

North Dakota REV-E-NEWS



Pam Sharp, Director

December 2015

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

MESSAGE FROM THE DIRECTOR

ECONOMIC INDICATORS

National

Consumer Prices - The 12-month percent change in the non-seasonally adjusted consumer price index (CPI), as reported by the Bureau of Labor Statistics, was 1.4% in 2015, which is a decrease from the 2014 annual average change of 1.6%. Projections indicate the annual percent change for 2016 will be 2.0%.

Money Markets – The average yield on a three-month Treasury bill is currently .02%. Rates have remained below 20 basis points since June of 2009. *Moody's* expects three month T-bill rates to average between 0.03% and .40% in 2015 and 2016, but increase to 3.0% and above for 2018 and 2019. *Moody's* predicts that the prime rate, which has not gone above 3.3% since 2009, will average 3.3% for 2015 and 3.7% for 2016.

Personal Income – Personal income, as reported by *Moody's* in inflation-adjusted 2005 dollars, grew by 3.0% during 2014. *Moody's* predicts personal income growth will average 4.0% during 2015 and 3.8% in 2016.

Commodity Prices – Agricultural prices rose by an average of 1.4 % during 2014, the result of a 12.2% reduction in crop prices and an 18.2% increase in livestock prices. After a projected

decrease of 5.9% in 2015, the *Moody's* outlook provides for a 0.1% increase in 2016.

Local

Unemployment – North Dakota's non-seasonally adjusted unemployment rate in October 2015 remains among the lowest in the nation at only 2.0%. The national average unemployment rate decreased slightly to 4.8% in October.

Employment Growth – Nationally, according to State Policy Reports (S/P/R), the employment growth rate from August 2014 to August 2015 was 1.9%. North Dakota's employment growth rate had a decrease by 0.70% during that same time period.

Personal Income – S/P/R reported that between the second quarters of 2014 and 2015, North Dakota's personal income had a negative growth by 0.70%. The national average during the same period grew by 4.1%.

Revenue Forecast Update

Moody's Analytics and the Office of Management and Budget have begun the process for developing an updated revenue forecast. The updated forecast is expected to be completed in late January 2016. The new revenue forecast will be the first step in dealing with a potential revenue shortfall for the biennium.

OIL ACTIVITY



Statistical Information

	Oct 2015	Sept 2015	Aug 2015
Actual average price per barrel	\$39.09	\$36.98	\$34.69
Production (barrels/day)	1,168,950	1,162,159	1,187,631
Drilling permits	152	154	153
Producing wells	13,174	13,036	13,031
Rig count	65	71	74

Tax Allocations (in Millions)

	Biennium to Date Nov 30, 2015
Political subs	\$ 112.5
Tribes	46.7
Legacy fund	170.5
General fund	157.9
Education funds	52.1
Resources trust fund	49.3
Oil and gas impact fund	13.0
Property tax relief fund	0.0
Other allocations	13.2
Total	\$615.2

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Legislative Forecast
2015-17 Biennium
November 2015

Revenues and Transfers	Fiscal Month				Biennium To Date			
	May 2015 Leg. Forecast	Actual	Variance	Percent	May 2015 Leg. Forecast	Actual	Variance	Percent
Sales Tax	141,552,000	91,321,625	(50,230,375)	-35.5%	616,556,000	453,197,454	(163,358,546)	-26.5%
Motor Vehicle Excise Tax	11,774,000	7,979,629	(3,794,371)	-32.2%	64,568,000	49,219,445	(15,348,555)	-23.8%
Individual Income Tax	7,355,000	25,990,466	18,635,466	253.4%	126,340,000	153,613,560	27,273,560	21.6%
Corporate Income Tax	5,267,000	548,850	(4,718,150)	-89.6%	24,758,000	16,810,248	(7,947,752)	-32.1%
Insurance Premium Tax	9,867,970	8,435,141	(1,432,829)	-14.5%	13,227,950	13,464,695	236,745	1.8%
Financial Institutions Tax				-100.0%		244,614	244,614	-100.0%
Oil & Gas Production Tax*	12,291,835	12,291,835			64,452,734	64,452,735	0	0.0%
Oil Extraction Tax*	19,977,072	19,977,072			93,478,510	93,478,510	(0)	0.0%
Gaming Tax	490,390	568,058	77,668	15.8%	1,828,280	1,569,777	(258,503)	-14.1%
Lottery								
Cigarette & Tobacco Tax	2,518,000	2,558,276	40,276	1.6%	13,357,000	13,448,134	91,134	0.7%
Wholesale Liquor Tax	760,000	761,813	1,813	0.2%	3,904,000	4,040,827	136,827	3.5%
Coal Conversion Tax	1,506,000	1,809,626	303,626	20.2%	6,392,000	7,906,103	1,514,103	23.7%
Mineral Leasing Fees	819,488	1,025,946	206,458	25.2%	4,097,440	7,742,652	3,645,212	89.0%
Departmental Collections	2,176,734	2,698,343	521,609	24.0%	12,808,055	14,150,238	1,342,183	10.5%
Interest Income	222,010	285,354	63,344	28.5%	1,038,940	1,130,466	91,526	8.8%
State Mill & Elevator-Transfer								
Major Special Fund Transfers					657,000,000	657,000,000	0	0.0%
Other Transfers				100.0%	507,624	572,828	65,204	12.8%
Total Revenues and Transfers	216,577,499	176,252,034	(40,325,465)	-18.6%	1,704,314,534	1,552,042,286	(152,272,248)	-8.9%

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Previous Biennium Revenues
2015-17 Biennium
November 2015

Revenues and Transfers	Fiscal Month				Biennium To Date			
	November <u>2013</u>	November <u>2015</u>	<u>Variance</u>	<u>Percent</u>	<u>2013-15</u>	<u>2015-17</u>	<u>Variance</u>	<u>Percent</u>
Sales Tax	92,962,162	91,321,625	(1,640,537)	-1.8%	530,662,610	453,197,454	(77,465,156)	-14.6%
Motor Vehicle Excise Tax	10,306,435	7,979,629	(2,326,806)	-22.6%	55,673,511	49,219,445	(6,454,066)	-11.6%
Individual Income Tax	11,134,037	25,990,466	14,856,429	133.4%	194,997,053	153,613,560	(41,383,493)	-21.2%
Corporate Income Tax	5,986,992	548,850	(5,438,143)	-90.8%	55,094,633	16,810,248	(38,284,385)	-69.5%
Insurance Premium Tax	9,942,742	8,435,141	(1,507,601)	-15.2%	13,328,190	13,464,695	136,505	1.0%
Financial Institutions Tax	(22,537)		22,537	-100.0%	(3,192,924)	244,614	3,437,538	-107.7%
Oil & Gas Production Tax*		12,291,835	12,291,835		96,933,188	64,452,735	(32,480,453)	-33.5%
Oil Extraction Tax*		19,977,072	19,977,072		103,066,812	93,478,510	(9,588,302)	-9.3%
Gaming Tax	491,665	568,058	76,393	15.5%	1,833,024	1,569,777	(263,247)	-14.4%
Lottery								
Cigarette & Tobacco Tax	2,654,258	2,558,276	(95,982)	-3.6%	13,310,455	13,448,134	137,679	1.0%
Wholesale Liquor Tax	844,341	761,813	(82,528)	-9.8%	4,012,720	4,040,827	28,107	0.7%
Coal Conversion Tax	1,540,002	1,809,626	269,624	17.5%	5,660,235	7,906,103	2,245,868	39.7%
Mineral Leasing Fees	1,425,333	1,025,946	(399,387)	-28.0%	12,808,330	7,742,652	(5,065,678)	-39.5%
Departmental Collections	2,580,390	2,698,343	117,953	4.6%	13,958,724	14,150,238	191,514	1.4%
Interest Income	210,190	285,354	75,164	35.8%	982,816	1,130,466	147,650	15.0%
State Mill & Elevator-Transfer								
Major Special Fund Transfers					341,790,000	657,000,000	315,210,000	92.2%
Other Transfers	7,653		(7,653)	-100.0%	623,594	572,828	(50,766)	-8.1%
Total Revenues and Transfers	140,063,664	176,252,034	36,188,370	25.8%	1,441,542,971	1,552,042,286	110,499,314	7.7%

VARIANCES

November 2015 revenues totaled \$176.3 million, which is \$40.4 million, or 18.6 percent below forecast. Biennium-to-date revenues of \$1.55 billion are \$152.3 million, or 8.9 percent, less than projected. When transfers from the tax relief fund are excluded, 2015-17 revenues to date are tracking 18.6 percent behind the same time period in the 2013-15 biennium. Significant monthly variances are as follows:

- **Sales tax** collections of \$91.3 million were \$50.2 million, or 35.5 percent, less than anticipated for the month due in large part to low oil prices and reduced rig counts. Additionally, as oil company operations become more efficient, the need for taxable good and services decreases. Biennium-to-date revenues are 26.5 percent below forecast.
- **Motor vehicle excise tax** collections of \$8.0 million were 32.2 percent, or \$3.8 million, below the forecast for the month. Total revenues to date of \$49.2 million are 23.8 percent behind projections and 11.6 percent less than the same period in the 2013-15 biennium. It appears that this variance is related to low oil prices and more efficient oil production operations.
- **Individual income tax** collections totaling \$26.0 million were above the monthly

projection by \$18.6 million, or 253.4 percent. Biennium to date collections of \$153.6 million exceed the forecast by \$27.3 million, or 21.6 percent. Tax rate reductions and above average set-aside for refund reserves resulted in collections that were 21.2 percent lower than the same five-month period in the 2013-15 biennium.

- **Corporate income tax** collections of \$548,850 were 89.6 percent, or \$4.7 million, below the forecast for the month due to additional transfers to refund reserves to facilitate pending refunds. Total revenues to date of \$16.8 million are 32.1 percent behind projections and 69.5 percent less than the same period in the 2013-15 biennium.
- **Oil and gas taxes** were \$10.7 million lower than the monthly forecast due to low oil prices. However, for 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. Monthly variances affect the time frame during which the general fund receives its share of oil taxes, but does not impact the total biennial collections.