

North Dakota REV-E-NEWS



Pam Sharp, Director

October 2017

**OFFICE OF MANAGEMENT AND BUDGET
600 EAST BOULEVARD AVE — DEPT. 110 BISMARCK, ND 58505-0400**

MESSAGE FROM THE DIRECTOR

The May 2017 legislative forecast assumes North Dakota oil prices will remain flat at \$47 per barrel over the course of the 2017-19 biennium. Actual average prices reported by the Tax Department show July and August coming in under forecast at \$40.98 and \$42.85 per barrel respectively. The low prices continue the trend set in the 2015-17 biennium where prices remained below \$47 per barrel for the entire biennium and in February 2016 hit a low of \$22.06 per barrel.

The legislative forecast also assumes North Dakota oil production will stay level at 925,000 barrels per day throughout the first year of the 2017-19 biennium before increasing to 950,000 barrels per day for the second year. According to numbers released by the North Dakota Industrial Commission's Department of Mineral Resources, average daily production for the first two months of the biennium were well over forecast at 1.04 million barrels per day in July

and 1.08 million barrels per day in August. Production levels remained above 1.0 million barrels per day for most of the 2015-17 biennium, falling below a million only four times with a low production level of 942,000 barrels per day in December 2016.

Although the high production numbers have helped minimize the effect of weak oil prices, oil tax revenues fell below forecast for the first two months of the biennium for a combined shortfall of \$15.9 million. On a positive note, numbers just released by the Tax Department indicate oil tax revenues available for distribution to state funds, political subdivisions and the Three Affiliated Tribes are \$6.4 million above forecast for October.

The table below provides information on price, production, permits, producing wells, and rig counts from September 2016 through August 2017.

	09/2016	10/2016	11/2016	12/2016	01/2017	02/2017	03/2017	04/2017	05/2017	06/2017	07/2017	08/2017
ND Price	\$37.31	\$43.01	\$38.38	\$43.94	\$44.60	\$46.92	\$42.92	\$44.34	\$42.80	\$39.39	\$40.98	\$42.85
Production	971,760	1,043,693	1,034,484	942,322	981,380	1,034,248	1,025,690	1,050,476	1,040,995	1,032,873	1,048,099	1,084,690
Permits	63	82	76	35	81	45	93	58	100	109	146	101
Wells	13,378	13,458	13,520	13,337	13,341	13,518	13,693	13,716	13,885	13,926	13,992	14,080
Rig Count	34	33	37	40	38	39	46	50	50	55	58	56

OIL ACTIVITY Tax Allocations (in Millions)



	Biennium to Date Sept 30, 2017
Political Subs	\$ 52.4
Tribes	23.7
Legacy Fund	65.3
General Fund	47.9
Education Funds	18.1
Resources Trust Fund	17.4
Oil and Gas Impact Fund	9.9
Tax Relief Fund	0.0
Other Allocations	6.6
Total	\$241.3

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2017-19 Biennium September 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	46,780,000	63,044,562	16,264,562	34.8%	193,609,000	213,553,658	19,944,658	10.3%
Motor Vehicle Excise Tax	9,926,000	9,033,985	(892,015)	-9.0%	29,203,000	29,461,608	258,608	0.9%
Individual Income Tax	18,942,000	13,643,722	(5,298,278)	-28.0%	81,579,000	78,935,408	(2,643,592)	-3.2%
Corporate Income Tax		177,407	177,407			1,093,921	1,093,921	
Insurance Premium Tax	812,850	911,635	98,785	12.2%	5,547,598	6,090,426	542,828	9.8%
Oil & Gas Production Tax					14,428,375	14,428,375		
Oil Extraction Tax	16,400,586	16,400,586			33,501,847	33,501,847		
Gaming Tax	54,206	26,064	(28,142)	-51.9%	817,807	666,675	(151,132)	-18.5%
Lottery								
Cigarette & Tobacco Tax	2,479,000	2,656,120	177,120	7.1%	7,313,000	7,592,563	279,563	3.8%
Wholesale Liquor Tax	708,088	776,693	68,605	9.7%	2,179,557	2,416,689	237,132	10.9%
Coal Conversion Tax	1,695,000	1,807,674	112,674	6.6%	3,361,000	3,293,197	(67,803)	-2.0%
Mineral Leasing Fees	1,814,689	1,218,530	(596,159)	-32.9%	4,119,097	3,551,575	(567,522)	-13.8%
Departmental Collections	1,765,947	8,118,731	6,352,784	359.7%	5,326,409	11,747,622	6,421,213	120.6%
Interest Income	268,500	202,078	(66,422)	-24.7%	631,000	466,697	(164,303)	-26.0%
State Mill & Elevator-Transfer								
Bank of North Dakota - Transfer								
Legacy Fund - Transfer								
Tax Relief Fund - Transfer					183,000,000	183,000,000		
SIIF - Transfer					124,000,000	124,000,000		
Gas Tax Administration					252,015	252,015		
Miscellaneous	390,625	499,622	108,997	27.9%	29,865,625	30,151,055	285,430	1.0%
Total Revenues and Transfers	102,037,491	118,517,411	16,479,920	16.2%	718,734,329	744,203,330	25,469,000	3.5%

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

Revenues and Transfers	Fiscal Month				Biennium To Date			
	September 2015	September 2017	Variance	Percent	2015-17	2017-19	Variance	Percent
Sales Tax	81,820,240	63,044,562	(18,775,677)	-22.9%	276,260,868	213,553,658	(62,707,210)	-22.7%
Motor Vehicle Excise Tax	9,842,231	9,033,985	(808,247)	-8.2%	30,650,076	29,461,608	(1,188,468)	-3.9%
Individual Income Tax	15,920,099	13,643,722	(2,276,377)	-14.3%	90,168,705	78,935,408	(11,233,297)	-12.5%
Corporate Income Tax	8,010,760	177,407	(7,833,352)	-97.8%	9,802,281	1,093,921	(8,708,361)	-88.8%
Insurance Premium Tax	281,025	911,635	630,610	224.4%	5,030,092	6,090,426	1,060,334	21.1%
Financial Institutions Tax	206,951		(206,951)	-100.0%	233,621		(233,621)	-100.0%
Oil & Gas Production Tax	1,781,303		(1,781,303)	-100.0%	39,848,147	14,428,375	(25,419,773)	-63.8%
Oil Extraction Tax	25,568,896	16,400,586	(9,168,310)	-35.9%	53,955,361	33,501,847	(20,453,514)	-37.9%
Gaming Tax	49,206	26,064	(23,141)	-47.0%	755,807	666,675	(89,133)	-11.8%
Lottery								
Cigarette & Tobacco Tax	2,789,108	2,656,120	(132,989)	-4.8%	8,306,326	7,592,563	(713,763)	-8.6%
Wholesale Liquor Tax	533,931	776,693	242,762	45.5%	2,291,401	2,416,689	125,288	5.5%
Coal Conversion Tax	1,994,155	1,807,674	(186,481)	-9.4%	4,100,446	3,293,197	(807,249)	-19.7%
Mineral Leasing Fees	1,661,689	1,218,530	(443,159)	-26.7%	3,763,097	3,551,575	(211,521)	-5.6%
Departmental Collections	6,370,176	8,118,731	1,748,555	27.4%	9,402,811	11,747,622	2,344,811	24.9%
Interest Income	243,679	202,078	(41,601)	-17.1%	624,030	466,697	(157,333)	-25.2%
State Mill & Elevator-Transfer								
Major Special Fund Transfers					657,000,000	307,000,000	(350,000,000)	-53.3%
Other Transfers		499,622	499,622	100.0%	253,812	30,403,069	30,149,257	11878.6%
Total Revenues and Transfers	157,073,449	118,517,411	(38,556,038)	-24.5%	1,192,446,882	744,203,330	(448,243,553)	-37.6%

VARIANCES (Compared to 2017 Legislative Forecast)

September 2017 revenues totaled \$118.5 million, which is \$16.5 million, or 16.2 percent above forecast.

Biennium-to-date revenues of \$744.2 million are \$25.5 million, or 3.5 percent, more than projected. When transfers from major special funds are excluded, 2017-19 revenues to date are tracking 18.3 percent behind the same time period in the 2015-17 biennium. Significant monthly variances are as follows:

- **Sales tax** collections of \$63.0 million were \$16.3 million, or 34.8 percent, higher than anticipated for the month. Biennium-to-date revenues are \$19.9 million, or 10.3 percent, higher than forecast. In a year over year comparison, biennium-to-date revenues are \$62.7 million, or 22.7 percent, less than the same 3 month time period in Fiscal Year 2016 but only \$13.0 million, or 5.7 percent, less than the same three month time period in Fiscal Year 2017.
- **Individual income tax** collections of \$13.6 million were \$5.3 million, or 28.0 percent below forecast, due to

weaker than expected estimated payments and withholding. Biennium-to-date collections of \$78.9 million are \$2.6 million, or 3.2 percent lower than forecast and \$11.2 million, or 12.5 percent, less than the same time period in the 2015-17 biennium.

- **Departmental collections** totaling \$8.1 million were \$6.4 million higher than anticipated due to a statutorily required transfer from the insurance regulatory trust fund and settlements on fines levied relating to oil activity.
- **Oil and gas taxes** were \$2.1 million lower than the monthly forecast due to low oil prices. 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 \$400.0 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.