

## ALLOCATION OF ESTIMATED OIL EXTRACTION AND OIL AND GAS GROSS PRODUCTION TAXES FOR THE 2015-17 BIENNIUM (AMOUNTS SHOWN IN MILLIONS)

2015-17 Biennium Estimated Allocations Based on the March 2015 Revised Revenue Forecast and Final Legislative Action												
Tax	State Share <sup>1</sup>	Legacy Fund <sup>2</sup>	Common Schools Trust Fund <sup>3</sup>	Foundation Aid Stabilization Fund <sup>3</sup>	Resources Trust Fund <sup>4</sup>	Oil and Gas Impact Grant Fund <sup>5</sup>	Oil and Gas Research Fund <sup>6</sup>	North Dakota Outdoor Heritage Fund <sup>7</sup>	Political Subdivisions <sup>8</sup>	Tribal Share <sup>9</sup>	Abandoned Well Reclamation Fund <sup>10</sup>	Total
Oil extraction tax <sup>11</sup>	\$472.45	\$434.92	\$134.23	\$134.23	\$268.46	\$0.00	\$5.45	\$0.00	\$0.00	\$107.45	\$0.00	\$1,557.19
Oil and gas gross production tax <sup>12</sup>	390.39	515.68	0.00	0.00	0.00	140.00	4.55	27.50	630.79	157.63	10.00	1,876.54
<b>Total</b>	<b>\$862.84</b>	<b>\$950.60</b>	<b>\$134.23</b>	<b>\$134.23</b>	<b>\$268.46</b>	<b>\$140.00</b>	<b>\$10.00</b>	<b>\$27.50</b>	<b>\$630.79</b>	<b>\$265.08</b>	<b>\$10.00</b>	<b>\$3,433.73</b>

<sup>1</sup>The 2011 Legislative Assembly created a new section to North Dakota Century Code Chapter 57-51.1 to provide for the allocation of the state's share of oil and gas tax revenues designated for deposit in the general fund under Chapters 57-51 and 57-51.1. In House Bill No. 1377, the 2015 Legislative Assembly amended the section to provide the following estimated allocations for the 2015-17 biennium:

- The first \$200 million is deposited in the **general fund** (\$200 million);
- The next \$300 million is deposited in the **tax relief fund** (\$300 million);
- The next \$100 million is deposited in the **general fund** (\$100 million);
- The next \$100 million is deposited in the **strategic investment and improvements fund** (\$100 million);
- The next \$22 million is deposited in the **state disaster relief fund**, but not in an amount that would bring the unobligated balance to more than \$25 million (\$16.42 million); and
- 70 percent of any additional revenues are deposited in the **strategic investment and improvements fund** (\$102.49 million), and 30 percent of any additional revenues are deposited in the **political subdivision allocation fund** (\$43.93 million).

In House Bill Nos. 1176 and 1377, the 2015 Legislative Assembly amended Section 15-08.1-08 to remove the requirement that 25 percent of any revenues received for deposit in the strategic investment and improvements fund in the subsequent month must be deposited instead into the legacy fund if the unobligated balance of the strategic investment and improvements fund exceeds \$300 million at the end of any month.

<sup>2</sup>Passage of Constitutional Measure No. 1 in the November 2010 general election resulted in the creation of a legacy fund. The legacy fund receives 30 percent of oil and gas gross production and oil extraction taxes beginning July 1, 2011.

<sup>3</sup>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 20 percent of the oil extraction tax revenues is to be allocated:

- 50 percent (of the 20 percent) to the common schools trust fund.
- 50 percent (of the 20 percent) to the foundation aid stabilization fund.

<sup>4</sup>The amount shown reflects the estimated distribution of 20 percent of oil extraction taxes to the resources trust fund.

In Senate Bill No. 2014, the 2013 Legislative Assembly provided for allocation of 5 percent of the oil extraction tax revenue deposited in the resources trust fund, not to exceed \$3 million, to the renewable energy development fund to be spent pursuant to a continuing appropriation and one-half of 1 percent of the oil extraction tax revenue deposited in the resources trust fund, not to exceed \$1.2 million, to a newly created energy conservation fund.

In Senate Bill No. 2233, the 2013 Legislative Assembly established an infrastructure revolving loan fund within the resources trust fund, which became effective January 1, 2015. The bill provides 10 percent of oil extraction tax revenue deposited in the resources trust fund is to be made available on a continuing basis to provide loans for water supply, flood protection, or other water development and water management projects.

<sup>5</sup>The 2015 Legislative Assembly provided an allocation of up to \$140 million to the oil and gas impact grant fund for the 2015-17 biennium and an allocation of up to \$100 million in subsequent bienniums.

<sup>6</sup>Section 57-51.1-07.3 (2003 Senate Bill No. 2311) establishes an oil and gas research fund and provides 2 percent of the state's share of oil and gas gross production tax and oil extraction tax revenues, up to \$4 million per biennium, are to be deposited in the oil and gas research fund. All money deposited in the oil and gas research fund is appropriated as a continuing appropriation to the Oil and Gas Research Council. The 2013 Legislative Assembly in Senate Bill No. 2014 increased the allocation to \$10 million per biennium.

<sup>7</sup>The 2013 Legislative Assembly in House Bill No. 1278 provided an allocation of 4 percent of the first 1 percent of oil and gas gross production tax revenue, to a newly created North Dakota outdoor heritage fund with an annual funding cap of \$15 million, or \$30 million per biennium. The 2015 Legislative Assembly increased the allocation to 8 percent with an annual funding cap of \$20 million.

<sup>8</sup>Section 57-51-15 provides a formula for distribution of the oil and gas gross production tax to counties and other political subdivisions. In House Bill No. 1358, the 2013 Legislative Assembly changed the formula to provide 100 percent of the first \$5 million of revenue and 25 percent of all revenue over \$5 million to the county. In House Bill No. 1176, the 2015 Legislative Assembly increased the county allocation of revenue over \$5 million by 5 percent to provide 30 percent of all revenue over \$5 million to the county.

For a county that receives less than \$5 million annually of oil tax allocations, 45 percent of all revenues allocated to a county is distributed to the county general fund, 35 percent to school districts within the county based on average daily attendance, and 20 percent to incorporated cities in the county based on population. For a county that receives \$5 million or more, 60 percent of all revenues allocated to a county is distributed to the county general fund, 5 percent to school districts within the county based on average daily attendance, 3 percent to townships in an equal amount to all townships, 3 percent to townships in the county based on the proportion of township road miles, and 9 percent to hub cities based on specified percentages.

<sup>9</sup>The 2013 Legislative Assembly in House Bill No. 1198 amended Section 57-51.2-02 to increase the tribal share of revenue allowable under the tribal agreement for production on nontrust lands from 20 percent of oil and gas gross production taxes to 50 percent of total oil and gas gross production tax and oil extraction tax. The bill also eliminates the 5-year oil extraction tax exemption for wells drilled on an Indian reservation after June 30, 2013. As a result, oil and gas tax revenue collections from tribal lands are allocated 50 percent to the state and 50 percent to the Three Affiliated Tribes.

<sup>10</sup>The 2013 Legislative Assembly in House Bill No. 1333 provided for 4 percent of the first 1 percent of oil and gas gross production tax to 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. In House Bill No. 1032, the 2015 Legislative Assembly increased the allocation limit from \$5 million to \$7.5 million per fiscal year and increased the fund balance limit from \$75 million to \$100 million. However, the changes by the 2015 Legislative Assembly are contingent upon the "large" trigger not being in effect for the first six months of the 2015-17 biennium.

<sup>11</sup>The oil extraction tax rate is 6.5 percent of the gross value at the well for production through December 31, 2015. After December 31, 2015, the oil extraction tax rate is 5 percent of the gross value at the well (2015 House Bill No. 1476). Certain oil extraction tax rate reductions and exemptions are available until December 1, 2015, and are based on the price of oil and the type of well. These provisions require the average monthly comparison price of a barrel of oil to be less than the trigger price for five consecutive months. After December 31, 2015, the remaining major tax exemptions include stripper wells, incremental oil production, and wells outside the Bakken and Three Forks Formations.

Other tax exemptions include:

- The initial production of oil from a well that was drilled and completed on tribal lands before July 1, 2013, is exempt from any oil extraction tax for a period of 60 months.
- The first 75,000 barrels of oil produced during the first 18 months after completion, from a well drilled and completed outside the Bakken and Three Forks Formations, and 10 miles or more outside an established field in which the Industrial Commission has defined the pool to include the Bakken or Three Forks Formations, is subject to a reduced tax rate of 2 percent of the gross value at the well of the oil.
- A special set of rate reductions and exemptions are effective for qualifying wells if the average monthly comparison price of a barrel of oil is less than \$55 for one month. The rate reductions and exemptions are effective until the average monthly comparison price of a barrel of oil exceeds \$70 for one month. This special trigger price provision was approved by the 2009 Legislative Assembly, and the 2013 Legislative Assembly in House Bill No. 1198 extended the period during which wells can qualify for the exemption to July 1, 2015.

Beginning July 1, 2011, the oil extraction tax is allocated 30 percent to the legacy fund, 20 percent to the resources trust fund for water development projects, 10 percent to the common schools trust fund, 10 percent to the foundation aid stabilization fund, and 30 percent to the state general fund.

<sup>12</sup>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 times the gas base rate adjustment for each fiscal year as calculated by the Tax Department.

The oil and gas gross production tax is distributed per formula to political subdivisions and certain state funds. Section 57-51-15.1 (2015 House Bill No. 1176) changed the maximum distribution to the oil and gas impact grant fund to provide \$140 million for the 2015-17 biennium and \$100 million in subsequent bienniums. House Bill No. 1176 (2015) also changed the formula distribution of oil and gas gross production tax collections to political subdivisions.