

North Dakota REV-E-NEWS



Pam Sharp, Director

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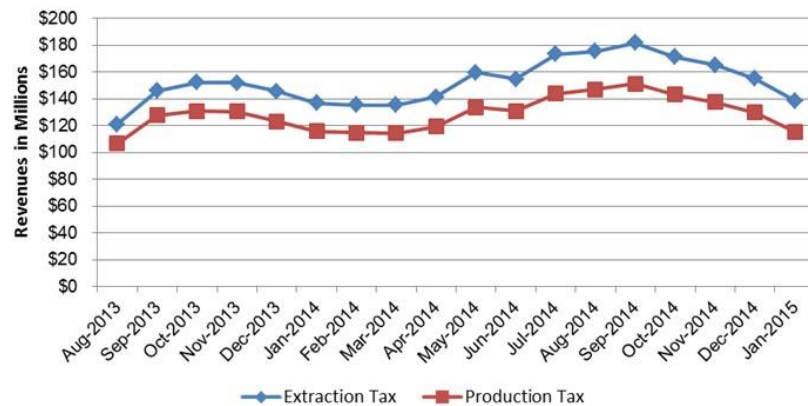
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MESSAGE FROM THE DIRECTOR

Falling oil prices may be good for the average American's pocket book especially at the gas pumps but what effect do the low prices have on oil tax revenues collected at the state level?

As seen in the chart below, oil revenue collections peaked in September 2014 and steadily decreased through January 2015. Oil tax revenue collections in January were \$79.2 million less than collections in September 2014 and \$31 million less than December 2014 collections.

**Oil Tax Revenues
2013-15 Biennium**



North Dakota Century Code provides for two rate reductions on the oil extraction tax if oil prices fall below a certain level. Commonly known as the “big trigger” and the “small trigger”, these triggers provide an incentive for continued oil exploration and production when oil prices are low.

The big trigger, established in 1987, takes effect the

first day of a month following five consecutive months where the average price of a barrel of West Texas Intermediate Cushing (WTI) crude oil is less than the established trigger price. The incentive becomes ineffective after five consecutive months of oil prices being higher than the trigger price. The WTI price at which the incentive becomes effective is \$55.09 for calendar year 2015. The oil extraction tax rate is reduced from 6.5 percent to 0 percent for up to 24 months for all wells within their first 24 months of production and new wells completed after the incentive is triggered on. For wells beyond the first 24 months of production but completed after April 27, 1987, the rate is reduced to 4 percent. This incentive was triggered on from 1987 to 2004 but has been triggered off for the last ten years.

The small trigger, established in 2009, takes effect on the first day of the month following a month for which the average WTI price is less than \$57.50 and becomes ineffective on the first day of the month following a month in which the average WTI price reaches \$72.50. The small trigger reduces the oil extraction tax rate from 6.5 percent to 2 percent on the first 75,000 barrels produced or the first \$4.5 million of gross value during the first 18 months after completion. The small trigger is effective only for wells completed after the incentive is triggered on but before July 1, 2015 when the incentive sunsets. The WTI average price fell below \$57.50 in January 2015 causing this incentive to trigger on. The Tax Department estimates the small trigger will result in a reduction in oil extraction tax revenues of \$100 million.

OIL ACTIVITY



Statistical Information

	Dec 2014	Nov 2014	Oct 2014
Actual average price per barrel	\$47.00	\$64.36	\$71.97
Production (barrels/day)	1,227,344	1,188,258	1,183,515
Drilling permits	251	235	328
Producing wells	12,124	11,951	11,903
Rig count	181	188	191

Tax Allocations (in Millions)

	Biennium to Date Jan 31, 2015
Political subs	\$557.7
Tribes	375.1
Legacy fund	1,568.2
General fund	300.0
Education funds	474.1
Resources trust fund	469.9
Oil and gas impact fund	240.0
Property tax relief fund	341.8
Other allocations	734.0
Total	\$5,060.8

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2013-15 Biennium January 2015

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	131,244,000	115,685,302	(15,558,698)	-11.9%	1,972,597,000	2,021,296,288	48,699,288	2.5%
Motor Vehicle Excise Tax	14,045,000	12,189,581	(1,855,419)	-13.2%	251,353,000	222,549,197	(28,803,803)	-11.5%
Individual Income Tax	63,385,000	51,170,821	(12,214,179)	-19.3%	575,207,000	757,315,398	182,108,398	31.7%
Corporate Income Tax	10,370,000	16,049,442	5,679,442	54.8%	253,823,000	330,109,978	76,286,978	30.1%
Insurance Premium Tax	43,840	121,521	77,681	177.2%	45,164,010	59,928,632	14,764,622	32.7%
Financial Institutions Tax		18,867	18,867			(5,003,456)	(5,003,456)	
Oil & Gas Production Tax*					146,071,108	146,071,108		
Oil Extraction Tax*					153,928,892	153,928,892		
Gaming Tax	465,500	346,932	(118,568)	-25.5%	6,559,040	5,634,326	(924,714)	-14.1%
Lottery					5,500,000	7,200,000	1,700,000	30.9%
Cigarette & Tobacco Tax	2,549,000	2,433,174	(115,826)	-4.5%	46,566,000	48,489,032	1,923,032	4.1%
Wholesale Liquor Tax	832,000	961,957	129,957	15.6%	15,174,000	15,040,957	(133,043)	-0.9%
Coal Conversion Tax	1,586,000	1,472,709	(113,291)	-7.1%	29,079,000	28,251,448	(827,552)	-2.8%
Mineral Leasing Fees	791,667	2,125,176	1,333,509	168.4%	15,041,673	35,624,784	20,583,111	136.8%
Departmental Collections	6,551,980	8,558,264	2,006,284	30.6%	58,035,034	68,334,852	10,299,818	17.7%
Interest Income	726,680	228,708	(497,972)	-68.5%	19,694,770	12,551,126	(7,143,644)	-36.3%
State Mill & Elevator-Transfer					3,408,600	3,408,600		
Major Special Fund Transfers	520,000,000	520,000,000			861,790,000	861,790,000		
Other Transfers	222,170	199,259	(22,911)	-10.3%	1,555,190	1,734,744	179,554	11.5%
Total Revenues and Transfers	752,812,837	731,561,713	(21,251,124)	-2.8%	4,460,547,317	4,774,255,906	313,708,589	7.0%

* 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 \$254.1 million were distributed in January 2015. Through January, \$1.568 billion has been deposited into the legacy fund; for a total balance of \$2.996 billion.

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Previous Biennium Revenues 2013-15 Biennium January 2015

Revenues and Transfers	Fiscal Month				Biennium To Date			
	January 2013	January 2015	Variance	Percent	2011-13	2013-15	Variance	Percent
Sales Tax	109,965,418	115,685,302	5,719,883	5.2%	1,768,262,025	2,021,296,288	253,034,263	14.3%
Motor Vehicle Excise Tax	12,024,444	12,189,581	165,137	1.4%	197,424,613	222,549,197	25,124,583	12.7%
Individual Income Tax	86,956,271	51,170,821	(35,785,451)	-41.2%	704,617,247	757,315,398	52,698,151	7.5%
Corporate Income Tax	12,748,966	16,049,442	3,300,476	25.9%	260,930,863	330,109,978	69,179,115	26.5%
Insurance Premium Tax	49,517	121,521	72,004	145.4%	51,016,131	59,928,632	8,912,501	17.5%
Financial Institutions Tax	(810,894)	18,867	829,761	-102.3%	2,927,583	(5,003,456)	(7,931,039)	-270.9%
Oil & Gas Production Tax*					163,458,104	146,071,108	(17,386,996)	-10.6%
Oil Extraction Tax*					136,541,896	153,928,892	17,386,996	12.7%
Gaming Tax	634,151	346,932	(287,219)	-45.3%	8,935,404	5,634,326	(3,301,078)	-36.9%
Lottery					7,000,000	7,200,000	200,000	2.9%
Cigarette & Tobacco Tax	2,183,245	2,433,174	249,929	11.4%	43,336,656	48,489,032	5,152,375	11.9%
Wholesale Liquor Tax	796,745	961,957	165,213	20.7%	13,968,431	15,040,957	1,072,526	7.7%
Coal Conversion Tax	1,424,384	1,472,709	48,325	3.4%	29,104,575	28,251,448	(853,127)	-2.9%
Mineral Leasing Fees	1,888,122	2,125,176	237,054	12.6%	33,327,924	35,624,784	2,296,860	6.9%
Departmental Collections	7,149,274	8,558,264	1,408,990	19.7%	58,572,346	68,334,852	9,762,507	16.7%
Interest Income	405,914	228,708	(177,206)	-43.7%	9,818,326	12,551,126	2,732,800	27.8%
State Mill & Elevator-Transfer					3,822,989	3,408,600	(414,389)	-10.8%
Major Special Fund Transfers	305,000,000	520,000,000	215,000,000	100.0%	600,000,000	861,790,000	261,790,000	43.6%
Other Transfers	242,542	199,259	(43,282)	-17.8%	1,498,362	1,734,744	236,382	15.8%
Total Revenues and Transfers	540,658,098	731,561,713	190,903,615	35.3%	4,094,563,475	4,774,255,906	679,692,431	16.6%

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VARIANCES

January 2015 revenues of \$731.6 million were \$21.3 million, or 2.8 percent below forecast. Biennium-to-date revenues total \$4.77 billion, which is \$313.7 million, or 7.0 percent, higher than forecast. Significant monthly variances are as follows:

- **Sales tax** collections of \$115.7 million are \$15.6 million, or 11.9 percent, less than anticipated for the month. The variance falls to \$1.0 million when compared to the November 2014 executive forecast. Biennium to date collections total \$2.02 billion, which is 2.5 percent above forecast and 14.3 percent higher than the previous biennium.
- **Motor vehicle excise tax** collections of \$12.2 million were 13.2 percent, or \$1.9 million, below the forecast for the month. Biennium-to-date collections are 11.5 percent, or \$28.8 million, less than anticipated. While current biennium collections fall short of expectations, the collections do exceed the 2011-13 biennium by \$25.1 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 -- \$182.1 million, or 31.7 percent. In January, tax collections of approximately \$40.0 million were set aside in the refund reserve account. As a result, monthly general fund collections of \$51.2 million were \$12.2 million, or 19.3 percent, less than anticipated. 2013-15 collections to date total \$757.3 million, which is 7.5 percent above the same time period in 2011-13.
- **Corporate income tax** collections for the current biennium total \$330.1 million, which exceeds the forecast by \$76.3 million, or 30.1 percent. Monthly collections based on estimated payments were \$16.0 million, which is \$5.7 million more than anticipated. Despite the significant rate reductions approved by the 2013 legislature, collections are 26.5 percent higher than during the same time period in the 2011-13 biennium.
- **Mineral leasing fees** collections continue to exceed the forecast – by \$1.3 million for the month and by \$20.6 million for the biennium-to-date. These revenues are received from the federal government for leasing mineral rights and extracting minerals on federal lands located in the state. Timing of payments is determined entirely by the federal government activities, which can lead to monthly variances.
- **Department collections** total \$8.6 million for the month, which exceeds the forecast by \$2.0 million. Timing differences from early receipt of building rents (OMB) and telecommunication taxes comprise \$1.2 million of the variance. Increases in the number of agents and security registration filing fees generated another \$700,000 of the variance. Biennium-to-date, departmental collections are \$68.3 million, which is \$10.3 million, or 17.7 percent, more than forecast.
- **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.