Oil Tax Distributions in North Dakota and Other Unconventional Oil Play States

Economic Impact Committee

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ND Oil Production

• September production = approximately 931,940 barrels of oil per day (BOPD)
  – Current rig count is at 185
  – ND is 2\textsuperscript{nd} largest oil producing state

• Estimated oil tax collections in 2013-15 biennium = $5.3 billion
11.5% Total Oil Tax Based on Two Taxes

5% Gross Production Tax
Established in 1953

+ 

6.5% Extraction Tax
Established in 1980

= 

Total Tax
11.5%
Trends in Oil and Gas Tax Collections

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Production Tax</th>
<th>Oil Extraction Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>17.1</td>
<td>36.5</td>
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<tr>
<td>2003</td>
<td>22.6</td>
<td>43.5</td>
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<tr>
<td>2004</td>
<td>25.6</td>
<td>47.5</td>
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<tr>
<td>2005</td>
<td>45.6</td>
<td>74</td>
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<tr>
<td>2006</td>
<td>61.8</td>
<td>104.4</td>
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<td>2007</td>
<td>67.2</td>
<td>118.8</td>
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<tr>
<td>2008</td>
<td>182.4</td>
<td>209.5</td>
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<tr>
<td>2009</td>
<td>185.8</td>
<td>221.5</td>
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<td>2010</td>
<td>280.6</td>
<td>302.1</td>
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<td>2011</td>
<td>496.7</td>
<td>481.1</td>
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<td>2012</td>
<td>795.7</td>
<td>1258.2</td>
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<tr>
<td>2013</td>
<td>1090.2</td>
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</table>

ND Oil & Gas Taxes

Gross Production Tax | Oil Extraction Tax
6.5% Oil Extraction Tax

- **State Share**
  - General Fund
  - $300M cap per Biennium

- **Resources Trust Fund**

- **Legacy Fund**

- **Education Purposes**
  - 50% Common School Trust Fund
  - 50% Foundation Aid Stabilization Fund
Two distribution avenues

- First 1% (i.e. 1/5 of the 5% GPT)
- Remaining 4/5 of the GPT
$375,000 per fiscal year to hub cities for each percentage point of oil and mining employment

$125,000 per fiscal year to hub city school districts for each percentage point of oil and mining employment

Oil and Gas Impact Grant Fund $240 million per biennium

4% to the Heritage Fund capped at $30 million per biennium

4% to the Abandoned Oil and Gas Well Plugging and Site Reclamation Fund capped at $10 million per biennium

Remainder to the state
Hub City Allocations from 1st 1% GPT

Williston
43 × $375,000 = $16.125 Million/year
Divide by 12 = Monthly Distribution Amount

Dickinson
21 × $375,000 = $7.875 Million/year
Divide by 12 = Monthly Distribution Amount

Minot
6 × $375,000 = $2.25 Million/year
Divide by 12 = Monthly Distribution Amount
Hub City School District
Allocations from 1st 1% GPT

Williston
- 43
- $125,000
- $5.375 Million/year
- Divide by 12 = Monthly Distribution Amount

Dickinson
- 21
- $125,000
- $2.625 Million/year
- Divide by 12 = Monthly Distribution Amount

Minot
- 6
- $125,000
- $750,000/year
- Divide by 12 = Monthly Distribution Amount
• $240 million appropriated for energy impact grants
• Legislative Allocations:
  – $5 million – New oil and gas development counties
  – $60 million – Airports (priority to those that have federal funding)
  – $4 million – Higher education institutions
  – $3 million – Dust control pilot project
  – $7 million – County sheriff’s offices
  – $7 million – Emergency Medical Services
  – $3.5 million – Fire protection districts
  – $14 million – Hub cities
    • Williston - $2 million; Dickinson - $7 million; Minot - $5 million
  – $135.8 Million Remains for “Non-Specific” Awards
4/5 of 5% GPT – Counties Under $5 Million

Breakdown of the 4/5 among political subdivisions:
- Schools 35%
- Counties 45%
- Cities 20%

HB 1358
2013 Legislature
4/5 of 5% GPT – Counties Over $5 Million

Breakdown of the 4/5 State General Fund

- 0%
- 75%

Oil & Gas Counties

- $0 - $5,000,000: 100%
- $Over $5,000,000: 25%

- County General Fund: 60%
- Hub Cities: 9%
- Cities: 20%
- Schools: 5%
- Townships: 3%
  (distributed evenly among all townships)
- Townships: 3%
  (distributed based on road miles)
- Schools: 5%
  (Does not include Hub City Schools)
• HB 1358 increased the oil and gas tax revenue distributed to local government through the formula to $593M
  – Counties - $315.5M
  – Cities - $198M
  – School Districts - $49M
  – Townships - $30.5M
• This includes distributions and monies made available to “hub” cities and “hub” school districts
Comparisons of State Oil Tax

- Comparisons between states difficult, but not impossible
- Headwaters Economics study on oil tax revenue and its distribution
- Focus on unconventional oil play states
- “Typical unconventional well” used as basis for comparison between states
Typical Unconventional Oil Well Production Profile

![Graph showing typical unconventional oil well production profile with data points for average daily production and cumulative production over years.]
Cumulative Production Value from Typical Unconventional Well

Cumulative production value ($ Millions)

Years

$0

$5

$10

$15

$20

$25

$19.3

1  2  3  4  5  6  7  8  9  10
Tax Revenue Collected from a Typical Unconventional Oil Well

- Wyoming
  - Revenue: $2.3
  - Tax Rate: 11.7%

- North Dakota
  - Revenue: $2.2
  - Tax Rate: 11.2%

- Montana
  - Revenue: $1.5
  - Tax Rate: 7.6%

- New Mexico
  - Revenue: $1.3
  - Tax Rate: 6.9%

- Colorado
  - Revenue: $1.3
  - Tax Rate: 6.8%

- Texas
  - Revenue: $1.3
  - Tax Rate: 6.7%

- Oklahoma
  - Revenue: $0.6
  - Tax Rate: 3.3%
Distribution of Production Tax Revenue in Seven Oil Producing States Based on a Typical Unconventional Oil Well

- **Wyoming**
  - Local Share: $1,234,658
  - State Share: $608,604
  - Trust Funds: $421,615
  - Tax Expenditure: $140,289

- **North Dakota**
  - Local Share: $338,853
  - State Share: $636,698
  - Trust Funds: $930,680
  - Tax Expenditure: $140,289

- **New Mexico**
  - Local Share: $178,732
  - State Share: $1,072,478
  - Trust Funds: $103,316
  - Tax Expenditure: $140,289

- **Colorado**
  - Local Share: $1,121,583
  - State Share: $607,187
  - Trust Funds: $89,787
  - Tax Expenditure: $140,289

- **Texas**
  - Local Share: $410,518
  - State Share: $890,452
  - Trust Funds: $140,289
  - Tax Expenditure: $140,289

- **Montana**
  - Local Share: $695,557
  - State Share: $382,220
  - Trust Funds: $912,986
  - Tax Expenditure: $140,289

- **Oklahoma**
  - Local Share: $211,535
  - State Share: $418,823
  - Trust Funds: $740,875
  - Tax Expenditure: $140,289

### Graph Legend:
- **Local Share**
- **State Share**
- **Trust Funds**
- **Tax Expenditure**
Preliminary Study Results for ND

• ND has some things right
  – Direct allocations to local political subdivisions
  – Timely distribution of revenue

• Potential improvements
  – Long term certainty for local political subdivisions
  – Drilling must continue for ongoing revenue
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