

Taxation Committee
Thursday, May 6, 2010

Provided by: Linda Svihovec, McKenzie County Treasurer

Chairman Cook and Committee Members, I am here to provide a brief and hopefully simple explanation of the Oil & Gas production tax distribution formula that was established under HB1304 in the last session and specifically show how those funds are distributed to counties, cities, schools, and when funds are distributed to an Infrastructure Fund for allocation to townships within the county and to schools for buses. Distributions to counties are based on the state's fiscal year and each July the distribution formula cycle starts over again. The first distribution of the fiscal year is based on July production, reported to the state in August and paid to cities and counties in September.

The oil and gas production tax is distributed the same in all counties other than an allowance for schools based on county population. The additional school allowance was intended to keep schools at the same funding level as under the old formula prior to HB1304. Cities are capped at \$750 per capita and once that limit is reached, the city's allocation under the formula stays with the county in its General Fund. Cities receive their portion of the tax directly from the state and the remaining tax is paid to the county for further distribution to schools and the infrastructure fund. A portion of the Infrastructure Fund is additionally distributed by the county to the General Fund and to Cities.

Under the HB1304 distribution formula, counties begin allocating a portion of their oil and gas production tax to an established Infrastructure Fund after the first \$1,000,000 of tax is distributed.

See Handouts A, B & C: Sample distributions for each of the three population levels: less than 3000; 3000-6000; and over 6000 - with additional allowances of \$490,000, \$560,000 and \$625,000 respectively.

Handouts D, E, F, G & H: McKenzie County's Oil & Gas Production Tax distributions for the months of September – December 2009 (the first 4 months of payments for the current fiscal year).

Handout I: McKenzie County's FY10 Year to Date distribution allocations. Note the various maximums that have to be tracked under the existing formula i.e. Schools \$1.435 Million; Cities \$1,317,750; County \$5.35 Million; State/County \$18 Million.

There are currently 18 counties and the Three Affiliated Tribes receiving oil & gas production tax distributions. 6 of those counties fall in the "over \$1 Million and under \$5 Million in tax" level, which means the schools in those counties are not receiving their full oil & gas production tax funding and won't unless their county exceeds \$5 million in tax revenue.

The current formula accomplishes many good things: additional revenue to larger producing counties, additional revenue to cities, and the establishment of a mechanism for which townships impacted by oil and gas development can access funds for road repairs and improvements. However, I think the formula could use some “tweaking” to assure that schools receive their full funding and also to simplify the formula and still accomplish the same outcome.

Counties whose schools are negatively impacted by the current O&G distribution formula:
(8 months of FY10 production - Year to Date totals – includes April 2010 distribution)

Billings	\$3,774,411
Bottineau	2,851,249
Burke	2,550,996
Divide	2,675,312
Renville	1,276,559
Stark	2,035,671

Plus: Golden Valley County will be added to the list in May - \$911,797

OIL & GAS PRODUCTION TAX - HB 1304 - \$490,000 School Allocation

Counties with Population less than 3,000

A

			Remaining 4/5		State	County→		Gen. Fund	-	Schools	-	Cities	-	Infrastructure	
			1st Million	State - County	0%	100%	County Distribution	45%	4a	100% of 35%	4b1	20%	4c	0% of 35%	
			2nd Million		0%	100%		45%	4a	75% of 35%	4b2	20%	4c	25% of 35%	4b2
			3rd Million		25%	75%		45%	4a	2/3 of 35%	4b3	20%	4c	1/3 of 35%	4b3
			4th Million		50%	50%		45%	4a	50% of 35%	4b4	20%	4c	50% of 35%	4b4
		First 1/5	Next 14 Million		75%	25%		45%	4a	\$490,000 more 35%	4b5	20%	4c	After \$490,000 100%	4b5a
	Tax Amount	State	After 18 Million	SPLIT	90%	10%	→	4a				4c		100%	4b5
1	1st Million	1,250,000	250,000	1,000,000	0/100	0	1,000,000	→	450,000	45%	350,000	35%	200,000	20%	
2	2nd Million	1,250,000	250,000	1,000,000	0/100	0	1,000,000	→	450,000	45%	262,500	75% of 35%	200,000	20%	87,500
3	3rd Million	1,250,000	250,000	1,000,000	25/75	250,000	750,000	→	337,500	45%	175,000	2/3 of 35%	150,000	20%	87,500
4	4th Million	1,250,000	250,000	1,000,000	50/50	500,000	500,000	→	225,000	45%	87,500	50% of 35%	100,000	20%	87,500
	Add't'l to reach														(Excess over \$490,000 to Schools)
5	\$5.35 Million	10,500,000	2,100,000	8,400,000	75/25	6,300,000	2,100,000	→	945,000	45%	490,000	35%	420,000	20%	245,000
6	Sub-totals	15,500,000	3,100,000	12,400,000		7,050,000	\$5,350,000	→	2,407,500		1,365,000		1,070,000		507,500
	Infrastructure Fund - After \$5.35 Million							100% to Infrastructure Fund Allocated: General - 45% / Schools - 35% / Cities - 20%							
	Add't to reach														
7	\$18,000,000	7,000,000	1,400,000	5,600,000	75/25	4,200,000	1,400,000	→	-	0%	-	-	0%	1,400,000	100%
8	Sub-totals	22,500,000	4,500,000	18,000,000		11,250,000	6,750,000	→	2,407,500		1,365,000		1,070,000		1,907,500
	Every Million														
9	after \$18 Million	1,250,000	250,000	1,000,000	90/10	900,000	100,000	→	-	0%	-	-	0%	100,000	100%
10	TOTALS	23,750,000	4,750,000	19,000,000		12,150,000	6,850,000	→	2,407,500		1,365,000		1,070,000		2,007,500
	INFRASTRUCTURE FUND							Gen. Fund	-	Schools	-	Cities	-	Townships	
11	ALLOCATION			\$2,007,500				903,375	45%	-		401,500	20%	702,625	35%
12	TOTALS AFTER INFRASTRUCTURE ALLOCATION					\$6,850,000		\$3,310,875		\$1,365,000		\$1,471,500		\$702,625	

Infrastructure Fund Allocation: General - 45% / Schools - 35% / Cities - 20%
Cities limited to \$750/capita

OIL & GAS PRODUCTION TAX - HB 1304 - \$560,000 School Allocation

B

Counties with Population 3000 to 6000

			Remaining 4/5		State	County→		Gen. Fund		Schools		Cities		Infrastructure	
			1st Million		0%	100%		45%	4a	100% of 35%	4b1	20%	4c	0% of 35%	
			2nd Million		0%	100%		45%	4a	75% of 35%	4b2	20%	4c	25% of 35%	4b2
			3rd Million		25%	75%		45%	4a	2/3 of 35%	4b3	20%	4c	1/3 of 35%	4b3
			4th Million		50%	50%		45%	4a	50% of 35%	4b4	20%	4c	50% of 35%	4b4
			Next 14 Million		75%	25%		45%	4a	\$490,000 more 35%	4b5	20%	4c	After \$490,000 100%	4b5a
	Tax Amount	First 1/5	After 18 Million	SPLIT	90%	10%	→		4a				4c	100%	4b5
1	1st Million	1,250,000	250,000	1,000,000	0/100	0	1,000,000	→	450,000	45%	350,000	35%	200,000	20%	
2	2nd Million	1,250,000	250,000	1,000,000	0/100	0	1,000,000	→	450,000	45%	262,500	75% of 35%	200,000	20%	87,500
3	3rd Million	1,250,000	250,000	1,000,000	25/75	250,000	750,000	→	337,500	45%	175,000	2/3 of 35%	150,000	20%	87,500
4	4th Million	1,250,000	250,000	1,000,000	50/50	500,000	500,000	→	225,000	45%	87,500	50% of 35%	100,000	20%	87,500
	Add'l to reach														(Excess over \$490,00 to Schools)
5	\$5.35 Million	10,500,000	2,100,000	8,400,000	75/25	6,300,000	2,100,000	→	945,000	45%	560,000	35%	420,000	20%	175,000
6	Sub-totals	15,500,000	3,100,000	12,400,000		7,050,000	\$5,350,000	→	2,407,500		1,435,000		1,070,000		437,500
	Infrastructure Fund - After \$5.35 Million														100% to Infrastructure Fund Allocated: General - 45% / Schools - 35% / Cities - 20%
	Add't to reach														
7	\$18,000,000	7,000,000	1,400,000	5,600,000	75/25	4,200,000	1,400,000	→	-	0%			-	0%	1,400,000
8	Sub-totals	22,500,000	4,500,000	18,000,000		11,250,000	6,750,000		2,407,500		1,435,000		1,070,000		1,837,500
	Every Million														
9	after \$18 Million	1,250,000	250,000	1,000,000	90/10	900,000	100,000	→	-	0%			-	0%	100,000
10	TOTALS	23,750,000	4,750,000	19,000,000		12,150,000	6,850,000	→	2,407,500		1,435,000		1,070,000		1,937,500
									Gen. Fund		Schools		Cities		Townships
11	INFRASTRUCTURE FUND ALLOCATION			\$1,937,500					871,875	45%	-		387,500	20%	678,125
12	TOTALS AFTER INFRASTRUCTURE ALLOCATION					\$6,850,000		→	\$3,279,375		\$1,435,000		\$1,457,500		\$678,125

Infrastructure Fund Allocation: General - 45% / Schools - 35% / Cities - 20%

Cities limited to \$750/capita

OIL & GAS PRODUCTION TAX - HB 1304 - \$735,000 School Allocation

C

Counties with Population 6,000 or more

			Remaining 4/5	State - County	State	County→	County Distribution	Gen. Fund	-	Schools	-	Cities	-	Infrastructure	
			1st Million		0%	100%		45%	4a	100% of 35%	4b1	20%	4c	0% of 35%	
			2nd Million		0%	100%		45%	4a	75% of 35%	4b2	20%	4c	25% of 35%	4b2
			3rd Million		25%	75%		45%	4a	2/3 of 35%	4b3	20%	4c	1/3 of 35%	4b3
			4th Million		50%	50%		45%	4a	50% of 35%	4b4	20%	4c	50% of 35%	4b4
			Next 14 Million		75%	25%		45%	4a	\$735,000 more	4b5	20%	4c	After \$735,000	4b5c
			First 1/5							35%				100%	
Tax Amount			State						4a				4c	100%	4b5
			After 18 Million	SPLIT	90%	10%	→								
1	1st Million	1,250,000	250,000		1,000,000	0/100	→	450,000	45%	350,000	35%	200,000	20%		
2	2nd Million	1,250,000	250,000		1,000,000	0/100	→	450,000	45%	262,500	75% of 35%	200,000	20%	87,500	25% of 35%
3	3rd Million	1,250,000	250,000		1,000,000	25/75	→	337,500	45%	175,000	2/3 of 35%	150,000	20%	87,500	1/3 of 35%
4	4th Million	1,250,000	250,000		1,000,000	50/50	→	225,000	45%	87,500	50% of 35%	100,000	20%	87,500	50% of 35%
Add't'l to reach															
5	\$5.35 Million	10,500,000	2,100,000		8,400,000	75/25	→	945,000	45%	735,000	35%	420,000	20%	-	
6	Sub-totals	15,500,000	3,100,000		12,400,000		→	2,407,500		1,610,000		1,070,000		262,500	
Infrastructure Fund - After \$5.35 Million								100% to Infrastructure Fund Allocated: General - 45% / Schools - 35% / Cities - 20%							
9	Add't to reach														
	\$18,000,000	7,000,000	1,400,000		5,600,000	75/25	→	-	0%	-		-	0%	1,400,000	100%
10	Sub-totals	22,500,000	4,500,000		18,000,000			2,407,500		1,610,000		1,070,000		1,662,500	
Every Million															
11	after \$18 Million	1,250,000	250,000		1,000,000	90/10	→	-	0%	-		-	0%	100,000	100%
12	TOTALS	23,750,000	4,750,000		19,000,000		→	2,407,500		1,610,000		1,070,000		1,762,500	
								Gen. Fund	-	Schools	-	Cities	-	Townships	
13	INFRASTRUCTURE FUND ALLOCATION				\$1,762,500			793,125	45%	-		352,500	20%	616,875	35%
14	TOTALS AFTER INFRASTRUCTURE ALLOCATION						→	\$3,200,625		\$1,610,000		\$1,422,500		\$616,875	

Infrastructure Fund Allocation: General - 45% / Schools - 35% / Cities - 20%

Cities limited to \$750/capita

McKenzie County Oil & Gas Distribution

D

September 2009 - \$1,487,367.98

Prod. Month	Coll. Month	Distrib. Month	Remaining 4/5 After first 20% to State		State / County	STATE 4/5 Share ↓	COUNTY 4/5 Share	→	State Paid Cities 20%		Gen. Fund 45%	Schools ↓		Infrastructure Fund ↓		→
1	JULY	AUG	SEPT	1,000,000.00	1st Million	0/100		1,000,000.00	→	200,000.00	450,000.00	100% of 35%	350,000.00	0% of 35%		
2				859,209.98	2nd Million	0/100		859,209.98	→	171,842.00	386,644.49	75% of 35%	225,542.62	25% of 35%	75,180.87	→
3					3rd Million	25/75			→			2/3 of 35%		1/3 of 35%		→
4					4th Million	50/50			→			50% of 35%		50% of 35%		→
Add'l to \$12.4 Million \$5.35 Million to County					Next \$14 Million	75/25			→			\$560,000 more at 100% of 35%		Excess over \$560,000 to Schools		→
Add'l to \$18 Million						75/25			→					After \$5.35M to County 100%		→
7					After \$18 Million	90/10			→					100%		→

8	1,859,209.98	-	1,859,209.98	371,842.00	836,644.49	575,542.62	75,180.87
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**INFRASTRUCTURE FUND
DISTRIBUTION
(20% Cities / 45% General / 35%
Infrastructure)**

9	75,180.87	15,036.17	33,831.39	-	(48,867.57)
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10	TOTAL COUNTY	\$386,878.17	\$870,475.88	\$575,542.62	\$26,313.31
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State to County 1,487,367.98

State to Cities
371,842.00
 1,859,209.98

Mckenzie County Oil & Gas Distribution

October 2009 - \$1,139,639.21

E

Prod. Month	Coll. Month	Distrib. Month	Remaining 4/5 After first 20% to State		State / County	STATE 4/5 Share ↓	COUNTY 4/5 Share	→	State Paid Cities 20%		Gen. Fund 45%	Schools ↓		Infrastructure Fund ↓	→
1	AUG	SEPT	OCT	1st Million	0/100	-	-	→	-	-	-	100% of 35%	-	0% of 35%	-
2				140,790.02 2nd Million	0/100	-	140,790.02	→	28,158.00	63,355.51	75% of 35%	36,957.38	25% of 35%	12,319.13	→
3				1,000,000.00 3rd Million	25/75	250,000.00	750,000.00	→	150,000.00	337,500.00	2/3 of 35%	175,000.00	1/3 of 35%	87,500.00	→
4				1,000,000.00 4th Million	50/50	500,000.00	500,000.00	→	100,000.00	225,000.00	50% of 35%	87,500.00	50% of 35%	87,500.00	→
5	Add'l to \$12.4 Million \$5.35 Million to County			135,035.96	75/25	101,276.97	33,758.99	→	6,751.80	15,191.55	\$560,000 more at 100% of 35%	11,815.65	Excess over \$560,000 to Schools		→
6	Add'l to \$18 Million			-	75/25	-	-	→					After \$5.35M to County 100%	-	→
7				After \$18 Million	90/10	-	-	→					100%	-	→
8				2,275,825.98		851,276.97	1,424,549.01		284,909.80	641,047.05		311,273.03		187,319.13	
9				INFRASTRUCTURE FUND DISTRIBUTION (20% Cities / 45% General / 35% Infrastructure)			187,319.13		37,463.83	84,293.61	-			(121,757.43)	
10				TOTAL COUNTY					\$322,373.63	\$725,340.66		\$311,273.03		\$65,561.69	

State to County 1,139,639.21
State to Cities 284,909.80
1,424,549.01

F

F

F

F

F

F

F

F

F

F

McKenzie County Oil & Gas Distribution

G

December 2009 - MR#91750 - \$486,440.69

Prod. Month	Coll. Month	Distrib. Month	Remaining 4/5 After first 20% to State		State / County	STATE 4/5 Share ↓	COUNTY 4/5 Share	→	State Paid Cities 20%		Gen. Fund 45%	Schools ↓	Infrastructure Fund ↓	→	
1	OCT	NOV	DEC	1st Million	0/100			→				100% of 35% -	0% of 35% -		
2				2nd Million	0/100			→				75% of 35% -	25% of 35% -	→	
3				3rd Million	25/75			→				2/3 of 35% -	1/3 of 35% -	→	
4				4th Million	50/50			→				50% of 35% -	50% of 35% -	→	
5	Add'l to \$12.4 Million \$5.35 Million to County			2,432,203.44	Next \$14 Million	75/25	1,824,152.58	→	121,610.17		273,622.89	\$560,000 more at 100% of 35%	212,817.80	Excess over \$560,000 to Schools	→
6	Add'l to \$18 Million					75/25		→						After \$5.35M to County 100% -	→
7				After \$18 Million	90/10			→						100% -	→

8		2,432,203.44		1,824,152.58	608,050.86	121,610.17	273,622.89	212,817.80	
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INFRASTRUCTURE FUND DISTRIBUTION

9	(20% Cities / 45% General / 35% Infrastructure)								
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10	TOTAL COUNTY	\$121,610.17	\$273,622.89	\$212,817.80	\$0.00
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State to County 486,440.69
 State to Cities 121,610.17
 608,050.86

McKenzie County Oil & Gas Production
September thru December 2009 Totals



	<u>GENERAL</u>	<u>SCHOOLS</u>		<u>CITIES</u>		<u>INFRASTR.</u>	<u>COUNTY</u>		Total Tax Before State/County Splits
	General Fund	County	Addl \$560,000	County	State	Infrastructure	Monthly Totals		
September	870,475.88	575,542.62	0.00	15,036.17	371,842.00	26,313.31	1,859,209.98		1,859,209.98
October	725,340.64	299,457.38	11,815.65	37,463.83	284,909.80	65,561.70	1,424,549.00		2,275,825.98
November	246,488.23	0.00	191,713.07	0.00	109,550.33	0.00	547,751.63		2,191,006.52
December	273,622.89	0.00	212,817.80	0.00	121,610.17	0.00	608,050.86		2,432,203.44
January							0.00		
February (A)							0.00		
February (B)							0.00		
March							0.00		
April							0.00		
May							0.00		
June							0.00		
July							0.00		
August							0.00		
Subtotals	2,115,927.64	875,000.00	416,346.52	52,500.00	887,912.30	91,875.01	4,439,561.47		8,758,245.92

SCHOOLS YTD **1,291,346.52**
 Schools Max 1,435,000.00
 Difference 143,653.48

CITIES YTD TOTAL **940,412.30**
 \$750 Per Capita Max 1,317,750.00
 Difference 377,337.70

COUNTY YTD
September thru Feb (A) **4,439,561.47**
 \$5.35 Million to County 5,350,000.00
 Difference 910,438.53

YTD State/County **8,758,245.92**
 90/10 Split after \$18 Million 18,000,000.00
 Difference 9,241,754.08

McKenzie County Oil & Gas Production
FY 2010 TOTALS



	<u>GENERAL</u>	<u>SCHOOLS</u>		<u>CITIES</u>		<u>INFRANSTR.</u>	<u>COUNTY</u>	
	General Fund	County	Addl \$560,000	County	State	Infrastructure	Monthly Totals	Total Tax Before State/County Splits
September	870,475.88	575,542.62	0.00	15,036.17	371,842.00	26,313.31	1,859,209.98	1,859,209.98
October	725,340.64	299,457.38	11,815.65	37,463.83	284,909.80	65,561.70	1,424,549.00	2,275,825.98
November	246,488.23	0.00	191,713.07	0.00	109,550.33	0.00	547,751.63	2,191,006.52
December	273,622.89	0.00	212,817.80	0.00	121,610.17	0.00	608,050.86	2,432,203.44
January	368,903.57	0.00	143,653.48	0.00	163,957.14	37,144.47	713,658.66	2,854,634.64
February (A)	119,543.78	0.00	0.00	13,774.59	39,355.97	24,105.53	196,779.87	787,119.48
February (B)	184,126.77	0.00	0.00	81,834.12	0.00	143,209.71	409,170.60	1,479,258.52
March	216,471.54	0.00	0.00	78,409.50	6.38	158,782.10	453,669.52	1,814,652.52
April	435,499.29	0.00	0.00	0.00	0.00	234,499.61	669,998.90	3,476,814.86
May							0.00	
June							0.00	
July							0.00	
August							0.00	
Subtotals	3,440,472.59	875,000.00	560,000.00	226,518.21	1,091,231.79	689,616.43	6,882,839.02	19,170,725.94

SCHOOLS YTD	1,435,000.00		CITIES YTD TOTAL	1,317,750.00
Schools Max	1,435,000.00	\$750 Per Capita Max		1,317,750.00
Difference	0.00	January	Difference	0.00
				March
COUNTY YTD			YTD State/County	19,170,725.94
September thru Feb (A)	5,350,000.00			18,000,000.00
\$5.35 Million to County	5,350,000.00	February A	90/10 Split after \$18 Million	18,000,000.00
Difference	0.00		Difference	(1,170,725.94)
				April