

North Dakota REV-E-NEWS



Pam Sharp, Director

October 2006

OFFICE OF MANAGEMENT AND BUDGET
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MESSAGE FROM THE DIRECTOR

Strong Growth in North Dakota's GDP!

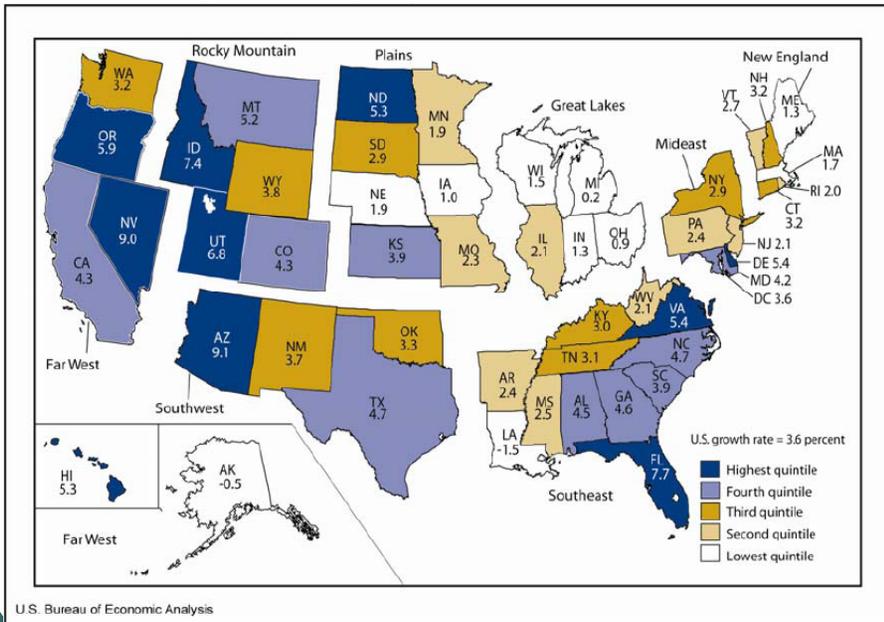
An October 26, 2006, report released by the Bureau of Economic Analysis shows strong growth in the state's gross domestic product (formerly referred to as gross state product or GSP), as shown on the chart below.

The state's growth rate from 2004-2005 of 5.3 percent was the highest of any state in the plains region and ranked 10th highest in the nation. The average for the plains states was only

2.5 percent and the average for all states was 3.1 percent. The GDP by state measures the value of all goods and services produced within the state and is the most comprehensive measure of economic activity.

GFOA Award for Excellence

The Government Finance Officers Association of the United States and Canada (GFOA) has presented a distinguished award to the State of North Dakota. The Certificate of Achievement for Excellence in Financial Reporting was awarded for the state's comprehensive annual financial report (CAFR) for fiscal year 2005. This is the fifteenth consecutive year the State of North Dakota has received the Certificate of Achievement in Excellence in Financial Reporting Award. Congratulations to the dedicated staff that makes possible this recognition for the State of North Dakota!



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 \$51 per barrel, down from average prices of \$66 per barrel in July and \$65 in August. Production in July averaged over 110,200 barrels per day, August average production rose to over 112,200 barrels per day. Drilling permit activity continued to be strong, with 38 permits issued in July and 39 permits issued in August. The current rig count is 41 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
September 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	26,518,000	26,021,665	(496,335)	-1.9%	463,337,000	503,596,345	40,259,345	8.7%
Motor Vehicle Excise Tax	6,293,000	5,237,832	(1,055,168)	-16.8%	85,122,000	78,422,225	(6,699,775)	-7.9%
Individual Income Tax	10,703,000	17,091,314	6,388,314	59.7%	276,792,000	336,468,027	59,676,027	21.6%
Corporate Income Tax		17,454,445	17,454,445	100.0%	41,835,000	129,708,758	87,873,758	210.0%
Insurance Premium Tax	3,000,000	706,913	(2,293,087)	-76.4%	36,644,000	30,373,932	(6,270,068)	-17.1%
Financial Institutions Tax		104,902	104,902	100.0%	2,583,000	4,280,824	1,697,824	65.7%
Oil & Gas Production Tax*	1,853,000		(1,853,000)	-100.0%	36,954,000	45,774,119	8,820,119	23.9%
Gaming Tax	300,000	28,030	(271,970)	-90.7%	12,165,000	11,191,012	(973,988)	-8.0%
Lottery					5,000,000	6,300,000	1,300,000	26.0%
Interest Income	314,000	1,790,267	1,476,267	470.1%	5,726,000	16,146,583	10,420,583	182.0%
Oil Extraction Tax*	1,200,000		(1,200,000)	-100.0%	29,261,000	25,225,881	(4,035,119)	-13.8%
Cigarette & Tobacco Tax	1,701,000	2,098,218	397,218	23.4%	23,828,000	28,200,662	4,372,662	18.4%
Departmental Collections	1,120,000	3,121,498	2,001,498	178.7%	28,928,021	31,458,972	2,530,951	8.7%
Wholesale Liquor Tax	524,000	566,347	42,347	8.1%	7,731,000	8,088,220	357,220	4.6%
Coal Conversion Tax	2,163,000	2,837,242	674,242	31.2%	30,704,000	31,165,958	461,958	1.5%
Mineral Leasing Fees	(250,000)	(914,289)	(664,289)	265.7%	3,825,000	8,486,484	4,661,484	121.9%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Gas Tax Admin-Transfer					875,000	875,000		0.0%
Other Transfers		1,021	1,021	100.0%	38,450,000	38,568,735	118,735	0.3%
Total Revenues and Transfers	55,439,000	76,145,406	20,706,406	37.3%	1,129,760,021	1,334,331,735	204,571,714	18.1%

* Oil and gas production and extraction tax collections totaled \$11.3 million in September. 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 September, oil tax collections totaling \$71.6 million have been deposited in 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
September 2006

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	September 2004	September 2006	Variance	Percent	2003-05	2005-07	Variance	Percent
Sales Tax	27,731,410	26,021,665	(1,709,745)	-6.2%	436,597,948	503,596,345	66,998,397	15.3%
Motor Vehicle Excise Tax	6,299,245	5,237,832	(1,061,413)	-16.8%	81,724,359	78,422,225	(3,302,134)	-4.0%
Individual Income Tax	10,741,640	17,091,314	6,349,674	59.1%	262,497,282	336,468,027	73,970,746	28.2%
Corporate Income Tax	715,154	17,454,445	16,739,291	2340.7%	41,053,084	129,708,758	88,655,673	216.0%
Insurance Premium Tax	346,266	706,913	360,647	104.2%	32,795,517	30,373,931	(2,421,585)	-7.4%
Financial Institutions Tax	16,377	104,902	88,525	540.5%	2,695,609	4,280,824	1,585,216	58.8%
Oil & Gas Production Tax*	2,078,130		(2,078,130)	-100.0%	35,268,385	45,774,118	10,505,733	29.8%
Gaming Tax	26,606	28,030	1,424	5.4%	13,425,134	11,191,012	(2,234,122)	-16.6%
Lottery					1,431,000	6,300,000	4,869,000	340.3%
Interest Income	172,922	1,790,267	1,617,345	935.3%	2,687,371	16,146,583	13,459,212	500.8%
Oil Extraction Tax*	1,236,551		(1,236,551)	-100.0%	19,349,919	25,225,881	5,875,963	30.4%
Cigarette & Tobacco Tax	1,766,269	2,098,218	331,949	18.8%	25,072,191	28,200,662	3,128,471	12.5%
Departmental Collections	1,098,324	3,121,498	2,023,174	184.2%	89,841,313	31,458,971	(58,382,342)	-65.0%
Wholesale Liquor Tax	471,749	566,347	94,598	20.1%	7,490,959	8,088,220	597,261	8.0%
Coal Conversion Tax	2,055,714	2,837,242	781,528	38.0%	29,821,213	31,165,958	1,344,745	4.5%
Mineral Leasing Fees	(161,212)	(914,289)	(753,077)	467.1%	4,329,742	8,486,484	4,156,742	96.0%
Bank of North Dakota-Transfer					30,000,000		(30,000,000)	-100.0%
State Mill & Elevator-Transfer								
Gas Tax Admin-Transfer					872,625	875,000	2,375	0.3%
Other Transfers	839	1,021	182	21.7%	43,106,532	38,568,735	(4,537,797)	-10.5%
Total Revenues and Transfers	54,595,984	76,145,406	21,549,422	39.5%	1,160,060,183	1,334,331,734	174,271,551	15.0%

* Oil and gas production and extraction tax collections totaled \$11.3 million in September. 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 September, oil tax collections totaling \$71.6 million have been deposited in the permanent oil tax trust fund and are not reflected on this report.

Revenue Variances

Overall, revenue collections for the month of September exceeded the legislative forecast by \$20.7 million, offsetting certain timing variances which led to a shortfall in the August collections. Biennium to date collections exceed the forecast by \$204.6 million, or 18.1 percent. Notable variances in September are as follows:

Sales tax collections fell short of the forecast by approximately \$500,000, or 1.9 percent. Biennium to date collections exceed the forecast by \$40.3 million and exceed the previous biennium collections by \$67.0 million.

Motor vehicle excise tax collections once again fell short of collections. The shortfall is \$1.1 million for the month, \$6.7 million for the biennium. 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 forecast by \$6.4 million. Biennium to date collections exceed the forecast by \$60.0 million.

Corporate income taxes exceeded the legislative forecast by \$17.5 million. During the first three months of each fiscal year, the Tax Department typically deposits all corporate tax collections in the refund reserve account to allow for the payment of refunds as they are requested. However, due to strong collections in July and August, \$17.5 million of the September collections was deposited in the general fund rather than the refund reserve account.

Oil and gas collections for the month were \$11.3 million compared to the legislative forecast of \$3.1 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. Through September, \$71.6 million of oil tax collections have been deposited in the permanent oil tax trust fund.

Cigarette and tobacco tax collections continue to exceed the legislative forecast - \$400,000 for the month and \$4.4 million for the biennium. 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.

Departmental collections exceeded the legislative forecast by \$2.0 million, primarily as a result of timing and a larger than anticipated transfer from the insurance regulatory trust fund. Pursuant to NDCC Section 26.1-01-07.1, any funds remaining in the insurance regulatory trust fund at end of each fiscal year in excess of \$1.0 million are to be transferred to the general fund. The legislative forecast assumed a total of \$3.2 million would be transferred during the biennium; the transfer reflecting the amount in excess of the statutory limit as of the end of fiscal year 2006 was \$2.5 million.

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