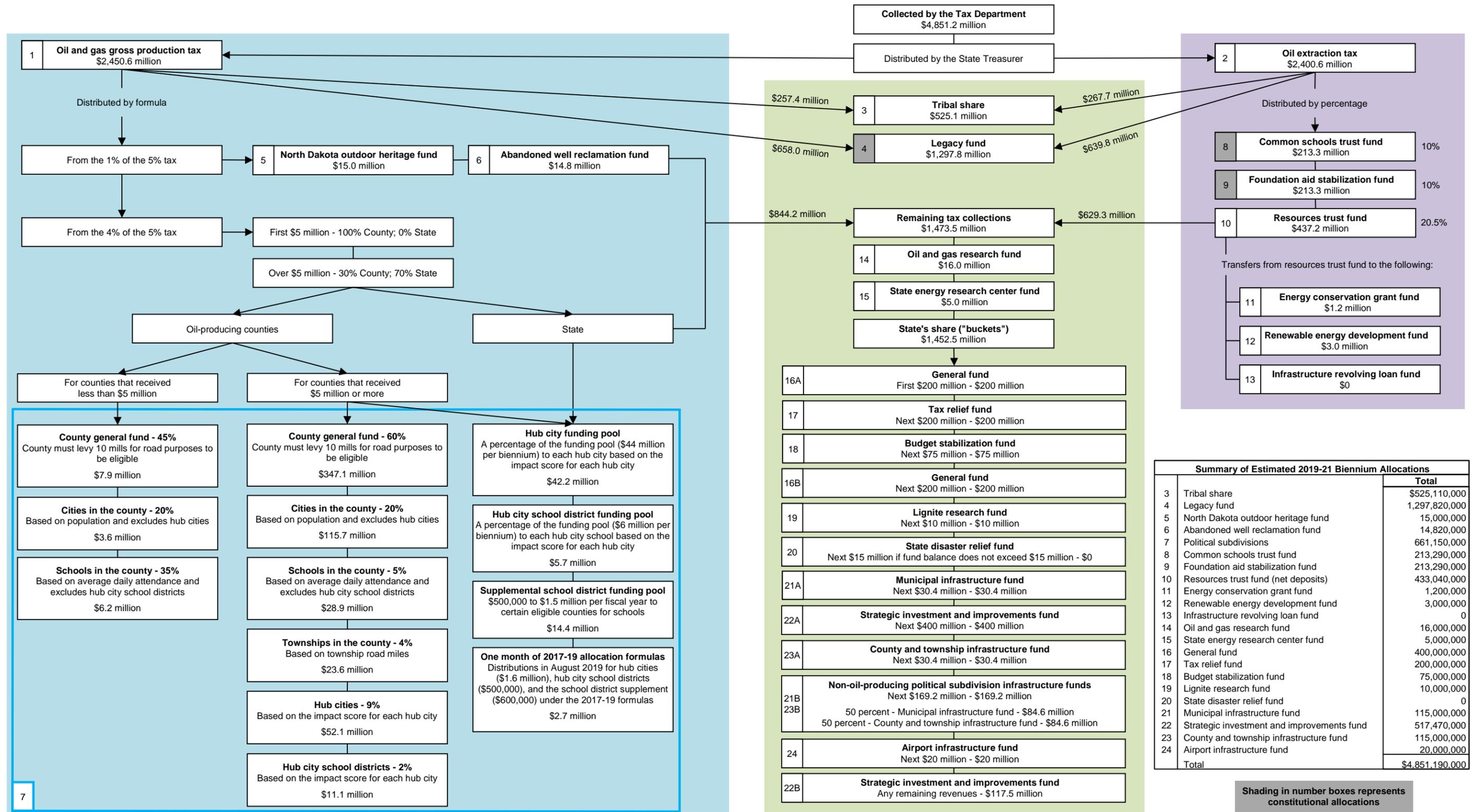


### OIL AND GAS TAX REVENUE ALLOCATION FLOWCHART - 2019-21 BIENNIUM

This memorandum provides information on the estimated allocation of oil and gas tax collections for the 2019-21 biennium reflecting the 2019 legislative revenue forecast. The amounts reflect oil prices averaging \$48.50 per barrel in the 1<sup>st</sup> year and \$48 per barrel in the 2<sup>nd</sup> year of the biennium and oil production averaging 1.40 million barrels per day in the 1<sup>st</sup> year and 1.44 million barrels per day in the 2<sup>nd</sup> year of the biennium. A description of each of the funds is included on the second page.

#### ESTIMATED 2019-21 BIENNIUM ALLOCATIONS - 2019 LEGISLATIVE REVENUE FORECAST



NOTE: The amounts reflected in these schedules are preliminary estimates for August 2019 through July 2021. The actual amounts allocated for the 2019-21 biennium may differ significantly from these amounts based on actual oil price and oil production.

The schedule below provides a brief description of the taxes and funds included in the flowchart on the previous page. Changes approved by the 2019 Legislative Assembly are shown in boldface.

| Box      | Tax/Fund  | Description  |
|----------|---|--|
| 1        | Oil and gas gross production tax                              | North Dakota Century Code Section 57-51-02 provides for a tax of 5 percent of the gross value at the well of oil produced in North Dakota unless exempted, and a tax on gas of four cents times the gas base rate adjustment for each fiscal year as calculated by the Tax Department.   |
| 2        | Oil extraction tax  | Section 57-51.1-02, as amended by House Bill No. 1476 (2015), provides for a tax of 5 percent of the gross value at the well on the extraction of oil unless exempted. Prior to January 1, 2016, the oil extraction tax rate was 6.5 percent.  |
| 3        | Tribal share  | Chapter 57-51.2 provides the requirements for allocating oil and gas tax related to the oil production within the Fort Berthold Reservation. The oil and gas tax revenues are allocated 50 percent to the state and 50 percent to the Three Affiliated Tribes of the Fort Berthold Reservation. <b>Senate Bill No. 2312 (2019) increases the revenue allocation to the Three Affiliated Tribes.</b>  |
| 4        | Legacy fund   | Section 26 of Article X of the Constitution of North Dakota provides for a deposit to the legacy fund of 30 percent of total revenue derived from taxes on oil and gas production and extraction.  |
| 5        | North Dakota outdoor heritage fund                            | House Bill No. 1278 (2013) created the North Dakota outdoor heritage fund to preserve natural areas and public lands. House Bill No. 1176 (2015) amended Section 57-51-15 to provide 8 percent of revenues from the first 1 percent of the oil and gas gross production tax, up to \$20 million per fiscal year, be deposited in the fund. <b>House Bill No. 1014 (2019) limits the allocations to \$7.5 million per fiscal year for the 2019-21 biennium.</b>   |
| 6        | Abandoned oil and gas well plugging and site reclamation fund | House Bill No. 1333 (2013) and House Bill No. 1032 (2015) amended Section 57-51-15 to increase the allocations to the abandoned oil and gas well plugging and site reclamation fund. Based on current law, 4 percent of the first 1 percent of oil and gas gross production tax is allocated to the fund not to exceed \$7.5 million per fiscal year and not in an amount that would bring the balance of the fund to more than \$100 million. <b>House Bill No. 1014 (2019) decreases the maximum fund balance by \$50 million, from \$100 million to \$50 million.</b>   |
| 7        | Political subdivisions  | Oil and gas gross production taxes are distributed to political subdivisions under Section 57-51-15 as amended by Senate Bill No. 2013 (2017). <b>House Bill No. 1066 (2019) changes the funding source for the allocations to hub cities, hub city school districts, and school district supplement, and the bill also adjusts the allocation percentages for the distributions to townships and hub city school districts.</b>   |
| 8        | Common schools trust fund                                     | Section 1 of Article IX of the Constitution of North Dakota provides for a common schools trust fund to be used to support the common schools of the state. Section 24 of Article X of the Constitution of North Dakota provides for a distribution of 10 percent of oil extraction taxes to the common schools trust fund to become part of the principal of the fund. The earnings are distributed through the state school aid payments. <b>Senate Bill No. 2362 (2019) changes the method of allocating oil extraction tax revenue related to the state's share of revenue associated with production on tribal lands, increasing the allocation to the common schools trust fund.</b>   |
| 9        | Foundation aid stabilization fund                             | Section 24 of Article X of the Constitution of North Dakota provides for a distribution of 10 percent of oil extraction taxes to the foundation aid stabilization fund. Section 24, as amended by Senate Concurrent Resolution No. 4003 (2015) and approved by the voters, restricts a portion of the fund to offset state school aid payments due to a revenue shortfall and allows the remainder to be used for educational purposes. <b>Senate Bill No. 2362 (2019) changes the method of allocating oil extraction tax revenue related to the state's share of revenue associated with production on tribal lands, increasing the allocation to the foundation aid stabilization fund.</b>   |
| 10       | Resources trust fund  | Section 57-51.1-07 provides for a distribution of 20 percent of oil extraction taxes to the resources trust fund. Section 22 of Article X of the Constitution of North Dakota provides the fund may be used, subject to legislative appropriation, for constructing water-related projects, including rural water systems, and funding of programs for energy conservation. <b>Senate Bill No. 2362 (2019) changes the method of allocating oil extraction tax revenue related to the state's share of revenue associated with production on tribal lands and provides an additional .5 percent allocation to the resources trust fund as an adjustment for prior period allocations both of which result in an increase in the allocations to the fund.</b> |
| 11       | Energy conservation grant fund                                | Senate Bill No. 2014 (2013) amended Section 57-51.1-07 to provide for a transfer of one-half of 1 percent of the amount credited to the resources trust fund from the resources trust fund into the energy conservation grant fund, up to \$1.2 million per biennium.  |
| 12       | Renewable energy development fund                             | Senate Bill No. 2014 (2013) amended Section 57-51.1-07 to provide for a transfer of 5 percent of the amount credited to the resources trust fund from the resources trust fund into the renewable energy development fund, up to \$3 million per biennium. House Bill No. 1020 (2017) decreased the percentage transferred from 5 to 3 percent.  |
| 13       | Infrastructure revolving loan fund                            | Senate Bill No. 2233 (2013) created an infrastructure revolving loan fund within the resources trust fund to provide loans for water projects. Ten percent of the oil extraction tax allocations deposited in the fund are designated for the infrastructure revolving loan fund. House Bill No. 1020 (2017) limited the total amount deposited in the infrastructure revolving loan fund to \$26 million.   |
| 14       | Oil and gas research fund                                     | Section 57-51.1-07.3 (Senate Bill No. 2311 (2003)) establishes the oil and gas research fund for the Oil and Gas Research Council to provide grants. Senate Bill No. 2014 (2013) amended Section 57-51.1-07.3 to provide 2 percent of the state's share of the oil and gas tax revenues, up to \$10 million per biennium, is to be deposited into the oil and gas research fund. <b>House Bill No. 1014 (2019) increases the allocations by \$6 million, from \$10 million to \$16 million, for the 2019-21 biennium.</b>  |
| 15       | <b>State energy research center fund</b>                      | <b>Senate Bill No. 2249 (2019) creates a state energy research center fund and allocates 1 percent of the state's share of oil and gas tax revenues, up to \$5 million per biennium, to the fund for the Industrial Commission to contract with the Energy and Environmental Research Center for research projects.</b>  |
| 16A, 16B | General fund  | The general fund is the chief operating fund of the state. Section 57-51.1-07.5, as amended by House Bill No. 1152 (2017), provides for an allocation of \$400 million of the state's share of oil and gas tax revenues to the general fund for the 2017-19 biennium and an allocation of \$300 million after the 2017-19 biennium. <b>House Bill No. 1066 (2019) increases the allocation to \$400 million.</b>   |
| 17       | Tax relief fund   | House Bill No. 1152 (2017) amended Section 57-51.1-07.5 to provide for the allocation of \$200 million of the state's share of oil and gas tax revenues to the tax relief fund each biennium.  |
| 18       | Budget stabilization fund                                     | The budget stabilization fund is established under Section 54-27.2-01. The Governor may order a transfer from the budget stabilization fund to the general fund when certain criteria are met to offset a general fund revenue shortfall. House Bill No. 1152 (2017) amended Section 57-51.1-07.5 to provide for an allocation of up to \$75 million from the state's share of oil and gas tax revenues.   |
| 19       | Lignite research fund   | The lignite research fund is established under Section 57-61-01.6 for research, development projects, and marketing activities related to the lignite industry. House Bill No. 1152 (2017) amended Section 57-51.1-07.5 to provide for an allocation of up to \$3 million from the state's share of oil and gas tax revenues. <b>House Bill No. 1066 (2019) increases the allocation to \$10 million.</b>  |
| 20       | State disaster relief fund                                    | Section 37-17.1-27 provides for the state disaster relief fund to be used for the required state share of funding for expenses associated with presidential-declared disasters. Section 57-51.1-07.5, as amended by House Bill No. 1152 (2017), provides for the distribution of up to \$20 million of oil tax revenues to the state disaster relief fund each biennium, but not in an amount that would bring the balance of the fund to more than \$20 million. <b>Senate Bill No. 2016 (2019) provides up to \$15 million of allocations, but not in an amount that would bring the balance of the fund to more the \$15 million.</b>   |
| 21A, 21B | <b>Municipal infrastructure fund</b>                          | <b>House Bill No. 1066 (2019) creates a municipal infrastructure fund and allocates up to \$115 million per biennium for grants to non-oil-producing cities for essential infrastructure projects.</b>   |
| 22A, 22B | Strategic investment and improvements fund                    | Section 15-08.1-08 provides for the strategic investment and improvements fund. The fund is to be used for one-time expenditures to improve state infrastructure or initiatives to improve the efficiency and effectiveness of state government. Section 57-51.1-07.5 provides for the allocation of certain oil tax revenues to the strategic investment and improvements fund.   |
| 23A, 23B | <b>County and township infrastructure fund</b>                | <b>House Bill No. 1066 (2019) creates a county and township infrastructure fund and allocates up to \$115 million per biennium for grants to non-oil-producing counties and townships for road and bridge infrastructure projects.</b>   |
| 24       | <b>Airport infrastructure fund</b>                            | <b>House Bill No. 1066 (2019) creates an airport infrastructure fund and allocates up to \$20 million per biennium for airport infrastructure projects, subject to legislative appropriation.</b>  |