

North Dakota REV-E-NEWS



Pam Sharp, Director

December 2008

OFFICE OF MANAGEMENT AND BUDGET

600 EAST BOULEVARD AVE — DEPT. 110 BISMARCK, ND 58505-0400

MESSAGE FROM THE DIRECTOR

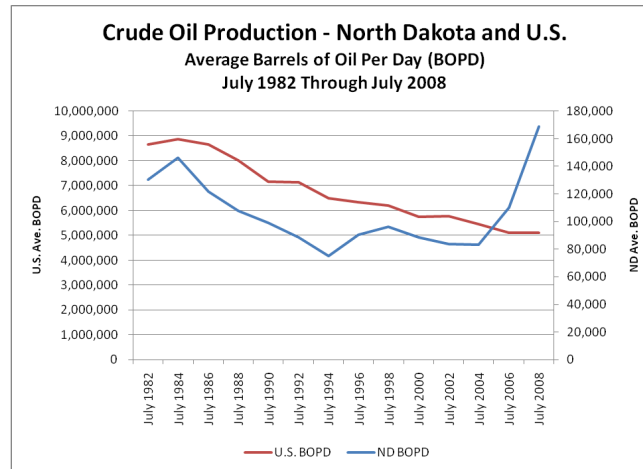
North Dakota Oil Production Continues to Soar!

Despite huge swings in crude oil prices, production in North Dakota continues to climb and set new records each month. From September 2007 to July 2008, the price for North Dakota crude nearly doubled from an average of \$71.21 in September to the new all-time high of \$136.29 recorded on July 3, 2008. From July to October 2008, the most current monthly average available from the North Dakota Oil and Gas Division, price fell by more than 50.0 percent to \$64.72. Since that time, price has continued to fall and was listed in Mid-December at \$22.12 per barrel.

Despite this incredible volatility, rigs continue to operate and the number of producing wells continues to set new records. In April 2008, North Dakota crude production reached a new record of 150,667 barrels per day, passing the previous record high of 147,774 reached in August 1984. North Dakota production has grown to such a significant level that in July 2008, the most recent month for which statistics are available through the U.S. Energy Information Administration, North Dakota ranked 6th among oil producing states at 169,000 barrels per day, closing in on Oklahoma at 173,000 barrels per day and Louisiana at 206,000 barrels per day. Since that time, as North Dakota production has continued to grow, it appears North Dakota has passed Oklahoma to become the 5th largest oil producing state. As production declines in many states, North Dakota is poised to move ahead of Louisiana to take the spot of 4th largest oil producing state. October production in North Dakota reached 203,800 barrels per day.

The top ten states produced 66.0 percent of all domestically produced oil in July 2008. Those ten states, listed in rank order, are: Texas at 1.1 million barrels of oil per day (BOPD), Alaska at 640,000 BOPD, California at 586,000 BOPD, Louisiana at 206,000 BOPD, Oklahoma at 173,000 BOPD, North Dakota at 169,000 BOPD, New Mexico at 162,000 BOPD; Wyoming at 148,000 BOPD, Kansas at 105,000 BOPD, and Montana at 71,000 BOPD.

The following chart shows the stark contrast between the declining U.S. domestic oil production and the growing North Dakota rate of production.



However, there is reason to be concerned as North Dakota crude oil prices continue to languish in the \$20-\$30 range and pipeline capacity issues result in increased transportation costs and price discounting. Economists at Moody's Economy.com forecast a long-term price for West Texas Intermediate in the \$70-\$80 range, with North Dakota crude about 10.0 percent less, but current prices are only about 1/3 of that amount. Price and production data, along with expert forecasts, will be examined closely in the coming weeks as the Office of Management and Budget works to prepare a new revenue forecast for the 2009 Legislative Assembly.

OIL ACTIVITY

The executive forecast for the 2009-11 biennium includes a revised fiscal year 2009 forecast. That forecast is based on oil production increasing to 200,000 barrels per day by June 30, 2009, and price increasing to \$59 by the end of the fiscal year. Currently, the price of North Dakota crude has fallen to less than \$25 per barrel. However, production continues to set new records and increased in October to nearly 204,000 barrels per day. Drilling permit activity and rig count remain strong, despite the drop in price. The current rig count is 83 rigs, 32 more than were operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:



	Oct 2008	Sept 2008	Aug 2008
ND sweet crude price per barrel	\$64.72	\$94.21	\$106.54
Production (barrels/day)	203,800	189,600	177,700
Drilling permits	102	103	76
Producing wells	4,236	4,193	4,154
Rig count	88	87	82

Comments or Questions?

Contact

Pam Sharp, Director

Phone: 701-328-2680

Fax: 701-328-3230

E-mail:

psharp@nd.gov

Visit the North Dakota web site

www.nd.gov

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2007-09 BIENNIUM November 2008

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	April 2007 <u>Leg. Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>	April 2007 <u>Leg. Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
Sales Tax	37,886,000	37,521,235	(364,765)	-1.0%	638,521,000	736,170,664	97,649,664	15.3%
Motor Vehicle Excise Tax	4,000,000	4,022,183	22,183	0.6%	80,855,000	95,481,090	14,626,090	18.1%
Individual Income Tax	7,529,000	8,364,805	835,805	11.1%	329,040,000	424,718,414	95,678,414	29.1%
Corporate Income Tax	1,909,000	6,846,572	4,937,572	258.6%	87,819,000	155,955,352	68,136,352	77.6%
Insurance Premium Tax	4,881,416	7,292,782	2,411,366	49.4%	36,977,166	45,589,868	8,612,702	23.3%
Financial Institutions Tax		(530,621)	(530,621)	-100.0%	4,700,000	6,101,880	1,401,880	29.8%
Oil & Gas Production Tax*					39,839,000	39,309,315	(529,685)	-1.3%
Oil Extraction Tax*					31,161,000	31,690,685	529,685	1.7%
Gaming Tax	1,615,667	1,532,272	(83,395)	-5.2%	14,799,208	14,807,872	8,664	0.1%
Lottery					5,577,500	5,300,000	(277,500)	-5.0%
Cigarette & Tobacco Tax	1,907,000	2,042,936	135,936	7.1%	34,252,000	32,826,132	(1,425,868)	-4.2%
Wholesale Liquor Tax	512,000	630,340	118,340	23.1%	9,053,000	10,067,413	1,014,413	11.2%
Coal Conversion Tax	2,050,000	2,176,506	126,506	6.2%	34,130,000	34,582,347	452,347	1.3%
Mineral Leasing Fees	1,000,000	1,725,439	725,439	72.5%	10,150,000	19,050,044	8,900,044	87.7%
Departmental Collections	1,996,000	2,750,352	754,352	37.8%	37,726,000	42,343,693	4,617,693	12.2%
Interest Income	1,375,000	2,035,299	660,299	48.0%	24,295,000	30,850,430	6,555,430	27.0%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil tax trust fund-Transfer					115,000,000	115,000,000		0.0%
Other Transfers		5,459	5,459	100.0%	955,542	1,030,314	74,772	7.8%
Total Revenues and Transfers	66,661,083	76,415,561	9,754,478	14.6%	1,534,850,416	1,840,875,512	306,025,096	19.9%

* Oil and gas production and extraction tax collections totaled \$25.8 million in November. Because the \$71.0 million statutory cap for the 2007-09 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2007-09 biennium. Through November, oil tax collections totaling \$369.4 have been transferred, or are available for transfer, to the permanent oil tax trust fund and are not reflected on this report.

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Previous Biennium Revenues
2007-09 BIENNIUM
November 2008

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	November <u>2006</u>	November <u>2008</u>	<u>Variance</u>	<u>Percent</u>	<u>2005-07</u>	<u>2007-09</u>	<u>Variance</u>	<u>Percent</u>
Sales Tax	33,881,966	37,521,235	3,639,268	10.7%	585,248,478	736,170,664	150,922,186	25.8%
Motor Vehicle Excise Tax	4,579,989	4,022,183	(557,806)	-12.2%	87,996,369	95,481,090	7,484,721	8.5%
Individual Income Tax	8,574,954	8,364,805	(210,149)	-2.5%	382,437,847	424,718,414	42,280,567	11.1%
Corporate Income Tax	1,977,981	6,846,572	4,868,591	246.1%	132,071,970	155,955,352	23,883,381	18.1%
Insurance Premium Tax	4,738,204	7,292,782	2,554,578	53.9%	35,179,022	45,589,868	10,410,846	29.6%
Financial Institutions Tax	(20,730)	(530,621)	(509,891)	-2459.7%	4,263,912	6,101,880	1,837,968	43.1%
Oil & Gas Production Tax*					45,970,447	39,309,315	(6,661,131)	-14.5%
Oil Extraction Tax*					25,029,553	31,690,685	6,661,131	26.6%
Gaming Tax	1,287,595	1,532,272	244,677	19.0%	13,237,849	14,807,872	1,570,023	11.9%
Lottery					6,300,000	5,300,000	(1,000,000)	-15.9%
Cigarette & Tobacco Tax	1,840,864	2,042,936	202,072	11.0%	32,020,444	32,826,132	805,688	2.5%
Wholesale Liquor Tax	583,071	630,340	47,269	8.1%	9,174,804	10,067,413	892,609	9.7%
Coal Conversion Tax	2,102,274	2,176,506	74,232	3.5%	35,346,279	34,582,347	(763,932)	-2.2%
Mineral Leasing Fees	1,297,934	1,725,439	427,505	32.9%	11,210,921	19,050,044	7,839,123	69.9%
Departmental Collections	918,963	2,750,352	1,831,389	199.3%	35,040,611	42,343,693	7,303,082	20.8%
Interest Income	2,146,269	2,035,299	(110,970)	-5.2%	19,777,292	30,850,430	11,073,138	56.0%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil Tax Trust Fund-Transfer					30,000,000	115,000,000	85,000,000	283.3%
Other Transfers	2,020	5,459	3,439	170.2%	9,721,859	1,030,314	(8,691,545)	-89.4%
Total Revenues and Transfers	63,911,356	76,415,561	12,504,205	19.6%	1,500,027,657	1,840,875,512	340,847,855	22.7%

* Oil and gas production and extraction tax collections totaled \$25.8 million in November. Because the \$71.0 million statutory cap for the 2007-09 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2007-09 biennium. Through November, oil tax collections totaling \$369.4 have been transferred, or are available for transfer, to the permanent oil tax trust fund and are not reflected on this report.

VARIANCES

November 2008 revenues are \$76.4 million, \$9.8 million more than projected in the original legislative forecast and \$1.4 million less than estimated in the recently completed 2009-11 executive forecast. Biennium to date collections exceed the original forecast by \$306.0 million, or 19.9 percent. Notable variances for the month are as follows:

- **Sales tax** collections for the month of November are slightly less than estimated in the original legislative forecast, but this appears to be the result of timing. Collections received by the state in November are primarily from October sales and are due to be filed with the Tax Department by November 30. Amounts collected with returns filed after the due date are not reported as revenue in the month they were anticipated to be collected. This seems to be the cause of this small shortfall. Actual sales tax collections received by the Tax Department during the first few days of December were significantly higher than normal and are likely November collections filed after the due date. Biennium to date sales tax collections exceed the legislative forecast by 15.3 percent and the previous biennium by 25.8 percent.
- **Motor vehicle excise tax** collections continue to exceed the forecast. Collections exceed the original forecast by only .6 percent for the month, but by 18.1 percent for the biennium to date. Following steady declines during the 2005-07 biennium, collections are currently 8.5 percent higher than at the same time last biennium.
- **Individual income tax** collections exceed the original forecast by \$836,000 for the month, a variance of 11.1 percent. Biennium to date collections exceed the forecast by 29.1 percent.
- **Corporate income tax** collections exceed the original forecast by \$4.9 million. This follows a shortfall of \$1.2 million in October. In light of the additional November collections received, the October variance appears to be the result of timing. Throughout the biennium, corporate tax collections have continually exceeded the original forecast and are currently \$68.1 million, or 77.6 percent, higher than originally estimated.
- **Oil and gas tax** collections for the month are \$25.8 million. Because the \$71.0 million general fund cap was reached in November 2007, the entire \$25.8 million will be deposited in the permanent oil tax trust fund. The current price of North Dakota crude has fallen below \$25 per barrel, but October production averaged 203,800 barrels per day, setting a new record for North Dakota.
- **Mineral leasing fees** exceed the forecast by \$725,000 in November. These revenues are received by the state as a result of mineral extraction on federal lands within the boundaries of the state and are shared equally with the counties within which the minerals are produced. Growing oil production has resulted in additional mineral income for the state and counties. The state share exceeds the original forecast by \$8.9 million for the biennium, a variance of 87.7 percent.

OFFICE OF MANAGEMENT AND BUDGET
600 EAST BOULEVARD AVE — DEPT. 110
BISMARCK, ND 58505-0400
<http://www.nd.gov/fiscal> or www.nd.gov/omb