

North Dakota REV-E-NEWS



Pam Sharp, Director

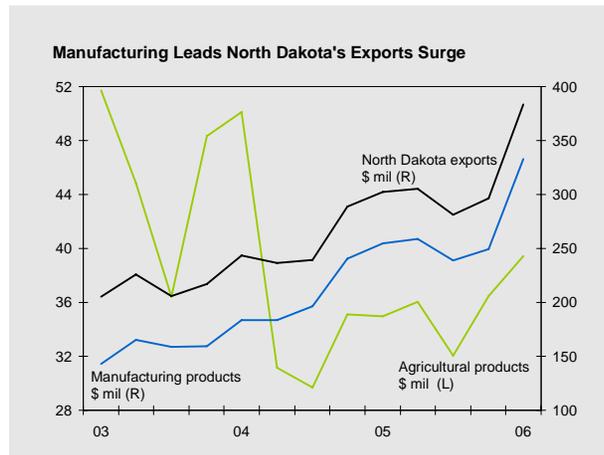
July 2006

OFFICE OF MANAGEMENT AND BUDGET
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MESSAGE FROM THE DIRECTOR

Manufacturing increases in North Dakota and leads a surge in the state's exports!

Moody's Economy.com reported in its June 2006 Précis U.S. State publication that North Dakota's "exports surged in the first quarter of 2006.... The state is reaping the rewards of a concerted effort by the [North Dakota Trade Office], which was established in 2004 to help companies boost export growth and inject new money into ND's economy. In less than two years, manufacturing exports have risen more than 80%, from \$183 million to \$333 million, on a quarterly basis."



Moody's Economy.com predicts that the North Dakota economy, which has outperformed the nation in recent years, will begin to moderate in the near term. High input costs and scarce rainfall will likely result in the agricultural sector of the economy underperforming recent years. However, above average prices for some crops, along with growing demand for corn, used in producing ethanol, and soybeans, used in the production of biodiesel, provide some reason for optimism.

Continuing high oil prices, coupled with increased production in North Dakota, have led a surge in state oil tax collections. The outlook is positive for the oil industry in North Dakota. The Bakken formation in western North Dakota may contain as much as 200 billion barrels of oil. Marathon Oil has recently acquired a sizable interest in mineral acres and plans to drill as many as 300 wells into the Bakken in the next five years.

Comments or Questions?
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OIL ACTIVITY

Oil production in May continued to average more than 100,000 barrels per day. May production averaged over 109,000 barrels per day, and April production averaged over 103,000 barrels per day. Drilling permit activity increased from 38 permits in April to 46 permits issued in May. 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 \$66 per barrel, compared to \$62 in May and April.



STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Legislative Forecast
2005-07 BIENNIUM
June 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	25,744,000	29,721,061	3,977,061	15.4%	364,834,000	394,697,753	29,863,753	8.2%
Motor Vehicle Excise Tax	6,083,000	5,616,532	(466,468)	-7.7%	67,290,000	61,326,559	(5,963,441)	-8.9%
Individual Income Tax	11,280,000	14,510,532	3,230,532	28.6%	227,367,000	272,478,952	45,111,952	19.8%
Corporate Income Tax	8,477,000	21,823,187	13,346,187	157.4%	41,835,000	111,789,587	69,954,587	167.2%
Insurance Premium Tax	2,600,000	1,121,474	(1,478,526)	-56.9%	31,444,000	25,864,662	(5,579,338)	-17.7%
Financial Institutions Tax	28,000	535,135	507,135	1811.2%	2,583,000	4,172,320	1,589,320	61.5%
Oil & Gas Production Tax*	2,860,000		(2,860,000)	-100.0%	30,441,000	45,774,119	15,333,119	50.4%
Gaming Tax	200,000	210,711	10,711	5.4%	10,065,000	9,282,165	(782,835)	-7.8%
Lottery	5,000,000	6,300,000	1,300,000	26.0%	5,000,000	6,300,000	1,300,000	26.0%
Interest Income	2,132,000	3,879,082	1,747,082	81.9%	5,034,000	12,406,744	7,372,744	146.5%
Oil Extraction Tax*	1,241,000		(1,241,000)	-100.0%	25,661,000	25,225,881	(435,119)	-1.7%
Cigarette & Tobacco Tax	1,608,000	2,153,013	545,013	33.9%	18,808,000	21,986,081	3,178,081	16.9%
Departmental Collections	2,590,000	2,167,657	(422,343)	-16.3%	24,265,000	25,496,586	1,231,586	5.1%
Wholesale Liquor Tax	585,000	630,715	45,715	7.8%	6,093,000	6,340,589	247,589	4.1%
Coal Conversion Tax	2,069,000	1,840,245	(228,755)	-11.1%	24,282,000	24,042,047	(239,953)	-1.0%
Mineral Leasing Fees	(175,000)	(447,616)	(272,616)	155.8%	3,075,000	7,046,893	3,971,893	129.2%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Gas Tax Admin-Transfer					700,000	700,000		0.0%
Other Transfers	8,450,000	8,452,095	2,095	0.0%	38,450,000	38,566,407	116,407	0.3%
Total Revenues and Transfers	80,772,000	98,513,823	17,741,823	22.0%	927,227,000	1,093,497,346	166,270,346	17.9%

* Oil and gas production and extraction tax collections totaled \$12.5 million in June. 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 June, oil tax collections totaling \$38.6 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
June 2006

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	June 2004	June 2006	Variance	Percent	2003-05	2005-07	Variance	Percent
Sales Tax	30,612,817	29,721,061	(891,756)	-2.9%	338,942,963	394,697,753	55,754,790	16.4%
Motor Vehicle Excise Tax	5,991,725	5,616,532	(375,193)	-6.3%	64,509,758	61,326,559	(3,183,199)	-4.9%
Individual Income Tax	10,655,174	14,510,532	3,855,358	36.2%	212,892,523	272,478,953	59,586,430	28.0%
Corporate Income Tax	7,705,782	21,823,187	14,117,405	183.2%	40,257,083	111,789,586	71,532,503	177.7%
Insurance Premium Tax	2,600,943	1,121,474	(1,479,469)	-56.9%	28,276,368	25,864,662	(2,411,706)	-8.5%
Financial Institutions Tax	8,181	535,135	526,954	6441.2%	2,646,071	4,172,320	1,526,250	57.7%
Oil & Gas Production Tax*	3,832,286		(3,832,286)	-100.0%	28,256,440	45,774,118	17,517,679	62.0%
Gaming Tax	416,023	210,711	(205,311)	-49.4%	11,422,297	9,282,165	(2,140,132)	-18.7%
Lottery	1,431,000	6,300,000	4,869,000	340.3%	1,431,000	6,300,000	4,869,000	340.3%
Interest Income	1,551,511	3,879,082	2,327,570	150.0%	2,332,988	12,406,744	10,073,755	431.8%
Oil Extraction Tax*	1,828,043		(1,828,043)	-100.0%	15,291,025	25,225,881	9,934,856	65.0%
Cigarette & Tobacco Tax	1,498,417	2,153,013	654,596	43.7%	19,775,411	21,986,081	2,210,670	11.2%
Departmental Collections	2,538,708	2,167,657	(371,051)	-14.6%	82,587,547	25,496,586	(57,090,961)	-69.1%
Wholesale Liquor Tax	497,137	630,715	133,578	26.9%	5,909,958	6,340,589	430,631	7.3%
Coal Conversion Tax	2,072,775	1,840,245	(232,530)	-11.2%	24,432,816	24,042,047	(390,769)	-1.6%
Mineral Leasing Fees	32,040	(447,616)	(479,656)	-1497.0%	3,385,323	7,046,893	3,661,570	108.2%
Bank of North Dakota-Transfer	30,000,000		(30,000,000)	-100.0%	30,000,000		(30,000,000)	-100.0%
State Mill & Elevator-Transfer								
Gas Tax Admin-Transfer					698,100	700,000	1,900	0.3%
Other Transfers	18,006,458	8,452,095	(9,554,363)	-53.1%	43,104,215	38,566,407	(4,537,807)	-10.5%
Total Revenues and Transfers	121,279,020	98,513,823	(22,765,197)	-18.8%	956,151,886	1,093,497,346	137,345,459	14.4%

* Oil and gas production and extraction tax collections totaled \$12.5 million in June. 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 June, oil tax collections totaling \$38.6 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 June exceeded the legislative forecast by \$17.7 million, or 22.0 percent, bringing biennium to date collections to \$1,093.5 million, \$166.3 million more than estimated. Notable variances are as follows:

Sales tax collections exceeded the monthly forecast by \$4.0 million, or 15.4 percent. Biennium to date collections exceed projections by \$29.9 million, or 8.2 percent.

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 \$460,000; the biennium to date variance is -\$6.0 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 exceeded the monthly projection by \$3.2 million, or 28.6 percent. The biennium to date variance is 19.8 percent.

Corporate income tax collections continue to exceed the legislative forecast by a wide margin - \$13.3 million for the month, \$70.0 million for the biennium.

Oil and gas collections for the month were \$12.5 million compared to the legislative forecast of \$4.1 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 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 June, \$38.6 million of oil tax collections have been deposited in the permanent oil tax trust fund.