

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

Throughout the year, Moody's Analytics has classified North Dakota's business climate as in recession. In its October 2016 *Précis*, Moody's states "North Dakota is beginning to see its recession in the rearview mirror." Private employment is increasing along with earnings for those with jobs in tight labor markets. However, non-wage income from energy and agriculture remains weak leaving overall personal income below levels from one year ago.

Oil prices are expected to rebound to around \$50 per barrel by the middle of calendar year 2017 which may provide producers with an incentive to bring wells and jobs back online. Moody's notes that oil prices will most likely need to reach \$60 per barrel before drilling will accelerate in earnest. Once oil prices begin to rise, North Dakota has a large inventory of unfinished wells that can be completed quickly.

One of North Dakota's biggest shortfalls is that it has a less diverse economy to fall back on when oil is weak. Its second largest industry, agriculture, has seen its own struggles. Commodity prices have fallen and farm earnings are at their lowest levels since 1997. A strong US dollar has created a disadvantageous exchange rate with Canada resulting in reduced retail and wholesale trade earnings.

Moody's concludes North Dakota will exit its recession by the end of 2016 but recovery will be slow. North Dakota will underperform the nation for several years with any growth not anticipated to accelerate until the end of 2017. The state's metro areas will play a greater role in the outlook due to lower costs and tighter labor markets continuing to draw in displaced oil workers and investments in private services.

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

Indicator	2013	2014	2015	2016	2017	2018
Gross state product (C09\$ bil)	48.5	51.4	50.3	48.5	50.2	51.9
Total employment (ths)	444	461	454	439	445	451
Unemployment rate	2.9%	2.7%	2.7%	3.1%	2.9%	2.7%
Personal income growth	2.1%	6.3%	-1.2%	-2.8%	3.1%	4.7%
Population (ths)	724	740	757	765	772	778
Single-family permits	3,899	4,531	3,440	2,798	3,821	4,225
FHFA house price (1980Q1=100)	307	330	350	360	366	367

OIL ACTIVITY



Statistical Information

	Sept 2016	August 2016	July 2016
Actual average price per barrel	\$37.31	\$37.27	\$38.24
Production (barrels/day)	971,658	982,011	1,029,734
Drilling permits	63	99	86
Producing wells	13,367	13,295	13,265
Rig count	34	32	31

Tax Allocations (in Millions)

	Biennium to Date Oct 31, 2016
Political Subs	\$ 353.0
Tribes	134.6
Legacy Fund	510.6
General Fund	200.0
Education Funds	153.0
Resources Trust Fund	149.2
Oil and Gas Impact Fund	41.5
Tax Relief Fund	262.3
Other Allocations	32.4
Total	\$1,836.6

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the July 2016 Revised Forecast ^{/1} 2015-17 Biennium October 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	91,470,000	75,873,595	(15,596,405)	-17.1%	1,265,210,574	1,227,813,698	(37,396,876)	-3.0%
Motor Vehicle Excise Tax	8,797,000	9,568,502	771,502	8.8%	139,930,785	146,000,290	6,069,505	4.3%
Individual Income Tax	38,239,000	43,361,088	5,122,088	13.4%	450,976,749	459,681,066	8,704,317	1.9%
Corporate Income Tax	3,621,000	3,708,512	87,512	2.4%	101,201,800	104,878,580	3,676,780	3.6%
Insurance Premium Tax	590,150	281,007	(309,143)	-52.4%	60,530,773	61,411,427	880,654	1.5%
Financial Institutions Tax					324,145	1,294,077	969,932	299.2%
Oil & Gas Production Tax*					83,379,177	83,379,177		
Oil Extraction Tax*					116,620,823	116,620,823		
Gaming Tax	288,590	387,560	98,970	34.3%	4,616,245	4,565,275	(50,970)	-1.1%
Lottery					9,580,000	9,580,000		
Cigarette & Tobacco Tax	2,381,000	2,437,465	56,465	2.4%	39,039,715	39,183,199	143,484	0.4%
Wholesale Liquor Tax	708,000	704,879	(3,121)	-0.4%	12,103,988	12,157,026	53,038	0.4%
Coal Conversion Tax	1,710,000	1,901,538	191,538	11.2%	27,382,976	27,534,188	151,212	0.6%
Mineral Leasing Fees	819,488	1,829,896	1,010,408	123.3%	17,079,528	19,059,196	1,979,668	11.6%
Departmental Collections	1,933,858	2,983,160	1,049,302	54.3%	52,324,970	53,719,063	1,394,093	2.7%
Interest Income	527,755	179,973	(347,783)	-65.9%	13,950,379	13,135,024	(815,355)	-5.8%
State Mill & Elevator-Transfer					4,434,894	4,434,894		
Major Special Fund Transfers					657,000,000	657,000,000		
Other Transfers	253,812	255,590	1,778	0.7%	1,598,778	1,602,083	3,304	0.2%
Total	151,339,653	143,472,764	(7,866,889)	-5.2%	3,057,286,297	3,043,049,084	(14,237,213)	-0.5%
Budget Stabilization Fund Transfer		375,000,000				375,000,000		
Total Revenues and Transfers		518,472,764				3,418,049,084		

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

* 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
October 2016

Revenues and Transfers	Fiscal Month				Biennium To Date			
	October <u>2014</u>	October <u>2016</u>	<u>Variance</u>	<u>Percent</u>	<u>2013-15</u>	<u>2015-17</u>	<u>Variance</u>	<u>Percent</u>
Sales Tax	134,233,676	75,873,595	(58,360,081)	-43.5%	1,679,544,064	1,227,813,698	(451,730,366)	-26.9%
Motor Vehicle Excise Tax	12,539,234	9,568,502	(2,970,732)	-23.7%	187,963,218	146,000,290	(41,962,927)	-22.3%
Individual Income Tax	67,127,508	43,361,088	(23,766,419)	-35.4%	692,179,824	459,681,066	(232,498,758)	-33.6%
Corporate Income Tax	9,981,849	3,708,512	(6,273,337)	-62.8%	281,739,548	104,878,580	(176,860,968)	-62.8%
Insurance Premium Tax	594,619	281,007	(313,612)	-52.7%	47,784,894	61,411,427	13,626,533	28.5%
Financial Institutions Tax	52		(52)	-100.0%	(4,856,233)	1,294,077	6,150,311	-126.6%
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	289,336	387,560	98,224	33.9%	4,759,229	4,565,275	(193,954)	-4.1%
Lottery					7,200,000	9,580,000	2,380,000	33.1%
Cigarette & Tobacco Tax	2,871,194	2,437,465	(433,729)	-15.1%	40,826,309	39,183,199	(1,643,110)	-4.0%
Wholesale Liquor Tax	805,726	704,879	(100,847)	-12.5%	12,472,217	12,157,026	(315,191)	-2.5%
Coal Conversion Tax	1,562,114	1,901,538	339,424	21.7%	23,921,051	27,534,188	3,613,137	15.1%
Mineral Leasing Fees	4,104,846	1,829,896	(2,274,950)	-55.4%	29,907,023	19,059,196	(10,847,827)	-36.3%
Departmental Collections	2,547,096	2,983,160	436,064	17.1%	53,765,431	53,719,063	(46,369)	-0.1%
Interest Income	275,664	179,973	(95,692)	-34.7%	11,778,238	13,135,024	1,356,786	11.5%
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	255,590	33,420	15.0%	1,512,574	1,602,083	89,509	5.9%
Total Revenues	237,155,083	143,472,764	(93,682,319)	-39.5%	3,715,695,986	3,043,049,085	(672,646,901)	-18.1%
Budget Stabilization Fund Transfer		375,000,000				375,000,000		
Total Revenues and Transfers		518,472,764				3,418,049,085		

VARIANCES (Compared to July 2016 Revised Forecast)

October 2016 revenues totaled \$143.5 million, which is \$7.9 million, or 5.2 percent below forecast.

Biennium-to-date revenues of \$3.04 billion are \$14.2 million, or 0.5 percent, lower than projected. When transfers from the tax relief fund are excluded, 2015-17 revenues to date are tracking 29.3 percent behind the same time period in the 2013-15 biennium. Significant monthly variances are as follows:

- **Sales tax** collections of \$75.9 million were \$15.6 million, or 17.1 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 3.0 percent below forecast and 26.9 percent less than the same time period in the 2013-15 biennium.
- **Individual income tax** collections totaling \$43.4 million exceeded the monthly projection by \$5.1 million, or 13.4 percent due to strong estimated payments. Biennium to date collections of \$459.7 million are \$8.7 million, or 1.9 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 33.6 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.