

# North Dakota REV-E-NEWS



Pam Sharp, Director

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OFFICE OF MANAGEMENT AND BUDGET  
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## MESSAGE FROM THE DIRECTOR

Revenue collections continue to outpace the legislative revenue forecast as well as actual collections from the 2003-05 biennium. Through January 2006, actual revenues have exceeded the legislative forecast by \$107.5 million, or over 20 percent. Growth is spread among all major tax types. Sales tax, the state's largest revenue source, has outpaced the legislative forecast by \$19.5 million. Individual income taxes and oil taxes exceed the legislative forecast by over \$25.0 million, and corporate income taxes exceed the legislative forecast by over \$34.0 million.

This clear indication of growth in the state's economy shows the success of North Dakota's economic development efforts. Annual average wages in North Dakota have increased 22.1 percent from 1999 through 2004. During that same period, the state's economy has grown by nearly 15,000 jobs in an increasingly diversified array of economic sectors. As the economy grows,

those jobs are filled – North Dakota's unemployment rate remains nearly 40 percent below the national average, even while the state's labor force grows.

Looking forward, we are encouraged to see a positive outlook for the next fiscal year as well. According to *Moody's Economy.com*, the state's economic forecasting consultant, the state can expect continued strong growth in state revenues for fiscal year 2007.

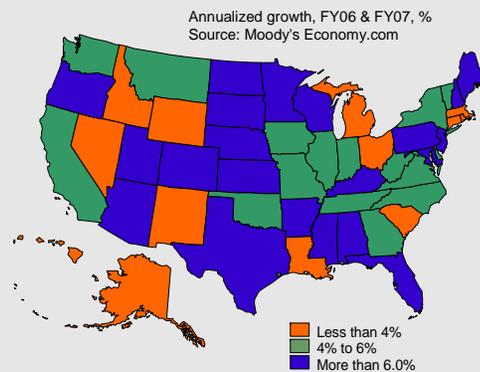
The chart below, published by *Moody's Economy.com*, indicates that most states can anticipate substantial revenue growth in fiscal year 2007. However, North Dakota is among those states with the brightest outlook – anticipated revenue growth in excess of 6 percent per year. When considering this outlook in the context of the exceptional revenue growth we are currently experiencing, we can look forward to the state ending the biennium in a very positive fiscal position.

## OIL ACTIVITY

Average oil production in December continued above 100,000 barrels per day. Production decreased slightly from the November average level of over 105,000 barrels per day to approximately 103,700 barrels per day. Drilling permit activity remained strong with 30 drilling permits being issued in December compared to 32 issued in November. The average price for North Dakota crude continues well above forecasted prices and is currently around \$53 per barrel. Prices have remained stable for November and December, averaging between \$52 and \$54 per barrel. The current rig count is 34 rigs, more than double the number operating one year ago.



### Sturdy Revenue Growth Expected for Most States



Comments or Questions?

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**STATEMENT OF GENERAL FUND REVENUES AND FORECASTS**  
**Compared to the Legislative Forecast**  
**2005-07 BIENNIUM**  
**January 2006**

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	March 2005 <u>Leg. Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>	March 2005 <u>Leg. Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
Sales Tax	38,438,000	46,338,731	7,900,731	20.6%	219,742,000	239,269,437	19,527,437	8.9%
Motor Vehicle Excise Tax	5,573,000	4,640,387	(932,613)	-16.7%	38,538,000	35,302,967	(3,235,033)	-8.4%
Individual Income Tax	32,879,000	43,978,459	11,099,459	33.8%	119,869,000	146,279,274	26,410,274	22.0%
Corporate Income Tax	3,370,000	7,753,731	4,383,731	130.1%	12,618,000	46,990,010	34,372,010	272.4%
Insurance Premium Tax	128,000	55,014	(72,986)	-57.0%	11,494,000	8,431,842	(3,062,158)	-26.6%
Financial Institutions Tax	78,000	66,149	(11,851)	-15.2%	78,000	(72,175)	(150,175)	-192.5%
Oil & Gas Production Tax	2,599,000	6,024,364	3,425,364	131.8%	16,917,000	38,177,929	21,260,929	125.7%
Gaming Tax	900,000	813,808	(86,192)	-9.6%	6,065,000	5,362,648	(702,352)	-11.6%
Lottery	-	-	-	-	-	-	-	-
Interest Income	282,000	889,607	607,607	215.5%	1,774,000	5,175,666	3,401,666	191.8%
Oil Extraction Tax	2,323,000	3,211,583	888,583	38.3%	16,506,000	21,263,854	4,757,854	28.8%
Cigarette & Tobacco Tax	1,391,000	2,000,678	609,678	43.8%	11,338,000	13,326,817	1,988,817	17.5%
Departmental Collections	4,748,000	5,376,095	628,095	13.2%	15,190,000	15,534,257	344,257	2.3%
Wholesale Liquor Tax	536,000	551,805	15,805	2.9%	3,682,000	3,796,248	114,248	3.1%
Coal Conversion Tax	2,146,000	2,156,728	10,728	0.5%	14,778,000	14,884,355	106,355	0.7%
Mineral Leasing Fees	500,000	1,177,033	677,033	135.4%	2,000,000	4,000,636	2,000,636	100.0%
Bank of North Dakota-Transfer	-	-	-	-	-	-	-	-
State Mill & Elevator-Transfer	-	-	-	-	-	-	-	-
Gas Tax Admin-Transfer	175,000	175,000	-	0.0%	525,000	525,000	-	0.0%
Other Transfers	-	684	684	100.0%	30,000,000	30,110,782	110,782	0.4%
<b>Total Revenues and Transfers</b>	<b>96,066,000</b>	<b>125,209,855</b>	<b>29,143,855</b>	<b>30.3%</b>	<b>521,114,000</b>	<b>628,359,549</b>	<b>107,245,549</b>	<b>20.6%</b>

**STATEMENT OF GENERAL FUND REVENUES AND FORECASTS**  
*Compared to the Previous Biennium Revenues*  
**2005-07 BIENNIUM**  
**January 2006**

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	January <u>2004</u>	January <u>2006</u>	<u>Variance</u>	<u>Percent</u>	<u>2003-05</u>	<u>2005-07</u>	<u>Variance</u>	<u>Percent</u>
Sales Tax	30,231,777	46,338,731	16,106,955	53.3%	202,407,402	239,269,437	36,862,035	18.2%
Motor Vehicle Excise Tax	5,454,849	4,640,387	(814,462)	-14.9%	37,127,932	35,302,967	(1,824,965)	-4.9%
Individual Income Tax	27,356,842	43,978,459	16,621,617	60.8%	112,805,709	146,279,275	33,473,566	29.7%
Corporate Income Tax	2,141,191	7,753,731	5,612,540	262.1%	10,674,766	46,990,010	36,315,244	340.2%
Insurance Premium Tax	10,543	55,014	44,471	421.8%	9,321,786	8,431,842	(889,944)	-9.5%
Financial Institutions Tax	66,862	66,149	(713)	-1.1%	(433,836)	(72,175)	361,661	-83.4%
Oil & Gas Production Tax	2,820,644	6,024,364	3,203,720	113.6%	13,826,890	38,177,929	24,351,038	176.1%
Gaming Tax	1,361,109	813,808	(547,302)	-40.2%	6,941,559	5,362,647	(1,578,911)	-22.7%
Lottery	-	-	-	-	-	-	-	-
Interest Income	64,789	889,607	824,817	1273.1%	525,299	5,175,666	4,650,367	885.3%
Oil Extraction Tax	1,307,429	3,211,583	1,904,154	145.6%	8,256,226	21,263,854	13,007,628	157.5%
Cigarette & Tobacco Tax	1,402,713	2,000,678	597,965	42.6%	11,942,842	13,326,817	1,383,975	11.6%
Departmental Collections	4,654,506	5,376,095	721,589	15.5%	73,391,583	15,534,257	(57,857,326)	-78.8%
Wholesale Liquor Tax	574,488	551,805	(22,683)	-3.9%	3,608,008	3,796,248	188,240	5.2%
Coal Conversion Tax	2,181,692	2,156,728	(24,964)	-1.1%	14,664,142	14,884,355	220,213	1.5%
Mineral Leasing Fees	270,702	1,177,033	906,331	334.8%	1,859,317	4,000,636	2,141,319	115.2%
Bank of North Dakota-Transfer	-	-	-	-	-	-	-	-
State Mill & Elevator-Transfer	-	-	-	-	-	-	-	-
Gas Tax Admin-Transfer	174,525	175,000	475	0.0%	523,575	525,000	1,425	0.3%
Other Transfers	-	684	684	100.0%	13,432,572	30,110,782	16,678,210	124.2%
<b>Total Revenues and Transfers</b>	<b>80,074,663</b>	<b>125,209,855</b>	<b>45,134,717</b>	<b>56.4%</b>	<b>520,875,774</b>	<b>628,359,548</b>	<b>107,483,774</b>	<b>20.6%</b>

## Revenue Variances

Overall revenue collections for the month of January exceeded the forecast by \$29.1 million, or 30.3%, bringing biennium to date collections to \$628.4 million, \$107.2 million more than estimated. By comparison, January 2006 collections exceeded January 2004 collections by 56.4 percent. Notable variances are as follows:

Sales tax collections exceeded projections by \$7.9 million, or 20.6 percent. Biennium to date collections exceed the legislative forecast by \$19.5 million. A portion of this variance appears to be a result of timing and will be somewhat offset by a corresponding February variance. However, the majority of the variance demonstrates a continued trend of strong economic growth.

Motor vehicle excise tax collections again fell short of projections, in January by over \$900,000. Biennium to date collections are \$3.2 million less than forecast and \$1.8 million 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, could be contributing to the decline in gross sales volume.

Individual income tax collections exceeded monthly projections by \$11.1 million, increasing the biennium to date variance to \$26.4 million.

Corporate income tax collections once again exceeded the legislative forecast.

Monthly collections exceeded the forecast by \$4.4 million, bringing the biennium to date variance to \$34.4 million. The January variance is attributable to both an increase in estimated tax payments from corporate filers and the receipt of audit collections.

As a result of crude oil prices exceeding forecasted prices, oil and gas taxes exceeded the monthly forecast by \$4.3 million, \$26.1 million for the biennium. Although this accelerates general fund collections, it will not increase total 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 threshold will be reached sooner than anticipated in the legislative forecast, but total general fund collections will be capped at \$71.0 million for the biennium. Through January, oil tax collections total \$59.5 million.

Cigarette and tobacco taxes continue to exceed the monthly forecast. January collections exceeded the forecast by over \$600,000. Biennium to date collections exceed the forecast by nearly \$2.0 million. 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.

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