Prepared by the North Dakota Legislative Council
staff for the Taxation Committee
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OIL-PRODUCING STATES' FUNDING ALLOCATION TO POLITICAL SUBDIVISIONS

This memorandum was requested to provide information on how other oil-producing states allocate funds to address oil and gas development impacts to political subdivisions. Each oil-producing state has developed a complex and unique approach to suit its circumstances regarding taxation, impact to local governments, and allocation of oil and gas tax and leasing revenues. This memorandum is not intended to describe those systems in detail. The memorandum is intended to summarize approaches of oil-producing states to address funding needs of political subdivisions. The memorandum focuses on states in the region which are comparable to North Dakota in oil production.

NORTH DAKOTA

North Dakota law provides for allocation of a portion of oil and gas gross production tax revenues to the county in which the oil or gas was produced. The revenue received by the county is shared among the county and cities and school districts within the county according to a statutory allocation formula.

North Dakota also provides for allocation of a portion of oil and gas gross production tax revenues to an oil impact fund. Available impact funds are allocated by the Energy Development Impact Office among political subdivisions on the basis of applications and demonstrated need attributable to oil and gas development.

KANSAS

Kansas has been the site of oil and gas development for more than a century. Because most of the oil and gas fields in Kansas are mature production areas, Kansas is experiencing very low levels of initial impacts from oil and gas development. Gathering lines and other infrastructure related to oil and gas production have been in place for years and produce substantial property tax revenue for local governments.

Most of the revenue from Kansas mineral severance taxes goes to the state general fund. A portion of revenues is allocated to a special county mineral production tax fund, which is allocated among counties in proportion to taxes collected within each county. Fifty percent of the amount allocated is retained by the county and the remaining 50 percent is allocated among school districts within the county. A portion of mineral severance taxes is also allocated to the oil and gas valuation depletion trust fund, which is allocated among counties. Kansas imposes a property tax on oil and gas leases, and if the valuation of those leases declines significantly, an allocation is made from the trust fund held by the state for the county to replace the reduced property tax revenue.

COLORADO

Colorado has a property tax that applies to mineral-producing properties. Colorado also has substantial severance tax and federal mineral leasing revenue.

Colorado mineral severance taxes are divided evenly between the Department of Natural Resources and the Department of Local Affairs. The Department of Natural Resources uses its funding for water projects and other programs it administers. The Department of Local Affairs revenue is distributed directly or indirectly to local governments.

Colorado federal mineral leasing revenue is allocated in a complex formula to the state public school fund, directly to local governments, to the Department of Local Affairs for impact grants to local governments, and to the Colorado Water Conservation Board construction fund for water projects.

WYOMING

Wyoming mineral severance taxes are deposited in the permanent Wyoming mineral trust fund, and a portion of the taxes are deposited in the severance tax distribution account. From the severance tax distribution account, a portion is allocated to the permanent Wyoming mineral trust fund and up to $155 million per year is allocated--one-third to the general fund and two-thirds to the budget reserve account. A portion of the general fund allocation is allocated for water projects and to the highway fund. An allocation of less than 1 percent of revenue is allocated among counties based on population and assessed valuation and a portion is allocated to road construction and maintenance funds of counties based on population and mileage of county roads.

Most of the allocation of Wyoming funds to political subdivisions is handled by legislative appropriation in each legislative session. In 2008 Wyoming legislation was enacted to provide direct revenue distribution and county block grant funding for a variety of purposes. The bill appropriated $350 million from the state general fund and $33,400,000 from the local government capital construction account for allocation among political subdivisions.

MONTANA

Montana has an extremely complex oil and gas tax and allocation. The oil and gas production tax has numerous tax rates depending on several factors and the Board of Oil and Gas Conservation imposes an additional privilege and license tax on all oil and natural gas tax rates. Royalty interests are taxed at a higher rate than working interests. In addition to other taxes, a local impact tax is imposed. The amounts from the local impact tax are distributed to the oil, gas, and coal natural resource state special revenue account. The amounts deposited in the fund vary based on a sliding tax scale associated with the privilege and license tax set by the Board of Oil and Gas Conservation. Revenue to the state is distributed among several state accounts, with approximately 90 percent of the revenue going to the state general fund.

Allocation of revenues among political subdivisions is made according to a formula that has its roots in historical data. Counties that have produced oil and gas production tax revenue receive a percentage of tax revenue collected in the county. The percentages received vary by county, based on some historical revenue allocation formula, and revenue to the county is further allocated among the county, school districts, and countywide school funds. The allocation among political subdivisions apparently comes from the state general fund share of production tax revenues. For fiscal year 2009, it is projected that approximately 45 percent of oil and gas production tax revenue will remain in the state general fund and approximately 46 percent of oil and gas production tax revenue will be allocated among counties, countywide school funds, and school districts.