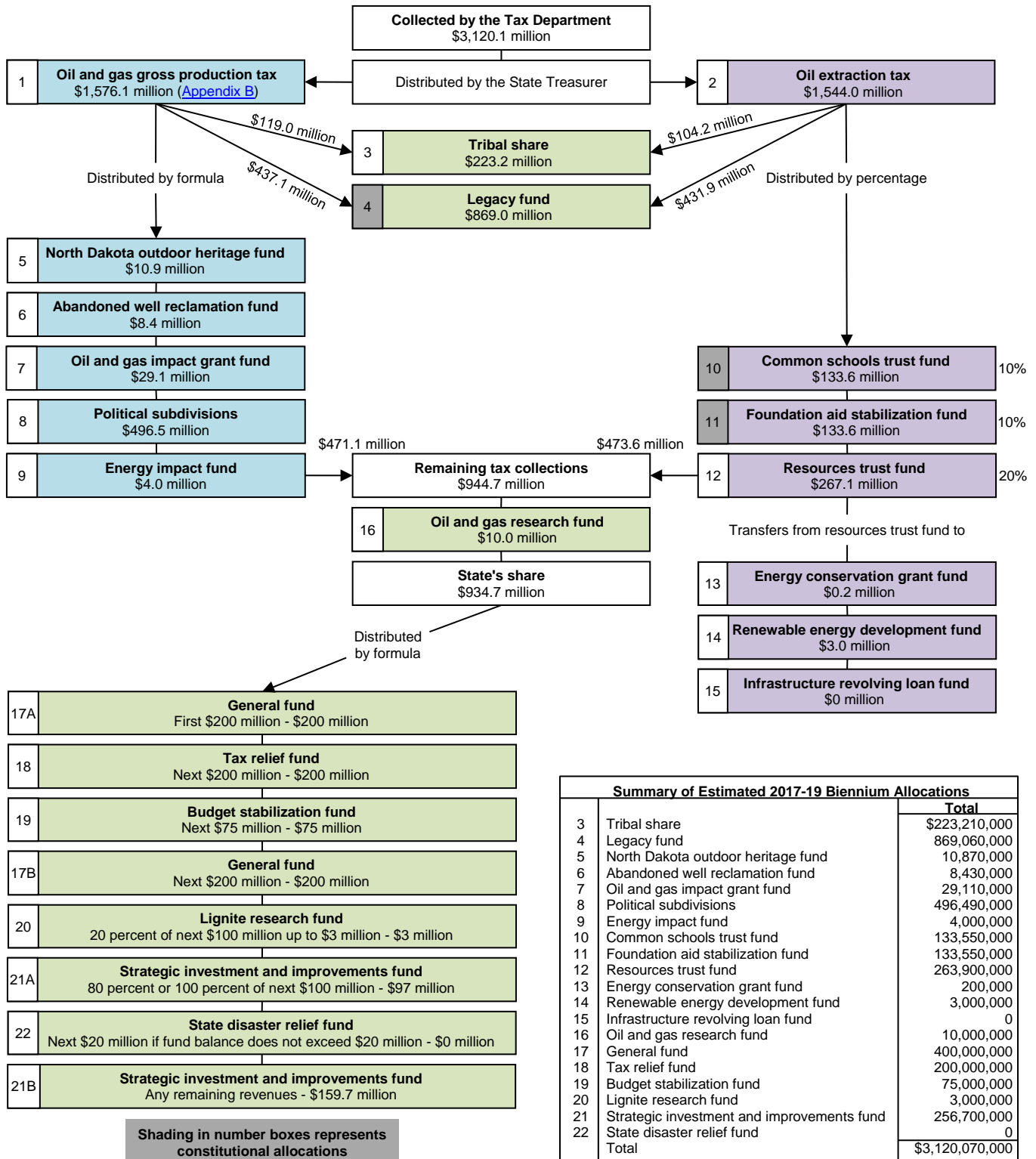


2017-19 BIENNIUM OIL AND GAS TAX REVENUE - ALLOCATION FLOWCHART

This memorandum provides information on the estimated allocation of oil and gas tax collections for the 2017-19 biennium based on the January 2017 legislative forecast. A summary of the funds is included in [Appendix A](#), and a more detailed schedule of the oil and gas gross production tax, including political subdivisions, is included in [Appendix B](#).

2017-19 BIENNIUM - 2017 LEGISLATIVE REVENUE FORECAST



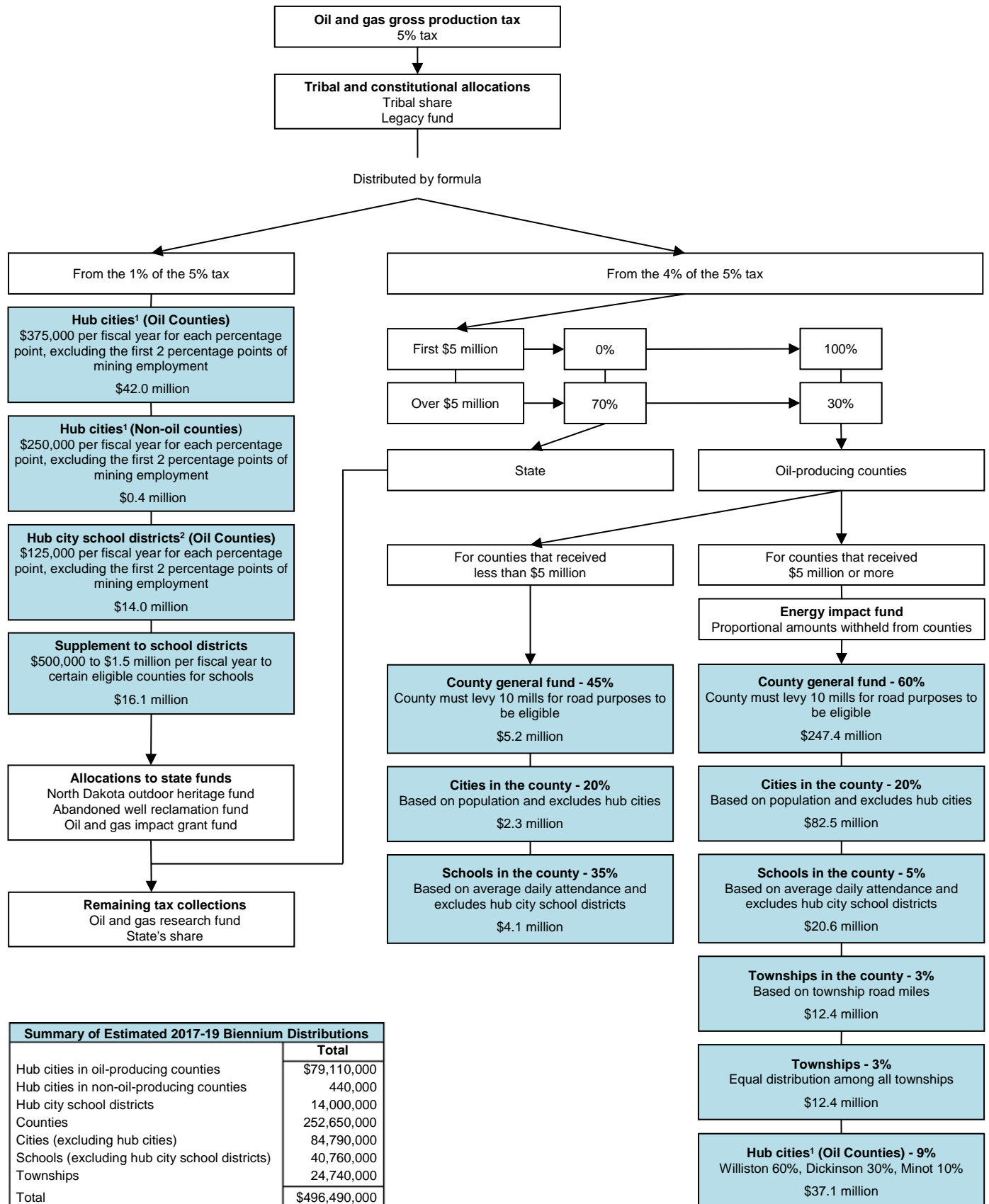
NOTE: The amounts reflected in these schedules are preliminary estimates. **The actual amounts allocated for the 2017-19 biennium may differ significantly from these amounts based on actual oil price and production.**

The table below provides a brief description of the taxes and funds included in the flowchart on the previous page. Changes approved by the 2017 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 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 2015 House Bill No. 1476, 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.
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. Senate Bill No. 2013 (2017) limits the allocations to \$10 million per biennium only for the 2017-19 biennium.
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. Senate Bill No. 2013 (2017) limits the allocations to \$4 million per fiscal year only for the 2017-19 biennium.
7	Oil and gas impact grant fund	Section 57-51-15 (1989 House Bill No. 1302) establishes the oil and gas impact grant fund to provide grants to political subdivisions impacted by oil development. House Bill No. 1176 (2015) amended Section 57-51-15 to provide an allocation from the first 1 percent of the 5 percent oil and gas gross production tax, up to \$140 million for the 2015-17 biennium. Senate Bill No. 2013 (2017) decreases the allocations to provide up to \$25 million per biennium for the 2017-19 biennium, and after the 2017-19 biennium, to provide up to \$5 million per biennium.
8	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).
9	Energy impact fund	Senate Bill No. 2013 (2017) creates the energy impact fund and provides an allocation of up to \$2 million per fiscal year for the 2017-19 biennium only from the allocations to counties that received \$5 million or more of total allocations.
10	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.
11	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 2015 Senate Concurrent Resolution No. 4003 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.
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. Section 22 of Article X 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. House Bill No. 1020 (2017) limits the allocations to \$200,000 per biennium only for the 2017-19 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. House Bill No. 1020 (2017) decreases the percentage transferred from 5 to 3 percent.
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 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) limits the total amount deposited in the infrastructure revolving loan fund to \$26 million.
16	Oil and gas research fund	Section 57-51.1-07.3 (2003 Senate Bill No. 2311) 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 that 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.

Box	Tax/Fund	Description
17A, 17B	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.
18	Tax relief fund	House Bill No. 1152 (2017) amends 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.
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) amends 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.
20	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) amends 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.
21A, 21B	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.
22	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 presidentially 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.

2017-19 BIENNIUM ESTIMATED OIL AND GAS GROSS PRODUCTION TAX COLLECTIONS - DETAIL OF DISTRIBUTIONS TO POLITICAL SUBDIVISIONS



Summary of Estimated 2017-19 Biennium Distributions	
	Total
Hub cities in oil-producing counties	\$79,110,000
Hub cities in non-oil-producing counties	440,000
Hub city school districts	14,000,000
Counties	252,650,000
Cities (excluding hub cities)	84,790,000
Schools (excluding hub city school districts)	40,760,000
Townships	24,740,000
Total	\$496,490,000

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 2 percent of its private covered employment engaged in the mining industry, according to annual data compiled by Job Service North Dakota.

²A "hub city school district" means the school district with the highest student enrollment within the city limits of a hub city.