

# HUB CITY AND HUB CITY SCHOOL DISTRICT ALLOCATION STUDY - BACKGROUND MEMORANDUM

## STUDY OVERVIEW

Section 22 of 2017 Senate Bill No. 2013 ([Appendix A](#)), provides for a Legislative Management study of oil and gas tax revenue allocations to hub cities and hub city school districts. The study must include consideration of current and historical oil and gas tax revenue allocations, other state funding provided, local taxing and revenue levels, the appropriate level of oil and gas tax allocations, the estimated fiscal impact if the allocation formulas were changed, and the estimated fiscal impact if a portion of the allocations were discontinued.

## PRIOR STUDY

During the 2015-16 interim, the Legislative Management assigned the Energy Development and Transmission Committee the responsibility to study oil and gas tax revenue allocation formulas, including allocations to political subdivisions. The committee received information on the historical and current oil and gas tax rates and allocation formulas from state agencies. The committee also received information from political subdivisions regarding the use of oil and gas tax allocation funding, infrastructure projects, and challenges in government operations.

During the study, the committee discussed the current oil and gas tax revenue allocation formulas as well as changes to the formulas. One issue identified by the committee was balancing an adequate level of funding for political subdivisions to meet their needs with an adequate level of funding for necessary state programs. Another issue identified by the committee was providing an adequate level of funding for the hub cities to continue servicing their debt payments. At the conclusion of the study, the committee made no recommendations.

## ALLOCATION FORMULAS

The State Treasurer allocates oil and gas tax revenue collections to political subdivisions and state funds pursuant to North Dakota Century Code Sections 57-51-15, 57-51.1-07, 57-51.1-07.3, and 57-51.1-07.5. The formula for the allocations to political subdivisions, including hub cities and hub city school districts, is codified in Section 57-51-15. Hub cities and hub city school districts receive allocations only from the oil and gas gross production tax and do not receive any allocations from the oil extraction tax. A summary of the 2017-19 biennium oil and gas tax revenue allocations is attached as [Appendix B](#).

### 2011-13 Biennium

Prior to the designation of hub cities and hub city school districts, eligible cities received a supplemental allocation from the first 1 percent of 5 percent tax. The supplemental allocation was in addition to the allocations received by the city under the allocations to cities from the 4 percent of the 5 percent tax. Cities were eligible to receive the supplemental allocation if the city was located in an oil-producing county, had a population of 7,500 or more, and had more than 2 percent of its private covered employment engaged in the mining industry according to data compiled by Job Service North Dakota. Eligible cities received supplemental allocations as follows:

- \$500,000 per fiscal year if the city's mining employment was more than 2 percent, but not exceeding 7.5 percent.
- \$1 million per fiscal year if the city's mining employment was more than 7.5 percent.

### 2013-15 Biennium

In 2013 House Bill No. 1358, the Legislative Assembly defined hub cities and hub city school districts and amended the allocation formula to provide allocations to hub cities and hub city school districts.

A hub city was a city with a population of 12,500 or more that had more than 1 percent of its private covered employment engaged in the mining industry according to data compiled by Job Service North Dakota. From the 1 percent of the 5 percent tax, hub cities received an allocation of \$375,000 per fiscal year for each full or partial percentage point of mining employment. From the 4 percent of the 5 percent tax, hub cities received 9 percent of the amount allocated to counties that had received \$5 million or more of oil and gas gross production tax allocations in the most recently completed fiscal year. The 9 percent was distributed to the three hub cities with highest percentage of mining employment providing 60 percent to the hub city with the highest percentage, 30 percent to the hub city with the second highest percentage, and 10 percent to the hub city with the third highest percentage.

A hub city school district was the school district with the highest student enrollment within the city limits of a hub city. From the 1 percent of the 5 percent tax, hub city school districts received an allocation of \$125,000 per fiscal year for each full or partial percentage point of mining employment.

### 2015-17 Biennium

In 2015 House Bill No. 1176, the Legislative Assembly changed the definition of a hub city and the allocations to hub cities and hub city school districts, but the changes were in effect only for the 2015-17 biennium. The Legislative Assembly changed the definition of a hub city and the allocations to hub cities and hub city school districts to be based on oil- and gas-related employment rather than mining employment. The Legislative Assembly separated the allocations to hub cities to provide one dollar amount for hub cities located in oil-producing counties and another dollar amount for hub cities located in non-oil-producing counties.

From the 1 percent of the 5 percent tax, hub cities located in oil-producing counties received an allocation of \$375,000 per fiscal year for each full or partial percentage point of oil- and gas-related employment. From the 1 percent of the 5 percent tax, hub cities located in non-oil-producing counties received an allocation of \$250,000 per fiscal year for each full or partial percentage point of oil- and gas-related employment. Hub cities located in oil-producing counties continued to receive the 9 percent allocation under the 4 percent of the 5 percent tax.

From the 1 percent of the 5 percent tax, hub city school districts located in oil-producing counties received an allocation of \$125,000 per fiscal year for each full or partial percentage point of oil- and gas-related employment. Hub cities located in non-oil-producing counties were excluded from the allocations.

### 2017-19 Biennium

Senate Bill No. 2013 changes the definition of a hub city and the allocations to hub cities and hub city school districts. The definition change increases the required minimum mining employment percentage from 1 to 2 percent. The allocation change excludes the first 2 percentage points of mining employment for determining the allocations to hub cities and hub city school districts.

From the 1 percent of the 5 percent tax, hub cities located in oil-producing counties receive an allocation of \$375,000 per fiscal year for each full or partial percentage point, excluding the first 2 percentage points, of mining employment. The Legislative Assembly designated the employment percentages for the first fiscal year of the 2017-19 biennium for Williston (33 percent), Dickinson (17 percent), and Minot (4 percent). From the 1 percent of the 5 percent tax, hub cities located in non-oil-producing counties receive an allocation of \$250,000 per fiscal year for each full or partial percentage point, excluding the first 2 percentage points, of mining employment. Hub cities located in oil-producing counties continue to receive the 9 percent allocation under the 4 percent of the 5 percent oil and gas gross production tax.

From the 1 percent of the 5 percent tax, hub city school districts located in oil-producing counties receive an allocation of \$125,000 per fiscal year for each full or partial percentage point, excluding the first 2 percentage points of mining employment. Hub cities located in non-oil-producing counties are excluded from the allocations.

### EMPLOYMENT PERCENTAGES

The schedule below provides information on the employment percentages for mining employment and for oil- and gas-related employment for hub cities for calendar year 2012 through calendar year 2016. The employment percentages used in the allocation formulas for hub cities and hub city school districts reflect employment percentages from 2 years prior. For example, calendar year 2012 data relates to fiscal year 2014 allocations.

	2013-15 Biennium		2015-17 Biennium		2017-19 Biennium
	Mining Employment		Oil- and Gas-Related Employment		Mining Employment
	Calendar Year 2012	Calendar Year 2013	Calendar Year 2014	Calendar Year 2015	Calendar Year 2016 <sup>1</sup>
Williston	43	40	66	57	33
Dickinson	21	22	40	34	17
Minot	6	6	14	11	4
Mandan			9	8	
Bismarck			4	4	
West Fargo			3	5	
Jamestown			2	2	
Fargo			2		
Grand Forks			2	2	
Total	70	68	142	123	54

<sup>1</sup>The amounts shown for calendar year 2016 reflect the employment percentages designated in the allocation formulas under current statute. Based on data from Job Service North Dakota, the actual employment percentages (after excluding the first 2 percentage points) are as follows--Williston, 28 percent; Dickinson, 10 percent; and Minot, 4 percent.

## HUB CITY AND HUB CITY SCHOOL DISTRICT ALLOCATIONS

The schedules below provide information on actual and estimated allocations to hub cities and hub city school districts for fiscal year 2014 through fiscal year 2018. The amounts shown for each fiscal year reflect the period August through July. However, changes to the oil and gas gross production tax allocation formula become effective for allocations on or after September 1 of each odd-numbered year. As a result, the allocations shown for each biennium reflect 1 month under the prior biennium's formula, and 23 months under the current biennium's formula.

Hub City Allocations					
	2013-15 Biennium		2015-17 Biennium		2017-19 Biennium
	Fiscal Year 2014 - Actual	Fiscal Year 2015 - Actual	Fiscal Year 2016 - Actual	Fiscal Year 2017 - Estimate	Fiscal Year 2018 - Estimate
Williston	\$30,393,367	\$30,091,552	\$34,692,627	\$32,700,000	\$24,130,000
Dickinson	15,024,792	15,717,651	19,815,064	18,460,000	12,410,000
Minot	4,667,246	4,749,634	6,792,521	6,060,000	3,550,000
Mandan			2,062,500	2,020,000	170,000
Bismarck			916,667	1,000,000	80,000
West Fargo			687,500	1,210,000	100,000
Jamestown			458,333	500,000	40,000
Fargo			458,333	40,000	
Grand Forks			458,333	500,000	40,000
Total	\$50,085,405	\$50,558,837	\$66,341,878	\$62,490,000	\$40,520,000

Hub City School District Allocations					
	2013-15 Biennium		2015-17 Biennium		2017-19 Biennium
	Fiscal Year 2014 - Actual	Fiscal Year 2015 - Actual	Fiscal Year 2016 - Actual	Fiscal Year 2017 - Estimate	Fiscal Year 2018 - Estimate
Williston	\$4,927,083	\$5,031,250	\$7,979,167	\$7,220,000	\$4,380,000
Dickinson	2,406,250	2,739,583	4,812,500	4,310,000	2,300,000
Minot	687,500	750,000	1,666,667	1,410,000	570,000
Total	\$8,020,833	\$8,520,833	\$14,458,334	\$12,940,000	\$7,250,000

## STUDY PLAN

The following is a proposed study plan for the committee's consideration of its study of hub city and hub city school district allocations:

1. Receive information regarding oil and gas tax allocation formulas as well as historical and current allocations to hub cities and hub city school districts.
2. Receive information from the hub cities and hub city school districts regarding their use of oil and gas tax allocations, their infrastructure and other funding needs, and their local taxing and revenue levels.
3. Receive information regarding the estimated fiscal impact of any potential changes to the formula allocations to the hub cities and hub city school districts.
4. Receive testimony from interested persons regarding the study.
5. Develop recommendations and any bill drafts necessary to implement the recommendations.
6. Prepare a final report for submission to the Legislative Management.

ATTACH:2