Producing Counties, North Dakota, 2007

Road Operations	Roads Impacted by Oil and Gas Activities[a]	Roads Unaffected by Oil and Gas Activities[b]
	------- per mile cost -------	% of per-mile cost for impacted roads
Asphalt Overlay	$91,000	100
Asphalt Chip Seal	$20,329	85
Asphalt Repair	$7,774	69.2
Blading Gravel Roads	$96	99.1
Gravel Surface Repairs	$3,942	90.6
Mine and Blend Rehab	$72,500	100
Asphalt Surface Treatment	$59,250	100
Asphalt Overlay	$150,833	100
New Hot Bit Paving	$259,000	100
Gravel Resurfacing	$22,564	91.2
New Gravel Surfacing	$38,530	75.1
Road Reconstruction	$120,455	91.9

[a] Average of per-mile costs for Billings, Bowman, Burke, Dunn, Golden Valley, McHenry, McKenzie, Slope, Stark, and Williams Counties.

[b] Per-mile costs for roads unaffected by oil and gas activities were expressed as a percentage of the per-mile cost for impacted roads for Bowman, Billings, Slope, and Stark Counties.

The real effect on operating costs for county road departments comes from a substantial change in the frequency of the required road operations. In nearly all cases, road maintenance schedules (frequency of need) were often several times greater for impacted roads versus the level of need on non-impacted roads (Table 11). The level of need was expressed as a percentage because miles of need on impacted roads cannot be directly compared to miles of need on unaffected roads since the total miles in each group are not equal. It would be expected that miles of need for impacted roads would be greater since many more miles of roads were affected. Those effects were most pronounced for the road operations with highest per-mile costs, such as resurfacing, reconstruction, and road surface upgrades, as well as blading, which is the most common maintenance activity on gravel roads (Table 11). Thus, roads impacted by oil and gas activities required much more frequent resurfacing and reconstruction, and those activities are among the most expensive of the road operations described in the survey.

Table 10. Miles of Roads Under County Control, Oil and Gas Producing Counties, North Dakota, 2007

	Impacted by Oil and Gas Activities		Unaffected by Oil and Gas Activities	
County	Gravel	Asphalt	Gravel	Asphalt
Billings	537	12.5	104	0
Bowman	78	68	55	65
Burke	202	44	na	na
Dunn	862	14	na	na
Golden Valley	109	0	na	na
McHenry	201	90	na	na
McKenzie	1,008	135	na	na
Renville	927	74	na	na
Slope	202	2	234	0
Stark	81	16	1715	100
Williams	1,986	166	na	na
Total	6,093	621	2,108	165

na = not available.

The effects of oil and gas activities on the operating costs for road departments were estimated by first determining the total costs over the next three years for roads impacted by oil and gas activities. The per-mile costs and miles of need represented 2007 conditions and were held constant over the three-year period (i.e., costs didn't increase nor did miles of impacted roads change). After estimating the total operating costs for impacted roads, the likely costs of maintaining those same roads in the absence of oil and gas impacts were calculated. To estimate the operating costs in the absence of oil and gas impacts, a new frequency of need and a new cost per mile for each road operation was developed. The average frequency of need (i.e., percentage) for each road operation for roads unaffected by oil and gas activities in Bowman, Billings, Slope, and Stark Counties was multiplied by the total miles of impacted roads in Burke, Dunn, Golden Valley, McHenry, McKenzie, Renville, and Williams Counties. Thus, the average rate at which non-impacted roads in Bowman, Billings, Slope, and Stark Counties were repaired, re-surfaced, re-constructed, bladed, etc., was used to create a new level of miles of need, by road operation, for the impacted roads (i.e., assuming they were now managed as if they had no oil and gas impacts) in the other counties.

Table 11. Frequency of Road Operations for Impacted and Unaffected County Roads, Expressed as Miles of Need over the Next Three Years, North Dakota Oil and Gas Producing Counties, 2008 through 2010

	Frequency of Need Over Next Three Years			
Road Operations	Roads Impacted by Oil and Gas Activities[a]		Roads Unaffected by Oil and Gas Activities[b]	
	Miles	Percent[c]	Miles	Percent[c]
Asphalt Overlay	29.3	4.7	5.0	3.0
Asphalt Chip Seal	244.7	39.4	45.0	27.3
Asphalt Repair	619.5	99.7	295.0	179.0
Blading Gravel Roads	66,622.0	1,093.4	6,242.0	296.2
Gravel Surface Repairs	1,490.0	24.5	192.0	9.1
Mine and Blend Rehab	17.0	2.7	8.0	4.9
Asphalt Surface Treatment	32.0	5.2	2.0	1.2
Asphalt Overlay	94.0	15.1	5.0	3.0
New Hot Bit Paving	121.0	19.5	5.0	3.0
Gravel Resurfacing	673.0	11.0	127.0	6.0
New Gravel Surfacing	356.0	5.8	81.0	3.8
Road Reconstruction	162.0	2.7	10.5	0.5

[a] Average for Billings, Bowman, Burke, Dunn, Golden Valley, McHenry, McKenzie, Renville, Slope, Stark, and Williams Counties.

[b] Average for Bowman, Billings, Slope, and Stark Counties.

[c] Total miles of need in for each road operation for both impacted and unaffected roads were divided by total miles of roads impacted or unaffected in each county. The percentage for the impacted and unaffected categories is a relative index of how the frequency of need for road operations changes between impacted and unaffected roads.

Two methods were used to estimate a per-mile cost for maintaining impacted roads under the assumption that they were no longer affected by oil and gas activities. The first method simply used the average per-mile cost for road operations on unaffected roads in Bowman, Billings, Slope, and Stark Counties. For example, the average per-mile cost to blade gravel roads (unaffected by oil and gas) in those counties was used as the per-mile cost for blading gravel roads in the other counties. The second method used the average ratio of the per-mile cost for impacted roads to the per-mile cost for unaffected roads in Bowman, Billings, Slope, and Stark Counties and applied that ratio to the impacted roads' per-mile cost in the remaining counties. For example, if road operation A averaged $1,000 per mile on impacted roads and the same road operation averaged $800 per mile on unaffected roads, then a ratio of 80 percent was applied in each of the remaining counties to arrive at an estimated cost per mile to maintain the impacted roads assuming they were no longer impacted by oil and gas activities. This second

method uses each county's per-mile costs for impacted roads to produce a per-mile cost assuming those roads were no longer affected by oil and gas activities. Conversely, the first method assigns the same per-mile cost, assuming no oil and gas impacts, for road operations in Burke, Dunn, Golden Valley, McHenry, Renville, and Williams Counties. Because the average per-mile cost of maintaining roads not impacted by oil and gas activities in Bowman, Billings, Slope, and Stark Counties may not be the appropriate rate for all of the remaining counties, both methods were used and produced two separate estimates of the cost of maintaining impacted roads in the absence of oil and gas activities.

In the absence of oil and gas activities, each county would still need to maintain all roads under county control. Under that assumption, the correct assessment of the impact of oil and gas activities on county road department costs was to estimate the difference between costs of maintaining impacted roads and the cost of maintaining those same roads in the absence of oil and gas activities. Using 2007 data on per-mile costs and 2007 data on miles of need for various road operations, 11 of the 16 oil and gas counties responding to the survey were estimated to have operating costs on roads impacted by oil and gas activities that would exceed $110 million over the next three years (2008 through 2010) (Table 12). By contrast, costs to maintain the same roads impacted by oil and gas activities assuming those roads were not used by the oil and gas industry were estimated at about $22 million to $25 million (Table 12). The net cost increase due to impacts of oil and gas activities on road costs for those 11 counties was estimated to be about $86 to $89 million over the next three years. The added cost of oil and gas activities on county road costs was about $2.6 million to $2.7 million per county per year.

It is important to recognize that the change in road costs calculated from the survey data represent the overall presence of the oil and gas industry in a county. A considerable amount of additional research would be required to estimate only the marginal effects of recent changes in oil and gas industry activities on a corresponding change in maintenance costs for county road departments. Given the information collected in this study, it would difficult, if not impossible, to accurately estimate only the change in road maintenance costs associated with just recent increases (e.g., a 10 percent increase in oil output in the last 12 months) in oil and gas industry activities. An example of this could be framed such as what would be the increase in road maintenance costs if a county added 15 oil wells over the past year?

Mountrail County responded to the survey by indicating that the county did not currently have the data to fill out the road cost forms. The Mountrail County auditor, through a telephone interview, indicated that their road department was unable to comply with the detailed information in the road cost forms, but indicated that their increase in road costs in the next year would be about $1 million. This cost increase was based on the level of additional work that the county was experiencing with the current work load and was reflective of current (Spring of 2008) road costs. The substantial increase in the work load for the Mountrail County Road Department has largely been reactionary to the changes in oil exploration and production in the county over the past 18 months. At this point, it was suggested that most of the work load has been devoted to dust control, blading, and adding gravel to existing roads, among other maintenance activities. Past cost increases in Mountrail County are likely to be very conservative since those cost changes do not reflect future increases in many of the more expensive resurfacing operations found in the other counties. Since impacts from the oil and gas

industry are relatively recent in Mountrail County, the cumulative effects of increased traffic volumes and traffic patterns have perhaps not been manifested in physical deterioration of road beds or road surfaces to the extent found in other counties.

Table 12. Estimated Net Cost Increases of Maintenance of Roads Under County Control, Oil and Gas Producing Counties, North Dakota, 2008 through 2010

	Estimated Costs (000s of 2007 dollars)				
		Average Cost Analysis[a]		Ratio Analysis[b]	
County	Impacted Roads	Non-impacted Status[c]	Net Cost Increase	Non-impacted Status[c]	Net Cost Increase
Billings	29,420	6,930	22,490	6,930	22,490
Bowman	10,550	1,600	8,950	1,600	8,950
Burke	9,090	910	8,180	840	8,250
Dunn	19,700	2,140	17,560	3,450	16,250
G. Valley	2,890	330	2,560	300	2,590
McHenry	4,810	1,590	3,220	1,770	3,040
McKenzie	7,100	2,070	5,030	3,120	3,980
Renville	670	570	100	510	160
Slope	2,810	480	2,330	480	2,330
Stark	3,850	620	3,230	620	3,230
Williams	19,990	4,790	15,200	5,210	14,780
Total	110,880	22,030	88,850	24,830	86,050
Average annual	36,960	7,343	29,617	8,277	28,683
Average annual per county	3,360	668	2,692	752	2,608

[a] Assigning average per mile costs for operations on non-impacted roads for Bowman, Billings, Slope, and Stark Counties to remaining counties.

[b] Used the average ratio of the per-mile cost for impacted roads to the per-mile cost for unaffected roads in Bowman, Billings, Slope, and Stark Counties and applied that ratio to the impacted roads' per-mile cost in the remaining counties.

[c] The cost of maintaining those roads was based on assuming the impacted roads were unaffected by oil and gas activities.

Summary of Cost Projections

Cost increases over the next year for general county offices (i.e., non-road offices) were estimated separately for six counties experiencing high oil development and production and for ten counties that have been less impacted by oil and gas activities. Increases in costs of providing services for the general county offices in the high impact counties were estimated at about $1.7 million in the last year. The remaining counties were estimated to collectively have cost increases around $1.1 million over the last 12 months for provision of services by the general county offices. Combined, cost increases for general county offices in the 16 oil and gas producing counties were estimated at about $2.8 million over the past year.

Road costs were estimated separately from cost estimates for the general county offices. The effects of oil and gas activities on the costs of maintaining county roads was estimated to range from $2.6 million to $2.7 million per county per year for the counties responding to the survey. Thus, the presence of oil and gas activities in a county was estimated to increase road maintenance costs, on average, about $2.65 million over the costs of maintaining those roads in the absence of the oil and gas industry (i.e., the industry was not present in the county). If the estimated cost increases for the counties responding to the survey are representative of all oil and gas producing counties in North Dakota, then the net cost to counties to maintain county roads affected by the oil and gas industry over the next year could approach $42.4 million ([$2,600,000+$2,700,000]/2*16). However, if the effects of the oil and gas industry, in the counties that did not respond to the survey, are closer to the impacts in Mountrail County, where the additional expense was estimated at $1 million annually, then the change in operating expenses for county road departments would be closer to $34 million ($2,650,000*11+5*$1,000,000) annually.

Collectively, all 16 oil and gas producing counties could expect the net cost of the oil and gas industry to be $36.9 million ($34 million for roads plus $2,779,000 for other services) to $45.2 million ($42.4 million for roads plus $2,779,000 for other services) annually in the next few years. It is important to recognize that the change in road costs represents the overall presence of the oil and gas industry in a county, and does not represent just the marginal increase in costs associated with recent changes in oil and gas industry output. However, the change in the cost of providing county services represents the marginal increase in expenses associated with changes in the level of oil and gas activities over the past year, and does not necessarily represent the overall costs of the oil and gas industry in the county. Additional research would be required to estimate only the marginal effects of recent changes in oil and gas industry activities on the change in maintaining roads.

Conclusions

North Dakota has experienced tremendous increases in oil production and exploration in the last five years. Current levels of oil exploration and production now exceed the all-time highs of the state's largest oil boom of the early 1980s.

Rapid changes in oil and gas activities, like which is occurring in some western North Dakota counties, can strain local governments and increase the costs of providing services. Often these cost increases occur without corresponding revenue offsets.

The purpose of this study was to survey county governments, solicit information on how increased oil and gas activity has affected the workload in county offices, how county offices have adjusted to changes in workload, if changes in oil and gas activities have affected costs of providing county services, and extrapolate survey estimates to project the overall cost of changes in oil and gas activities on county governments.

Results from the survey clearly showed that the workload for a majority of county offices has increased due to changes in oil and gas activities in western North Dakota. Further, a majority of the county offices responding to the survey indicated that operating costs had increased over the past 12 months due to changes in oil and gas industry activities in their county. It is clear that changes in workload have translated into increased costs. The increased costs are attributable to changes in wages, personnel, input purchases, equipment/capital purchases, and a host of other factors. In addition, most offices and departments have not been able to offset those additional costs with changes in fees or charges (at least not in the short run). Increased workloads have had an unequal effect on office personnel, as many offices indicated that only salaried employees could work more than 40 hours per week. Many elected and appointed officials have been left to cover the additional work load, and many of those individuals suggest that turnover of personnel in the future may become a growing issue. Many respondents echoed sentiments that current pay scales are not commensurate with existing workoads or responsibilities.

The influence of oil and gas production and development on the cost of maintaining rural roads is more complex to estimate than the financial effects on other county offices. While a number of factors influence road maintenance costs within any particular county, the most common factors are the number of miles of rural roads affected, the per-mile costs for road operations, the geographic scope of oil and gas activities within a county, rural road capacities/characteristics, and the intensity of use by oil and gas industry vehicles.
In the absence of oil and gas activities, the county would still need to maintain all county roads under their control. Thus, determining the financial effects of oil and gas activities on county road departments required first estimating the maintenance cost on the impacted roads, assuming a per-mile cost and frequency of need for road maintenance similar to that of non-impacted roads within those counties, and then subtract those costs from the estimated cost of the impacted roads to arrive a net cost to the county.

Cost increases over the next year for general county offices (i.e., non-road offices) were estimated separately for six counties experiencing high oil development and production and for ten counties that have been less impacted by oil and gas activities. Increases in costs of providing services for the general county offices in the high impact counties were estimated at about $1.7 million in the last year. The remaining counties were estimated to collectively have cost increases around $1.1 million over the last 12 months. Combined, cost increases for general county offices in the 16 oil and gas producing counties were estimated at about $2.8 million over the next year.

Road costs were estimated separately from cost estimates for the general county offices. The presence of oil and gas activities in a county was estimated to increase road maintenance costs, on average, about $2.65 million over the costs of maintaining those same roads without the presence of the oil and gas industry. The net cost of maintaining roads used by the oil and gas industry was estimated to range from $34 million to $42 million annually, depending upon assumptions of the change in costs for county road departments.

Collectively, all 16 oil and gas producing counties could expect the net cost of the oil and gas industry to be $36.9 million ($34 million for roads plus $2,779,000 for general services) to $45.2 million ($42 million for roads plus $2,779,000 for general services) annually in the next few years. It is important to recognize that the change in road costs represents the overall presence of the oil and gas industry in a county, and does not represent just the marginal increase in costs associated with recent changes in oil and gas industry output.

APPENDIX

General County Department Questionnaire and Road/Highway Department Questionnaires

Survey Goal

The purpose of this survey is to gather insights into how increased oil and gas exploration and production have affected the provision and cost of county government services. This is not an in-depth analysis, but rather the survey is designed to provide a cursory or periphery assessment of the impacts of increased activity in the petroleum industry on local governments in western North Dakota.

Survey Instructions

(1) Please limit your assessment of the effects of oil and gas activity to the last 12 months. We are not concerned about effects that may have happened more than 1 year ago.

(2) To the best of your ability, please consider all of your responses with respect to just the effects of increased activity in the petroleum industry. We recognize that the provision of public services and the costs to provide those services change over time, so again, try to only describe those changes that are a result of the additional business activity associated with oil and gas exploration and production in your county.

(3) Please call Vicky Steiner (701-290-1339) if you have any questions.

(4) Please complete the questionnaire by February 8, 2008.

(5) Please return this form to your county Auditor's Office. The county auditor will collect the forms and mail them to NDSU for analysis.

Please fill in the following information.

County _____

Office or Department _____

Your name and Position _____

(1) Has there been an increase in services provided or change in workload in your office/department due to increases in oil and gas exploration and extraction in your county? (Please circle and check all that apply)

Yes — If yes, how has your office/department handled the increased workload?

_____ added additional staff

_____ more hours for existing staff

_____ purchased more equipment

_____ outsourced some of the work load

_____ other measures (please specify_____

_____)

No — Our office workload has not been affected by oil and gas activity.

Don't know

(2) Have increases in oil and gas exploration and production in your county changed the cost of providing public services in your office or department? (please circle)

Yes Please estimate the approximate cost increase over the past 12 months $_____

No Please skip to Question 4.

Don't Know

(3) What would be the reasons for increases in your office/department's operating costs due to increased oil and gas activity in your county? (Please check all that apply)

____ increased wage rates for office personnel

____ more hours for existing personnel

____ hired additional part-time employees

____ hired additional full-time employees

____ had to incur increase in training and recruitment expenses due to higher than normal employee turnover or additional hiring

____ purchase/lease/acquire additional equipment or upgrade existing equipment sooner than expected (please clarify _____)

____ had to purchase more supplies and inputs than normal (e.g., fuel, electricity, paper, computer services, communications, etc.)

____ costs went up because of an increased number of customers and/or servicing a larger population base and/or more applicants for our programs

____ other reasons (please specify_____)

____ don't know

(4) Has your office or department offset cost increases in the last year by increasing rates/fees or by adding new/additional fees? (please circle)

Yes Please estimate the approximate revenue increase due to higher fees or new fees added over the past 12 months $_____.

No Our office or department has not increased existing fees or added any new fees.

Don't know

(5) Please comment on any other fiscal effects on your office or department that are a direct result of increased oil and gas activity in your county (add additional sheets if necessary).

THANK YOU–please return this form to the County Auditor's Office.

OIL AND GAS IMPACTED COUNTY ROAD COST SURVEY

Item No.	COUNTY ROAD INVENTORY	TOTAL MILES ASPHALT	TOTAL MILES GRAVEL	COUNTY
1	COUNTY COLLECTORS (Federal Aid and others that serve as major collectors)			
2	MINOR COUNTY COLLECTORS (Most roads leading to the County and State Collectors)			
3	OTHER COUNTY ROADS (Secondary roads that are like township roads)			

	MAINTENANCE COSTS and FREQUENCY	COST		FREQUENCY			MILES OF NEED NEXT 3 YEARS
5	ASPHALT OVERLAY (1-1/2" or less will be considered maintenance)		per mile	every		years	
6	ASPHALT CHIP SEAL (Include oil, chips, equipment and labor to complete)		per mile	every		years	
7	ASPHALT REPAIR (include cold mix, patching and crack sealing)		per mile	every		years	
8	BLADING GRAVEL ROADS (Include equipment, labor, fuel and repairs)		per mile			per month	
9	GRAVEL SURFACING REPAIRS (spot graveling, 2" lift or less for maintenance)		per mile	every		years	
10	GRAVEL CRUSHING (Include equipment, fuel, labor, testing and royalty)		per ton/CY	<-Circle ton or CY			
11	GRAVEL HAULING AND LAYING (Based on average haul miles in County)						
	(Include loading, hauling, laying and all other costs)		per ton/CY	<-Circle ton or CY			

	RECONSTRUCTION COSTS and FREQUENCY	COST		FREQUENCY			MILES OF NEED NEXT 3 YEARS
12	MINE AND BLEND REHAB. (Includes Milling, 0" to 2" Graveling, and Chip Seal)		per mile	every		years	
13	ASPHALT SURFACE TREATMENT (Includes 3"or Thicker Graveling and Chip Seal)		per mile	every		years	
14	ASPHALT OVERLAY (Includes milling and 2" to 3" overlay)		per mile	every		years	
15	NEW HOT BIT. PAVING (Includes 3" to 5" for new pavement)(Specify thickness in notes)		per mile	every		years	
16	GRAVEL RESURFACING (3" to 4")(Based on average haul miles in County)						
	(Include loading, hauling, laying and all other costs)		per mile	every		years	
17	NEW GRAVEL SURFACING (4" to 6" -Specify)(Based on average haul miles in County)						
			per mile	every		years	
18	ROAD RECONSTRUCTION(Needed to improve safety/widening to accommodate surfacing)						
	(Cost for Dirt Work, Culverts, Erosion Control, etc., do not include surfacing)		per mile				

NON-IMPACTED COUNTY COST SURVEY

Item No.	COUNTY ROAD INVENTORY	TOTAL MILES ASPHALT	TOTAL MILES GRAVEL
1	COUNTY COLLECTORS (Federal Aid and others that serve as major collectors)		
2	MINOR COUNTY COLLECTORS (Most roads leading to the County and State Collectors)		
3	OTHER COUNTY ROADS (Secondary roads that are like township roads)		

COUNTY

	MAINTENANCE COSTS and FREQUENCY	COST		FREQUENCY			MILES OF NEED NEXT 3 YEARS
5	ASPHALT OVERLAY (1-1/2" or less will be considered maintenance)		per mile	every		years	
6	ASPHALT CHIP SEAL (Include oil, chips, equipment and labor to complete)		per mile	every		years	
7	ASPHALT REPAIR (include cold mix, patching and crack sealing)		per mile	every		years	
8	BLADING GRAVEL ROADS (Include equipment, labor, fuel and repairs)		per mile			per month	
9	GRAVEL SURFACING REPAIRS (spot graveling, 2" lift or less for maintenance)		per mile	every		years	
10	GRAVEL CRUSHING (Include equipment, fuel, labor, testing and royalty)		per ton/CY	<-Circle ton or CY			
11	GRAVEL HAULING AND LAYING (Based on average haul miles in County)						
	(Include loading, hauling, laying and all other costs)		per ton/CY	<-Circle ton or CY			

	RECONSTRUCTION COSTS and FREQUENCY	COST		FREQUENCY			MILES OF NEED NEXT 3 YEARS
12	MINE AND BLEND REHAB. (Includes Milling, 0" to 2" Graveling, and Chip Seal)		per mile	every		years	
13	ASPHALT SURFACE TREATMENT (Includes 3"or Thicker Graveling and Chip Seal)		per mile	every		years	
14	ASPHALT OVERLAY (Includes milling and 2" to 3" overlay)		per mile	every		years	
15	NEW HOT BIT. PAVING (Includes 3" to 5" for new pavement)(Specify thickness in notes)		per mile	every		years	
16	GRAVEL RESURFACING (3" to 4")(Based on average haul miles in County)						
	(Include loading, hauling, laying and all other costs)		per mile	every		years	
17	NEW GRAVEL SURFACING (4" to 6" -Specify)(Based on average haul miles in County)						
	(Include loading, hauling, laying and all other costs)		per mile	every		years	
18	ROAD RECONSTRUCTION(Needed to improve safety/widening to accommodate surfacing)						
	(Cost for Dirt Work, Culverts, Erosion Control, etc., do not include surfacing)		per mile				

3

North Dakota Association of Oil & Gas Producing Counties

Senate Bill 2013

January 9, 2009

Senate Appropriations Committee, Honorable Ray Holmberg, Chairman

TESTIMONY

Good morning, Mr. Chairman Holmberg and members of the Senate Appropriations Committee. My name is Vicky Steiner. I am the Executive Director for the North Dakota Association of Oil and Gas Producing Counties. I've lived in Dickinson for the past 30 years. I've worked for the association since 1986.This bill contains both impact funding and county dollars. The Governor's plan added $24 million new dollars to the system. We support taking the caps off the formula which increases the amount from this bill.

The 5% oil and gas gross production tax is a complicated formula. I have a picture of it that Senator Wardner drew to help explain it. The tax is unusual because it's "in lieu of" of property tax for the county. The state collects the tax and in 2008, 80% of the tax revenue stayed with the state. The counties may not tax the oil wells, the pads, the

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millions of dollars of oil production equipment on the pads. Of the $1.2 billion in tax revenues generated this last biennium, $1.2 billion, about $800 million is from the oil activity in 17 counties. Some of those counties are hitting cap levels that were set in 1983. It might have made sense in 1981 to establish a cap. However, from 1953-1980, there were no caps on the formula. But even by 1983, it wasn't working because the '83 legislature adjusted the caps upward from the 81 session. Bowman County bumped it and this issue was discussed last session and during the interim.

You recognized the issue of capping counties last session and we thank you for the $1 million a year increase that was given to the capped counties. You may remember there was a 10 mill road levy requirement attached. You also addressed the internal part of the 5% gross production tax formula with a 25% increase to 13 smaller counties. That meant another $250,000 for the smaller counties and they had not seen an adjustment in that formula since 1981. This committee in March of last session asked that the oil counties wait for the second year of the biennium for that funding to begin. And we did. We started the new adjustment on the second year. SB 2013 contains another million a year for 5 capped counties or $2 million for

the biennium per county. The boom counties won't be able to take care of their long term infrastructure with $2 million dollars.

We have recently produced a short video on oil impact and community concerns- it's about 5 minutes long. We mailed a copy to your home this week but we also put it up on YouTube on the Internet. You may find it by searching ND Oil Impact or you can go to this address

The counties have a documented $45 million a year in damage and cost. NDSU did a study for us for our interim committee hearings and this study I'm providing to you is part of the Interim Taxation committee record from the July 2 hearing. That committee eventually passed a bill to remove the caps which you may also see later this session. The study shows that in January 2008, the 16 oil and gas producing counties documented a range of increased costs from $36.9 million to $45.2 million a year or $90.4 million a biennium. Taking both caps off today yields about $65 million. We're still short even if we take the caps off.

Where are the caps? They sit at the bottom of the formula. The caps are numbers last set in 1983 and they were based on population. The

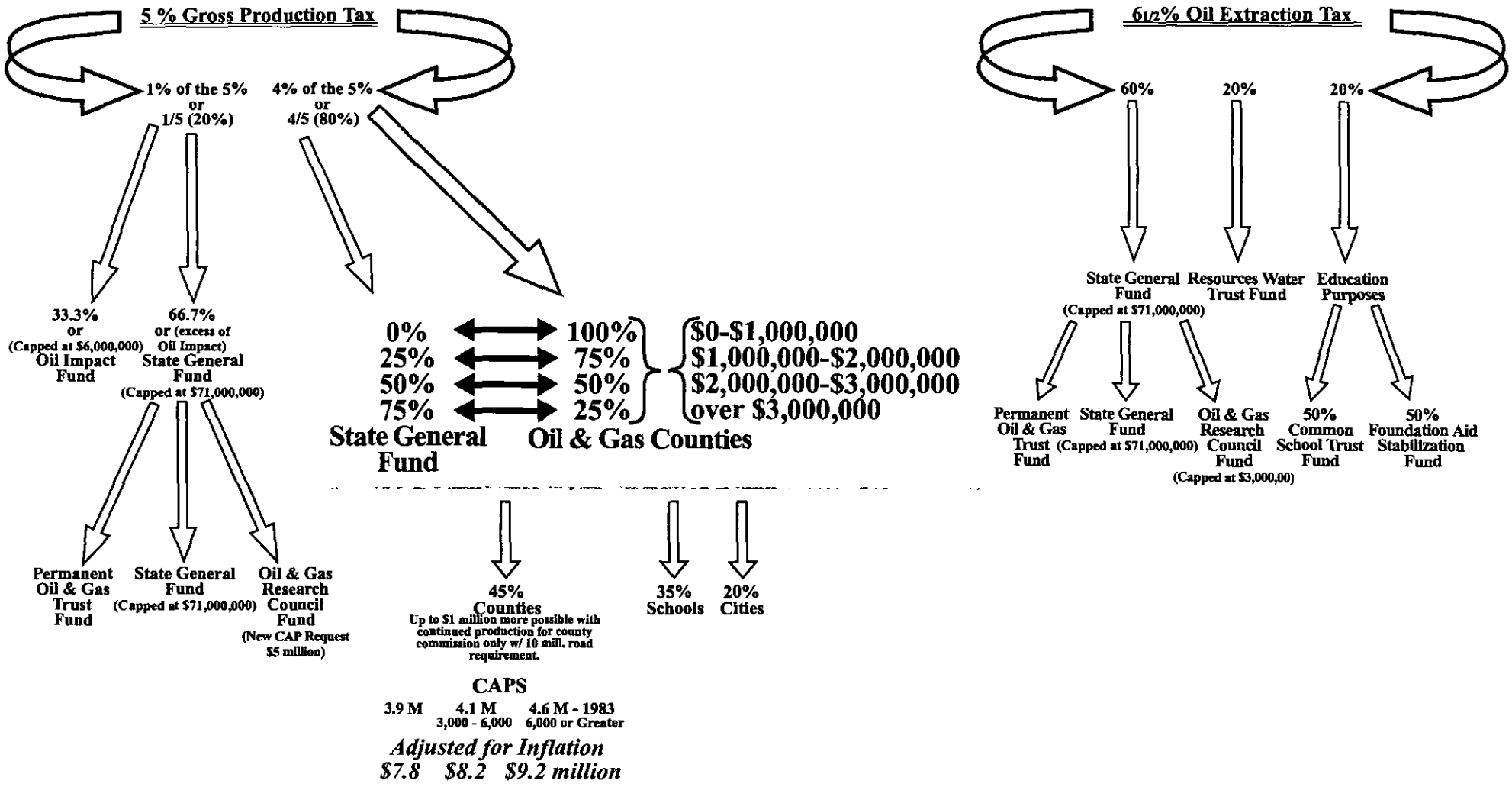
5% oil tax was designed so that the county impacts would be addressed by these larger percentages. By taking 100% at the bottom, and seeing that the oil counties can demonstrate $90 million in needs, the intent of the 5% tax as passed in 1953 has not been met in at least the last two legislative sessions. You have counties strapped to fix the damages and some of them are going backward at a time when the state has record surplus.

Basically, small counties are capped at $3.9 million with 0-3,000 people. A medium sized county, like Dunn County, in the range of 3,000 to 6,000, is capped at $4.1 million. The larger county, like Mountrail County, is capped at $4.6 million. If you left the caps in place and just adjusted for inflation from 1983 dollars to present day, the new caps would be $7.8, $8.2 and $9.2 million. We find this unreasonable for the state to set a cap and then continue taking 100% from a county when it's obvious that a county that hits a cap must have significant oil activity. Even after exploration, you have production and work over rigs. Oil activity in the Mountrail Bakken oil fields will last 30 years.

The state needs to make sure that the infrastructure is adequately maintained for those investments. We support removal of the caps.

The fiscal note is a reasonable state investment. With the cap removal, the state continues to receive 75% at that funding level. Thank you for time and attention. I would be happy to answer questions.

Oil Taxes
2009



Title Summaries:

Oil Impact Fund = Such fund via grant application assists local political subdivisions in dealing with issues arising from oil and energy development and/or activities.
State General Fund = Such fund assists with projects and programs (educational, DOT, governmental, human services, aricultural, etc) across the entire state of ND.
Oil & Gas Counties - Counties = Such fund assists counties impacted by the production of oil and gas. Entitlement is based on a percentage and popultation basis.
Oil & Gas Counties - Schools = Such fund assists counties impacted by the production of oil and gas. Entitlement is based on a percentage and census basis.
Oil & Gas Counties - Cities = Such fundassists counties impacted by the production of oil and gas. Entitlement is based on a percentage and population basis.
Resources Water Trust Fund = Such fund assists with construction of water-related projects, including rural water systems and programs for energy conservation.
Education Purposes - Common School Trust Fund = Proceeds are deposited with DPI and interest from such fund is distributed to schools via tuition appointment payments.
Education Purposes - Foundation Aid Stabilization Fund = Interest monies transferred to state general fund. Principle balance may be used for revenue shortage to state general fund.
Permanent Oil & Gas Fund = Such fund assists with projects and programs (educational, DOT, governmental, human services, agricultural, etc) across the entire state of ND.
Oil & Gas Research Council Fund = Such fund assists to accumulate and dissemate information concerning the petroleum industry to foster the best interests of the public and industry.
45% counties= To receive additional $1 million funding over 2007 caps of $3.9, 4.1 and 4.6 million, counties must levy at least 10 mills for county roads. Cap levels are set by population.

North Dakota Association of Oil & Gas Producing Counties

Testimony SB 2013

House Government Operations Division Committee

Jeff Delzer, Chairman

Friday, February 27, 2009 9:15 AM

Vicky Steiner, Executive Director

ND Association of Oil and Gas Producing Counties

- The Association contracted with NDSU in January 2008 for an independent assessment of impacts and the research scientists found $45 million a year in damages- roads, increased county costs
- DOT documented a significant increase and different types of industrial, heavy truck traffic in the oil industry because of the Bakken oil development- sand and water needs to be trucked to each site
- Impact funding fills in the gaps in the 5% production tax- like Mercer County, one well, starting to see road impacts, no significant production revenues when the first wells are being developed
- SB 2013 increases the cap from $6 million to $9.7 million. That's $3.8 million new money. We support this increase.
- **Please amend SB 2013 to also include $5 million one-time infusion into the impact fund with an emergency clause** as passed last week unanimously by the House in HB 1225.
- Supporting testimony is included in this packet.

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Dunn County Fast Facts

County Taxable Valuation 2008 (2009 Budget based on this Valuation) ---$13,573,191
County Wide Mill Levy 2008 (Taxes payable 2009) ----------101.61 Mills

Road and Bridge Mills 2008 (Available for 2009 Budget) ----------39.19 Mills
Property Taxes for roads 2009 ----------$ 502,000
Other Revenue for Roads 2009 (Estimated) ----------$ 748,432
5% Gross Production Tax 2009 (Estimated) ----------$ 2,845,000
Total Available for 2009 Roads ----------$4,095,432

Road and Bridge Budget for 2007 ----------$2,000,000
Expenditures for 2007 ----------$2,280,890
Road and Bridge Budget for 2008 ----------$2,500,000
Expenditures for 2008----------$3,881,750

5% Gross Production Tax County Share 2008 ----------$ 2,815,086
Other Road and Bridge Revenue for 2008 ----------$ 1,409,256
Taxes for Roads (2007 pd in 2008) ----------$ 323,268
Total Revenues for roads (Using all of the 5% production Tax--$ 4,547,610

2008 Ending Balance in Road Funds----------$ 665,860

Road and Bridge Budget for 2009 ----------$3,600.000

Road Materials used per year (Gravel/Scoria) ----------200,000 yards
Road materials prices have tripled since 2004 (Pre-Boom)
Cost for royalties and crushing 300,000 yard @$4.64 ----------$1,392,000

Cost of road material royalties (Gravel/Scoria) 2005 ----------$.65/CY
Cost of road material royalties (Gravel/Scoria) 2007 ----------$1.00/CY
Cost of road material royalties (Gravel/Scoria) 2008 ----------$2.00/CY

Other costs related to the Oil Impact:
Additional Sheriff's Deputy Hired ----------$83,000
(Salary, Benefits, Fixed Costs, Vehicle, Uniforms, Vehicle Maintenance)

Additional Road Employees: Five part time and three full time:-----$169,776

Additional Administrative Staffing - Auditors Office, Recorders Office
(Three full time, two Part time) ----------$ 87,280

Energy Impacts Identified in March of 2008 ----------$4,250,000

Energy Impacts Funded in June of 2008 ----------$ 400,000
Impacts Identified since March of 2008 ----------$7,350,000

Total rebuild of 20 Miles Federal Aid Roads - heavily impacted oil roads - back to Federal Aid Standards at $200,000 per Mile ---------- $4,000,000

100 miles of dust control @ $6,000 per mile ---------- $ 600,000

150 miles of roads need to have the shoulders pulled and resurfaced
At $15,000 per mile ----------$2,250,000

Courthouse needs to add space for sheriff department and
Record retention/storage ----------$ 500,000

Dunn County's Road Budget needs to be doubled to begin to play catch up with the impacts. This cannot be done since the funding is not available.

Prepared by:
Reinhard Hauck
Dunn County Auditor, Manning ND
701-573-4448

COUNTY OF BOWMAN
BOARD OF COUNTY COMMISSIONERS
Post Office Box 439 Bowman, ND 58623
104 First Street NW 701-523-3130

The Bowman County Commission would like to thank you for this opportunity to provide some information as to the importance of oil and gas production taxes to Bowman County, especially the past few years.

The demands on Bowman County have remained the same from drilling to production. The difficulties are still with Bowman County.

The demands at the Auditor's Office have increased with the invoice processing with accounts payable system from the Social Services Dept., Sheriff's Dept, and Road Dept.

With the production of oil and gas comes transportation and storage of the products. The hazard that comes with production requires additional training and equipment for our local emergency responders.

The Bowman County Social Services has seen an increase of 8-10% in the last 10 years and remains steady. With the initial oil activity most workers did not bring their families to Bowman County. Now that we are in a production phase more families have moved to the area to make Bowman County their home, causing increase use of their programs.

The court system for the county has stayed the same with their case loads, averaging 120 to 140 cases filed with the Clerk of Court. The number of recordings in the records office has remained steady. In 1995 was high of 4,919 to an average of 1500 yearly from 1999 to 2008.

The number of deputies has risen from 1987-1994 with a sheriff and one part-time deputy to the present sheriff, two full-time deputies and one part-time deputy. The criminal and civil case load has gone from 156 cases in 1995 to 258 cases in 2008. The number of execution of judgments prior to 1995 was approximately 6 to a high of 24 in 2004 and present at 17 executions of judgments. Bowman County has seen a large increase in the housing of prisoners at the Southwest Multi-Correction Center. In the past housing expenses averaged 300-400 dollars a month to a present cost of 3,000-4,000 dollars a month to house prisoners. The sheriff's office has not slowed down from drilling to production phase. Number of civil process, criminal process, crime, and the need for additional patrolling has steadily increased.

As for roads in Bowman County, we are seeing the need to resurface roads that were new 5 to 6 years ago. The county is running out of local gravel to continue to rebuild roads heavy enough to handle the heavy loads that are traveling on the roads. This shortage of

gravel increases the cost of repairing and building of roads. The overload permits have remained steady with an average of 150 permits issued a month. Which does not include oil, water, gravel and scoria loads. The oil companies are now blending the oil from the Bakken formation with the oil in Bowman County. With this phase of production we are seeing trucks coming into Bowman County loaded and leaving the county loaded.
As a result of the needs of permanent employees who work at or on these facilities or sites continue to impact the communities. The needs for housing, daycare, healthcare, schools, recreation, culture, roads are still placing demands on the county and communities of Bowman County.

The legislation is needed to maintain and provide additional needs for the residents of Bowman County. Your support is urgently needed.

Thank you for your time and favorable consideration.

Lynn Brackel, Commissioner
Bowman County Commission
lbrackel@ndsupernet.com

Testimony to the
SENATE APPROPRIATIONS COMMITTEE
Prepared January 7th, 2009 by the Mountrail County Sheriff's Office
Ken G. Halvorson, Mountrail County Sheriff

CONCERNING SENATE BILL 2013

Chairman Holmberg and members of the Committee, I am here today to testify on behalf of the Mountrail County Sheriff's Department who is in support of removing the cap on the Oil and Gas Extraction Tax.

Mountrail County was established in 1909, making this year its 100 year anniversary. Mountrail County consists of 55 townships, 1,933 square miles and approximately 1,800 miles of established roads which are maintained by the State, County and Townships. Every new oil well that is drilled is causing an increase in the miles of roadway within our county. I have been with the Mountrail County Sheriff's Office for approximately 35 years, the last 31 of which I have served as the County's Sheriff. During that time, never have I seen such an increase in activity within the county as I have in the last 2 years. This increase is due to the production of oil.

With this dramatic increase in oil activity, the Mountrail County Sheriff's Office has seen a dramatic increase in workload. The activity is occurring in every corner of Mountrail County. Roads that were used in the past only once or twice a week by the locals, are now thoroughfares for the oil traffic. These roads were built for single axel trucks and cars, not the 10 or 12 axel units that are now using them. Road conditions contribute to our workload because bad or narrow roads lead to more crashes. I did add two new deputies in 2008 to help with the increased work load. But considering the dramatic increase in the amount of traffic our county has seen, I really need an additional two or three more patrol deputies working during the day shift. Normally, the day shift is not as busy as the night shift, but with hundreds of trucks and thousands of workers coming into Mountrail County everyday, this has changed. These new problems are added to the workload that we perform every day, which itself has also increased. With more people, there is more crime. In 2008, my officers issued 1,351 citations. Compare this to the 303 citations that were issued in 2007, and you have over a 400% increase. In 2008, my department investigated 164 traffic crashes, compared to 132 in 2007, and 92 in 2006. 29 of these crashes were directly related to oil field activity. In 2008, there were 5 oil field related fatalities in Mountrail County. One death occurred on a drilling rig. The other four were oilfield related traffic crashes.

All of this activity has a cost attached to it. More officers, mean more salaries that need to be paid (and better salaries to compete with the high oilfield wages), more uniforms, more equipment, more gasoline for patrol, etc. In 2006 my budget was $647,673.00, in 2007 it was 869,072.00 and my budget for 2008 was $1,015,596.00. In a three year period, my budget has gone up by nearly 40%.

Mr. Chairman, and members of the committee, the increase in oil production is a boom for all of North Dakota and this money will benefit all of the State. I am asking that you remove the oil extraction tax cap so the county can better serve its citizens and deal with the increased expenditures that the oil production has caused. Thank you.

11

Testimony
Mountrail County
Greg Boschee, Mountrail County Commissioner

January 9, 2009 SB 2013

In support of lifting 5% Gross Production oil tax county caps

Here are just a couple of Mountrail County Facts:
Immediate Need

1. Belden & Palermo pavement (that has been turned back to gravel) - $4 million
2. About 50 more miles of pavement that are in need of overlay or they will have to be turned into gravel just like the Belden & Palermo roads - $15 million

Our cap money doesn't even take care of these two issues.

Mountrail County has another 50 miles of pavement, 265 miles of gravel, & 1022 miles of township roads to maintain

Our road budget has increased from just over $1 million to $5.5 million in 2 years due to oil activity & we are losing ground fast! We're limited to $5.5 million, because that is all the money we have coming in. We've already taxed our people an extra 10 mills. We do not believe the state of ND should enjoy a huge budget surplus at the expense of the citizens of Mountrail County (& other oil producing counties).

The impact on the county is NOT just roads, it affects all of the county offices - in areas of extra personnel, overtime, building maintenance, utility costs, extra vehicles, heavy equipment, etc.

We are not asking for the whole pie, we are only asking for a small portion of the funds that Mountrail County (& other oil producing counties) is contributing to the state surplus. We are asking to have the caps removed.

I had some concerned people ready to travel to Bismarck for this hearing, but it looks like the winter storm put a stop to that. Hopefully next time we will be able to visit in person.

9

Bill No: 2013
Hearing: Senate Appropriations Committee
Date: January 9, 2009

Honorable Chairman Senator Holmberg and Appropriations Committee,

I wish to express first my appreciation to the Chairman and Committee for reviewing this bill, and also my appreciation for allowing my written testimony to be submitted. I regret not being in attendance today for this important bill hearing, but I am currently in Fargo on duty for the North Dakota National Guard and could not be in Bismarck today.

Bill Number 2013 is an important piece of legislation, not only for the public in the 17 Oil and Gas Producing Counties, but for the State of North Dakota as a whole. We have seen first hand the volatility of this industry and the violent cycles it can rapidly undergo by the WTC price of oil in the year 2008 having a high price of $147.00 and a low price of $33.00. Fortunately, we still have a viable industry working to develop this resource for the benefit of our Nation, State, and residents. But we have seen in the past how that can change as well, as this industry is very sensitive to price, regulation, taxation, and ultimately its return on investment. I don't think any of us in private business would feel any different on these issues.

I think you will hear other testimony today about the historical level of impact requests, the type of impacts requests submitted and the amount of requests granted on a year to year basis. This history is important to understanding that the level of funding available has never been enough to cover the impacts seen locally by this development, as well as the impacts left by the industries' absence when the economics to development are removed. This is the nature of our boom and bust cycles, and we have seen several before the initiation of this current cycle.

I think there are three things to seriously consider relative to the philosophy of this legislation.

First, the 1953 ND Legislative Session removed the ability of the Counties producing oil and gas to levy property tax on the industry to pay for the required infrastructure development that is necessary to produce the natural resource. With this Legislation, the state also agreed to pay the Counties a "tax in lieu of" payment from a State levied 5 % Gross Production Tax to compensate for the loss of local tax revenue to provide the infrastructure required by the industry and to pay for the negative impacts of its development. I would submit here that the amount of funding to the Counties has never been sufficient to fully cover the expenses of this industry's impacts. A large proportion of those impacts have been a burden to the local taxpayers, and the state has been the major beneficiary of the revenue stream with no direct responsibility to the local impact burdens. With the State removing the ability for the impacted Counties to tax the development, I think they have also assumed the entire financial burden for its impacts.

Second, it is important to note that of the six programs funded from the 5% Gross Production Tax, three are state-wide funded programs, two are programs to fund the impacts to the local producing Counties, and one is a program to benefit industry research to promote development

of the resource. The three state-wide funding programs are the State Water Resources Trust Fund, the Common Schools Trust Fund, and the State Aid Stabilization Fund. These programs have never had caps in place to limit the amount of revenue they collect. Their revenues continue to increase with the income stream to the State from the tax. The two programs to pay the Counties, the "tax in lieu of" payments and the impact fund, have had a cap imposed upon them, so that even though the impacts increase with development pressures, the amount of money the Counties receive has a maximum limit. Please remember that our impacts do not "cap" appropriately as the revenue does. The burden of cost at that point has always and still does pass directly to our local tax base, not the State of North Dakota.

Third, this industry is very cyclical by nature, and is prone to rapid expansion and rapid downturns. The expansion phases require reaction by our Counties, local communities, and school districts to cope with the influx of workers, families, and equipment. These impacts to our road systems are enormous and costly. Mountrail County recently destroyed a paved road worth over $8 million to return it to gravel, as the industry had damaged the road to the point where Mountrail County did not have the funds to repair and rebuild to the standards necessary to take the impacts of this industry. They have now lost an improved surface road that was adequate for its farm to market loads due to lack of impact funding. This is just one example, small in that it is one of many, but large to the residents of Mountrail County. Accordingly, the impacts that remain from attempting to develop local infrastructure to house the workforce necessary during these expansion cycles have become the burden of the local taxpayers as well. The City of Williston, after the last boom/bust cycle of the late 1970's and the early 1980's, was left with a special assessment cost to land development of almost $30 million. While we did receive some Energy Impact Grants to help pay for this debt, the majority of the debt burden fell to our local taxpayers, at one point amounting to almost 40% of our annual city budget expenditures. The local citizens passed a 1% city sales tax to pay this debt, again paying the cost of development with local revenue. While it could be said that the local elected officials should have never allowed the special assessment burden to grow that large, there was also tremendous pressure from the State of North Dakota to provide the infrastructure to not hinder the development of the resource, and the revenue stream it provided to the State.

I bring these three issues to your attention to promote the fact that it would be more appropriate to remove the caps on impact funding completely, instead of just increasing the funding with a cap still in place. I acknowledge that there will be times of high production and high prices where some counties receive a large amount of revenue with the caps removed, but this provides a fair source of funds for the immediate impacts, as well as the ability to reserve some funds to deal with the ongoing impacts of production after the development phase of the drilling and the negative impacts left after any "bust" cycle developments. It is important to note as well that the State of North Dakota does not impose any caps on their revenue from the industry, as they do on the impacted Counties now.

I did not mean to be this lengthy in my testimony, but felt that what I have conveyed here from a local and state perspective is important for your consideration and deliberations. While I support removing all caps currently in place, I recognize this hearing relates to a bill to increase funding to the Energy Impact Fund and the current caps, and will close with that in mind.

Senate Bill 2013, as proposed in the Governor's 2009-2011 Budget, would increase grant funding for the Oil Impact Office from $6 Million per biennium to $20 Million per biennium. It also requests an increase in the caps for the Counties share of the production tax by $1 Million. As Past President of the ND Association of Oil and Gas Producing Counties and Finance Commissioner for the City of Williston, I welcome this initiative to provide more assistance. I support Senate Bill 2013 and request the Committee also support a DO PASS recommendation to the bill for its further consideration. This issue of revenue distribution is a laborious and difficult task that is placed before you. I have enormous trust and respect in this system and your deliberations and I want you to know that I appreciate your service and dedication to the State of North Dakota and its citizens. Thank you for accepting my testimony today.

Brad Bekkedahl
Williston City Finance Commissioner
Past President, ND Association of Oil and Gas Producing Counties

701-570-1879

Mr. Chairman and committee members;

I offer my support for continued funding of the Energy Impact Office in Senate Bill 2013; but with two possible changes.

First, We would much prefer a formula based funding mechanism that allows much more funds when the impacts are greater versus a fixed dollar amount. There is NO cap on the impacts the communities and counties face with the energy development. Please consider taking the cap off and allowing the funding to increase dramatically when the state is taking in substantially more money.

Second, we hope the state is willing to step up and make the investments necessary with some of the money the state is taking in versus the city/counties providing the capital investments on needed infrastructure. Williston as an example during the early 80's financed the developments to provide areas for people to live by funding infrastructure development with specials. When the extended downturn happened Williston was left with millions that the city paid for with a deficiency levy and later with sales tax money along with some energy impact funding. I believe Williston is committed to NOT make the same mistakes during this increase in oil activity. We prefer the state take some of the oil money and reserve it for infrastructure development with loans to the developers. This allows the state to take the risk in providing housing for the needed workers in the oil field. Along with this we prefer the state through maybe the Bank of North Dakota provides continued funding for some of the housing development itself. We have seen the banks unwilling to take the risk in oil country on apartment development and require much more upfront investments than in non-oil areas. We hope the state will be willing to use some of the oil reserves and or revenues to provide the financing of the needed housing for oil workers.

I would be happy to answer any questions you may have.

John Kautzman

Williston Auditor

LEGISLATIVE PRESENTAION
February 27, 2009 - Medora Room

Committee Members, Staff, and Guests

The City of Killdeer sees the oil impact on our community along with Dunn County. The increase in traffic has significantly increased, with most of the traffic being truck traffic it wears on city streets and county roads. In 2008 the city chip sealed our city streets with the hope that they will last the usual ten years, however, with the increase in traffic on many streets there is going to be some streets that are going to need to be re-done much sooner.

Another area that we see an impact on is the fire department and ambulance service. There are many more calls for each with more people working in the oil industry. The city is looking at purchasing a larger water tower so that we can store more water in case of emergencies, especially with the increase in the possibility of oil related fires where a substantial and reliable water source is critical.

With the increase in population and activity in this area, we have had a considerable increase in refuse. We will find it necessary to replace equipment sooner than anticipated as we have expanded our services due to the demand of the energy industry.

The businesses in the City of Killdeer have seen the other side of the impact, which is the increase in revenue and customers within their businesses. If this bill is passed it would help the business owners and property owners within the City of Killdeer and Dunn County from having the burden of assessments from the city or county in regards to replacement of infrastructure due to the oil and gas industry.

Our request is that you support the amendment of SB 2013 to match the HB 1225 version, which would make available the one time $5 million infusion this biennium. Thank you for your time and support we greatly appreciate it.

Best Regards,
Killdeer City Commission

SB 2013

Oil & Gas Development - Road and Bridge Impacts

Jack L. Olson, Assistant Director
Planning & Programming Division
North Dakota of Transportation

State Capitol Building, Harvest Room
10:30 AM Friday
January 9, 2009

NDDOT
North Dakota
Department of Transportation

SB 2013-Senate Appropriations Committee, Friday, January 9, 2008, Harvest Room, State Capitol Building
Oil & Gas Development – Road and Bridge Impacts (Notes)
Jack L. Olson, Assistant Director, Planning & Programming Division, North Dakota Department of Transportation

Slide 1 - In August 2008, North Dakota had 4,193 active oil wells which produced over five and a half million barrels of oil and additional wells are being drilled every day.

Slide 2 - Between 2003 and 2007, 1637 oil wells were drilled in 23 counties.

Slide 3 - Many different pieces of equipment are necessary to bring an oil well into production. Several loads involve oversize and overweight movements. Of the 40 to 50 loads necessary to move a drilling rig, almost half require permits since they exceed legal weights, and 3 out of every 4 loads are also oversized.

Slide 4 - The size and weight of oil related traffic has increased steadily over time. For example, in the early 1990's, work over rigs had gross weights of approximately 90,000 pounds. By 2007, the weight of a work over rig was approaching 110,000 pounds. Initially, many wells are worked over 3 to 4 times a year.

The total number of loads involved with bringing a well into production is dependent on its depth, whether the well is drilled vertically or horizontally, and the efficiency of the company moving the equipment.

Slide 5 – This slide shows a comparison between the number of overweight and over-dimensional permit tallies between 2006 and 2007 in the Williston, Minot and Dickinson NDDOT Districts. About 1/3 of the permit tallies were for travel in more than one district.

We do not know the amount of overweight and over-dimension fees generated in 17 oil producing counties, however statewide in 2007, a little more than 2.1 million dollars of self-issued permits and identification supplements were sold; enough to build about two miles of two-lane highway.

Slide 6 - This slide shows that 95% of all oil and gas development sites are more than a quarter mile from a state highway. Oil and gas development impacts the road systems of all levels of government.

Slide 7 - This slide shows the location of oil and gas wells and other oil related sites in Bowman County. The red lines are the county boundaries, the black lines are state highways and the lighter gray lines are county or township roads. In Bowman County 99.8% of the county's active wells and oil related sites are more than a quarter mile off a state highway.

Slide 8 - This slide shows the method of crude oil transport from wells in Bowman County. The oil from fields shown in red is transported to tank farms or pipeline collection points by truck; the oil from fields shown in green is transported by pipelines; and oil from the fields shown in blue is transported by either truck or pipelines. Similar patterns exist in the other oil producing counties.

Slide 9 - This slide shows the location of all of North Dakota's oil fields and the method of crude oil transportation. It also shows the location of railroad oil loading facilities.

Slide 10 - In December of 2008, there were 386 distinct oilfields in North Dakota. The oil from 328 or 85% of the fields was transported by truck. Oil from 20 or 5% of the fields was transported 100% by pipeline. The oil from the remaining 38 or 10% of the fields was transported by trucks or pipeline.

Oil from 35 percent of the state's wells is transported by pipelines and oil from the remaining 65 percent is trucked.

Slide 11 - The shallow natural gas wells between Bowman and Baker, MT; and the oil wells of the Bakken Formation and those between Stanley, Killdeer and Dickinson generally require stimulation to enhance their production. This is done by fracturing

equipment which injects the gas or oil bearing formation with sand suspended by polymers in freshwater under great amounts of pressure.

To bring an oil well on line in the Bakken Formation requires between 20,000 to 30,000 barrels of water which is the equivalent [illegible] 150 to 230 truckloads, and 1,000,000 to 2,000,000 pounds of sand which is the equivalent of 24 to 48 truckloads. All sand for fracturing is currently transported through Williston.

Slide 12 - In September of 2008, the oil extraction process produced over 5.5 million barrels of oil. Over nine million barrels of saltwater was also produced. Of the total amount of saltwater almost 2.2 million barrels, or 24% of the saltwater, was transported by truck to permitted disposal sites. This is the equivalent of 16,869 truckloads.

Slide 13 - This slide shows the location of salt water disposal sites and associated truck traffic as of September 2008.

Slide 14 - There are 2509 miles, or 33% of all state highways; and 33,729 miles, or 35% of the state's local roads in the 17 oil and gas producing counties. At this time we do not know how many of these road miles are directly impacted by oil and gas development.

Slide 15 - In addition to impacting roads, oil development significantly impacts bridges and other structures. This slide shows that 3% of the structures on state highways and 29% of the structures on county roads in the oil producing counties are either functional obsolete or structurally deficient as of December 2008. The cost of replacing a typical structure averages about $450,000.

Slide 16 - Another cost of maintaining safe roads in oil producing counties occurs at highway/railroad grade crossings. Due to higher volumes of oil-related traffic, energy companies have approached the BNSF Railway seeking the installation of signals at rural crossings.

Currently, it costs about $165,000 to install signals at a highway/rail crossing. NDDOT's current budget allows for between 8 [illegible]d 10 signal upgrades per year. Each signal annually costs the railroad approximately $5,000 to maintain. It costs about [illegible]000 to 48,000 dollars to replace the crossing surfaces on a single track line.

Slide 17 - Between March and September of 2008 the projected annual truck volume associated with oil and gas development increased approximately 11% from 1.6 million truckloads to 1.8 million truckloads.

Slide 18 - Between 1996 and 2006, truck traffic at 20 randomly selected sites in the state's 17 oil producing counties was up 41.3%. We do not know how much of this increase is solely attributable to oil and gas development since growth was also experienced in agriculture and manufacturing. During the same period, truck traffic on all state highways was up 20.2%.

Slide 19 - This slide shows a relative comparison of primary truck transport generated by major segments of our economy. It should be noted that the figures for agriculture and manufacturing are incomplete as noted. These figures also do not include wholesale and retail trade, service industries, the construction sector, or trucks passing through our state.

To give some perspective to the magnitude of these numbers, if the nearly 4 million truckloads were placed end to end they would circle the earth more than two times.

Slide 20 – This slide shows the relative distribution of truck traffic across the state. Truck traffic on the Interstate was purposefully distorted otherwise the relative line widths would have been considerably wider.

NDDOT

County	August 08 Ranking	August 08 (bbls)	Wells	Avg Prod/Well
Mountrail	1	1,553,946	214	7,261
Bowman	2	1,377,637	553	2,491
McKenzie	3	657,620	810	812
Dunn	4	525,240	253	2,076
Williams	5	398,637	434	919
Billings	6	357,856	471	760
Bottineau	7	189,358	506	374
Stark	8	119,952	71	1,689
Burke	9	108,273	351	308
Divide	10	73,049	123	594
Renville	11	66,244	283	234
Golden Valley	12	48,928	68	720
Slope	13	30,684	14	2,192
Ward	14	4,026	16	252
McLean	15	3,487	9	387
McHenry	16	3,271	17	192
Hettinger	17	0	0	0
Totals		5,518,208	4,193	1,316

Year	# of Wells
1951	1
1976	1635
2001	3372
2007	3870
2008	4193+
2009	?

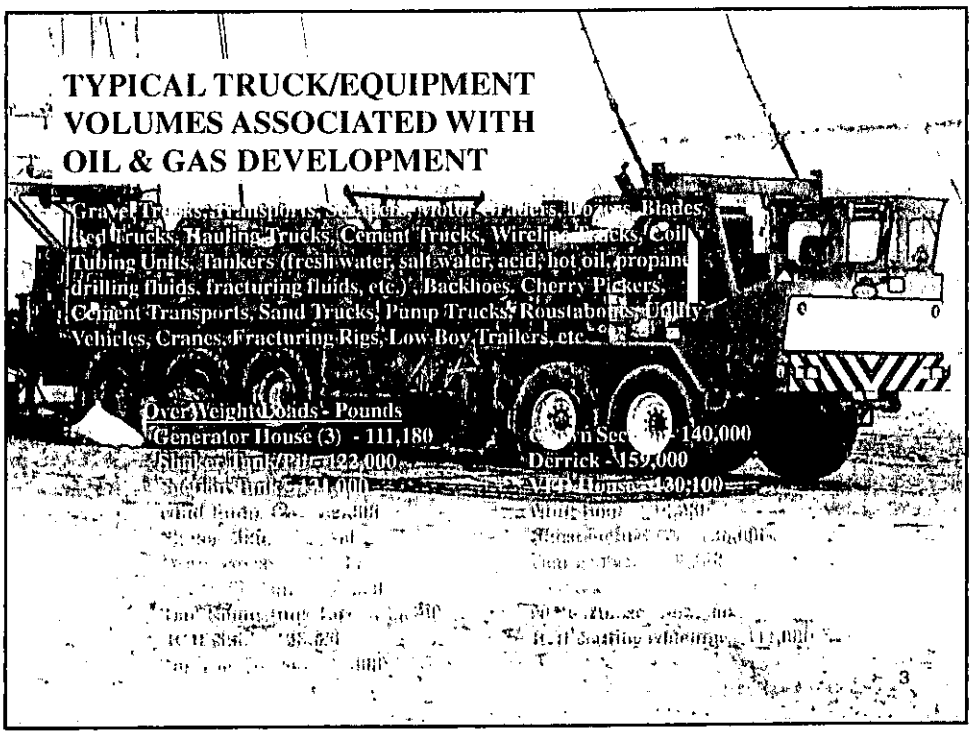
Source: ND Industrial Commission

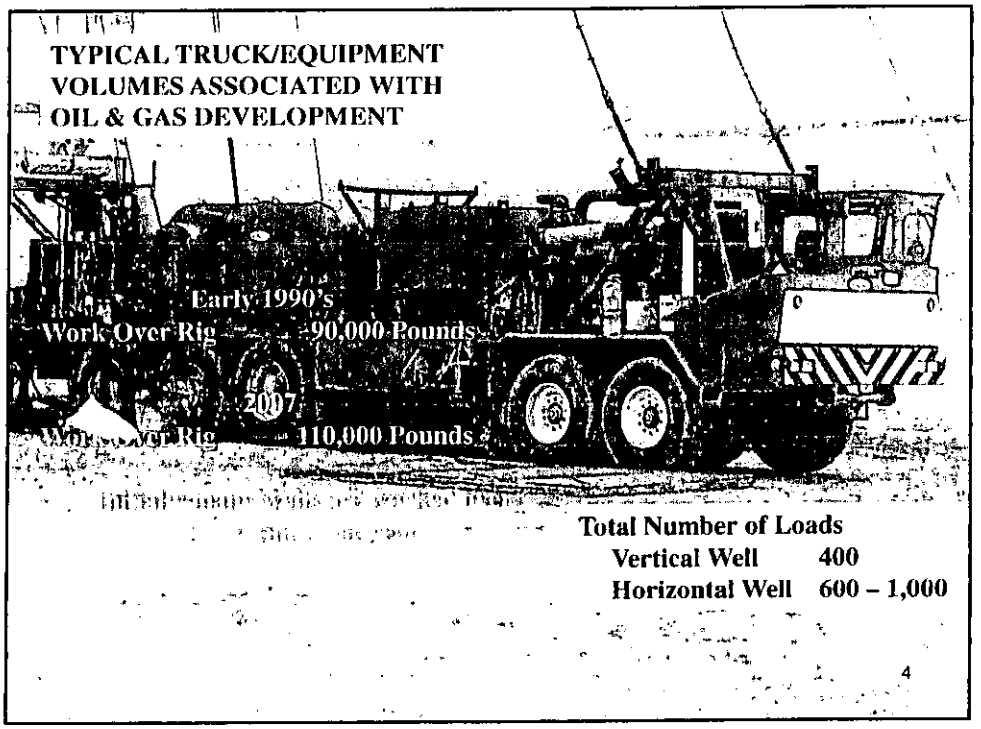
Number of Wells Drilled 2003 - 2007

NDDOT

County	2003	2004	2005	2006	2007	Total
BARNES					1	1
BILLINGS	24	26	40	54	33	177
BOTTINEAU	18	18	15	15	11	77
BOWMAN	133	90	132	112	56	523
BURKE	5	6	15	17	24	67
BURLEIGH				1		1
DIVIDE	4	7	15	14	16	56
DUNN	5	1	5	22	62	95
EMMONS	1			2	1	4
GOLDEN VALLEY	4	8	13	14	5	44
MCHENRY			1			1
MCKENZIE	22	38	50	66	54	230
MCLEAN		1	3		1	5
MORTON		1				1
MOUNTRAIL		2	7	18	60	87
RENVILLE	2	10	8	20	17	57
ROLETTE				1		1
SLOPE			2	2		4
STARK	4	5	6	1	4	20
STUTSMAN				1		1
WARD		4	1	2	2	9
WELLS					1	1
WILLIAMS	19	18	20	57	61	175
Total	241	235	333	419	409	1637

Source: ND Industrial Commission


TYPICAL TRUCK/EQUIPMENT
VOLUMES ASSOCIATED WITH
OIL & GAS DEVELOPMENT
Over Weight Loads - Pounds
Generator House (3) - 111,180
Derrick - 159,000
3

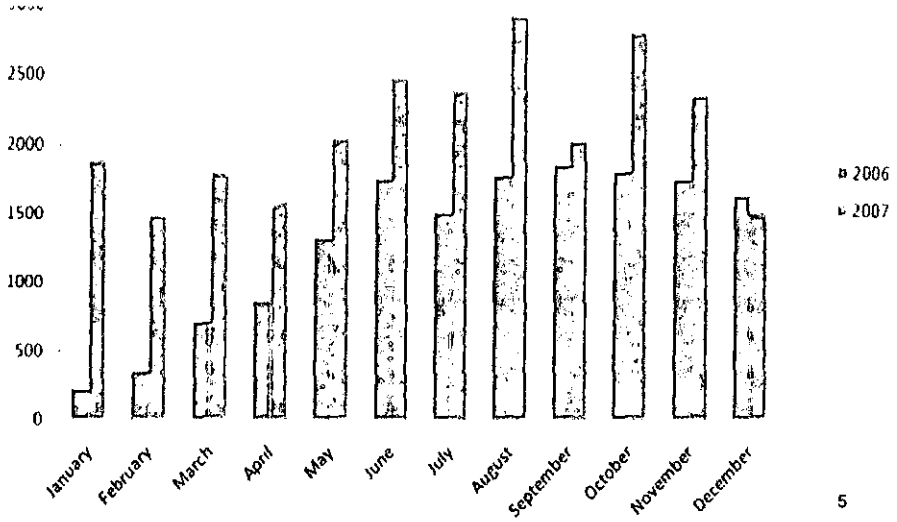

TYPICAL TRUCK/EQUIPMENT
VOLUMES ASSOCIATED WITH
OIL & GAS DEVELOPMENT
Early 1990's
Work Over Rig 90,000 Pounds
2007
110,000 Pounds
Total Number of Loads
Vertical Well 400
Horizontal Well 600 – 1,000
4

O/W & O/D and O/D Only Permits (No WOR) (Williston, Minot, Dickinson Districts) 2006 & 2007

Statewide Over Weight/Over Dimension Fees

2006 $2,043,753 # Permits 33,348

2007 $2,155,835 # Permits 38,792



5

Source: ND Highway Patrol

Oil & Gas Development Sites – August 08

NDDOT

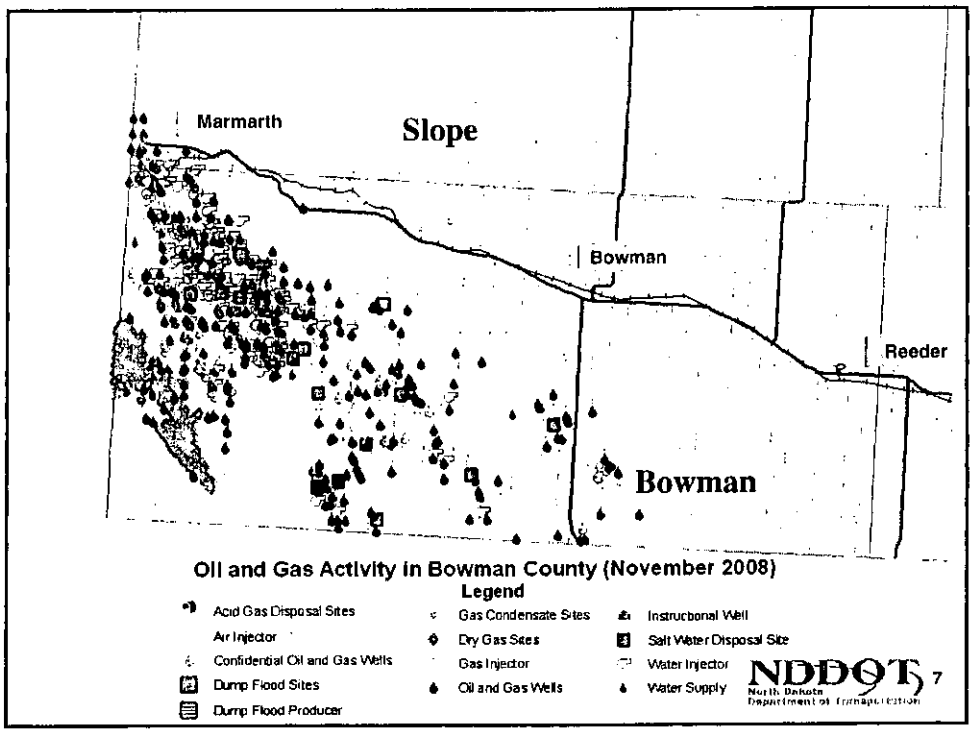
County	# All Sites	More 1/4 Mile State Hwy	% More 1/4 Mile
McKenzie	1030	963	93.50%
Bowman	891	889	99.78%
Bottineau	732	709	96.86%
Billings	585	576	98.46%
Williams	569	521	91.56%
Burke	466	410	87.98%
Mountrail	446	418	93.72%
Dunn	398	378	94.97%
Renville	376	370	98.40%
Divide	162	152	93.83%
Stark	117	99	84.62%
Golden Valley	79	76	96.20%
Ward	37	37	100.00%
Slope	33	29	87.88%
McHenry	25	25	100.00%
McLean	21	21	100.00%
Hettinger	2	2	100.00%
Totals	5969	5675	95.16%

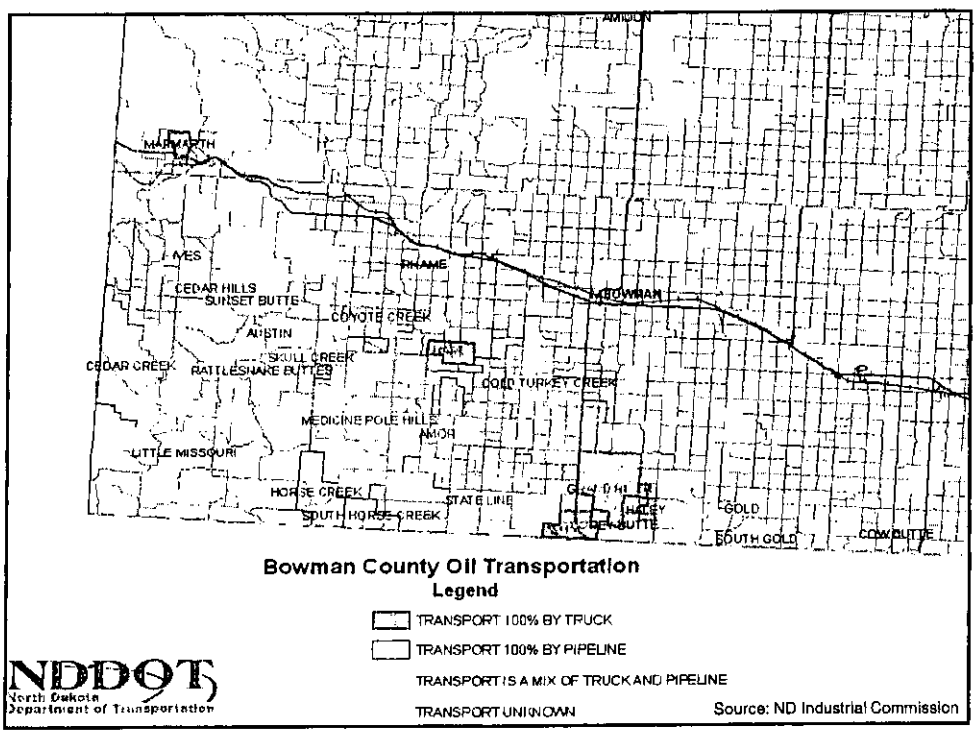
Systems Impacted

- State Highways
- County Roads
- Township Roads
- City Streets
- Tribal Roads

6

Source: ND Industrial Commission

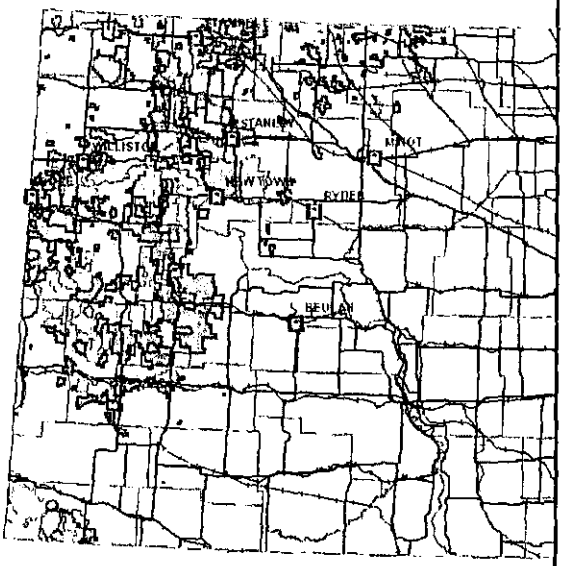

Marmarth
Slope
Bowman
Reeder
Bowman
Oil and Gas Activity in Bowman County (November 2008)
Legend
Acid Gas Disposal Sites
Air Injector
Confidential Oil and Gas Wells
Dump Flood Sites
Dump Flood Producer
Gas Condensate Sites
Dry Gas Sites
Gas Injector
Oil and Gas Wells
Instructional Well
Salt Water Disposal Site
Water Injector
Water Supply
NDDOT
North Dakota Department of Transportation
7


MARMARTH
AMIDON
RHAME
BOWMAN
LEAH
CEDAR HILLS
SUNSET BUTTE
COYOTE CREEK
AUSTIN
SKULL CREEK
CEDAR CREEK
RATTLESNAKE BUTTES
GOLD TURKEY CREEK
MEDICINE POLE HILLS
AMOR
LITTLE MISSOURI
HORSE CREEK
STATE LINE
SOUTH HORSE CREEK
HUCEY
GOLD
SOUTH GOLD
COW BUTTE
Bowman County Oil Transportation
Legend
TRANSPORT 100% BY TRUCK
TRANSPORT 100% BY PIPELINE
TRANSPORT IS A MIX OF TRUCK AND PIPELINE
TRANSPORT UNKNOWN
NDDOT
North Dakota Department of Transportation
Source: ND Industrial Commission

North Dakota Oil Fields and Railroad Oil Loading Facilities – December 2008

Legend

- 100% Trucked
- Mix of Truck and Pipeline
- 100% Pipelined
- Unknown
- In operation
- Planned
- Under evaluation
- Railroad
- County Boundaries
- State Roads



NDDOT
North Dakota
Department of Transportation

North Dakota Oil Fields – August 08

386 oil fields

328 or 85% truck

20 or 5% pipeline

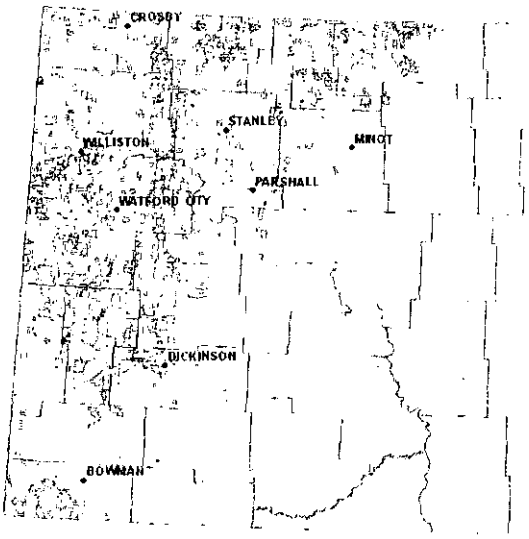
38 or 10% truck/pipeline

Legend

- County Boundaries
- State Roads
- OilFields

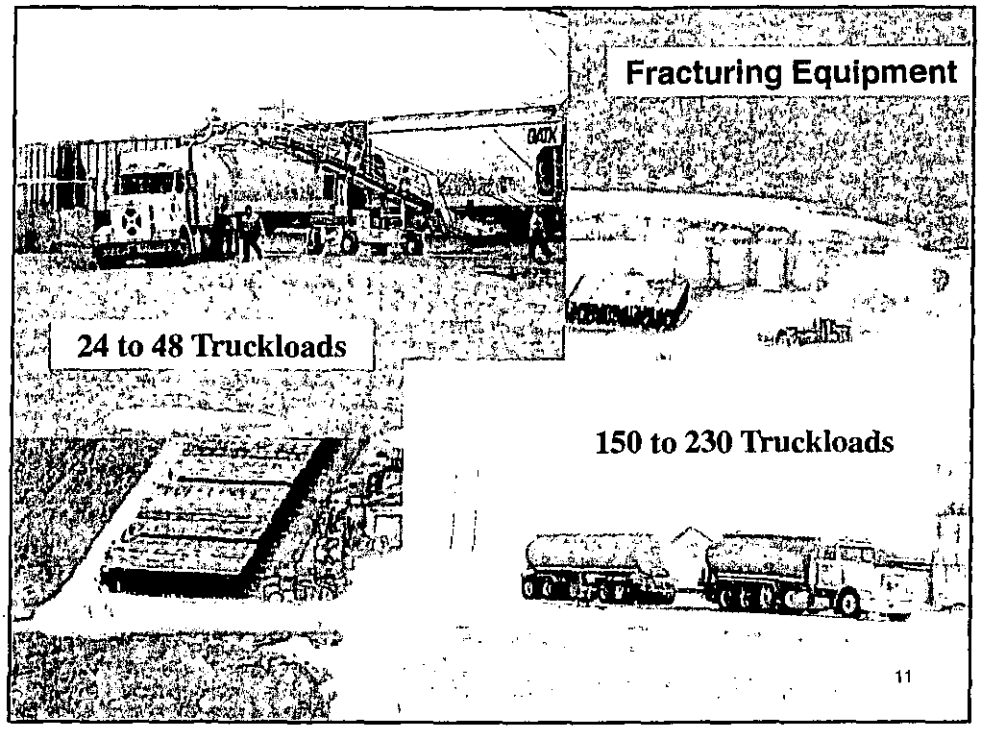
35% of wells pipeline

65% of wells truck



NDDOT
North Dakota
Department of Transportation

10



Salt Water Disposal Sites – Sept 08

5,518,208 barrels of oil

9,180,907 barrels of salt water

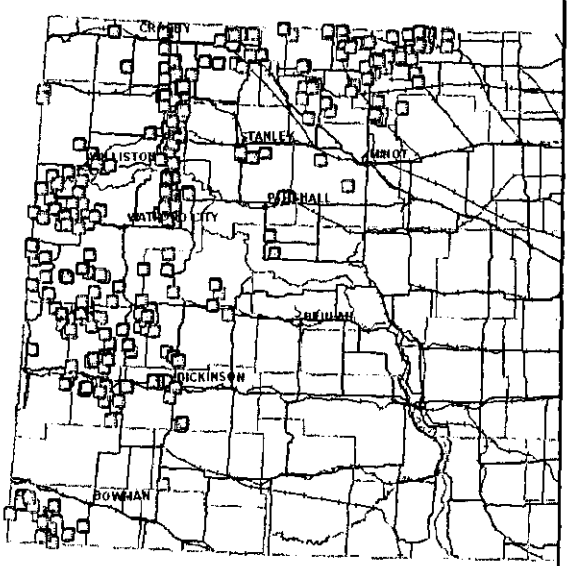
2,192,941 barrels, or

24% by truck

Legend

- 100% by Pipeline
- Mix of Truck and Pipeline
- 100% by Truck

16,869 truckloads

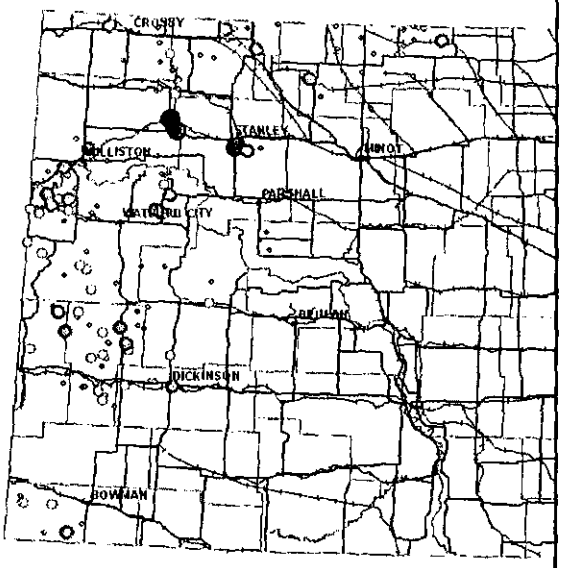


NDDOT
North Dakota
Department of Transportation

12

Source: ND Industrial Commission

Salt Water Disposal Site Truck Traffic for September 2008



Legend

- 1 - 89 Trucks a month
- 90 - 276 Trucks a month
- 277 - 651 Trucks a month
- 652 - 894 Trucks a month
- County Boundaries
- State Roads

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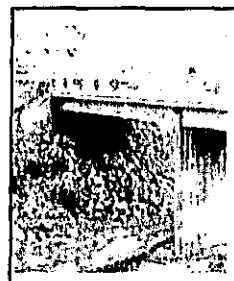
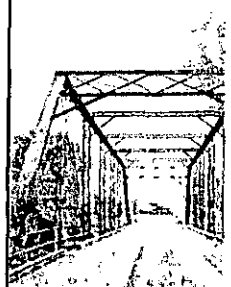
State and Local Road Impacts

	State Highway Miles	Local Road Miles	Federal Lands Road Miles
Billings	48.4	730.4	251.8
Bottineau	173.3	2834.8	8.3
Bowman	79.2	1198.8	0
Burke	126.7	1526.5	21.6
Divide	110.1	1891.9	0
Dunn	146.5	1723.5	119.7
Golden Valley	69.9	1023.6	41.3
Hettinger	99.2	1641.7	0
McHenry	175.1	2839.5	26.7
McKenzie	278.3	2011.2	341.7
McLean	287.4	3088.0	64.8
Mountrail	173.2	2431.8	17.4
Renville	73.0	1493.8	2.6
Slope	71.8	1022.6	21.3
Stark	135.9	1954.9	0
Ward	230.1	3140.0	139.7
Williams	230.7	3176.1	0.2
Totals	2508.8	33729.1	1057.1

Source: ND Dept of T





State and County Structures and Status By County December 2008

County	State	FO	SD	County	FO	SD	Total
Billings	25	2	0	31	2	1	56
Bottineau	27	0	1	123	11	45	150
Bowman	25	0	0	49	4	0	74
Burke	24	0	0	16	0	5	40
Divide	7	0	0	10	0	2	17
Dunn	40	0	0	58	1	11	98
Golden Valley	20	2	0	22	2	3	42
Hettinger	27	0	0	60	5	22	87
McHenry	21	0	1	96	14	25	117
McKenzie	68	1	3	82	4	6	150
McLean	31	0	0	32	3	2	63
Mountrail	16	0	0	22	1	3	38
Renville	13	0	0	17	0	1	30
Slope	28	0	0	30	0	5	58
Stark	108	0	4	104	9	31	212
Ward	97	0	1	74	4	4	171
Williams	56	2	1	66	9	26	122
Totals	633	7	11	892	69	192	1525

Structure Replacement Costs Typical $450,000

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Source: ND Dept of Transportation

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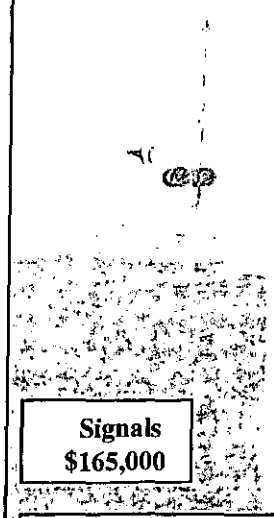
Highway/Rail At-Grade Crossings

NDDOT North Dakota Department of Transportation



County	Signals	Flashers	Xbucks	Stop	No	Totals
Billings	3	-	1	-	-	4
Bottineau	3	-	68	1	-	72
Bowman	3	1	13	2	-	19
Burke	7	1	104	-	1	113
Divide	2	-	54	-	-	56
Dunn	-	-	-	-	-	0
Golden Valley	6	1	5	1	-	13
Hettinger	-	-	-	-	-	0
McHenry	17	1	99	7	-	124
McKenzie	2	-	8	-	-	10
McLean	6	1	90	6	3	106
Mountrail	9	1	67	1	1	79
Renville	1	0	36	-	5	42
Slope	-	-	2	1	-	3
Stark	15	1	28	1	-	45
Ward	49	2	131	3	2	187
Williams	11	1	28	-	8	48
Totals	134	10	734	23	20	921

Signals $165,000

Annual Maintenance $5,000

Surface Replacement $38,000 to $48,000

16

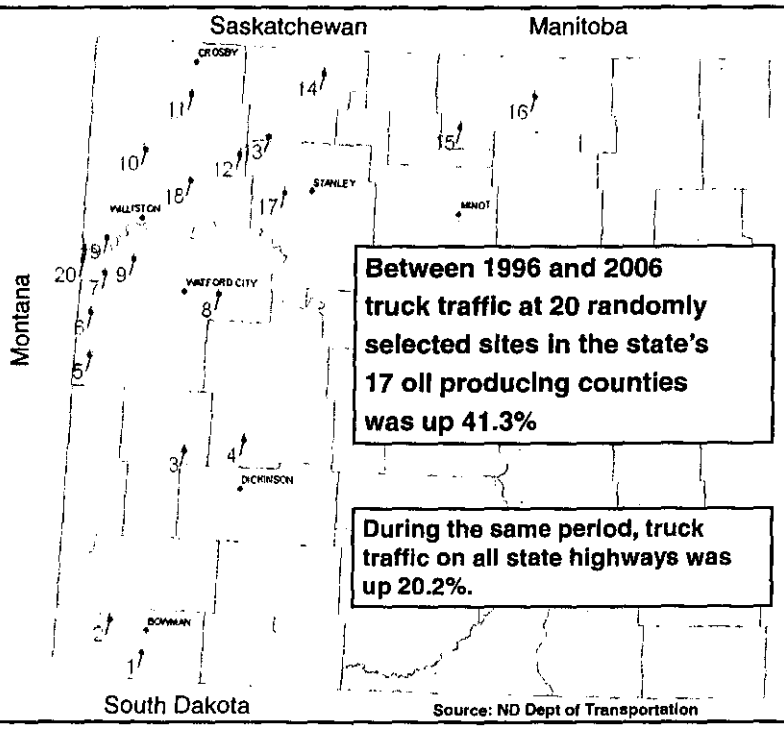
Source: ND Dept of Transportation

Estimated Oil & Gas Related Truck Volumes - September 2008

Loaded Truck Movement Type	Truckloads
New Wells Drilled Non-Bakken (150)	60,000
New Wells Drilled Bakken (750)	600,000
WorkOver Rig Movements	
New Wells (900)	3,150
Existing Wells (4193)	839
Acid 2-3 Truckloads Per New Well	2,250
Crude Oil Truckloads Existing	105,348
Crude Oil Truckloads (New Bakken)	375,722
Crude Oil Truckloads (New Non-Bakken)	23,966
Freshwater (Bakken)	117,186
Freshwater (Non- Bakken)	1,674
Sand (Bakken Only)	27,000
Saltwater (Existing)	202,428
Saltwater (New-Bakken)	158,959
Saltwater (New Non-Bakken)	162,228
Abandonment 100-150 Wells Annually	3,750
Gas Plant Truck Movements	10,950
Total Truckloads (Annually)	**1,855,450**
Total Truckloads (Daily)	**5,083**

NDDOT North Dakota Department of Transportation

Source: ND Dept of Transportation



Source: ND Dept of Transportation

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Current Annual Estimated Truckloads by Economic Activity

Oil & Gas Development	1,855,450
Agriculture	1,300,000*
Manufacturing	820,000*
Total	3,975,450

* Figures do not include fertilizer, gas and diesel deliveries, other inputs, multiple agricultural movements, or raw material inputs for manufacturing

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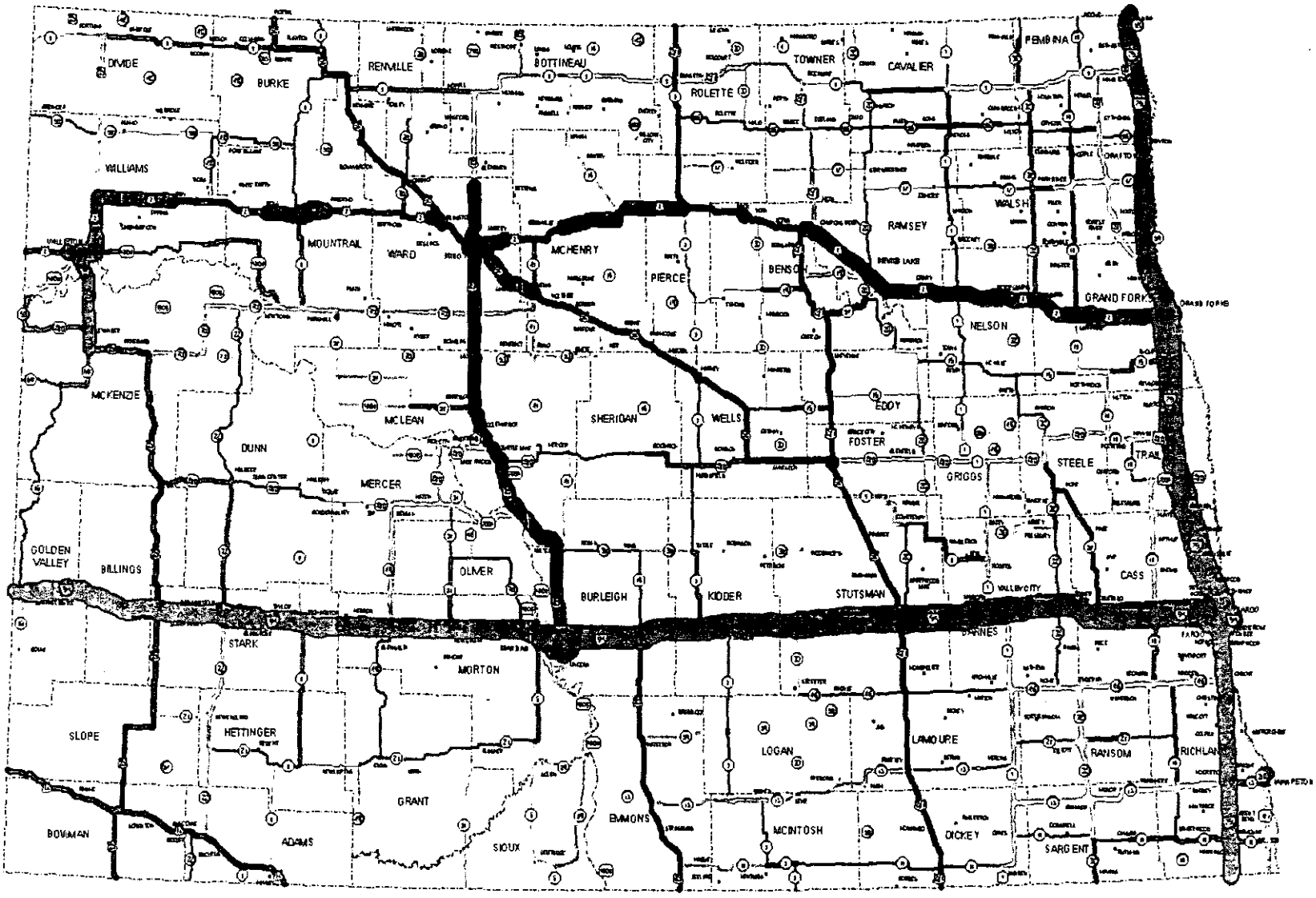
Truck Average Annual Daily Traffic (2006)



Interstate TAADT	Interregional TAADT	State Corridor TAADT	District Corridor TAADT	District Collector TAADT
0 - 49	0 - 49	0 - 49	0 - 49	0 - 49
50 - 99	50 - 99	50 - 99	50 - 99	50 - 99
100 - 249	100 - 249	100 - 249	100 - 249	100 - 249
250 - 499	250 - 499	250 - 499	250 - 499	250 - 499
500 - 999	500 - 999	500 - 999	500 - 999	500 - 999
1000 - 1499	1000 - 1499	1000 - 1499	1000 - 1499	1000 - 1499
1500 - 2499	1500 - 2499	1500 - 2499	1500 - 2499	1500 - 2499
2500 - 9000	2500 - 9000	2500 - 9000	2500 - 9000	2500 - 9000

STATE OF

NORTH DAKOTA

PREPARED BY THE

NORTH DAKOTA DEPARTMENT OF TRANSPORTATION
PLANNING & PROGRAMMING DIVISION

IN COOPERATION WITH

U.S. DEPARTMENT OF TRANSPORTATION
FEDERAL HIGHWAY ADMINISTRATION

April 2008

TAADT By HPCS

F:\P LANNING\B C\3\TCD\TCD HPCS

BTA OIL PRODUCERS
ROYALTY DUE NORTH DAKOTA
OIL ROYALTY FOR NOVEMBER 2008

LEASE #	LEASE NAME	GROSS VOLUME	GROSS VALUE	ROYALTY %	ROYALTY DUE
09215-01	SNOW #1	473.11	23,676.31	0.08333333	1,973.03
09215-03	SNOW C-1H	750.38	37,552.01	0.05208333	1,955.83
09210-92	WANNAGAN	1,768.01	88,478.29	0.16666666	14,746.38
09210-96	WANNAGAN 2-H	1,733.41	65,079.14	0.08494734	5,528.30
09215-05	SNOW E #1-H	663.53	33,205.70	0.03126041	1,038.02
20501-01	BATTLEVIEW 1621 #1-H	231.56	11,009.29	0.0625	688.08
			TOTAL OIL ROYALTY DUE		25,929.64

Ck. # 2083356

12/29/08
#1002
BLP

STATE OF NORTH DAKOTA
STATE LAND DEPARTMENT
P O BOX 5523
BISMARCK ND 58502-5523

[redacted] # 14529201

HESS CORPORATION
P. O. Box 2040
Houston, Texas 77252
Toll Free 1-877-609-4255
www.hess.com/ownerrelations

CHECK NUMBER E000339997
CHECK AMOUNT 173,798.79
CHECK DATE 1/25/09

PROP/ST/CTY			GROSS INTEREST						OWNER INTEREST					
PROD MNTH	PROD CODE	TX	GROSS VOLUME	$ PRICE	$ GROSS VALUE	$ TAXES	$OTHER DEDUCTION	$ NET VALUE	DISB. DECIMAL	INT TYPE	$GROSS VALUE	$ TAXES	$OTHER DEDUCTION	$ NET VALUE
V11568	00002		ANGIE MARIE 13-24H			/ ND/ WILLIAMS				DOI	DECIMAL	0.00195313		
12/2008	100		547.73	26.9349	14,753.08	0.00	0.00	14,753.08	0.01054484	RI 01	155.57	0.00	0.00	155.57
11/2008	204		830.00	6.2261	5,167.88	0.00	400.58	4,767.10	0.01054484	RI 01	54.49	0.00	4.22	50.27
11/2008	400		3,284.00	0.8618	2,829.99	0.00	0.00	2,829.99	0.01054484	RI 01	29.84	0.00	0.00	29.84
									PROPERTY SUB	TOTAL	239.90	0.00	4.22	235.68
									PROPERTY TOTAL		239.90	0.00	4.22	235.68
V11589	00002		D LALIM 34-11H			/ ND/ MOUNTRAIL				DOI	DECIMAL	0.01562500		
12/2008	100		651.60	32.5947	21,238.71	0.00	3,204.96	18,033.75	0.01562500	RI 01	331.85	0.00	50.08	281.77
									PROPERTY SUB	TOTAL	331.85	0.00	50.08	281.77
									PROPERTY TOTAL		331.85	0.00	50.08	281.77
V11579	00001		AMY LYNETTE 14-23H			/ ND/ WILLIAMS				DOI	DECIMAL	0.00781250		
12/2008	100		518.21	26.8714	13,871.26	0.00	0.00	13,871.26	0.02718943	RI 01	377.15	0.00	0.00	377.15
11/2008	204		390.00	6.2370	2,432.42	0.00	184.67	2,247.75	0.02718943	RI 01	68.14	0.00	5.02	61.12
11/2008	400		1,254.00	0.8989	1,127.16	0.00	0.00	1,127.16	0.02718943	RI 01	30.64	0.00	0.00	30.64
									PROPERTY SUB	TOTAL	473.93	0.00	5.02	468.91
									PROPERTY TOTAL		473.93	0.00	5.02	468.91
V11585	00001		JACQUIE LISSET 5-8H			/ ND/ WILLIAMS				DOI	DECIMAL	0.00018570		
12/2008	100		252.27	28.9676	8,803.12	0.00	0.00	8,803.12	0.00050399	RI 01	3.43	0.00	0.00	3.43
11/2008	204		392.00	6.2385	2,445.48	0.00	210.19	2,235.29	0.00050399	RI 01	1.23	0.00	0.11	1.12
11/2008	400		903.00	0.8787	793.50	0.00	0.00	793.50	0.00050399	RI 01	0.40	0.00	0.00	0.40
									PROPERTY SUB	TOTAL	5.06	0.00	0.11	4.95
									PROPERTY TOTAL		5.06	0.00	0.11	4.95
V11591	00002		A BLIKRE 13-24H			/ ND/ WILLIAMS				DOI	DECIMAL	0.00390625		
[redacted]	100		315.00	32.2034	10,144.07	0.00	0.00	10,144.07	0.00390625	RI 01	39.63	0.00	0.00	39.63
[redacted]	204		139.00	6.2412	867.52	0.00	127.36	740.16	0.00390625	RI 01	3.39	0.00	0.50	2.89
[redacted]	400		1,161.00	0.8764	1,017.55	0.00	0.00	1,017.55	0.00390625	RI 01	3.97	0.00	0.00	3.97
11/2008	400		0.03	529.0000	15.87	0.00	0.00	15.87	0.00390625	RI 01	0.06	0.00	0.00	0.06
									PROPERTY SUB	TOTAL	47.06	0.00	0.50	46.56
									PROPERTY TOTAL		47.06	0.00	0.50	46.56
V11598	00001		IVERSON 14-23H			/ ND/ WILLIAMS				DOI	DECIMAL	0.00781250		
07/2008	100		0.00	0.0000	268.98-	0.00	0.00	268.98-	0.00781250	RI 01	2.09-	0.00	0.00	2.09-
08/2008	100		0.00	0.0000	1,151.92	0.00	0.00	1,151.92	0.00781250	RI 01	9.00	0.00	0.00	9.00
11/2008	100		0.00	0.0000	833.01	0.00	0.00	833.01	0.00781250	RI 01	6.50	0.00	0.00	6.50
12/2008	100		1,657.00	32.5623	53,955.73	0.00	0.00	53,955.73	0.00781250	RI 01	421.53	0.00	0.00	421.53
11/2008	204		2,139.00	6.2293	13,324.55	0.00	1,067.68	12,256.87	0.00781250	RI 01	104.10	0.00	8.34	95.76
11/2008	400		6,416.00	0.8741	5,607.98	0.00	0.00	5,607.98	0.00781250	RI 01	43.81	0.00	0.00	43.81
11/2008	400		0.38	529.0780	201.05	0.00	0.00	201.05	0.00781250	RI 01	1.57	0.00	0.00	1.57
									PROPERTY SUB	TOTAL	584.42	0.00	8.34	576.08
									PROPERTY TOTAL		584.42	0.00	8.34	576.08
V11600	00002		H DAVIDSON 35-26H			/ ND/ WILLIAMS				DOI	DECIMAL	0.00078125		
12/2008	100		2,834.01	32.7823	92,905.37	0.00	0.00	92,905.37	0.00078125	RI 01	72.58	0.00	0.00	72.58
11/2008	204		1,996.00	6.2268	12,428.38	0.00	987.34	11,441.04	0.00078125	RI 01	9.71	0.00	0.77	8.94
11/2008	400		4,920.00	0.8494	4,179.16	0.00	0.00	4,179.16	0.00078125	RI 01	3.26	0.00	0.00	3.26
11/2008	400		0.07	529.0000	37.03	0.00	0.00	37.03	0.00078125	RI 01	0.03	0.00	0.00	0.03
									PROPERTY SUB	TOTAL	85.58	0.00	0.77	84.81
									PROPERTY TOTAL		85.58	0.00	0.77	84.81
V11608	00002		E BURDICK #29-32H			/ ND/ WILLIAMS				DOI	DECIMAL	0.00781250		
12/2008	100		2,906.00	32.6723	94,945.70	0.00	0.00	94,945.70	0.00781250	RI 01	741.76	0.00	0.00	741.76
									PROPERTY SUB	TOTAL	741.76	0.00	0.00	741.76
V11608	00003		E BURDICK #29-32H			/ ND/ WILLIAMS				DOI	DECIMAL	0.00781250		
11/2008	204		3,328.00	6.2285	20,716.02	0.00	1,743.91	18,972.11	0.00781250	RI 01	161.85	0.00	13.62	148.23
11/2008	400		11,504.00	0.8741	10,058.15	0.00	0.00	10,058.15	0.00781250	RI 01	78.58	0.00	0.00	78.58
11/2008	400		0.01	532.0000	5.32	0.00	0.00	5.32	0.00781250	RI 01	0.04	0.00	0.00	0.04
									PROPERTY SUB	TOTAL	240.45	0.00	13.62	226.83
									PROPERTY TOTAL		982.21	0.00	13.62	968.59

[redacted]DUCT CODES: 1XX - OIL (BBLS) 2XX - GAS (MCF) 3XX - CONDENSATE (BBLS) 4XX - PLANT PRODUCTS (GALS) 8XX - JOINT VENTURE EXPENSES
TAX CODE (TX): 12 - NM WITHHOLDING