

North Dakota REV-E-NEWS



Pam Sharp, Director

September 2014

**OFFICE OF MANAGEMENT AND BUDGET
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MESSAGE FROM THE DIRECTOR

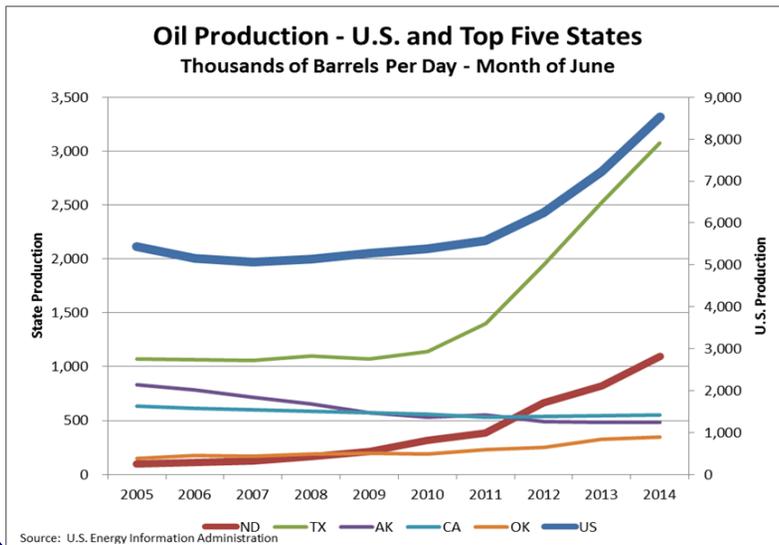
According to the U.S. Energy Information Administration (Short-term Energy Outlook, September 2014) total U.S. crude oil production averaged an estimated 8.6 million barrels per day in August 2014. This is expected to increase to 9.5 million barrels per day in 2015 – a level which hasn't been reached since 1970. Oil production in North Dakota also continues to increase. During the past ten years, as shown on the chart below, oil production in North Dakota has steadily increased from around 96,000 barrels per day in June 2005 to over 1 million barrels per day in June 2014. North Dakota has risen from the fifth largest producer of oil among the fifty states, behind Texas, Alaska, California, and Oklahoma, to the second largest producer, behind only Texas. As depicted on the chart, oil production in Texas has followed a similar pattern of growth to that of North Dakota and they

remain firmly in first place producing just over 3 million barrels per day.

The May 2013 legislative revenue forecast for the 2013-15 biennium assumed oil production would grow from around 830,000 barrels per day at the start of the biennium to 850,000 barrels per day by June 30, 2015. Production has significantly outpaced the original forecast and the revised forecast shows production increasing to 1,290,000 barrels per day by the end of the biennium.

The original forecast predicted total oil tax revenues of around \$5.3 billion for the 2013-15 biennium. The revised forecast predicts nearly \$7.5 billion, estimated to be allocated as follows:

- \$300 million to the general fund.
- \$776 million to counties, cities, and political subdivisions.
- \$513 million to tribes.
- \$2.5 billion to the legacy fund.
- \$751 million to education trust funds.
- \$751 million to the resources trust fund (including the infrastructure revolving fund, renewable energy fund, and energy conservation fund).
- \$342 million to the property tax relief sustainability fund.
- \$22 million to the state disaster fund.
- \$240 million to the oil and gas impact grant fund.
- \$10 million to the oil and gas research fund.
- \$10 million to the well plugging and site reclamation fund.
- \$1.3 billion to the strategic investment and improvements fund.



OIL ACTIVITY



Statistical Information

	July 2014	June 2014	May 2014
Actual average price per barrel	\$90.02	\$92.94	\$90.83
Production (barrels/day)	1,110,642	1,092,519	1,040,469
Drilling permits	265	247	234
Producing wells	11,287	11,090	10,902
Rig count	192	190	189

Tax Allocations (in Millions)

	Biennium to Date Aug 31, 2014
Political subs	\$377.3
Tribes	259.2
Legacy fund	1,040.4
General fund	300.0
Education funds	335.6
Resources trust fund	331.4
Oil and gas impact fund	205.5
Property tax relief fund	341.8
Other allocations	379.0
Total	\$3,570.2

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2013-15 Biennium August 2014

Revenues and Transfers	Fiscal Month				Biennium To Date			
	May 2013 Leg. Forecast	Actual	Variance	Percent	May 2013 Leg. Forecast	Actual	Variance	Percent
Sales Tax	128,508,000	94,555,415	(33,952,585)	-26.4%	1,396,555,000	1,427,272,810	30,717,810	2.2%
Motor Vehicle Excise Tax	14,446,000	12,222,272	(2,223,728)	-15.4%	184,130,000	163,209,394	(20,920,606)	-11.4%
Individual Income Tax	12,589,000	10,925,516	(1,663,484)	-13.2%	432,219,000	605,059,542	172,840,542	40.0%
Corporate Income Tax		745,445	745,445	100.0%	185,092,000	241,136,913	56,044,913	30.3%
Insurance Premium Tax	3,223,800	3,290,890	67,090	2.1%	37,791,050	46,083,393	8,292,343	21.9%
Financial Institutions Tax						(4,856,285)	(4,856,285)	-100.0%
Oil & Gas Production Tax*					146,071,108	146,071,108		
Oil Extraction Tax*					153,928,892	153,928,892		
Gaming Tax	640,460	534,816	(105,644)	-16.5%	5,127,080	4,433,286	(693,794)	-13.5%
Lottery					5,500,000	7,200,000	1,700,000	30.9%
Cigarette & Tobacco Tax	2,632,000	2,928,033	296,033	11.2%	33,983,000	35,180,137	1,197,137	3.5%
Wholesale Liquor Tax	780,000	760,246	(19,754)	-2.5%	11,056,000	10,934,455	(121,545)	-1.1%
Coal Conversion Tax	1,583,000	1,408,677	(174,323)	-11.0%	21,166,000	20,630,912	(535,088)	-2.5%
Mineral Leasing Fees	791,667	2,318,601	1,526,934	192.9%	11,083,338	23,088,133	12,004,795	108.3%
Departmental Collections	1,761,292	1,604,004	(157,288)	-8.9%	40,232,501	43,649,764	3,417,263	8.5%
Interest Income	850,050	293,973	(556,077)	-65.4%	15,897,210	11,211,055	(4,686,155)	-29.5%
State Mill & Elevator-Transfer					3,408,600	3,408,600	0	0.0%
Major Special Fund Transfers					341,790,000	341,790,000	0	0.0%
Other Transfers					1,110,850	1,290,404	179,554	16.2%
Total Revenues and Transfers	167,805,269	131,587,888	(36,217,381)	-21.6%	3,026,141,629	3,280,722,512	254,580,883	8.4%

* The general fund cap for oil and gas taxes contains two tiers. The first tier of \$200.0 million was reached in October 2013. The next \$341.8 million was deposited into the property tax relief fund. The second tier of \$100.0 million was reached in April 2014, two months earlier than anticipated. The general fund will not receive additional allocations this biennium.

Total production and extraction tax collections of \$322.6 million were distributed in August 2014. Through August, \$1.04 million has been deposited into the legacy fund; for a total of \$2.33 billion.

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Previous Biennium Revenues 2013-15 Biennium August 2014

Revenues and Transfers	Fiscal Month				Biennium To Date			
	August 2012	August 2014	Variance	Percent	2011-13	2013-15	Variance	Percent
Sales Tax	101,992,607	94,555,415	(7,437,192)	-7.3%	1,253,709,677	1,427,272,810	173,563,134	13.8%
Motor Vehicle Excise Tax	11,773,285	12,222,272	448,986	3.8%	144,802,154	163,209,394	18,407,240	12.7%
Individual Income Tax	6,316,237	10,925,516	4,609,279	73.0%	499,661,896	605,059,542	105,397,646	21.1%
Corporate Income Tax	172,405	745,445	573,040	332.4%	199,897,981	241,136,913	41,238,932	20.6%
Insurance Premium Tax	3,641,526	3,290,890	(350,636)	-9.6%	42,687,818	46,083,393	3,395,576	8.0%
Financial Institutions Tax	2,367		(2,367)	-100.0%	3,785,326	(4,856,285)	(8,641,611)	-228.3%
Oil & Gas Production Tax*	16,956,688		(16,956,688)	100.0%	163,458,104	146,071,108	(17,386,996)	-10.6%
Oil Extraction Tax*	23,991,583		(23,991,583)	100.0%	136,541,896	153,928,892	17,386,996	12.7%
Gaming Tax	872,505	534,816	(337,690)	-38.7%	6,984,646	4,433,286	(2,551,360)	-36.5%
Lottery					7,000,000	7,200,000	200,000	2.9%
Cigarette & Tobacco Tax	2,552,422	2,928,033	375,611	14.7%	31,491,799	35,180,137	3,688,338	11.7%
Wholesale Liquor Tax	796,312	760,246	(36,066)	-4.5%	10,115,941	10,934,455	818,513	8.1%
Coal Conversion Tax	1,494,871	1,408,677	(86,194)	-5.8%	20,992,996	20,630,912	(362,084)	-1.7%
Mineral Leasing Fees	2,237,512	2,318,601	81,089	3.6%	30,158,326	23,088,133	(7,070,193)	-23.4%
Departmental Collections	2,678,462	1,604,004	(1,074,458)	-40.1%	39,271,876	43,649,764	4,377,888	11.1%
Interest Income	478,072	293,973	(184,099)	-38.5%	7,674,798	11,211,055	3,536,257	46.1%
State Mill & Elevator-Transfer					3,822,989	3,408,600	(414,389)	-10.8%
Major Special Fund Transfers					295,000,000	341,790,000	46,790,000	15.9%
Other Transfers					1,048,638	1,290,404	241,766	23.1%
Total Revenues and Transfers	175,956,853	131,587,888	(44,368,965)	-25.2%	2,898,106,861	3,280,722,512	382,615,652	13.2%

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VARIANCES

August 2014 revenues of \$131.6 million were \$36.2 million, or 21.6 percent below forecast. Biennium-to-date revenues total \$3.28 billion, which is \$254.6 million, or 8.4 percent higher than forecast. Significant variances are as follows:

- **Sales tax** collections of \$94.6 million are nearly \$34.0 million, or 26.4 percent, less than anticipated for the month. Most of the variance appears to be the result of timing differences. Biennium to date collections total \$1.43 billion, which is 2.2 percent above forecast and 13.8 percent higher than the previous biennium.
- **Motor vehicle excise tax** collections continue to fall short of the forecast. Actual collections of \$12.2 million were 15.4 percent, or \$2.2 million, below forecast for the month. Biennium-to-date collections are 11.4 percent, or \$20.9 million, less than anticipated. However, current biennium collections exceed the 2011-13 biennium by \$18.4 million, indicating the shortfall is attributable to monthly forecast assumptions, not a decline in motor vehicle sales.
- **Individual income tax** biennium to date collections

exceed the forecast by a wide margin -- \$172.8 million, or 40.0 percent. Collections for the month of \$10.9 million were \$1.7 million, or 13.2 percent, less than anticipated due to a transfer to the refund reserve account for anticipated refunds.

- **Corporate income tax** collections for the current biennium total \$241.1 million, which exceeds the forecast by \$56.0 million, or 30.3 percent. Despite the significant rate reductions approved by the 2013 legislature, collections are also 20.6 percent higher than during the same time period in the 2011-13 biennium.
- **Mineral leasing fees** are received from the federal government for leasing mineral rights and extracting minerals on federal lands located within the state. These revenues are shared equally with the counties in which the minerals are located. Actual collections continue to exceed the forecast – by \$1.5 million for the month and by \$12.0 million for the biennium-to-date.
- **Oil and gas taxes** reached the \$300.0 million biennial cap in April. No additional oil taxes will be deposited in the general fund during the 2013-15 biennium.