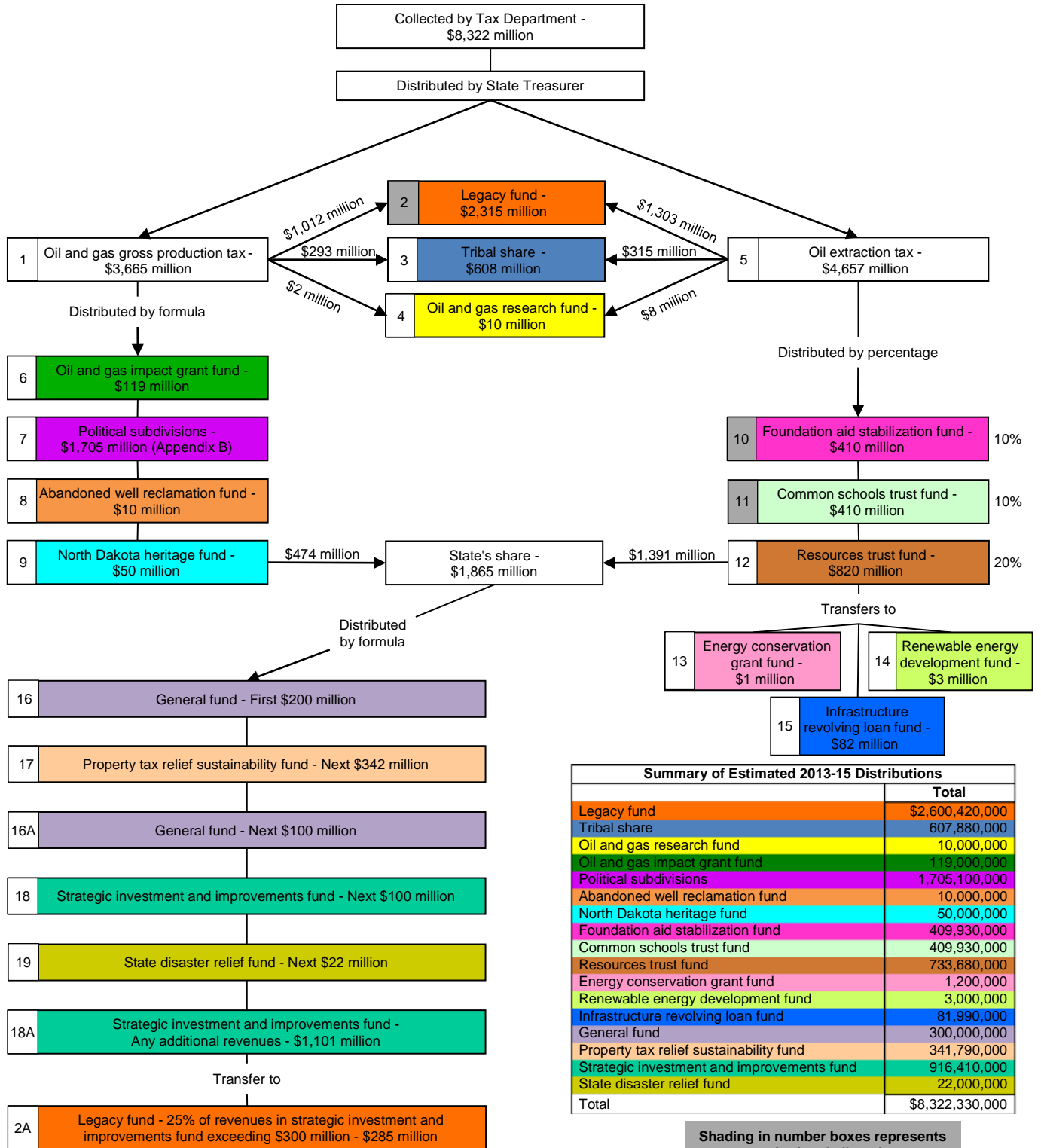


2015-17 OIL AND GAS TAX REVENUE ALLOCATION FLOWCHART (REFLECTING THE 2015-17 EXECUTIVE BUDGET RECOMMENDATION)

This memorandum provides information on the estimated allocation of oil and gas tax collections for the 2015-17 biennium based on the December 2014 revenue forecast. A summary of the funds is included in Appendix A, and a more detailed schedule of the distribution of oil and gas gross production tax collections is included in Appendix B.

2015-17 BIENNIUM December 2014 Revenue Forecast Estimates

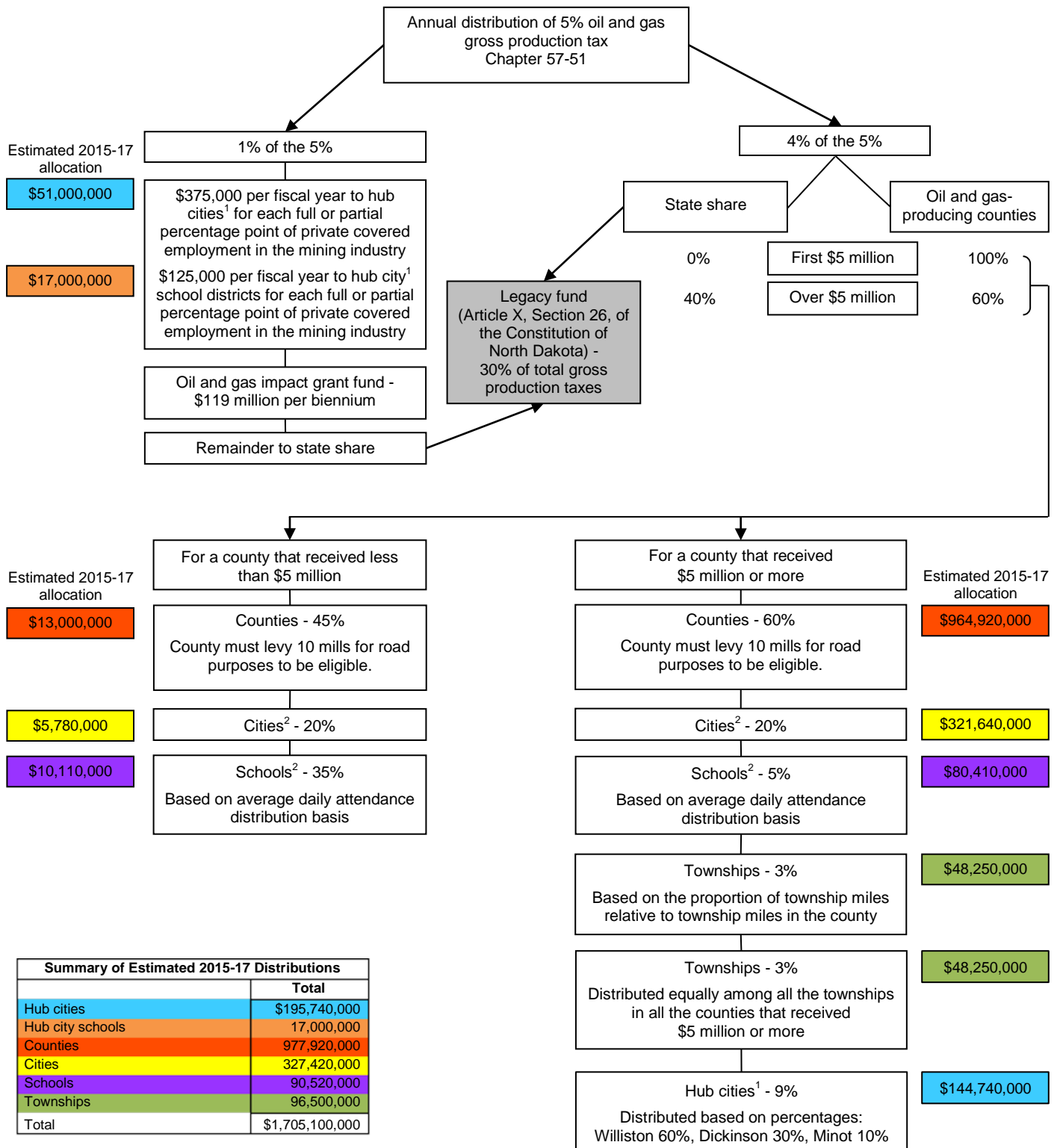


The table below provides a brief description of the taxes and funds included in the flowchart on the previous page. The executive recommendation changes to the allocations are boldfaced.

Box	Tax/Fund	Description
1	Oil and gas gross production tax	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. The gross production tax on gas is four cents times the gas base rate adjustment for each fiscal year as calculated by the Tax Department.
2 and 2-A	Legacy fund	Article X, Section 26, 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 or extraction. Section 15-08.1-08 provides that if the unobligated balance in the strategic investment and improvements fund exceeds \$300 million at the end of any month, 25 percent of any revenues received for deposit in the strategic investment and improvements fund must be deposited instead in the legacy fund.
3	Tribal share	Chapter 57-51.2 provides the requirements for allocating oil and gas tax revenues to the Three Affiliated Tribes 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.
4	Oil and gas research fund	Section 57-51.1-07.3 (2003 Senate Bill No. 2311) establishes the oil and gas research fund. 2013 Senate Bill No. 2014 amended Section 57-51.1-07.3 to provide that 2 percent of the state's share of the oil and gas gross production tax and oil extraction tax revenues, up to \$10 million per biennium, is to be deposited into the oil and gas research fund. All money deposited in the fund and all interest income are appropriated as a continuing appropriation to the Oil and Gas Research Council.
5	Oil extraction tax	Section 57-51.1-02 provides for a tax of 6.5 percent of the gross value at the well on the activity in North Dakota of extracting oil from the earth unless exempted.
6	Oil and gas impact grant fund	Section 57-51-15 (1989 House Bill No. 1302) establishes the oil and gas impact grant fund for deposit of revenue from oil and gas gross production taxes. 2013 House Bill No. 1358 amended Section 57-51-15 to provide that revenue from the tax equal to the first 1 percent of the gross value of oil at the well of oil production, up to \$240 million per biennium, is to be deposited into the oil and gas impact grant fund. The fund is used to provide grants to political subdivisions impacted by oil development. The executive recommendation decreases the allocation to the oil and gas impact grant fund by \$121 million, from \$240 million to \$119 million.
7	Political subdivisions	Oil and gas gross production taxes are apportioned to political subdivisions pursuant to Section 57-51-15 as amended by 2013 House Bill No. 1358. The executive recommendation increases the allocations to political subdivisions by increasing the amount allocated to counties related to the 4 percent of the 5 percent oil and gas gross production tax from 25 percent to 60 percent of all revenue above \$5 million. See Appendix B.
8	Abandoned oil and gas well plugging and site reclamation fund	2013 House Bill No. 1333 amended Section 57-51-15 to provide that 4 percent of the first 1 percent of oil and gas gross production tax to be allocated to the abandoned oil and gas well plugging and site reclamation fund, but not in an amount exceeding \$5 million per state fiscal year and not in an amount that would bring the balance of the fund to more than \$75 million.
9	North Dakota heritage fund	2013 House Bill No. 1278 created a North Dakota outdoor heritage fund to preserve natural areas and public lands and amended Section 57-51-15 to provide 4 percent of revenues from the first 1 percent of the oil and gas gross production tax up to \$15 million per state fiscal year. The executive recommendation increases the revenue allocation to provide \$50 million per biennium.
10	Foundation aid stabilization fund	Article X, Section 24, 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 also provides that the principal of the foundation aid stabilization fund may be expended only upon order of the Governor to offset foundation aid reductions that were made by executive action due to a revenue shortfall.
11	Common schools trust fund	Article IX, Section 1, of the Constitution of North Dakota, provides for a common schools trust fund to be used to support the common schools of the state. Article X, Section 24, 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. Article IX also provides for the deposit of other revenue sources into the common schools trust fund. Only earnings of the common schools trust fund may be spent. The earnings are distributed to school districts as part of the state school aid formula.
12	Resources trust fund	Section 57-51.1-07 provides for a distribution of 20 percent of oil extraction taxes to the resources trust fund. Article X, Section 22, of the Constitution of North Dakota, provides that the fund may be used, subject to legislative appropriation, for constructing water-related projects, including rural water systems, and funding of programs for energy conservation.
13	Energy conservation grant fund	2013 Senate Bill No. 2014 amended Section 57-51.1-07 to provide for a transfer of one-half of 1 percent of the amount credited to the resources trust fund from the resources trust fund into the energy conservation grant fund, up to \$1.2 million per biennium.
14	Renewable energy development fund	2013 Senate Bill No. 2014 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 into the renewable energy development fund, up to \$3 million per biennium.
15	Infrastructure revolving loan fund	2013 Senate Bill No. 2233 created an infrastructure revolving loan fund within the resources trust fund to provide loans for water supply, flood protection, or other water projects. Ten percent of the oil extraction tax allocations deposited in the fund are designated for the infrastructure revolving loan fund.
16 and 16-A	General fund	The general fund is the chief operating fund of the state. Section 57-51.1-07.5 provides for the distribution of the state's share of oil and gas taxes. The distribution formula provides for an initial deposit of \$200 million to the general fund and an additional \$100 million after a deposit of \$341.79 million in the property tax relief sustainability fund.

17	Property tax relief sustainability fund	Section 57-64-05 provides for the property tax relief sustainability fund to provide for property tax relief programs pursuant to legislative appropriations. Section 57-51.1-07.5 provides for the distribution of up to \$341.79 million of oil tax revenues to the property tax relief sustainability fund each biennium.
18 and 18-A	Strategic investment and improvements fund	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. Section 57-51.1-07.5 provides for the distribution of certain oil tax revenues to the strategic investment and improvements fund.
19	State disaster relief fund	Section 37-17.1-27 provides for the state disaster relief fund to be used only for the required state share of funding for expenses associated with presidential-declared disasters in the state upon Emergency Commission and Budget Section approval. Section 57-51.1-07.5 provides for the distribution of up to \$22 million of oil tax revenues at certain levels to the state disaster relief fund each biennium.

DECEMBER 2014 REVENUE FORECAST ESTIMATES OF 2015-17 BIENNIUM DISTRIBUTION OF 5 PERCENT OIL AND GAS GROSS PRODUCTION TAX COLLECTIONS (REFLECTING THE 2015-17 EXECUTIVE BUDGET RECOMMENDATION)



¹A "hub city" means a city with a population of 12,500 or more, according to the last official decennial federal census, which has more than 1 percent of its private covered employment engaged in the mining industry, according to data compiled by Job Service North Dakota.

²Hub cities and hub city school districts must be omitted from this apportionment.