

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

North Dakota is now in a “moderating recession” business cycle status, an upgrade from “in recession” - the status the state has been in for over a year. In its February 2017 *Précis*, Moody’s Analytics indicates North Dakota seems to have “found a bottom” to its sagging economy and is on the rebound, albeit slowly. North Dakota’s large oil reserves, status as a major producer and exporter of important agricultural commodities and location along a key trade corridor are strengths that will assist the state in its recovery. These strengths are much needed to make up for weaknesses identified by Moody’s such as a lack of growth drivers outside the energy and agriculture industries and low employment diversity. Upside risks to North Dakota’s recovery include the possibility that oil prices would rebound more quickly than expected, thereby renewing investment and drilling activity in the western part of the state. Downside risks include a continued downturn in agriculture prices due to a strong dollar and safety concerns regarding shipment of oil by rail causing stronger regulations and lower volumes of oil moving by rail.

Although the oil boom is over, there are indications the oil patch will again provide an

economic boost to North Dakota. However, any growth in the industry will remain well below any boom-time levels. North Dakota oil prices are forecasted to increase to just over \$47 per barrel by the end of the 2015-17 biennium and remain steady at that level throughout the 2017-19 biennium. Oil production is anticipated to even out at 925,000 barrels per day by the end of the 2015-17 biennium increasing to 950,000 barrels per day over the course of the 2017-19 biennium.

Moody’s anticipates agriculture prices will pick up as overall inflation rises over the next several years, but after dropping by 90 percent major crops will not hit their prior peaks any time soon.

Moody’s concludes North Dakota’s economy will be slow to improve and will lag the nation for several years. More activity in the Bakken and recovering farm prices will help top-line growth, but the state’s metro areas will have to shoulder much of the burden when it comes to lifting employment and incomes, particularly in private service industries.

Moody’s February 2017 *Précis* includes the following economic indicators:

Indicator	2014	2015	2016	2017	2018	2019
Gross State Product (C09\$ bil)	52.3	50.9	46.8	47.6	49.5	50.8
Total Employment (ths)	461	454	441	444	450	455
Unemployment Rate	2.7	2.7	3.1	2.9	2.6	2.5
Personal Income Growth	6.3	-1.2	-1.9	2.2	5.0	4.9
Population (ths)	740	757	758	762	768	774
Single-Family Permits	4,531	3,440	2,215	2,314	3,418	3,738
FHFA House Price (1980Q1=100)	330	350	361	364	362	360

OIL ACTIVITY



Statistical Information

	Jan 2017	Dec 2016	Nov 2016
Actual average price per barrel	\$44.60	\$43.94	\$38.38
Production (barrels/day)	980,294	942,322	1,034,484
Drilling permits	81	35	76
Producing wells	13,333	13,337	13,520
Rig count	38	40	37

Tax Allocations (in Millions)

	Biennium to Date Feb 28, 2017
Political subs	\$ 439.5
Tribes	171.5
Legacy fund	639.2
General fund	282.1
Education funds	190.2
Resources trust fund	186.2
Oil and gas impact fund	56.0
Tax relief fund	300.0
Other allocations	37.5
Total	\$ 2,302.2

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the November 2016 Revised Forecast ¹
2015-17 Biennium
February 2017

Revenues and Transfers	Fiscal Month				Biennium To Date			
	November 2016 Rev. Forecast	Actual	Variance	Percent	November 2016 Rev. Forecast /1	Actual	Variance	Percent
Sales Tax	66,064,000	51,216,816	(14,847,184)	-22.5%	1,541,253,698	1,473,502,154	(67,751,544)	-4.4%
Motor Vehicle Excise Tax	6,592,000	8,361,867	1,769,867	26.8%	174,940,290	180,094,942	5,154,652	2.9%
Individual Income Tax	21,164,000	11,826,757	(9,337,243)	-44.1%	532,951,066	540,106,528	7,155,461	1.3%
Corporate Income Tax	2,207,000	2,152,740	(54,260)	-2.5%	127,750,580	121,181,337	(6,569,243)	-5.1%
Insurance Premium Tax	10,154,910	13,637,969	3,483,059	34.3%	83,718,757	88,738,221	5,019,464	6.0%
Financial Institutions Tax		448	448	100.0%	1,294,077	1,299,702	5,625	0.4%
Oil & Gas Production Tax*	13,601,035	13,601,035			112,491,109	112,491,109		0.0%
Oil Extraction Tax*	17,439,353	17,439,353			169,610,535	169,610,535		0.0%
Gaming Tax	498,180	513,800	15,620	3.1%	5,936,284	5,784,523	(151,761)	-2.6%
Lottery					9,580,000	9,580,000		0.0%
Cigarette & Tobacco Tax	2,046,000	2,083,657	37,657	1.8%	48,345,199	47,850,263	(494,936)	-1.0%
Wholesale Liquor Tax	632,000	584,714	(47,286)	-7.5%	15,076,026	15,002,382	(73,644)	-0.5%
Coal Conversion Tax	1,753,000	1,805,571	52,571	3.0%	34,442,188	34,598,615	156,427	0.5%
Mineral Leasing Fees	819,488	889,788	70,300	8.6%	22,337,148	23,159,574	822,426	3.7%
Departmental Collections	2,197,225	(44,836)	(2,242,061)	-102.0%	67,740,029	68,436,260	696,232	1.0%
Interest Income	428,245	127,655	(300,590)	-70.2%	14,939,424	13,790,569	(1,148,854)	-7.7%
State Mill & Elevator-Transfer					4,434,894	4,434,894		0.0%
Major Special Fund Transfers					657,000,000	657,000,000		0.0%
Other Transfers		2,888			1,855,895	1,876,675	20,780	1.1%
Total	145,596,435	124,200,222	(21,399,102)	-14.7%	3,625,697,198	3,568,538,284	(57,158,914)	-1.6%
Budget Stabilization Fund Transfer		0				505,000,000		
Total Revenues and Transfers		124,200,222				4,073,538,284		

¹ The November 2016 revised revenue forecast includes actual revenues through October 31, 2016, and revised estimates for the remainder of the biennium.

Compared to the July 2016 Revised Forecast ¹
2015-17 Biennium
February 2017

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	67,681,000	51,216,816	(16,464,184)	-24.3%	1,586,957,574	1,473,502,154	(113,455,419)	-7.1%
Motor Vehicle Excise Tax	6,480,000	8,361,867	1,881,867	29.0%	168,574,785	180,094,942	11,520,157	6.8%
Individual Income Tax	21,819,000	11,826,757	(9,992,243)	-45.8%	526,512,749	540,106,528	13,593,779	2.6%
Corporate Income Tax	1,707,000	2,152,740	445,740	26.1%	122,273,800	121,181,337	(1,092,463)	-0.9%
Insurance Premium Tax	10,154,910	13,637,969	3,483,059	34.3%	82,738,103	88,738,221	6,000,117	7.3%
Financial Institutions Tax		448	448	100.0%	324,145	1,299,702	975,557	301.0%
Oil & Gas Production Tax*	7,330,709	13,601,035			112,491,109	112,491,109		0.0%
Oil Extraction Tax*	26,497,204	17,439,353			178,668,386	169,610,535		0.0%
Gaming Tax	498,180	513,800	15,620	3.1%	5,987,254	5,784,523	(202,731)	-3.4%
Lottery					9,580,000	9,580,000	0	0.0%
Cigarette & Tobacco Tax	2,046,000	2,083,657	37,657	1.8%	48,201,715	47,850,263	(351,452)	-0.7%
Wholesale Liquor Tax	598,000	584,714	(13,286)	-2.2%	14,886,988	15,002,382	115,394	0.8%
Coal Conversion Tax	1,753,000	1,805,571	52,571	3.0%	34,290,976	34,598,615	307,639	0.9%
Mineral Leasing Fees	819,488	889,788	70,300	8.6%	20,357,480	23,159,574	2,802,094	13.8%
Departmental Collections	1,997,225	(44,836)	(2,042,061)	-102.2%	65,545,936	68,436,260	2,890,325	4.4%
Interest Income	428,245	127,655	(300,590)	-70.2%	15,754,779	13,790,569	(1,964,210)	-12.5%
State Mill & Elevator-Transfer					4,434,894	4,434,894		0.0%
Major Special Fund Transfers					657,000,000	657,000,000		0.0%
Other Transfers		2,888	2,888	100.0%	1,852,590	1,876,675	24,085	1.3%
Total	149,809,961	124,200,222	(22,822,213)	-15.2%	3,656,433,262	3,568,538,284	(78,837,127)	-2.2%
Budget Stabilization Fund Transfer		0				505,000,000		
Total Revenues and Transfers		124,200,222				4,073,538,284		

Compared to the Previous Biennium Revenues
2015-17 Biennium
February 2017

Revenues and Transfers	Fiscal Month				Biennium To Date			
	February 2015	February 2017	Variance	Percent	2013-15	2015-17	Variance	Percent
Sales Tax	93,224,847	51,216,816	(42,008,031)	-45.1%	2,114,521,134	1,473,502,155	(641,018,979)	-30.3%
Motor Vehicle Excise Tax	9,935,860	8,361,867	(1,573,994)	-15.8%	232,485,057	180,094,942	(52,390,114)	-22.5%
Individual Income Tax	55,610,545	11,826,757	(43,783,788)	-78.7%	812,925,943	540,106,528	(272,819,415)	-33.6%
Corporate Income Tax	2,864,293	2,152,740	(711,553)	-24.8%	332,974,272	121,181,336	(211,792,935)	-63.6%
Insurance Premium Tax	10,231,860	13,637,969	3,406,109	33.3%	70,160,492	88,738,221	18,577,729	26.5%
Financial Institutions Tax	29,925	448	(29,477)	-98.5%	(4,973,531)	1,299,702	6,273,234	-126.1%
Oil & Gas Production Tax*		13,601,035			146,071,108	112,491,109	(33,579,999)	-23.0%
Oil Extraction Tax*		17,439,353			153,928,892	169,610,535	15,681,643	10.2%
Gaming Tax	499,468	513,800	14,332	2.9%	6,133,794	5,784,523	(349,271)	-5.7%
Lottery					7,200,000	9,580,000	2,380,000	33.1%
Cigarette & Tobacco Tax	2,250,887	2,083,657	(167,230)	-7.4%	50,739,919	47,850,263	(2,889,655)	-5.7%
Wholesale Liquor Tax	610,462	584,714	(25,749)	-4.2%	15,651,419	15,002,382	(649,038)	-4.1%
Coal Conversion Tax	1,430,984	1,805,571	374,587	26.2%	29,682,432	34,598,616	4,916,183	16.6%
Mineral Leasing Fees	1,407,648	889,788	(517,860)	-36.8%	37,032,432	23,159,573	(13,872,858)	-37.5%
Departmental Collections	2,197,928	(44,836)	(2,242,763)	-102.0%	70,532,780	68,436,260	(2,096,520)	-3.0%
Interest Income	248,275	127,655	(120,620)	-48.6%	12,799,401	13,790,570	991,169	7.7%
State Mill & Elevator-Transfer					3,408,600	4,434,894	1,026,294	30.1%
Major Special Fund Transfers					861,790,000	657,000,000	(204,790,000)	-23.8%
Other Transfers		2,888	2,888		1,734,744	1,876,675	141,931	8.2%
Total Revenues and Transfers	180,542,982	124,200,222	(87,383,148)	-48.4%	4,954,798,888	3,568,538,284	(1,386,260,604)	-28.0%

VARIANCES (Compared to November 2016 Revised Forecast)

February 2017 revenues totaled \$124.2 million, which is \$21.4 million, or 14.7 percent below forecast. Biennium-to-date revenues of \$3.57 billion are \$57.2 million, or 1.6 percent, lower 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:

- **Sales tax** collections of \$51.2 million were \$14.8 million, or 22.5 percent, less than anticipated for the month. Biennium-to-date revenues are 4.4 percent below forecast and 30.3 percent less than the same time period in the 2013-15 biennium.
- **Individual income tax** collections totaling \$11.8 million were \$9.3 million, or 44.1 percent, below the monthly projection due to timing: strong withholding collections anticipated in early February were received in January. Biennium to date collections of \$540.1 million are \$7.2 million, or 1.3 percent, above the forecast. Tax rate reductions and sizeable reductions in taxable royalty payments along with reduced employment in the oil fields

resulted in biennium to date collections that were 33.6 percent lower than the same time period in the 2013-15 biennium.

- **Insurance premium tax** collections of \$13.6 million were \$3.5 million, or 34.3 percent, above the monthly projection, due to higher than anticipated payments. Biennium to date collections are 6.0 percent above forecast and 26.5 percent higher than the same time period in the 2013-15 biennium.
- **Departmental collections** were \$2.2 million lower than anticipated. Expenditure reimbursements which were incorrectly coded as revenue in previous months were corrected in February.
- **Oil and gas taxes** were \$2.8 million lower than the monthly forecast. 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.