

# North Dakota REV-E-NEWS



**Pam Sharp, Director**

**September 2016**

**OFFICE OF MANAGEMENT AND BUDGET**

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## MESSAGE FROM THE DIRECTOR

Although North Dakota is currently in an economic recession due to significant revenue shortfalls, Standard and Poors Global Ratings has determined that the outlook is “stable” and affirmed its AA+ general obligation rating, AA appropriation rating, and A+ moral obligation rating for the state. S&P noted the following positive credit characteristics for North Dakota:

- Manageable size of the general fund structural budget gap;
- Strong executive ability to reduce expenditures;
- Legacy fund, which as of Fiscal Year 2018 may be tapped up to 15% of principal with two-thirds majority vote of the legislature;
- Strong overall liquidity position, with projected strategic investment and improvement fund and legacy fund reserves accounting for 96% of ongoing general fund biennium expenses, or 192% on an annualized basis; and
- Low debt burden with rapid amortization.

Moody's Investor Services has also affirmed North Dakota's Aa1 Issuer Rating, the Aa2 rating on the state's outstanding appropriation-backed debt issued by the North Dakota Building Authority and the North Dakota State Water Commission, and the Aa3 rating on the North Dakota Department of Public Instruction intercept program.

Moody's notes several strengths and challenges related to the credit ratings.

### *Credit Strengths:*

- Conservative state fiscal management practices

- Ample GAAP fund balances and contingency reserves
- Below average debt levels and pension and OPEB liabilities
- Strong lease provisions and history of timely appropriations for debt service

### *Credit Challenges:*

- Economy is in recession due to contraction in the energy sector, and the timing of recovery is uncertain given the limited economic diversification beyond energy and agriculture
- Significant recent revenue declines have created a challenging 28% biennial budget gap
- Subject-to-appropriation payment obligation

Moody's also noted several factors that could lead to rating upgrades or downgrades.

### *Upgrade Factors:*

- Return to stable economic and revenue performance
- Restoration of structural budget balance and maintenance of sufficient reserve to offset the risk of future economic volatility
- Adoption of best financial management practices (formulation of multi-year financial plans)

### *Downgrade Factors:*

- Continued economic deterioration that further decreases revenue expectations
- Additional depletion of reserves beyond current plans
- A move away from conservative fiscal management

## OIL ACTIVITY



### Statistical Information

	July 2016	June 2016	May 2016
Actual average price per barrel	\$38.24	\$41.64	\$38.50
Production (barrels/day)	1,029,507	1,027,131	1,047,003
Drilling permits	86	65	42
Producing wells	13,255	13,248	13,171
Rig count	31	28	27

### Tax Allocations (in Millions)

	Biennium to Date Aug 31, 2016
Political subs	\$ 295.6
Tribes	117.8
Legacy fund	448.8
General fund	200.0
Education funds	135.1
Resources trust fund	131.4
Oil and gas impact fund	34.9
Tax relief fund	220.3
Other allocations	29.9
Total	<b>\$1,613.8</b>

## STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the January 2016 Revised Forecast <sup>/1</sup> 2015-17 Biennium August 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	110,185,000	93,255,120	(16,929,880)	-15.4%	1,101,093,574	1,083,902,397	(17,191,177)	-1.6%
Motor Vehicle Excise Tax	8,308,000	11,402,552	3,094,552	37.2%	122,703,785	126,106,478	3,402,693	2.8%
Individual Income Tax	18,433,000	21,092,105	2,659,105	14.4%	401,229,749	405,165,258	3,935,509	1.0%
Corporate Income Tax	-	266,160	266,160	100.0%	97,580,800	98,282,109	701,309	0.7%
Insurance Premium Tax	3,266,140	4,052,477	786,337	24.1%	58,842,063	59,627,900	785,837	1.3%
Financial Institutions Tax		604,279	604,279	100.0%	324,145	1,151,863	827,718	255.4%
Oil & Gas Production Tax*					83,379,177	83,379,177		
Oil Extraction Tax*					116,620,823	116,620,823		
Gaming Tax	533,430	672,841	139,411	26.1%	4,291,145	4,145,469	(145,675)	-3.4%
Lottery					9,580,000	9,580,000		
Cigarette & Tobacco Tax	2,526,000	2,374,522	(151,478)	-6.0%	34,078,715	33,992,715	(86,000)	-0.3%
Wholesale Liquor Tax	765,000	688,092	(76,908)	-10.1%	10,633,988	10,665,162	31,174	0.3%
Coal Conversion Tax	1,726,000	1,673,041	(52,959)	-3.1%	23,915,976	23,863,017	(52,959)	-0.2%
Mineral Leasing Fees	819,488	1,087,514	268,026	32.7%	15,440,552	16,085,222	644,670	4.2%
Departmental Collections	1,625,456	1,915,030	289,574	17.8%	44,916,012	44,686,709	(229,303)	-0.5%
Interest Income /2	376,842	247,384	(129,458)	-34.4%	12,887,204	12,687,296	(199,908)	-1.6%
State Mill & Elevator-Transfer					4,434,894	4,434,894		
Major Special Fund Transfers					657,000,000	657,000,000		
Other Transfers		(39)	(39)	-100.0%	1,344,966	1,344,928	(39)	0.0%
<b>Total Revenues and Transfers</b>	<b>148,564,356</b>	<b>139,331,079</b>	<b>(9,233,276)</b>	<b>-6.2%</b>	<b>2,800,297,567</b>	<b>2,792,721,416</b>	<b>(7,576,151)</b>	<b>-0.3%</b>

/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 biennium to date amounts shown for interest income revenues have been reduced by \$56,273.35 to reflect an adjustment that was made in June.

\* 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

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

Revenues and Transfers	Fiscal Month				Biennium To Date			
	August 2014	August 2016	Variance	Percent	2013-15	2015-17	Variance	Percent
Sales Tax	94,555,415	93,255,120	(1,300,295)	-1.4%	1,427,272,810	1,083,902,397	(343,370,413)	-24.1%
Motor Vehicle Excise Tax	12,222,272	11,402,552	(819,720)	-6.7%	163,209,394	126,106,478	(37,102,916)	-22.7%
Individual Income Tax	10,925,516	21,092,105	10,166,589	93.1%	605,059,542	405,165,258	(199,894,284)	-33.0%
Corporate Income Tax	745,445	266,160	(479,285)	-64.3%	241,136,913	98,282,109	(142,854,804)	-59.2%
Insurance Premium Tax	3,290,890	4,052,477	761,587	23.1%	46,083,393	59,627,900	13,544,507	29.4%
Financial Institutions Tax		604,279	604,279	100.0%	(4,856,285)	1,151,863	6,008,149	-123.7%
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	534,816	672,841	138,026	25.8%	4,433,286	4,145,469	(287,817)	-6.5%
Lottery		0			7,200,000	9,580,000	2,380,000	33.1%
Cigarette & Tobacco Tax	2,928,033	2,374,522	(553,511)	-18.9%	35,180,137	33,992,715	(1,187,422)	-3.4%
Wholesale Liquor Tax	760,246	688,092	(72,154)	-9.5%	10,934,455	10,665,162	(269,293)	-2.5%
Coal Conversion Tax	1,408,677	1,673,041	264,364	18.8%	20,630,912	23,863,017	3,232,105	15.7%
Mineral Leasing Fees	2,318,601	1,087,514	(1,231,087)	-53.1%	23,088,133	16,085,222	(7,002,911)	-30.3%
Departmental Collections	1,604,004	1,915,030	311,026	19.4%	43,649,764	44,686,709	1,036,945	2.4%
Interest Income	293,973	247,384	(46,590)	-15.8%	11,211,055	12,687,296	1,476,241	13.2%
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		(39)	(39)	-100.0%	1,290,404	1,344,928	54,524	4.2%
<b>Total Revenues and Transfers</b>	<b>131,587,888</b>	<b>139,331,079</b>	<b>7,743,192</b>	<b>5.9%</b>	<b>3,280,722,512</b>	<b>2,792,721,416</b>	<b>(488,001,096)</b>	<b>-14.9%</b>



## VARIANCES

### (Compared to July 2016 Revised Forecast)

August 2016 revenues totaled \$139.3 million, which is \$9.2 million, or 6.2 percent below forecast.

Biennium-to-date revenues of \$2.79 billion are \$7.6 million, or 0.3 percent, lower than projected. When transfers from the tax relief fund are excluded, 2015-17 revenues to date are tracking 27.3 percent behind the same time period in the 2013-15 biennium. Significant monthly variances are as follows:

- **Sales tax** collections of \$93.3 million were \$16.9 million, or 15.4 percent, less than anticipated for the month due in large part to low oil prices and reduced rig counts and low agriculture prices. Biennium-to-date revenues are 1.6 percent below forecast and 24.1 percent less than the same time period in the 2013-15 biennium.
- **Motor vehicle excise tax** collections totaling \$11.4 million were \$3.1 million, or 37.2 percent, more than anticipated for the month due to the implementation of a new system that allowed for the processing of a backlog in

motor vehicle applications. Biennium-to-date collections are 22.7 percent less than the same time period in the 2013-15 biennium.

- **Individual income tax** collections totaling \$21.1 million exceeded the monthly projection by \$2.7 million, or 14.4 percent due to strong estimated payments. Biennium to date collections of \$405.2 million are \$3.9 million, or 1.0 percent, above the forecast. Tax rate reductions and sizeable reductions in taxable royalty payments along with reduced employment in the oil fields have resulted in biennium-to-date collections that were 33.0 percent lower 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.

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