

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

New Revenue Forecast for the 2007 Legislative Session.

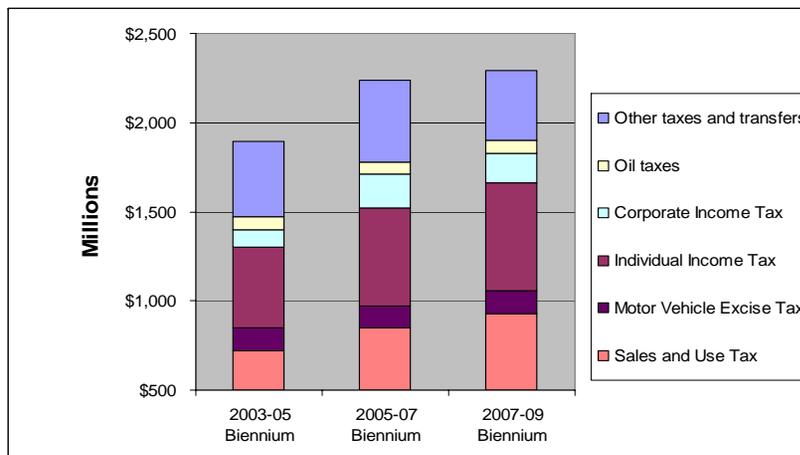
The Office of Management and Budget has completed the executive revenue forecast for the remainder of the current biennium and the 2007-09 biennium. The revenue forecast shows continued growth in tax revenue and a growing reserve balance. General fund revenues are anticipated to grow from \$1.897 billion in 2003-05, to \$2.234 billion in 2005-07, and \$2.292 billion in 2007-09. Revenue growth from the 2005-07 biennium to the 2007-09 biennium is led by significant gains in sales and use taxes and individual income taxes, both growing by biennial rates of nearly 10.0 percent.

Oil revenues continue to contribute to state coffers, but as has been the case in past bienniums, all oil tax revenues in excess of \$71.0 million are deposited in the permanent oil tax trust fund, rather than the

general fund.

The general fund is anticipated to end the 2007-09 biennium, considering the executive revenue forecast and recommended appropriations included in the Governor's budget, with a balance of \$34.4 million. In addition, the budget stabilization fund will grow considerably, adding to the state's reserve accounts. The budget stabilization fund currently sits at \$99.5 million. However, a statutory change is proposed to allow an additional transfer to bring the balance to \$200.0 million. The permanent oil tax trust fund is expected to grow to \$178.6 million by the end of the 2007-09 biennium, even after funding the \$116.7 million proposed for the Governor's property tax relief plan.

The following table shows general fund revenues (in millions of dollars) for the 2003-05, 2005-07, and 2007-09 bienniums:



OIL ACTIVITY

The price of North Dakota crude has dropped from recent highs, but production remains strong. The average price for North Dakota crude has fluctuated around \$55 per barrel in recent months. September prices averaged \$56 per barrel; October prices slipped to \$51 per barrel; current prices are back up to \$55 per barrel. Production in July averaged over 110,200 barrels per day, August average production rose to over 112,200 barrels per day, September production averaged over 113,000 barrels per day, and October production averaged approximately 112,600 barrels per day. Drilling permit activity has remained constant in September and October with 34 permits being issued each month. The current rig count is 42 rigs, compared to 36 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
November 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	36,042,000	33,881,966	(2,160,034)	-6.0%	536,703,000	585,248,478	48,545,478	9.0%
Motor Vehicle Excise Tax	4,871,000	4,579,989	(291,011)	-6.0%	96,051,000	87,996,369	(8,054,631)	-8.4%
Individual Income Tax	22,272,000	8,574,954	(13,697,046)	-61.5%	311,854,000	382,437,847	70,583,847	22.6%
Corporate Income Tax	1,521,000	1,977,981	456,981	30.0%	46,258,000	132,071,970	85,813,970	185.5%
Insurance Premium Tax	4,500,000	4,738,204	238,204	5.3%	41,294,000	35,179,022	(6,114,978)	-14.8%
Financial Institutions Tax		(20,730)	(20,730)	-100.0%	2,583,000	4,263,912	1,680,912	65.1%
Oil & Gas Production Tax*	769,800		(769,800)	-100.0%	39,838,800	45,774,119	5,935,319	14.9%
Gaming Tax	1,787,000	1,287,595	(499,405)	-27.9%	14,880,000	13,237,849	(1,642,151)	-11.0%
Lottery					5,000,000	6,300,000	1,300,000	26.0%
Interest Income	314,000	2,146,269	1,832,269	583.5%	6,354,000	19,777,292	13,423,292	211.3%
Oil Extraction Tax*	700,200		(700,200)	-100.0%	31,161,200	25,225,881	(5,935,319)	-19.0%
Cigarette & Tobacco Tax	1,634,000	1,840,864	206,864	12.7%	27,002,000	32,020,444	5,018,444	18.6%
Departmental Collections	1,394,000	1,844,763	450,763	32.3%	32,142,021	34,797,744	2,655,723	8.3%
Wholesale Liquor Tax	496,000	583,071	87,071	17.6%	8,764,000	9,174,804	410,804	4.7%
Coal Conversion Tax	2,109,000	2,102,274	(6,726)	-0.3%	34,875,000	35,346,279	471,279	1.4%
Mineral Leasing Fees	500,000	1,297,934	797,934	159.6%	4,825,000	11,210,921	6,385,921	132.4%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Gas Tax Admin-Transfer					1,050,000	1,050,000		0.0%
Other Transfers		2,020	2,020	100.0%	38,450,000	38,671,859	221,859	0.6%
Total Revenues and Transfers	78,910,000	64,837,156	(14,072,844)	-17.8%	1,279,085,021	1,499,784,791	220,699,770	17.3%

* Oil and gas production and extraction tax collections totaled \$9.1 million in November. 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 November, oil tax collections totaling \$91.1 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
November 2006

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	November 2004	November 2006	Variance	Percent	2003-05	2005-07	Variance	Percent
Sales Tax	34,466,204	33,881,966	(584,238)	-1.7%	502,657,649	585,248,478	82,590,829	16.4%
Motor Vehicle Excise Tax	4,717,728	4,579,989	(137,738)	-2.9%	92,019,202	87,996,369	(4,022,833)	-4.4%
Individual Income Tax	22,353,357	8,574,954	(13,778,403)	-61.6%	299,497,264	382,437,847	82,940,583	27.7%
Corporate Income Tax	2,295,101	1,977,981	(317,120)	-13.8%	49,943,244	132,071,970	82,128,726	164.4%
Insurance Premium Tax	5,992,168	4,738,204	(1,253,964)	-20.9%	38,845,791	35,179,022	(3,666,770)	-9.4%
Financial Institutions Tax	(725,283)	(20,730)	704,553	-97.1%	2,015,722	4,263,912	2,248,190	111.5%
Oil & Gas Production Tax*	4,313,450		(4,313,450)	-100.0%	43,142,442	45,774,118	2,631,676	6.1%
Gaming Tax	1,432,463	1,287,595	(144,868)	-10.1%	15,708,006	13,237,848	(2,470,158)	-15.7%
Lottery					1,431,000	6,300,000	4,869,000	340.3%
Interest Income	268,592	2,146,269	1,877,677	699.1%	3,246,407	19,777,292	16,530,885	509.2%
Oil Extraction Tax*	2,957,680		(2,957,680)	-100.0%	24,280,956	25,225,881	944,926	3.9%
Cigarette & Tobacco Tax	1,632,980	1,840,864	207,885	12.7%	28,332,334	32,020,444	3,688,110	13.0%
Departmental Collections	1,367,285	1,844,763	477,478	34.9%	94,106,385	34,797,744	(59,308,641)	-63.0%
Wholesale Liquor Tax	566,819	583,071	16,252	2.9%	8,521,235	9,174,804	653,569	7.7%
Coal Conversion Tax	2,086,232	2,102,274	16,041	0.8%	33,933,597	35,346,279	1,412,682	4.2%
Mineral Leasing Fees	631,739	1,297,934	666,196	105.5%	5,615,908	11,210,921	5,595,014	99.6%
Bank of North Dakota-Transfer					30,000,000	-	(30,000,000)	-100.0%
State Mill & Elevator-Transfer								
Gas Tax Admin-Transfer					1,047,150	1,050,000	2,850	0.3%
Other Transfers	221,006	2,020	(218,986)	-99.1%	43,328,555	38,671,859	(4,656,696)	-10.7%
Total Revenues and Transfers	84,577,521	64,837,156	(19,740,365)	-23.3%	1,317,672,848	1,499,784,790	182,111,942	13.8%

* Oil and gas production and extraction tax collections totaled \$9.1 million in November. 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 November, oil tax collections totaling \$91.1 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 November fell short of the legislative forecast by \$14.1 million. Biennium to date collections still exceed the forecast by \$220.7 million, or 17.3 percent. Notable variances in November are as follows:

Sales tax collections fell short of the forecast by approximately \$2.2 million, or -6.0 percent. Biennium to date collections exceed the forecast by \$48.5 million and exceed the previous biennium collections by \$82.6 million. The November variance is primarily attributable to timing. October collections exceeded the legislative forecast by \$10.4 million.

Motor vehicle excise tax collections once again fell short of projections. The shortfall is less than \$300,000 for the month, but \$8.1 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 fell short of the legislative forecast by \$13.7 million. Biennium to date collections exceed the forecast by \$70.6 million. The variance is primarily related to timing — collections budgeted for November were received in October. October collections were \$24.6 million over forecast.

Corporate income tax collections closely matched the forecast for the month. Biennium to date collections exceed the forecast by \$85.8 million.

Oil and gas collections for the month were \$9.1 million compared to the legislative forecast of \$1.5 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 November, \$91.1 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 — \$200,000 for the month and \$5.0 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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