

North Dakota REV-E-NEWS



Pam Sharp, Director

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**OFFICE OF MANAGEMENT AND BUDGET
600 EAST BOULEVARD AVE — DEPT. 110 BISMARCK, ND 58505-0400**

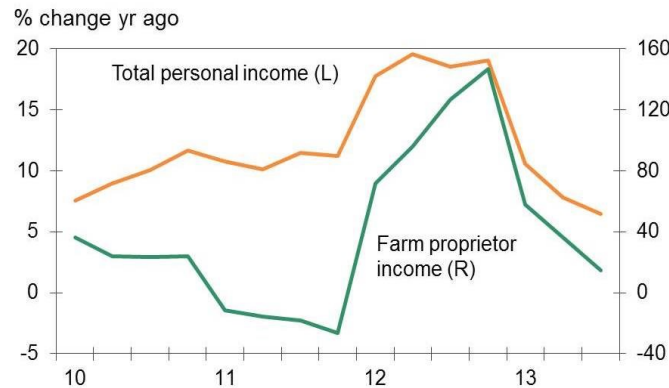
MESSAGE FROM THE DIRECTOR

North Dakota's economic expansion remains the strongest in the nation according to the February 2014 update of Moody's Analytics' *Précis U.S. State* publication. While personal income growth has slowed over the last three quarters, due mainly to lower agricultural prices, the State's "job growth has reaccelerated and is now running at nearly three times the national average." Population growth exceeded expectations for 2013, with ND's population growing at more than four times the national average.

While the energy industry will remain a key factor in the economic forecast for several years, "ND's important agricultural industry will be a key pillar under the state's long-term growth" plan. Recently, prices for core crops, such as wheat and soybeans, have decreased from the historic levels. As a result, while the short-term farm incomes will decrease, North Dakota's well-diversified crop portfolio will buffer some of the negative impact. Moody's projects that because of this crop diversification North Dakota farm income will continue to exceed the national average. Additionally, higher land prices in the

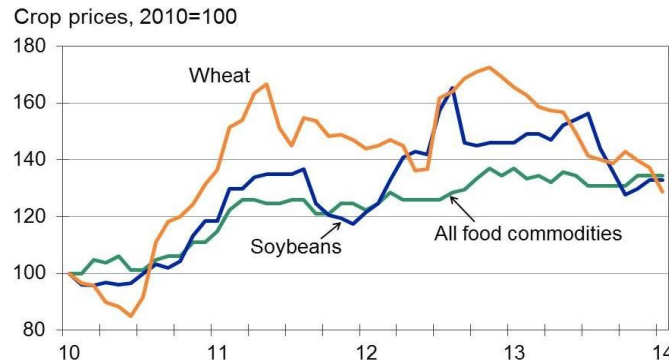
western part of the state will bolster financial stability in the agricultural sector.

Personal Income 2010-2014



Sources: BEA, Moody's Analytics

Crop Price Changes 2010-2014



Sources: USDA, Moody's Analytics

OIL ACTIVITY



Statistical Information

	Jan 2014	Dec 2013	Nov 2013
Actual average price per barrel	\$80.85	\$82.65	\$79.27
Production (barrels/day)	933,100	926,700	976,500
Drilling permits	253	227	232
Producing wells	10,100	10,040	10,042
Rig count	188	190	184

Tax Allocations (in Millions)

	Biennium to Date Jan 31, 2014
Political subs and tribes	\$340.1
Legacy fund	511.7
General fund	200.0
Education funds	172.6
Resources trust fund	168.7
Oil and gas impact fund	96.5
Property tax relief fund	325.8
Other allocations	24.7
Total	\$1,840.1

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Legislative Forecast
2013-15 Biennium
February 2014

Revenues and Transfers	Fiscal Month				Biennium To Date			
	May 2013 Leg. Forecast	Actual	Variance	Percent	May 2013 Leg. Forecast	Actual	Variance	Percent
Sales Tax	103,827,000	87,441,042	(16,385,958)	-15.8%	822,680,000	834,619,567	11,939,567	1.5%
Motor Vehicle Excise Tax	10,726,000	9,761,020	(964,980)	-9.0%	98,528,000	88,865,045	(9,662,955)	-9.8%
Individual Income Tax	17,171,000	4,180,815	(12,990,185)	-75.7%	221,592,000	305,762,506	84,170,506	38.0%
Corporate Income Tax	6,779,000	2,924,520	(3,854,480)	-56.9%	71,672,000	101,478,980	29,806,980	41.6%
Insurance Premium Tax	6,795,890	9,892,733	3,096,843	45.6%	20,317,650	24,563,996	4,246,346	20.9%
Financial Institutions Tax		15,693	15,693	100.0%		(4,901,930)	(4,901,930)	100.0%
Oil & Gas Production Tax*					96,933,188	96,933,188		0.0%
Oil Extraction Tax*					103,066,812	103,066,812		0.0%
Gaming Tax	493,300	502,774	9,474	1.9%	3,121,120	2,649,020	(472,100)	-15.1%
Lottery								
Cigarette & Tobacco Tax	2,098,000	2,145,871	47,871	2.3%	19,636,000	20,191,022	555,022	2.8%
Wholesale Liquor Tax	605,000	633,647	28,647	4.7%	6,178,000	6,210,362	32,362	0.5%
Coal Conversion Tax	1,716,000	1,531,428	(184,572)	-10.8%	11,207,000	10,277,234	(929,766)	-8.3%
Mineral Leasing Fees	791,667	1,030,972	239,305	30.2%	6,333,336	10,045,335	3,711,999	58.6%
Departmental Collections	5,513,328	2,539,827	(2,973,501)	-53.9%	26,876,841	27,665,641	788,800	2.9%
Interest Income	490,390	203,900	(286,490)	-58.4%	4,037,120	1,632,023	(2,405,097)	-59.6%
State Mill & Elevator-Transfer								
Major Special Fund Transfers					341,790,000	341,790,000		0.0%
Other Transfers					666,510	845,764	179,254	26.9%
Total Revenues and Transfers	157,006,575	122,804,243	(34,202,332)	-21.8%	1,854,635,577	1,971,694,566	117,058,989	6.3%

* The general fund cap for oil and gas taxes contains two tiers. The first tier of \$200.0 million was reached in October 2013. Additional oil taxes will flow to the property tax relief fund until that fund receives \$341.8 million, after which time the general fund will receive an additional \$100.0 million. Total production and extraction tax collections were \$250.3 million in February 2014. Monthly allocations to the property tax relief fund were \$73.4 million; allocations to the legacy fund were \$69.6 million.

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Previous Biennium Revenues
2013-15 Biennium
February 2014

Revenues and Transfers	Fiscal Month				Biennium To Date			
	February 2012	February 2014	Variance	Percent	2011-13	2013-15	Variance	Percent
Sales Tax	80,943,379	87,441,042	6,497,663	8.0%	694,249,091	834,619,567	140,370,476	20.2%
Motor Vehicle Excise Tax	9,540,265	9,761,020	220,755	2.3%	77,089,174	88,865,045	11,775,871	15.3%
Individual Income Tax	18,349,023	4,180,815	(14,168,208)	-77.2%	230,352,179	305,762,506	75,410,326	32.7%
Corporate Income Tax	10,488,162	2,924,520	(7,563,641)	-72.1%	71,726,613	101,478,980	29,752,367	41.5%
Insurance Premium Tax	7,676,470	9,892,733	2,216,263	28.9%	22,950,304	24,563,996	1,613,692	7.0%
Financial Institutions Tax	183,670	15,693	(167,977)	-91.5%	(126,695)	(4,901,930)	(4,775,234)	3769.1%
Oil & Gas Production Tax					99,799,206	96,933,188	(2,866,018)	-2.9%
Oil Extraction Tax					100,200,794	103,066,812	2,866,018	2.9%
Gaming Tax	672,031	502,774	(169,257)	-25.2%	4,251,918	2,649,020	(1,602,898)	-37.7%
Lottery								
Cigarette & Tobacco Tax	2,001,978	2,145,871	143,894	7.2%	17,786,235	20,191,022	2,404,787	13.5%
Wholesale Liquor Tax	565,410	633,647	68,238	12.1%	5,551,593	6,210,362	658,769	11.9%
Coal Conversion Tax	1,087,761	1,531,428	443,666	40.8%	11,339,995	10,277,234	(1,062,761)	-9.4%
Mineral Leasing Fees	2,047,002	1,030,972	(1,016,030)	-49.6%	28,695,243	10,045,335	(18,649,908)	-65.0%
Departmental Collections	5,110,379	2,539,827	(2,570,552)	-50.3%	26,327,913	27,665,641	1,337,728	5.1%
Interest Income	465,385	203,900	(261,485)	-56.2%	3,837,104	1,632,023	(2,205,081)	-57.5%
State Mill & Elevator-Transfer								
Major Special Fund Transfers					295,000,000	341,790,000	46,790,000	15.9%
Other Transfers	3		(3)	-100.0%	569,606	845,764	276,159	48.5%
Total Revenues and Transfers	139,130,917	122,804,243	(16,326,675)	-11.7%	1,689,600,274	1,971,694,566	282,094,291	16.7%

* The general fund cap for oil and gas taxes contains two tiers. The first tier of \$200.0 million was reached in October 2013. Additional oil taxes will flow to the property tax relief fund until that fund receives \$341.8 million, after which time the general fund will receive an additional \$100.0 million. Total production and extraction tax collections were \$250.3 million in February 2014. Monthly allocations to the property tax relief fund were \$73.4 million; allocations to the legacy fund were \$69.6 million.

VARIANCES

February 2014 revenues total \$122.8 million, which is \$34.2 million less than forecast. Revenues for the biennium-to-date are \$1.97 billion, or 6.3 percent higher than forecast. Significant variances are as follows:

- **Sales tax** collections for the biennium total \$834.6 million, or 1.5 percent above forecast. Monthly collections of \$87.4 million were 15.8 percent less than anticipated due to monthly timing differences as a result of the new forecast model. Sales tax collections are currently 20.2 percent above the previous biennium and are anticipated to remain strong.
- **Motor vehicle excise tax** collections continue to fall slightly short of the forecast. Actual collections of \$9.7 million were \$964,000, or 9.0 percent, below forecast for the month. The biennium-to-date variance is -\$9.7 million. However, current biennium collections exceed the 2011-13 biennium by \$11.8 million, indicating the shortfall is attributable to monthly forecast assumptions, not a decline in motor vehicle sales.
- **Individual income tax** biennium to date collections exceed the forecast by a wide margin -- \$84.2 million, or nearly 38.0 percent -- due to strong withholding and estimated payments. In anticipation of large refunds, \$13.0 million was transferred to the refund reserve account in February. As a result, collections were \$13.0 million, or 75.6 percent, less than anticipated.
- **Corporate income tax** collections were \$3.9 million less than projected for the month, bringing the biennium to date variance to \$29.8 million, or 41.6 percent. Despite the significant rate reductions approved by the 2013 legislature, collections through February 2014 were \$29.7 million higher than during the same time period in the 2011-13 biennium.
- **Insurance Premium Tax** collections totaled \$9.9 million, nearly \$3.1 million or 45.6 percent higher than the \$6.8 million monthly forecast. The variance is driven by a higher than anticipated volume of premiums for calendar year 2013.
- **Oil and gas taxes** exceed the monthly forecast by \$32.3 million due to higher than anticipated oil prices and production. During October 2013, the general fund reached \$200.0 million -- the first tier of the biennial cap. The state share will be deposited in the property tax relief fund until that fund reaches its cap of \$341.8 million, after which the general fund will receive an additional \$100.0 million.
- **Departmental collections** fell short of the \$5.5 million monthly forecast by about \$3.0 million, or 53.4 percent, due primarily to a reduction in telecommunication tax collections. Biennium-to-date departmental collections are tracking \$789,000, or 2.9 percent, above the \$26.9 million forecast.