

# North Dakota REV-E-NEWS



**Pam Sharp, Director**

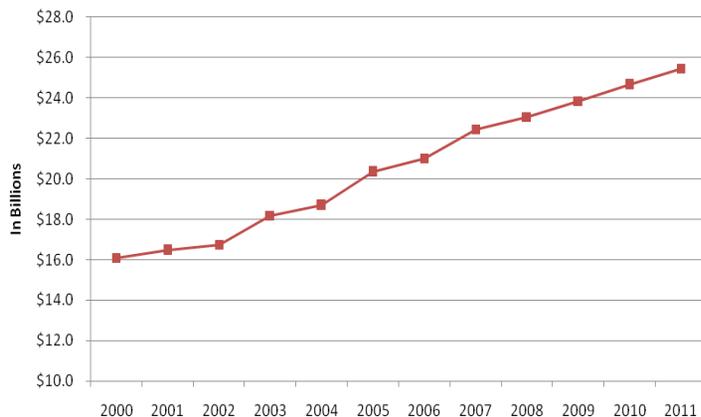
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## MESSAGE FROM THE DIRECTOR

In February 2008, Economy.com published its Précis State - Midwest addition, including an in-depth look at the North Dakota economy. This is a periodic analysis done three times each year. In addition to an analysis of the current economic situation and a discussion of economic trends, the publication includes a forecast of various economic indicators through 2011. Among the economic indicators are gross state product (GSP), a broad measure of the goods and services produced within the state, and personal income, an important measure of economic performance reflected in consumer spending and ultimately in state sales tax and income tax collections. Gross state product is expected to increase over 43.0 percent from 2000 through 2011, averaging 3.4 percent per year. The chart below shows that through 2011, North Dakota's personal income is expected to continue a healthy growth trend, increasing 58.0 percent during that time, an average of 4.3 percent per year.

**North Dakota Personal Income - 2000-2011**



The Economy.com analysis lauds the state's current economic growth and predicts continued expansion at a rate that will likely exceed the national average. Excerpts from the February Précis State article include the following:

- "North Dakota's has an enviable low and stable jobless rate close to 3%, nearly a record low."
- "...ND's growing comparative advantage in energy-related activities strengthens the state's outlook."
- "Positive [housing] price appreciation and the lack of significant subprime lending in ND, combined with a stable labor market, means that household balance sheets are in very good form."
- "Business competitiveness in ND gets a boost from its relatively low cost structure and quality labor pool."
- "High-tech employment surged in the late 1990's due to software and some manufacturing expansion, rising from 1.8% to 3% of non-farm payrolls....this doubling of its concentration was remarkable."
- "Another indicator of economic stability in ND is the fact that its manufacturing employment has held steady for nearly three years."
- "Although the **North Dakota economy** is expected to moderate to a slower growth track in the near term, it **will continue to outpace the national average in 2008.**"

## OIL ACTIVITY

The price of North Dakota crude continues well above the forecasted price. November prices averaged over \$85 per barrel, December prices \$82 per barrel, and January prices over \$84 per barrel. The current price is over \$93 per barrel. The legislative forecast assumed January prices would average \$45 per barrel with production of 116,000 barrels per day. Actual production continues to grow and increased in January to nearly 137,000 barrels per day. December production averaged 136,000 barrels per day. November production averaged 130,600 barrels per day. Drilling permit activity continues strong, with 70 new permits issued in January, compared to 52 permits in December and 65 in November. The number of producing wells increased slightly in January to 3,870, compared to 3,854 in December and 3,818 in November. The current rig count is 61 rigs, 28 more than were operating in the state one year ago.



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## STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2007-09 BIENNIUM February 2008

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	April 2007 Leg. Forecast	Actual	Variance	Percent	April 2007 Leg. Forecast	Actual	Variance	Percent
Sales Tax	43,316,000	41,605,884	(1,710,116)	-3.9%	306,292,000	333,874,180	27,582,180	9.0%
Motor Vehicle Excise Tax	3,629,000	4,788,210	1,159,210	31.9%	36,243,000	42,770,282	6,527,282	18.0%
Individual Income Tax	7,658,000	12,789,847	5,131,847	67.0%	138,079,000	163,151,539	25,072,539	18.2%
Corporate Income Tax	2,483,000	10,475,057	7,992,057	321.9%	30,561,000	62,746,024	32,185,024	105.3%
Insurance Premium Tax	2,745,568	4,116,812	1,371,244	49.9%	13,109,622	15,948,095	2,838,473	21.7%
Financial Institutions Tax	204,000	183,116	(20,884)	-10.2%	316,000	1,076,185	760,185	240.6%
Oil & Gas Production Tax*	2,821,740		(2,821,740)	-100.0%	39,839,000	39,309,315	(529,685)	-1.3%
Oil Extraction Tax*	945,000		(945,000)	-100.0%	31,161,000	31,690,685	529,685	1.7%
Gaming Tax	1,405,600	1,530,216	124,616	8.9%	6,828,640	6,860,218	31,578	0.5%
Lottery								
Cigarette & Tobacco Tax	1,850,000	1,736,727	(113,273)	-6.1%	16,374,000	15,395,792	(978,208)	-6.0%
Wholesale Liquor Tax	413,000	493,052	80,052	19.4%	4,220,000	4,668,308	448,308	10.6%
Coal Conversion Tax	1,329,000	1,689,195	360,195	27.1%	15,821,000	15,669,369	(151,631)	-1.0%
Mineral Leasing Fees	1,000,000	1,709,121	709,121	70.9%	5,300,000	8,450,994	3,150,994	59.5%
Departmental Collections	3,422,000	2,056,927	(1,365,073)	-39.9%	19,808,000	21,475,947	1,667,947	8.4%
Interest Income	1,375,000	1,352,565	(22,435)	-1.6%	10,210,000	14,525,987	4,315,987	42.3%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil tax trust fund-Transfer					115,000,000	115,000,000		0.0%
Other Transfers		2,879	2,879	100.0%	477,771	517,351	39,580	8.3%
<b>Total Revenues and Transfers</b>	<b>74,596,908</b>	<b>84,529,608</b>	<b>9,932,700</b>	<b>13.3%</b>	<b>789,640,033</b>	<b>893,130,270</b>	<b>103,490,237</b>	<b>13.1%</b>

\* Oil and gas production and extraction tax collections totaled \$24.1 million in February. 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 February, oil tax collections totaling \$75.7 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 February 2008

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	February 2006	February 2008	Variance	Percent	2005-07	2007-09	Variance	Percent
Sales Tax	34,466,771	41,605,884	7,139,114	20.7%	273,736,208	333,874,180	60,137,972	22.0%
Motor Vehicle Excise Tax	3,819,183	4,788,210	969,027	25.4%	39,122,149	42,770,282	3,648,133	9.3%
Individual Income Tax	10,591,310	12,789,847	2,198,538	20.8%	156,870,584	163,151,539	6,280,954	4.0%
Corporate Income Tax	2,993,656	10,475,057	7,481,400	249.9%	49,983,667	62,746,024	12,762,357	25.5%
Insurance Premium Tax	6,520,566	4,116,812	(2,403,754)	-36.9%	14,952,408	15,948,095	995,687	6.7%
Financial Institutions Tax	145,889	183,116	37,227	25.5%	73,714	1,076,185	1,002,471	1359.9%
Oil & Gas Production Tax	5,110,256		(5,110,256)	-100.0%	43,288,185	39,309,315	(3,978,870)	-9.2%
Oil Extraction Tax	2,608,510		(2,608,510)	-100.0%	23,872,364	31,690,685	7,818,321	32.8%
Gaming Tax	1,374,864	1,530,216	155,353	11.3%	6,737,512	6,860,218	122,706	1.8%
Lottery								
Cigarette & Tobacco Tax	1,666,827	1,736,727	69,900	4.2%	14,993,644	15,395,792	402,148	2.7%
Wholesale Liquor Tax	413,563	493,052	79,489	19.2%	4,209,811	4,668,308	458,497	10.9%
Coal Conversion Tax	865,858	1,689,195	823,337	95.1%	15,750,213	15,669,369	(80,844)	-0.5%
Mineral Leasing Fees	1,247,635	1,709,121	461,486	37.0%	5,248,270	8,450,994	3,202,723	61.0%
Departmental Collections	2,628,936	2,056,927	(572,008)	-21.8%	18,139,308	21,475,947	3,336,639	18.4%
Interest Income	813,265	1,352,565	539,300	66.3%	5,988,930	14,525,987	8,537,056	142.5%
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	8,098	2,879	(5,219)	-64.4%	643,881	517,351	(126,530)	-19.7%
<b>Total Revenues and Transfers</b>	<b>75,275,186</b>	<b>84,529,608</b>	<b>9,254,423</b>	<b>12.3%</b>	<b>703,610,850</b>	<b>893,130,270</b>	<b>189,519,420</b>	<b>26.9%</b>

\* Oil and gas production and extraction tax collections totaled \$24.1 million in February. 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 February, oil tax collections totaling \$75.7 million have been transferred to the permanent oil tax trust fund and are not reflected on this report.

## VARIANCES

February revenues are \$9.9 million, or 13.3 percent, higher than projected. However, 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, four months earlier than originally anticipated. The legislative forecast assumed that during the month of February, the state share of oil taxes would total \$9.8 million, of which \$3.8 million would be deposited in the general fund and \$6.0 million in the oil tax trust fund. Because the \$71.0 million cap has been reached and 100.0 percent of the state share of oil taxes is currently being deposited in the permanent oil tax trust fund, this results in a \$3.8 million shortfall for the general fund for February. General fund revenues other than oil taxes exceeded the forecast by \$13.6 million, offsetting the \$3.8 million general fund oil tax shortfall and resulting in the net variance of \$9.9 million reflected on this report. Notable variances for the month are as follows:

- **Sales tax** collections for the month of February fell short of the forecast by \$1.7 million, or 3.9 percent. For the biennium to date, sales tax collections exceed the forecast by \$27.6 million and exceed the previous biennium by \$60.1 million.
- **Motor vehicle excise tax** collections continue to exceed the forecast – by \$1.2 million for the month and \$6.5 million for the biennium. Following steady declines during the 2005-07 biennium, collections have increased slightly and are currently 9.3 percent higher than last biennium.
- **Individual income tax** collections exceed the forecast by \$5.1 million for the month and \$25.1 million for the biennium. A portion of the monthly variance may be attributable to timing and may be offset in subsequent months as tax returns are filed. However, the majority of the \$25.1 million biennium to date variance is attributable to growing wages and personal income, a reflection of the robust economic growth we are experiencing in North Dakota.
- **Corporate income tax** collections for the month exceed the forecast by \$8.0 million. Biennium to date collections are \$32.2 million higher than forecast and \$12.8 million higher than the record collections the state realized during the 2005-07 biennium. A portion of the growth in collections is attributable to strong estimated tax payments; the majority of the February variance is related to one-time audit collections.
- **Oil and gas tax** collections for the month were \$24.1 million, \$14.3 million more than anticipated and \$16.4 million more than February 2006. Because the \$71.0 million general fund cap was reached in November 2007, the entire \$24.1 million was deposited in the permanent oil tax trust fund. The current price of North Dakota crude is over \$93 per barrel and January production averaged nearly 137,000 barrels per day. The legislative forecast assumed January 2008 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, continue to exceed the forecast -- by over \$700,000 for the month and \$3.2 million for the biennium.
- **Departmental collections**, a consolidation of various fees and service charges collected by state agencies, fell short of the forecast by \$1.4 million. However, it is likely this shortfall is a result of timing – January collections exceeded the forecast by nearly \$900,000. For the biennium to date, departmental collections exceed the forecast by \$1.7 million.