

## CREDIT OPINION

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# North Dakota (State of)

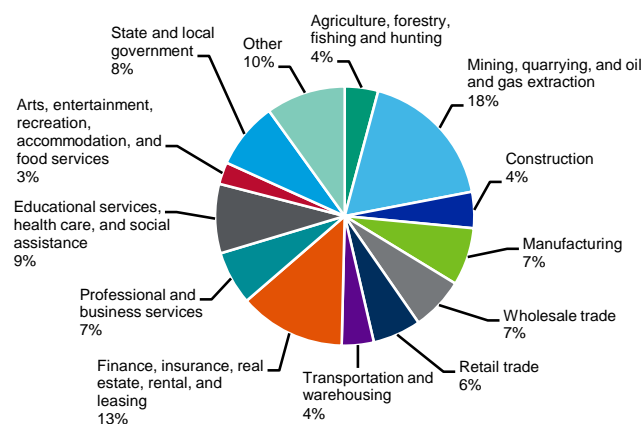
## Update to credit analysis

### Summary

[North Dakota's](#) credit quality (Aa1 stable) is supported by the state's substantial reserves, low leverage and fixed costs and its history of sound budget management and restoration of budget stabilization funds. These strengths will support budgetary flexibility in the event of additional oil price volatility and potential economic slowdowns. However, the state will continue to experience more extreme economic and revenue cycles than peers because of the relatively narrow and volatile economy, which is concentrated in the energy and agriculture sectors. Our evaluation of North Dakota's credit profile also considers the additional risk presented by the state's ownership of the Bank of North Dakota, which has non-captive deposits guaranteed by the state that are a large contingent liability compared to the state's total long-term liabilities.

Exhibit 1

**North Dakota's economy is concentrated in the energy and agriculture sectors**  
Share of North Dakota's 2024 GDP by industry



Source: US Bureau of Economic Analysis

### Credit strengths

- » Conservative state fiscal management practices, including rapid restoration of budget stabilization funds and conservative budgeting of volatile oil and gas tax revenue, reduces operating budget risk
- » Substantial reserves, including the Legacy Fund that generates significant biennial interest earnings to support debt service, the Department of Transportation and property tax relief
- » Low overall leverage and fixed costs that will support continued financial flexibility

## Credit challenges

- » Narrow economy that is concentrated in the energy and agricultural sectors, which are vulnerable to commodity price volatility
- » Reliance on oil and gas tax revenue to support general fund operations and other government services
- » Ownership of a bank brings vulnerability to losses, particularly in the event of steep economic deterioration

## Rating outlook

The stable outlook reflects the state's sound budget management and ample reserves that will support financial flexibility in the event of future oil price volatility and economic slowdowns

## Factors that could lead to an upgrade

- » Reduced exposure to the Bank of North Dakota
- » Significant diversification of state economy
- » Reduced general fund exposure to oil and gas tax revenue, including reduced reliance on oil and gas tax-funded reserves to support the operating budget

## Factors that could lead to a downgrade

- » Sustained structural budget gaps or increased reliance on oil and gas tax revenue for operations
- » Economic or oil price volatility that results in multiyear revenue underperformance
- » Depletion of reserves below the previous low with limited restoration plans
- » A move away from conservative fiscal management and proactive budget solutions

## Key indicators

Exhibit 2

	2020	2021	2022	2023	2024	State Medians (2023)
<b>Economy</b>						
Nominal GDP (\$billions)	55.6	63.8	73.8	76.0	75.4	313.0
Real GDP, annual growth	-6.0%	1.0%	-0.8%	7.8%	-0.7%	2.2%
RPP-adjusted per capita income as % of US	111.2%	112.5%	121.2%	116.5%	110.6%	97.7%
Nonfarm employment, annual growth	-6.4%	1.1%	2.7%	2.2%	1.6%	2.1%
<b>Financial performance</b>						
Available balance as % of own-source revenue	202.7%	167.1%	247.7%	189.6%	190.0%	44.4%
Net unrestricted cash as % of own-source revenue	354.8%	291.3%	424.1%	310.6%	306.9%	72.4%
<b>Leverage</b>						
Total long-term liabilities as % of own-source revenue	31.1%	32.2%	45.5%	30.1%	25.0%	99.4%
Adjusted fixed costs as % of own-source revenue	1.3%	1.8%	1.3%	1.9%	1.7%	5.2%

2024 per capita income is adjusted by 2023 regional price parity.

Source: State of North Dakota annual comprehensive financial reports, US Bureau of Economic Analysis, US Bureau of Labor Statistics and Moody's Ratings

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## Profile

North Dakota is the fourth-smallest state by population (about 797,000 people in 2024) and the fifth-smallest state by GDP (\$75 million in 2024 current dollars).

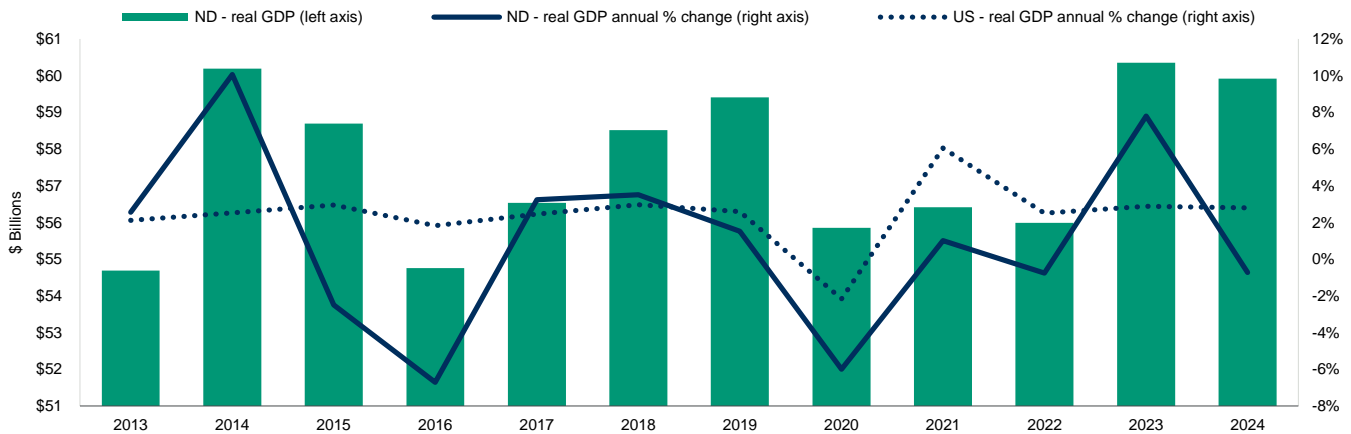
## Detailed credit considerations

### Economy

North Dakota's narrow economy will remain vulnerable to future commodity price volatility in both the energy and agriculture sectors (see Exhibit 3). However, the state gains some stability from its more economically diversified urban areas, mainly the cities of [Fargo](#) (Aa2 negative) and [Bismarck](#) (Aa1), that provide nearly half the state's jobs.

Exhibit 3

#### North Dakota's concentration in oil and gas creates more volatile GDP than the US

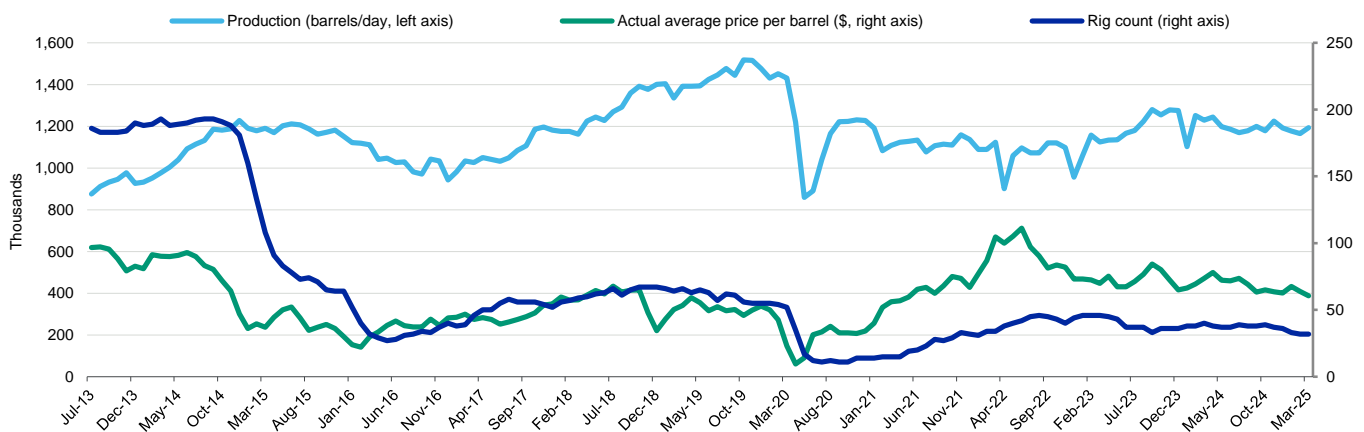


Source: US Bureau of Economic Analysis

North Dakota oil prices have declined somewhat since last year, at \$61 per barrel in March, but are above pre-pandemic levels (see Exhibit 4). North Dakota's oil prices are trending below the West Texas Intermediate (WTI) oil prices at \$68 per barrel for the same period. WTI prices dropped to \$62 in May 2025, but have been steadily increasing through June. North Dakota's monthly oil production through March — a more direct indicator of tax revenue performance — remains below pre-pandemic levels; however, production is 5.8% above forecast. North Dakota's legislative forecast assumes 1.15 million barrels per day for the first year of the fiscal 2025-27 biennium and assumes 1.1 million barrels per day for the second year. March 2025 daily production was 1.19 million barrels per day.

Exhibit 4

#### North Dakota oil prices have declined over the last year, but remain above pre-pandemic levels



Source: North Dakota Department of Mineral Resources

North Dakota's employment market remains very tight because of labor force declines and the unemployment rate has been consistently below the US average (2.6% in April versus 4.2% for the US). The state's historically tight labor market could constrain economic growth going forward, although many states are currently experiencing similar challenges.

### Finances

North Dakota is well positioned to weather potential economic and revenue volatility because of its history of conservative revenue forecasting, low fixed costs and strong reserves. However, the state's relatively volatile economic and revenue composition will continue to challenge its budget predictability, making above-average reserve levels an important credit stabilizer.

Fiscal 2023-25 biennium general fund revenue collections through April totaled \$5.0 billion and are 13.9% higher than the original legislative forecast and 6.6% above the previous biennium for the same period. The strong revenue performance is mainly attributable to sales tax revenue growth, higher corporate income tax collections and higher interest income.

The fiscal 2025-27 biennium budget assumes an average oil price of \$59 per barrel for the first year of the biennium and \$57 per barrel for the second year. Although direct exposure to oil and gas taxes is limited, the state routinely funds a share of general fund operations with reserves that are funded in the prior biennium with oil and gas tax revenue. This practice of pre-funding the reserves before including their balances in the budget eliminates the short-term risk around oil and gas tax revenue volatility. However, it continues a structural reliance on oil and gas tax revenue that highlights the state's concentrated economy and overall exposure to the energy sector.

### Liquidity

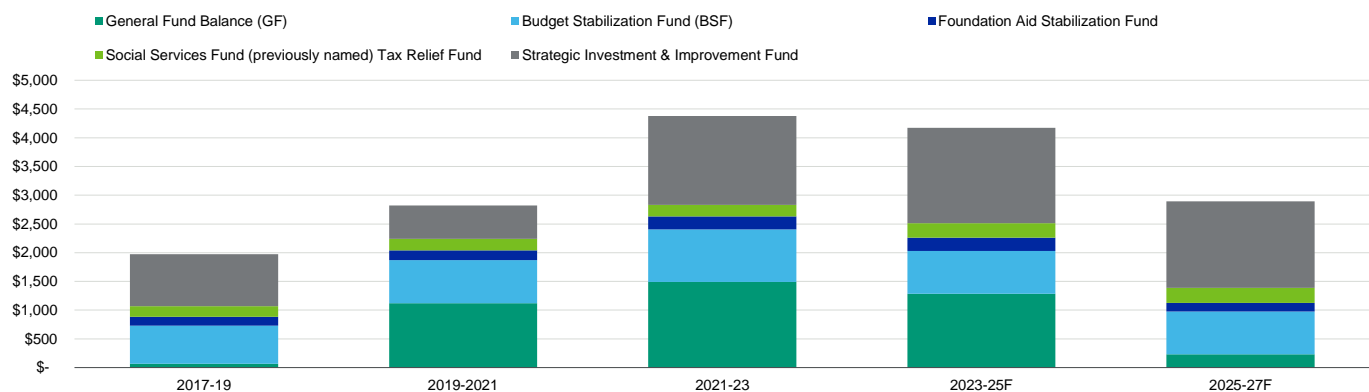
The state's strong liquidity position will help it comfortably manage any economic volatility over the biennium. The Budget Stabilization Fund (BSF) is capped at 15% of biennial expenditures, and the state can only access the BSF in the event of a revenue shortfall above 3% or by legislative action. In addition, the state must reduce spending before the BSF can be used.

The state also maintains the Foundation Aid Stabilization Fund to support primary and secondary education, the Tax Relief Fund to fund certain county social service costs, the Strategic Investment and Improvement Fund (SIIF) for capital projects and a Common Schools Trust Fund restricted to K-12 spending.<sup>1</sup>

Exhibit 5

#### North Dakota's various reserve balances have grown over the last decade

Ending biennium reserve balances in \$ millions



The forecast General Fund Balance is typically lower than actual.

Source: State of North Dakota Office of Management and Budget

Per the state constitution, effective July 1, 2017, the state can transfer interest earnings to the general fund from the Legacy Fund. In addition, the state could use up to 5% of the principal, if approved by two-thirds of the Legislature, however the use of principal has not been considered in any biennium to date. The first 30% of biennial oil and gas revenue flow to the Legacy Fund. The remaining 70% is distributed to the state, various trust funds and political subdivisions.

## Leverage

Exhibit 6

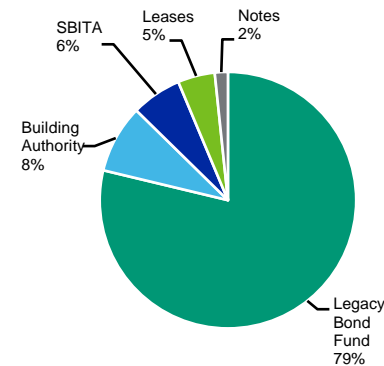
### North Dakota's total long-term liabilities Fiscal 2024 year-end was June 30, 2024

Liability Type	Amount outstanding (000s)
<b>Net tax-supported debt</b>	
Legacy Bond Fund	\$680,486
Building Authority	\$74,211
SBITA	\$54,791
Leases	\$40,388
Notes	\$14,257
<b>Total net tax-supported debt</b>	<b>\$864,133</b>
<b>Long-term liabilities</b>	
Adjusted net pension liability	\$1,219,787
Adjusted net OPEB liability	\$47,887
Other long-term liabilities	\$67,159
<b>Total long-term liabilities</b>	<b>\$2,198,963</b>

Source: State of North Dakota audited financial reports

Exhibit 7

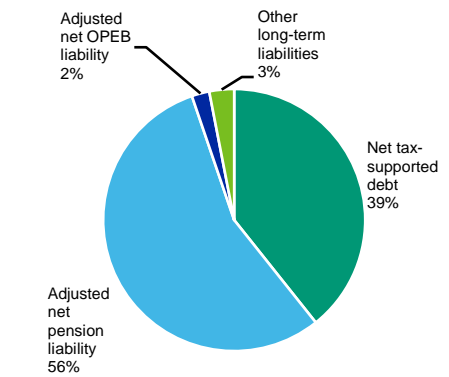
### Fiscal 2024 outstanding net tax-supported debt by type



Source: North Dakota audited financial statements

Exhibit 8

### Fiscal 2024 total long-term liabilities by type



Source: North Dakota audited financial statements

North Dakota's financial flexibility will continue to be supported by its low leverage position and very low fixed costs. In 2021, the state legislature approved a \$680 million capital borrowing program that significantly increased the state's net tax-supported debt. However, despite the increase, leverage metrics remain well below [50-state median](#) levels.

The program primarily finances the Fargo Diversion project (\$435.5 million), local government water projects through the Resources Trust Fund (\$74.5 million) and highway, road and bridge projects (\$70 million). The state's borrowing for the Fargo Diversion project will fulfill the state's share of the \$3.19 billion project to construct a flood diversion channel along the Red River of the North to reduce the flood risk of adjacent communities. Debt service on the program's bonds, known as Legacy Fund Infrastructure bonds, are paid from Legacy Fund earnings.

North Dakota's fiscal 2023 net tax-supported debt totaled \$891 million, ranking 40th among the 50 states for debt as a percent of own-source revenue at 11.2%. In fiscal 2024, North Dakota's net-tax supported debt as a percent of own-source revenue declined to 9.8%.

### Debt structure

The state currently has no general obligation debt outstanding and its constitution virtually prohibits general obligation borrowing unless secured by real estate. The state has issued appropriation-backed debt, primarily through the North Dakota Building Authority, for which the legislature must biennially appropriate interest and principal payments. Legacy Fund Infrastructure bonds outstanding are appropriation-backed debt issued by the ND Public Finance Authority. The state has no outstanding variable rate debt or private bank loans.

### Pensions and OPEB

North Dakota's fiscal 2023 adjusted net pension liability (ANPL), our measure of the government's pension burden, was \$1.4 billion or 17.4% of own-source revenue, below the [50-state median](#) of 52.5%. In fiscal 2024, North Dakota's ANPL as a percent of own-source revenue declined further to 13.9%. Moody's ANPL reflects certain adjustments made to improve comparability of reported pension liabilities. To further reduce its net pension liability, in 2021, the state legislature approved the annual transfer of Legacy Fund earnings to the ND Public Employees Retirement System (ND PERS) in lieu of increasing employee contributions.

The state's adjusted net OPEB liability (ANOL) managed by PERS is very modest at \$48 million (0.5% of own-source revenue), half of which represents the implied rate subsidy for certain retirees.

The state's fiscal 2024 pension contribution was 0.5% of own-source revenue and slightly less than the contribution amount that would allow the state's reported net pension liability to "tread water" – or remain stable from one year to the next, assuming investment return and other actuarial assumptions are met for the year. However, given the state's very low fixed costs, any future contribution increases would be unlikely to pressure the state's budget.

The state's total fixed costs in fiscal 2024 were very low, at 1.7% of own-source revenue, providing the state ample flexibility to adjust future budgets.

#### **Bank of North Dakota: State distinguished by ownership of bank**

North Dakota differs from every other state by its ownership of the Bank of North Dakota, which serves both as the state government's financial arm and as an economic-development agent. The bank operates lending, retail, trust and treasury services and student loan divisions. The state is required to deposit all state funds with the bank, unless otherwise governed by statute, such as the state's Legacy Fund, which is invested with the State Investment Board.

The bank is not a member of the Federal Deposit Insurance Corp. (FDIC). Instead, the state guarantees bank deposits. While most of the bank's deposits are from the state itself, approximately 20% of the bank's deposits are non-captive; therefore any mass withdrawals could diminish the liquidity of both the bank and the state. Including the bank's non-captive deposits guaranteed by the state as a contingent liability for the state would nearly double the state's total long-term liabilities. However, the state's overall leverage would still remain well below the 50-state median because the state's overall leverage is already very low.

The bank's liquidity guidelines require that cash and highly liquid assets be equal to at least 20% of total deposits and borrowings. The state's bank deposits are not as liquid as deposits held outside of the Bank of North Dakota because much of the bank's assets are loans. Despite this, the state's overall liquidity position is still very strong.

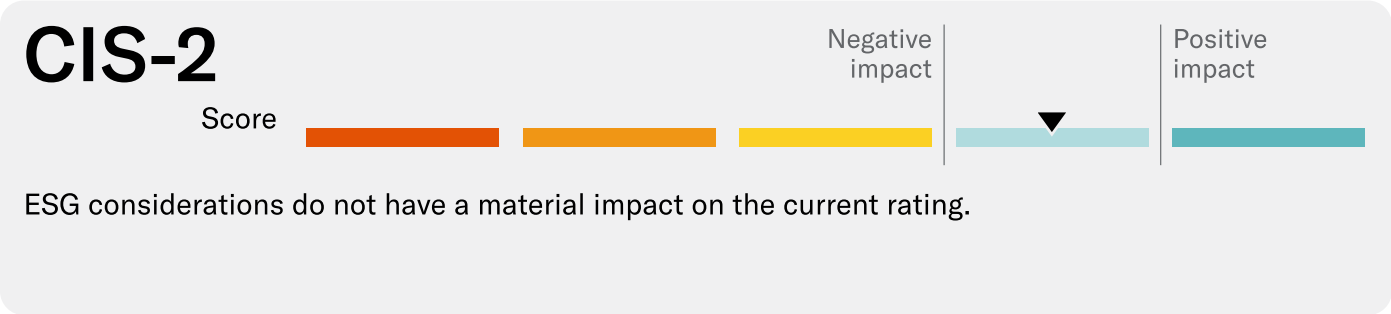
Although the state does not guarantee bank loans, owning a financial institution entails vulnerability to losses, particularly in the event of a weak agriculture sector or steep economic deterioration, like past energy sector contractions. While a small portion of the bank's loan portfolio is in direct loans to energy sector projects, the bank has loans that are indirectly exposed to the energy sector, such as housing and hospitality projects.

A remaining challenge is that the bank is subject only to examinations by the state's Department of Financial Institutions. Examination reports, which are not publicly disclosed, are submitted to the state Industrial Commission, consisting of the governor, the attorney general and the agriculture commissioner. An independent auditor reviews the bank annually and prepares a publicly available financial report. This sets the bank apart from private-sector financial institutions subject to examinations and oversight by independent regulators.

ESG considerations

North Dakota (State of)'s ESG credit impact score is CIS-2

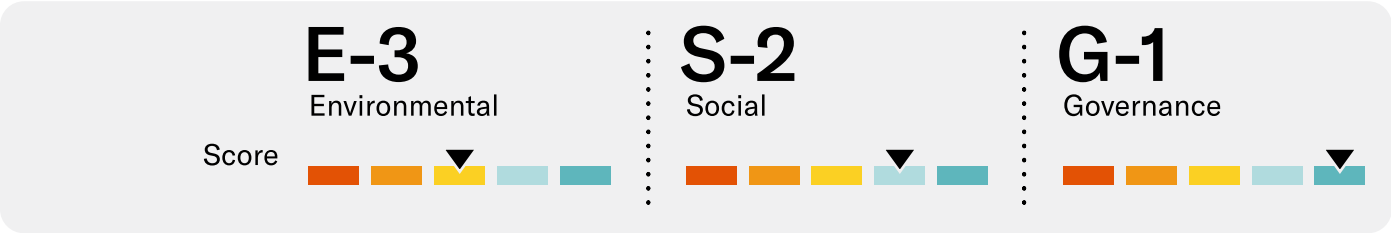
Exhibit 9  
ESG credit impact score



Source: Moody's Ratings

North Dakota's ESG Credit Impact Score of **CIS-2** reflects its strong governance profile, which offsets the states exposure to carbon transition risks and low social risks.

Exhibit 10  
ESG issuer profile scores



Source: Moody's Ratings

Environmental

North Dakota's **E-3** environmental issuer profile score reflects the state's carbon transition risk, given its economic and revenue reliance on the oil and gas extraction industry. Over 17% of the state's total GDP is from mining and oil and gas extraction, which is well above the national average (1.5 %) and ranks in the top three states for economic concentration in the energy sector. In addition, when combining direct revenue allocations and reserve fund transfers, nearly 20% of the state's general fund operations are supported by oil and gas tax revenue. Oil exploration and production companies are not well positioned for rising carbon transition risks, and shale producers have made minimal investment in low carbon technology. The state also has moderately negative exposure to rising physical climate risks and water management risks given its relatively important agricultural sector. Growing physical climate risks, including flooding, drought and rising temperatures, combined with risks around water availability and access, could negatively impact the state's agriculture sector over time. This sector – including forestry, fishing and hunting – comprises 4.2% of the state's 2024 GDP, well above the US average of 1% of GDP . To address a key flood risk, the state's Legacy Fund Infrastructure Program will directly invest \$435 million into the \$2.75 billion Fargo Diversion Project that will construct a flood diversion channel along the Red River of the North to reduce the flood risk of adjacent communities.

Social

North Dakota's social issuer profile score is **S-2**. Due to North Dakota's concentration in the energy sector, population growth is heavily influenced by net migration and can vary greatly year-to-year. The population growth is often concentrated in certain regions, which can pressure infrastructure and government service levels, especially roads and schools. However, North Dakota also benefits from a dynamic and engaged labor force, leading to a high labor force participation rate of 69.3% in 2024, compared to 62.6% for the US.

## Governance

North Dakota's **G-1** governance issuer profile score reflects the state's strong governance features. The North Dakota executive branch's strong powers, including the ability to withhold appropriated funds in the course of a biennium, help the state monitor and respond to revenue shortfalls when they do occur. The governor also has line-item veto power over appropriation legislation. State agency spending generally cannot exceed three quarters of a biennium's operating appropriations in the first three quarters of a biennium, and short-term borrowing beyond the course of a biennium is not allowed. Together with these safeguards, the state's conservative revenue forecasting and budgeting practices have limited its need for non-recurring resources to supplement general fund revenues. North Dakota's financial management profile could be further strengthened by implementation of policies requiring development of multi-year financial plans, especially given that the state operates on a true biennium budget cycle.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Rating methodology and scorecard factors

The [US States and Territories Rating Methodology](#) includes a scorecard, which summarizes the rating factors generally most important to state and territory credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 11

### US states and territories rating methodology scorecard North Dakota (State of)

	Measure	Weight	Score
<b>Economy</b>			
Resident Income (PCI Adjusted for RPP / US PCI)	110.6%	15%	Aaa
Economic Growth (5-year CAGR real GDP - 5-year CAGR US real GDP)	-2.2%	15%	Baa
<b>Financial performance</b>			
Financial performance	Aaa	20%	Aaa
<b>Governance/Institutional Framework</b>			
Governance/Institutional Framework	Aa	20%	Aa
<b>Leverage</b>			
Long-term liabilities ratio (adjusted long-term liabilities / own-source revenue)	25.0%	20%	Aaa
Fixed-costs ratio (adjusted fixed costs / own-source revenue)	1.7%	10%	Aaa
<b>Notching factors</b>			
Very limited and concentrated economy	0		
Scorecard-Indicated Outcome			Aa1
<b>Assigned rating</b>			Aa1

Economy measures are based on data from the most recent year available

Source: Moody's Ratings

## Endnotes

- 1 The Foundation Aid Stabilization Fund receives 10% of oil extraction revenue. The state constitution was amended by voters in November 2016 to allow the state to use balances to support K-12 funding during normal budget cycles, rather than being limited to budget cuts. The Tax Relief Fund is funded with oil and gas production taxes in each biennium and used to support social services provided by counties. The Tax Relief Fund does not have statutory restrictions on its use, and can be reallocated for other purposes. The state's Strategic Investment and Improvement Fund is held outside the general fund for one-time capital expenditures and is funded with oil and gas extraction and production taxes.



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