

# 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

### Low Unemployment + Strong Growth in Tax Collections = Robust Economic Outlook for North Dakota

A recent analysis conducted by the Fiscal Studies Program of the Nelson A. Rockefeller Institute of Government (*State Revenue Report, No. 65*) shows that North Dakota ranked high in comparison to other states in percentage growth in major state tax revenue from fiscal year 2005 to 2006. The analysis considered personal income tax, corporate income tax, and sales tax growth. North Dakota's growth rate of 16.1 percent was considerably higher than the average of the plains states (8.4 percent) or the U.S. average (8.5 percent). In fact, North Dakota's growth rate was fifth highest in the nation.

The report also shows that the North Dakota economy is growing and adding jobs. Non-farm employment grew by 1.5 percent in North Dakota, slightly above the average for the plains states and the U.S. (1.4 percent).

The North Dakota Tax Department recently reported a 16.0 percent increase over the previous year in state and local tax revenue collected by the department. As indicated in the August 1, 2006, news release:

"Collections for all major tax types were up in FY 2006, including corporate income taxes, which increased by 78 percent. Other tax types increased as well: sales tax collections were up 5 percent; coal taxes were up 6 percent; motor fuels, up 10 percent; individual income tax grew by 14 percent; and oil taxes were up 38 percent. Inflation for the same one-year period was approximately 4.3 percent."

Job Service North Dakota recently announced that North Dakota's July non-seasonally adjusted unemployment rate was 3.2 percent, the third lowest in the nation. The July rate was down 0.6 percent from the previous month and unchanged from the rate of one year ago. The national seasonally adjusted unemployment rate in July was 4.8 percent. Fifteen North Dakota counties had July unemployment rates at or below 3.0 percent. Of the state's 53 counties, 34 recorded July unemployment rates below 4.0 percent.

## OIL ACTIVITY

The price of North Dakota crude has dropped from recent highs, but production in North Dakota remains strong. The average price for North Dakota crude has slipped to \$53 per barrel, down from average prices of \$66 per barrel in July and \$63 in June. Production in July averaged over 110,200 barrels per day, a slight dip from June average production of around 111,600 barrels per day. Drilling permit activity continued to be strong, with 38 permits issued in July compared to 52 permits issued in June. The current rig count is 42 rigs, compared to 29 rigs operating one year ago.



Comments or Questions?

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**STATEMENT OF GENERAL FUND REVENUES AND FORECASTS**  
**Compared to the Legislative Forecast**  
**2005-07 BIENNIUM**  
**August 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	38,248,000	35,771,231	(2,476,769)	-6.5%	436,819,000	477,574,680	40,755,680	9.3%
Motor Vehicle Excise Tax	6,205,000	5,962,424	(242,576)	-3.9%	78,829,000	73,184,392	(5,644,608)	-7.2%
Individual Income Tax	22,153,000	10,508,270	(11,644,730)	-52.6%	266,089,000	319,376,713	53,287,713	20.0%
Corporate Income Tax		20,084	20,084	100.0%	41,835,000	112,254,313	70,419,313	168.3%
Insurance Premium Tax	2,200,000	3,802,342	1,602,342	72.8%	33,644,000	29,667,018	(3,976,982)	-11.8%
Financial Institutions Tax		(1,084)	(1,084)	-100.0%	2,583,000	4,175,922	1,592,922	61.7%
Oil & Gas Production Tax*	1,584,000		(1,584,000)	-100.0%	35,101,000	45,774,119	10,673,119	30.4%
Gaming Tax	1,500,000	1,244,157	(255,843)	-17.1%	11,865,000	11,162,983	(702,017)	-5.9%
Lottery					5,000,000	6,300,000	1,300,000	26.0%
Interest Income	314,000	1,603,354	1,289,354	410.6%	5,412,000	14,356,316	8,944,316	165.3%
Oil Extraction Tax*	1,200,000		(1,200,000)	-100.0%	28,061,000	25,225,881	(2,835,119)	-10.1%
Cigarette & Tobacco Tax	1,697,000	2,102,510	405,510	23.9%	22,127,000	26,102,443	3,975,443	18.0%
Departmental Collections	2,587,021	1,644,318	(942,703)	-36.4%	27,808,021	28,337,474	529,453	1.9%
Wholesale Liquor Tax	531,000	600,107	69,107	13.0%	7,207,000	7,521,873	314,873	4.4%
Coal Conversion Tax	2,160,000	2,209,783	49,783	2.3%	28,541,000	28,328,716	(212,284)	-0.7%
Mineral Leasing Fees	500,000	1,240,535	740,535	148.1%	4,075,000	9,400,773	5,325,773	130.7%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Gas Tax Admin-Transfer					875,000	875,000		0.0%
Other Transfers		798	798	100.0%	38,450,000	38,567,714	117,714	0.3%
<b>Total Revenues and Transfers</b>	<b>80,879,021</b>	<b>66,708,828</b>	<b>(14,170,193)</b>	<b>-17.5%</b>	<b>1,074,321,021</b>	<b>1,258,186,329</b>	<b>183,865,308</b>	<b>17.1%</b>

\* Oil and gas production and extraction tax collections totaled \$9.7 million in August. 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 August, oil tax collections totaling \$60.3 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**  
**August 2006**

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	August 2004	August 2006	Variance	Percent	2003-05	2005-07	Variance	Percent
Sales Tax	36,911,020	35,771,231	(1,139,789)	-3.1%	408,866,538	477,574,680	68,708,142	16.8%
Motor Vehicle Excise Tax	5,326,054	5,962,424	636,370	11.9%	75,425,114	73,184,393	(2,240,721)	-3.0%
Individual Income Tax	22,233,867	10,508,270	(11,725,598)	-52.7%	251,755,642	319,376,713	67,621,071	26.9%
Corporate Income Tax	34,601	20,084	(14,517)	-42.0%	40,337,931	112,254,313	71,916,382	178.3%
Insurance Premium Tax	4,063,840	3,802,342	(261,498)	-6.4%	32,449,251	29,667,018	(2,782,232)	-8.6%
Financial Institutions Tax	2,908	(1,084)	(3,992)	-137.3%	2,679,232	4,175,922	1,496,691	55.9%
Oil & Gas Production Tax*	1,768,494		(1,768,494)	-100.0%	33,190,255	45,774,118	12,583,863	37.9%
Gaming Tax	1,541,552	1,244,157	(297,395)	-19.3%	13,398,528	11,162,982	(2,235,546)	-16.7%
Lottery					1,431,000	6,300,000		0.0%
Interest Income	145,045	1,603,354	1,458,309	1005.4%	2,514,449	14,356,316	11,841,867	471.0%
Oil Extraction Tax*	1,504,846		(1,504,846)	-100.0%	18,113,368	25,225,881	7,112,513	39.3%
Cigarette & Tobacco Tax	1,753,306	2,102,510	349,204	19.9%	23,305,922	26,102,444	2,796,522	12.0%
Departmental Collections	5,521,995	1,644,318	(3,877,676)	-70.2%	88,742,989	28,337,473	(60,405,516)	-68.1%
Wholesale Liquor Tax	481,611	600,107	118,497	24.6%	7,019,209	7,521,872	502,663	7.2%
Coal Conversion Tax	1,771,217	2,209,783	438,566	24.8%	27,765,499	28,328,716	563,216	2.0%
Mineral Leasing Fees	580,758	1,240,535	659,777	113.6%	4,490,954	9,400,773	4,909,819	109.3%
Bank of North Dakota-Transfer					30,000,000			
State Mill & Elevator-Transfer								
Gas Tax Admin-Transfer					872,625	875,000	2,375	0.3%
Other Transfers	1,478	798	(681)	-46.0%	43,105,693	38,567,714	(4,537,979)	-10.5%
<b>Total Revenues and Transfers</b>	<b>83,642,591</b>	<b>66,708,828</b>	<b>(16,933,763)</b>	<b>-20.2%</b>	<b>1,105,464,199</b>	<b>1,258,186,328</b>	<b>177,853,129</b>	<b>16.1%</b>

\* Oil and gas production and extraction tax collections totaled \$9.7 million in August. 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 August, oil tax collections totaling \$60.3 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 August fell short of the legislative forecast by \$14.2 million, primarily due to timing variances. Biennium to date collections still exceed the forecast by \$183.9 million, or 17.1 percent. Notable variances in August are as follows:

Sales tax collections fell short of the forecast by \$2.5 million, or 6.5 percent, offsetting some of the July variance. In July, sales tax collections exceeded the forecast by \$14.1 million. Biennium to date collections exceed projections by \$40.8 million, or 9.3 percent. Biennium to date collections exceed the previous biennium collections by 16.8 percent.

Individual income tax collections make up the majority of the overall variance. August collections fell short of the forecast by \$11.6 million, offsetting a portion of the July variance. July individual income tax collections exceeded the forecast by \$19.8 million. Biennium to date collections continue to exceed the forecast by \$53.3 million.

Oil and gas collections for the month were \$9.7 million compared to the legislative forecast of \$2.8 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 in March 2006 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 August, \$60.3 million of oil tax collections have been deposited in the permanent oil tax trust fund.

Insurance premium tax collections exceeded the monthly forecast by \$1.6 million, but continue to fall behind the legislative forecast for the biennium. Biennium to date collections are \$4.0 million less than anticipated and \$2.8 million less than the previous biennium.

As a result of large balances in the general fund and the budget stabilization fund and higher interest rates, interest income has exceeded the legislative forecast by \$1.3 million for the month and \$8.9 million for the biennium.

Cigarette and tobacco tax collections continue to exceed the legislative forecast - \$405,510 for the month and \$4.0 million for the biennium.

Mineral leasing fees continue to be collected at a much higher rate than projected. Monthly collections exceeded the forecast by \$740,000; biennium to date collections are \$5.3 million higher than anticipated.