OIL AND GAS TAX REVENUE ALLOCATION FLOWCHART - 2019-2021 BIENNIAL

This memorandum provides information on the estimated allocation of oil and gas tax collections for the 2019-2021 biennium reflecting the January 2019 revenue forecast adjusted for the effects of Engrossed House Bill Nos. 1014 and 1066, and Engrossed Senate Bill Nos. 2249 and 2312. The amounts reflect oil prices averaging $42.50 per barrel and oil production remaining at 1.35 million barrels per day. A description of each of the funds is included on the second page.

ESTIMATED 2019-2021 BIENNIAL ALLOCATIONS - JANUARY 2019 REVENUE FORECAST - LEGISLATIVE ACTION THROUGH CROSSOVER

1. Oil and gas gross production tax
   Distributed by formula
   $2,052.3 million

2. Distributed by percentage
   20%
   $401.4 million

3. Oil extraction tax
   Distributed by the State Treasurer
   $2,052.3 million

4. Tributary share
   45%
   $453.9 million

5. Tax relief fund
   Next $200 million - $200 million

6. Legacy fund
   $1,086.9 million

7. Total
   $6.0 million

8. From the 1% of the 5% tax
   North Dakota outdoor heritage fund
   $15 million

9. From the 4% of the 5% tax
   Abandoned well reclamation fund
   $72.2 million

10. County must levy 10 mills for road purposes to
    Based on average daily attendance
    School districts in the county - 35%
    County general fund - 45%
    Cities in the county - 20%
    Based on population and excludes hub cities
    $3 million
    Cities in the county - 20%
    Based on population and excludes hub cities
    $98.3 million

11. Schools in the county - 35%
    Based on average daily attendance
    $5.2 million

12. Townshipships in the county - 4%
    Based on township road miles
    $2 million

13. Hub cities - 9%
    Based on the impact score for each hub city
    $443.3 million

14. Hub city school districts - 2%
    Based on the impact score for each hub city
    $9.5 million

15. Hub city school district funding pool
    A percentage of the funding pool ($22 million per fiscal year) to each hub city based on the impact score for each hub city
    $42.2 million

16. Hub city school district funding pool
    A percentage of the funding pool ($8 million per fiscal year) to each hub city school based on the impact score for each hub city
    $1.7 million

17. Hub city school district funding pool
    $350,000 to $1.5 million per fiscal year to certain eligible counties for schools
    $14.4 million

18. Hub city school district funding pool
    One month of 2017-18 allocation formulas
    Distributed in August 2019 for hub cities, hub city school districts, and the school district supplement under the 2017-18 formulas
    $2.7 million

19. Hub city school district funding pool
    Distributed in August 2019 for hub cities, hub city school districts, and the school district supplement under the 2017-18 formulas
    $1.7 million

20. First $5 million - 100% County; 5% State
    Over $5 million - 30% County; 70% State
    State
    $72.7 million


22. Shading in number boxes represents
    transfers from resource trust fund to the following:
    - Energy conservation grant fund
    - $1.2 million
    - Renewable energy development fund
    - $33 million
    - Infrastructure revolving loan fund
    - $0

23. Summary of estimated 2019-2021 biennium allocations

24. Total

25. North Dakota Legislative Council

February 2019

NOTE: The amounts reflected in these schedules are preliminary estimates for August 2019 through July 2021. The actual amounts allocated for the 2019-2021 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. The proposed changes are shown in boldface.

<table>
<thead>
<tr>
<th>Box</th>
<th>Tax/Fund</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Oil and gas production tax</td>
<td>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.</td>
</tr>
<tr>
<td>2</td>
<td>Oil extraction tax</td>
<td>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.</td>
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<tr>
<td>3</td>
<td>Tribal share</td>
<td>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. Senate Bill No. 2312 (2019) increases the revenue allocation to the Three Affiliated Tribes.</td>
</tr>
<tr>
<td>4</td>
<td>Legacy fund</td>
<td>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.</td>
</tr>
<tr>
<td>5</td>
<td>North Dakota outdoor heritage fund</td>
<td>House Bill No. 1278 (2013) created the North Dakota outdoor heritage fund to preserve natural areas and public lands. House Bill No. 1178 (2010) amended Section 27-51-15 to provide 9 percent of revenues from the first 1 percent of the oil and gas production tax, up to $20 million per fiscal year, be deposited in the fund. Engrossed House Bill No. 1014 limits the allocations to 7.5 million per fiscal year for the 2019-21 biennium.</td>
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<tr>
<td>6</td>
<td>Abandoned oil and gas well plugging and site reclamation fund</td>
<td>House Bill No. 1353 (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 one 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. Engrossed House Bill No. 1014 decreases the maximum fund balance by $50 million, from $100 million to $50 million.</td>
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<tr>
<td>7</td>
<td>Political subdivisions</td>
<td>Oil and gas gross production taxes are distributed to political subdivisions under Section 57-51-15 as amended by Senate Bill No. 2013 (2017). Engrossed House Bill No. 1066 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.</td>
</tr>
<tr>
<td>8</td>
<td>Common schools trust fund</td>
<td>Section 24 of Article IX 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.</td>
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<tr>
<td>9</td>
<td>Foundation aid stabilization fund</td>
<td>Section 24 of Article XII 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.</td>
</tr>
<tr>
<td>10</td>
<td>Resources trust fund</td>
<td>Section 57-51-1.07 provides for a transfer of 7.5 percent of the amount credited to the resources trust fund from the resources trust fund to the energy conservation grant fund. Senate Bill No. 2014 (2013) amended Section 57-51-1.07 to provide for a transfer of 7.5 percent of the amount credited to the resources trust fund from the resources trust fund to the energy conservation fund, up to $1.2 million per biennium.</td>
</tr>
<tr>
<td>11</td>
<td>Energy conservation grant fund</td>
<td>Senate Bill No. 2014 (2013) amended Section 57-51-1.07 to provide for a transfer of $1,000,000 per biennium to the energy conservation fund, up to $3 million per biennium. House Bill No. 1020 (2017) decreased the percentage transferred from 5 to 3 percent.</td>
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<tr>
<td>12</td>
<td>Renewable energy development fund</td>
<td>Senate Bill No. 2233 (2013) created an infrastructure revolving loan fund within the resources trust fund to provide loans for rural water systems, and funding programs for energy conservation. 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 to 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.</td>
</tr>
<tr>
<td>13</td>
<td>Infrastructure revolving loan fund</td>
<td>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.</td>
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<tr>
<td>14</td>
<td>Oil and gas research fund</td>
<td>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, to be deposited into the oil and gas research fund. Engrossed House Bill No. 1014 increases the allocations by $4 million, from $10 million to $14 million, for the 2019-21 biennium.</td>
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<td>15</td>
<td>State energy research center fund</td>
<td>Engrossed Senate Bill No. 2249 creates a state energy research center fund and allocates 2 percent of the state's share of oil and gas tax revenues, up to $6 million per biennium, to the fund for the Industrial Commission to contract with the Energy and Environmental Research Center for research projects.</td>
</tr>
<tr>
<td>16A, 16B</td>
<td>General fund</td>
<td>The general fund is the chief operating fund of the state. Section 57-51-1.07(5), as amended by House Bill No. 1109 (2017), provides for an allocation of $40 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. Engrossed House Bill No. 1066 increases the allocation to $400 million.</td>
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<tr>
<td>17</td>
<td>Tax relief fund</td>
<td>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.</td>
</tr>
<tr>
<td>18</td>
<td>Budget stabilization fund</td>
<td>The budget stabilization fund is established under Section 54-27-201. 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.</td>
</tr>
<tr>
<td>19</td>
<td>Lignite research fund</td>
<td>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 $5 million from the state's share of oil and gas tax revenues. Engrossed House Bill No. 1066 increases the allocation to $10 million.</td>
</tr>
<tr>
<td>20</td>
<td>State disaster relief fund</td>
<td>Section 37-17-1.2P 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.</td>
</tr>
<tr>
<td>21A, 21B</td>
<td>Municipal infrastructure fund</td>
<td>Engrossed House Bill No. 1066 creates a municipal infrastructure fund and allocates up to $15 million per biennium for grants to non- oil-producing cities for essential infrastructure projects.</td>
</tr>
<tr>
<td>22A, 22B</td>
<td>Strategic investment and improvements fund</td>
<td>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. Senate Bill No. 2014 (2013) establishes the oil and gas tax revenue allocation to the strategic investment and improvements fund.</td>
</tr>
<tr>
<td>23A, 23B</td>
<td>County and township infrastructure fund</td>
<td>Engrossed House Bill No. 1066 creates a county and township infrastructure fund and allocates up to $15 million per biennium for grants to non-oil-producing counties and townships for road and bridge infrastructure projects.</td>
</tr>
<tr>
<td>24</td>
<td>Airport infrastructure fund</td>
<td>Engrossed House Bill No. 1066 creates an airport infrastructure fund and allocates up to $20 million per biennium for airport infrastructure projects, subject to legislative appropriation.</td>
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