



# Energy Development and Transmission Committee

Presentation on behalf of western North Dakota school districts impacted, or will soon be impacted, by oil production in North Dakota.

January 26<sup>th</sup>, 2012

Roughrider Room  
State Capital Building  
Bismarck, ND



# Oil and Gas Production Tax Formula

## – History of School District Funding

- 1957 - Gross Production Tax was established based on  $\frac{4}{5}$  of the 5% production tax to be distributed to counties with the following distribution (15% cities, 45% school districts, 40% road and bridge funds) – No county caps (maximums)
- 1981- Gross Production Tax distribution formula within the county was changed (20% cities, 35% school districts, 45% county general fund). New caps were implemented.
- 1983 – The Gross Production Tax caps were increased to 3.9 million (county population under 3,000); 4.1 million (population between 3,000 and 6,000); and 4.6 million (population greater than 6,000)
- 1989 – A portion of the  $\frac{1}{5}$  that goes to the state general fund reallocated to the Oil & Gas Impact Grant fund.



# Oil and Gas Production Tax – History of School District Funding

- 2007 – SB 2200 was passed. The education bill introduced the imputation factor for school districts.
  - Districts above 150% of the state average imputed taxable valuation per student will receive their payment reduced by 75% of the valuation exceeding the state average.
  - 60% of the tuition and county revenue is considered in imputed taxable valuation the first year. The percentage was increased to 70% the second year.
  - The effects of the imputation factor on the county revenue (oil and gas production tax) for individual school districts depends on the district taxable valuation, student average daily membership (ADM), and the current state average imputed factor. Oil and Gas production tax is used as a “taxable valuation” or “property tax” value to determine school district wealth. This reinforces the original intent of the gross production tax to provide in lieu of funding for school districts that lost taxing authority with the loss of taxable valuation dollars.



# Oil and Gas Production Tax – History of School District Funding

- 2009 – HB 1304 was passed which removed the cap on the oil and gas production formula; however, the additional 10% added at the end of the formula was not granted to school districts. The 35% allocated to schools (after the cap) was distributed into the “Infrastructure Fund” that provided grants through each county commission to school districts and townships. Money granted to schools through this fund was for “repair or replacement of school district vehicles necessitated by damage or deterioration attributable to travel on oil and gas development-impacted roads. Changes to the gross production tax formula also called for revenues to be put into the Infrastructure Fund after the first million dollars; which left some school districts with less production tax revenue despite the intent of “hold harmless” with the legislation. The availability of additional school district oil and gas production tax beyond the cap was at the discretion of the county commission and limited to bus purchases.



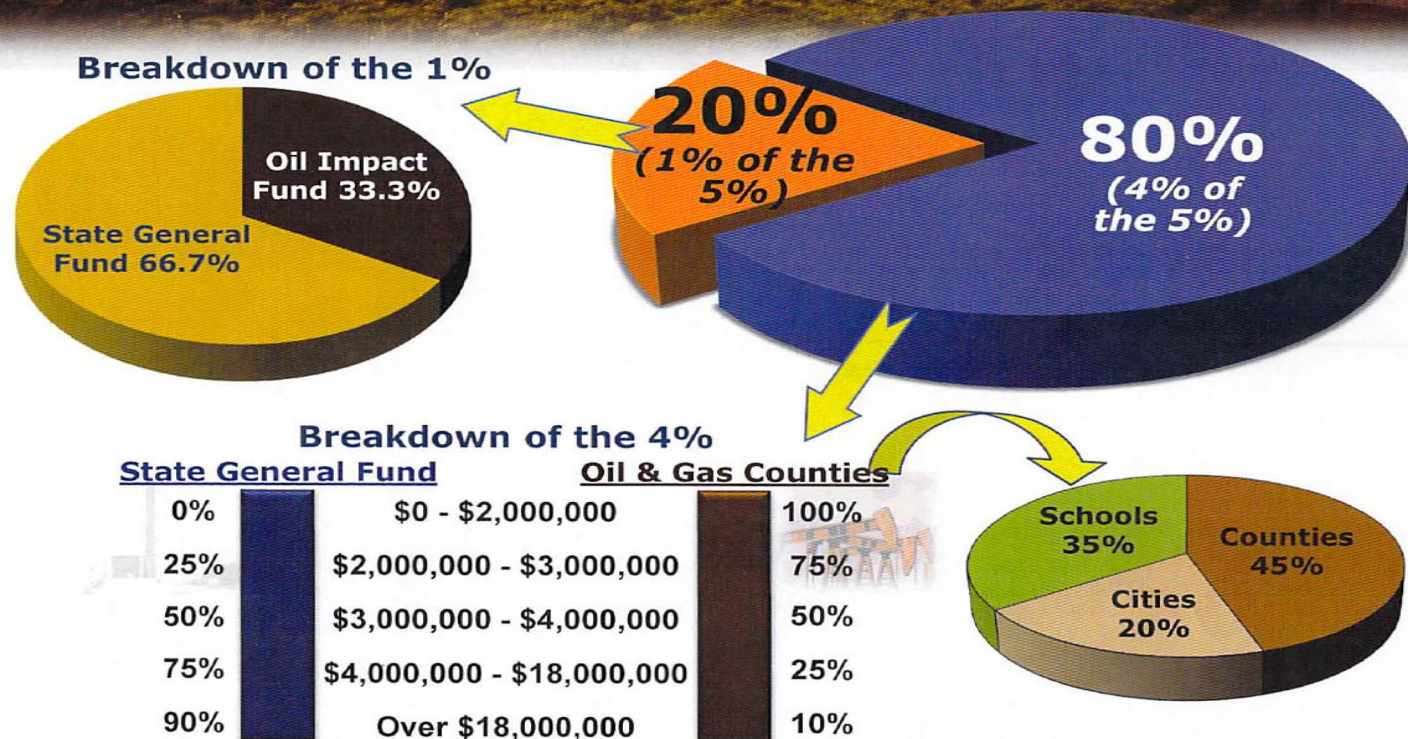
# Oil and Gas Production Tax – History of School District Funding

- 2011 – HB 1013 passes that allocates \$142 million for county road projects and \$100 million to the Oil Impact grant program. HB 1077 removes the population cap on cities regarding their oil and gas production tax revenues. The \$100 million in Oil Impact is designated for city infrastructure projects. No intent for school district infrastructure projects to be funded through the Oil Impact Fund.
- SB 2150 – Allocated \$5 million out of the Oil Impact grant fund to school districts experiencing “rapid enrollment growth”. School districts must experience a 7% growth from Fall to Fall of a school year and a minimum of 25 students. The allocation can not exceed 2.5 million each year of the biennium. The first year (2011-2012) allocated \$2,408,560 to 10 school districts. (South Prairie, Minnewaukan, and Warwick among recipients)
- For capped school districts to receive additional revenue from the 2011 legislative session; they must meet the rapid enrollment growth grant criteria and/or receive funds from the county Infrastructure Fund.
- The revenue received from the oil and gas production tax is greatly appreciated and necessary for western ND schools; however, it simply isn’t enough to maintain the high quality of education expected of our patrons and students.



# Oil and Gas Production Tax – History of School District Funding

## 5% Gross Production Tax



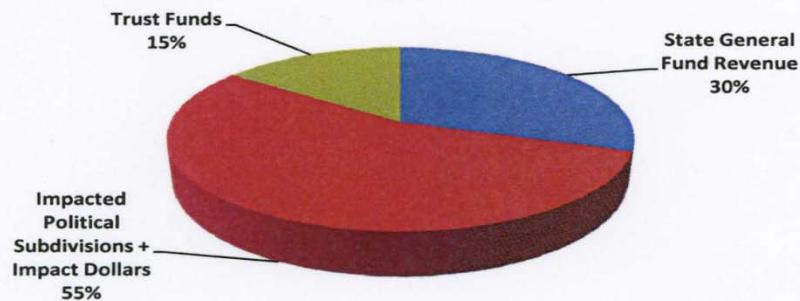


# Comparison – Coal Funding vs. Oil and Gas Funding for Schools

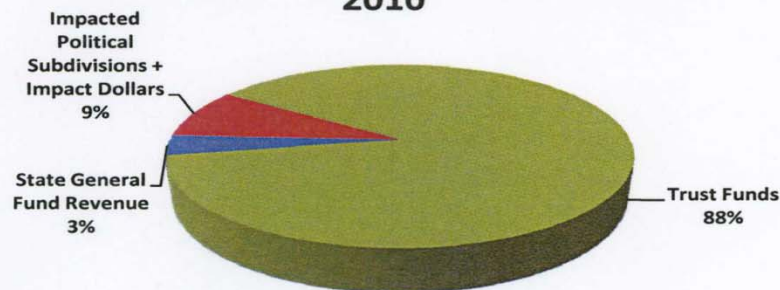
- Between 1975-1982; the Beulah school district received \$2,657,446 and the Hazen school district received \$2,542,215 from the Coal Impact Grants available to school district impacted by the coal energy development. Adjusted for 2012 dollars; the total for both school districts is approximately \$15.3 million.
- Currently, the Hazen school district receives the same amount in coal energy funding annually as the McKenzie County Public School District #1.
- The grants awards to school districts between 1975-1982 included multiple school construction projects for school districts affected by the coal industry.
- The Coal Loan Program was also available to school districts and provided were “repaid from the local share of the Severance Tax gave cities, counties, and **schools** in the coal producing counties a means of obtaining up-front capital improvement funding at low interest”.

# Comparison – Coal Funding vs. Oil and Gas Funding for Schools

**North Dakota Coal Tax Distribution  
1977**



**North Dakota Oil Tax Distribution  
2010**

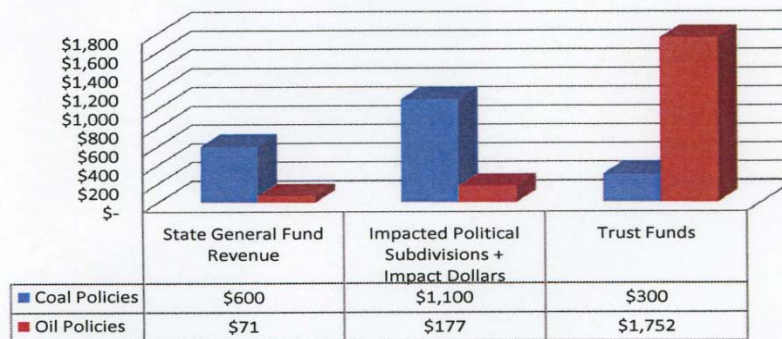




# Comparison – Coal Funding vs. Oil and Gas Funding for Schools

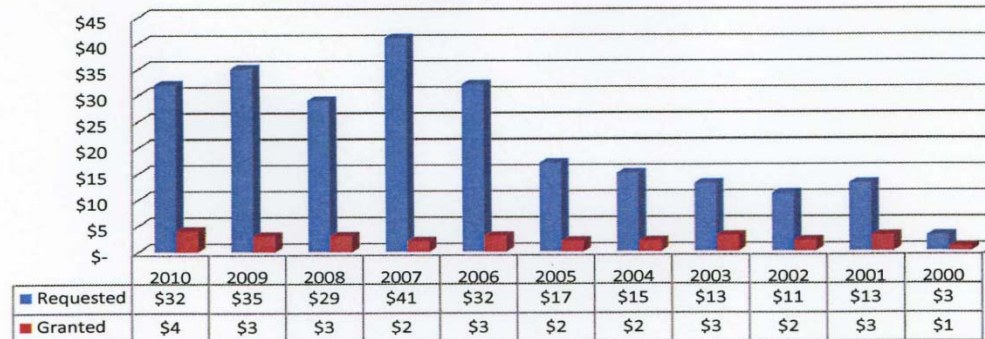
## Coal and Oil Tax Distribution Comparison

Based on \$2 billion biennial tax receipts  
(millions)



## North Dakota Energy Development Impact Office

Historic view of dollars requested and granted  
(millions)



Total Requested:

\$241 million

Total Granted:

\$ 28 million

11.6%



# McKenzie County Public School District #1 – Watford City

- Enrollment
  - Spring 2010 = 538 students K-12
  - Current = 740 students K-12
  - 38% increase over 1.5 year span
  - Approximately 250 new students enrolled in the district between May 25<sup>th</sup>, 2011 and January 25<sup>th</sup>, 2012.
  - Over the same time span – 8 new teachers hired to accommodate enrollment increases.
  - MCPSD #1 received \$445,740.00 in rapid enrollment grant funds for 2011-2012.
  - Funds covered the initial costs of 6 new teachers and classroom adjustments to accommodate 4 new sections of classes at the elementary school.
  - MCPSD #1 received \$914,097.92 in oil and gas production tax revenue for 2011-2012. Reached cap in second month of production payments.
  - MCPSD #1 received \$1,149,123.31 in oil and gas production tax revenue for 1983-1984. The value in 2012 dollars is approximately \$2,629,111.



# McKenzie County Public School District #1 – Watford City

- Impacted areas from oil and gas production in McKenzie County:
  - Accommodating the migrant nature of student population and varying demographic of educational backgrounds
  - Challenge of maintaining current educational standards while accounting for the new student population (AYP)
  - New Teachers – Teacher Housing (Affordable)
  - New ancillary staff – competitive wages and cost of living issues
  - Transportation – New routes, hiring drivers, CDL wages, longer ride times, developments not designed for bus pick-ups, life span of bus approximately one-half of previous expectations.
  - New service requirements – Special Education, English Language Learners.
  - Facilities



# McKenzie County Public School District #1 – Watford City

- Facility Planning
  - District hired architect firm to perform study of facilities and assist the school board with future facility needs
  - According to city planner; Watford City has over 1,000 housing units permitted for construction through spring of 2013.
  - Population of Watford City expected to reach between 7,500 and 10,000 in 2-3 year span (Previous population of 1,500)
  - Future facility needs projection based on outside study:
    - Over \$30 million in teacher housing and school facilities in the next 3-5 years based on enrollment and population projections (\$22.8 million for middle school – 600 student capacity).



# Ray – Nesson School District

- Enrollment – Increase from 164 to 255 in three years (56% increase)
- One additional bus route – two additional suburban routes
- Increase in bus maintenance issue – longer ride times with traffic issues and longer routes
- Construction project – Project estimate was 6.25 million; bids came in at 7.4 million – despite a 15% buffer added to architect estimate. District needs to explore ways to keep cost down.
- State credit enhancement program helped district lower the interest cost over 20 years. Savings of approximately 1.3 million over 20 year term.