

ANALYSIS OF THE LIGNITE RESEARCH FUND FOR THE 2017-19 AND 2019-21 BIENNIUMS

	2017-19 Biennium		2019-21 Biennium	
	Actual	Estimated	Actual	Estimated
Beginning balance ¹			\$23,941,865	\$29,908,588
Add revenues				
Separate two-cent coal severance tax	\$1,121,829	\$1,140,000		
50 percent of coal severance taxes deposited in the coal development trust fund (result of passage of Initiated Measure No. 3 in June 1990) (2017 SB 2014) ²	1,674,757	1,730,000		
20 percent of coal severance taxes deposited in the coal development trust fund for clean coal projects (result of constitutional amendment approved by voters in June 1994) (2017 SB 2014) ²	687,382	710,000		
15 percent of coal severance taxes (2017 SB 2014) ²	3,155,065	3,205,000		
Investment income on Dakota Gasification Company ammonia plant and Spiritwood plant	180,000	180,000		
5 percent of the general fund share of coal conversion tax (2007 HB 1093)	2,324,730	2,310,000		
Oil and gas tax allocation (2017 HB 1152) (2019 HB 1066) ²	3,000,000	10,000,000		
Revenue bonds/short-term loans ³	0	0		
Transfer from the strategic investment and improvements fund (2017 SB 2014)	3,000,000	0		
Interest income, return of funds, and litigation contributions	438,868	569,465		
Total revenues	15,582,631	19,844,465		
Total available	\$39,524,496	\$49,753,053		
Less expenditures and transfers ^{4,5}				
Administration	\$685,338	\$875,000		
Lignite feasibility studies (nonmatching grants)	760,000	3,031,250		
Small research grants	2,237,932	7,426,991		
Lignite marketing	802,128	1,800,000		
Lignite litigation ⁶	216,832	1,500,000		
Demonstration projects	0	1,367,678		
Allam Cycle grants (2015 HB 1014) ⁷	2,358,678	0		
Advanced energy technology development	2,555,000	22,645,000		
Total expenditures and transfers ⁸	9,615,908	38,645,919		
Ending balance	\$29,908,588	\$11,107,134		

¹The beginning balance shown for the 2017-19 biennium is \$72,952 less than the \$24,014,817 reported in June 2018 due to an adjustment to 2015-17 biennium expenditures.

²Senate Bill No. 2014 (2017) reduces the allocation of coal severance tax allocations to the coal development trust fund from 30 to 15 percent and provides an allocation of 15 percent to the lignite research fund. House Bill No. 1152 (2017) changes the allocation of the state's share of oil and gas tax revenue to increase the allocation to the general fund and provide allocations to the budget stabilization fund and the lignite research fund, providing up to \$3 million of allocations to the lignite research fund.

³Pursuant to Section 54-17.5-04, the Industrial Commission may issue revenue bonds or borrow short-term funds from the Bank of North Dakota. House Bill No. 1066 (2019) increases the allocation of oil and gas tax revenue to the lignite research fund by \$7 million, from \$3 million to \$10 million.

⁴The Industrial Commission has a policy stating that 18 percent of lignite research fund income will be used for small research projects, 56 percent for large demonstration research projects, 21 percent for marketing projects, and 5 percent for administration. The commission has further directed that no single large demonstration research project can receive more than 37.5 percent of available funds.

⁵The Industrial Commission has waived the fund allocation policy. The commission has committed \$22 million through the 2011-13 biennium to three projects. In January 2015 the commission learned one of the projects is not proceeding and released the project's commitment of \$8,732,503. Expenditures for Lignite Vision 21 Project have been \$1,360,750 during the 2003-05 biennium, \$2,243,391 during the 2005-07 biennium, \$2,200,000 during the 2007-09 biennium, \$3,972,090 during the 2009-11 biennium, \$678,851 during the 2011-13 biennium, \$110,000 during the 2013-15 biennium, \$914,863 during the 2015-17 biennium, and anticipated expenditures of \$1,367,678 in subsequent bienniums. The objective of the Lignite Vision 21 Project is to construct new lignite-fired power plants in North Dakota. (These amounts are net of funds that were distributed but later returned when projects did not proceed.)

⁶Lignite litigation - House Bill No. 1093 (2007) provides that \$500,000 of the amount appropriated to the lignite research fund for the 2007-09 biennium is to be used to pay for fees associated with lignite litigation that may be brought by the state to protect and promote the continued development of lignite resources. Activities associated with the litigation have been initiated with \$83,379 spent during the 2007-09 biennium, \$153,907 spent during the 2009-11 biennium, \$652,519 spent during the 2011-13 biennium, \$983,288 during the 2013-15 biennium with \$451,555 of that amount paid by industry, \$259,159 during the 2015-17 biennium with \$122,866 of that amount paid by industry, and \$1,500,000 is set aside to be spent during the 2017-19 biennium and the 2019-21 biennium.

The State of North Dakota was successful in its litigation against the State of Minnesota and will be receiving a total of \$1,410,000. Of the \$1,410,000, \$670,000 will be paid to industry partners, and the remaining \$740,000 will be deposited in the lignite research fund during the 2017-19 and 2019-21 bienniums. The original \$500,000 was spent by the end of the 2011-13 biennium with additional funding being provided from nonmatching program funds in subsequent bienniums. In addition, the lignite industry has paid a portion of the litigation costs.

House Bill No. 1014 (2019) provides legislative intent that at least \$500,000 from the lignite research fund, including proceeds from successful litigation, is available for fees associated with lignite litigation brought by the state to protect and promote the continued development of lignite resources.

⁷The 2015 Legislative Assembly provided \$5 million from the general fund; however, the appropriation was reduced by \$327,500 as the result of the August 2016 budget reductions. All of the funding was committed during the 2015-17 biennium, the funding is distributed as projects are completed. As of February 20, 2019, the remaining \$2,358,678 has been distributed.

⁸The Industrial Commission has continuing appropriation authority for all money deposited in the lignite research fund pursuant to Section 57-61-01.6.

NOTE: The estimated June 30, 2021, balance made at the end of the 2019 regular legislative session was \$704,270. The estimated balance increased by \$10,402,864 primarily related to grants for advanced energy technology development being disbursed later than anticipated.

FUND HISTORY

Section 57-61-01.5(2) and Section 21 of Article X of the Constitution of North Dakota provide for up to 70 percent of the taxes collected and deposited in the coal development trust fund to be deposited in the lignite research fund. The remaining 30 percent of the funds deposited in the coal development trust fund are to be held in trust and administered by the Board of University and School Lands, which has the authority to invest the funds, and may, as provided by law, lend money from the fund to political subdivisions.