

North Dakota REV-E-NEWS



Pam Sharp, Director

April 2014

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

MESSAGE FROM THE DIRECTOR

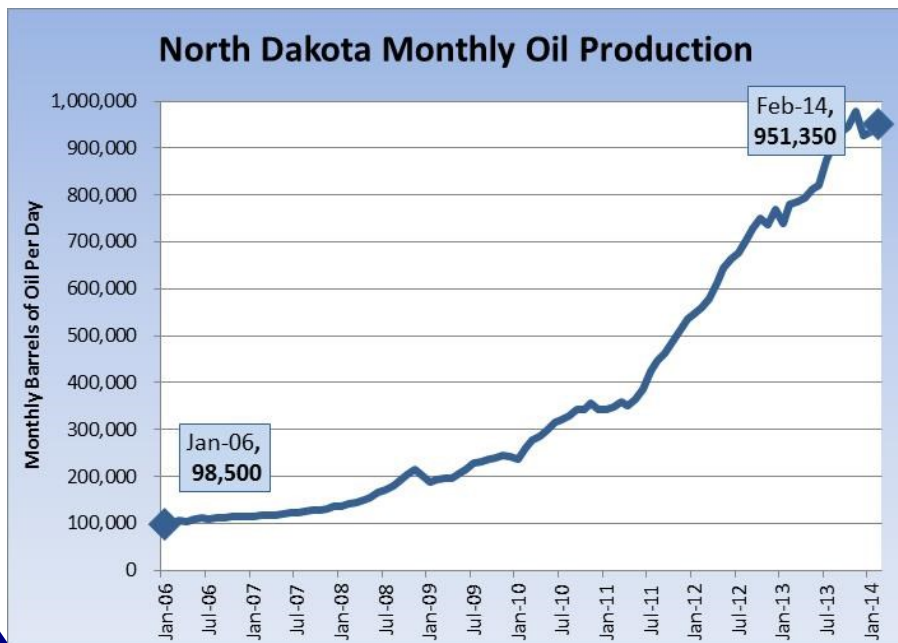
North Dakota crude oil production continues to be above forecast. After reaching a new high in November 2013, of over 976,000 barrels per day, production dropped in December 2013 and January 2014 before rebounding in February 2014 to over 951,000 barrels per day. The state's revenue forecast assumed oil production would average 850,000 barrels per day from November 2013

through the remainder of the 2013-15 biennium.

According to Moody's Analytics (Précis U.S. State – North Dakota, February 2014), North Dakota's energy industry is "making the transition from booming exploration phase to a less labor-intensive, long-term production phase." The number of producing wells reached an all-time high of 10,186 wells in February 2014.

Approximately 69 percent of these wells are unconventional Bakken and Three Forks wells. The remaining 31 percent are legacy conventional wells.

The average price per barrel of crude oil also continues to be above forecast. The state's revenue forecast assumed the price would average \$75 per barrel for the first year of the biennium and \$80 per barrel for the second year. The average price per barrel in February 2014 was \$91.34.



OIL ACTIVITY



Statistical Information

	Feb 2014	Jan 2014	Dec 2013
Actual average price per barrel	\$91.34	\$80.85	\$82.65
Production (barrels/day)	951,340	935,126	926,700
Drilling permits	180	253	227
Producing wells	10,186	10,114	10,040
Rig count	189	188	190

Tax Allocations (in Millions)

	Biennium to Date Mar 31, 2014
Political subs and tribes	\$383.7
Legacy fund	581.2
General fund	257.4
Education funds	196.1
Resources trust fund	192.1
Oil and gas impact fund	112.0
Property tax relief fund	341.8
Other allocations	25.6
Total	\$2,089.9

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2013-15 Biennium March 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	62,962,000	79,507,510	16,545,510	26.3%	885,642,000	914,127,077	28,485,077	3.2%
Motor Vehicle Excise Tax	13,286,000	11,113,373	(2,172,627)	-16.4%	111,814,000	99,978,418	(11,835,582)	-10.6%
Individual Income Tax	9,435,000	10,425,363	990,363	10.5%	231,027,000	316,187,868	85,160,868	36.9%
Corporate Income Tax	20,048,000	28,604,315	8,556,315	42.7%	91,720,000	130,083,295	38,363,295	41.8%
Insurance Premium Tax	4,854,560	6,273,655	1,419,095	29.2%	25,172,210	30,837,652	5,665,442	22.5%
Financial Institutions Tax		16	16	100.0%		(4,901,914)	(4,901,914)	-100.0%
Oil & Gas Production Tax*	15,833,749	15,833,749		0.0%	112,766,937	112,766,937		0.0%
Oil Extraction Tax*	41,555,409	41,555,409		0.0%	144,622,221	144,622,221		0.0%
Gaming Tax	28,900	26,977	(1,923)	-6.7%	3,150,020	2,675,997	(474,023)	-15.0%
Lottery								
Cigarette & Tobacco Tax	1,927,000	2,099,073	172,073	8.9%	21,563,000	22,290,095	727,095	3.4%
Wholesale Liquor Tax	661,000	687,010	26,010	3.9%	6,839,000	6,897,372	58,372	0.9%
Coal Conversion Tax	1,756,000	1,611,817	(144,183)	-8.2%	12,963,000	11,889,051	(1,073,949)	-8.3%
Mineral Leasing Fees	791,667	2,137,938	1,346,271	170.1%	7,125,003	12,183,273	5,058,270	71.0%
Departmental Collections	2,962,137	4,097,257	1,135,120	38.3%	29,838,978	31,762,897	1,923,919	6.4%
Interest Income	492,560	202,218	(290,342)	-58.9%	4,529,680	1,834,241	(2,695,439)	-59.5%
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	176,593,982	204,175,679	27,581,697	15.6%	2,031,229,559	2,175,870,244	144,640,686	7.1%

* The general fund cap for oil and gas taxes contains two tiers. The first tier of \$200.0 million was reached in October 2013. The next \$341.8 million was deposited into the property tax relief fund. The second tier of \$100.0 million began flowing to the general fund in March 2014, two months earlier than anticipated. 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. 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.

Total production and extraction tax collections of \$249.8 million were distributed in March 2014. The property tax relief fund reached its cap of \$341.8 million and will not receive any additional allocations this biennium. Through March, \$581.2 million has been deposited into the legacy fund; for a total of \$1.9 billion.

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

Revenues and Transfers	Fiscal Month				Biennium To Date			
	March 2012	March 2014	Variance	Percent	2011-13	2013-15	Variance	Percent
Sales Tax	66,966,285	79,507,510	12,541,225	18.7%	761,215,376	914,127,077	152,911,701	20.1%
Motor Vehicle Excise Tax	10,818,472	11,113,373	294,901	2.7%	87,907,646	99,978,418	12,070,772	13.7%
Individual Income Tax	12,664,603	10,425,363	(2,239,240)	-17.7%	243,016,782	316,187,868	73,171,086	30.1%
Corporate Income Tax	13,802,328	28,604,315	14,801,987	107.2%	85,528,941	130,083,295	44,554,354	52.1%
Insurance Premium Tax	5,483,594	6,273,655	790,061	14.4%	28,433,899	30,837,652	2,403,753	8.5%
Financial Institutions Tax	1,952,416	16	(1,952,400)	-100.0%	1,825,721	(4,901,914)	(6,727,635)	-368.5%
Oil & Gas Production Tax*		15,833,749	15,833,749	100.0%	99,799,206	112,766,937	12,967,731	13.0%
Oil Extraction Tax*		41,555,409	41,555,409	100.0%	100,200,794	144,622,221	44,421,427	44.3%
Gaming Tax	39,375	26,977	(12,398)	-31.5%	4,291,293	2,675,997	(1,615,296)	-37.6%
Lottery								
Cigarette & Tobacco Tax	1,976,137	2,099,073	122,936	6.2%	19,762,373	22,290,095	2,527,723	12.8%
Wholesale Liquor Tax	680,808	687,010	6,202	0.9%	6,232,401	6,897,372	664,971	10.7%
Coal Conversion Tax	1,684,212	1,611,817	(72,395)	-4.3%	13,024,207	11,889,051	(1,135,155)	-8.7%
Mineral Leasing Fees	(9,024,099)	2,137,938	11,162,037	123.7%	19,671,144	12,183,273	(7,487,871)	-38.1%
Departmental Collections	2,821,738	4,097,257	1,275,518	45.2%	29,149,652	31,762,897	2,613,246	9.0%
Interest Income	467,561	202,218	(265,343)	-56.8%	4,304,666	1,834,241	(2,470,424)	-57.4%
State Mill & Elevator-Transfer								
Major Special Fund Transfers					295,000,000	341,790,000	46,790,000	15.9%
Other Transfers	9,675		(9,675)	-100.0%	579,281	845,764	266,484	46.0%
Total Revenues and Transfers	110,343,104	204,175,679	93,832,575	85.0%	1,799,943,378	2,175,870,244	375,926,866	20.9%

* The general fund cap for oil and gas taxes contains two tiers. The first tier of \$200.0 million was reached in October 2013. The next \$341.8 million was deposited into the property tax relief fund. The second tier of \$100.0 million began flowing to the general fund in March 2014, two months earlier than anticipated. 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. 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.

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VARIANCES

March 2014 revenues of \$204.2 million exceeded the forecast by \$27.6 million, or 15.6 percent. Total revenues for the biennium-to-date are \$2.18 billion, or 7.1 percent higher than forecast. Significant variances are as follows:

- **Sales tax** collections for the biennium total \$914.1 million, or 3.2 percent above forecast. Monthly collections of \$79.5 million were 26.3 percent more than anticipated due to monthly timing differences as a result of the new forecast model. Sales tax collections are currently 20.1 percent above the previous biennium and are anticipated to remain strong.
- **Motor vehicle excise tax** collections continue to fall short of the forecast. Actual collections of \$11.1 million were \$2.2 million, or 16.4 percent, below forecast for the month. The biennium-to-date variance is -\$11.8 million. However, current biennium collections exceed the 2011-13 biennium by \$12.1 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 -- \$85.2 million, or 36.9 percent -- due to strong withholding and estimated payments. Collections for the month of \$10.4 million were 10.5 percent higher than anticipated.
- **Corporate income tax** collections were \$8.6 million more than anticipated for the month, bringing the biennium to date variance to \$38.4 million, or 41.8 percent. Despite the significant rate reductions approved by the 2013 legislature, collections through March 2014 total \$130.1 million, which is more than 50.0 higher than during the same time period in the 2011-13 biennium.
- **Insurance Premium Tax** collections totaled \$6.3 million, about \$1.4 million or 29.2 percent higher than the \$4.8 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 \$31.7 million due to higher than anticipated oil prices and production. Oil and gas taxes deposited in the general fund are limited to \$300.0 million for the entire biennium -- an initial \$200.0 million, and then an additional \$100.0 million after the property tax relief sustainability fund reaches its cap. The property tax fund reached its cap in March and, consequently, oil tax moneys once again were deposited into the general fund.