



# North Dakota REV-E-NEWS

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The 2005-07 biennium is off to a great start with revenue collections exceeding the legislative forecast by 17.0 percent and exceeding 2003-05 biennium collections by nearly 14.0 percent. North Dakota is not the only state experiencing such astounding revenue growth, but it ranks near the top in terms of year over year growth.

Based on a recently released *State Revenue Report*, published by the Nelson A. Rockefeller Institute of Government, state tax revenue increases averaged 9.2 percent during the first quarter of fiscal year 2006 compared to the same quarter of fiscal year 2005, the "strongest nominal July-September revenue growth since the Rockefeller Institute of Government began to track state revenues in 1991."

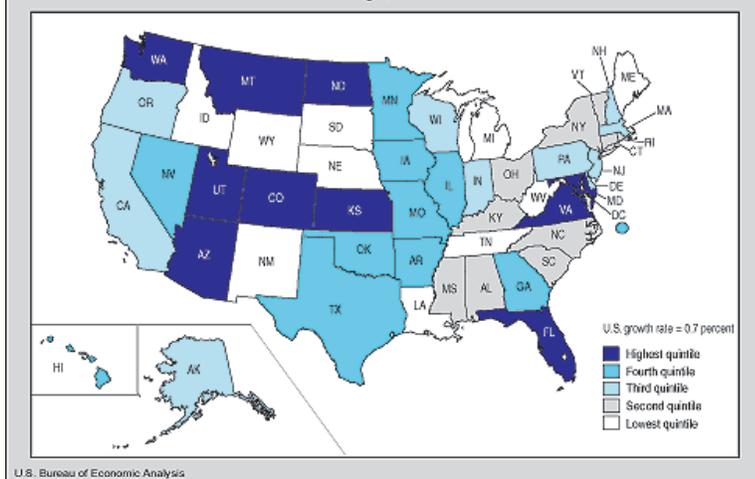
Quarterly tax revenue increased in North Dakota by 13.0 percent during this period, well above the national average of 9.2 percent. Only seven states recorded

percentage increases greater than North Dakota: Delaware, Minnesota, Nebraska, Florida, Virginia, Arizona, and Hawaii.

Tax revenue, for the purposes of the *State Revenue Report*, includes the three major tax types for most states: personal income tax, corporate income tax, and sales tax. Nationally, corporate income tax has shown the strongest year over year growth. In North Dakota, corporate income tax collections have followed the national trend and exceeded both the current forecast and collections from two years ago.

As reflected in personal income tax collections, personal income continues to grow in North Dakota. A December report released by the Bureau of Economic Analysis shows North Dakota is among the top ten states in terms of personal income growth from the second to the third quarter of 2005. The following chart is reprinted from that report:

Chart 1. Personal Income: Percent Change, 2005:II-2005:III



## Oil Activity

Average oil production in October continued above 100,000 barrels per day, increasing to nearly 103,000 barrels per day. September production averaged 101,400 barrels per day. Drilling permit activity remained strong, but declined from the September level with 52 permits being issued in October; 61 permits were issued in Septem-

ber. The average price for North Dakota crude continues well above forecasted prices. Current prices have dipped to approximately \$52 per barrel; October prices averaged approximately \$57 per barrel, September prices \$60 per barrel. The current rig count is 36 rigs, double the number operating one year ago.

**STATEMENT OF GENERAL FUND REVENUES AND FORECASTS**  
**Compared to the Legislative Forecast**  
**2005-07 BIENNIUM**  
**November 2005**

| REVENUES AND TRANSFERS              | FISCAL MONTH                       |                   |                  |                | BIENNIUM TO DATE                   |                    |                   |                |
|-------------------------------------|------------------------------------|-------------------|------------------|----------------|------------------------------------|--------------------|-------------------|----------------|
|                                     | March 2005<br><u>Leg. Forecast</u> | <u>Actual</u>     | <u>Variance</u>  | <u>Percent</u> | March 2005<br><u>Leg. Forecast</u> | <u>Actual</u>      | <u>Variance</u>   | <u>Percent</u> |
| Sales Tax                           | 35,910,000                         | 33,802,537        | (2,107,463)      | -5.9%          | 156,648,000                        | 168,495,791        | 11,847,791        | 7.6%           |
| Motor Vehicle Excise Tax            | 4,761,000                          | 3,985,466         | (775,534)        | -16.3%         | 28,112,000                         | 26,437,285         | (1,674,715)       | -6.0%          |
| Individual Income Tax               | 21,369,000                         | 18,578,496        | (2,790,504)      | -13.1%         | 81,061,000                         | 95,624,143         | 14,563,143        | 18.0%          |
| Corporate Income Tax                | 1,516,000                          | 2,436,800         | 920,800          | 60.7%          | 4,408,000                          | 24,129,332         | 19,721,332        | 447.4%         |
| Insurance Premium Tax               | 4,500,000                          | 3,792,755         | (707,245)        | -15.7%         | 9,366,000                          | 6,330,965          | (3,035,035)       | -32.4%         |
| Financial Institutions Tax          |                                    | (49,651)          | (49,651)         | 100.0%         | -                                  | 4,133              | 4,133             | 100.0%         |
| Oil & Gas Production Tax            | 2,276,000                          | 6,056,953         | 3,780,953        | 166.1%         | 12,095,000                         | 26,563,101         | 14,468,101        | 119.6%         |
| Gaming Tax                          | 1,765,000                          | 1,397,056         | (367,944)        | -20.8%         | 4,815,000                          | 4,533,618          | (281,382)         | -5.8%          |
| Lottery                             |                                    | -                 |                  |                | -                                  | -                  |                   |                |
| Interest Income                     | 282,000                            | 656,359           | 374,359          | 132.8%         | 1,210,000                          | 2,954,459          | 1,744,459         | 144.2%         |
| Oil Extraction Tax                  | 2,323,000                          | 3,453,792         | 1,130,792        | 48.7%          | 12,121,000                         | 15,071,541         | 2,950,541         | 24.3%          |
| Cigarette & Tobacco Tax             | 1,675,000                          | 1,845,566         | 170,566          | 10.2%          | 8,402,000                          | 9,487,838          | 1,085,838         | 12.9%          |
| Departmental Collections            | 1,346,000                          | 3,336,011         | 1,990,011        | 147.8%         | 8,608,000                          | 8,414,832          | (193,168)         | -2.2%          |
| Wholesale Liquor Tax                | 487,000                            | 565,864           | 78,864           | 16.2%          | 2,624,000                          | 2,738,275          | 114,275           | 4.4%           |
| Coal Conversion Tax                 | 2,095,000                          | 2,185,911         | 90,911           | 4.3%           | 10,539,000                         | 10,627,324         | 88,324            | 0.8%           |
| Mineral Leasing Fees                | 500,000                            | 1,148,750         | 648,750          | 129.7%         | 1,750,000                          | 3,316,386          | 1,566,386         | 89.5%          |
| Bank of North Dakota-Transfer       |                                    | -                 |                  |                | -                                  | -                  |                   |                |
| State Mill & Elevator-Transfer      |                                    | -                 |                  |                | -                                  | -                  |                   |                |
| Gas Tax Admin-Transfer              |                                    | -                 |                  |                | 350,000                            | 350,000            | -                 | 0.0%           |
| Other Transfers                     |                                    | (10,022)          | (10,022)         | 100.0%         | 30,000,000                         | 30,110,099         | 110,099           | 0.4%           |
| <b>Total Revenues and Transfers</b> | <b>80,805,000</b>                  | <b>83,182,644</b> | <b>2,377,644</b> | <b>2.9%</b>    | <b>372,109,000</b>                 | <b>435,189,123</b> | <b>63,080,123</b> | <b>17.0%</b>   |

**STATEMENT OF GENERAL FUND REVENUES AND FORECASTS**  
**Compared to the Previous Biennium Revenues**  
**2005-07 BIENNIUM**  
**November 2005**

| REVENUES AND TRANSFERS              | FISCAL MONTH            |                         |                   |                | BIENNIUM TO DATE   |                    |                   |                |
|-------------------------------------|-------------------------|-------------------------|-------------------|----------------|--------------------|--------------------|-------------------|----------------|
|                                     | November<br><u>2003</u> | November<br><u>2005</u> | <u>Variance</u>   | <u>Percent</u> | <u>2003-05</u>     | <u>2005-07</u>     | <u>Variance</u>   | <u>Percent</u> |
| Sales Tax                           | 24,548,177              | 33,802,537              | 9,254,360         | 37.7%          | 141,581,943        | 168,495,791        | 26,913,848        | 19.0%          |
| Motor Vehicle Excise Tax            | 4,390,513               | 3,985,466               | (405,047)         | -9.2%          | 26,961,861         | 26,437,285         | (524,575)         | -1.9%          |
| Individual Income Tax               | 12,806,345              | 18,578,496              | 5,772,152         | 45.1%          | 80,014,939         | 95,624,144         | 15,609,204        | 19.5%          |
| Corporate Income Tax                | 92,426                  | 2,436,800               | 2,344,374         | 2536.5%        | 3,303,186          | 24,129,332         | 20,826,145        | 630.5%         |
| Insurance Premium Tax               | 2,869,895               | 3,792,755               | 922,860           | 32.2%          | 6,376,048          | 6,330,965          | (45,083)          | -0.7%          |
| Financial Institutions Tax          | (243,924)               | (49,651)                | 194,273           | -79.6%         | (225,263)          | 4,133              | 229,396           | -101.8%        |
| Oil & Gas Production Tax            | 1,459,017               | 6,056,953               | 4,597,936         | 315.1%         | 8,930,998          | 26,563,101         | 17,632,103        | 197.4%         |
| Gaming Tax                          | 1,504,676               | 1,397,056               | (107,620)         | -7.2%          | 5,558,548          | 4,533,617          | (1,024,930)       | -18.4%         |
| Lottery                             |                         | -                       |                   |                | -                  | -                  |                   |                |
| Interest Income                     | 62,864                  | 656,359                 | 593,495           | 944.1%         | 362,062            | 2,954,459          | 2,592,397         | 716.0%         |
| Oil Extraction Tax                  | 922,746                 | 3,453,792               | 2,531,046         | 274.3%         | 5,785,660          | 15,071,541         | 9,285,881         | 160.5%         |
| Cigarette & Tobacco Tax             | 1,694,907               | 1,845,566               | 150,659           | 8.9%           | 8,478,538          | 9,487,839          | 1,009,301         | 11.9%          |
| Departmental Collections            | 2,774,540               | 3,336,011               | 561,471           | 20.2%          | 66,695,580         | 8,414,831          | (58,280,749)      | -87.4%         |
| Wholesale Liquor Tax                | 588,778                 | 565,864                 | (22,914)          | -3.9%          | 2,600,609          | 2,738,275          | 137,666           | 5.3%           |
| Coal Conversion Tax                 | 2,092,387               | 2,185,911               | 93,524            | 4.5%           | 10,409,141         | 10,627,324         | 218,183           | 2.1%           |
| Mineral Leasing Fees                | 433,159                 | 1,148,750               | 715,591           | 165.2%         | 1,651,220          | 3,316,386          | 1,665,167         | 100.8%         |
| Bank of North Dakota-Transfer       |                         | -                       |                   |                | -                  | -                  |                   |                |
| State Mill & Elevator-Transfer      |                         | -                       |                   |                | -                  | -                  |                   |                |
| Gas Tax Admin-Transfer              |                         | -                       |                   |                | 349,050            | 350,000            | 950               | 0.3%           |
| Other Transfers                     | 660                     | (10,022)                | (10,681)          | -1619.1%       | 13,424,819         | 30,110,099         | 16,685,280        | 124.3%         |
| <b>Total Revenues and Transfers</b> | <b>55,997,164</b>       | <b>83,182,644</b>       | <b>27,185,480</b> | <b>48.5%</b>   | <b>382,258,939</b> | <b>435,189,122</b> | <b>52,930,183</b> | <b>13.8%</b>   |

# Revenue Variances

Overall revenue collections for the month of November exceeded the forecast by \$2.4 million, or 2.9 percent, bringing biennium to date collections to \$372.1 million, \$63.1 million more than estimated. Notable variances are as follows:

Sales tax collections fell short of the monthly forecast by \$2.1 million, but still exceed the biennium to date forecast by 7.6 percent. This variance is likely attributable to the timing of beginning of the month collections which were applied to October, adding to the positive variance realized in that month.

Motor vehicle excise tax collections fell short of projections by nearly \$800,000, the second month in a row we have seen negative variances for this tax type. Biennium to date collections are slightly less than the forecast and less than the amount collected during the same period two years ago. Higher fuel prices are a likely contributor to flat or declining automobile sales. Consumer demand for smaller, more fuel efficient vehicles, many of which are lower priced than larger, more inefficient vehicles, could be contributing to the decline in gross sales volume.

Individual income tax collections also fell short of projections in November. Timing is the probable cause of this variance. October collections exceeded projections by a wide margin and biennium to date collections are well in excess of the forecast and actual collections from the previous biennium.

Corporate income tax collections once again exceeded the legislative forecast. Collections to date have exceeded both the current forecast and actual collections from two years ago by a surprising margin. This is due to strong estimated tax payments

by corporate tax filers, indicating a continued positive economic outlook by North Dakota businesses.

As a result of crude oil prices exceeding forecasted prices, oil and gas taxes exceeded the monthly forecast by \$4.9 million, \$17.5 million for the biennium. Although this accelerates general fund collections, it will not increase general fund collections for the biennium. North Dakota Century Code Section 57-51.1-07.2 provides that all oil tax collections in excess of \$71.0 million be deposited in the permanent oil tax trust fund, rather than the general fund. Consequently, the \$71.0 million threshold will be reached sooner than anticipated in the legislative forecast, but total general fund collections will none-the-less be capped at \$71.0 million for the biennium.

Cigarette and tobacco taxes exceeded the monthly forecast by nearly \$200,000 for the month and by over \$1.0 million for the biennium. This appears, in part, to be a result of cross-border buying by Minnesota residents avoiding the comparatively higher cigarette and tobacco tax rates in their home state.

## Comments or Questions?

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**Hope the New Year is good to you!**

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