



LEGISLATIVE REVENUE ADVISORY COMMITTEE

Thursday, August 13, 2020
Roughrider Room, State Capitol
Bismarck, North Dakota

Senator Ray Holmberg, Chairman, called the meeting to order at 12:30 p.m.

Members present: Senators Ray Holmberg, Joan Heckaman, Rich Wardner; Representatives Josh Boschee, Jeff Delzer, Lawrence R. Klemin, Chet Pollert

Member absent: Senator Dwight Cook

Others present: See [Appendix A](#)

It was moved by Senator Wardner, seconded by Representative Pollert, and carried on a voice vote that the minutes of the December 17, 2019, meeting be approved as distributed.

REVENUE UPDATE

Mr. Adam Mathiak, Senior Fiscal Analyst, Legislative Council, presented a memorandum entitled [Oil and Gas Tax Revenues Monthly Update](#), which provides information on actual oil and gas tax revenue allocations for July 2020 and for the biennium to date. He said the oil and gas tax revenue allocations for the biennium to date are approximately \$368 million, or 15 percent, less than the 2019 legislative revenue forecast.

Mr. Mathiak distributed a memorandum entitled [General Fund Revenues Monthly Update](#), which provides information on actual general fund revenue collections for June 2020 and for the biennium to date.

Mr. Joe Morrisette, Director, Office of Management and Budget, presented information ([Appendix B](#)) regarding general fund revenues for July 2020 and the status of the revenue forecasts. He said general fund revenues in July 2020 exceeded the forecast by 9 percent primarily due to additional income tax collections paid in July rather than April under the delayed filing provisions related to the Coronavirus (COVID-19) pandemic. He said the 2019-21 biennium revised revenue forecast and the 2021-23 biennium preliminary revenue forecast will be released in September 2020.

Mr. Ryan Rauschenberger, Tax Commissioner, presented information ([Appendix C](#)) regarding the status of online sales tax collections and individual income tax collections. He said the state collected \$22.2 million from online sales tax collections for the first 6 months of 2020, an increase of \$13.6 million compared to the first 6 months of 2019. He said approximately \$53 million of income tax collections were delayed from April 2020 to July 2020 based on a comparison to the collections in 2019.

In response to a question from Representative Boschee, Mr. Rauschenberger said the COVID-19 pandemic may cause a more permanent shift toward online purchases. He said although the state receives sales tax collections from online sales, the state's economic activity may be reduced since the sales are not being made at physical retail establishments in the state.

INDUSTRY TRENDS AND OUTLOOK

Oil and Gas Industry

Mr. Ron Ness, President, North Dakota Petroleum Council, provided comments regarding trends in the oil and gas industry. He said oil and gas activity is slowly recovering from the COVID-19 pandemic and oil price decline earlier in 2020. He said some oil drilling activity has increased as operators secure federal leases ahead of the election in November 2020. He said costs have increased as operators work to comply with state and federal regulations. He said the federal Coronavirus Aid, Relief, and Economic Security (CARES) Act funding used by the Department of Mineral Resources to plug and remediate abandoned oil wells has allowed the industry to keep some oil field workers employed.

Mr. Lynn Helms, Director, Department of Mineral Resources, presented information ([Appendix D](#)) regarding oil price and production trends. He said oil companies have slowed the oil production on approximately 6,600 wells and shut in approximately 3,300 wells. He said approximately 70 to 80 well completions are needed per month to maintain oil production. He said 11 rigs are operating in August 2020 and can drill a combined total of 20 to 25 wells per month. He said oil companies have the option to increase production within a few months by accessing their inventory of drilled but not completed wells. He said oil in storage is at record levels, which may suppress oil prices in the short term.

In response to a question from Senator Heckaman, Mr. Helms said the average estimated cost to produce a barrel of oil in the core area of the Bakken is \$27, including \$15 for the cost to lift the oil from the well and \$12 for other costs, including transportation.

In response to a question from Representative Delzer, Mr. Helms said 3 fracturing crews are operating in August 2020. He said an estimated 35 fracturing crews are needed to maintain production levels. He said efficiency decreases as additional fracturing crews are working.

In response to a question from Senator Heckaman, Mr. Helms said most states with natural gas capture requirements set a volume threshold. He said New Mexico uses a percentage requirement, similar to North Dakota.

Mr. Justin Kringstad, Director, North Dakota Pipeline Authority, presented information ([Appendix E](#)) regarding oil price and production trends. He said he is forecasting oil production to average 1.23 million barrels per day in the 2021-23 biennium based on the New York Mercantile Exchange (NYMEX) futures for West Texas Intermediate oil prices as of August 11, 2020. He said oil production will decrease if fewer than 70 wells are completed per month because of the natural production decline from oil wells. He said North Dakota oil production could decrease to 800,000 barrels per day by 2024 if well completions remain at 20 wells per month.

Agriculture Industry

Ms. Julie Ellingson, Executive Vice President, North Dakota Stockmen's Association, presented information ([Appendix F](#)) regarding trends in cattle prices and inventory. She said recent international trading agreements have increased cattle prices by 15 percent. She said the COVID-19 pandemic decreased the demand for beef while restaurants were closed and processing facilities were temporarily shutdown. She said swine flu concerns has caused a small increase in demand for beef. She said weather, pasture quality, and cattle feed supplies are concerns for the cattle industry.

In response to a question from Representative Boschee, Ms. Ellingson said the cattle industry in North Dakota would benefit from the construction of a beef processing facility in the state.

Mr. Neal Fisher, Administrator, North Dakota Wheat Commission, presented information ([Appendix G](#)) regarding trends in wheat prices and production. He said 55 percent of North Dakota's wheat is sold domestically while 45 percent is sold internationally. He said the number of acres of wheat planted is anticipated to remain stable for the next few years. He said demand for North Dakota's quality wheat increased during the COVID-19 pandemic as more consumers were baking at home. He said drought conditions in 2019 decreased wheat production but government payments and insurance assisted farmers to pay expenses.

Ms. Stephanie Sinner, Executive Director, North Dakota Soybean Council, presented information ([Appendix H](#)) regarding trends in soybean prices and production. She said soybean exports have been increasing slowly after the significant decrease in 2018 related to the trade dispute with China. She said sales of soybeans in 2019 were approximately 50 percent lower than the sales in 2017, before the trade dispute. She said the lack of processing facilities in North Dakota and other supply chain issues are concerns for soybean producers.

In response to a question from Senator Wardner, Ms. Sinner said a soybean processing facility may benefit the oil industry because oil refiners can blend soybean oil with crude oil for biodiesel products.

Other Industries

Mr. Mike Rud, President, North Dakota Retail Association, presented information ([Appendix I](#)) regarding trends in the retail industry. He said some retail sales increased during the COVID-19 pandemic as shoppers purchased essential items. He said restocking has been a challenge as transportation slowed and manufacturers reduced output. He said thefts increased by 25 percent with larger retailers experiencing theft-related losses in excess of \$500,000. He said the federal Paycheck Protection Program assisted retailers with retaining employees. He said retailers with physical stores are concerned about changes in consumer shopping patterns as online sales increase.

In response to a question from Senator Holmberg, Mr. Rud said the closure of the Canadian border due to the COVID-19 pandemic has impacted small retailers more than large retailers. He said large retailers benefited from an increase in online sales.

Mr. Russ Hanson, Executive Vice President, Associated General Contractors of North Dakota, presented information ([Appendix J](#)) regarding trends in the construction industry. He said construction in 2020 has remained steady even during the COVID-19 pandemic. He said favorable weather, slower business activity, and fewer commuters allowed construction activity to start earlier in the spring. He said construction companies have not reported any supply issues. He said funding challenges may cause construction activity to decrease in the next few years.

REVENUE FORECASTING MODEL

Mr. Jim Diffley, Executive Director, Industry Services Consulting Group, IHS Markit, presented information ([Appendix K](#)) regarding updates to the revenue forecasting model. He said IHS Markit revised its forecasting model for North Dakota to estimate the taxable sales by sector before aggregating the results and applying the tax rate. He said the previous model used new well completions and personal consumption expenditures as economic drivers. He said the drivers in the revised model include the changes in producing wells, sector-specific employment, and gross state product. He said the individual income tax model was adjusted to separate the transfers to the income tax refund reserve accounts. He said IHS Markit identified the change in producing wells as a more accurate economic driver for the corporate income tax model rather than corporate profits and oil prices.

Mr. Curtis Smith, Director, Upstream Oil and Gas Consulting, IHS Markit, presented information ([Appendix L](#)) regarding North Dakota oil production and price trends. He said oil production has rebounded from lows in May. He said oil production may decrease over the next year because the new wells are not being completed at levels needed to offset production declines from older wells. He said West Texas Intermediate oil prices are anticipated to remain in the low \$50's through 2025. He said oil production likely will be concentrated in the core of the Bakken formation where the oil production is the most economical. He said uncertainty related to global oil demand and prices will be a challenge for oil companies in planning production.

Chairman Holmberg said the next meeting is scheduled for September 22, 2020.

No further business appearing, Chairman Holmberg adjourned the meeting at 4:00 p.m.

Adam Mathiak
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Allen H. Knudson
Legislative Budget Analyst and Auditor

ATTACH:12