

# North Dakota REV-E-NEWS



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## MESSAGE FROM THE DIRECTOR

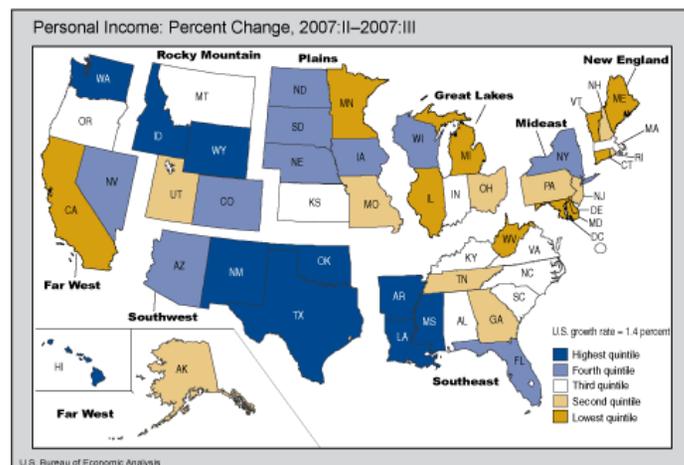
Reports of a slowing national economy and fears of a looming U.S. recession dominate the media. Those concerns are well-founded. Nationally, consumer prices are increasing, energy costs are constricting disposable income and consumer spending, unemployment has risen, and the housing slowdown has rippled through various sectors of the economy. Many states are facing revenue shortfalls and budget concerns for the upcoming fiscal year.

However, in North Dakota, we are enjoying the fruits of a much different economic situation. Our economy is growing and diversifying:

- **Our traditionally low unemployment rate has dropped even lower – and continues well below the national average.** As reported by Job Service North Dakota, from November 2006 to November 2007, national unemployment slipped from 4.3 percent to 4.5 percent. North Dakota unemployment fell from the already low rate of 3.0 percent in November 2006 to 2.7 percent in November 2007.
- **Our job market is growing – and growing at a rate faster than the U.S.** The latest statistics from Job Service North Dakota show that from November 2006 to November 2007, U.S. employment grew by a mere .8 percent; however, during that same time period, employment in North Dakota grew by 1.8 percent.
- **The number of multiple job holders is down.** A recently released *Economic Brief*, published by the North Dakota Data Center, shows that the number of multiple job holders in North Dakota dropped from 9.9 percent of employed in 2005 to 8.4 percent in 2006, a significant decline.
- **High crude oil prices have fueled a boom in the state's oil industry,** bringing high paying jobs and infrastructure investment. Preliminary estimates reported by the Bureau of Labor Statistics show that the state's employment in natural resources and mining related industries grew 6.0 percent during 2007 and has increased over 65.0 percent in the last five years.
- **The state's farmers and ranchers are realizing high levels of production and have benefited from record high commodity prices.** For example, United States Department of Agriculture (USDA) statistics show that 2007 wheat production in North Dakota is estimated to top 300.0 million bushels, up 19.1 percent

from 2006 production of 252.0 million bushels. This is due to increases in harvested acres and yield per acre. At the same time, the North Dakota Wheat Commission is estimating that North Dakota farmers will realize an increase in gross return per acre of wheat harvested that is more than 65.0 percent higher in 2007 -- \$218 per acre compared to \$130 per acre the year before.

The state's strong economy puts North Dakota in an enviable position when compared with many other states. Through December 2007, general fund revenues are nearly 16.0 percent above the forecast and are 36.5 percent ahead of the previous biennium. Strong growth in individual income tax collections is reflective of growing personal income. This growing personal income is also reflected in growth in consumer spending – and ultimately in the taxable sales that generate the growth we see at the state level in sales tax collections. A recent BEA report shows that with an increase of 1.6 percent from the second to third quarter of 2007, personal income growth in North Dakota was in the second highest quintile nationally and exceeded all other states in the Plains region.



## OIL ACTIVITY

The price of North Dakota crude continues well above the forecasted price. September prices averaged \$71 per barrel; October prices nearly \$77 per barrel, and November prices over \$85 per barrel. The legislative forecast assumed November prices would average \$45 per barrel. The current price is over \$82 per barrel. The forecast assumed November production of 116,000 barrels per day. Actual production continues to grow and increased in November to nearly 130,000 barrels per day. October production averaged 129,200 barrels per day. September production was slightly over 127,000 barrels per day. Drilling permit activity continues strong with 65 permits issued in November, unchanged from the October level. The number of producing wells declined slightly in November to 3,818, compared to 3,827 wells in October, and 3,810 in September. The current rig count is 53 rigs, 12 more than were operating in the state one year ago.



## STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2007-09 BIENNIUM December 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	31,468,000	40,029,058	8,561,058	27.2%	219,264,000	245,849,923	26,585,923	12.1%
Motor Vehicle Excise Tax	3,982,000	4,487,930	505,930	12.7%	28,089,000	31,634,868	3,545,868	12.6%
Individual Income Tax	5,219,000	9,349,919	4,130,919	79.2%	86,053,000	102,712,156	16,659,156	19.4%
Corporate Income Tax	12,527,000	29,063,956	16,536,956	132.0%	22,982,000	44,843,607	21,861,607	95.1%
Insurance Premium Tax	900,217	1,013,821	113,604	12.6%	10,354,277	11,805,943	1,451,666	14.0%
Financial Institutions Tax		576,853	576,853	100.0%		865,081	865,081	100.0%
Oil & Gas Production Tax*	5,073,000		(5,073,000)	-100.0%	30,823,000	39,309,315	8,486,315	27.5%
Oil Extraction Tax*	4,059,000		(4,059,000)	-100.0%	26,316,000	31,690,685	5,374,685	20.4%
Gaming Tax	24,640	33,378	8,738	35.5%	4,455,360	4,376,560	(78,800)	-1.8%
Lottery								
Cigarette & Tobacco Tax	1,962,000	1,924,771	(37,229)	-1.9%	12,510,000	11,829,337	(680,663)	-5.4%
Wholesale Liquor Tax	541,000	523,216	(17,784)	-3.3%	3,264,000	3,562,174	298,174	9.1%
Coal Conversion Tax	2,021,000	2,061,714	40,714	2.0%	12,383,000	12,645,718	262,718	2.1%
Mineral Leasing Fees	(550,000)	86,815	636,815	115.8%	3,300,000	5,209,549	1,909,549	57.9%
Departmental Collections	1,510,000	2,095,184	585,184	38.8%	10,984,000	13,130,898	2,146,898	19.5%
Interest Income	1,375,000	2,136,863	761,863	55.4%	7,460,000	12,022,743	4,562,743	61.2%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil tax trust fund-Transfer					115,000,000	115,000,000		0.0%
Other Transfers		720	720	100.0%	318,514	355,215	36,701	11.5%
<b>Total Revenues and Transfers</b>	<b>70,111,857</b>	<b>93,384,200</b>	<b>23,272,343</b>	<b>33.2%</b>	<b>593,556,151</b>	<b>686,843,771</b>	<b>93,287,620</b>	<b>15.7%</b>

\* Oil and gas production and extraction tax collections totaled \$21.6 million in December. Because the \$71.0 million statutory cap for the 2007-09 biennium has been attained, no additional oil tax collections will be deposited in the general fund during the 2007-09 biennium. Through December, oil tax collections totaling \$29.8 million have been transferred to 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 2007-09 BIENNIUM December 2007

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	December 2005	December 2007	Variance	Percent	2005-07	2007-09	Variance	Percent
Sales Tax	24,434,915	40,029,058	15,594,143	63.8%	192,930,706	245,849,923	52,919,217	27.4%
Motor Vehicle Excise Tax	4,225,295	4,487,930	262,635	6.2%	30,662,580	31,634,868	972,288	3.2%
Individual Income Tax	6,676,673	9,349,919	2,673,246	40.0%	102,300,816	102,712,156	411,340	0.4%
Corporate Income Tax	15,106,947	29,063,956	13,957,009	92.4%	39,236,279	44,843,607	5,607,328	14.3%
Insurance Premium Tax	2,045,863	1,013,821	(1,032,042)	-50.4%	8,376,828	11,805,943	3,429,114	40.9%
Financial Institutions Tax	(142,457)	576,853	719,310	504.9%	(138,324)	865,081	1,003,405	725.4%
Oil & Gas Production Tax*	5,590,464		(5,590,464)	-100.0%	32,153,565	39,309,315	7,155,750	22.3%
Oil Extraction Tax*	2,980,730		(2,980,730)	-100.0%	18,052,271	31,690,685	13,638,414	75.5%
Gaming Tax	15,222	33,378	18,156	119.3%	4,548,840	4,376,560	(172,280)	-3.8%
Lottery								
Cigarette & Tobacco Tax	1,838,301	1,924,771	86,470	4.7%	11,326,139	11,829,337	503,198	4.4%
Wholesale Liquor Tax	506,168	523,216	17,048	3.4%	3,244,443	3,562,174	317,730	9.8%
Coal Conversion Tax	2,100,304	2,061,714	(38,589)	-1.8%	12,727,627	12,645,718	(81,909)	-0.6%
Mineral Leasing Fees	(492,784)	86,815	579,598	117.6%	2,823,603	5,209,549	2,385,946	84.5%
Departmental Collections	1,743,330	2,095,184	351,854	20.2%	10,134,278	13,130,898	2,996,621	29.6%
Interest Income	1,331,600	2,136,863	805,263	60.5%	4,286,059	12,022,743	7,736,684	180.5%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil Tax Trust Fund-Transfer					30,000,000	115,000,000	85,000,000	283.3%
Other Transfers		720	720	100.0%	460,099	355,215	(104,884)	-22.8%
<b>Total Revenues and Transfers</b>	<b>67,960,571</b>	<b>93,384,200</b>	<b>25,423,629</b>	<b>37.4%</b>	<b>503,125,809</b>	<b>686,843,771</b>	<b>183,717,962</b>	<b>36.5%</b>

\* Oil and gas production and extraction tax collections totaled \$21.6 million in December. Because the \$71.0 million statutory cap for the 2007-09 biennium has been attained, no additional oil tax collections will be deposited in the general fund during the 2007-09 biennium. Through December, oil tax collections totaling \$29.8 million have been transferred to the permanent oil tax trust fund and are not reflected on this report.

## VARIANCES

November revenues are \$23.3 million, or 33.2 percent, higher than projected. 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 and that cap was reached during the month of November 2007. Consequently, oil taxes of \$21.6 million were deposited into the permanent oil tax trust fund and are not reflected in general fund revenues. Notable variances for the month are as follows:

- **Sales tax** collections for the month of December exceeded projections by \$8.6 million. As reported last month, a portion of the variance is attributable to timing – November collections that were actually received in December. Sales tax collections exceed for the forecast by \$26.6 million for the biennium and exceed the previous biennium by nearly \$53.0 million.
- **Motor vehicle excise tax** collections continue to show strength in the wake of steady declines during the 2005-07 biennium. December collections were \$500,000 higher than anticipated. Collections for the biennium to date exceed the forecast by over \$3.5 million, and exceed the 2005-07 biennium by nearly \$1.0 million.
- **Individual income tax** collections exceed the forecast by \$4.1 million for the month and \$16.7 million for the biennium, a positive indication of higher than expected growth in personal income. The variance is attributable to strong withholding and estimated tax payments. Growth in estimated tax payments may be partially attributable to growth in the state's farm income as a result of record commodity prices.
- **Corporate income tax** collections for the month exceed the forecast by \$16.5 million. Biennium to date collections are \$21.9 million higher than forecast and \$5.6 million higher than the record collections the state realized during the 2005-07 biennium. The growth in collections is attributable to strong estimate tax payments.
- **Oil and gas tax** collections for the month were \$21.6 million, \$12.4 million more than anticipated and \$13.0 million more than December 2005. Because the \$71.0 million general fund cap was reached in November 2007, the entire \$21.6 million was deposited in the permanent oil tax trust fund. The current price of North Dakota crude is over \$82 per barrel and November production averaged nearly 130,000 barrels per day. The legislative forecast assumed November 2007 production of 116,000 barrels per day at a price of \$45 per barrel.
- **Mineral leasing fees**, reflective of the surge in oil activity in the state, exceed the forecast by nearly \$600,000 for the month and \$1.9 million for the biennium.