

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

In February 2016 Moody's Analytics announced that North Dakota was in a full-blown recession. In its June 2016 *Précis*, Moody's continues to classify North Dakota's business cycle status as "in recession." However, the recession is easing. According to Moody's, job numbers appear to have bottomed out and average hourly earnings are advancing faster than inflation.

If rebounding in oil prices continues, Moody's predicts North Dakota could recover in earnest during the first half of 2017. Moody's notes that once reinvestment in the Bakken comes back, production can be ramped up quickly. This is due in large part to a significant backlog of unfinished wells that can be fracked and brought on line quickly.

While the oil outlook is slowly improving, a strong dollar and weak global growth continue

to constrain the growth of the agriculture industry in the state. These constraints are expected to continue into next year before improvements are seen towards the end of the year. Moody's said farm proprietors' income has fallen from \$3.5 billion in 2012 to \$318 million in 2015. This decline of over 90 percent puts farm earnings at their lowest level since 1997.

Residential construction continues to be weak compared to commercial and public projects. Moody's notes that housing "may be turning a corner" as house prices continue to appreciate and housing starts may have established a new floor which is well ahead of pre-boom levels.

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

Indicator:	2013	2014	2015	2016	2017	2018
Gross state product (C09\$ bil)	46.3	49.5	49.3	49.7	52.6	55.0
Total employment (ths)	444	461	454	442	446	452
Unemployment rate	2.9	2.7	2.7	2.9	2.6	2.4
Personal income growth	1.3	4.8	(0.2)	(0.9)	5.0	6.8
Population (ths)	724	740	757	765	772	779
Single-family permits	3,899	4,531	1,990	1,665	2,995	4,010
FHFA house price (1980Q1=100)	307	330	350	360	361	361

OIL ACTIVITY

Statistical Information



	June 2016	May 2016	Apr 2016
Actual average price per barrel	\$41.64	\$38.50	\$33.61
Production (barrels/day)	1,026,584	1,047,003	1,041,981
Drilling permits	65	42	66
Producing wells	13,239	13,171	13,054
Rig count	28	27	29

Tax Allocations (in Millions)

	Biennium to Date July 31, 2016
Political subs	\$ 273.5
Tribes	108.3
Legacy fund	413.5
General fund	200.0
Education funds	125.2
Resources trust fund	121.6
Oil and gas impact fund	30.7
Tax relief fund	185.4
Other allocations	28.3
Total	\$1,486.5

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the July 2016 Revised Forecast ^{/1} 2015-17 Biennium July 2016

Revenues and Transfers	Fiscal Month				Biennium To Date			
	July 2016 Rev. Forecast	Actual	Variance	Percent	July 2016 Rev. Forecast /1	Actual	Variance	Percent
Sales Tax ^{/2}	65,539,000	65,277,703	(261,297)	-0.4%	990,908,574	990,647,277	(261,297)	0.0%
Motor Vehicle Excise Tax	8,063,000	8,371,141	308,141	3.8%	114,395,785	114,703,926	308,141	0.3%
Individual Income Tax	28,859,000	30,135,404	1,276,404	4.4%	382,796,749	384,073,153	1,276,404	0.3%
Corporate Income Tax		435,149	435,149	100.0%	97,580,800	98,015,949	435,149	0.4%
Insurance Premium Tax	550	50	(500)	-90.9%	55,575,923	55,575,423	(500)	0.0%
Financial Institutions Tax		223,439	223,439	100.0%	324,145	547,584	223,439	68.9%
Oil & Gas Production Tax*					83,379,177	83,379,177		
Oil Extraction Tax*					116,620,823	116,620,823		
Gaming Tax	300,660	15,573	(285,087)	-94.8%	3,757,715	3,472,628	(285,087)	-7.6%
Lottery					9,580,000	9,580,000		
Cigarette & Tobacco Tax	2,503,000	2,568,477	65,477	2.6%	31,552,715	31,618,192	65,477	0.2%
Wholesale Liquor Tax	843,000	951,082	108,082	12.8%	9,868,988	9,977,070	108,082	1.1%
Coal Conversion Tax					22,189,976	22,189,976		
Mineral Leasing Fees	819,488	1,196,132	376,644	46.0%	14,621,064	14,997,707	376,644	2.6%
Departmental Collections	1,646,036	1,127,159	(518,877)	-31.5%	43,290,556	42,771,679	(518,877)	-1.2%
Interest Income	183,265	112,815	(70,450)	-38.4%	12,566,636	12,496,186	(70,450)	-0.6%
State Mill & Elevator-Transfer					4,434,894	4,434,894		
Major Special Fund Transfers					657,000,000	657,000,000		
Other Transfers	253,812	253,812			1,344,966	1,344,966		
Total Revenues and Transfers	109,010,811	110,667,936	1,657,125	1.5%	2,651,789,484	2,653,446,610	1,657,125	0.1%

/1 The July 2016 revised revenue forecast includes actual revenues through June 30, 2016, and revised estimates for the remainder of the biennium.

/2 The amount shown for actual sales tax revenues includes collection from an audit finding.

* 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 \$300.0 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 July 2016

Revenues and Transfers	Fiscal Month				Biennium To Date			
	July 2014	July 2016	Variance	Percent	2013-15	2015-17	Variance	Percent
Sales Tax	120,257,295	65,277,703	(54,979,592)	-45.7%	1,332,717,395	990,647,277	(342,070,118)	-25.7%
Motor Vehicle Excise Tax	13,045,163	8,371,141	(4,674,022)	-35.8%	150,987,122	114,703,926	(36,283,196)	-24.0%
Individual Income Tax	79,701,823	30,135,404	(49,566,419)	-62.2%	594,134,026	384,073,153	(210,060,873)	-35.4%
Corporate Income Tax	987,221	435,149	(552,072)	-55.9%	240,391,468	98,015,949	(142,375,519)	-59.2%
Insurance Premium Tax	558	50	(508)	-91.0%	42,792,503	55,575,423	12,782,920	29.9%
Financial Institutions Tax	15,161	223,439	208,278	1373.8%	(4,856,285)	547,584	5,403,869	-111.3%
Oil & Gas Production Tax*					146,071,108	83,379,177	(62,691,931)	-42.9%
Oil Extraction Tax*					153,928,892	116,620,823	(37,308,069)	-24.2%
Gaming Tax	301,436	15,573	(285,863)	-94.8%	3,898,471	3,472,628	(425,843)	-10.9%
Lottery					7,200,000	9,580,000	2,380,000	33.1%
Cigarette & Tobacco Tax	2,729,812	2,568,477	(161,335)	-5.9%	32,252,104	31,618,192	(633,911)	-2.0%
Wholesale Liquor Tax	954,190	951,082	(3,108)	-0.3%	10,174,209	9,977,070	(197,139)	-1.9%
Coal Conversion Tax					19,222,236	22,189,976	2,967,741	15.4%
Mineral Leasing Fees	1,821,474	1,196,132	(625,342)	-34.3%	20,769,532	14,997,707	(5,771,825)	-27.8%
Departmental Collections	1,676,726	1,127,159	(549,567)	-32.8%	42,045,759	42,771,679	725,919	1.7%
Interest Income	70,169	112,815	42,646	60.8%	10,917,081	12,496,186	1,579,104	14.5%
State Mill & Elevator-Transfer					3,408,600	4,434,894	1,026,294	30.1%
Major Special Fund Transfers					341,790,000	657,000,000	315,210,000	92.2%
Other Transfers	222,170	253,812	31,642	14.2%	1,290,404	1,344,966	54,562	4.2%
Total Revenues and Transfers	221,783,198	110,667,936	(111,115,262)	-50.1%	3,149,134,624	2,653,446,610	(495,688,014)	-15.7%

VARIANCES

(Compared to July 2016 Revised Forecast)

July 2016 revenues totaled \$110.7 million, which is \$1.7 million, or 1.5 percent above forecast.

Biennium-to-date revenues of \$2.65 billion are \$1.7 million, or 0.1 percent, higher than projected. When transfers from the tax relief fund are excluded, 2015-17 revenues to date are tracking 28.9 percent behind the same time period in the 2013-15 biennium. Significant monthly variances are as follows:

- **Individual income tax** collections totaling \$30.1 million exceeded the monthly projection by \$1.3 million, or 4.4 percent due to strong estimated payments. Biennium to date collections of \$384.1 million are \$1.3 million, or 0.3 percent, above the forecast. Tax rate reductions and sizeable reductions in taxable royalty payments along with reduced

employment in the oil fields resulted in collections that were 35.4 percent lower than the same thirteen month period in the 2013-15 biennium.

- **Departmental collections** totaling \$1.1 million were \$519,000, or 31.5 percent below forecast due to the timing of receipt of court fees and medical assistance collections. Biennium to date collections are 1.2 percent below forecast and 1.7 percent more than the same time period in the 2013-15 biennium.
- **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 million, after which the general fund will receive an additional \$100.0 million.