

# North Dakota REV-E-NEWS



Pam Sharp, Director

June 2006

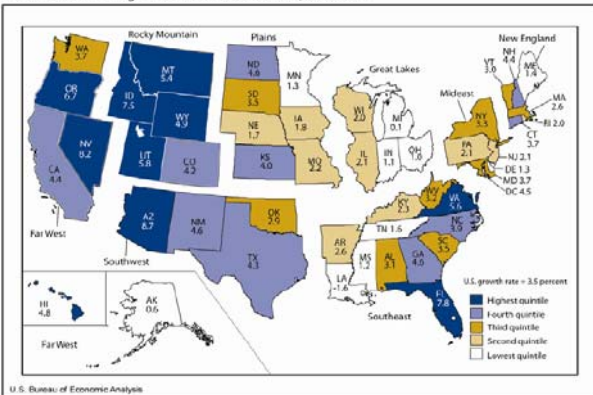
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## MESSAGE FROM THE DIRECTOR

### North Dakota led the plains states in economic growth in 2005!

A recently released report from the Bureau of Economic Analysis (BEA) shows that North Dakota led the plains states in annual economic growth, as measured by the gross state product (GSP), during 2005. In addition to North Dakota, the plains states include South Dakota, Nebraska, Kansas, Missouri, Iowa, and Minnesota. GSP growth rates in these states ranged from 1.3 percent in Minnesota to 4.0 percent in Kansas. North Dakota's growth rate was 4.6 percent, as shown on the following map:

Chart 1. Percent Change in Real Gross State Product, 2004-2005



The U.S GSP growth slowed during 2005 to 3.5 percent, compared to 4.2 percent in 2004. The

growth for most states slowed as well. However, North Dakota's growth rate increased significantly from 2004 to 2005.

North Dakota's 2005 growth rate ranked 12th nationally. Arizona, Nevada, and Florida experienced the highest rates of growth – 8.7 percent, 8.2 percent, and 7.8 percent, respectively. States with the weakest growth rates were Alaska, at 0.6 percent, Michigan at 0.1 percent, and Louisiana at -1.6 percent.

The decline in Louisiana is a result of the effects of Hurricanes Katrina and Rita. Growth in service industries was strong in most states. However, the largest contributor to growth in the economies of over 80 percent of the states was one of the following industry categories: financial activities, trade, and durable goods manufacturing.

### Have a safe 4th of July!!

Comments or Questions?  
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## OIL ACTIVITY

Oil production in April continued to average more than 100,000 barrels per day. March production averaged nearly 106,000 barrels per day. April production averaged over 103,000 barrels per day. Drilling permit activity increased from 21 permits in March to 28 permits issued in April. The current rig count is 38 rigs, compared to 22 rigs operating one year ago.

The average price for North Dakota crude continues well above forecasted prices and is currently around \$60 per barrel, compared to \$62 in April and \$54 per barrel in February and March. In recent months, discounts have been imposed upon North Dakota producers due to limited pipeline capacity. Increased demand for Canadian crude for asphalt production has freed up pipeline capacity and reduced discounts for most producers to \$5 to \$8 per barrel rather than the \$20 to \$28 per barrel discounts seen in past months. The Governor is working with industry officials and the governors in Montana and Wyoming to resolve this issue, increase pipeline capacity, and ensure that North Dakota producers receive an equitable price for North Dakota crude.



**STATEMENT OF GENERAL FUND REVENUES AND FORECASTS**  
**Compared to the Legislative Forecast**  
**2005-07 BIENNIUM**  
**May 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	36,928,000	37,978,873	1,050,873	2.8%	339,090,000	364,976,693	25,886,693	7.6%
Motor Vehicle Excise Tax	6,510,000	6,124,180	(385,820)	-5.9%	61,207,000	55,710,027	(5,496,973)	-9.0%
Individual Income Tax	20,625,000	26,559,775	5,934,775	28.8%	216,087,000	257,968,421	41,881,421	19.4%
Corporate Income Tax	2,215,000	3,856,438	1,641,438	74.1%	33,358,000	89,966,400	56,608,400	169.7%
Insurance Premium Tax	5,000,000	5,134,172	134,172	2.7%	28,844,000	24,743,188	(4,100,812)	-14.2%
Financial Institutions Tax	52,000	6,100	(45,900)	-88.3%	2,555,000	3,637,185	1,082,185	42.4%
Oil & Gas Production Tax*	2,798,000		(2,798,000)	-100.0%	27,581,000	45,774,119	18,193,119	66.0%
Gaming Tax	1,700,000	1,672,970	(27,030)	-1.6%	9,865,000	9,071,454	(793,546)	-8.0%
Lottery								
Interest Income	282,000	646,809	364,809	129.4%	2,902,000	8,527,662	5,625,662	193.9%
Oil Extraction Tax*	1,907,000		(1,907,000)	-100.0%	24,420,000	25,225,881	805,881	3.3%
Cigarette & Tobacco Tax	1,552,000	1,544,460	(7,540)	-0.5%	17,200,000	19,833,067	2,633,067	15.3%
Departmental Collections	1,469,000	1,728,236	259,236	17.6%	21,675,000	23,328,930	1,653,930	7.6%
Wholesale Liquor Tax	496,000	528,081	32,081	6.5%	5,508,000	5,709,874	201,874	3.7%
Coal Conversion Tax	1,886,000	1,880,951	(5,049)	-0.3%	22,213,000	22,201,802	(11,198)	-0.1%
Mineral Leasing Fees	500,000	956,032	456,032	91.2%	3,250,000	7,494,510	4,244,510	130.6%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Gas Tax Admin-Transfer					700,000	700,000		0.0%
Other Transfers		163	163	100.0%	30,000,000	30,114,312	114,312	0.4%
<b>Total Revenues and Transfers</b>	<b>83,920,000</b>	<b>88,617,238</b>	<b>4,697,238</b>	<b>5.6%</b>	<b>846,455,000</b>	<b>994,983,524</b>	<b>148,528,524</b>	<b>17.5%</b>

\* Oil and gas production and extraction tax collections totaled \$12.2 million in May. Because the \$71.0 million statutory cap for the 2005-07 biennium has been attained, no additional oil tax collections will be deposited in the general fund during the 2005-07 biennium. Through May, oil tax collections totaling \$26.0 million have been transferred 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*  
**2005-07 BIENNIUM**  
**May 2006**

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	May 2004	May 2006	Variance	Percent	2003-05	2005-07	Variance	Percent
Sales Tax	22,961,033	37,978,873	15,017,840	65.4%	308,330,146	364,976,693	56,646,547	18.4%
Motor Vehicle Excise Tax	5,942,204	6,124,180	181,976	3.1%	58,518,033	55,710,027	(2,808,006)	-4.8%
Individual Income Tax	5,521,119	26,559,775	21,038,656	381.1%	202,237,349	257,968,421	55,731,072	27.6%
Corporate Income Tax	2,453,632	3,856,438	1,402,806	57.2%	32,551,301	89,966,399	57,415,098	176.4%
Insurance Premium Tax	3,900,541	5,134,172	1,233,630	31.6%	25,675,425	24,743,188	(932,237)	-3.6%
Financial Institutions Tax	(1,713)	6,100	7,813	-456.1%	2,637,890	3,637,185	999,296	37.9%
Oil & Gas Production Tax*	2,367,419		(2,367,419)	-100.0%	24,424,153	45,774,118	21,349,965	87.4%
Gaming Tax	1,395,826	1,672,970	277,145	19.9%	11,006,275	9,071,454	(1,934,821)	-17.6%
Lottery								
Interest Income	55,348	646,809	591,461	1068.6%	781,477	8,527,662	7,746,185	991.2%
Oil Extraction Tax*	1,094,007		(1,094,007)	-100.0%	13,462,982	25,225,881	11,762,899	87.4%
Cigarette & Tobacco Tax	1,467,872	1,544,460	76,588	5.2%	18,276,993	19,833,068	1,556,074	8.5%
Departmental Collections	1,439,701	1,728,236	288,535	20.0%	80,048,840	23,328,929	(56,719,910)	-70.9%
Wholesale Liquor Tax	512,143	528,081	15,939	3.1%	5,412,821	5,709,874	297,053	5.5%
Coal Conversion Tax	1,985,761	1,880,951	(104,811)	-5.3%	22,360,041	22,201,802	(158,239)	-0.7%
Mineral Leasing Fees	461,808	956,032	494,224	107.0%	3,353,283	7,494,510	4,141,227	123.5%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Gas Tax Admin-Transfer					698,100	700,000	1,900	0.3%
Other Transfers	93,489	163	(93,327)	-99.8%	25,097,757	30,114,312	5,016,555	20.0%
<b>Total Revenues and Transfers</b>	<b>51,650,190</b>	<b>88,617,238</b>	<b>36,967,048</b>	<b>71.6%</b>	<b>834,872,866</b>	<b>994,983,523</b>	<b>160,110,657</b>	<b>19.2%</b>

\* Oil and gas production and extraction tax collections totaled \$12.2 million in May. Because the \$71.0 million statutory cap for the 2005-07 biennium has been attained, no additional oil tax collections will be deposited in the general fund during the 2005-07 biennium. Through May, oil tax collections totaling \$26.0 million have been transferred to the permanent oil tax trust fund and are not reflected on this report.

## Revenue Variances

Overall revenue collections for the month of May exceeded the legislative forecast by \$4.7 million, or 5.6 percent, bringing biennium to date collections to \$995.0 million, \$148.5 million more than estimated. In comparison to the previous biennium, 2005-07 biennium revenues have been 19.2 percent higher. Notable variances are as follows:

Sales tax collections tracked closely with projections for the month. Actual collections exceeded the forecast by just over \$1.0 million, or 2.8 percent. Biennium to date collections exceed projections by \$25.9 million, or 7.6 percent. Biennium to date collections exceed the previous biennium collections by 18.4 percent.

As has been the case every month since September 2005, motor vehicle excise tax collections fell short of projections. Monthly collections fell short of the forecast by nearly \$400,000; the biennium to date variance is (\$5.5) 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 exceeded the monthly projection by \$5.9 million, or 28.8 percent. The biennium to date variance is 19.4 percent.

Corporate income tax collections continue to exceed the legislative forecast by a wide margin – \$1.6 million for the month, \$56.6 million for the biennium.

Oil and gas collections for the month were \$12.2 million compared to the legislative forecast of \$4.7 million. However, oil and gas taxes for the month are shown as \$0, resulting in a negative variance. This is a result of North Dakota Century Code Section 57-51.1-07.2, which 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. The general fund cap was reached during March, and all March collections received after reaching the \$71.0 million cap and all remaining collections during the 2005-07 biennium, will be reflected as revenue for the permanent oil tax trust fund, rather than the general fund.

The legislative forecast assumed a much lower oil price and production level than we have experienced, which would have resulted in the \$71.0 million cap being reached in November 2006. Consequently, negative monthly variances will appear each month through November 2006, even though total oil tax collections for the state far exceed the forecast. Through May, \$26.0 million of oil tax collections have been deposited in the permanent oil tax trust fund.

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