

North Dakota REV-E-NEWS



Pam Sharp, Director

September 2007

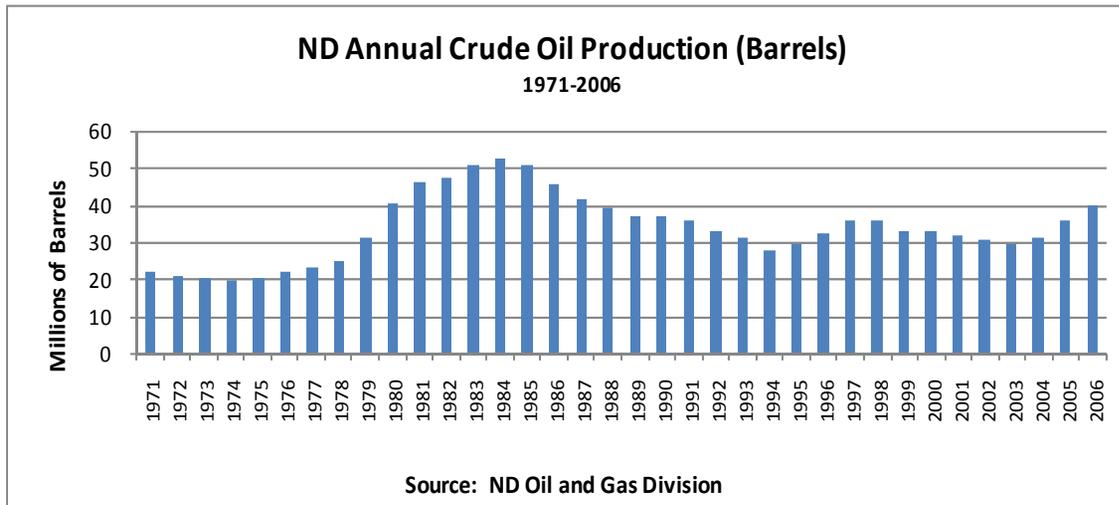
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MESSAGE FROM THE DIRECTOR

OIL PRODUCTION CONTINUES TO GROW IN NORTH DAKOTA!

From 2003 to 2006, oil production in North Dakota increased by nearly 36.0 percent, from 29.4 million barrels to 39.9 million barrels per year. The production level of 2006 was the highest since 1987, when oil production in the state reached 41.4 million barrels. And production has continued climbing since 2006. Production during the first half of 2007 shows a 12.0 percent increase over the same months in 2006. With prices currently over \$70 per barrel, increasing drilling activity and an increasing number of producing wells, production seems unlikely to decline in the near term.

According to production statistics compiled by the North Dakota Oil and Gas Division, production in North Dakota peaked in 1984 at 52.7 million barrels. Oil production began declining from 1985 through 1994, rose in the late 1990's, then declined again until 2003. However, production has been steadily climbing since 2003, as shown on the following chart:



National production statistics compiled by the Energy Information Administration and recently published by the North Dakota State Data Center in an *Economic Brief*, show that "North Dakota ranked 9th in crude oil production out of 31 oil-producing states and two federal offshore areas in 2006, producing an average of 109,000 barrels of oil per day. North Dakota's total oil production in 2006, approximately 40 million barrels, comprised 2.1 percent of the nation's total production."

With higher than anticipated production and higher than anticipated prices, oil tax revenue received by the state has correspondingly exceeded the legislative revenue forecast. Only two months into the 2007-09 biennium, production taxes are 58.4 percent higher than anticipated and extraction tax collections are 45.7 percent higher than anticipated. However, it should be noted that pursuant to NDCC 57-51.1-07.2, the general fund

share of oil taxes is limited to \$71.0 million during the 2007-09 biennium. Consequently, excess oil taxes only accelerate the time frame during which the general fund cap will be reached. The result will be additional deposits into the permanent oil tax trust fund, the fund established to receive oil tax collections in excess of \$71.0 million.

OIL ACTIVITY

The price of North Dakota crude continues to rise. May prices averaged \$57 per barrel, June prices \$61 per barrel, and July prices \$68 per barrel. The current price is over \$73 per barrel. Production continues to grow and increased in July to over 123,600 barrels per day. June production averaged over 121,600 barrels per day. May production averaged 120,500 barrels per day. Drilling permit activity increased in July with 47 permits being issued compared to 31 in June. The number of producing wells increased slightly in July to 3,759 compared to 3,735 in June. The current rig count is 45 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
2007-09 BIENNIUM
August 2007

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	April 2007 <u>Leg. Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>	April 2007 <u>Leg. Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
Sales Tax	37,918,000	40,418,319	2,500,319	6.6%	71,843,000	80,158,797	8,315,797	11.6%
Motor Vehicle Excise Tax	5,275,000	6,032,558	757,558	14.4%	9,879,000	11,508,512	1,629,512	16.5%
Individual Income Tax	9,923,000	9,550,104	(372,896)	-3.8%	44,286,000	48,294,584	4,008,584	9.1%
Corporate Income Tax		307,565	307,565	100.0%		1,243,587	1,243,587	100.0%
Insurance Premium Tax	3,859,377	3,379,804	(479,573)	-12.4%	3,859,377	3,382,576	(476,801)	-12.4%
Financial Institutions Tax		(133,679)	(133,679)	-100.0%		6,935	6,935	100.0%
Oil & Gas Production Tax	3,389,000	6,272,749	2,883,749	85.1%	10,379,000	16,441,328	6,062,328	58.4%
Oil Extraction Tax	5,074,000	7,542,832	2,468,832	48.7%	8,034,000	11,703,560	3,669,560	45.7%
Gaming Tax	1,393,280	1,316,377	(76,903)	-5.5%	2,106,720	1,883,221	(223,499)	-10.6%
Lottery								
Cigarette & Tobacco Tax	2,210,000	1,949,025	(260,975)	-11.8%	4,327,000	3,973,917	(353,083)	-8.2%
Wholesale Liquor Tax	542,000	643,974	101,974	18.8%	1,137,000	1,256,892	119,892	10.5%
Coal Conversion Tax	2,191,000	2,218,236	27,236	1.2%	4,308,000	4,275,213	(32,787)	-0.8%
Mineral Leasing Fees	1,100,000	1,083,812	(16,188)	-1.5%	2,200,000	1,600,449	(599,551)	-27.3%
Departmental Collections	1,710,000	1,433,035	(276,965)	-16.2%	2,955,000	2,485,896	(469,104)	-15.9%
Interest Income	1,375,000	2,189,183	814,183	59.2%	1,960,000	2,620,123	660,123	33.7%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil tax trust fund-Transfer								
Other Transfers		30,880	30,880	100.0%	159,257	190,819	31,562	19.8%
Total Revenues and Transfers	75,959,657	84,234,773	8,275,116	10.9%	167,433,354	191,026,410	23,593,056	14.1%

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Previous Biennium Revenues
2007-09 BIENNIUM
August 2007

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	August <u>2005</u>	August <u>2007</u>	<u>Variance</u>	<u>Percent</u>	<u>2005-07</u>	<u>2007-09</u>	<u>Variance</u>	<u>Percent</u>
Sales Tax	40,641,317	40,418,319	(222,998)	-0.5%	65,538,550	80,158,797	14,620,247	22.3%
Motor Vehicle Excise Tax	6,488,054	6,032,558	(455,496)	-7.0%	12,153,179	11,508,512	(644,667)	-5.3%
Individual Income Tax	24,453,729	9,550,104	(14,903,625)	-60.9%	41,323,054	48,294,584	6,971,529	16.9%
Corporate Income Tax	199,638	307,565	107,927	54.1%	302,984	1,243,587	940,603	310.4%
Insurance Premium Tax	2,019,584	3,379,804	1,360,220	67.4%	2,019,584	3,382,576	1,362,992	67.5%
Financial Institutions Tax	983	(133,679)	(134,662)	-100.0%	1,436	6,935	5,499	382.9%
Oil & Gas Production Tax	3,501,969	6,272,749	2,770,780	79.1%	9,706,747	16,441,328	6,734,581	69.4%
Oil Extraction Tax	3,252,095	7,542,832	4,290,736	131.9%	6,066,183	11,703,560	5,637,377	92.9%
Gaming Tax	2,200,826	1,316,377	(884,450)	-40.2%	2,197,480	1,883,221	(314,259)	-14.3%
Lottery								
Cigarette & Tobacco Tax	1,737,278	1,949,025	211,748	12.2%	3,603,877	3,973,917	370,040	10.3%
Wholesale Liquor Tax	549,722	643,974	94,252	17.1%	1,165,284	1,256,892	91,608	7.9%
Coal Conversion Tax	2,186,412	2,218,236	31,824	1.5%	4,158,252	4,275,213	116,961	2.8%
Mineral Leasing Fees	940,799	1,083,812	143,013	15.2%	1,726,649	1,600,449	(126,200)	-7.3%
Departmental Collections	1,366,926	1,433,035	66,109	4.8%	2,345,656	2,485,896	140,240	6.0%
Interest Income	541,546	2,189,183	1,647,637	304.2%	866,088	2,620,123	1,754,036	202.5%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil Tax Trust Fund-Transfer								
Other Transfers	72,430	30,880	(41,551)	-57.4%	249,930	190,819	(59,111)	-23.7%
Total Revenues and Transfers	90,153,309	84,234,773	(5,918,536)	-6.6%	153,424,934	191,026,410	37,601,476	24.5%

GFOA AWARDS FOR EXCELLENCE

The Government Finance Officers Association of the United States and Canada (GFOA) has presented two distinguished awards to the state of North Dakota. The Certificate of Achievement for Excellence in Financial Reporting was awarded for the state's comprehensive annual financial report (CAFR) for fiscal year 2006. In addition, the Distinguished Budget Presentation Award was presented for the 2007-09 biennium budget documents. This is the sixteenth consecutive year the State of North Dakota has received the Certificate of Excellence in Financial Reporting Award and the eight consecutive biennium the state has received the Distinguished Budget Presentation Award.

VARIANCES

August revenues were \$8.3 million, or 10.9 percent, more than projected. However, it should be noted that \$5.4 million of this variance is attributable to oil taxes. Pursuant to NDCC 57-51.1-07.2, the general fund share of oil taxes is limited to \$71.0 million during the 2007-09 biennium. Consequently, excess oil taxes, which total \$5.4 million for the month and \$9.7 million for the biennium, only accelerate the time frame during which the general fund cap will be reached. The result will be additional deposits into the permanent oil tax trust fund, the fund established to receive oil tax collections in excess of \$71.0 million. Notable variances for the month are as follows:

- **Sales tax** collections exceeded the forecast by \$2.5 million, or 6.6 per-

cent. Compared to the same month two years ago, July 2007 collections were .5 percent lower.

- **Motor vehicle excise tax** collections exceeded projections by nearly \$800,000, or 14.4 percent. However, collections were 7.0 percent less than during August 2005. This decline in sales volume is likely attributable to high fuel prices and consumer demand for smaller, more fuel efficient vehicles, many of which are lower priced.
- **Individual income tax** collections fell short of projections for the month by close to \$400,000, but exceed the biennium to date forecast by over 9.0 percent. Compared to the 2005-07 biennium, current biennium collections are \$7.0 million, or 16.9 percent, higher.
- **Corporate income tax** collections exceeded the forecast by \$308,000. The forecast showed anticipated general fund collections of \$0 due to the fact that collections during the first three months of the biennium are typically deposited into the refund reserve account rather than the general fund. However, because actual collections were higher than anticipated, excess collections were deposited in the general fund.
- **Oil and gas tax** collections for the month were \$13.8 million, \$5.4 million more than anticipated. The forecast assumed an August 2007 price of \$47 per barrel and production of 115,000 barrels per day. The current price is over \$73 per barrel and July production averaged over 123,600 barrels per day.

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