

North Dakota REV-E-NEWS



Pam Sharp, Director

October 2013

OFFICE OF MANAGEMENT AND BUDGET

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MESSAGE FROM THE DIRECTOR

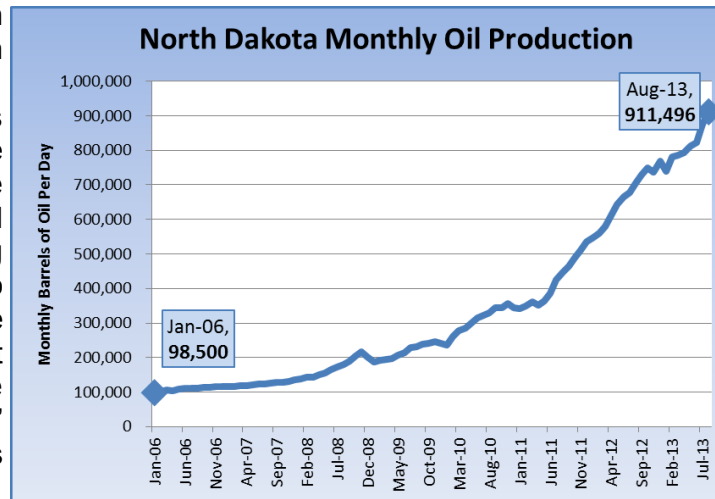
North Dakota crude oil production reached a new high in August 2013, topping 900,000 barrels per day. The state's revenue forecast assumed oil production would average 830,000 barrels per day in August and approximately 850,000 barrels per day during most of the 2013-15 biennium. At over 911,000 barrels per day, August production is nearly 10 percent higher than projected.

The growth in oil production in the state is truly remarkable. Looking back to January 2006, production in the state was only 10 percent of what it is today – 98,500 barrels per day. This phenomenal growth has elevated North Dakota to a prominent position in terms of the nation's energy production. North Dakota now ranks second in the nation in crude oil production, behind only Texas.

According to Moody's Analytics (Précis U.S. Macro, October 2013), the U.S. is "poised to overtake Russia as the world's largest producer of oil and natural gas in 2013." Thanks to new drilling technologies making it economical to extract oil from shale plays such as the Bakken, "U.S. oil and natural gas output increased 30% from 2007 to 2012, while Russia's production increased only 4%." Moody's credits the "shale boom" as

being the main driver for growth in U.S. oil and natural gas production and for "reshaping the global energy market."

However, extracting oil from shale is a costly process and feasible only at relatively high price levels. Moody's predicts crude oil prices will remain at levels that make it economically feasible to continue shale drilling. The price of West Texas Intermediate (WTI) crude oil is expected to average \$100 per barrel during 2013, about 6 percent higher than 2012. In subsequent years, Moody's predicts oil prices will rise between 2 and 7 percent per year, reaching \$117 per barrel by 2017.



OIL ACTIVITY

The 2013-15 biennium revenue forecast is based on oil production increasing from 830,000 barrels per day in July 2013 to 850,000 barrels per day by the end of the biennium. Crude oil prices are projected to average \$75 per barrel for the entire biennium. Rig count is currently 184 rigs, 6 fewer than the number operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:



| | Aug 2013 | July 2013 | June 2013 |
|---------------------------------|----------|-----------|-----------|
| Actual average price per barrel | \$97.18 | \$96.76 | \$86.20 |
| Production (barrels/day) | 911,200 | 875,700 | 821,600 |
| Drilling permits | 276 | 179 | 165 |
| Producing wells | 9,452 | 9,334 | 9,096 |
| Rig count | 183 | 186 | 187 |

Comments or Questions?
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STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2013-15 Biennium September 2013

| Revenues and Transfers | Fiscal Month | | | | Biennium To Date | | | |
|-------------------------------------|---------------------------|--------------------|-------------------|--------------|---------------------------|----------------------|-------------------|-------------|
| | May 2013 Leg. Forecast | Actual | Variance | Percent | May 2013 Leg. Forecast | Actual | Variance | Percent |
| Sales Tax | 85,131,000 | 113,490,855 | 28,359,855 | 33.3% | 306,451,000 | 326,078,133 | 19,627,133 | 6.4% |
| Motor Vehicle Excise Tax | 13,372,000 | 10,116,166 | (3,255,834) | -24.3% | 39,340,000 | 33,282,759 | (6,057,241) | -15.4% |
| Individual Income Tax | 19,984,000 | 34,065,549 | 14,081,549 | 70.5% | 82,475,000 | 115,344,646 | 32,869,646 | 39.9% |
| Corporate Income Tax | | 32,086,122 | 32,086,122 | 100.0% | | 33,067,107 | 33,067,107 | 100.0% |
| Insurance Premium Tax | 205,840 | 3,014,561 | 2,808,721 | 1364.5% | 5,212,020 | 3,225,261 | (1,986,759) | -38.1% |
| Financial Institutions Tax | | (192,275) | (192,275) | -100.0% | | (184,579) | (184,579) | -100.0% |
| Oil & Gas Production Tax* | 10,384,453 | 10,384,453 | 0 | 0.0% | 68,298,659 | 68,298,659 | 0 | 0.0% |
| Oil Extraction Tax* | 43,910,965 | 43,910,965 | 0 | 0.0% | 80,323,053 | 80,323,053 | 0 | 0.0% |
| Gaming Tax | 21,390 | 18,976 | (2,414) | -11.3% | 1,355,230 | 1,082,900 | (272,330) | -20.1% |
| Lottery | | | | | | | | |
| Cigarette & Tobacco Tax | 2,645,000 | 2,755,197 | 110,197 | 4.2% | 7,801,000 | 7,973,853 | 172,853 | 2.2% |
| Wholesale Liquor Tax | 755,000 | 730,993 | (24,007) | -3.2% | 2,348,000 | 2,398,673 | 50,673 | 2.2% |
| Coal Conversion Tax | 1,650,000 | 1,403,259 | (246,741) | -15.0% | 3,232,000 | 2,567,271 | (664,729) | -20.6% |
| Mineral Leasing Fees | 791,667 | 5,578,078 | 4,786,411 | 604.6% | 2,375,001 | 8,030,542 | 5,655,541 | 238.1% |
| Departmental Collections | 5,487,009 | 5,825,349 | 338,340 | 6.2% | 8,203,173 | 9,097,907 | 894,734 | 10.9% |
| Interest Income | 651,890 | 255,246 | (396,644) | -60.8% | 1,448,290 | 521,052 | (927,238) | -64.0% |
| State Mill & Elevator-Transfer | | | | | | | | |
| Major Special Fund Transfers | | | | | 341,790,000 | 341,790,000 | 0 | 0.0% |
| Other Transfers | | 5,104 | 5,104 | 100.0% | 222,170 | 393,736 | 171,566 | 77.2% |
| Total Revenues and Transfers | 184,990,214 | 263,448,598 | 78,458,384 | 42.4% | 950,874,596 | 1,033,290,972 | 82,416,377 | 8.7% |

* Oil and gas taxes exceed the monthly forecast by \$18.7 million. However, for the purposes of this report, oil tax forecast amounts are shown as being equal to actual collections. For the biennium in total, the general fund share of oil taxes is limited to no more than \$300.0 million. So, exceeding the forecast in a single month only accelerates the time frame during which the general fund will receive its share of oil taxes, but does not increase the general fund share above the statutory cap.

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Previous Biennium Revenues
2013-15 Biennium
September 2013

| Revenues and Transfers | Fiscal Month | | | | Biennium To Date | | | |
|-------------------------------------|--------------------|--------------------|--------------------|--------------|--------------------|----------------------|--------------------|--------------|
| | September 2011 | September 2013 | Variance | Percent | 2011-13 | 2013-15 | Variance | Percent |
| Sales Tax | 89,711,942 | 113,490,855 | 23,778,913 | 26.5% | 236,811,177 | 326,078,133 | 89,266,955 | 37.7% |
| Motor Vehicle Excise Tax | 9,566,900 | 10,116,166 | 549,266 | 5.7% | 27,412,741 | 33,282,759 | 5,870,018 | 21.4% |
| Individual Income Tax | 17,957,456 | 34,065,549 | 16,108,094 | 89.7% | 85,206,307 | 115,344,646 | 30,138,339 | 35.4% |
| Corporate Income Tax | 83,623 | 32,086,122 | 32,002,499 | 38269.9% | 849,929 | 33,067,107 | 32,217,179 | 3790.6% |
| Insurance Premium Tax | 232,510 | 3,014,561 | 2,782,051 | 1196.5% | 5,887,360 | 3,225,261 | (2,662,099) | -45.2% |
| Financial Institutions Tax | 45,447 | (192,275) | (237,722) | -523.1% | 50,046 | (184,579) | (234,625) | -468.8% |
| Oil & Gas Production Tax | 2,785,069 | 10,384,453 | 7,599,384 | 272.9% | 46,771,715 | 68,298,659 | 21,526,943 | 46.0% |
| Oil Extraction Tax | 18,147,861 | 43,910,965 | 25,763,104 | 142.0% | 49,834,485 | 80,323,053 | 30,488,568 | 61.2% |
| Gaming Tax | 29,140 | 18,976 | (10,164) | -34.9% | 1,846,231 | 1,082,900 | (763,330) | -41.3% |
| Lottery | | | | | | | | |
| Cigarette & Tobacco Tax | 2,494,634 | 2,755,197 | 260,564 | 10.4% | 6,814,150 | 7,973,853 | 1,159,703 | 17.0% |
| Wholesale Liquor Tax | 710,040 | 730,993 | 20,953 | 3.0% | 2,113,452 | 2,398,673 | 285,221 | 13.5% |
| Coal Conversion Tax | 1,798,757 | 1,403,259 | (395,498) | -22.0% | 3,651,025 | 2,567,271 | (1,083,753) | -29.7% |
| Mineral Leasing Fees | (1,408,244) | 5,578,078 | 6,986,322 | -496.1% | 3,323,212 | 8,030,542 | 4,707,330 | 141.7% |
| Departmental Collections | 1,933,384 | 5,825,349 | 3,891,966 | 201.3% | 4,403,006 | 9,097,907 | 4,694,901 | 106.6% |
| Interest Income | 626,886 | 255,246 | (371,641) | -59.3% | 1,373,287 | 521,052 | (852,235) | -62.1% |
| State Mill & Elevator-Transfer | | | | | | | | |
| Major Special Fund Transfers | | | | | 295,000,000 | 341,790,000 | 46,790,000 | 15.9% |
| Other Transfers | | 5,104 | 5,104 | 100.0% | 185,620 | 393,736 | 208,115 | 112.1% |
| Total Revenues and Transfers | 144,715,404 | 263,448,598 | 118,733,194 | 82.0% | 771,533,743 | 1,033,290,972 | 261,757,229 | 33.9% |

VARIANCES

September 2013 revenues total \$263.4 million, \$78.5 million more than forecast. Revenues for the biennium-to-date are \$82.4 million, or 8.7 percent higher than forecast. Significant variances are as follows:

- **Sales tax** collections total \$113.5 million for the month, \$28.4 million more than forecast. August collections were \$18.0 million less than predicted, so a significant amount of the September variance is attributable to timing. Biennium-to-date collections are \$19.6 million, or 6.4 percent, ahead of forecast.
- **Motor vehicle excise tax** collections, although 21.4 percent higher than the previous biennium, fell short of the forecast for the third consecutive month. Collections are \$3.3 million lower than expected for the month and \$6.1 million lower for the biennium-to-date.
- **Individual income tax** collections are \$14.1 million higher than expected for the month and \$32.9 million higher for the biennium-to-date.
- **Corporate income tax** collections, projected to be \$0 for the month, were \$32.1 million. Collections received during the first three months of the biennium are typically deposited by the Tax Department into the refund reserve account and are not deposited in the general fund. However,

collections have been higher than expected and an adequate refund reserve balance has been reached sooner than expected. As a result, September collections were deposited in the general fund.

- **Insurance premium tax** collections exceed the forecast by \$2.8 million for the month, offsetting a portion of the August shortfall of \$4.7 million.
- **Oil and gas taxes** exceed the monthly forecast by \$18.7 due to higher than anticipated oil prices and production. Although actual collections exceed the monthly forecast, for the purposes of this report, oil tax forecast amounts are shown as being equal to actual collections. For the biennium in total, the general fund share of oil taxes is limited to no more than \$300.0 million. So, exceeding the forecast in a single month only accelerates the time frame during which the general fund will receive its share of oil taxes, but does not increase the general fund share above the statutory cap.
- **Mineral leasing fees** are received from the federal government for leasing mineral rights and extracting minerals on federal lands located within the state. These revenues are shared equally with the counties in which the minerals are located. Actual collections exceed the forecast by \$4.8 million for the month and by \$5.7 million for the biennium-to-date.

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