

North Dakota REV-E-NEWS



Pam Sharp, Director

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**OFFICE OF MANAGEMENT AND BUDGET
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MESSAGE FROM THE DIRECTOR

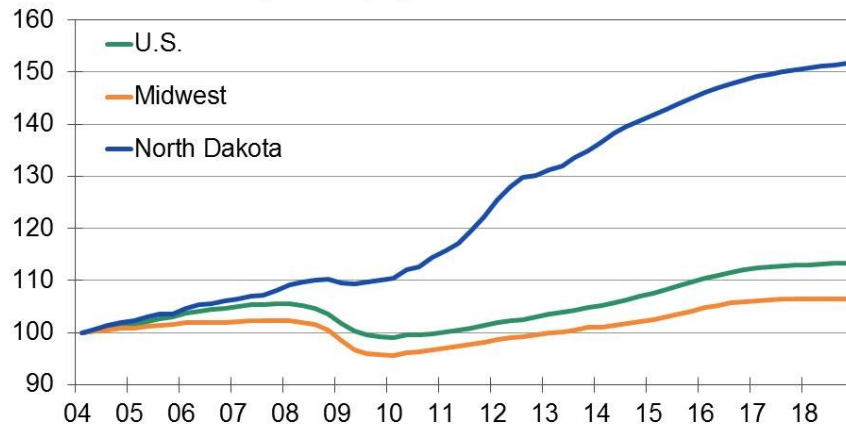
Moody's Analytics predicts that "North Dakota's economy will outperform the nation's for the next several years thanks to a booming energy industry and the positive spillover that it generates," due in large part to faster job creation in the rural areas of the state. According to the June 2014 *U.S. State Précis*, after a slowdown at the beginning of 2014,

"payroll employment is once again rising and growth exceeds that in all other states." Approximately half of North Dakota's jobs and two-fifths of its population are located outside of the state's metro areas.

The farming industry operating in the state's rural areas provides significant support to the state's economy, representing about "8% of output and 13% of income." In 2014, "farm income is down significantly in the state, by more than 50% from a year earlier in the first quarter" and is not expected to return to prior levels in the short term. However, economies in rural areas experiencing lower farm profits will be bolstered by energy-related job creation. As the oil industry shifts from the exploration to production stage, employment in service and other related industries will expand, giving a needed lift to the rural areas in which the industry operates.

Relative Employment Performance

Payroll Employment, 2004Q1=100



Sources: BLS, Moody's Analytics



OIL ACTIVITY



Statistical Information

	June 2014	May 2014	Apr 2014
Actual average price per barrel	\$92.94	\$90.83	\$89.89
Production (barrels/day)	1,092,617	1,040,469	1,003,256
Drilling permits	247	234	233
Producing wells	11,079	10,902	10,665
Rig count	190	189	188

Tax Allocations (in Millions)

	Biennium to Date July 31, 2014
Political subs	\$346.0
Tribes	\$236.1
Legacy fund	926.6
General fund	300.0
Education funds	305.1
Resources trust fund	300.9
Oil and gas impact fund	185.5
Property tax relief fund	341.8
Other allocations	305.6
Total	\$3,247.6

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

Revenues and Transfers	Fiscal Month				Biennium To Date			
	May 2013 <u>Leg. Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>	May 2013 <u>Leg. Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
Sales Tax	118,964,000	120,257,295	1,293,295	1.1%	1,268,047,000	1,332,717,395	64,670,395	5.1%
Motor Vehicle Excise Tax	14,019,000	13,045,163	(973,837)	-6.9%	169,684,000	150,987,122	(18,696,878)	-11.0%
Individual Income Tax	36,755,000	79,701,823	42,946,823	116.8%	419,630,000	594,134,026	174,504,026	41.6%
Corporate Income Tax		987,221	987,221	100.0%	185,092,000	240,391,468	55,299,468	29.9%
Insurance Premium Tax	15,770	558	(15,212)	-96.5%	34,567,250	42,792,503	8,225,253	23.8%
Financial Institutions Tax		15,161	15,161	100.0%		(4,856,285)	(4,856,285)	0.0%
Oil & Gas Production Tax*					146,071,108	146,071,108		0.0%
Oil Extraction Tax*					153,928,892	153,928,892		0.0%
Gaming Tax	212,670	301,436	88,766	41.7%	4,486,620	3,898,471	(588,149)	-13.1%
Lottery					5,500,000	7,200,000	1,700,000	30.9%
Cigarette & Tobacco Tax	2,608,000	2,729,812	121,812	4.7%	31,351,000	32,252,104	901,104	2.9%
Wholesale Liquor Tax	859,000	954,190	95,190	11.1%	10,276,000	10,174,209	(101,791)	-1.0%
Coal Conversion Tax					19,583,000	19,222,236	(360,764)	-1.8%
Mineral Leasing Fees	791,667	1,821,474	1,029,807	130.1%	10,291,671	20,769,532	10,477,861	101.8%
Departmental Collections	1,638,211	1,676,726	38,515	2.4%	38,471,209	42,045,759	3,574,550	9.3%
Interest Income	213,790	70,169	(143,621)	-67.2%	15,047,160	10,917,081	(4,130,079)	-27.4%
State Mill & Elevator-Transfer					3,408,600	3,408,600		0.0%
Major Special Fund Transfers					341,790,000	341,790,000		0.0%
Other Transfers	222,170	222,170		0.0%	1,110,850	1,290,404	179,554	16.2%
Total Revenues and Transfers	176,299,278	221,783,198	45,483,920	25.8%	2,858,336,360	3,149,134,624	290,798,264	10.2%

* 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 was reached in April 2014, two months earlier than anticipated. The general fund will not receive additional allocations this biennium.

Total production and extraction tax collections of \$317.3 million were distributed in July 2014. Through July, \$926.6 million has been deposited into the legacy fund; for a total of \$2.3 billion.

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

Revenues and Transfers	Fiscal Month				Biennium To Date			
	July 2012	July 2014	Variance	Percent	2011-13	2013-15	Variance	Percent
Sales Tax	120,275,054	120,257,295	(17,759)	0.0%	1,151,717,070	1,332,717,395	181,000,325	15.7%
Motor Vehicle Excise Tax	10,855,364	13,045,163	2,189,800	20.2%	133,028,869	150,987,122	17,958,254	13.5%
Individual Income Tax	63,349,646	79,701,823	16,352,177	25.8%	493,345,659	594,134,026	100,788,367	20.4%
Corporate Income Tax	978,805	987,221	8,416	0.9%	199,725,576	240,391,468	40,665,892	20.4%
Insurance Premium Tax	17,808	558	(17,250)	-96.9%	39,046,292	42,792,503	3,746,211	9.6%
Financial Institutions Tax	(201)	15,161	15,362	-7642.8%	3,782,959	(4,856,285)	(8,639,244)	-228.4%
Oil & Gas Production Tax*					146,501,416	146,071,108	(430,308)	-0.3%
Oil Extraction Tax*					112,550,313	153,928,892	41,378,579	36.8%
Gaming Tax	289,720	301,436	11,716	4.0%	6,112,141	3,898,471	(2,213,670)	-36.2%
Lottery					7,000,000	7,200,000	200,000	2.9%
Cigarette & Tobacco Tax	2,331,364	2,729,812	398,448	17.1%	28,939,377	32,252,104	3,312,726	11.4%
Wholesale Liquor Tax	856,152	954,190	98,038	11.5%	9,319,629	10,174,209	854,580	9.2%
Coal Conversion Tax					19,498,126	19,222,236	(275,890)	-1.4%
Mineral Leasing Fees	1,639,103	1,821,474	182,370	11.1%	27,920,814	20,769,532	(7,151,282)	-25.6%
Departmental Collections	982,397	1,676,726	694,329	70.7%	36,593,414	42,045,759	5,452,345	14.9%
Interest Income	113,367	70,169	(43,198)	-38.1%	7,196,725	10,917,081	3,720,356	51.7%
State Mill & Elevator-Transfer					3,822,989	3,408,600	(414,389)	-10.8%
Major Special Fund Transfers					295,000,000	341,790,000	46,790,000	15.9%
Other Transfers	185,625	222,170	36,545	19.7%	1,048,638	1,290,404	241,766	23.1%
Total Revenues and Transfers	201,874,204	221,783,198	19,908,994	9.9%	2,722,150,008	3,149,134,624	426,984,616	15.7%

* The general fund cap for oil and gas taxes contains two tiers. The first tier of \$200.0 million was reached in October 2013. The next \$341.8 million was deposited into the property tax relief fund. The second tier of \$100.0 million was reached in April 2014, two months earlier than anticipated. The general fund will not receive additional allocations this biennium.

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VARIANCES

July 2014 revenues of \$221.8 million were \$45.5 million, or 25.8 percent above forecast. Biennium-to-date revenues total \$3.15 billion, which is \$290.8 million, or 10.2 percent higher than forecast. Significant variances are as follows:

- **Sales tax** collections for the biennium total \$1.33 billion, which is 5.1 percent above forecast. Sales tax collections are currently 15.7 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 \$13.0 million were 6.9 percent, or \$974,000, below forecast for the month. Biennium-to-date collections are 11.0 percent, or \$18.7 million, less than anticipated. However, current biennium collections exceed the 2011-13 biennium by \$18.0 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 -- \$174.5 million, or 41.6 percent. Collections for the month of \$79.7 million were

more than twice what was anticipated. Driving factors behind the increased collections include the state's economic and population growth, as well as the new withholding on royalties

- **Corporate income tax** collections were nearly \$1.0 million more than anticipated for the month. The biennium to date variance is now \$55.3 million, or 29.9 percent above the forecast. Despite the significant rate reductions approved by the 2013 legislature, collections through July 2014 total \$240.4 million, which is 20.4 percent higher than during the same time period in the 2011-13 biennium.
- **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 \$1.0 million for the month and by \$10.5 million for the biennium-to-date.
- **Oil and gas taxes** reached the \$300.0 million biennial cap in April. No additional oil taxes will be deposited in the general fund during the 2013-15 biennium.