

# North Dakota REV-E-NEWS



Pam Sharp, Director

November 2006

OFFICE OF MANAGEMENT AND BUDGET  
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## MESSAGE FROM THE DIRECTOR

Crude oil production in North Dakota continues to grow. September 2006 production averaged over 113,000 barrels per day. Only a year ago, in September 2005, production averaged just over 100,000 barrels per day. September 2004 production averaged only 86,000 barrels per day.

The price of North Dakota crude has declined in recent months – from \$65 per barrel in August to \$56 per barrel in September to the current price around \$52 per barrel. Drilling permit activity continues to be strong, with 34 permits issued in September. The current rig count is 45 rigs, compared to 29 rigs operating one year ago.

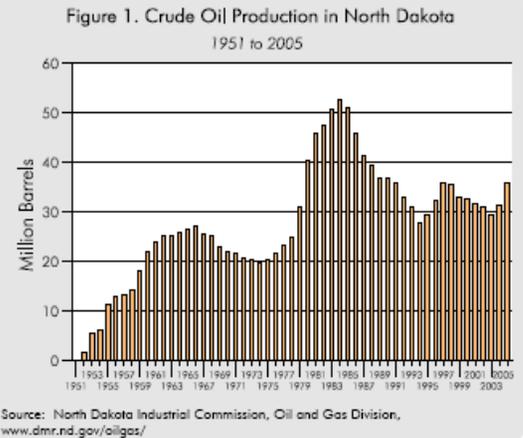
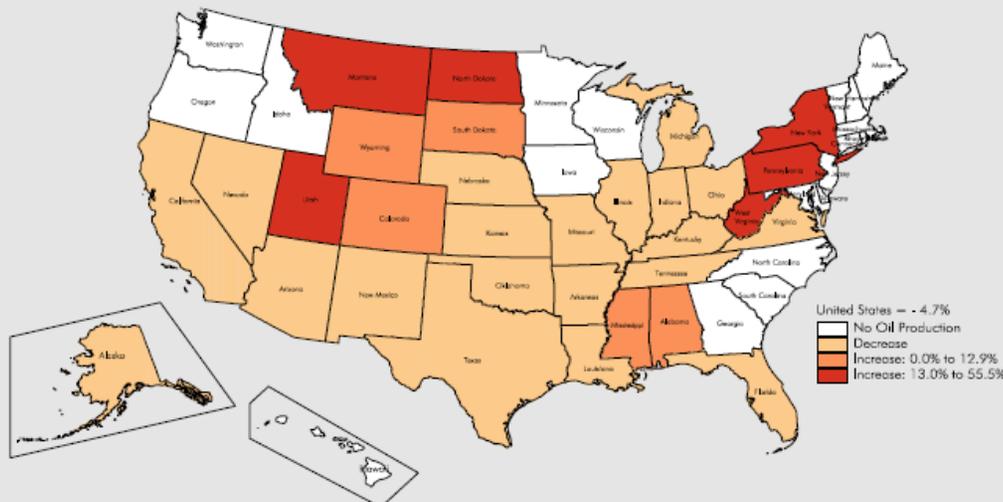
Despite a slight decline in prices, production is expected to continue growing during the next two years, gradually increasing to 119,000 barrels per day by the end of fiscal year 2009.

The North Dakota State Data Center recently reported that during 2005, North Dakota ranked 9<sup>th</sup> nationally in crude production out of 31 oil-producing

states. The 36 million barrels produced in North Dakota in 2005 represented 1.9 percent of the nation's total crude oil production. The state's increase in production during 2005 placed it among those states with the highest percentage increase compared to 2004, as shown on the map below:

After sharp increases throughout the late 1970's and early 1980's, North Dakota's crude oil production peaked in 1984 at nearly 53 million barrels. For the next 20 years, production declined steadily, except for a brief upturn during the mid-1990's. Production began the current growth cycle in 2004, when it increased 5.9 percent to 31 million barrels. Production in 2005 increased 14.5 percent to 36 million barrels.

Figure 2. Percent Change in Crude Oil Production by State: 2004 to 2005  
Source: Energy Information Administration (EIA), Petroleum Supply Monthly, [www.eia.doe.gov/oil\\_gas/petroleum/data\\_publications/petroleum\\_supply\\_monthly/psm.html](http://www.eia.doe.gov/oil_gas/petroleum/data_publications/petroleum_supply_monthly/psm.html)



Source: North Dakota Industrial Commission, Oil and Gas Division, [www.dmr.nd.gov/oilgas/](http://www.dmr.nd.gov/oilgas/)

Comments or Questions?

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**STATEMENT OF GENERAL FUND REVENUES AND FORECASTS**  
**Compared to the Legislative Forecast**  
**2005-07 BIENNIUM**  
**October 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	37,324,000	47,770,167	10,446,167	28.0%	500,661,000	551,366,511	50,705,511	10.1%
Motor Vehicle Excise Tax	6,058,000	4,994,155	(1,063,845)	-17.6%	91,180,000	83,416,380	(7,763,620)	-8.5%
Individual Income Tax	12,790,000	37,394,866	24,604,866	192.4%	289,582,000	373,862,893	84,280,893	29.1%
Corporate Income Tax	2,902,000	385,232	(2,516,768)	-86.7%	44,737,000	130,093,989	85,356,989	190.8%
Insurance Premium Tax	150,000	66,886	(83,114)	-55.4%	36,794,000	30,440,818	(6,353,182)	-17.3%
Financial Institutions Tax		3,818	3,818	100.0%	2,583,000	4,284,642	1,701,642	65.9%
Oil & Gas Production Tax*	2,115,000		(2,115,000)	-100.0%	39,069,000	45,774,119	6,705,119	17.2%
Gaming Tax	928,000	759,241	(168,759)	-18.2%	13,093,000	11,950,253	(1,142,747)	-8.7%
Lottery					5,000,000	6,300,000	1,300,000	26.0%
Interest Income	314,000	1,484,440	1,170,440	372.8%	6,040,000	17,631,023	11,591,023	191.9%
Oil Extraction Tax*	1,200,000		(1,200,000)	-100.0%	30,461,000	25,225,881	(5,235,119)	-17.2%
Cigarette & Tobacco Tax	1,540,000	1,978,918	438,918	28.5%	25,368,000	30,179,580	4,811,580	19.0%
Departmental Collections	1,820,000	1,494,010	(325,990)	-17.9%	30,748,021	32,952,981	2,204,960	7.2%
Wholesale Liquor Tax	537,000	503,514	(33,487)	-6.2%	8,268,000	8,591,733	323,733	3.9%
Coal Conversion Tax	2,062,000	2,078,047	16,047	0.8%	32,766,000	33,244,005	478,005	1.5%
Mineral Leasing Fees	500,000	1,426,503	926,503	185.3%	4,325,000	9,912,987	5,587,987	129.2%
Bank of North Dakota-Transfer					-	-		
State Mill & Elevator-Transfer					-	-		
Gas Tax Admin-Transfer	175,000	175,000		0.0%	1,050,000	1,050,000	-	0.0%
Other Transfers		101,104	101,104	100.0%	38,450,000	38,669,839	219,839	0.6%
<b>Total Revenues and Transfers</b>	<b>70,415,000</b>	<b>100,615,900</b>	<b>30,200,900</b>	<b>42.9%</b>	<b>1,200,175,021</b>	<b>1,434,947,634</b>	<b>234,772,613</b>	<b>19.6%</b>

\* Oil and gas production and extraction tax collections totaled \$10.3 million in October. 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 October, oil tax collections totaling \$82.0 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**  
**October 2006**

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	October <u>2004</u>	October <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	31,593,497	47,770,167	16,176,670	51.2%	468,191,444	551,366,511	83,175,067	17.8%
Motor Vehicle Excise Tax	5,577,115	4,994,155	(582,961)	-10.5%	87,301,475	83,416,380	(3,885,095)	-4.5%
Individual Income Tax	14,646,626	37,394,866	22,748,240	155.3%	277,143,907	373,862,893	96,718,986	34.9%
Corporate Income Tax	6,595,058	385,232	(6,209,827)	-94.2%	47,648,143	130,093,989	82,445,847	173.0%
Insurance Premium Tax	58,107	66,886	8,779	15.1%	32,853,623	30,440,817	(2,412,806)	-7.3%
Financial Institutions Tax	45,396	3,818	(41,578)	-91.6%	2,741,005	4,284,642	1,543,638	56.3%
Oil & Gas Production Tax*	3,560,607		(3,560,607)	-100.0%	38,828,993	45,774,118	6,945,126	17.9%
Gaming Tax	850,409	759,241	(91,168)	-10.7%	14,275,543	11,950,253	(2,325,290)	-16.3%
Lottery					1,431,000	6,300,000	4,869,000	340.3%
Interest Income	290,444	1,484,440	1,193,996	411.1%	2,977,815	17,631,023	14,653,208	492.1%
Oil Extraction Tax*	1,973,357		(1,973,357)	-100.0%	21,323,276	25,225,881	3,902,605	18.3%
Cigarette & Tobacco Tax	1,627,164	1,978,918	351,755	21.6%	26,699,354	30,179,580	3,480,226	13.0%
Departmental Collections	2,897,786	1,494,010	(1,403,776)	-48.4%	92,739,099	32,952,981	(59,786,118)	-64.5%
Wholesale Liquor Tax	463,458	503,514	40,056	8.6%	7,954,417	8,591,733	637,316	8.0%
Coal Conversion Tax	2,026,151	2,078,047	51,896	2.6%	31,847,365	33,244,005	1,396,640	4.4%
Mineral Leasing Fees	654,427	1,426,503	772,076	118.0%	4,984,169	9,912,987	4,928,818	98.9%
Bank of North Dakota-Transfer					30,000,000		(30,000,000)	-100.0%
State Mill & Elevator-Transfer								
Gas Tax Admin-Transfer	174,525	175,000	475	0.3%	1,047,150	1,050,000	2,850	0.3%
Other Transfers	1,017	101,104	100,087	9840.3%	43,107,549	38,669,839	(4,437,710)	-10.3%
<b>Total Revenues and Transfers</b>	<b>73,035,144</b>	<b>100,615,900</b>	<b>27,580,756</b>	<b>37.8%</b>	<b>1,233,095,327</b>	<b>1,434,947,634</b>	<b>201,852,307</b>	<b>16.4%</b>

\* Oil and gas production and extraction tax collections totaled \$10.3 million in October. 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 October, oil tax collections totaling \$82.0 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 \$30.2 million. Biennium to date collections exceed the forecast by \$234.8 million, or 19.6 percent. Notable variances in October are as follows:

Sales tax collections exceeded the forecast by approximately \$10.4 million, or 28.0 percent. Biennium to date collections exceed the forecast by \$50.7 million and exceed the previous biennium collections by \$83.2 million. A portion of the October variance is attributable to timing and the early collection of sales tax revenue budgeted for November. It appears likely that the November collections will fall short of estimates.

Motor vehicle excise tax collections once again fell short of projections. The shortfall is \$1.1 million for the month, \$7.8 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 \$24.6 million. Biennium to date collections exceed the forecast by \$84.3 million. Both withholding and estimated tax payments were strong in October, but a portion of the variance appears to be attributable to timing. It appears likely that the November collections will fall short of estimates.

Corporate income taxes fell short of the forecast by \$2.5 million for the month. Biennium to date collections exceed the forecast by \$85.4 million.

Corporate tax collections actually exceeded the legislative forecast before considering the effect of a \$4.0 million transfer to the refund reserve account, which reduced collections deposited in the general fund. Based on the record level of corporate tax collections deposited in the general fund, it was determined by the Tax Department that an additional deposit into the refund reserve account should be made to ensure an adequate balance to cover anticipated refunds.

Oil and gas collections for the month were \$10.3 million compared to the legislative forecast of \$3.3 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. Through October, \$82.0 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 -- \$440,000 for the month and \$4.8 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.

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