Sixty-fifth
Legislative Assembly
of North Dakota

**FIRST ENGROSSMENT**
**with Conference Committee Amendments**
**ENGROSSED SENATE BILL NO. 2013**

Introduced by

Appropriations Committee

A BILL for an Act to provide an appropriation for defraying the expenses of the commissioner of university and school lands; to provide an appropriation to the state treasurer; to provide for transfers; to provide for distributions from permanent funds; to create and enact a new section to chapter 57-51 of the North Dakota Century Code, relating to the energy impact fund; to amend and reenact subsection 5 of section 57-51-01 and sections 57-51-15 and 57-51.1-07.6 of the North Dakota Century Code, relating to oil and gas gross production tax definitions and allocations and the political subdivision allocation fund; to repeal section 57-51.1-07.6 of the North Dakota Century Code, relating to the political subdivision allocation fund; to provide exemptions; to provide for reports; to provide statements of legislative intent; to provide for a legislative management study; and to provide an effective date.

**BE IT ENACTED BY THE LEGISLATIVE ASSEMBLY OF NORTH DAKOTA:**

**SECTION 1. APPROPRIATION.** The funds provided in this section, or so much of the funds as may be necessary, are appropriated from special funds derived from the state lands maintenance fund, the strategic investment and improvements fund, the energy impact fund, and the oil and gas impact grant fund in the state treasury, to the commissioner of university and school lands for the purpose of defraying the expenses of the commissioner of university and school lands, for the biennium beginning July 1, 2017, and ending June 30, 2019, as follows:

| | Base Level | Adjustments or Enhancements | Appropriation |
|---|---|---|---|
| Salaries and wages | $6,123,516 | ($117,966) | $6,005,550 |
| Operating expenses | 2,019,637 | (243,914) | 1,775,723 |
| Capital assets | 0 | 3,600,000 | 3,600,000 |
| Grants | 99,300,000 | (59,300,000) | 40,000,000 |

| | | | |
|---|---|---|---|
| Contingencies | 100,000 | 0 | 100,000 |
| Energy infrastructure and impact office | 700,000 | (700,000) | 0 |
| Total special funds | $108,243,153 | ($56,761,880) | $51,481,273 |
| Full-time equivalent positions | 33.00 | (2.00) | 31.00 |

**SECTION 2. HEALTH INSURANCE INCREASE.** The appropriation in section 1 of this Act includes $84,948 from special funds for increases in employee health insurance premiums from $1,130 to $1,241 per month.

**SECTION 3. ONE-TIME FUNDING - EFFECT ON BASE BUDGET - REPORT TO THE SIXTY-SIXTH LEGISLATIVE ASSEMBLY.** The following amounts reflect the one-time funding items approved by the sixty-fourth legislative assembly for the 2015-17 biennium and the 2017-19 biennium one-time funding items included in the appropriation in section 1 of this Act:

| One-Time Funding Description | 2015-17 | 2017-19 |
|---|---|---|
| Oil and gas impact grants - airports | $0 | $25,000,000 |
| Other grants - airports | 0 | 15,000,000 |
| Information technology project | 0 | 3,600,000 |
| Total special funds | $0 | $43,600,000 |

The 2017-19 biennium one-time funding amounts are not a part of the entity's base budget for the 2019-21 biennium. The commissioner of university and school lands shall report to the appropriations committees of the sixty-sixth legislative assembly on the use of this one-time funding for the biennium beginning July 1, 2017, and ending June 30, 2019.

**SECTION 4. APPROPRIATION - STATE TREASURER - DISTRIBUTIONS TO NON-OIL-PRODUCING COUNTIES.** There is appropriated out of any moneys in the strategic investment and improvements fund in the state treasury, not otherwise appropriated, the sum of $8,000,000, or so much of the sum as may be necessary, and out of any moneys in the state disaster relief fund in the state treasury, not otherwise appropriated, the sum of $8,100,000, or so much of the sum as may be necessary, to the state treasurer for the purpose of providing distributions to non-oil-producing counties for the benefit of the organized and unorganized townships within each non-oil-producing county, for the biennium beginning July 1, 2017, and ending June 30, 2019. In August 2017, the state treasurer shall distribute $16,100,000, or so much of the sum as may be necessary, to non-oil-producing counties for the benefit of the organized and unorganized townships within each non-oil-producing county. The distribution to each non-oil-producing county must provide for an allocation of $10,000 to each organized and unorganized township within the county. The amount allocated to organized townships under this section must be paid by the county treasurer to each organized township. The amount allocated to unorganized townships under this section must be credited by the county treasurer to a special fund for unorganized township roads. The distributions under this section must be used for the maintenance and improvement of township paved and unpaved roads and bridges. A township is not eligible for an allocation of funds under this section if the township does not maintain any township roads. For purposes of this subsection, a "non-oil-producing county" means a county that received no allocation of funding or a total allocation under subsection 2 of section 57-51-15 of less than $5,000,000 for the period beginning September 1, 2015, and ending August 31, 2016. For the purposes of calculating the unobligated balance of the state disaster relief fund under section 57-51.1-07.5, the moneys appropriated in this section from the state disaster relief fund may not be considered an obligation of the state disaster relief fund until after July 31, 2017. The funding appropriated in this section is considered a one-time funding item.

**SECTION 5. TRANSFER - POLITICAL SUBDIVISION ALLOCATION FUND TO ENERGY IMPACT FUND.** The state treasurer shall transfer $8,000,000 from the political subdivision allocation fund to the energy impact fund during August 2017.

**SECTION 6. TRANSFER - POLITICAL SUBDIVISION ALLOCATION FUND TO STRATEGIC INVESTMENT AND IMPROVEMENTS FUND.** After the transfer in section 5 of this Act, the state treasurer shall transfer any amount remaining in the political subdivision allocation fund from the political subdivision allocation fund to the strategic investment and improvements fund during August 2017.

**SECTION 7. TRANSFER - STRATEGIC INVESTMENT AND IMPROVEMENTS FUND TO ENERGY IMPACT FUND.** The state treasurer shall transfer $3,000,000 from the strategic investment and improvements fund to the energy impact fund during August 2017.

**SECTION 8. DISTRIBUTIONS TO STATE INSTITUTIONS.** Pursuant to article IX of the Constitution of North Dakota, the board of university and school lands shall distribute during the biennium beginning July 1, 2017, and ending June 30, 2019, the following amounts, from the permanent funds managed for the benefit of the following entities:

| | |
|---|---|
| Commons schools | $288,264,000 |
| North Dakota state university | 4,738,000 |
| University of North Dakota | 3,662,000 |
| Youth correctional center | 1,422,000 |
| School for the deaf | 1,598,000 |
| North Dakota state college of science | 1,446,286 |
| State hospital | 1,370,286 |
| Veterans' home | 622,286 |
| Valley City state university | 808,000 |
| North Dakota vision services - school for the blind | 840,286 |
| Mayville state university | 542,000 |
| Dakota college at Bottineau | 186,286 |
| Dickinson state university | 186,286 |
| Minot state university | 186,286 |
| Total | $305,872,002 |

**SECTION 9. ONE-TIME ADJUSTMENT TO DISTRIBUTIONS TO STATE INSTITUTIONS.** Pursuant to article IX of the Constitution of North Dakota and in addition to the distributions in section 4 of this Act, the board of university and school lands shall distribute during the biennium beginning July 1, 2017, and ending June 30, 2019, the following one-time corrections resulting from the misallocation of prior mineral revenues, from the permanent funds managed for the benefit of the following entities:

| | |
|---|---|
| North Dakota state college of science | $89,698 |
| State hospital | 89,698 |
| Veterans' home | 89,698 |
| North Dakota vision services - school for the blind | 89,698 |
| Dakota college at Bottineau | 89,698 |
| Dickinson state university | 89,698 |
| Minot state university | 89,698 |
| Youth correctional center | (621,186) |
| Total | $6,700 |

**SECTION 10. EXEMPTION - OIL AND GAS IMPACT GRANT FUND.** The amount appropriated from the oil and gas impact grant fund for the energy infrastructure and impact office line item in section 1 of chapter 13 of the 2015 Session Laws and for oil and gas impact grants in section 5 of chapter 463 of the 2015 Session Laws is not subject to section 54-44.1-11. Any money deposited in the fund for taxable events occurring through June 30, 2017, and any unexpended funds from the appropriation are available for grants and administrative costs associated with the fund during the biennium beginning July 1, 2017, and ending June 30, 2019.

**SECTION 11. EXEMPTION - FLOOD-IMPACTED POLITICAL SUBDIVISION INFRASTRUCTURE DEVELOPMENT GRANTS.** Up to $1,325,500 appropriated from the general fund in section 10 of chapter 579 of the 2011 Session Laws for flood-impacted political subdivision infrastructure development grants, which was awarded but not yet reimbursed to the city of Minot for a landfill expansion project, is not subject to section 54-44.1-11, and any unexpended funds are available to reimburse the city of Minot during the biennium beginning July 1, 2017, and ending June 30, 2019.

**SECTION 12. INFORMATION TECHNOLOGY PROJECT - BUDGET SECTION APPROVAL - LEGISLATIVE INTENT - AGENCY EFFICIENCIES.** The capital assets line item and the total special funds line item in section 1 of this Act include $3,600,000 from the state lands maintenance fund for an information technology project. Of the $3,600,000, $1,800,000 may be spent only upon approval of the budget section. It is the intent of the sixty-fifth legislative assembly that during the 2017-18 interim, the governor and the commissioner of university and school lands achieve efficiencies and budgetary savings within the department of trust lands through the use of innovative ideas and through alternative solutions relating to information technology.

**SECTION 13. OIL AND GAS IMPACT GRANT FUND - AIRPORT GRANTS.** The grants line item and the total special funds line item in section 1 of this Act include the sum of $25,000,000 from the oil and gas impact grant fund for grants to airports, for the biennium beginning July 1, 2017, and ending June 30, 2019. Of the $25,000,000, the board of university and school lands shall award a grant of $20,000,000 to the Williston airport and a grant of $5,000,000 to the Dickinson airport. A grant may be awarded to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

**SECTION 14. ENERGY IMPACT FUND - WILLISTON AIRPORT GRANT.** The grants line item and the total special funds line item in section 1 of this Act include the sum of $15,000,000 from the energy impact fund for a grant to the Williston airport, for the biennium beginning July 1, 2017, and ending June 30, 2019. A grant may be awarded to the Williston airport only when any related federal funding is committed and available to be spent on the new airport construction project. Grants awarded but not yet paid under this section are not subject to section 54-44.1-11.

**SECTION 15. AMENDMENT.** Subsection 5 of section 57-51-01 of the North Dakota Century Code is amended and reenacted as follows:

5. "Hub city" means~~, for the period beginning September 1, 2015, and ending August 31, 2017, a city with a population of twelve thousand five hundred or more, according to the last official decennial federal census, which has more than one percent of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota. "Hub city" means, after August 31, 2017,~~ a city with a population of twelve thousand five hundred or more, according to the last official decennial federal census, which has more than ~~one~~two percent of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota.

**SECTION 16. AMENDMENT.** Section 57-51-15 of the North Dakota Century Code is amended and reenacted as follows:

**57-51-15. Gross production tax allocation.**

The gross production tax must be allocated monthly as follows:

1. ~~First the~~The tax revenue collected under this chapter equal to one percent of the gross value at the well of the oil and one-fifth of the tax on gas must be deposited with the state treasurer ~~who shall~~. The state treasurer shall allocate the funding in the following order:

    a. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city, which is located in a county that received an allocation under subsection 2, a monthly amount that will provide a total allocation of three~~

~~hundred seventy-five thousand dollars per fiscal year for each full or partial percentage point of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city, which is located in a county that received an allocation under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of three hundred seventy-five thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~;~~. For purposes of the allocations under this subdivision during the period beginning September 1, 2017, and ending August 31, 2018, the state treasurer shall use the following employment percentages:

(1) Thirty-three percent for the city of Williston;

(2) Seventeen percent for the city of Dickinson; and

(3) Four percent for the city of Minot.

b. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city, which is located in a county that did not receive an allocation under subsection 2, a monthly amount that will provide a total allocation of two hundred fifty thousand dollars per fiscal year for each full or partial percentage point of its private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city, which is located in a county that did not receive an allocation under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of two hundred fifty thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of its private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~;~~.

c. ~~Allocate, for the period beginning September 1, 2015, and ending August 31, 2017, to each hub city school district, which is located in a county that received~~

~~an allocation under subsection 2, a monthly amount that will provide a total allocation of one hundred twenty-five thousand dollars per fiscal year for each full or partial percentage point of the hub city's private covered employment engaged in oil and gas-related employment, according to annual data compiled by job service North Dakota and after August 31, 2017, allocate to~~To each hub city school district, which is located in a county that received an allocation under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one hundred twenty-five thousand dollars per fiscal year for each full or partial percentage point, excluding the first two percentage points, of the hub city's private covered employment engaged in the mining industry, according to annual data compiled by job service North Dakota~~, provided that hub~~. Hub city school districts, which are located in a county that did not receive an allocation under subsection 2 in the most recently completed even-numbered fiscal year, must be excluded from the allocations under this subdivision~~;~~. For purposes of the allocations under this subdivision during the period beginning September 1, 2017, and ending August 31, 2018, the state treasurer shall use the following employment percentages:

(1) Thirty-three percent for the city of Williston;

(2) Seventeen percent for the city of Dickinson; and

(3) Four percent for the city of Minot.

d. ~~Allocate to~~To each county that received more than five million dollars but less than thirty million dollars of total allocations under subsection 2 in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, the state treasurer shall allocate a monthly amount that will ~~provide a total allocation of one million five hundred thousand dollars per fiscal year to be added by the state treasurer~~be added to the allocations to school districts under subdivision b of subsection 5~~;~~

~~e.~~ ~~Credit revenues to the oil and gas impact grant fund, but not in an amount exceeding one hundred forty million dollars per biennium for the 2015-17 biennium, and not in an amount exceeding one hundred million dollars per biennium thereafter;~~

~~f. Credit eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding twenty million dollars in a state fiscal year and not in an amount exceeding forty million dollars per biennium;~~

~~g. Credit four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding seven million five hundred thousand dollars in a state fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars; and~~

~~h. Allocate the remaining revenues under subsection 3~~<u>, as follows:</u>

<u>(1) To each county that received more than five million dollars but not exceeding ten million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million five hundred thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.</u>

<u>(2) To each county that received more than ten million dollars but not exceeding fifteen million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million two hundred fifty thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.</u>

<u>(3) To each county that received more than fifteen million dollars but not exceeding twenty million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of one million dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.</u>

(4) To each county that received more than twenty million dollars but not exceeding twenty-five million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of seven hundred fifty thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

(5) To each county that received more than twenty-five million dollars but not exceeding thirty million dollars of total allocations under subsection 2 in the most recently completed even-numbered fiscal year, the state treasurer shall allocate a monthly amount that will provide a total allocation of five hundred thousand dollars per fiscal year. The allocation must be distributed to school districts within the county pursuant to subdivision b of subsection 5.

e. (1) For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding ten million dollars per biennium. For purposes of this paragraph, "biennium" means the period beginning September first of each odd-numbered calendar year and ending August thirty-first of the following odd-numbered calendar year.

(2) After August 31, 2019, the state treasurer shall allocate eight percent of the amount available under this subsection to the North Dakota outdoor heritage fund, but not in an amount exceeding twenty million dollars per fiscal year.

f. (1) For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding four million dollars per fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars.

(2) After August 31, 2019, the state treasurer shall allocate four percent of the amount available under this subsection to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding seven million five hundred thousand dollars per fiscal year and not in an amount that would bring the balance in the fund to more than one hundred million dollars.

g. For the period beginning September 1, 2017, and ending August 31, 2019, the state treasurer shall allocate the remaining revenues in the following order:

(1) Up to twenty-five million dollars to the oil and gas impact grant fund.

(2) Any remaining revenues under subsection 3.

h. After August 31, 2019, the state treasurer shall allocate the remaining revenues in the following order:

(1) Up to five million dollars per biennium to the oil and gas impact grant fund. For purposes of this paragraph, "biennium" means the period beginning September first of each odd-numbered calendar year and ending August thirty-first of the following odd-numbered calendar year.

(2) Any remaining revenues under subsection 3.

i. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

2. a. During the period beginning September 1, 2017, and ending August 31, 2019, for counties that received less than five million dollars of total allocations under this subsection in the most recently completed even-numbered fiscal year, then after deduction of the amount provided in subsection 1, the state treasurer shall allocate revenue collected under this chapter from oil and gas produced in each county as follows:

(1) The first five million dollars of collections received each fiscal year is allocated to the county.

(2) The remaining revenue collections received each fiscal year are allocated thirty percent to the county and seventy percent to the state for allocations under subsection 3.

b. During the period beginning September 1, 2017, and ending August 31, 2019, for counties that received five million dollars or more of total allocations under this subsection in the most recently completed even-numbered fiscal year, then after deduction of the amount provided in subsection 1, the state treasurer shall allocate revenue collected under this chapter from oil and gas produced in each county as follows:

(1) The first five million dollars of collections received each fiscal year is allocated to the county. From the first five million dollars allocated to the county, the state treasurer shall allocate an amount from each county to the energy impact fund to provide a total allocation of two million per fiscal year to the fund. The amount allocated from each county to the energy impact fund under this paragraph must be proportional the county's monthly oil and gas gross production tax revenue collected relative to the total monthly oil and gas gross production tax revenue collected from all the counties under this subdivision. The state treasurer shall allocate the amount remaining from this paragraph to the county under subsection 5. For the purposes of determining the counties that received five million dollars or more of total allocations under this subsection in the most recently completed even-numbered fiscal year under this section, any amounts withheld from the county for allocations to the energy impact are considered allocations to the county.

(2) The remaining revenue collections received each fiscal year are allocated thirty percent to the county and seventy percent to the state for allocations under subsection 3.

c. After deduction of the amount provided in subsection 1, annual revenue collected under this chapter from oil and gas produced in each county must be allocated after August 31, 2019, as follows:

~~a.~~(1) The first five million dollars is allocated to the county.

~~b.~~(2) Of all annual revenue exceeding five million dollars, thirty percent is allocated to the county.

d. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

3. After the allocations under subsections 1 and 2, the amount remaining is allocated first to provide for deposit of thirty percent of all revenue collected under this chapter in the legacy fund as provided in section 26 of article X of the Constitution of North Dakota and the remainder must be allocated to the state general fund. If the amount available for a monthly allocation under this subsection is insufficient to deposit thirty percent of all revenue collected under this chapter in the legacy fund, the state treasurer shall transfer the amount of the shortfall from the state general fund share of oil extraction tax collections and deposit that amount in the legacy fund.

4. For a county that received less than five million dollars of allocations under subsection 2 in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, revenues allocated to that county must be distributed at least quarterly by the state treasurer as follows:

   a. Forty-five percent must be distributed to the county treasurer and credited to the county general fund. However, the distribution to a county under this subdivision must be credited to the state general fund if in a taxable year after 2012 the county is not levying a total of at least ten mills for combined levies for county road and bridge, farm-to-market and federal aid road, and county road purposes.

   b. Thirty-five percent must be distributed to school districts within the county on the average daily attendance distribution basis for kindergarten through grade twelve students residing within the county, as certified to the state treasurer by the county superintendent of schools. However, a hub city school district must be omitted from distributions under this subdivision.

   c. Twenty percent must be distributed to the incorporated cities of the county. A hub city must be omitted from distributions under this subdivision. Distributions among cities under this subsection must be based upon the population of each incorporated city according to the last official decennial federal census. In determining the population of any city in which total employment increases by more than two hundred percent seasonally due to tourism, the population of that city for purposes of this subdivision must be increased by eight hundred percent.

d. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

5. For a county that received five million dollars or more of allocations under subsection 2 in ~~state~~the most recently completed even-numbered fiscal year ~~2014~~, revenues allocated to that county must be distributed at least quarterly by the state treasurer as follows:

a. Sixty percent must be distributed to the county treasurer and credited to the county general fund. However, the distribution to a county under this subdivision must be credited to the state general fund if in a taxable year after 2012 the county is not levying a total of at least ten mills for combined levies for county road and bridge, farm-to-market and federal aid road, and county road purposes.

b. Five percent must be distributed to school districts within the county on the average daily attendance distribution basis for kindergarten through grade twelve students residing within the county, as certified to the state treasurer by the county superintendent of schools. However, a hub city school district must be omitted from distributions under this subdivision.

c. Twenty percent must be distributed to the incorporated cities of the county. A hub city must be omitted from distributions under this subdivision. Distributions among cities under this subsection must be based upon the population of each incorporated city according to the last official decennial federal census. In determining the population of any city in which total employment increases by more than two hundred percent seasonally due to tourism, the population of that city for purposes of this subdivision must be increased by eight hundred percent.

d. Three percent must be allocated among the organized and unorganized townships of the county. The state treasurer shall allocate the funds available under this subdivision among townships in proportion to each township's road miles relative to the total township road miles in the county. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads, which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships.

e. Three percent must be allocated among the organized and unorganized townships in all the counties that received five million dollars or more of allocations under subsection 2 in the most recently completed ~~state~~even-numbered fiscal year. The amount available under this subdivision must be allocated by the state treasurer in an equal amount to each eligible organized and unorganized township. The amount allocated to unorganized townships under this subdivision must be distributed to the county treasurer and credited to a special fund for unorganized township roads, which the board of county commissioners shall use for the maintenance and improvement of roads in unorganized townships.

f. Nine percent must be distributed among hub cities. Sixty percent of funds available under this subdivision must be distributed to the hub city receiving the highest percentage of allocations to hub cities under subdivision a of subsection 1 for the quarterly period, thirty percent of funds available under this subdivision must be distributed to the hub city receiving the second highest percentage of such allocations, and ten percent of funds available under this subdivision must be distributed to the hub city receiving the third highest percentage of such allocations. Hub cities, which are located in a county that did not receive an allocation under subsection 2 in the most recently completed even-numbered fiscal year, must be excluded from the allocations under this subsection. If fewer than three hub cities are eligible for the allocations under this subdivision, the state treasurer shall allocate the available funds in proportion to the amounts the eligible hub cities received under subdivision a of subsection 1.

g. For purposes of this subsection, "fiscal year" means the period beginning September first and ending August thirty-first of the following calendar year.

6. Within thirty days after the end of each calendar year, the board of county commissioners of each county that has received an allocation under this section shall file a report for the calendar year with the commissioner, in a format prescribed by the commissioner, including:

a. The county's statement of revenues and expenditures;

b. The county's ending fund balances;

c. The amounts allocated under this section to the county's general fund, the amounts expended from these allocations, and the purposes of the expenditures; and

d. The amounts allocated under this section to or for the benefit of townships within the county, the amounts expended from these allocations, and the purposes of the expenditures.

Within fifteen days after the time when reports under this subsection are due, the commissioner shall provide the reports to the legislative council compiling the information from reports received under this subsection.

7. Within thirty days after the end of each fiscal year ended June thirtieth, each school district that has received an allocation under this section shall file a report for the fiscal year ended June thirtieth with the commissioner, in a format prescribed by the commissioner, including:

a. The school district's statement of revenue and expenditures;

b. The school district's ending fund balances; and

c. The amounts allocated under this section to the school district, the amounts expended from these allocations, and the purposes of the expenditures.

Within fifteen days after the time when reports under this subsection are due, the commissioner shall provide the reports to the legislative council compiling the information from reports received under this subsection.

**SECTION 17.** A new section to chapter 57-51 of the North Dakota Century Code is created and enacted as follows:

<u>**Energy impact fund.**</u>

<u>There is created in the state treasury the energy impact fund. The fund consists of all moneys deposited in the fund under section 57-51-15. The moneys in the fund may be spent pursuant to legislative appropriations.</u>

**SECTION 18. AMENDMENT.** Section 57-51.1-07.6 of the North Dakota Century Code is amended and reenacted as follows:

**57-51.1-07.6. Political subdivision allocation fund ~~- Oil and gas tax revenue allocations to political subdivisions - State treasurer - Continuing appropriation.~~**

There is created in the state treasury the political subdivision allocation fund. The fund consists of oil and gas tax revenue deposited in the fund pursuant to this chapter. ~~All moneys in the fund are appropriated to the state treasurer on a continuing basis for the purpose of allocations to political subdivisions in oil-producing counties.~~

~~1.~~ ~~If the balance of the fund exceeds ten million dollars on March first of each odd-numbered year, within thirty-one days, the state treasurer shall allocate all moneys in the fund to eligible political subdivisions in oil-producing counties based on each political subdivision's oil and gas gross production tax allocations under subsection 4 or subsection 5 of section 57-51-15 in the most recently completed formula allocation year. The allocation to each eligible political subdivision must be proportional to each political subdivision's total oil and gas gross production tax allocation under subsection 4 or subsection 5 of section 57-51-15 in the most recently completed formula allocation year relative to the combined total of all oil and gas gross production tax allocations under subsection 4 and subsection 5 of section 57-51-15 in the most recently completed formula allocation year. For purposes of this subsection, "formula allocation year" means the period beginning September first of an odd-numbered year and ending August thirty-first of the following even-numbered year.~~

~~2.~~ ~~If the balance of the fund exceeds ten million dollars on August first of each odd-numbered year, within thirty-one days, the state treasurer shall allocate all moneys in the fund to eligible political subdivisions in oil-producing counties based on each political subdivision's oil and gas gross production tax allocations under subsection 4 or subsection 5 of section 57-51-15 in the most recently completed formula allocation year. The allocation to each eligible political subdivision must be proportional to each political subdivision's total oil and gas gross production tax allocation under subsection 4 or subsection 5 of section 57-51-15 in the most recently completed formula allocation year relative to the combined total of all oil and gas gross production tax allocations under subsection 4 and subsection 5 of section 57-51-15 in the most recently completed formula allocation year. For purposes of this subsection,~~

~~"formula allocation year" means the period beginning September first of an odd-numbered year and ending August thirty-first of the following even-numbered year.~~

**SECTION 19. REPEAL.** Section 57-51.1-07.6 of the North Dakota Century Code is repealed.

**SECTION 20. LEGISLATIVE INTENT - ENCOURAGEMENT OF ENERGY INFRASTRUCTURE INVESTMENT - COMMISSIONER OF UNIVERSITY AND SCHOOL LANDS - USE OF TERMS.** It is the intent of the sixty-fifth legislative assembly that the state of North Dakota encourage the continued development of energy infrastructure that will help reduce instances of natural gas flaring and increase the market value received for oil and gas produced within the state generally and from state-owned lands specifically which will increase the value of royalties paid to the funds under the control of the board of university and school lands. Consistent with this intent, the commissioner of university and school lands shall continue to interpret the terms "gross production," "market value," and "gross proceeds of sale" in its lease form to mean a value determined at the producing well or associated production facility, or in the surrounding field or area, where the oil and gas was produced, before any post-production activities undertaken by the lessee, operator, or purchaser after the oil and gas has been transported from the producing well and associated production facility. These values must be determined by the amount received by the lessee in an arm's length contract, or in the absence of an arm's length contract, either a comparable sales method or a work-back calculation methodology consistent with state law.

**SECTION 21. STUDY OF OIL AND GAS VALUATION - REPORT TO ENERGY DEVELOPMENT AND TRANSMISSION COMMITTEE.**

1. During the 2017 18 interim, the tax department, in consultation with the board of university and school lands, the industrial commission, and other state agencies as necessary, shall study the valuation of oil and gas as used to determine mineral royalty payments and tax liability. The study must include consideration of the following:
    a. The methods used to calculate the value of oil and gas, including changes in custody, the basis for the value, any deductions or incentives applied to the value, and the point at which the value is determined.

b. The impact of state and federal regulations, including gas capture requirements.

c. The market competition for gas processing, including the possibility of rate setting by the public service commission.

d. The reporting of any deductions or incentives applied to the value as included on mineral royalty statements and tax reporting documents.

2. The tax department shall report to the energy development and transmission committee by September 30, 2018, regarding the results and recommendations of the study.

**SECTION 22. LEGISLATIVE MANAGEMENT STUDY - OIL AND GAS TAX REVENUE ALLOCATIONS TO HUB CITIES AND HUB CITY SCHOOL DISTRICTS.**

1. During the 2017-18 interim, the legislative management shall consider studying oil and gas tax revenue allocations to hub cities and hub city school districts. The study must include consideration of the following:

   a. The current and historical oil and gas tax revenue allocations to hub cities and hub city school districts.

   b. Other state funding provided to hub cities and hub city school districts, including grants from the oil and gas impact grant fund, distributions from the strategic investment and improvements fund, state school aid payments, and payments from the state aid distribution fund and highway tax distribution fund.

   c. Local taxing and revenue levels in hub cities compared to cities in non-oil-producing counties, including mill levies, property tax values, local sales and use taxes, and other revenue sources.

   d. The appropriate level of oil and gas tax revenue allocations to hub cities and hub city school districts based on infrastructure and other needs.

   e. The estimated fiscal impact to hub cities, hub city school districts, other political subdivisions, and the state if the oil and gas tax revenue allocation formula would be changed to transition hub cities and hub city school districts from allocations under subsection 1 of section 57-51-15 to allocations under subsections 4 and 5 of section 57-51-15.

   f. The estimated fiscal impact to hub cities, hub city school districts, other political subdivisions, and the state if the oil and gas tax revenue allocation formula would be changed to discontinue the allocations to hub cities and hub city school districts under subsection 1 of section 57-51-15.

2. The membership of the committee assigned the responsibility of the study must proportionately reflect the state's population distribution between oil-producing counties and non-oil-producing counties and must include members from the finance and taxation committees and the appropriations committees.

3. The legislative management shall report its findings and recommendations, together with any legislation required to implement the recommendations, to the sixty-sixth legislative assembly.

**SECTION 23. EFFECTIVE DATE.** Sections 15 and 16 of this Act are effective for taxable events occurring after June 30, 2017. Section 19 of this Act becomes effective September 1, 2017. House Bill No. 1300, as approved by the sixty-fifth legislative assembly, becomes effective January 1, 2018.