

# North Dakota REV-E-NEWS



**Pam Sharp, Director**

**March 2016**

**OFFICE OF MANAGEMENT AND BUDGET**

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## MESSAGE FROM THE DIRECTOR

Moody's Analytics, in its February 2016 *Précis*, concluded that "the weight of the historic drop in oil prices has finally pulled North Dakota into a full-blown recession." Noting that North Dakota's oil boom has come to an end, Moody's predicts that the state will underperform the nation for the next several years but should "re-emerge from the recession by the end of 2016" when oil prices return to more profitable levels.

Drilling activity has fallen to 2009 levels resulting in job losses that could not readily be absorbed in other economies. While the state's three metro areas experienced a net increase of 3,500 jobs in 2015 the rest of the state lost over 22,000 jobs in the same time period. Moody's indicates that the labor force appears to have stopped shrinking and average hourly earnings are beginning to accelerate. Moody's predicts that "metro areas will take on greater importance in the outlook as they welcome more displaced oil field workers."

Moody's notes that housing prices continue to increase but at "a slower than average pace"

in nine years, causing homebuilding numbers to fall to a six-year low. Moody's predicts that commercial construction should "hold up relatively well" during the downturn in oil prices and may even have a chance to catch-up. However, if oil prices remain materially below \$40 per barrel into the second half of 2016, construction could fall off more sharply along with overall job growth.

The outlook for agriculture indicates that a strong dollar, weak foreign demand, and ample supplies will result in low farm income for at least another year. Moody's predicts that most North Dakota farmers can "weather the storm because current weakness comes after several of the most prosperous years on record." However, Moody's does note that manufacturing and many other agriculture-related industries could have "a rough go of it" into at least 2017.

Moody's February 2016 *Précis* includes the following economic indicators:

Indicator:	2013	2014	2015	2016	2017	2018
Gross state product (C09\$ bil)	45.4	48.2	50.0	51.6	54.8	57.4
Total employment (ths)	444	462	462	456	462	470
Unemployment rate	2.9%	2.7%	2.9%	2.7%	2.5%	2.5%
Personal income growth	1.3%	4.8%	(2.0%)	0.9%	5.9%	7.2%
Population (ths)	724	740	757	765	772	779
Single-family permits	3,899	4,531	1,990	2,693	3,634	4,330
FHFA house price (1980Q1=100)	307	330	349	352	352	352

## OIL ACTIVITY



### Statistical Information

	Jan 2016	Dec 2015	Nov 2015
Actual average price per barrel	\$24.07	\$29.95	\$36.20
Production (barrels/day)	1,122,100	1,152,696	1,181,787
Drilling permits	78	95	125
Producing wells	13,129	13,128	13,100
Rig count	52	64	64

### Tax Allocations (in Millions)

	Biennium to Date Feb 29, 2016
Political subs	\$ 180.4
Tribes	77.1
Legacy fund	281.5
General fund	200.0
Education funds	87.4
Resources trust fund	84.0
Oil and gas impact fund	23.1
Tax relief fund	61.3
Other allocations	20.5
<b>Total</b>	<b>\$1,015.3</b>

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS  
Compared to the January 2016 Revised Forecast <sup>/1</sup>  
2015-17 Biennium  
February 2016

Revenues and Transfers	Fiscal Month				Biennium To Date			
	January 2016 Rev. Forecast	Actual	Variance	Percent	January 2016 Rev. Forecast /1	Actual	Variance	Percent
Sales Tax	110,242,000	75,471,822	(34,770,178)	-31.5%	717,607,000	681,189,565	(36,417,435)	-5.1%
Motor Vehicle Excise Tax	7,835,000	7,424,627	(410,373)	-5.2%	75,489,000	73,999,135	(1,489,865)	-2.0%
Individual Income Tax	7,483,000	26,558,579	19,075,579	254.9%	197,150,000	215,088,655	17,938,655	9.1%
Corporate Income Tax	1,900,000	3,391,767	1,491,767	78.5%	36,857,000	38,233,329	1,376,329	3.7%
Insurance Premium Tax	9,818,340	18,273,487	8,455,147	86.1%	27,601,822	36,169,809	8,567,986	31.0%
Financial Institutions Tax					244,614	253,363	8,749	100.0%
Oil & Gas Production Tax*					83,379,176	83,379,177		0.0%
Oil Extraction Tax*					116,620,823	116,620,823		0.0%
Gaming Tax	501,470	544,804	43,334	8.6%	2,412,578	2,457,608	45,031	1.9%
Lottery								
Cigarette & Tobacco Tax	2,220,000	1,920,910	(299,090)	-13.5%	20,666,051	19,976,115	(689,936)	-3.3%
Wholesale Liquor Tax	600,000	518,250	(81,750)	-13.6%	6,147,136	6,124,826	(22,309)	-0.4%
Coal Conversion Tax	1,702,000	1,774,559	72,559	4.3%	13,067,796	13,404,051	336,255	2.6%
Mineral Leasing Fees	819,488	1,207,309	387,821	47.3%	9,981,412	10,705,589	724,177	7.3%
Departmental Collections	2,050,883	3,024,049	973,166	47.5%	25,084,438	28,264,660	3,180,222	12.7%
Interest Income	215,445	210,491	(4,954)	-2.3%	1,769,589	1,720,362	(49,227)	-2.8%
State Mill & Elevator-Transfer								
Major Special Fund Transfers					657,000,000	657,000,000		0.0%
Other Transfers		(10)	(10)	-100.0%	826,640	836,557	9,917	1.2%
Total Revenues and Transfers	145,387,626	140,320,643	(5,066,983)	-3.5%	1,991,905,077	1,985,423,626	(6,481,452)	-0.3%

/1 The January 2016 revised revenue forecast includes legislative estimates through December 31, 2015  
\* The general fund cap for oil and gas taxes contains two tiers. The first tier of \$200.0 million was reached in January 2016. Additional oil taxes will flow to the tax relief fund until that fund receives \$300 million, after which time the general fund will receive an additional \$100.0 million.

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS  
Compared to the Previous Biennium Revenues  
2015-17 Biennium  
February 2016

Revenues and Transfers	Fiscal Month				Biennium To Date			
	February 2014	February 2016	Variance	Percent	2013-15	2015-17	Variance	Percent
Sales Tax	87,441,042	75,471,822	(11,969,220)	-13.7%	834,619,567	681,189,565	(153,430,002)	-18.4%
Motor Vehicle Excise Tax	9,761,020	7,424,627	(2,336,393)	-23.9%	88,865,045	73,999,135	(14,865,910)	-16.7%
Individual Income Tax	4,180,815	26,558,579	22,377,763	535.2%	305,762,506	215,088,655	(90,673,851)	-29.7%
Corporate Income Tax	2,924,520	3,391,767	467,247	16.0%	101,478,980	38,233,329	(63,245,651)	-62.3%
Insurance Premium Tax	9,892,733	18,273,487	8,380,754	84.7%	24,563,996	36,169,809	11,605,812	47.2%
Financial Institutions Tax	15,693		(15,693)	-100.0%	(4,901,930)	253,363	5,155,293	-105.2%
Oil & Gas Production Tax*					96,933,188	83,379,177	(13,554,011)	-14.0%
Oil Extraction Tax*					103,066,812	116,620,823	13,554,011	13.2%
Gaming Tax	502,774	544,804	42,031	8.4%	2,649,020	2,457,608	(191,411)	-7.2%
Lottery		0						
Cigarette & Tobacco Tax	2,145,871	1,920,910	(224,962)	-10.5%	20,191,022	19,976,115	(214,907)	-1.1%
Wholesale Liquor Tax	633,647	518,250	(115,397)	-18.2%	6,210,362	6,124,826	(85,536)	-1.4%
Coal Conversion Tax	1,531,428	1,774,559	243,131	15.9%	10,277,234	13,404,051	3,126,817	30.4%
Mineral Leasing Fees	1,030,972	1,207,309	176,337	17.1%	10,045,335	10,705,589	660,254	6.6%
Departmental Collections	2,539,827	3,024,049	484,222	19.1%	27,665,641	28,264,660	599,019	2.2%
Interest Income	203,900	210,491	6,591	3.2%	1,632,023	1,720,362	88,339	5.4%
State Mill & Elevator-Transfer								
Major Special Fund Transfers					341,790,000	657,000,000	315,210,000	92.2%
Other Transfers		(10)	(10)	-100.0%	845,764	836,557	(9,207)	-1.1%
Total Revenues and Transfers	122,804,243	140,320,643	17,516,401	14.3%	1,971,694,566	1,985,423,626	13,729,060	0.7%

\* The general fund cap for oil and gas taxes contains two tiers. The first tier of \$200.0 million was reached in January 2016. Additional oil taxes will flow to the tax relief fund until that fund receives \$300 million, after which time the general fund will receive an additional \$100.0 million.

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS  
Compared to the Legislative Forecast  
2015-17 Biennium  
February 2016

Revenues and Transfers	Fiscal Month				Biennium To Date			
	May 2015 Leg. Forecast	Actual	Variance	Percent	May 2015 Leg. Forecast	Actual	Variance	Percent
Sales Tax	144,143,000	75,471,822	(68,671,178)	-47.6%	976,416,000	681,189,565	(295,226,435)	-30.2%
Motor Vehicle Excise Tax	11,296,000	7,424,627	(3,871,373)	-34.3%	101,595,000	73,999,135	(27,595,865)	-27.2%
Individual Income Tax	9,416,000	26,558,579	17,142,579	182.1%	209,465,000	215,088,655	5,623,655	2.7%
Corporate Income Tax	3,195,000	3,391,767	196,767	6.2%	69,395,000	38,233,329	(31,161,671)	-44.9%
Insurance Premium Tax	9,818,340	18,273,487	8,455,147	86.1%	24,379,260	36,169,809	11,790,549	48.4%
Financial Institutions Tax						253,363	253,363	100.0%
Oil & Gas Production Tax*					83,379,176	83,379,177		0.0%
Oil Extraction Tax*					116,620,823	116,620,823		0.0%
Gaming Tax	501,470	544,804	43,334	8.6%	2,642,160	2,457,608	(184,552)	-7.0%
Lottery								
Cigarette & Tobacco Tax	2,220,000	1,920,910	(299,090)	-13.5%	20,779,000	19,976,115	(802,885)	-3.9%
Wholesale Liquor Tax	600,000	518,250	(81,750)	-13.6%	6,127,000	6,124,826	(2,174)	0.0%
Coal Conversion Tax	1,702,000	1,774,559	72,559	4.3%	11,283,000	13,404,051	2,121,051	18.8%
Mineral Leasing Fees	819,488	1,207,309	387,821	47.3%	6,555,904	10,705,589	4,149,685	63.3%
Departmental Collections	2,050,883	3,024,049	973,166	47.5%	23,928,677	28,264,660	4,335,983	18.1%
Interest Income	215,445	210,491	(4,954)	-2.3%	1,724,420	1,720,362	(4,058)	-0.2%
State Mill & Elevator-Transfer								
Major Special Fund Transfers					657,000,000	657,000,000		0.0%
Other Transfers		(10)	(10)	100.0%	761,436	836,557	75,121	9.9%
Total Revenues and Transfers	185,977,626	140,320,643	(45,656,983)	-24.5%	2,312,051,857	1,985,423,626	(326,628,231)	-14.1%

\* The general fund cap for oil and gas taxes contains two tiers. The first tier of \$200.0 million was reached in January 2016. Additional oil taxes will flow to the tax relief fund until that fund receives \$300 million, after which time the general fund will receive an additional \$100.0 million.

## VARIANCES (compared to January 2016 revised forecast)

February 2016 revenues totaled \$140.3 million, which is \$5.1 million, or 3.5 percent below forecast. Biennium-to-date revenues of \$1.99 billion are \$6.5 million, or .3 percent, less than projected. When transfers from the tax relief fund are excluded, 2015-17 revenues to date are tracking 18.5 percent behind the same time period in the 2013-15 biennium. Significant monthly variances are as follows:

- **Sales tax** collections of \$75.5 million were \$34.8 million, or 31.5 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 goods and services decreases. Biennium-to-date revenues are 5.1 percent below forecast.
- **Individual income tax** collections totaling \$26.6 million exceeded the monthly projection by \$19.1 million, or 254.9 percent due to a strong start to the filing season and strong estimated payments. Biennium to date collections of \$215.1 million are \$17.9 million, or 9.1 percent, above the forecast. Tax rate reductions and above average set-aside for refund reserves resulted in collections that were 29.7 percent lower than the same eight-month period in the 2013-15 biennium.
- **Insurance premium tax** collections totaling \$18.3 million exceeded the monthly projection by \$8.5 million, or 86.1 percent, as a result of timing differences in the receipt of estimated premium payments. Collections for the current biennium-to-date total \$36.2 million, which is \$8.6 million, or 31.0 percent, higher than anticipated.
- **Oil and gas taxes** collections reached \$200.0 million in January—the first tier of the biennial cap. The state share will be deposited in the tax relief fund until that fund reaches its cap of \$300.0 million, after which the general fund will receive an additional \$100.0 million.

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