

North Dakota REV-E-NEWS



Pam Sharp, Director

June 2007

OFFICE OF MANAGEMENT AND BUDGET
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MESSAGE FROM THE DIRECTOR

Healthy Reserves in North Dakota and Other States!

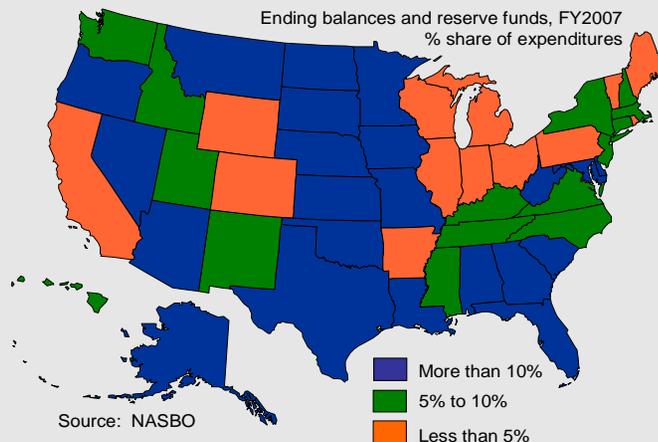
A key component of the Governor's 2007-09 budget was building the state's budget reserve balances to a record \$413.0 million. The executive budget included anticipated June 30, 2009, balances of \$34.4 million in the general fund, \$200.0 million in the budget stabilization fund, and \$178.6 million in the permanent oil tax trust fund.

The budget approved by the 2007 legislature also included significant reserve balances – totaling over \$350.0 million. The legislative budget provides for anticipated June 30, 2009, ending balances of \$18.6

million in the general fund, \$200.0 million in the budget stabilization fund, and \$135.5 million in the permanent oil tax trust fund.

Considering only these three major funds, North Dakota's reserves are anticipated to equal over 14.0 percent of the appropriated general fund budget for 2007-09. The following map, published by Moody's Economy.com in its June 2007 *Précis Macro* publication, shows that North Dakota is in the company of several other states, primarily in the plains region, with fiscal year 2007 ending balances in excess of 10.0 percent of state expenditures.

General Fund Reserves in Good Shape for Most States



OIL ACTIVITY

The price of North Dakota crude continues to rise. February prices averaged \$51 per barrel, March prices \$52 per barrel, and April prices \$56 per barrel. The current price is over \$60 per barrel. Production continues strong and increased in April to nearly 119,000 barrels per day. March production averaged 117,700 barrels per day. Drilling permit activity increased in April with 38 permits being issued, compared to 33 in March. The current rig count is 41 rigs, 5 more 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
May 2007

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	34,409,000	39,748,138	5,339,138	15.5%	724,345,000	797,504,460	73,159,460	10.1%
Motor Vehicle Excise Tax	6,660,000	6,520,504	(139,496)	-2.1%	129,910,000	119,861,929	(10,048,071)	-7.7%
Individual Income Tax	21,497,000	12,066,325	(9,430,675)	-43.9%	452,590,000	568,917,092	116,327,092	25.7%
Corporate Income Tax	2,223,000	3,647,401	1,424,401	64.1%	75,311,000	210,863,348	135,552,348	180.0%
Insurance Premium Tax	5,000,000	4,240,901	(759,099)	-15.2%	60,937,000	49,379,804	(11,557,196)	-19.0%
Financial Institutions Tax	52,000	566,304	514,304	989.0%	5,138,000	9,702,362	4,564,362	88.8%
Oil & Gas Production Tax*					39,838,800	45,970,447	6,131,647	15.4%
Gaming Tax	1,700,000	1,545,334	(154,666)	-9.1%	19,930,000	17,723,774	(2,206,226)	-11.1%
Lottery					5,000,000	6,300,000	1,300,000	26.0%
Interest Income	314,000	2,420,343	2,106,343	670.8%	8,238,000	31,258,217	23,020,217	279.4%
Oil Extraction Tax*					31,161,200	25,029,553	(6,131,647)	-19.7%
Cigarette & Tobacco Tax	1,513,000	1,874,781	361,781	23.9%	35,581,000	42,603,130	7,022,130	19.7%
Departmental Collections	1,545,000	1,964,285	419,285	27.1%	46,023,021	50,404,902	4,381,881	9.5%
Wholesale Liquor Tax	506,000	491,665	(14,335)	-2.8%	11,704,000	12,176,736	472,736	4.0%
Coal Conversion Tax	2,005,000	1,933,226	(71,774)	-3.6%	46,745,000	47,326,400	581,399	1.2%
Mineral Leasing Fees	450,000	1,119,469	669,469	148.8%	6,208,333	14,451,634	8,243,301	132.8%
Bank of North Dakota-Transfer					30,000,000	30,000,000		0.0%
State Mill & Elevator-Transfer								
Gas Tax Admin-Transfer					1,400,000	1,400,000		0.0%
Other Transfers		15,655	15,655	0.0%	72,750,000	73,050,325	300,325	0.4%
Total Revenues and Transfers	77,874,000	78,154,332	280,332	0.4%	1,802,810,354	2,153,924,111	351,113,757	19.5%

* Oil and gas production and extraction tax collections totaled \$10.9 million in May. 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 May, oil tax collections totaling \$154.7 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
May 2007

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	May 2005	May 2007	Variance	Percent	2003-05	2005-07	Variance	Percent
Sales Tax	34,967,427	39,748,138	4,780,711	13.7%	685,681,636	797,504,460	111,822,824	16.3%
Motor Vehicle Excise Tax	5,527,312	6,520,504	993,192	18.0%	122,145,206	119,861,929	(2,283,277)	-1.9%
Individual Income Tax	21,575,020	12,066,325	(9,508,696)	-44.1%	440,747,222	568,917,092	128,169,869	29.1%
Corporate Income Tax	3,443,597	3,647,401	203,804	5.9%	92,484,151	210,863,348	118,379,197	128.0%
Insurance Premium Tax	3,069,274	4,240,901	1,171,627	38.2%	52,829,771	49,379,804	(3,449,967)	-6.5%
Financial Institutions Tax	4,275	566,304	562,029	13146.9%	4,717,101	9,702,362	4,985,261	105.7%
Oil & Gas Production Tax*					45,534,044	45,970,447	436,402	1.0%
Gaming Tax	1,423,637	1,545,334	121,697	8.5%	20,528,327	17,723,774	(2,804,553)	-13.7%
Lottery					1,432,434	6,300,000	4,867,566	339.8%
Interest Income	376,674	2,420,343	2,043,668	542.6%	4,955,847	31,258,217	26,302,370	530.7%
Oil Extraction Tax*					25,465,956	25,029,553	(436,402)	-1.7%
Cigarette & Tobacco Tax	1,590,623	1,874,781	284,158	17.9%	37,808,279	42,603,130	4,794,850	12.7%
Departmental Collections	2,552,050	1,964,285	(587,765)	-23.0%	109,527,823	50,404,902	(59,122,920)	-54.0%
Wholesale Liquor Tax	475,369	491,665	16,296	3.4%	11,338,918	12,176,736	837,818	7.4%
Coal Conversion Tax	1,938,112	1,933,226	(4,886)	-0.3%	45,210,252	47,326,400	2,116,147	4.7%
Mineral Leasing Fees	3,137,352	1,119,469	(2,017,883)	-64.3%	10,828,111	14,451,634	3,623,523	33.5%
Bank of North Dakota-Transfer					30,000,000	30,000,000		
State Mill & Elevator-Transfer								
Gas Tax Admin-Transfer					1,396,200	1,400,000	3,800	0.3%
Other Transfers	5,036,857	15,655	(5,021,201)	-99.7%	92,406,913	73,050,325	(19,356,588)	-20.9%
Total Revenues and Transfers	85,117,579	78,154,332	(6,963,247)	-8.2%	1,835,038,192	2,153,924,111	318,885,919	17.4%

* Oil and gas production and extraction tax collections totaled \$10.9 million in May. 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 May, oil tax collections totaling \$154.7 million have been deposited in the permanent oil tax trust fund and are not reflected on this report.

Revenue Variances

Compared to the 2007 legislative forecast, May collections were over \$8.0 million higher than projected, resulting in a cumulative variance of \$49.5 million more than expected for the biennium to date.

Revenue collections for the month closely matched the original 2005 legislative forecast – exceeding the forecast by a mere \$280,000, or .4 percent. Biennium to date collections exceed the original forecast by \$351.1 million, or 19.5 percent. Notable May variances in relation to the original 2005 legislative forecast are as follows:

Sales tax collections exceeded the forecast by \$5.3 million, or 15.5 percent, continuing the trend of strong sales tax collections that has been a significant contributor to the state's revenue surplus. Biennium to date collections exceed the forecast by \$73.2 million, or 10.1 percent. Current biennium collections exceed the previous biennium by \$111.8 million, or 16.3 percent.

Motor vehicle excise tax collections nearly matched projections for the month, but are still \$10.0 million short of the forecast 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 projections due to timing -- the fact that collections anticipated to be received in May were actually received in April. April collections exceeded the forecast by \$41.7 million. May collections were \$9.4 million less than originally anticipated. However, compared to the

same time period during the 2003-05 biennium, current biennium collections have grown by \$128.2 million, or 29.1 percent.

Corporate income tax collections exceed the forecast by \$1.4 million for the month and \$135.6 million for the biennium.

Oil and gas collections for the month were \$10.9 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 May, \$154.7 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 -- by \$362,000 for the month and \$7.0 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.

June will mark the close of the 2005-07 biennium. Consequently, all end of biennium accounting procedures will need to be completed before the biennium is closed and statements are prepared. This will result in a delay in the publication of month-end statements, including this newsletter. The July *Rev-E-News* newsletter will likely be published in early August.

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