

North Dakota REV-E-NEWS



Pam Sharp, Director

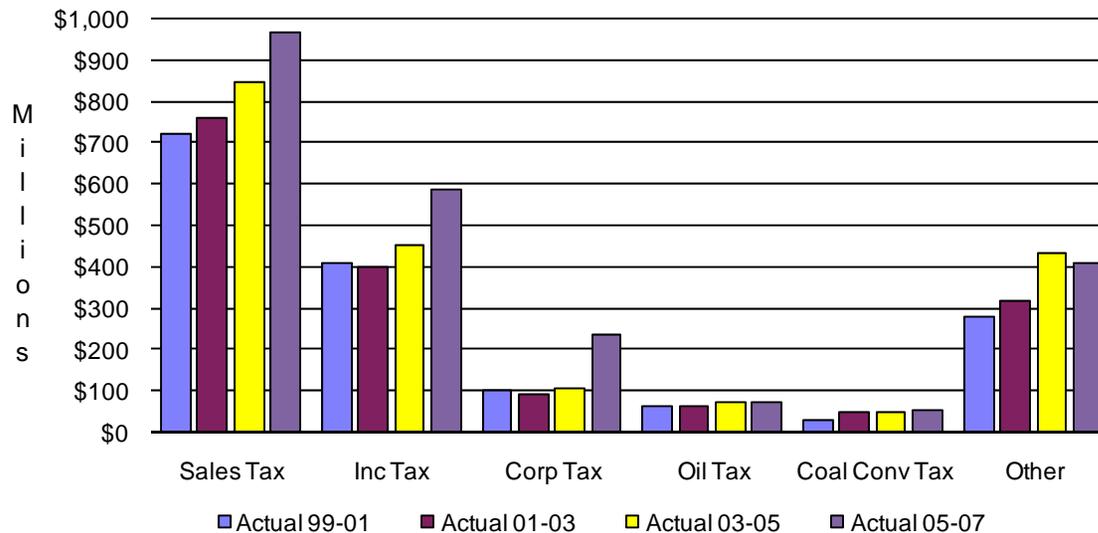
July 2007

OFFICE OF MANAGEMENT AND BUDGET
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MESSAGE FROM THE DIRECTOR

With the end of June comes the close of the 2005-07 biennium, a two-year period during which North Dakota experienced unprecedented revenue growth. The biennium closed with record general fund revenues of \$2.317 billion, \$382.7 million more than the original forecast and \$76.0 million more than the forecast adopted by the recently adjourned 2007 Legislative Assembly. General fund revenue growth was led by a surging

economy and strong consumer spending, resulting in increased sales and use tax collections; personal income growth, resulting in increased individual income tax collections; and growing corporate profits, resulting in significantly increased corporate income tax collections. The following chart shows actual revenue collections during the past four biennia:



OIL ACTIVITY

The price of North Dakota crude continues to rise. March prices averaged \$52 per barrel, April prices \$56 per barrel, and May prices \$57 per barrel. The current price is over \$70 per barrel. Production continues to grow and increased in May to over 120,000 barrels per day. March production averaged 117,700 barrels per day and April production 118,800 barrels per day. Drilling permit activity increased in May with 50 permits being issued compared to 38 in April. The current rig count is 42 rigs, 3 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
June 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	38,379,000	44,426,406	6,047,406	15.8%	762,724,000	841,930,866	79,206,866	10.4%
Motor Vehicle Excise Tax	6,223,400	5,860,339	(363,061)	-5.8%	136,133,400	125,722,268	(10,411,132)	-7.6%
Individual Income Tax	11,757,000	18,742,286	6,985,286	59.4%	464,347,000	587,659,377	123,312,377	26.6%
Corporate Income Tax	8,508,000	21,430,962	12,922,962	151.9%	83,819,000	232,294,310	148,475,310	177.1%
Insurance Premium Tax	2,700,000	3,493,206	793,206	29.4%	63,637,000	52,873,010	(10,763,990)	-16.9%
Financial Institutions Tax	28,400		(28,400)	-100.0%	5,166,400	9,702,362	4,535,962	87.8%
Oil & Gas Production Tax*				0.0%	39,838,800	45,970,447	6,131,647	15.4%
Gaming Tax	200,000	262,246	62,246	31.1%	20,130,000	17,986,019	(2,143,981)	-10.7%
Lottery	5,000,000	6,300,000	1,300,000	26.0%	10,000,000	12,600,000	2,600,000	26.0%
Interest Income	2,232,000	5,249,000	3,017,000	135.2%	10,470,000	36,507,217	26,037,217	248.7%
Oil Extraction Tax*				0.0%	31,161,200	25,029,553	(6,131,647)	-19.7%
Cigarette & Tobacco Tax	1,566,000	2,080,241	514,241	32.8%	37,147,000	44,683,370	7,536,370	20.3%
Departmental Collections	2,522,000	3,376,495	854,495	33.9%	48,545,021	53,781,397	5,236,376	10.8%
Wholesale Liquor Tax	596,000	611,133	15,133	2.5%	12,300,000	12,787,869	487,869	4.0%
Coal Conversion Tax	2,088,000	1,891,464	(196,536)	-9.4%	48,833,000	49,217,864	384,864	0.8%
Mineral Leasing Fees	(212,000)	(491,355)	(279,355)	131.8%	5,996,333	13,960,279	7,963,946	132.8%
Bank of North Dakota-Transfer	30,000,000	30,000,000		0.0%	60,000,000	60,000,000		0.0%
State Mill & Elevator-Transfer	5,000,000	5,000,000		0.0%	5,000,000	5,000,000		0.0%
Gas Tax Admin-Transfer				0.0%	1,400,000	1,400,000		0.0%
Other Transfers	15,350,000	15,259,807	(90,193)	-0.6%	88,100,000	88,310,132	210,132	0.2%
Total Revenues and Transfers	131,937,800	163,492,229	31,554,429	23.9%	1,934,748,154	2,317,416,340	382,668,186	19.8%

* Oil and gas production and extraction tax collections totaled \$15.1 million in June. 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 June, oil tax collections totaling \$169.8 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
June 2007

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	June 2005	June 2007	Variance	Percent	2003-05	2005-07	Variance	Percent
Sales Tax	32,076,657	44,426,406	12,349,749	38.5%	717,758,293	841,930,866	124,172,573	17.3%
Motor Vehicle Excise Tax	5,864,897	5,860,339	(4,558)	-0.1%	128,010,103	125,722,268	(2,287,834)	-1.8%
Individual Income Tax	11,800,103	18,742,286	6,942,182	58.8%	452,547,326	587,659,377	135,112,051	29.9%
Corporate Income Tax	10,442,821	21,430,962	10,988,141	105.2%	102,926,972	232,294,310	129,367,338	125.7%
Insurance Premium Tax	3,454,764	3,493,206	38,442	1.1%	56,284,535	52,873,010	(3,411,525)	-6.1%
Financial Institutions Tax	241,572		(241,572)	-100.0%	4,958,673	9,702,362	4,743,689	95.7%
Oil & Gas Production Tax*				0.0%	45,534,044	45,970,447	436,402	1.0%
Gaming Tax	322,584	262,246	(60,339)	-18.7%	20,850,911	17,986,019	(2,864,892)	-13.7%
Lottery	5,836,571	6,300,000	463,429	7.9%	7,269,005	12,600,000	5,330,995	73.3%
Interest Income	1,979,169	5,249,000	3,269,832	165.2%	6,935,015	36,507,217	29,572,201	426.4%
Oil Extraction Tax*				0.0%	25,465,956	25,029,553	(436,402)	-1.7%
Cigarette & Tobacco Tax	1,668,433	2,080,241	411,807	24.7%	39,476,712	44,683,370	5,206,658	13.2%
Departmental Collections	1,476,714	3,376,495	1,899,780	128.6%	111,004,537	53,781,397	(57,223,140)	-51.6%
Wholesale Liquor Tax	550,547	611,133	60,586	11.0%	11,889,465	12,787,869	898,404	7.6%
Coal Conversion Tax	1,986,579	1,891,464	(95,115)	-4.8%	47,196,831	49,217,864	2,021,032	4.3%
Mineral Leasing Fees	196,472	(491,355)	(687,827)	-350.1%	11,024,583	13,960,279	2,935,696	26.6%
Bank of North Dakota-Transfer	30,000,000	30,000,000		0.0%	60,000,000	60,000,000		0.0%
State Mill & Elevator-Transfer	5,000,000	5,000,000		0.0%	5,000,000	5,000,000		0.0%
Gas Tax Admin-Transfer				0.0%	1,396,200	1,400,000	3,800	0.3%
Other Transfers	5,461,956	15,259,807	9,797,851	179.4%	97,868,869	88,310,132	(9,558,737)	-9.8%
Total Revenues and Transfers	118,359,839	163,492,229	45,132,389	38.1%	1,953,398,031	2,317,416,340	364,018,309	18.6%

* Oil and gas production and extraction tax collections totaled \$15.1 million in June. 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 June, oil tax collections totaling \$169.8 million have been deposited in the permanent oil tax trust fund and are not reflected on this report.

Revenue Variances

Compared to the most recent 2007 legislative forecast, actual 2005-07 revenue collections were \$76.0 million higher than anticipated, a variance of 3.4 percent.

Revenue collections for the month were 31.6 million higher than the original 2005 legislative forecast. For the biennium, actual collections exceeded the original forecast by \$382.7 million, or 19.8 percent. Notable variances for the month of June in relation to the original 2005 legislative forecast are as follows:

- **Sales tax** collections exceeded the forecast by \$6.0 million, or 15.8 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 \$79.2 million, or 10.4 percent. Current biennium collections exceed the previous biennium by \$124.2 million, or 17.3 percent.
- **Motor vehicle excise tax** collections fell short of projections for the month, and finished the biennium \$10.4 million short of the original forecast. 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 projections by 7.0 million for the month and \$123.3 million, or 26.6 percent, for the biennium. Compared to the 2003-05 biennium, collections were \$135.1 million higher.
- **Corporate income tax** collections exceeded the forecast by \$12.9 million for the month and \$148.5 million for the biennium.
- **Oil and gas tax** collections for the month were \$15.1 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 were revenue for the permanent oil tax trust fund, rather than the general fund. During the 2005-07 biennium, \$169.8 million of oil tax collections were deposited in the permanent oil tax trust fund.
- **Lottery proceeds** were transferred to the general fund during the month of June. The transfer was \$6.3 million, \$1.3 million more than original projections. However, the transfer matched the fiscal year 2006 transfer and revised projections developed by the Lottery Division at the beginning of fiscal year 2007.
- **Cigarette and tobacco tax** collections continue to exceed the legislative forecast -- by \$514,000 for the month and \$7.5 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.