

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

Robust Economic Expansion!

“The North Dakota economy is experiencing a robust expansion,” is the conclusion of Moody’s *Economy.com*, the state’s economic consultant. In a February 2007 *Précis State* report, Moody’s completed a quarterly analysis of the North Dakota economy. The report provides an encouraging look at North Dakota by the economists at Moody’s. Among their findings:

“ND’s growth has been accelerating, in stark contrast to the region and nation.”

“Employment [in North Dakota] is growing much quicker than the Midwest average.”

“Healthy job creation has helped the unemployment rate stay low despite strong labor force growth; it remains over a percentage point below the national average.”

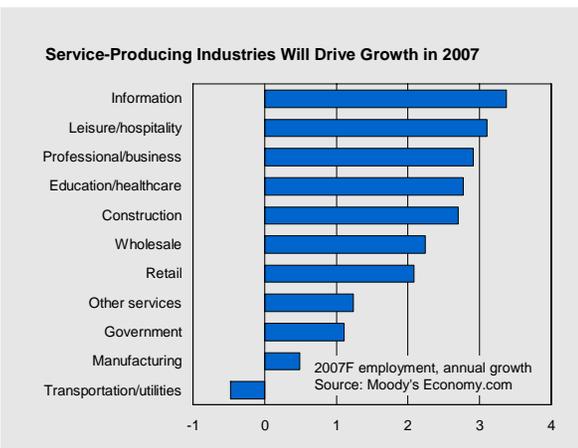
The report notes that the export market is becoming an increasingly important factor in the North Dakota economy. “Exports continue to be a fundamental growth driver for the ND economy. In fact, strong global growth, high commodity prices, and a weakening dollar helped ND rank second among the Midwest states in terms of export growth in 2006....Agricultural exports are up 50% year over year in the fourth quarter, speaking to the success of the North Dakota Trade Office’s missions.”

Despite increasing wages, North Dakota remains competitive in terms of attracting new business. “Costs remain relatively low in ND....The cost

of doing business in the state is 17% lower than the national average, giving the state an advantage over higher cost neighbors like Minnesota and Wisconsin in attracting employers.”

The near-term forecast remains strong. “Cost advantages, improving demographics in the metro areas, and continued strength in exports will lead North Dakota to continue its accelerating growth plan in the short run, despite the national slowdown.”

For 2007, employment in North Dakota is expected to continue the past trend, with a growth rate of 2 percent, approximately 1 percent above the national average. Service industries, including information technology, hospitality, and professional services will lead the state’s employment growth, as shown on the following chart:



OIL ACTIVITY

The price of crude in North Dakota continues to fluctuate around the \$50 per barrel mark. November prices averaged \$51 per barrel, December prices averaged \$54 per barrel, and January prices \$46 per barrel. The current price is around \$53 per barrel. Production continues strong, but has dropped slightly from the November high of over 115,000 barrels per day. Production averaged 114,500 barrels per day in December and 113,200 barrels per day in January. Drilling permit activity continues at a high level, but declined slightly in January with 36 permits being issued, compared to 42 permits issued in December. The current rig count is 34 rigs, two rigs fewer than were operating in the state 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
February 2007

| REVENUES AND TRANSFERS | FISCAL MONTH | | | | BIENNIUM TO DATE | | | |
|-------------------------------------|-----------------------------|-------------------|--------------------|--------------|-----------------------------|----------------------|--------------------|--------------|
| | March 2005 Leg. Forecast | Actual | Variance | Percent | March 2005 Leg. Forecast | Actual | Variance | Percent |
| Sales Tax | 36,972,000 | 32,010,321 | (4,961,679) | -13.4% | 638,655,000 | 697,808,822 | 59,153,822 | 9.3% |
| Motor Vehicle Excise Tax | 4,690,000 | 3,993,038 | (696,962) | -14.9% | 111,408,000 | 101,583,626 | (9,824,374) | -8.8% |
| Individual Income Tax | 15,493,000 | 14,110,352 | (1,382,648) | -8.9% | 367,796,000 | 453,700,926 | 85,904,926 | 23.4% |
| Corporate Income Tax | 1,744,000 | 2,819,109 | 1,075,109 | 61.6% | 56,241,000 | 167,750,904 | 111,509,904 | 198.3% |
| Insurance Premium Tax | 3,593,000 | 2,704,993 | (888,007) | -24.7% | 47,187,000 | 38,780,561 | (8,406,439) | -17.8% |
| Financial Institutions Tax | 79,000 | 235,953 | 156,953 | 198.7% | 2,740,000 | 4,633,897 | 1,893,897 | 69.1% |
| Oil & Gas Production Tax* | | | | | 39,838,800 | 45,970,447 | 6,131,647 | 15.4% |
| Gaming Tax | 1,400,000 | 1,255,132 | (144,868) | -10.3% | 17,530,000 | 15,378,736 | (2,151,264) | -12.3% |
| Lottery | | | | | 5,000,000 | 6,300,000 | 1,300,000 | 26.0% |
| Interest Income | 314,000 | 1,890,320 | 1,576,320 | 502.0% | 7,296,000 | 25,015,798 | 17,719,798 | 242.9% |
| Oil Extraction Tax* | | | | | 31,161,200 | 25,029,553 | (6,131,647) | -19.7% |
| Cigarette & Tobacco Tax | 1,488,000 | 1,760,253 | 272,253 | 18.3% | 31,353,000 | 37,563,730 | 6,210,730 | 19.8% |
| Departmental Collections | 1,723,000 | 3,289,700 | 1,566,700 | 90.9% | 40,347,021 | 45,214,059 | 4,867,038 | 12.1% |
| Wholesale Liquor Tax | 416,000 | 484,162 | 68,162 | 16.4% | 10,259,000 | 10,699,376 | 440,376 | 4.3% |
| Coal Conversion Tax | 1,438,000 | 1,615,823 | 177,823 | 12.4% | 40,580,000 | 41,254,262 | 674,262 | 1.7% |
| Mineral Leasing Fees | 475,000 | 680,369 | 205,369 | 43.2% | 5,550,000 | 13,085,113 | 7,535,113 | 135.8% |
| Bank of North Dakota-Transfer | | | | | 30,000,000 | 30,000,000 | | 0.0% |
| State Mill & Elevator-Transfer | | | | | | | | |
| Gas Tax Admin-Transfer | | | | | 1,225,000 | 1,225,000 | | 0.0% |
| Other Transfers | | 45,864 | 45,864 | 0.0% | 72,750,000 | 73,019,772 | 269,772 | 0.4% |
| Total Revenues and Transfers | 69,825,000 | 66,895,390 | (2,929,610) | -4.2% | 1,556,917,021 | 1,834,014,582 | 277,097,561 | 17.8% |

* Oil and gas production and extraction tax collections totaled \$8.5 million in February. 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 February, oil tax collections totaling \$120.8 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
February 2007

| REVENUES AND TRANSFERS | FISCAL MONTH | | | | BIENNIUM TO DATE | | | |
|-------------------------------------|-------------------|-------------------|------------------|-------------|----------------------|----------------------|--------------------|--------------|
| | February 2005 | February 2007 | Variance | Percent | 2003-05 | 2005-07 | Variance | Percent |
| Sales Tax | 30,448,497 | 32,010,321 | 1,561,824 | 5.1% | 599,318,413 | 697,808,822 | 98,490,408 | 16.4% |
| Motor Vehicle Excise Tax | 3,900,122 | 3,993,038 | 92,916 | 2.4% | 105,817,211 | 101,583,626 | (4,233,585) | -4.0% |
| Individual Income Tax | 15,549,314 | 14,110,352 | (1,438,962) | -9.3% | 355,643,656 | 453,700,926 | 98,057,270 | 27.6% |
| Corporate Income Tax | 2,609,979 | 2,819,109 | 209,130 | 8.0% | 64,278,981 | 167,750,904 | 103,471,923 | 161.0% |
| Insurance Premium Tax | 2,197,564 | 2,704,993 | 507,430 | 23.1% | 41,464,332 | 38,780,561 | (2,683,771) | -6.5% |
| Financial Institutions Tax | 167,786 | 235,953 | 68,167 | 40.6% | 2,345,576 | 4,633,897 | 2,288,321 | 97.6% |
| Oil & Gas Production Tax* | | | | | 45,534,044 | 45,970,447 | 436,402 | 1.0% |
| Gaming Tax | 1,627,795 | 1,255,132 | (372,663) | -22.9% | 18,072,373 | 15,378,736 | (2,693,637) | -14.9% |
| Lottery | | | | | 1,432,434 | 6,300,000 | 4,867,566 | 339.8% |
| Interest Income | 190,916 | 1,890,320 | 1,699,405 | 890.1% | 3,891,887 | 25,015,798 | 21,123,912 | 542.8% |
| Oil Extraction Tax* | | | | | 25,465,956 | 25,029,553 | (436,402) | -1.7% |
| Cigarette & Tobacco Tax | 1,612,450 | 1,760,253 | 147,803 | 9.2% | 33,373,643 | 37,563,730 | 4,190,087 | 12.6% |
| Departmental Collections | 2,023,321 | 3,289,700 | 1,266,380 | 62.6% | 104,175,283 | 45,214,059 | (58,961,224) | -56.6% |
| Wholesale Liquor Tax | 406,752 | 484,162 | 77,410 | 19.0% | 9,962,245 | 10,699,376 | 737,132 | 7.4% |
| Coal Conversion Tax | 1,113,234 | 1,615,823 | 502,589 | 45.1% | 39,208,415 | 41,254,262 | 2,045,847 | 5.2% |
| Mineral Leasing Fees | 823,392 | 680,369 | (143,023) | -17.4% | 7,089,114 | 13,085,113 | 5,996,000 | 84.6% |
| Bank of North Dakota-Transfer | | | | | 30,000,000 | 30,000,000 | | 0.0% |
| State Mill & Elevator-Transfer | | | | | | | | |
| Gas Tax Admin-Transfer | | | | | 1,221,675 | 1,225,000 | 3,325 | 0.3% |
| Other Transfers | 2,270 | 45,864 | 43,595 | 1920.8% | 87,364,214 | 73,019,772 | (14,344,443) | -16.4% |
| Total Revenues and Transfers | 62,673,389 | 66,895,390 | 4,222,001 | 6.7% | 1,575,659,451 | 1,834,014,582 | 258,355,131 | 16.4% |

* Oil and gas production and extraction tax collections totaled \$8.5 million in February. 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 February, oil tax collections totaling \$120.8 million have been deposited in the permanent oil tax trust fund and are not reflected on this report.

Revenue Variances

Compared to the February 2007 forecast, February collections were approximately \$2.2 million lower than projected. However, January collections were approximately \$5.4 million higher than projected, resulting in a cumulative variance of \$3.2 million more than expected since January 2007.

Revenue collections for the month fell short of the March 2005 legislative forecast by \$2.9 million. Biennium to date collections exceed the forecast by \$277.1 million, or 17.8 percent. Notable variances in February are as follows:

Sales tax collections represent the largest variance for the month. Collections fell short of projections by \$5.0 million, or 13.4 percent. However, biennium to date collections exceed the forecast by \$59.2 million and exceed the previous biennium collections by \$98.5 million, or 16.4 percent. As of the date of this report, collections for the month of March appear to be tracking ahead of forecast and the February variance is likely attributable to timing.

Motor vehicle excise tax collections again fell short of projections. The shortfall is nearly \$700,000 for the month and \$9.8 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 were \$1.4 million less than forecast; however, biennium to date collections exceed the forecast by \$85.9 million. Compared to the same time period during the 2003-05 biennium, current biennium collections have grown by \$98.1 million, or

27.6 percent.

Corporate income tax collections exceeded the forecast by \$1.1 million for the month and \$111.5 million for the biennium.

Oil and gas collections for the month were \$8.5 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 February, \$120.8 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 - \$272,000 for the month and \$6.2 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 projections by \$1.6 million for the month. This variance is primarily attributable to the receipt of \$1.2 million by the state's Information Technology Department for federal e-rate funding due the state from a previous fiscal year.

Mineral leasing fees, driven by increased oil and gas exploration and production activity, exceed the legislative forecast by over \$200,000 for the month and \$7.5 million for the biennium.