Fiscal oil boom from page 5

pay for a gigantic new recreation center and other planned improvements. But similar tax mechanisms are not easily available for many public services, like schools and law enforcement, and many small communities lack the staffing to implement and enforce impact fees.

Long term: Straight ahead or wrong turn?

In the rush of oil development and subsequent government reaction, many also believe that oil-impacted communities and the state have their heads too low to the ground, too obsessed with today's needs to worry about long-term economic development and diversification.

Gardner, from Bootstrap Solutions, has done research showing the crowding out that can happen from oil activity, and it's a story that resonates in the Bakken. Exploration, drilling and production bring many jobs. Labor shortages ensue, driving up wages. As workers migrate to well-paying jobs, housing becomes scarce, and the overall price of living goes up.

Meanwhile, base industries like agriculture and manufacturing are weakened as land and labor become more expensive and more pressure is put on water and road infrastructure. High costs and lack of affordable housing also stifle the development of secondary, non-oil-related professional and service industries that would normally emerge to serve a growing population with considerable discretionary income.

"In the short term, that has the effect of crowding out the lower-wage end" of the economy, not only retail but other service jobs not normally considered lower wage, like teachers and police officers, said Gardner. "The perverse result is an energy county can end up less diverse at the end than a non-oil county," he said.

The phenomenon even has a name, "Dutch disease," coined for the economic mania that followed the discovery of major oil and gas deposits in the North Sea near the Netherlands in the 1960s.

Bangsund, from NDSU, said the challenge for the state is figuring out how to avoid "lopsiding the economy" by ensuring that agriculture remains profitable in the region and that Dickinson retains the manufacturing base it had before the boom while facing strong wage pressures from higher-paying oil jobs. "The state is still far too reactive. … It's easy for the state to take its eye off that goal. … We're so enamored with current activity that we're not having that [long-term] discussion."

Sen. Schneider agreed that the state would benefit from some long-term planning and fretted that the state is

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Oil tax spending:
"Pots for this and pots for that"

Over the past several state budgets, North Dakota lawmakers have created a quirky, idiosyncratic system for allocating the gusher of oil and gas tax revenue coming into state coffers. As this revenue has grown, so have the number of recipients, the amount of money received and the overall complexity of the allocation system.

Among numerous sources, nary a person said they fully understood the state's allocation system for oil and gas taxes.

"It's very complicated. I don't think the average North Dakotan could tell you what they have in all those funds. I couldn't tell you, and I follow this stuff," said Barry Wilfahrt, president and CEO of the Grand Forks/East Grand Forks Chamber of Commerce.

Senate Minority Leader Mac Schneider (D-Grand Forks) acknowledged, "You almost need an astrophysics degree from MIT" to understand the many different recipients of money and how amounts are determined.

Those living in oil country are of the same opinion. Shawn Kessel, Dickinson city administrator, said the distribution mechanism "fills buckets after buckets after buckets. It's hard for me to keep track."

"There are pots for this and pots for that," said Deb Nelson, head of Vision West ND, a Dickinson-based consortium

Source: North Dakota Legislative Council

of oil-impacted local governments and other organizations. "To the layperson, it's a monstrosity."

In previous years, that might not have mattered so much. A decade ago, severance taxes on oil and gas production contributed about $120 million to the state budget. But in the just-completed 2011-13 biennium, they tallied $3.8 billion, which doesn't include $560 million earned (as of March) in royalty fees and lease-bonus payments for oil activity on state-owned land.

The state spreads that largesse among a dozen general recipients (see graphic). That's the simple part. The complex part has to do with the statutes and formulas that generate the amounts that go in each pot. For example, the state charges a separate 5 percent production tax and 6.5 percent extraction tax, and revenue from each tax fund's different buckets, but there's also some crossover.

The pots also have different fiscal goals. Some are intended to fund the regular business of government. Of the $3.8 billion in 2011-13, $300 million went to the state's general fund and $410 million was sent directly to counties, cities and tribes to help them deal with infrastructure and other impacts of oil and gas activity.

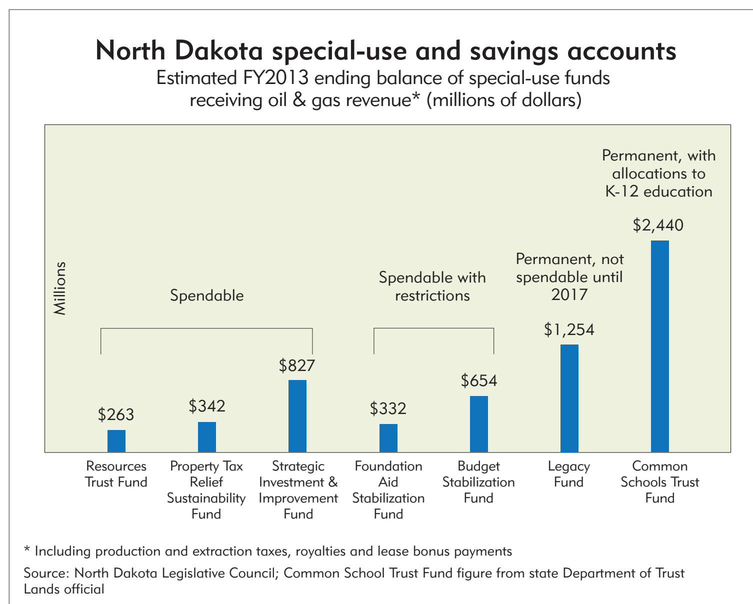
Then there are special-use buckets for the majority of the oil and gas revenue. Funds in some buckets are designed to be spent immediately—for property tax relief and grant money for oil-impacted communities, for example. The Strategic Investment and Improvement Fund is considered a rainy-day fund, but has few restrictions and has been tapped for a growing amount of one-time expenditures deemed necessary by lawmakers. "It's all fungible. It's really a soft barrier between the general fund and some of these [special] funds," according to Schneider. Other rainy-day buckets, like the Budget Stabilization Fund, come with some spending restrictions.

Finally, there are permanent trust funds, which have firmer lids on expenditures. The Common School Trust has $2.4 billion in assets, and distributions are channeled solely to K-12 school districts based on the trust's average assets. Over the coming two years, the fund will give $130 million to local school districts, double the amount in 2007-08.

The most significant new recipient of energy tax revenue is the Legacy Fund. Created two years ago, it already has $1.2 billion in assets, with roughly $80 million being added every month—assets that are off limits for spending until at least 2017. (Oil and gas trust funds will be the focus of additional *fedgazette* research for its October issue.)

A handful of buckets are amassing considerable balances, estimated at a total $6.1 billion at or near the end of fiscal year 2013 (see chart). While some of this balance will fund a record $2.2 billion in one-time expenditures in the 2013-15 biennium, most of the pots will continue to see revenue infusions from growing oil and gas tax receipts. The Legacy Fund alone is projected to reach $3 billion by the end of fiscal year 2015.

—*Ronald A. Wirtz*



Royalties, leases and bonuses

2011–13 biennium, through March 2013

$560 million

Strategic Investment & Improvement Fund **$207,000,000**

Common Schools Trust Fund **$353,000,000**

Property Tax Relief **$341,790,000**

General Fund **$300,000,000**

Counties and Cities **$250,680,338**

Common Schools Trust Fund **$192,392,853**

Foundation Aid Stabilization Fund **$192,392,853**

Tribal Allocation **$162,107,274**

Oil and Gas Impact Grant Fund **$125,000,000**

State Disaster Fund **$22,000,000**

Oil and Gas Research Fund **$4,000,000**