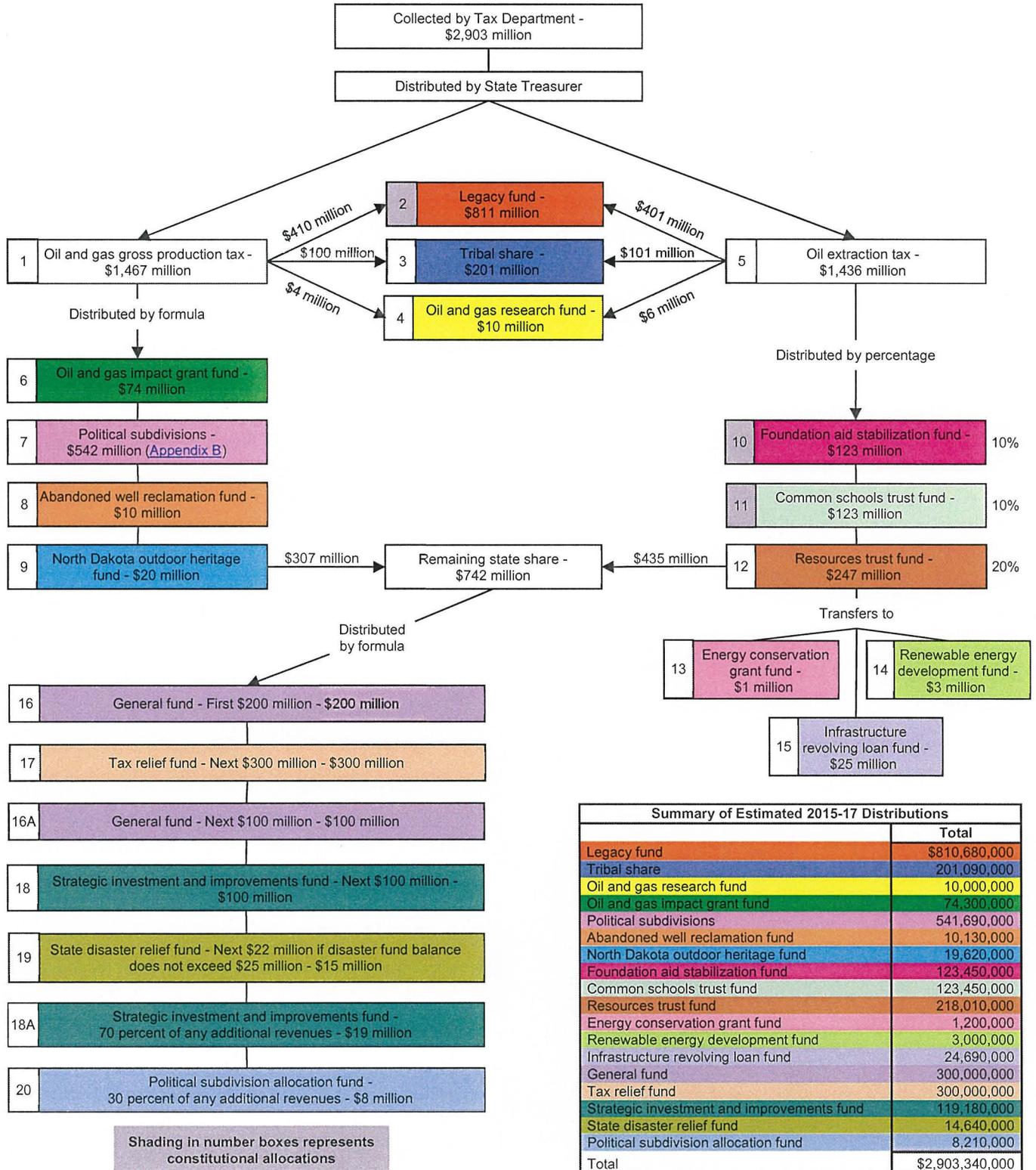


2015-17 BIENNIUM REVISED OIL AND GAS TAX REVENUE ALLOCATION FLOWCHART

This memorandum provides information on the estimated allocation of oil and gas tax collections for the 2015-17 biennium based on the August 2016 revised revenue forecast. A summary of the funds is included in [Appendix A](#), and a more detailed schedule of the distribution of oil and gas gross production tax collections is included in [Appendix B](#).

2015-17 BIENNIUM August 2016 Revised Revenue Forecast



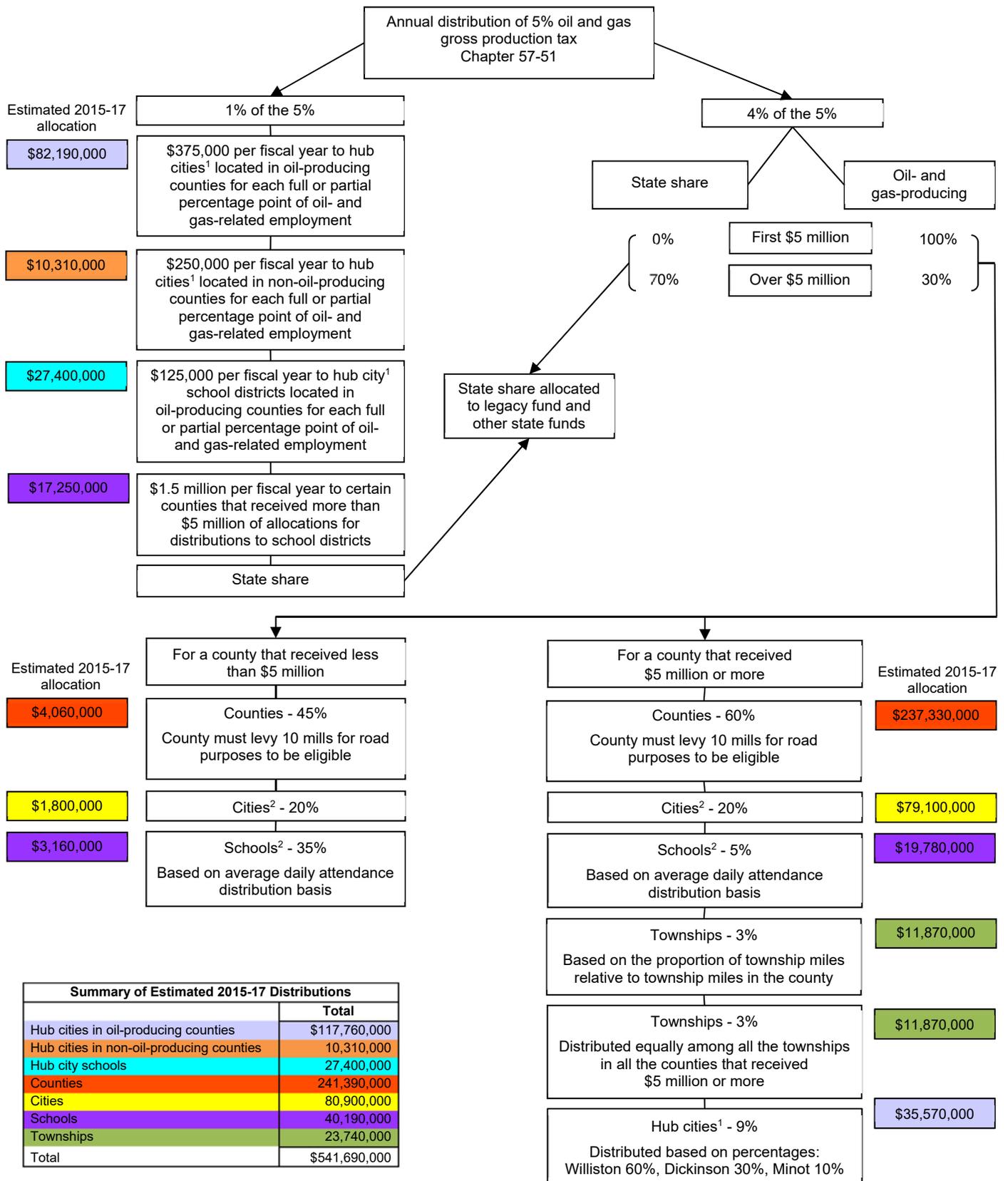
ATTACH:2

The table below provides a brief description of the taxes and funds included in the flowchart on the previous page.

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. 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.
2	Legacy fund	Article X, Section 26, 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 or extraction.
3	Tribal share	Chapter 57-51.2 provides the requirements for allocating oil and gas tax revenues to the Three Affiliated Tribes 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.
4	Oil and gas research fund	Section 57-51.1-07.3 (2003 Senate Bill No. 2311) establishes the oil and gas research fund. Senate Bill No. 2014 (2013) amended Section 57-51.1-07.3 to provide that 2 percent of the state's share of the oil and gas gross production tax and oil extraction tax revenues, up to \$10 million per biennium, is to be deposited into the oil and gas research fund. All money deposited in the fund and all interest income are appropriated as a continuing appropriation to the Oil and Gas Research Council.
5	Oil extraction tax	Section 57-51.1-02 provides for a tax of 6.5 percent of the gross value at the well on the activity in North Dakota of extracting oil from the earth unless exempted until December 31, 2015. House Bill No. 1476 (2015) changed the oil extraction tax rate to 5 percent effective after December 31, 2015.
6	Oil and gas impact grant fund	Section 57-51-15 (1989 House Bill No. 1302) establishes the oil and gas impact grant fund for deposit of revenue from oil and gas gross production taxes. House Bill No. 1176 (2015) amended Section 57-51-15 to provide that revenue from the tax equal to the first 1 percent of the gross value of oil at the well of oil production, up to \$140 million for the 2015-17 biennium, is to be deposited into the oil and gas impact grant fund. After the 2015-17 biennium, up to \$100 million per biennium is to be deposited into the fund. The fund is used to provide grants to political subdivisions impacted by oil development.
7	Political subdivisions	Oil and gas gross production taxes are apportioned to political subdivisions pursuant to Section 57-51-15 as amended by 2015 House Bill No. 1176. See Appendix B .
8	Abandoned oil and gas well plugging and site reclamation fund	House Bill No. 1333 (2013) amended Section 57-51-15 to provide that 4 percent of the first 1 percent of oil and gas gross production tax 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. House Bill No. 1032 (2015) provides for an allocation of \$7.5 million per state fiscal year, but not in an amount that would bring the balance of the fund to more than \$100 million.
9	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 state fiscal year, be deposited in the fund.
10	Foundation aid stabilization fund	Article X, Section 24, 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 also provides that the principal of the foundation aid stabilization fund may be expended only upon order of the Governor to offset foundation aid reductions that were made by executive action due to a revenue shortfall.
11	Common schools trust fund	Article IX, Section 1, of the Constitution of North Dakota, provides for a common schools trust fund to be used to support the common schools of the state. Article X, Section 24, 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. Article IX also provides for the deposit of other revenue sources into the common schools trust fund. Only earnings of the common schools trust fund may be spent. The earnings are distributed to school districts as part of the state school aid formula.
12	Resources trust fund	Section 57-51.1-07 provides for a distribution of 20 percent of oil extraction taxes to the resources trust fund. Article X, Section 22, of the Constitution of North Dakota, provides that 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.
13	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.
14	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.
15	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 supply, flood protection, or other water projects. Ten percent of the oil extraction tax allocations deposited in the fund are designated for the infrastructure revolving loan fund.
16 and 16A	General fund	The general fund is the chief operating fund of the state. Section 57-51.1-07.5 provides for the distribution of the state's share of oil and gas taxes. The distribution formula provides for an initial deposit of \$200 million to the general fund and an additional \$100 million after a deposit of \$300 million in the tax relief fund.
17	Tax relief fund	Section 57-51.1-07.5 provides for the distribution of up to \$300 million of oil tax revenues to the tax relief fund each biennium.

Box	Tax/Fund	Description
18 and 18A	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 distribution of certain oil tax revenues to the strategic investment and improvements fund.
19	State disaster relief fund	Section 37-17.1-27 provides for the state disaster relief fund to be used only for the required state share of funding for expenses associated with presidential-declared disasters in the state upon Emergency Commission and Budget Section approval. Section 57-51.1-07.5 provides for the distribution of up to \$22 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 \$25 million.
20	Political subdivision allocation fund	House Bill No. 1377 (2015) creates a political subdivision allocation fund to provide allocations to political subdivisions. Section 57-51.1-07.5 provides for the distribution of certain oil tax revenues to the political subdivision allocation fund.

2015-17 BIENNIUM ESTIMATED DISTRIBUTION OF 5 PERCENT OIL AND GAS GROSS PRODUCTION TAX COLLECTIONS



¹A "hub city" means a city with a population of 12,500 or more, according to the last official decennial federal census, which has more than 1 percent of its private covered employment engaged in oil- and gas-related employment, according to data compiled by Job Service North Dakota.

²Hub cities and hub city school districts must be omitted from this apportionment.

GENERAL FUND BEGINNING BALANCE

The August 2016 revised legislative estimate for the 2015-17 biennium reflects **the actual July 1, 2015, beginning balance of \$729,529,389**, which is \$130,865,311 more than the May 2015 legislative estimate of \$598,664,078. The actual July 1, 2015, beginning balance recognizes 2015-17 biennium general fund appropriation authority of \$9,858,196 spent during the 2013-15 biennium pursuant to emergency clauses.

ONGOING GENERAL FUND REVENUE

The August 2016 revised legislative estimate for the 2015-17 biennium reflects **estimated ongoing general fund revenue of \$3,598,508,680**, which is \$1,382,999,512, or 27.8 percent, less than the May 2015 legislative estimate of \$4,981,508,192. Ongoing general fund revenue amounts include transfers from the Mill and Elevator Association, the gas tax administration, and the lottery (See the "Transfers to General Fund" section).

Based on the August 2016 revised legislative estimate, the estimated 2015-17 biennium ongoing general fund revenue of \$3,598,508,680 reflects a decrease of \$1,330,224,328, or 27.0 percent, compared to the 2013-15 biennium actual ongoing revenue of \$4,928,733,008.

Major areas of 2015-17 biennium **revenue decreases** based on the August 2016 revised legislative estimate compared to the May 2015 legislative estimate include:

- Sales and use tax collections are estimated to decrease by \$1 billion, or 35.0 percent.
- Motor vehicle excise tax collections are estimated to decrease by \$113 million, or 35.9 percent.
- Individual income tax collections are estimated to decrease by \$73 million, or 9.5 percent.
- Corporate income tax collections are estimated to decrease by \$213 million, or 57.3 percent.

TRANSFERS TO THE GENERAL FUND

The August 2016 revised legislative estimate for the 2015-17 biennium reflects total transfers of \$1,357,636,749. Changes in estimated transfers compared to the May 2015 legislative estimate include a decrease of \$4,940,106 from the Mill and Elevator Association and an increase of \$1,950,000 from the lottery. In Senate Bill No. 2379, the Legislative Assembly provided for a transfer of **\$572,485,453 from the budget stabilization fund** to the general fund and a contingent transfer of up to **\$100,000,000 from Bank of North Dakota profits** to the general fund.

ESTIMATED UNSPENT GENERAL FUND APPROPRIATION AUTHORITY

The August 2016 revised legislative estimate includes **estimated unspent general fund appropriation authority (turnback) of \$19,246,000** for the 2015-17 biennium. The estimated unspent general fund appropriation authority includes \$17,300,000 from the Department of Public Instruction, \$1,546,000 from the Office of Management and Budget, and \$400,000 from the Adjutant General.

OIL AND GAS TAX REVENUE

The August 2016 revised legislative estimate reflects oil prices increasing from \$38 to \$42 per barrel and average daily oil production decreasing to 900,000 barrels per day for the remainder of the 2015-17 biennium. The August 2016 revised legislative estimate includes actual oil and gas tax revenue collections and allocations through July 2016. Actual oil prices, oil production, and other factors throughout the 2015-17 biennium could increase or decrease actual oil tax revenue collections. Based on the August 2016 revised legislative estimate, the **2015-17 biennium estimated oil and gas tax revenue collections total \$2,903,340,000**, which reflects a decrease of \$530,390,000 compared to the May 2015 legislative estimate of \$3,433,730,000.

The flowchart in the "Allocation of Oil Extraction and Oil and Gas Gross Production Taxes for the 2015-17 Biennium" section provides more detailed information on the allocation of oil and gas tax revenue.