

**DISTRIBUTION OF ESTIMATED OIL EXTRACTION AND OIL AND GAS PRODUCTION
TAXES FOR THE 2003-05 BIENNIUM (AMOUNTS ARE SHOWN IN MILLIONS OF DOLLARS) \1**

Tax	General Fund \2	Permanent Oil Tax Trust Fund \2	Common Schools Trust Fund \3	Foundation Aid Stabilization Fund \3	Resource Trust Fund	Oil Impact Grant Fund	Counties	Total
Oil extraction tax \4	\$26.40		\$4.33	\$4.33	\$8.67			\$43.73
Oil and gas production tax \5	39.02					\$5.08	\$32.80	76.90
Total	<u><u>\$65.42</u></u>	<u><u>\$0.00</u></u>	<u><u>\$4.33</u></u>	<u><u>\$4.33</u></u>	<u><u>\$8.67</u></u>	<u><u>\$5.08</u></u>	<u><u>\$32.80</u></u>	<u><u>\$120.63</u></u>

\1 The amounts shown are as included in the 2003-05 executive budget.

\2 North Dakota Century Code Section 57-51.1-07.2 (1997 Senate Bill No. 2366) establishes a permanent oil tax trust fund and provides that at the end of each biennium beginning after June 30, 1997, all revenues deposited in the general fund during that biennium and derived from taxes imposed on oil and gas under Chapters 57-51 (Oil and Gas Gross Production Tax) and 57-51.1 (Oil Extraction Tax) which exceed \$62 million are to be transferred by the State Treasurer to special fund. The State Treasurer is to transfer the interest earnings on the fund to the general fund at the end of each fiscal year. The principal of the permanent oil tax trust fund may only be spent upon a two-thirds vote of the members elected to each house of the Legislative Assembly.

The 2003-05 executive budget recommends transferring the balance in the permanent oil tax trust fund on July 1, 2003, to the general fund and amending North Dakota Century Code Section 57-51.1-07.2 to suspend any transfers to the permanent oil tax trust fund during the 2003-05 biennium (Section 13 of Senate Bill No. 2015). The oil extraction and gross production tax collections are projected to generate \$65.4 million in the 2003-05 biennium, which would be deposited in the general fund as recommended by the Governor.

\3 The 1993 Legislative Assembly 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 that 20 percent of the oil extraction tax revenues are to be allocated as follows:

Fifty percent (of the 20 percent) to the common schools trust fund.

Fifty percent (of the 20 percent) to a foundation aid stabilization fund.

\4 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 drilled and completed after July 31, 1997, is exempt from any oil extraction tax for a period of 60 months if it meets any of the following conditions: (1) is located within the boundaries of an Indian reservation; (2) is on lands held in trust for an Indian tribe or individual Indian; or (3) 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 March 31, 1995, 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 is \$35.50 or more for a 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 \$35.50 for any consecutive five-month period.

The oil extraction tax is allocated 20 percent to the resources trust fund for water development, 10 percent to the common schools trust fund, 10 percent to the foundation aid stabilization fund, and 60 percent to the state general fund.

\5 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 on all gas produced. Beginning July 1, 1992, the tax rate will be adjusted based on the gas fuels producer price index.

The oil and gas production tax is distributed per formula to the oil and gas impact fund (up to \$5 million per biennium), to the state general fund, and to political subdivisions within producing counties.