

North Dakota REV-E-NEWS



Pam Sharp, Director

October 2015

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

MESSAGE FROM THE DIRECTOR

Over the last year North Dakota has seen actual average crude oil prices fluctuate between \$80.31 per barrel in September 2014 and \$34.69 per barrel in August 2015. During this same time oil production reached over 1.22 million barrels per day in December and has remained close to that volume with 1.18 million barrels produced per day in August. The 2015-17 biennium oil revenue forecast is based on oil production holding steady at 1.1 million barrels per day.

Information from the North Dakota Industrial Commission shows that the number of drilling rigs dropped below 100 in April and steadily decreased to 73 in July. One rig was gained in August but three rigs were lost in September. Efficiencies in rig operations and drill times have allowed

operators to run fewer rigs even though oil prices continue to fall.

The number of producing wells has increased from 11,758 in September 2014 to 13,016 in August 2015. However, new well completions have slowed with 119 completed in July and 115 completed in August.

The Industrial Commission anticipates that low oil prices related to a weak economy in China and the probability of sanctions being lifted in Iran will lead to continued drops in rig counts as well as new well completions.

The table below provides information on production, price, rig count, wells, and permit numbers from September 2014 through August 2015:

	09/2014	10/2014	11/2014	12/2014	01/2015	02/2015	03/2015	04/2015	05/2015	06/2015	07/2015	08/2015
Production	1,186,228	1,183,515	1,188,258	1,227,483	1,191,198	1,178,082	1,190,502	1,169,045	1,202,615	1,211,328	1,206,996	1,186,444
ND Price	\$80.31	\$71.97	\$64.36	\$47.00	\$35.99	\$39.52	\$37.01	\$44.38	\$50.09	\$52.14	\$44.05	\$34.69
Rig Count	195	191	188	181	159	132	108	90	83	78	73	74
Wells	11,758	11,903	11,951	12,134	12,197	12,199	12,443	12,545	12,679	12,868	12,965	13,016
Permits	261	328	235	251	246	197	190	168	150	192	233	153

OIL ACTIVITY Tax Allocations (in Millions)



	Biennium to Date Sept 30, 2015
Political subs	\$ 64.4
Tribes	27.4
Legacy fund	98.5
General fund	93.8
Education funds	30.0
Resources trust fund	28.4
Oil and gas impact fund	6.0
Property tax relief fund	0.0
Other allocations	7.4
Total	\$355.9

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Legislative Forecast
2015-17 Biennium
September 2015

Revenues and Transfers	Fiscal Month				Biennium To Date			
	May 2015 Leg. Forecast	Actual	Variance	Percent	May 2015 Leg. Forecast	Actual	Variance	Percent
Sales Tax	105,106,000	81,820,240	(23,285,760)	-22.2%	351,663,000	276,260,868	(75,402,132)	-21.4%
Motor Vehicle Excise Tax	12,969,000	9,842,231	(3,126,769)	-24.1%	38,155,000	30,650,076	(7,504,924)	-19.7%
Individual Income Tax	18,135,000	15,920,099	(2,214,901)	-12.2%	84,743,000	90,168,705	5,425,705	6.4%
Corporate Income Tax		8,010,760	8,010,760	100.0%		9,802,281	9,802,281	100.0%
Insurance Premium Tax	2,991,890	281,025	(2,710,865)	-90.6%	3,201,000	5,030,092	1,829,092	57.1%
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			39,848,147	39,848,147		
Oil Extraction Tax*	25,568,896	25,568,896			53,955,361	53,955,361		
Gaming Tax	18,930	49,206	30,276	159.9%	1,080,100	755,807	(324,293)	-30.0%
Lottery								
Cigarette & Tobacco Tax	2,799,000	2,789,108	(9,892)	-0.4%	8,256,000	8,306,326	50,326	0.6%
Wholesale Liquor Tax	748,000	533,931	(214,069)	-28.6%	2,328,000	2,291,401	(36,599)	-1.6%
Coal Conversion Tax	1,647,000	1,994,155	347,155	21.1%	3,243,000	4,100,446	857,446	26.4%
Mineral Leasing Fees	819,488	1,661,689	842,201	102.8%	2,458,464	3,763,097	1,304,633	53.1%
Departmental Collections	5,538,100	6,370,176	832,076	15.0%	8,774,741	9,402,811	628,070	7.2%
Interest Income	269,032	243,679	(25,353)	-9.4%	551,730	624,030	72,300	13.1%
State Mill & Elevator-Transfer								
Major Special Fund Transfers					657,000,000	657,000,000		
Other Transfers					253,812	253,812		
Total Revenues and Transfers	178,391,639	157,073,449	(21,318,191)	-12.0%	1,255,511,355	1,192,446,882	(63,064,473)	-5.0%

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Previous Biennium Revenues
2015-17 Biennium
September 2015

Revenues and Transfers	Fiscal Month				Biennium To Date			
	September <u>2013</u>	September <u>2015</u>	Variance	Percent	<u>2013-15</u>	<u>2015-17</u>	Variance	Percent
Sales Tax	113,490,855	81,820,240	(31,670,615)	-27.9%	326,078,133	276,260,868	(49,817,264)	-15.3%
Motor Vehicle Excise Tax	10,116,166	9,842,231	(273,934)	-2.7%	33,282,759	30,650,076	(2,632,683)	-7.9%
Individual Income Tax	34,065,549	15,920,099	(18,145,450)	-53.3%	115,344,646	90,168,705	(25,175,941)	-21.8%
Corporate Income Tax	32,086,122	8,010,760	(24,075,363)	-75.0%	33,067,107	9,802,281	(23,264,826)	-70.4%
Insurance Premium Tax	3,014,561	281,025	(2,733,535)	-90.7%	3,225,261	5,030,092	1,804,831	56.0%
Financial Institutions Tax	(192,275)	206,951	399,226	-207.6%	(184,579)	233,621	418,200	-226.6%
Oil & Gas Production Tax	10,384,453	1,781,303	(8,603,150)	-82.8%	68,298,659	39,848,147	(28,450,511)	-41.7%
Oil Extraction Tax	43,910,965	25,568,896	(18,342,068)	-41.8%	80,323,053	53,955,361	(26,367,692)	-32.8%
Gaming Tax	18,976	49,206	30,230	159.3%	1,082,900	755,807	(327,093)	-30.2%
Lottery								
Cigarette & Tobacco Tax	2,755,197	2,789,108	33,911	1.2%	7,973,853	8,306,326	332,473	4.2%
Wholesale Liquor Tax	730,993	533,931	(197,062)	-27.0%	2,398,673	2,291,401	(107,272)	-4.5%
Coal Conversion Tax	1,403,259	1,994,155	590,896	42.1%	2,567,271	4,100,446	1,533,175	59.7%
Mineral Leasing Fees	5,578,078	1,661,689	(3,916,389)	-70.2%	8,030,542	3,763,097	(4,267,446)	-53.1%
Departmental Collections	5,825,349	6,370,176	544,827	9.4%	9,097,907	9,402,811	304,904	3.4%
Interest Income	255,246	243,679	(11,567)	-4.5%	521,052	624,030	102,978	19.8%
State Mill & Elevator-Transfer								
Major Special Fund Transfers					341,790,000	657,000,000	315,210,000	92.2%
Other Transfers	5,104		(5,104)	100.0%	393,736	253,812	(139,924)	-35.5%
Total Revenues and Transfers	263,448,598	157,073,449	(106,375,148)	-40.4%	1,033,290,972	1,192,446,882	159,155,910	15.4%

VARIANCES

September 2015 revenues totaled \$157.1 million, which is \$21.3 million, or 12.0 percent below forecast. Biennium-to-date revenues of \$1.19 billion are \$63.1 million, or 5.0 percent, less than projected. When transfers from the tax relief fund are excluded, 2015-17 revenues to date are tracking 22.6 percent behind the same time period in the 2013-15 biennium. Significant monthly variances are as follows:

- **Sales tax** collections of \$81.8 million were \$23.3 million, or 22.2 percent, less than anticipated for the month due in large part to low oil prices. Additionally, as oil company operations become more efficient, the need for taxable good and services decreases. Biennium-to-date revenues are 21.4 percent below forecast.
- **Motor vehicle excise tax** collections of \$9.8 million were 24.1 percent, or \$3.1 million, below the forecast for the month. Total revenues to date of \$30.7 million are 19.7 percent behind projections and 7.9 percent less than the same period in the 2013-15 biennium. It appears that this variance is related to low oil prices and more efficient oil production operations.
- **Individual income tax** collections totaling \$15.9 million fell below the monthly projection by \$2.2 million, or 12.2 percent. However, biennium to date collections of \$90.2 million, exceed the forecast by \$5.4 million, or 6.4 percent. Tax rate reductions and above average set-aside for refund reserves resulted in collections that were 21.8 percent lower than the same three-month period in the 2013-15 biennium.
- **Corporate income tax** collections, projected to be \$0 for the month, were \$8.0 million. Collections received during the first three months of the biennium are typically deposited in the Tax Department's refund reserve account, not the general fund. However, an adequate refund reserve balance was reached sooner than expected, resulting in the month's variance. Biennium-to-date collections are \$23.3 million, or 70.4 percent, less than the prior biennium. This variance occurred because the refund reserve balance was achieved after the first two months of the 2013-15 biennium, resulting in large, unanticipated general fund deposits in September 2013.
- **Insurance premium tax collections** for the month were \$2.2 million less than expected due to early receipt of payments in the previous month. Biennium-to-date collections totaling \$5.0 million are \$1.8 million, or 57.1 percent, ahead of forecast.
- **Oil and gas taxes** were \$2.0 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 \$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.