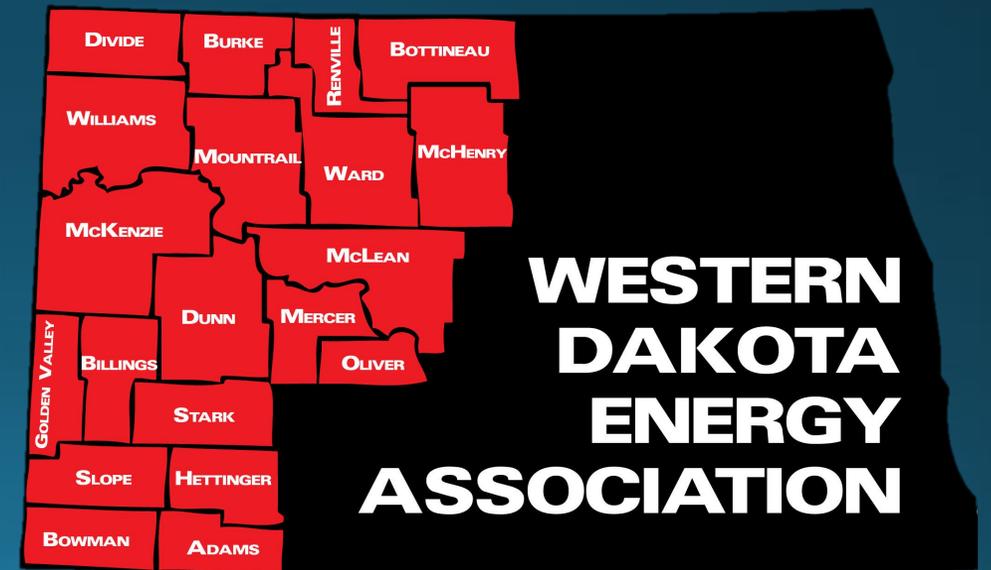


Local Govt. Issues & Oil Tax Distribution

Geoff Simon and Brent Bogar
North Dakota Petroleum Council
Watford City – September 21, 2022



WDEA Executive Committee



- President - Trudy Ruland - Mountrail County**
- VP - Supt. Leslie Bieber - Alexander School District**
- Daryl Dukart - Dunn County
- Zach Gaaskjolen - City of Stanley
- Supt. Tim Holte - Stanley School District
- Shannon Holter - City of Bowbells
- Mayor Lyn James - City of Bowman
- Supt. Nick Klemisch- Coal Conversion Counties, Garrison
- David Montgomery - Williams County
- John Phillips - Coal Conversion Counties, Beulah
- Education position vacant



Trudy Ruland



Leslie Bieber

What has WDEA been doing for members?

- Lobbied daily in the 2021 Legislature, testified in support of issues important to the West
- Work closely with CCCA, a subgroup of WDEA
- Updated oil and gas tax distribution study
- Actively engaged in pursuit of TENORM solution
- Wise Roads – continuing to add weather stations
- LoadPass Permits enhancements underway, more eastern counties added to the system
- Keep members informed through newsletter, web site, social media and Basin Bits magazine



2023 Legislative Issues/Concerns



- Electric Reliability - Three coal plants have closed – Stanton Station, Heskett I and II, Lewis & Clark (Montana). Coal Creek Station was threatened with closure, and Otter Tail Power intends to pull out of its 35 percent share of 420-MW Coyote Station.
- CO₂ Capture and Sequestration – Federal legislation has provided economic incentives that will help sustain the coal industry, and provide future opportunities for synergy with the oil and gas industry. Permitting challenges must be addressed.
- ESG – WDEA recognizes ongoing danger of movement to economy, supportive of efforts to pressure financial institutions to offer lending, communicating information about foolishness of ending fossil fuel investment.
- School Construction Funding – Costs are much higher in western ND, changes made to allow use of GPT for building, but structural issues in use of GPT revenue in bonding measures remain, on-time funding still lagging
- Career & Technical Education – CTE academies under construction/development in Dickinson, Minot, Watford City and Williston, WDEA is supportive of additional funding for Tech Ed and other workforce development solutions.
- Transportation Infrastructure – Funding for roads and bridges is high priority for WDEA, lobbied for additional support for townships in oil counties, strong supporter of efforts to four-lane Highway 85.
- Pore Space and Royalties – WDEA remains solidly neutral on issues affecting landowners and royalty owners.

2021 Legislative Engagement

- HB 1452 – Establishes a Clean Sustainable Energy Authority to support new energy technologies to reduce emissions and minimize the footprint of energy production. One of its eight members – Joel Brown – was appointed by WDEA.
- HB 1015 – The OMB budget provides a \$250 million line of credit to set up a Clean Sustainable Energy revolving loan fund. Its initial loan could support Project Tundra's CO₂ capture and sequestration effort at Milton R. Young Station.
- SB 2065 - Sets up the regulatory framework for underground gas storage – both a permitting process for industry and a system of compensation for landowners.
- SB 2014 – The Industrial Commission budget includes \$9.5 million for salt cavern development for underground gas and gas liquid storage. EERC study shows salt cavern formation is feasible.
- SB 2319 – Straddle well agreement sets up a cost-sharing plan for wells around the perimeter of the Fort Berthold Reservation. Prior to enactment, the MHA Nation received no revenue from wells outside the boundary that have laterals that go into the reservation. **County revenue is not affected.**
- HB 1159 – Provided for an interim study of local natural gas and propane infrastructure development.



Education Funding Issues

- HB 1013 and HB 1388 - DPI appropriations and policy bills include 1% increase in per pupil payment each year of biennium (\$10,136 and \$10,237), directing that 70% go to teacher salaries. Continues move toward “on-time” funding.
- Section 23 of HB 1013 requested study of feasibility of using up to one percent of Common Schools Trust Fund assets annually for school construction grants.
- Downside: Continues to require districts to move toward a 60-mill property tax levy, effectively requiring that some districts impose tax increases or lose state funding.
- SB 2272 - Continues a skilled workforce scholarship and student loan repayment program aimed at attracting people into high demand and emerging occupations in the state.



Issues in Coal Country

- Increasing renewable penetration impacts coal use
- PTC allows wind companies to sell at negative prices
- Most coal-fired plants report some financial difficulty
- Three plants have closed – Stanton Station, Lewis & Clark (Montana) and Heskett I and II
- Coal Creek Station was threatened with closure, but is being purchased by Rainbow Energy
- Otter Tail Power intends to pull out of its 35 percent share of 420-MW Coyote Station by 2028
- Basin Electric accelerated capital recovery plan for Leland Olds, its two units generate 660 megawatts
- Basin extended its lease agreement for 342 megawatts of the 450-MW Unit 2 at Antelope Valley Station
- Minnkota Power is evaluating if it will move forward with Project Tundra at Milton R. Young Station
- Bakken Energy plans to purchase the Great Plains Synfuels Plant and convert it into a clean hydrogen hub



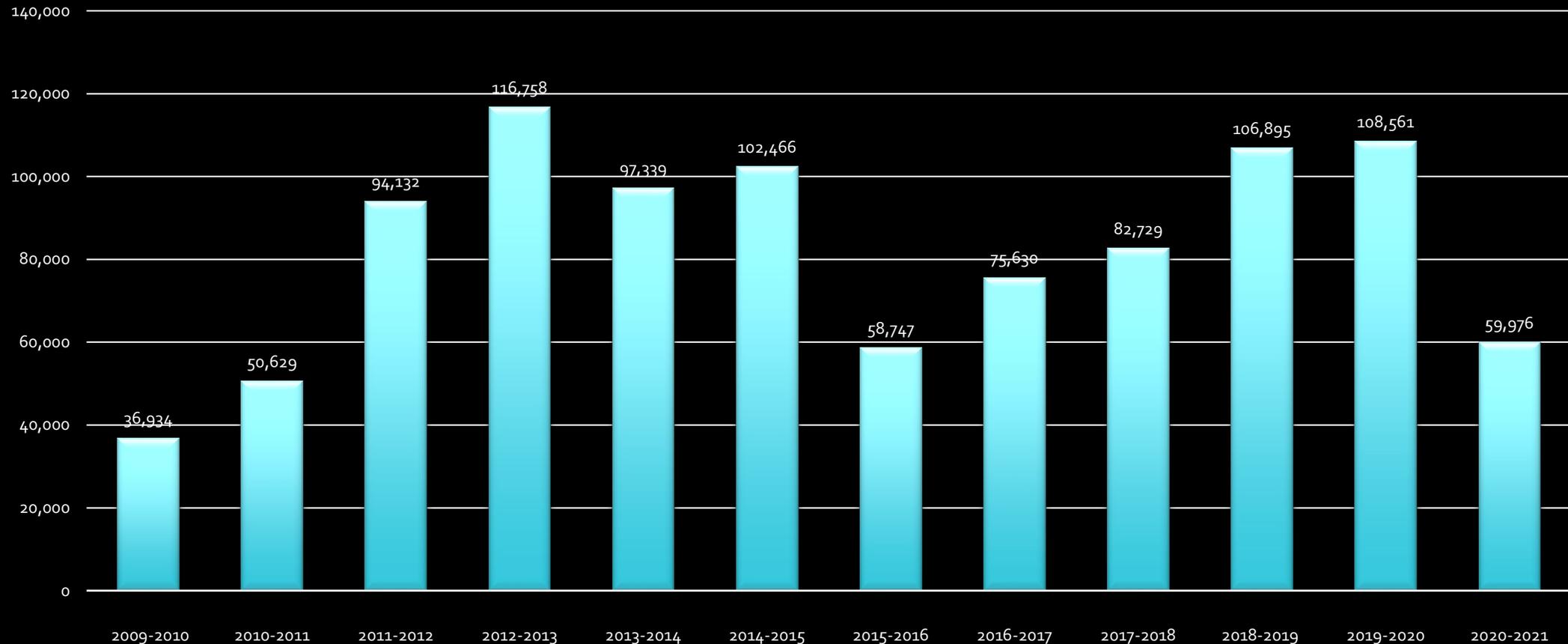
Legislature Will Have New Leadership

- Senate Majority Leader Rich Wardner is not seeking re-election
- House Majority Leader Chet Pollert is not seeking re-election
- Senate Minority Leader Joan Heckaman is not seeking re-election
- Senate Approps Chairman Ray Holmberg has resigned
- House Approps Chairman Jeff Delzer was defeated in primary
- House Education Committee Chair Mark Owens not running
- The 2023 ND Legislature will have at least 32 new members
- A total of 99 legislative seats are/were in play out of 141 total

Permit History 2009-2021



Total Number of Permits Sold
on behalf of all Members Annually
2009-2021



Permit Revenue to Major Counties

July 1, 2021 – April 30, 2022



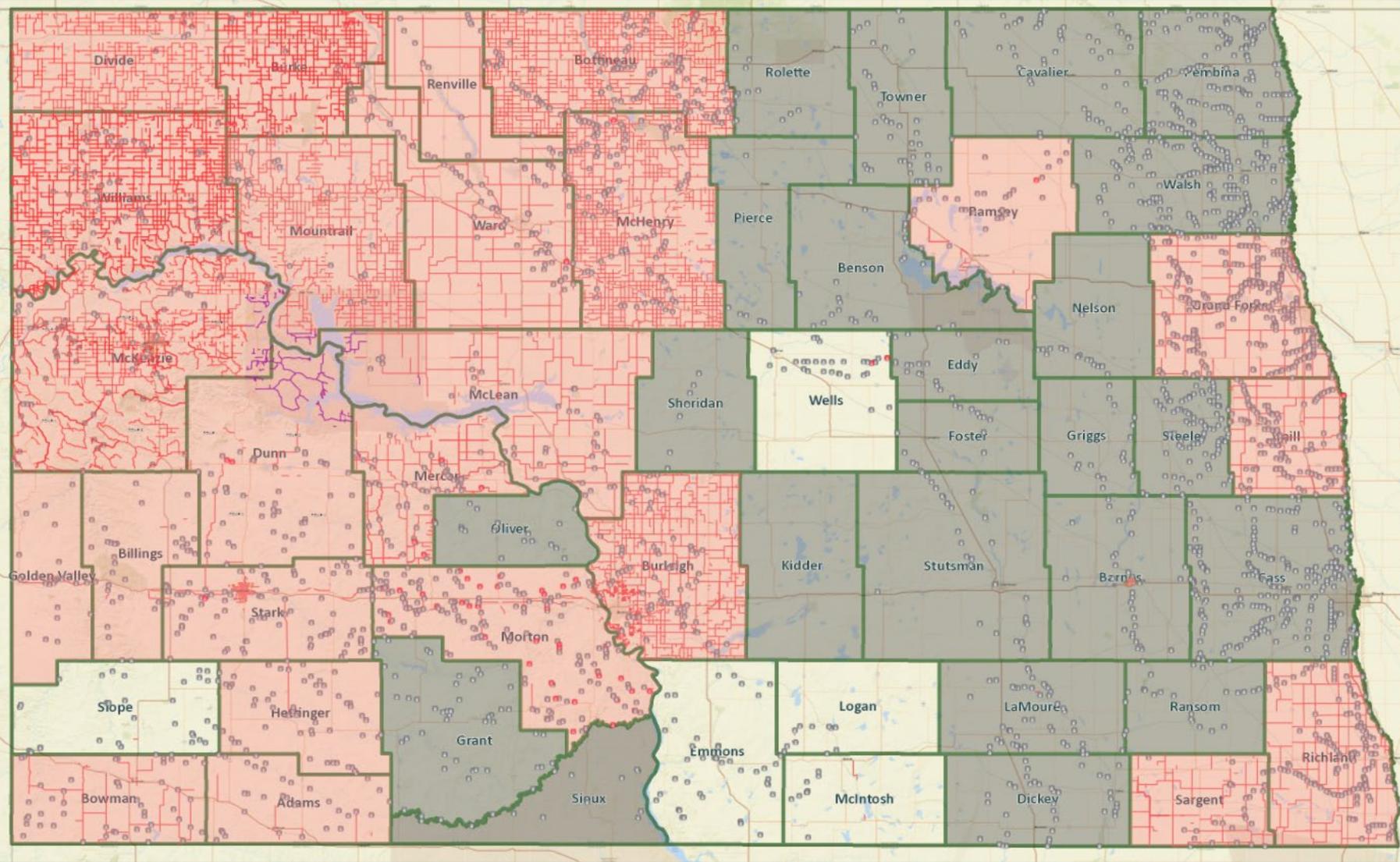
County	# Permits	Revenue Received
McKenzie	18,773	\$3,116,538.10
Williams	15,165	\$2,706,240.54
Mountrail	12,193	\$2,134,381.10
Dunn	8,965	\$1,223,367.20

Member County Road Data



Permits Routed Using GIS	98%
Total Miles of Road Segments (City, County, Township Road Segments)	42,226
Total Miles of Restricted Roads (During Frost Law Season 2022)	12,852
Total Miles of Year-Round Restrictions	1,107
Total Number of Bridges	1,938
Restricted Bridges / Closed	39

Blanket Restrictions (rain events)



Axle Page Update



Axle Groups		Unit	267
License Weight	105,500		
Gross Weight	114,000		
Axle Group	# of Axles	Weight	
1	2	36,000 lbs	
2	2	47,000 lbs	
3	2	31,000 lbs	
		Total Weight: 114,000 lbs	

Axles

Permitted Unit		Power Unit	
Unit Description	AW104	VIN	1S951DB868L976105
Gross Weight	104,000 lbs.	Power Unit #	AW104
		Year	2008
		Make	Service King
		State Registered	NA
		License Number	NA
		License Weight	105,500 lbs.

Axle #	Weight	# of Tires	Tire Width	Track Width	Axle Spacing
1	22,500 lbs	2	445.00 mm	8 ft. 6 in.	4 ft. 6 in.
2	22,500 lbs	2	445.00 mm	8 ft. 6 in.	18 ft. 6 in.
-- Axle Group Break --					
3	19,666 lbs	4	11.00 in	8 ft. 6 in.	4 ft. 6 in.
4	19,667 lbs	4	11.00 in	8 ft. 6 in.	4 ft. 6 in.
5	19,667 lbs	4	11.00 in	8 ft. 6 in.	0 ft. 0 in.
Gross Weight:	104,000 lbs				

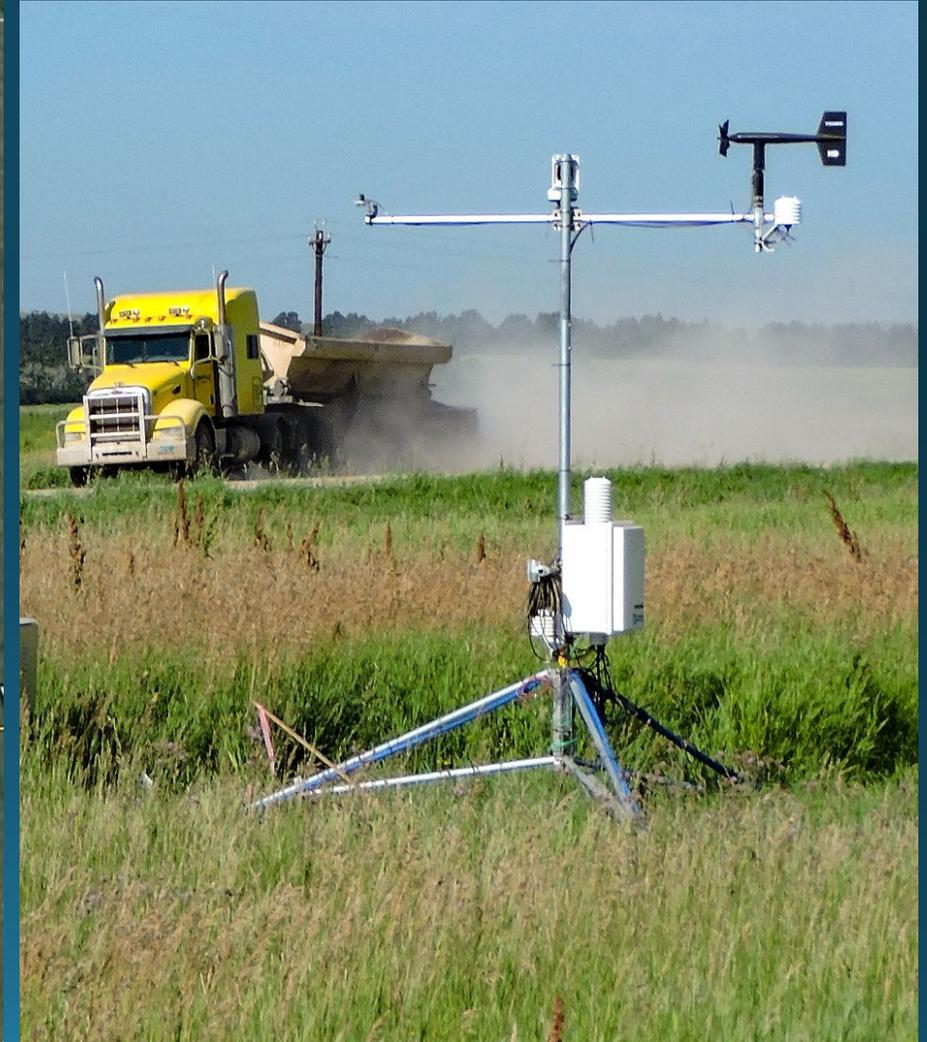
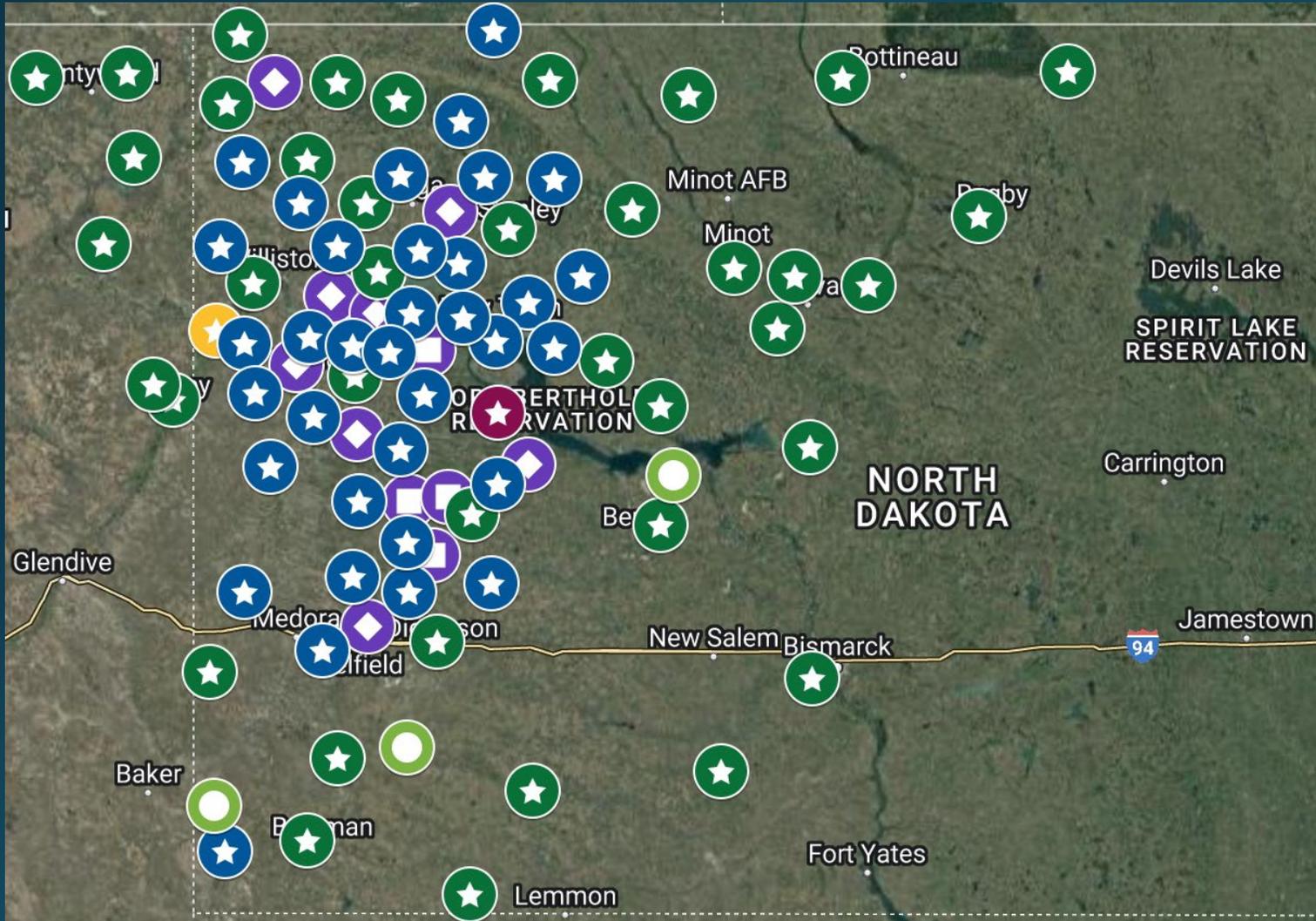
Gross Weight 104,000 lbs.

Axle Group 1 (Axles 1-2) 45,000 lbs.

Axle Group 2 (Axles 3-5) 59,000 lbs.

Diagram is for displaying axle groupings only. It is not representational of unit on permit.

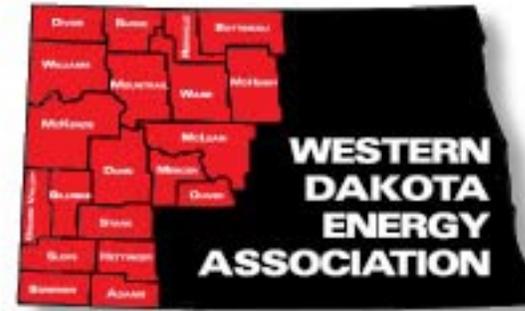
Wise Roads Weather Station Project



Contact information:

geoff@ndenergy.org

(701) 527-1832



OIL AND GAS TAX REVENUES

How the Oil Industry and Region Benefit and Support the State

OIL AND GAS TAX REVENUE STUDY

Supporting Organizations

➤ **North Dakota Petroleum Council**

- Promote and enhance the discovery, development, production, transportation, refining, conservation, and marketing of oil and gas in North Dakota, South Dakota, and the Rocky Mountain region; to promote opportunities for open discussion, lawful interchange of information, and education concerning the petroleum industry; to monitor and influence legislative and regulatory activities on the state and national level; and to accumulate and disseminate information concerning the petroleum industry to foster the best interests of the public and industry.

➤ **Western Dakota Energy Association**

- Supports sustainable energy development and responsible revenue sharing for its members, and promotes the greater good of North Dakota.



OIL AND GAS TAX REVENUE STUDY

Purpose



To review the extraction and gross production tax collections by the State of North Dakota from fiscal year 2008 to 2021.

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To highlight the benefits the citizens and political subdivisions have received through state distributions of those taxes.

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To detail where and how the funding has been used through the various funds and distributions authorized by the legislature.

OIL AND GAS TAX DESCRIPTIONS

Extraction Tax

- The gross value of oil production at the well, less any part which is specifically exempt.
- History
 - The oil extraction tax became effective January 1, 1981, as a result of an initiated measure passed by the voters of North Dakota at a tax rate of 6.5%.
 - Multiple incentives and triggers passed between 1987 and 2015.
 - Multiple changes to the distribution of funds
 - 1981 = 30% State General Fund, 60% Schools, 10% Resource Trust Fund
 - 1997 = 60% State General Fund, 20% Schools, 10% Resource Trust Fund
 - 2011 = 30% General Fund, 30% Legacy Fund, 20% Schools, 20% Resource Trust Fund
- Rate
 - January 1, 1981 = 6.5%
 - January 1, 2016 = 5.0%
 - June 1, 2022 = 6.0%*



*Rate changed to 6% due to price trigger (\$94.69) on 6/1/2022. Reverts to 5% if price is below trigger for 3 months

OIL AND GAS TAX DESCRIPTIONS

Gross Production Tax

- Gross value of oil production at the well, less any part which is specifically exempt, is taxed in lieu of property taxes on the oil and gas producing properties. Gas production is taxed on a volume basis at a rate determined by the movement of a fuels cost index.
- History
 - Introduced in the 1953 Legislative Session after the discovery of oil and the expansion of the oil and gas activity in North Dakota.
 - Multiple changes to the distribution of funds
 - State General Fund
 - Oil and Gas Research Fund
 - Outdoor Heritage Fund
 - Oil Producing Political Subdivisions
 - Oil and Gas Impact Grant Fund
 - Legacy Fund
- Rates
 - July 1, 1953 = 4.25%
 - July 1, 1957 = 5.0%



OIL AND GAS TAX FUNDING

➤ *Constitutional Funds*

Legacy Fund

Resources Trust Fund

Common Schools

Foundation Aid

➤ *In Lieu of Property Tax*

Hub Cities and School

Counties, Cities, Schools, Townships

Impact Grant Funds

➤ *State Funds*

Conservation Grant Fund

Renewable Energy Development Fund

Oil and Gas Research Fund

Abandoned Well and Reclamation Fund

Outdoor Heritage Fund

General Fund

Tax Relief Fund

Budget Stabilization Fund

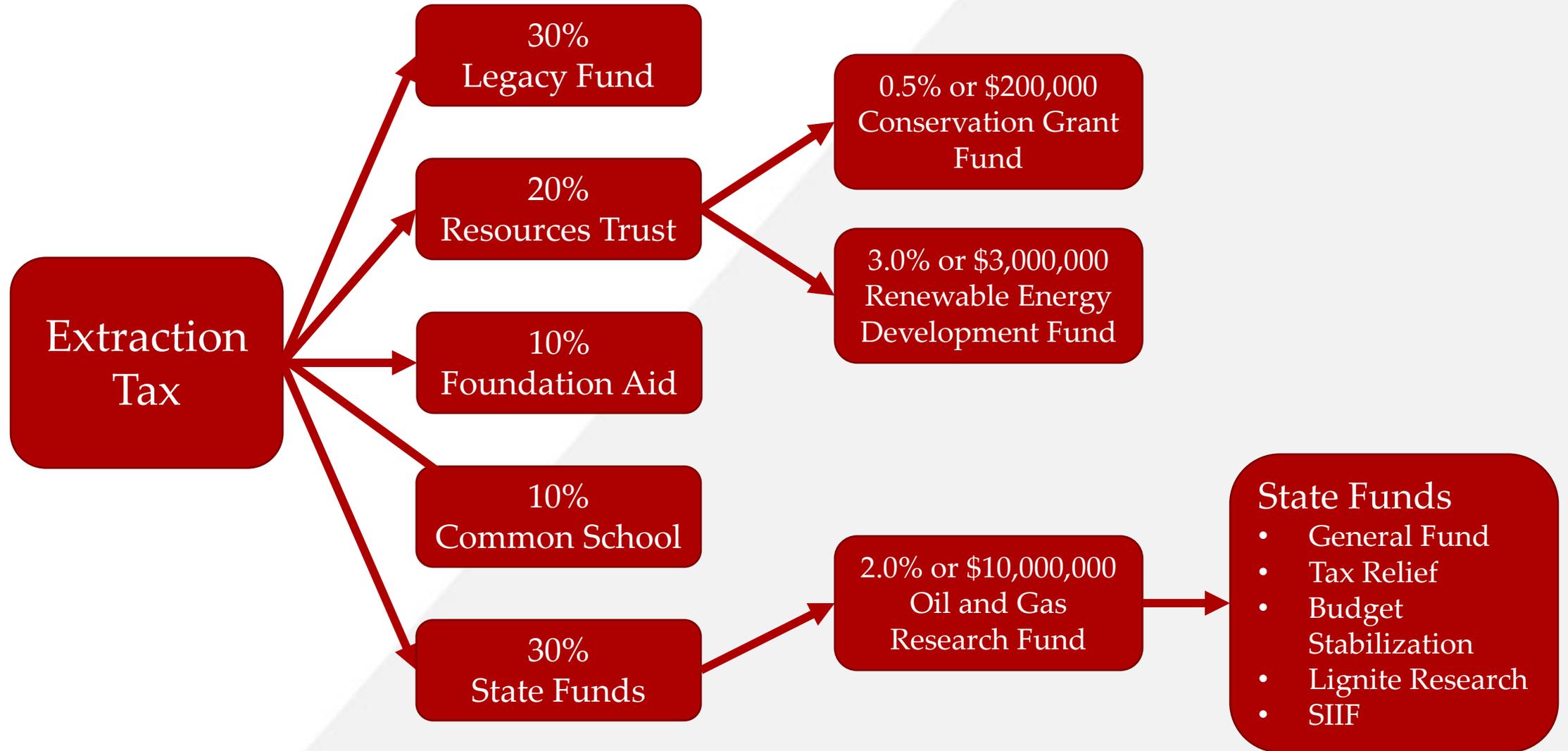
Lignite Research Fund

Strategic Investment and Improvement

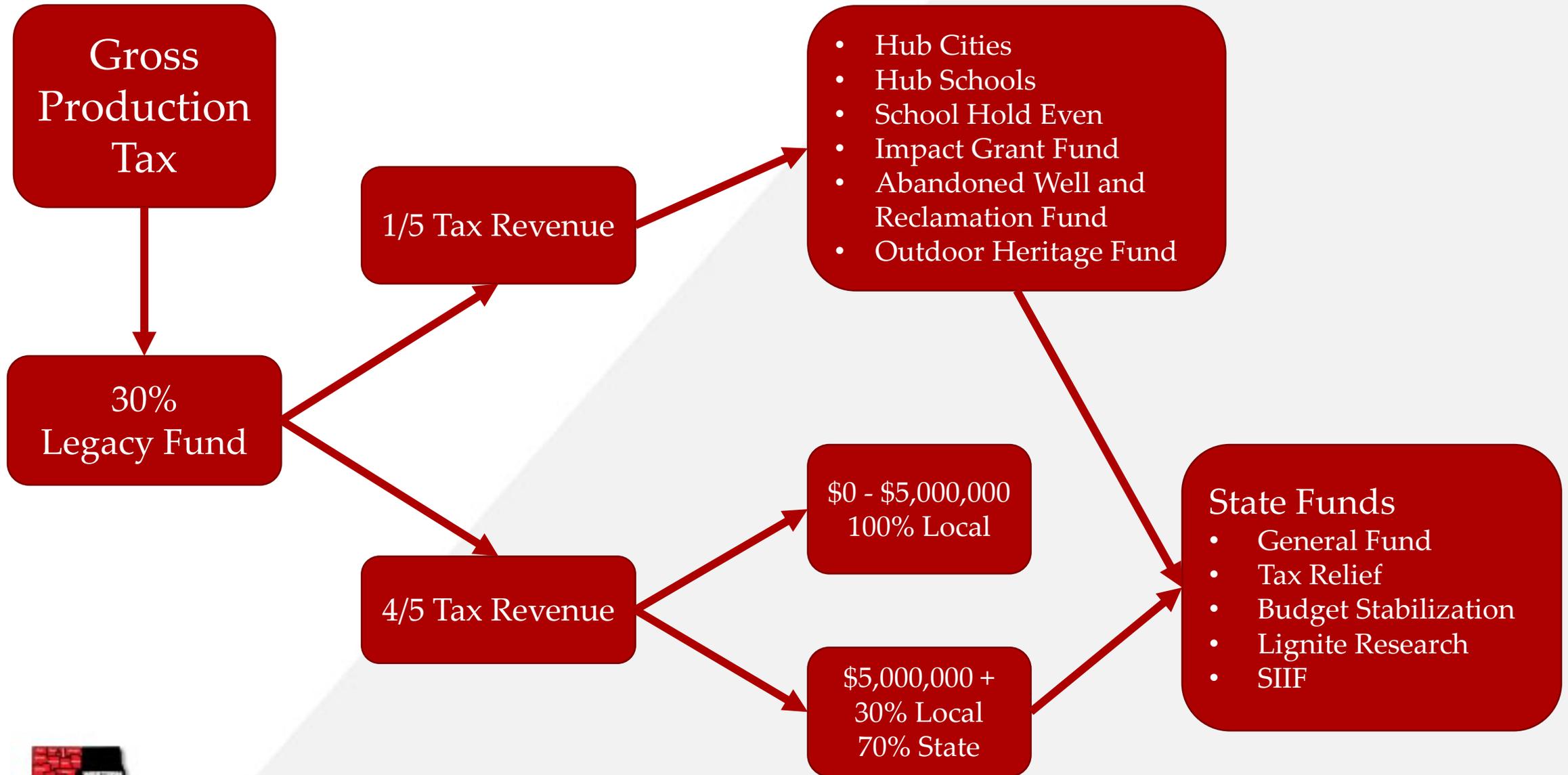
Fund



OIL AND GAS TAX – EXTRACTION



OIL AND GAS TAX – GROSS PRODUCTION



GPT History Basics

2011 Session	Increased caps of GPT funding of local political subs (LPS) to \$5.35 million
2013 Session	Changed allocation formula 100% to LPS increased from \$2 million to \$5 million Split distribution between LPS into under/over \$5 million tiers Over \$5 million 75/25 split state/LPS 60/20/5/3/3/9 (County/City/School/Township/Township/Hub City) Hub Cities created and defined % split of funds
2015 Session	Increased LPS share from 25% to 30% over \$5 million Hub Cities definition changed to used “oil and gas related” employment Fixed dollar amount based on employment % Non-oil Hub Cities created with new definition



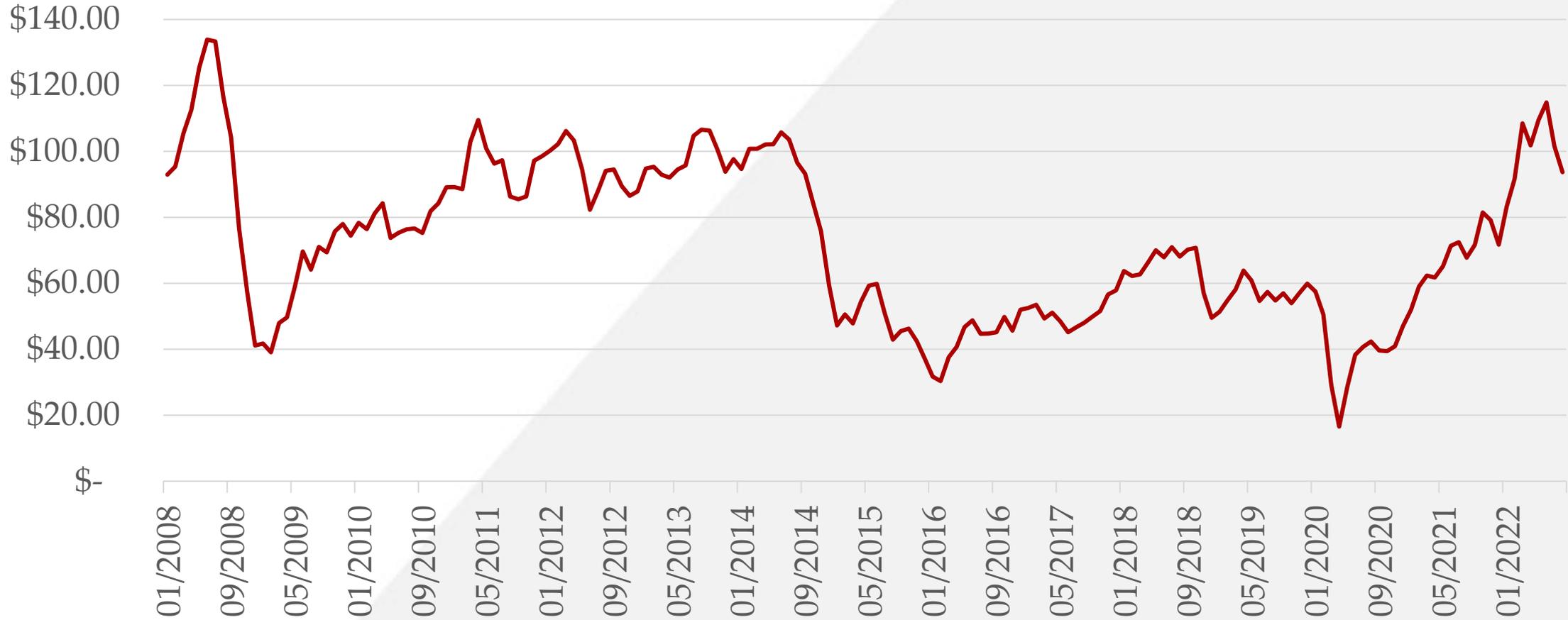
GPT History Basics

2017 Session	<p>Hub City definition changed to “mining” employment Eliminated non-oil Hub Cities</p> <p>Changed allocation formula 60/20/5/4/9/2 (County/City/School/Township/Hub City/Hub City Schools)</p> <p>Removal of “Sunset” clause on the GPT percentage split</p>
2019 Session	<p>Operation Prairie Dog – provided funding for non-oil from state buckets NOTE – Did not “take” funding from GPT distributions of oil LPS</p> <p>Hub City and Hub City Schools “Funding Pools” created</p> <p>Removal of “Sunset” clause that had been in place on Hub City</p>
2021 Session	



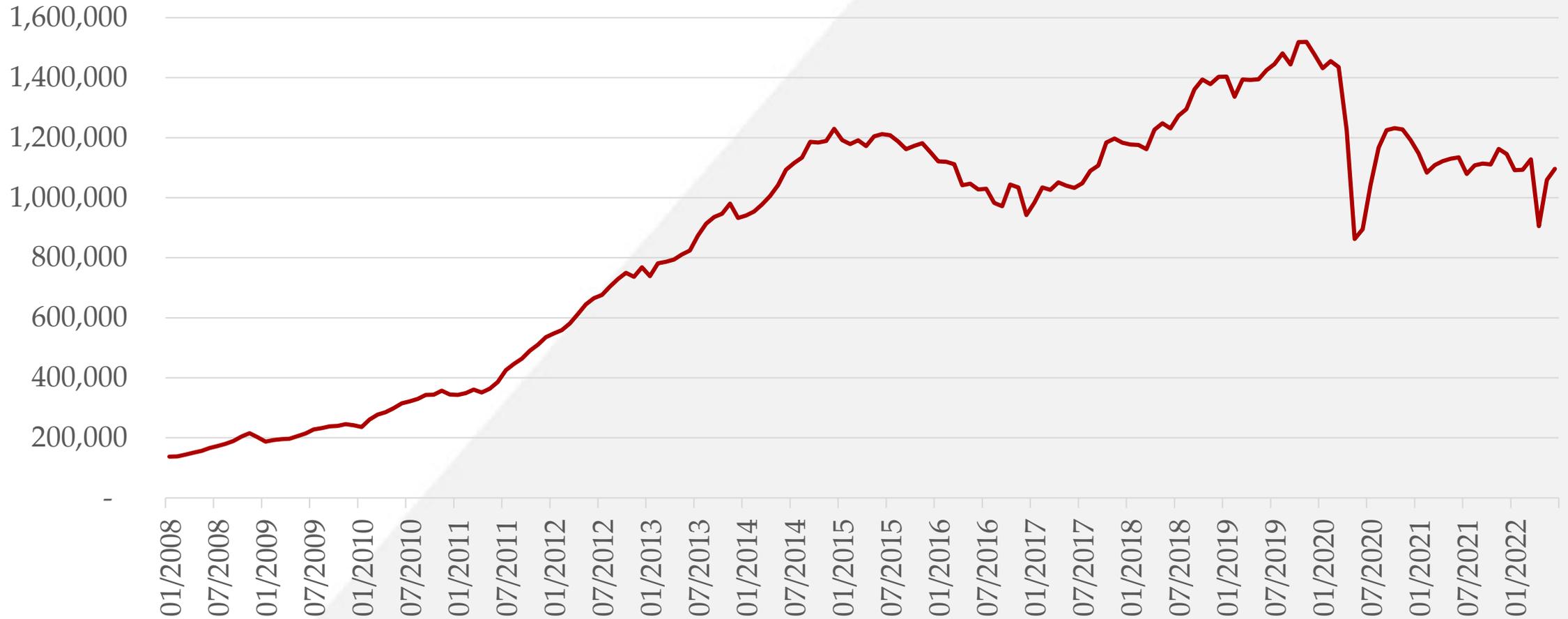
OIL AND GAS TAX INDUSTRY ACTIVITY

WTI Oil Price



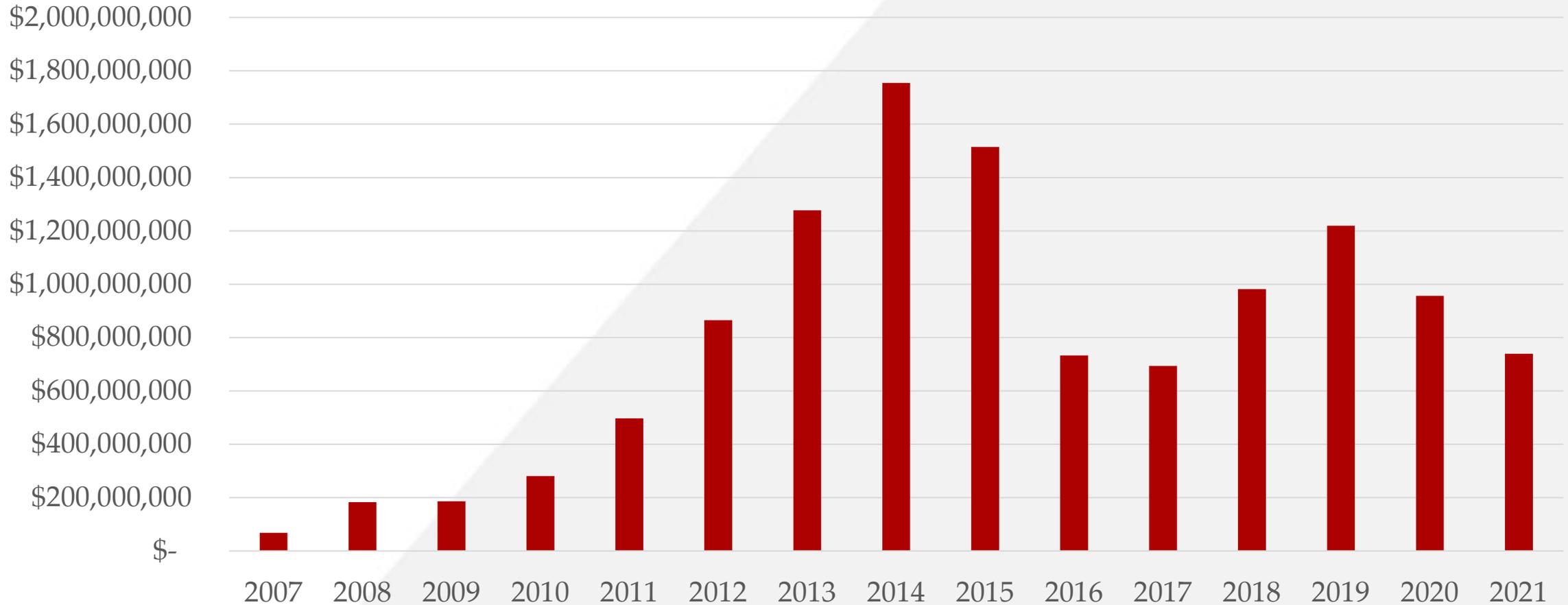
OIL AND GAS TAX INDUSTRY ACTIVITY

Average Daily Production



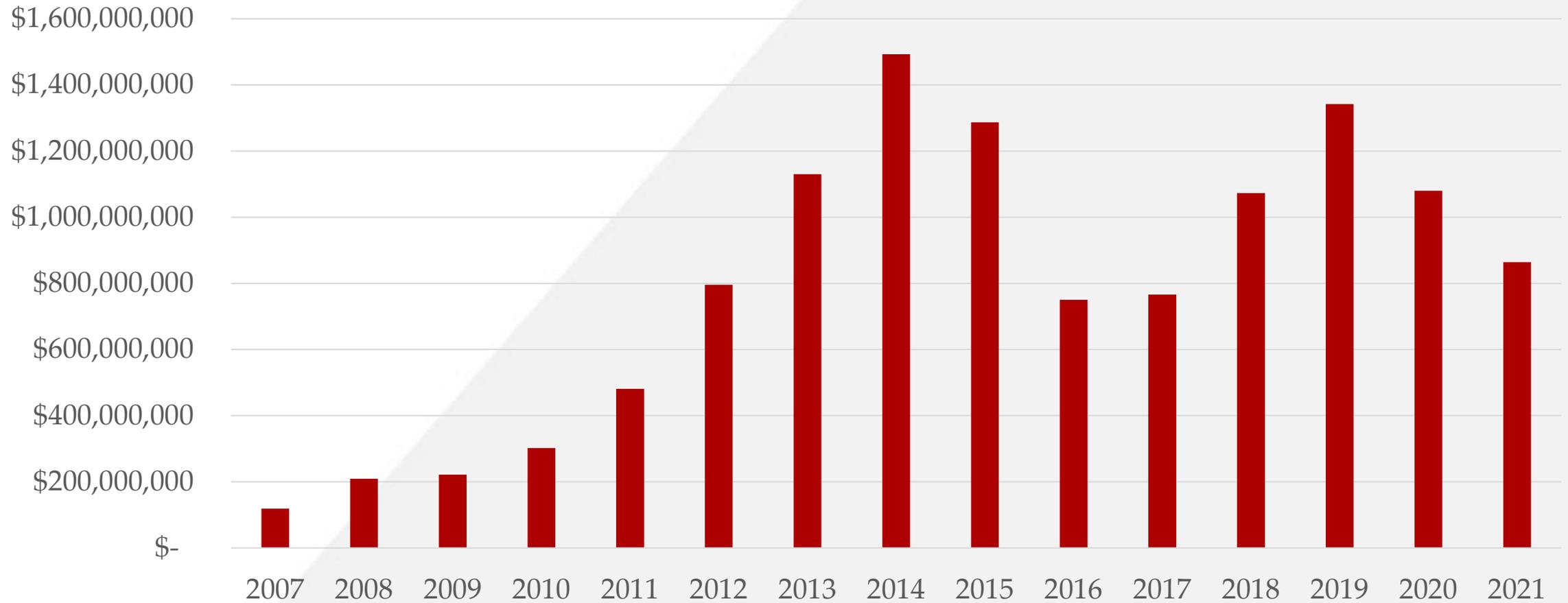
OIL AND GAS TAX COLLECTIONS

Annual Extraction Tax

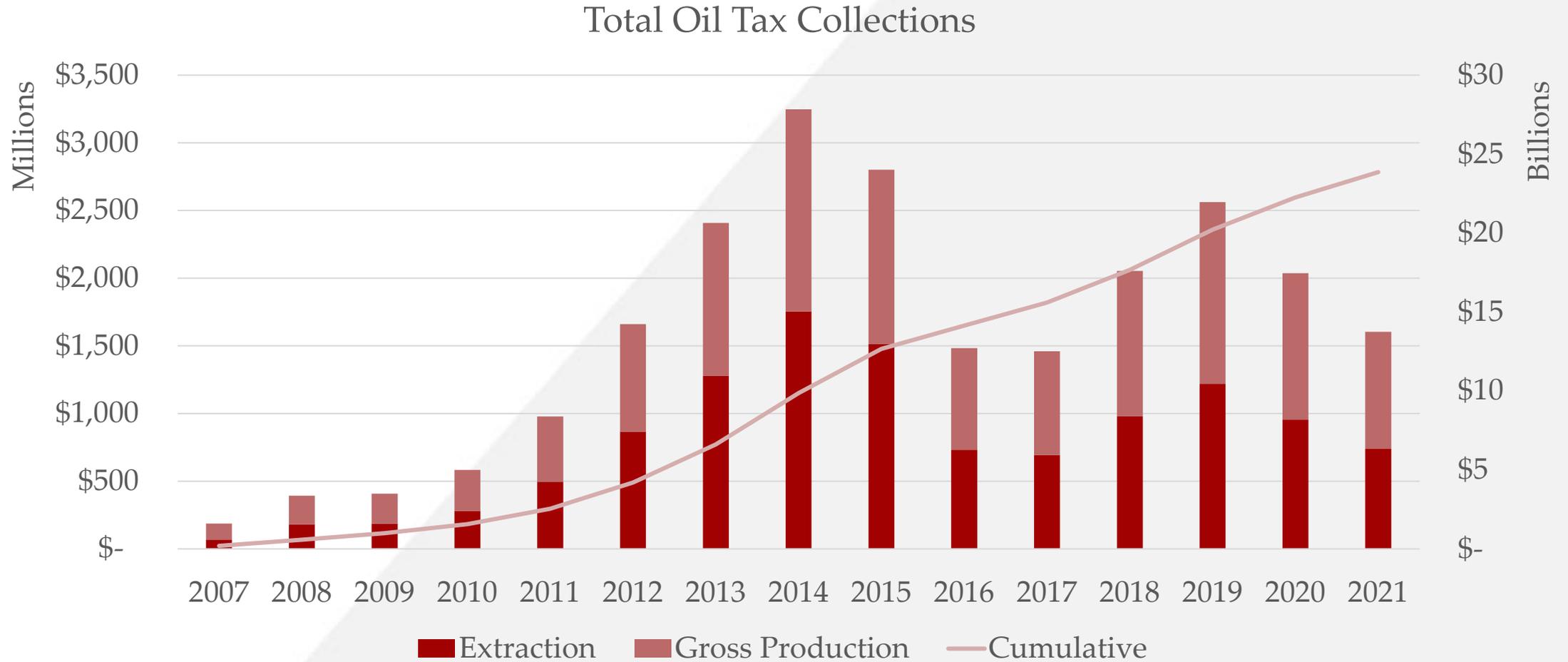


OIL AND GAS TAX COLLECTIONS

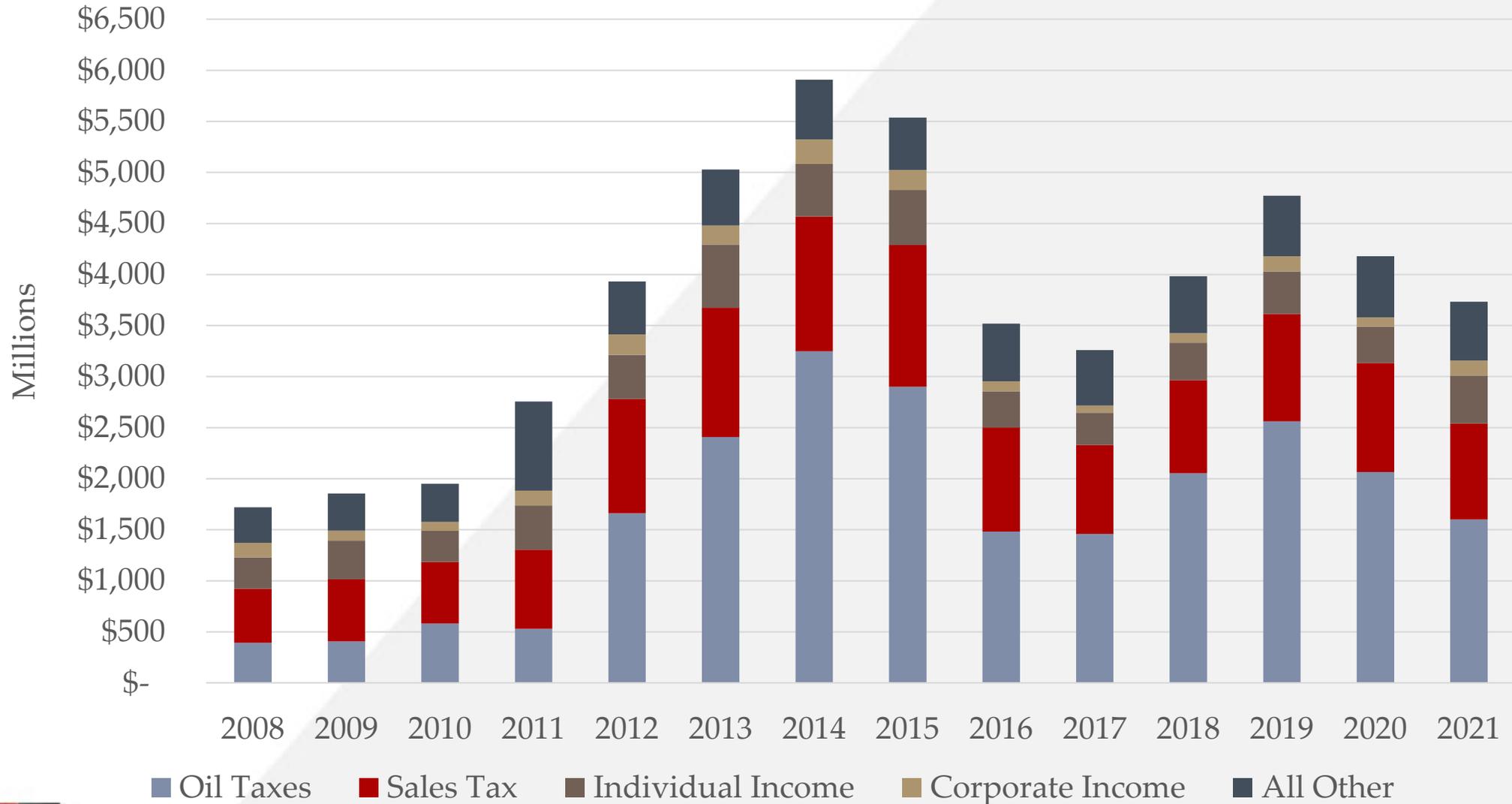
Annual Gross Production Tax



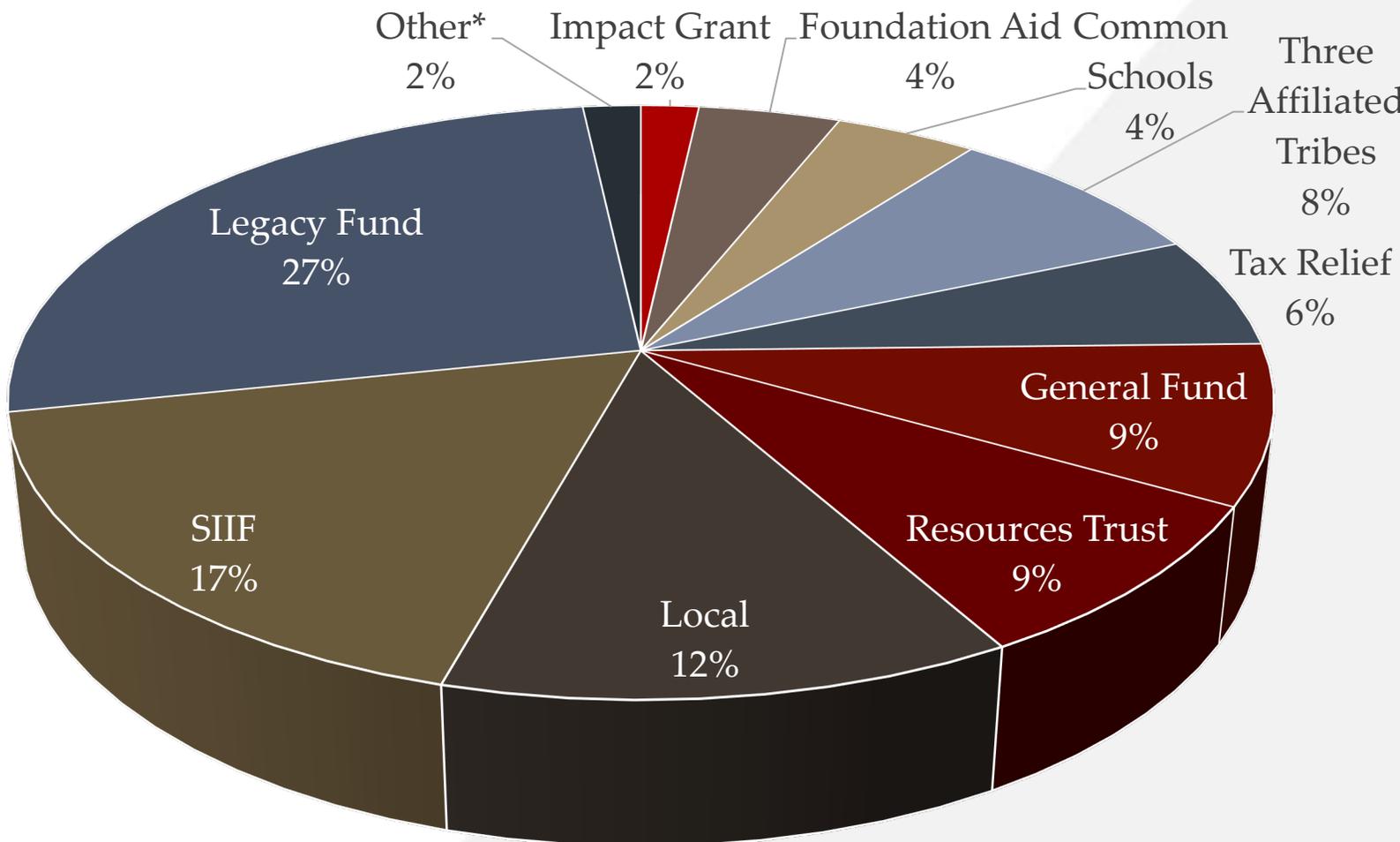
OIL AND GAS TAX COLLECTIONS



TOTAL STATE TAX COLLECTIONS BY TYPE



OIL AND GAS TAX DISTRIBUTIONS FY 2008-2021



Impact Grant	\$454,427,198
Foundation Aid	\$1,112,762,099
Common Schools	\$1,112,762,099
Three Affiliated Tribes	\$2,130,082,493
Tax Relief	\$1,583,580,000
General Fund	\$2,242,000,000
Resources Trust	\$2,226,060,451
Local	\$3,232,820,939
SIIF	\$4,520,415,100
Legacy Fund	\$6,894,063,193
Other*	\$453,962,239
TOTAL	\$25,962,935,811



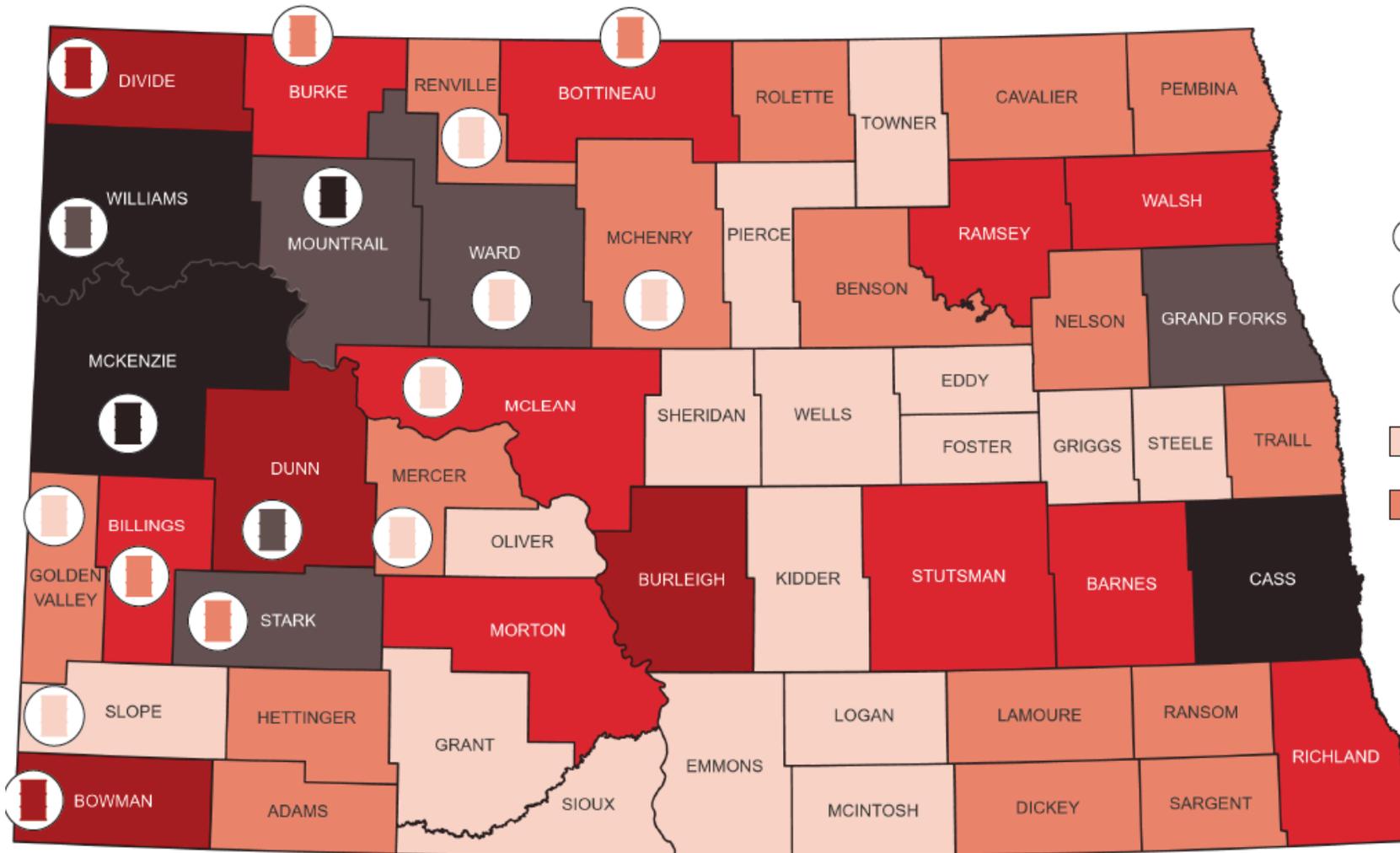
* Preliminary reported numbers

OIL AND GAS TAX SURGE BILL – 2015 FY

RECIPIANT	TOTAL
HUB CITIES	\$ 172,000,000
OIL COUNTIES	\$ 240,000,000
OIL COUNTY CITIES	\$ 100,000,000
NON OIL TOWNSHIPS	\$ 16,000,000
BOUNDARY CITIES	\$ 10,000,000
COUNTIES	\$ 112,000,000
NDDOT	\$ 450,000,000
TOTAL	\$ 1,100,000,000



OIL & GAS TAX COLLECTIONS & DISTRIBUTIONS

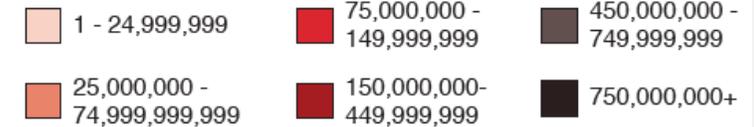


2018 – 2018*

PRODUCTION



DISTRIBUTION



OIL AND GAS TAX BENEFITS - SUMMARY

Statewide Benefits

➤ Infrastructure Investments

- Oil and Gas Producing region through In Lieu of Property Tax GPT Formula
- Statewide through appropriations from the RTF, SIIF, DOT

➤ Educational Funding

- Foundation Aid Payments
- Rapid Enrollment Grants

➤ Tax Relief Fund

➤ Budget Stabilization Fund

➤ Research Investments

- Oil and Gas Research Fund
- Renewable Energy Development Fund
- Lignite Energy Research Fund



OIL AND GAS TAX BENEFITS - CONCLUSIONS

Statewide Benefits

- ▶ Continued support of the responsible development of the oil and gas resources in the state provide benefits for all of North Dakota
 - Common Sense Regulations
 - Reasonable Tax Policy
 - Infrastructure Development
- ▶ Continued support of investments for infrastructure in the oil and gas producing region are important to the success of the industry
 - Stable Funding Formula
 - Community Infrastructure Investments
 - Quality of Life Initiatives



2021-2023 Biennium Oil & Gas Tax Revenue Forecasts



OIL TAX ALLOCATIONS TO STATE FUNDS

\$50.00 ND price with 1.1 / 1.0 production avg. (21-23 Revenue Forecast)

State Funds	21-23 Forecast
Tribal Share	\$486,890,000
Legacy Fund	\$971,340,000
Outdoor Heritage	\$15,000,000
Abandoned Well	\$11,720,000
Political Subdivisions	\$518,220,000
Common Schools	\$158,690,000
Foundation Aid	\$158,690,000
Resource Trust Fund	\$321,110,000
Energy Conservation Grants	\$1,200,000
Renewable Energy	\$3,000,000
Oil and Gas Research	\$16,000,000
State Energy Research Fund	\$5,000,000



\$50.00 ND price with 1.1 / 1.0 production avg. (21-23 Revenue Forecast)

State Share "The Buckets"
14 \$1,052 M

15a - General Fund \$200 M

16 - Tax Relief \$200 M

17 - Budget Stabilization \$75 M

15b - General Fund \$200 M

18 - Lignite Research \$10 M

19 - Disaster Relief (capped at \$20M)

20 - Strategic Investment (SIIF) \$400 M

24 - City/County (OPD Fund) \$230 M

25 - Airport (OPD Fund) \$20 M

26 - Strategic Investment (SIIF) \$Remaining

Leg. Forecast

Current Status

Forecast

\$200 M

\$200 M

\$200 M

\$200 M

\$200 M

\$200 M

\$9.6 M

\$9.6 M

\$9.6 M

\$200 M

\$200 M

\$200 M

\$10 M

\$10 M

\$10 M

\$15.5 M

\$15.5 M

\$15.5 M

\$400 M

\$191.9 M

\$400 M

\$24 M

\$0 M

\$230 M

\$0 M

\$0 M

\$20 M

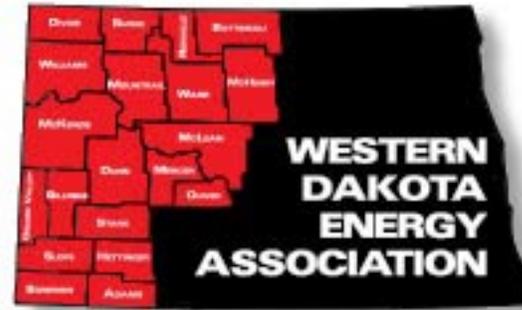
\$0 M

\$0 M

\$470 M

**As of 7/31/2022





OIL AND GAS TAX REVENUES

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