DISTRIBUTION OF ESTIMATED OIL EXTRACTION AND OIL AND GAS GROSS PRODUCTION TAXES FOR THE 2013-15 BIENNIUM (AMOUNTS SHOWN IN MILLIONS)

Total oil and gas tax collections are estimated to be $5.28 billion for the 2013-15 biennium, an increase of $153.5 million from the executive budget recommendation estimate of $5.13 billion. House Bill No. 1134 (2013) provided an exemption from oil and gas gross production taxes for natural gas gathering lines which decreased oil and gas gross production tax revenues by $14.1 million. House Bill No. 1198 (2013) made changes to the application of oil extraction taxes and modified the tribal agreement for distribution of taxes collected on the Fort Berthold Reservation which increased oil extraction tax revenues by $167.6 million, of which $81 million is allocated to the tribal share.

Tax	State Share[1]	Legacy Fund[2]	Common Schools Trust Fund[3]	Foundation Aid Stabilization Fund[3]	Resources Trust Fund[4]	Oil and Gas Impact Grant Fund[5]	Oil and Gas Research Fund[6]	North Dakota Outdoor Heritage Fund[7]	Political Subdivisions[8]	Tribal Share[12]	Abandoned Well Reclamation Fund[13]	Total
2013-15 legislative forecast[9]												
Oil extraction tax[10]	$841.02	$846.38	$282.16	$282.16	$564.32	$0.00	$5.33	$0.00	$0.00	$174.00	$0.00	$2,995.37
Oil and gas gross production tax[11]	671.88	655.80	0.00	0.00	0.00	240.00	4.67	17.62	588.09	98.40	10.00	2,286.46
Total	$1,512.90	$1,502.18	$282.16	$282.16	$564.32	$240.00	$10.00	$17.62	$588.09	$272.40	$10.00	$5,281.83

[1]The Legislative Assembly in 2011 created a new section to North Dakota Century Code Chapter 57-51.1 to provide for the allocation of the state's share of oil and gas tax revenues designated for deposit in the general fund under Chapters 57-51 and 57-51.1. The funds and the estimated allocations for the 2013-15 biennium are:

- The first $200 million is deposited in the **general fund** ($200 million);
- The next $341,790,000 is deposited in the **property tax relief fund** ($341,790,000);
- The next $100 million is deposited in the **general fund** ($100 million);
- The next $100 million is deposited in the **strategic investment and improvements fund** ($100 million); and
- The next $22 million is deposited in the **state disaster relief fund** ($22 million).

Any additional revenues are deposited in the **strategic investment and improvements fund** ($749,118,225). Pursuant to Section 15-08.1-08, if the unobligated balance of the strategic investment and improvements fund exceeds $300 million at the end of any month, 25 percent of any revenues received for deposit in the strategic investment and improvements fund in the subsequent month must be deposited instead into the legacy fund. The legislative budget estimates a transfer of $212,279,556 of oil and gas tax revenue from the strategic investment and improvements fund to the legacy fund for a net deposit in the strategic investment and improvements fund, including the $100 million allocation above, of $636,838,669.

[2]Passage of constitutional measure No. 1 in the November 2010 general election resulted in the creation of a legacy fund. The legacy fund receives 30 percent of oil and gas gross production and oil extraction taxes beginning July 1, 2011. In addition to the amount shown, $212,279,556 of oil and gas tax revenue is estimated to be transferred to the legacy fund from the strategic investment and improvements fund during the 2013-15 biennium providing total deposits from oil and gas tax revenues of $1,714,030,381. Section 15-08.1-08 provides if the unobligated balance of the strategic investment and improvements fund exceeds $300 million at the end of any month, 25 percent of any revenues received for deposit in the strategic investment and improvements fund in the subsequent month must be deposited instead into the legacy fund. The $212,279,556 does not reflect additional transfers from the strategic investment and improvements fund from revenue sources other than oil and gas tax revenue.

[3]The Legislative Assembly in 1993 passed Senate Concurrent Resolution No. 4011, which contained a constitutional amendment relating to the distribution of oil extraction tax revenues. The constitutional amendment was approved by the voters in the November 1994 general election. The constitutional amendment provides 20 percent of the oil extraction tax revenues is to be allocated:

- 50 percent (of the 20 percent) to the common schools trust fund.
- 50 percent (of the 20 percent) to the foundation aid stabilization fund.

[4]The amount shown reflects the estimated distribution of 20 percent of oil extraction taxes to the resources trust fund. The Legislative Assembly in 2013 Senate Bill No. 2014 provides for allocation of 5 percent of the oil extraction tax revenue deposited in the resources trust fund, not to exceed $3 million, to the renewable energy development fund, to be spent pursuant to a continuing appropriation and one-half of 1 percent of the oil extraction tax revenue deposited in the resources trust fund, not to exceed $1.2 million, to a newly created energy conservation fund.

[5]The Legislative Assembly in 2013 House Bill No. 1358 amended Section 57-51-15 to increase the allocation of gross production tax to the oil and gas impact grant fund from $100 million to $240 million.

[6]Section 57-51.1-07.3 (2003 Senate Bill No. 2311) establishes an oil and gas research fund and provides 2 percent of the state's share of oil and gas gross production tax and oil extraction tax revenues, up to $4 million per biennium, are to be deposited in the oil and gas research fund. All money deposited in the oil and gas research fund is appropriated as a continuing appropriation to the Oil and Gas Research Council. The Legislative Assembly in 2013 Senate Bill No. 2014 increased the allocation to $10 million per biennium.

[7]The Legislative Assembly in 2013 House Bill No. 1278 provides an allocation of 4 percent of the first 1 percent of oil and gas gross production tax revenue, to a newly created North Dakota outdoor heritage fund with an annual funding cap of $15 million, or $30 million per biennium.

[8]Section 57-51-15 provides a formula for distribution of the oil and gas gross production tax to counties and other political subdivisions. The Legislative Assembly in 2013 changed the formula in House Bill No. 1358. For a county that receives less than $5 million annual of oil tax allocations, up to 35 percent of all revenues allocated to counties must be apportioned to school districts within the county on the average daily attendance distribution basis. Up to 20 percent of all revenues allocated to counties must be apportioned to incorporated cities in the county based on population and the remaining 45 percent is provided to the county. For a county that receives $5 million or more, up to 9 percent of all revenues allocated to counties must be apportioned to hub cities based on percentages. Up to 3 percent of all revenues allocated to counties must be apportioned equally to townships in the county. Up to 3 percent of all revenues allocated to counties must be apportioned to townships in the county based on the proportion of township miles. Up to 5 percent of all revenues allocated to counties must be apportioned to schools based on the average daily attendance distribution basis, with hub schools omitted from this apportionment. Up to 20 percent of all revenues allocated to counties must be apportioned to cities with hub cities omitted from this apportionment and the remaining 60 percent is provided to the county.

[9]The amounts shown are as estimated in the 2013-15 legislative budget.

[10]The oil extraction tax rate is 6.5 percent of the gross value at the well for wells drilled prior to April 27, 1987. For oil produced from wells drilled after April 27, 1987, there is no extraction tax levied for 15 months, and thereafter the rate is 4 percent. The initial production of oil from a well that is drilled and completed before July 1, 2013, is exempt from any oil extraction tax for a period of 60 months if it meets any of the following conditions:

- Is on nontrust lands located within the boundaries of an Indian reservation;
- Is on lands held in trust for an Indian tribe or individual Indian; or
- Is on lands held by an Indian tribe as of August 1, 1997.

For oil produced from any well drilled and completed as a horizontal well after April 27, 1987, there is no extraction tax levied for 24 months, and thereafter the rate is 4 percent. The oil extraction tax rate is 4 percent for qualifying secondary and tertiary recovery projects, and production from stripper wells and enhanced oil production methods is exempt. If the average price of a barrel of oil exceeds the trigger price for each month in any consecutive five-month period, the oil extraction tax will become 6.5 percent. The tax rate reverts to 4 percent if the average price of a barrel of oil is less than the trigger price for each month in any consecutive five-month period. The trigger price is defined in statute as $35.50, as indexed for inflation, and the Tax Commissioner computes the indexed trigger price by December 31 of each year to be applied for the following calendar year. The adjusted trigger price for calendar year 2012 is $50.07, and the adjusted trigger price for 2013 is anticipated to be $52.20.

The first 75,000 barrels of oil produced during the first 18 months after completion, from a well drilled and completed outside the Bakken and Three Forks formations, and 10 miles or more outside an established field in which the Industrial Commission has defined the pool to include the Bakken or Three Forks formation, is subject to a reduced tax rate of 2 percent of the gross value at the well of the oil. A well eligible for a reduced tax rate under this subsection is eligible for the trigger price exemption if the trigger price exemption is effective during all or part of the first 24 months after completion.

A contingent rate reduction in the oil extraction tax, which can only go into effect if the trigger price rate reduction is not in effect, reduces the oil extraction tax rate for horizontal wells from 6.5 percent to 2 percent during the time the rate reduction is in effect. The contingent rate reduction applies to oil produced during the first 18 months after completion for a horizontal well drilled and completed after April 30, 2009, and before July 1, 2013, and is limited to the first 75,000 barrels, or the first $4.5 million of gross value at the well, of oil produced from the well. The rate reduction becomes effective on the first day of the month following a month for which the average price of a barrel of crude oil is less than $55 and becomes ineffective on the first day of the month following a month for which the average price of a barrel of crude oil exceeds $70.

Beginning July 1, 2011, the oil extraction tax is allocated 30 percent to the legacy fund, 20 percent to the resources trust fund for water development projects, 10 percent to the common schools trust fund, 10 percent to the foundation aid stabilization fund, and 30 percent to the state general fund.

[11]The gross production tax on oil is 5 percent of the gross value at the well on oil produced. The gross production tax on gas is four cents times the gas base rate adjustment for each fiscal year as calculated by the Tax Department.

The oil and gas gross production tax is distributed per formula to the legacy fund (30 percent), the oil and gas impact grant fund (up to $240 million per biennium), the oil and gas research fund, the state general fund, and to political subdivisions within producing counties. Section 57-51-15.1 (2013 House Bill No. 1358) changed the maximum distribution to the oil and gas impact grant fund from $100 million per biennium to $240 million for the 2013-15 biennium only. House Bill No. 1358 also changed the formula distribution of oil and gas gross production tax collections to political subdivisions.

[12]The Legislative Assembly in 2013 House Bill No. 1198 amended Section 57-51.2-02 to increase the tribal share of revenue allowable under the tribal agreement for production on nontrust lands from 20 percent of oil and gas gross production taxes to 50 percent of total oil and gas gross production tax and oil extraction tax. The bill also eliminates the 5-year oil extraction tax exemption for wells drilled on an Indian reservations after June 30, 2013.

[13]The Legislative Assembly in 2013 House Bill No. 1333 provided for 4 percent of the first 1 percent of oil and gas gross production tax to be allocated to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding $5 million per state fiscal year and not in an amount that would bring the balance of the fund to more than $75 million.