

# 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

### HEALTHY RESERVES IN NORTH DAKOTA AND OTHER STATES

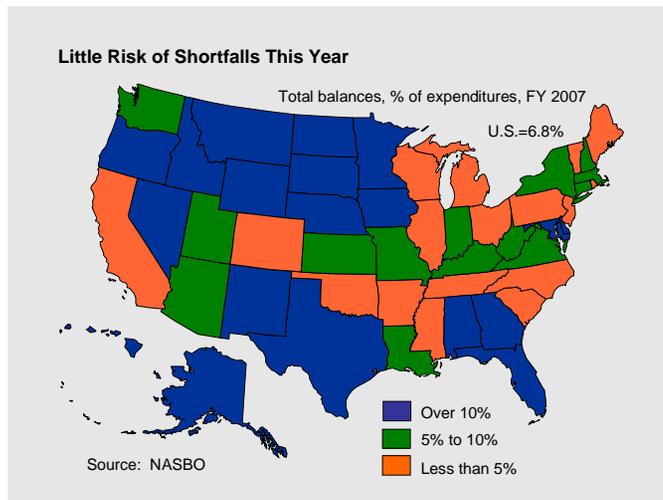
Governor Hoeven's budget for the 2007-09 biennium, currently being deliberated by the 2007 Legislative Assembly, shows a dedication to prudent fiscal management by building and maintaining healthy reserve balances. Projected balances, as of the end of the 2007-09 biennium, exceed \$412.0 million. This includes over \$34.0 million in the general fund, \$200.0 million in the budget stabilization fund, and over \$178.0 million in the permanent oil tax trust fund. These reserve balance estimates are based on an economic forecast that shows continued growth in the North Dakota economy.

In the current biennium, through December 2006, general fund revenues have exceeded the legislative forecast by over

20.0 percent. The most current forecast shows continued revenue growth from \$2.234 billion in the current biennium to \$2.291 billion in 2007-09.

Many states are enjoying a similarly robust economy. As reported by Moody's *Economy.com* in its January 2007 *Précis U.S. Macro* publication, state revenue growth has slowed, but "revenues are still coming in at or above target in the vast majority of states, with average overruns of almost 2%....As such, rainy day funds and other general fund reserves will end the year in good shape, giving states a considerable cushion should the revenue slowdown become more pronounced."

The following table published by Moody's *Economy.com* shows fiscal year 2007 ending balances as a percent of expenditures in all states.



## OIL ACTIVITY

The price of crude in North Dakota continues to decline, but production is still expanding. September prices averaged \$56 per barrel; October and November prices slipped to \$51 per barrel; current prices are down to around \$43 per barrel. Production has risen steadily from an average of 110,000 barrels per day in July, 112,000 in August, over 113,000 in September and October, to nearly 115,000 barrels per day in November. Drilling permit activity has increased significantly, with 46 permits issued in November compared to 34 permits being issued in October. The current rig count is 40 rigs, compared to 33 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**  
**December 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	22,877,000	26,589,991	3,712,991	16.2%	559,580,000	611,838,469	52,258,469	9.3%
Motor Vehicle Excise Tax	4,965,000	4,392,123	(572,877)	-11.5%	101,016,000	92,388,492	(8,627,508)	-8.5%
Individual Income Tax	6,180,000	5,526,423	(653,577)	-10.6%	318,034,000	387,964,270	69,930,270	22.0%
Corporate Income Tax	4,857,000	26,627,884	21,770,884	448.2%	51,115,000	158,699,854	107,584,854	210.5%
Insurance Premium Tax	2,100,000	886,913	(1,213,087)	-57.8%	43,394,000	36,065,935	(7,328,065)	-16.9%
Financial Institutions Tax		4,137	4,137	100.0%	2,583,000	4,268,049	1,685,049	65.2%
Oil & Gas Production Tax*					39,838,800	45,970,447	6,131,647	15.4%
Gaming Tax	350,000	21,818	(328,183)	-93.8%	15,230,000	13,259,666	(1,970,334)	-12.9%
Lottery					5,000,000	6,300,000	1,300,000	26.0%
Interest Income	314,000	1,546,392	1,232,392	392.5%	6,668,000	21,323,685	14,655,685	219.8%
Oil Extraction Tax*					31,161,200	25,029,553	(6,131,647)	-19.7%
Cigarette & Tobacco Tax	1,506,000	1,866,673	360,673	23.9%	28,508,000	33,887,117	5,379,117	18.9%
Departmental Collections	1,615,000	1,451,711	(163,289)	-10.1%	33,757,021	36,249,455	2,492,434	7.4%
Wholesale Liquor Tax	532,000	482,161	(49,839)	-9.4%	9,296,000	9,656,965	360,965	3.9%
Coal Conversion Tax	2,111,000	2,073,569	(37,431)	-1.8%	36,986,000	37,419,848	433,848	1.2%
Mineral Leasing Fees	(250,000)	27,475	277,475	-111.0%	4,575,000	11,238,396	6,663,396	145.6%
Bank of North Dakota-Transfer	30,000,000	30,000,000		0.0%	30,000,000	30,000,000		0.0%
State Mill & Elevator-Transfer								
Gas Tax Admin-Transfer					1,050,000	1,050,000		0.0%
Other Transfers	34,300,000	34,301,069	1,069	0.0%	72,750,000	72,972,928	222,928	0.3%
<b>Total Revenues and Transfers</b>	<b>111,457,000</b>	<b>135,798,338</b>	<b>24,341,338</b>	<b>21.8%</b>	<b>1,390,542,021</b>	<b>1,635,583,129</b>	<b>245,041,108</b>	<b>17.6%</b>

\* Oil and gas production and extraction tax collections totaled \$10.2 million in December. 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 December, oil tax collections totaling \$101.3 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**  
**December 2006**

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	December <u>2004</u>	December <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	23,217,417	26,589,991	3,372,574	14.5%	525,875,065	611,838,469	85,963,403	16.3%
Motor Vehicle Excise Tax	4,717,456	4,392,123	(325,333)	-6.9%	96,736,658	92,388,492	(4,348,166)	-4.5%
Individual Income Tax	6,202,224	5,526,423	(675,801)	-10.9%	305,699,488	387,964,270	82,264,782	26.9%
Corporate Income Tax	7,870,881	26,627,884	18,757,002	238.3%	57,814,126	158,699,854	100,885,728	174.5%
Insurance Premium Tax	401,276	886,913	485,637	121.0%	39,247,068	36,065,935	(3,181,133)	-8.1%
Financial Institutions Tax	(1,475)	4,137	5,612	-380.5%	2,014,247	4,268,049	2,253,802	111.9%
Oil & Gas Production Tax*	2,391,602		(2,391,602)	-100.0%	45,534,044	45,970,447	436,402	1.0%
Gaming Tax	42,483	21,818	(20,666)	-48.6%	15,750,489	13,259,666	(2,490,823)	-15.8%
Lottery	1,434		(1,434)	-100.0%	1,432,434	6,300,000		0.0%
Interest Income	310,736	1,546,392	1,235,656	397.7%	3,557,143	21,323,685	17,766,541	499.5%
Oil Extraction Tax*	1,185,000		(1,185,000)	-100.0%	25,465,956	25,029,553	(436,402)	-1.7%
Cigarette & Tobacco Tax	1,679,326	1,866,673	187,346	11.2%	30,011,661	33,887,117	3,875,456	12.9%
Departmental Collections	1,583,499	1,451,711	(131,788)	-8.3%	95,689,884	36,249,455	(59,440,429)	-62.1%
Wholesale Liquor Tax	491,215	482,161	(9,054)	-1.8%	9,012,450	9,656,965	644,515	7.2%
Coal Conversion Tax	2,103,561	2,073,569	(29,992)	-1.4%	36,037,158	37,419,848	1,382,690	3.8%
Mineral Leasing Fees	(41,913)	27,475	69,388	-165.6%	5,573,995	11,238,396	5,664,402	101.6%
Bank of North Dakota-Transfer		30,000,000			30,000,000	30,000,000		0.0%
State Mill & Elevator-Transfer								
Gas Tax Admin-Transfer					1,047,150	1,050,000	2,850	0.3%
Other Transfers	26,254,670	34,301,069	8,046,399	30.6%	69,583,225	72,972,928	3,389,703	4.9%
<b>Total Revenues and Transfers</b>	<b>78,409,393</b>	<b>135,798,338</b>	<b>27,388,945</b>	<b>34.9%</b>	<b>1,396,082,240</b>	<b>1,635,583,129</b>	<b>234,633,322</b>	<b>16.8%</b>

\* Oil and gas production and extraction tax collections totaled \$10.2 million in December. 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 December, oil tax collections totaling \$101.3 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 December exceeded the March 2005 legislative forecast by \$24.3 million. Biennium to date collections exceed the forecast by \$245.0 million, or 17.6 percent. Notable variances in December are as follows:

Sales tax collections exceeded the legislative forecast by \$3.7 million, or 16.2 percent. Biennium to date collections exceed the forecast by \$52.3 million and exceed the previous biennium collections by \$86.0 million.

Motor vehicle excise tax collections again fell short of projections. The shortfall is \$570,000 for the month, but \$8.6 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 \$650,000; however, biennium to date collections exceed the forecast by \$69.9 million. Compared to the same time period during the 2003-05 biennium, current biennium collections have grown by \$82.3 million, or 26.9 percent.

Corporate income tax collections were the primary contributor to the large December variance. Monthly collections exceeded the forecast by \$21.8 million. Biennium to date collections exceed the forecast by \$107.6 million.

Oil and gas collections for the month were \$10.2 million. However, North Dakota Century Code Section 57-51.1-07.2 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 December, \$101.3 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 - \$360,000 for the month and \$5.4 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.

Several transfers to the general fund took place during the month of December. In addition to the \$30.0 million from the Bank of North Dakota, other transfers for the month totaled over \$34.0 million. Transfers occurring during December included \$25.3 million from the permanent oil tax trust fund and \$9.0 million from the student loan trust fund.

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