

North Dakota REV-E-NEWS



Pam Sharp, Director

March 2006

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

MESSAGE FROM THE DIRECTOR

Moody's Economy.com, the state's economic forecasting consultant, recently completed its review of Midwestern economies. This review is typically done semi-annually and appears in the company's *Précis State* publication.

Moody's Economy.com reports, in reference to North Dakota, that "expanding metro area economies and robust profitability in its rural farm sector have been buoying its economy."

Recent growth is broad based, involving service industries, manufacturing, and agriculture. "In particular, construction, wholesale trade, leisure/hospitality services, and professional/business services are leading the growth. Moreover, the farm sector benefited from favorable market prices and increasing worldwide demand for agricultural commodities."

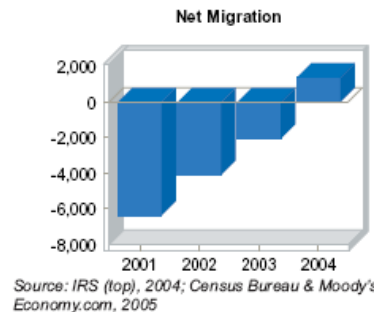
As we have seen reflected in the state's strong personal income tax collections, personal income has grown at a rate that is not only higher than expected, but higher than most other states. "For the one year period through the third quarter of 2005,

personal income growth outpaced all but four other states."

Two charts that appear in the *Moody's Economy.com* publication give insight into North Dakota's economic and demographic climate and are reproduced below.

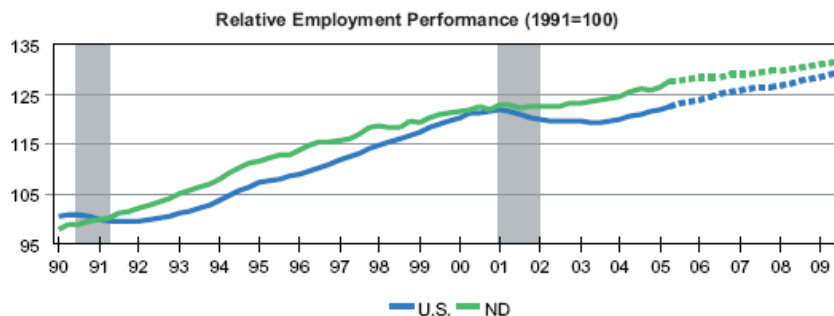
After several years of negative net migration, the state appears to have turned the corner to positive net migration (i.e., more people moving into the state than moving out of the state).

With low unemployment and job growth, North Dakota's employment performance has outpaced that of the U.S. and is expected to continue to do so.



OIL ACTIVITY

Average oil production in January dropped below the 100,000 barrels per day mark, to around 98,000 barrels per day. December production averaged just over 104,000 barrels per day. Drilling permit activity was very strong, with 55 new permits being issued, compared to the 30 permits issued in December. The average price for North Dakota crude continues well above forecasted prices and is currently around \$52 per barrel. Prices have remained stable for November, December, and January, averaging between \$52 and \$54 per barrel. However, due to limited pipeline capacity and the resulting difficulty transporting North Dakota crude to available refineries, some North Dakota producers have seen their oil discounted by more than \$20 per barrel. The current rig count is 36 rigs, compared to 20 rigs operating one year ago.



Comments or Questions?
Contact

Pam Sharp, Director
Phone: 701-328-4904
Fax: 701-328-3230
E-mail:

sfranklin@state.nd.us
Visit the North Dakota web site at
www.nd.gov

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

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	March 2005 Leg. Forecast	Actual	Variance	Percent	March 2005 Leg. Forecast	Actual	Variance	Percent
Sales Tax	36,224,000	34,466,771	(1,757,229)	-4.9%	255,966,000	273,736,208	17,770,208	6.9%
Motor Vehicle Excise Tax	4,584,000	3,819,183	(764,817)	-16.7%	43,122,000	39,122,149	(3,999,851)	-9.3%
Individual Income Tax	14,865,000	10,591,310	(4,273,690)	-28.8%	134,734,000	156,870,584	22,136,584	16.4%
Corporate Income Tax	1,738,000	2,993,656	1,255,656	72.2%	14,356,000	49,983,667	35,627,667	248.2%
Insurance Premium Tax	3,500,000	6,520,566	3,020,566	86.3%	14,994,000	14,952,408	(41,592)	-0.3%
Financial Insitutions Tax	79,000	145,889	66,889	84.7%	157,000	73,714	(83,286)	-53.0%
Oil & Gas Production Tax	2,610,000	5,110,256	2,500,256	95.8%	19,527,000	43,288,185	23,761,185	121.7%
Gaming Tax	1,400,000	1,374,864	(25,136)	-1.8%	7,465,000	6,737,512	(727,488)	-9.7%
Lottery	-	-	-	-	-	-	-	-
Interest Income	282,000	813,265	531,265	188.4%	2,056,000	5,988,930	3,932,930	191.3%
Oil Extraction Tax	2,140,000	2,608,510	468,510	21.9%	18,646,000	23,872,364	5,226,364	28.0%
Cigarette & Tobacco Tax	1,526,000	1,666,827	140,827	9.2%	12,864,000	14,993,644	2,129,644	16.6%
Departmental Collections	1,299,000	2,628,936	1,329,936	102.4%	16,489,000	18,163,193	1,674,193	10.2%
Wholesale Liquor Tax	408,000	413,563	5,563	1.4%	4,090,000	4,209,811	119,811	2.9%
Coal Conversion Tax	1,425,000	865,858	(559,142)	-39.2%	16,203,000	15,750,213	(452,787)	-2.8%
Mineral Leasing Fees	500,000	1,247,635	747,635	149.5%	2,500,000	5,248,270	2,748,270	109.9%
Bank of North Dakota-Transfer	-	-	-	-	-	-	-	-
State Mill & Elevator-Transfer	-	-	-	-	-	-	-	-
Gas Tax Admin-Transfer	-	-	-	-	525,000	525,000	-	0.0%
Other Transfers	-	8,098	8,098	100.0%	30,000,000	30,118,881	118,881	0.4%
Total Revenues and Transfers	72,580,000	75,275,186	2,695,186	3.7%	593,694,000	703,634,734	109,940,734	18.5%

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

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	February <u>2004</u>	February <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	28,787,426	34,466,771	5,679,344	19.7%	231,194,828	273,736,208	42,541,380	18.4%
Motor Vehicle Excise Tax	4,247,873	3,819,183	(428,691)	-10.1%	41,375,806	39,122,150	(2,253,656)	-5.4%
Individual Income Tax	18,550,789	10,591,310	(7,959,479)	-42.9%	131,356,498	156,870,585	25,514,087	19.4%
Corporate Income Tax	3,577,748	2,993,656	(584,092)	-16.3%	14,252,515	49,983,666	35,731,152	250.7%
Insurance Premium Tax	5,390,397	6,520,566	1,130,169	21.0%	14,712,183	14,952,408	240,225	1.6%
Financial Institutions Tax	285,522	145,889	(139,633)	-48.9%	(148,314)	73,714	222,028	-149.7%
Oil & Gas Production Tax	1,879,217	5,110,256	3,231,040	171.9%	15,706,107	43,288,185	27,582,078	175.6%
Gaming Tax	1,406,341	1,374,864	(31,477)	-2.2%	8,347,900	6,737,511	(1,610,388)	-19.3%
Lottery	-	-	-	-	-	-	-	-
Interest Income	56,510	813,265	756,755	1339.2%	581,809	5,988,931	5,407,122	929.4%
Oil Extraction Tax	866,473	2,608,510	1,742,037	201.0%	9,122,699	23,872,364	14,749,664	161.7%
Cigarette & Tobacco Tax	1,786,593	1,666,827	(119,766)	-6.7%	13,729,435	14,993,644	1,264,209	9.2%
Departmental Collections	1,273,556	2,628,936	1,355,380	106.4%	74,665,138	18,163,192	(56,501,946)	-75.7%
Wholesale Liquor Tax	390,669	413,563	22,894	5.9%	3,998,676	4,209,811	211,134	5.3%
Coal Conversion Tax	1,547,220	865,858	(681,362)	-44.0%	16,211,362	15,750,213	(461,149)	-2.8%
Mineral Leasing Fees	1,143,637	1,247,635	103,998	9.1%	3,002,954	5,248,270	2,245,317	74.8%
Bank of North Dakota-Transfer	-	-	-	-	-	-	-	-
State Mill & Elevator-Transfer	-	-	-	-	-	-	-	-
Gas Tax Admin-Transfer	-	-	-	-	523,575	525,000	1,425	0.3%
Other Transfers	1,174	8,098	6,924	589.6%	13,433,747	30,118,881	16,685,134	124.2%
Total Revenues and Transfers	71,191,144	75,275,186	4,084,041	5.7%	592,066,918	703,634,734	111,567,816	18.8%

Revenue Variances

Overall revenue collections for the month of February exceeded the forecast by \$2.7 million, or 3.7 percent, bringing biennium to date collections to \$703.6 million, \$109.9 million more than estimated. In comparison to the 2003-05 biennium, 2005-07 biennium revenues have been 18.8 percent higher. Notable variances are as follows:

Sales tax collections fell short of projections for the month; however, biennium to date collections exceed projections by \$17.8 million, or 6.9 percent. Biennium to date collections exceed the previous biennium collections by \$42.5 million. The monthly variance is likely attributable to the timing of collections received in January and February. January collections exceeded the forecast by nearly \$8.0 million.

As has been the case in every month since September 2005, motor vehicle excise tax collections fell short of projections. Monthly collections fell short of the forecast by over \$700,000; the biennium to date variance is nearly \$4.0 million. High 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 fell short of projections, but still exceed the biennium to date forecast

by over \$22.1 million.

Corporate income tax collections exceeded the legislative forecast by \$1.3 million for the month, bringing the biennium to date variance to \$35.6 million.

As a result of actual crude oil prices exceeding forecasted prices, oil and gas taxes exceeded the monthly forecast by nearly \$3.0 million, \$29.0 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 February, oil tax collections total \$67.2 million.

Cigarette and tobacco taxes continue to exceed the forecast. February collections exceeded the forecast by over \$140,000. Biennium to date collections exceed the forecast by over \$2.1 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.

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