

June 2010

## INCOME FROM OIL LEASES AND ROYALTIES

This memorandum provides information on revenue collected and distributed by the state from the following sources:

- Oil and gas revenues from state lands.
- Oil and gas revenues from federal lands.

### OIL AND GAS REVENUE FROM STATE LANDS

The Land Department manages over 2.5 million mineral acres on behalf of the state of North Dakota. Revenue generated from oil and gas activity on state-owned lands is deposited in funds that have been established for the benefit of the state and various beneficiaries. The funds include the lands and minerals trust fund; the Capitol building fund; and various permanent trust funds, including the common schools trust fund. The balances of the lands and minerals trust fund and the Capitol building fund are subject to legislative appropriation each biennium. For the permanent trusts, revenue is generated from mineral bonuses, mineral royalties, and the sale of grant land. The revenue generated by the permanent trust lands is invested by the Land Department. Distributions to the beneficiaries of the permanent trust funds are based on a formula developed by the Land Department which is based on the value of the funds and the growth of the fund assets over time.

The table below provides information from the Land Department on the mineral acres owned by each fund and the oil and gas revenue earned by each fund for fiscal years 2008 and 2009 and for fiscal year 2010 through May 18, 2010:

Fund	Mineral Acres	Fiscal Year 2008		Fiscal Year 2009		Fiscal Year 2010	
		Royalty and Bonus Revenue	Rental Income	Royalty and Bonus Revenue	Rental Income	Royalty and Bonus Revenue	Rental Income
Lands and minerals <sup>1</sup>	711,771	\$13,627,410	\$216,300	\$19,831,105	\$166,575	\$106,549,015	\$307,521
Capitol building	27,688	685,050	112,171	83,350	103,065	1,370,180	3,076
Common schools	1,525,905	48,968,170	429,377	60,205,770	467,437	221,902,519	730,825
North Dakota State University	65,982	1,323,763	6,630	921,377	7,206	3,082,416	9,972
School for the Blind	15,242	107,383	717	36,727	251	283,521	1,469
School for the Deaf	20,641	613,786	2,460	515,489	1,224	1,104,007	2,968
State Hospital	9,963	658,048	1,723	453,445	1,266	459,743	1,440
Ellendale State College	10,532	135,694	2,557	247,431	327	566,012	1,146
Valley City State University	19,823	119,030	2,506	105,584	1,134	600,793	4,010
Mayville State University	16,140	19,451	1,145	26,015	2,004	35,679	1,063
Industrial School	33,127	230,201	4,546	180,431	3,703	3,490,448	8,362
School of Science	18,484	639,850	1,608	514,375	649	1,314,485	2,362
School of Mines <sup>4</sup>	20,731	874,665	1,524	1,030,339	1,128	707,673	1,605
Veterans' Home	13,260	36,489	584	22,476	244	25,422	285
University of North Dakota	42,145	203,836	6,461	183,389	3,600	1,289,076	4,873
<b>Total</b>	<b>2,551,434</b>	<b>\$68,242,826</b>	<b>\$790,309</b>	<b>\$84,357,303</b>	<b>\$759,813</b>	<b>\$342,780,989</b>	<b>\$1,080,977</b>

<sup>1</sup>The amounts shown for lands and minerals bonus revenue include \$13,199,731 in restricted bonuses that are in dispute over the ownership of these mineral rights.

The table below provides information on the amounts distributed to the beneficiaries of the permanent trusts during the 2007-09 biennium:

Trust Fund	Fiscal Year 2008	Fiscal Year 2009	Total
Common schools <sup>1</sup>	\$33,400,000	\$33,400,000	\$66,800,000
North Dakota State University	535,000	535,000	1,070,000
School for the Blind	88,000	88,000	176,000
School for the Deaf	155,000	155,000	310,000
State Hospital	195,000	195,000	390,000
Ellendale State College <sup>2</sup>	84,000	84,000	168,000
Valley City State University	113,000	113,000	226,000
Mayville State University	78,000	78,000	156,000
Industrial School <sup>3</sup>	189,000	189,000	378,000
School of Science	169,000	169,000	338,000
School of Mines <sup>4</sup>	185,000	185,000	370,000
Veterans' Home	107,000	107,000	214,000

University of North Dakota	302,000	302,000	604,000
Total	\$35,600,000	\$35,600,000	\$71,200,000

<sup>1</sup>Distributions from the common schools trust fund are paid to school districts by the Department of Public Instruction.

<sup>2</sup>The beneficiaries of the Ellendale State College trust are Dickinson State University, Minot State University, Dakota College at Bottineau, the Veterans' Home, School for the Blind, State Hospital, and the State College of Science.

<sup>3</sup>The beneficiary of the Industrial School trust is the Youth Correctional Center.

<sup>4</sup>The beneficiary of the School of Mines trust is the University of North Dakota.

### OIL INCOME FROM FEDERAL LANDS

The federal government receives royalty, bonus, and rent revenues from leasing mineral rights on land and mineral holdings in North Dakota. The majority of revenues are generated from public domain land leases with the remaining revenue originating from leases located on Corps of Engineers flood control lands and United States Forest Service lands.

The table below provides information from the federal Mineral Management Service on the revenue earned by the federal government and deposited in the United States Treasury, the amount distributed to the United States Bureau of Reclamation, and the amount distributed to North Dakota and its counties for federal fiscal year 2009:

	United States Treasury	United States Bureau of Reclamation	United States Department of Agriculture	Distribution to North Dakota		Total
				State General Fund	Counties	
Public domain leases <sup>1</sup>	\$5,947,397	\$21,626,896		\$13,246,474 <sup>2</sup>	\$13,246,474 <sup>2</sup>	\$54,067,241
Corps of Engineers leases <sup>3</sup>	11,553,808				34,661,423 <sup>4</sup>	46,215,231
United States Forest Service <sup>5</sup>			\$25,794,002		8,598,001	34,392,003
Late disbursement interest				388	387	775
Total	\$17,501,205	\$21,626,896	\$25,794,002	\$13,246,862	\$56,506,285	\$134,675,250

<sup>1</sup>Revenue from public domain leases is allocated 11 percent to the United States Treasury, 40 percent to the United States Bureau of Reclamation, and 49 percent to North Dakota.

<sup>2</sup>Pursuant to North Dakota Century Code Section 15.1-27-25, 50 percent of revenue distributed to the state is remitted to the participating counties.

<sup>3</sup>Revenue from Corps of Engineers' leases is allocated 25 percent to the United States Treasury and 75 percent to North Dakota counties.

<sup>4</sup>Pursuant to Section 21-06-10, all royalty revenue from Corps of Engineers' flood control leases is distributed by the State Treasurer to participating counties. Counties further allocate this funding as follows:

School districts	50 percent
Townships	25 percent
County road purposes	25 percent

<sup>5</sup>Revenue from the United States Forest Service is distributed to the United States Department of Agriculture and allocated 75 percent to the United States Department of Agriculture and 25 percent to participating counties. The counties' allocation is distributed by the United States Department of Agriculture directly to the counties and does not "flow" through any state agency.

The table below provides information from the State Treasurer's office and the federal Mineral Management Service on the allocations of federal revenues to counties for federal fiscal year 2009:

County	Public Domain Leases	Corps of Engineers' Leases	United States Forest Service	Total
Billings	\$1,046,545		\$3,484,957	\$4,531,502
Bowman	3,464,093			3,464,093
Burke	61,719			61,719
Divide	226			226
Dunn	6,159,098	\$3,503,883	51,981	9,714,962
Golden Valley	175,727		493,210	668,937
McKenzie	1,606,065	1,253,764	4,374,542	7,234,371
McLean	481			481
Mercer	146,812	870		147,682
Mountrail	195,869	29,851,050		30,046,919
Oliver	3,039			3,039
Renville	2,661			2,661
Slope	142,447		193,311	335,758

Stark	140,736			140,736
Ward	45			45
Williams	101,298	51,856		153,154
Total	\$13,246,861	\$34,661,423	\$8,598,001	\$56,506,285