

## OIL AND GAS TAX ALLOCATION FORMULAS - POTENTIAL CHANGE TO SUPPLEMENTAL SCHOOL DISTRICT ALLOCATION

This memorandum provides an example of potential changes to the supplemental school district allocation from the 1 percent of the 5 percent oil and gas gross production tax pursuant to North Dakota Century Code Section 57-51-15. The potential changes relate to updating the fiscal year from 2014 to 2016 for the determination of allocations in the oil and gas gross production tax formulas.

### BACKGROUND

The supplemental school district allocation was added to the oil and gas gross production tax allocation formula in 2015 House Bill No. 1176. Five percent of oil and gas tax collections are allocated to school districts in counties that received \$5 million or more of allocations, while 35 percent of oil and gas tax collections are allocated to school districts in counties that received less than \$5 million. The supplemental allocations are provided to school districts in certain counties that received \$5 million or more of allocations. The supplemental allocations are added to the allocations that school districts receive from the 4 percent of the 5 percent oil and gas gross production tax. Hub city school districts are omitted from the supplemental allocation.

The schedule below provides information on the allocation of oil and gas gross production tax collections to counties for fiscal years 2014 and 2016. Burke County and Stark County as well as McHenry County and Ward County switched places in the rankings for the fiscal year 2016 allocations as compared to the fiscal year 2014 allocations. Please note that the amounts shown for the allocations reflect the allocations to the counties from the 4 percent of the 5 percent oil and gas gross production tax. The actual payments distributed to the county and the political subdivisions within the county may differ from the amounts shown because the payments include distributions from the 1 percent of the 5 percent oil and gas gross production tax and distributions to hub cities from 9 percent of the allocations within counties that received \$5 million or more of allocations.

Fiscal Year 2014			Fiscal Year 2016			Percentage Change From 2014
Rank	County	Allocations	Rank	County	Allocations	
1	McKenzie	\$94,045,886	1	McKenzie	\$65,762,067	(30.1%)
2	Mountrail	\$73,119,005	2	Mountrail	\$35,618,201	(51.3%)
3	Williams	\$50,039,092	3	Williams	\$33,802,379	(32.4%)
4	Dunn	\$44,571,441	4	Dunn	\$27,799,957	(37.6%)
5	Divide	\$16,490,725	5	Divide	\$8,948,808	(45.7%)
6	Bowman	\$11,164,425	6	Bowman	\$6,527,560	(41.5%)
7	Stark	\$9,826,760	7	Burke	\$5,610,845	(38.0%)
8	Burke	\$9,047,522	8	Stark	\$5,236,669	(46.7%)
9	Billings	\$8,074,720	9	Billings	\$5,189,049	(35.7%)
10	Bottineau	\$5,830,890	10	Bottineau	\$2,405,044	(58.8%)
11	Golden Valley	\$3,697,066	11	Golden Valley	\$958,386	(74.1%)
12	Renville	\$2,928,323	12	Renville	\$898,268	(69.3%)
13	McLean	\$2,228,686	13	McLean	\$553,886	(75.1%)
14	Slope	\$1,787,690	14	Slope	\$531,585	(70.3%)
15	Ward	\$127,885	15	McHenry	\$66,921	(26.1%)
16	McHenry	\$90,526	16	Ward	\$36,085	(71.8%)
17	Mercer	\$2,206	17	Mercer	\$0	(100.0%)

### POTENTIAL CHANGE TO SUPPLEMENTAL SCHOOL DISTRICT ALLOCATION

Under current statute, the counties that received more than \$5 million, but less than \$30 million of oil and gas tax allocations in fiscal year 2014, are eligible to receive an allocation of \$1.5 million per fiscal year, which is distributed to the school districts within the county based on average daily attendance. The six counties that are currently eligible include Billings, Bottineau, Bowman, Burke, Divide, and Stark. If the eligibility were updated to reflect the allocations in fiscal year 2016, Bottineau County would no longer be eligible, and Dunn County would become eligible.

Based on current statute, all eligible counties receive an allocation of \$1.5 million per fiscal year. As a result, the school districts in a county that received \$29.9 million of total allocations would receive approximately \$1.5 million more from the oil and gas tax allocation formulas compared to the school districts in a county that received \$30.1 million of total allocations. If the eligibility were updated to reflect the allocation in fiscal year 2016, various funding levels for the supplemental school district allocation may be needed to maintain equitability in the funding formula.

The following is an example of the potential changes that could be made to the supplemental school district allocation to update the oil and gas gross production tax allocation formulas to reflect fiscal year 2016.

**SECTION 1. AMENDMENT.** Subdivision d of subsection 1 of section 57-51-15 of the North Dakota Century Code is amended and reenacted as follows:

- d. Allocate to each county that received more than five million dollars but less than thirty million dollars of total allocations under subsection 2 in state fiscal year ~~2014~~2016 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 to the allocations to school districts under subdivision b of subsection 5~~ be added by the state treasurer to the allocations to school districts under subdivision b of subsection 5 and that will provide a total allocation to the county as follows:
- (1) One million five hundred thousand dollars per fiscal year for each county that received more than five million dollars but less than ten million dollars of total allocations under subsection 2 in state fiscal year 2016;
  - (2) One million two hundred fifty thousand dollars per fiscal year for each county that received at least ten million dollars but less than fifteen million dollars of total allocations under subsection 2 in state fiscal year 2016;
  - (3) One million dollars per fiscal year for each county that received at least fifteen million dollars but less than twenty million dollars of total allocations under subsection 2 in state fiscal year 2016;
  - (4) Seven hundred fifty thousand dollars per fiscal year for each county that received at least twenty million dollars but less than twenty-five million dollars of total allocations under subsection 2 in state fiscal year 2016; and
  - (5) Five hundred thousand dollars per fiscal year for each county that received at least twenty-five million dollars but less than thirty million dollars of total allocations under subsection 2 in state fiscal year 2016;

**SECTION 2. STATE AID PAYABLE TO CERTAIN SCHOOL DISTRICTS - EXEMPTION.**

1. Notwithstanding section 15.1-27-04.1, for the purposes of determining state aid payable for the period beginning July 1, 2017, and ending June 30, 2018, to the school districts with average daily attendance in Bottineau County, the superintendent of public instruction must exclude the revenue allocated by the state treasurer to the school districts in Bottineau County for the period beginning July 1, 2016, and ending June 30, 2017, pursuant to section 57-51-15(1)(d), as in effect at the time of the allocations.
2. Notwithstanding section 15.1-27-04.1, for the purposes of determining state aid payable for the period beginning July 1, 2017, and ending June 30, 2018, to the school districts with average daily attendance in Dunn County, the superintendent of public instruction must include five hundred thousand dollars of revenue that would have been allocated by the state treasurer to the school districts in Dunn County for the period beginning July 1, 2016, and ending June 30, 2017, if the provisions of section 57-51-15(1)(d), as in effect for the allocations after August 31, 2017, had been in effect for the allocations for the period beginning July 1, 2016, and ending June 30, 2017.

**ESTIMATED FISCAL IMPACT OF THE POTENTIAL CHANGES**

Based on the potential changes to the supplemental school district allocation included in the example above, the estimated fiscal impact for the 2017-19 biennium would include the following:

- The total funding level for school districts would remain consistent.
- General fund expenditures and appropriations would increase by \$1.5 million related to state school aid payable to school districts, including an increase of \$2.25 million related to Bottineau County and a decrease of \$750,000 related to Dunn County.
- Oil and gas gross production tax allocations to the general fund share (the "buckets") would increase by \$2 million, including an increase of \$3 million related to Bottineau County and a decrease of \$1 million related to Dunn County.