

North Dakota REV-E-NEWS



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OFFICE OF MANAGEMENT AND BUDGET

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MESSAGE FROM THE DIRECTOR

North Dakota's recession is subsiding and the state is slowly moving into recovery. But what does this mean for the state's three largest metropolitan areas? In its June 2017 *Précis*, Moody's Analytics indicates the Bismarck area is still in a "moderating recession" while the Fargo and Grand Forks areas are in "expansion."

Bismarck's economy is expected to rebound by the end of 2017 but recovery will be slow and the area will underperform compared to other metro areas. Significant energy resources in surrounding areas, a stable core of government and healthcare jobs, very low cost of doing business and favorable migration trends are strengths that will assist Bismarck in its recovery. Weaknesses that could hinder the area's recovery include the distance from major transportation corridors compared to other metro areas and extremely tight labor markets. Moody's states "without a more diverse industrial base, like its larger neighbor Fargo, Bismarck-Mandan will endure more cyclical and register slower growth over the extended forecast horizon."

According to Moody's, a growing workforce and more federal spending will provide Grand Forks the opportunity to "diversify at least a bit from its predominant reliance on agriculture." Although agriculture prices are on their way back up it may be some time before the industry fully recovers. New budget initiatives at the federal level could provide up to \$250 million in defense spending over the next ten years via the Grand Forks Air Force Base. Other strengths that will aid Grand Forks in recovery are its location on I-29 which is a key trade

corridor to Canada, affordable housing and low cost of doing business. Weaknesses include the low number of high-growth industries and manufacturing weighted heavily toward low-wage nondurable goods. Moody's concludes that Grand Forks will "eke out long-awaited job gains this year, but weakening labor force improvement will be a speed limit on the pace of growth."

Moody's indicates the pace of growth in Fargo is trending upward. Fargo's strengths include below-average employment volatility, favorable demographics including a well-educated workforce, relatively low business costs and high housing affordability. Weaknesses that could hinder Fargo's growth include an exposure to volatility in agricultural prices and structurally low unemployment that means job gains are dependent on labor force growth. One area in which the Fargo area has moved ahead of the rest of the state is in its private service sector. Fargo has a strong core group of large employers in various service sectors compared to the rest of North Dakota which relies heavily on energy and agriculture. However, as North Dakota oil prices rebound, Fargo will have to work to attract and retain out-of-state workers. Moody's concludes that the outlook for the Fargo area remains "cautiously optimistic" with only the tight labor market acting as a "speed limit" on the area's forecast.

Moody's June 2017 *Précis* compares the following economic indicators for Bismarck, Fargo and Grand Forks from 2016 to 2017:

Indicator	Bismarck		Grand Forks		Fargo	
	2016	2017	2016	2017	2016	2017
Gross Metro Product (C09\$ bil)	6.1	6.1	4.9	4.9	13.4	13.5
Total Employment (ths)	74.0	73.9	57.6	58.0	140.6	142.2
Unemployment Rate (%)	2.9	2.7	3.0	2.9	2.6	2.6
Personal Income Growth (%)	2.4	2.9	4.6	3.3	4.1	3.6
Median Household Income (\$ ths)	64.0	65.0	53.4	54.2	55.9	56.6
Population (ths)	131.6	132.1	102.7	103.1	238.1	239.5
FHFA House Price (1995Q1=100)	282.6	288.6	234.8	248.5	234.5	237.9

OIL ACTIVITY

Statistical Information



	June 2017	May 2017	Apr 2017
Actual average price per barrel	\$39.39	\$42.80	\$44.34
Production (barrels/day)	1,032,495	1,040,995	1,050,476
Drilling permits	109	100	58
Producing wells	13,915	13,885	13,716
Rig count	55	50	50

Tax Allocations (in Millions)

	Biennium to Date July 31, 2017
Political Subs	\$ 548.4
Tribes	228.4
Legacy Fund	815.8
General Fund	300.0
Education Funds	240.6
Resources Trust Fund	236.4
Oil and Gas Impact Fund	78.1
Tax Relief Fund	300.0
Other Allocations	200.00
Total	\$2,947.7

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Legislative Forecast
2017-19 Biennium
July 2017

Revenues and Transfers	Fiscal Month				Biennium To Date			
	May 2017 <u>Leg. Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>	May 2017 <u>Leg. Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
Sales Tax	81,067,000	80,256,851	(810,149)	-1.0%	81,067,000	80,256,851	(810,149)	-1.0%
Motor Vehicle Excise Tax	9,494,000	11,216,497	1,722,497	18.1%	9,494,000	11,216,497	1,722,497	18.1%
Individual Income Tax	54,447,000	53,677,266	(769,734)	-1.4%	54,447,000	53,677,266	(769,734)	-1.4%
Corporate Income Tax		523,242	523,242			523,242	523,242	
Insurance Premium Tax		9,579	9,579			9,579	9,579	
Oil & Gas Production Tax								
Oil Extraction Tax								
Gaming Tax	286,055	276,482	(9,573)	-3.3%	286,055	276,482	(9,573)	-3.3%
Lottery								
Cigarette & Tobacco Tax	2,406,000	2,552,021	146,021	6.1%	2,406,000	2,552,021	146,021	6.1%
Wholesale Liquor Tax	733,155	912,798	179,643	24.5%	733,155	912,798	179,643	24.5%
Coal Conversion Tax								
Mineral Leasing Fees	834,594	1,240,971	406,377	48.7%	834,594	1,240,971	406,377	48.7%
Departmental Collections	1,843,081	1,131,751	(711,330)	-38.6%	1,843,081	1,131,751	(711,330)	-38.6%
Interest Income	114,000	59,796	(54,204)	-47.5%	114,000	59,796	(54,204)	-47.5%
State Mill & Elevator-Transfer								
Bank of North Dakota - Transfer								
Legacy Fund - Transfer								
Tax Relief Fund - Transfer	183,000,000	183,000,000			183,000,000	183,000,000		
SIIF - Transfer	124,000,000	124,000,000			124,000,000	124,000,000		
Gas Tax Administration	252,015	252,015			252,015	252,015		
Miscellaneous	29,000,000	29,001,172	1,172	0.0%	29,000,000	29,001,172	1,172	0.0%
Total Revenues and Transfers	487,476,900	488,110,442	633,542	0.1%	487,476,900	488,110,442	633,542	0.1%

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Previous Biennium Revenues
2017-19 Biennium
July 2017

Revenues and Transfers	Fiscal Month				Biennium To Date			
	July 2015	July 2017	Variance	Percent	2015-17	2017-19	Variance	Percent
Sales Tax	104,529,052	80,256,851	(24,272,201)	-23.2%	104,529,052	80,256,851	(24,272,201)	-23.2%
Motor Vehicle Excise Tax	10,608,599	11,216,497	607,897	5.7%	10,608,599	11,216,497	607,897	5.7%
Individual Income Tax	66,518,892	53,677,266	(12,841,626)	-19.3%	66,518,892	53,677,266	(12,841,626)	-19.3%
Corporate Income Tax	908,524	523,242	(385,282)	-42.4%	908,524	523,242	(385,282)	-42.4%
Insurance Premium Tax		9,579	9,579			9,579	9,579	
Financial Institutions Tax	26,670		(26,670)	-100.0%	26,670		(26,670)	-100.0%
Oil & Gas Production Tax								
Oil Extraction Tax								
Gaming Tax	271,055	276,482	(5,427)	-2.0%	271,055	276,482	5,427	2.0%
Lottery								
Cigarette & Tobacco Tax	2,800,380	2,552,021	(248,358)	-8.9%	2,800,380	2,552,021	(248,358)	-8.9%
Wholesale Liquor Tax	992,655	912,798	(79,858)	-8.0%	992,655	912,798	(79,858)	-8.0%
Coal Conversion Tax								
Mineral Leasing Fees	784,594	1,240,971	456,378	58.2%	784,594	1,240,971	456,378	58.2%
Departmental Collections	1,150,249	1,131,751	(18,498)	-1.6%	1,150,249	1,131,751	(18,498)	-1.6%
Interest Income	144,152	59,796	(84,357)	-58.5%	144,152	59,796	(84,357)	-58.5%
State Mill & Elevator-Transfer								
Major Special Fund Transfers	657,000,000	307,000,000	(350,000,000)	-53.3%	657,000,000	307,000,000	(350,000,000)	-53.3%
Other Transfers	253,812	29,253,187	28,999,375	11425.5%	253,812	29,253,187	28,999,375	11425.5%
Total Revenues and Transfers	845,988,636	488,110,442	(357,889,048)	-42.3%	845,988,636	488,110,442	(357,878,194)	-42.3%

VARIANCES (Compared to Legislative Forecast)

July 2017 marks the beginning of the 2017-19 biennium. Revenues started the biennium on a positive note totaling \$488.1 million, which is \$633,542, or 0.1 percent above forecast. When transfers from major special funds are excluded, 2017-19 revenues for July are tracking 4.2 percent behind the same time period in the 2015-17 biennium. Significant monthly variances are as follows:

- **Sales tax** collections of \$80.3 million were only \$810,149, or 1.0 percent, lower than anticipated for the month but 23.2 percent less than the same time period in the 2015-17 biennium.
- **Motor vehicle excise tax** collections totaling \$11.2 million were \$1.7 million, or 18.1 percent, more than anticipated for the month. July 2017 amounts are \$607,897, or 5.7 percent, more than July 2015 collections.
- **Individual income tax** collections of \$53.7 million were only \$769,734, or 1.4 percent below forecast, due to lower than anticipated estimated payments. However, July 2017 collections are \$12.8 million, or 19.3 percent lower than July 2015 collections.