

North Dakota REV-E-NEWS



Pam Sharp, Director

May 2008

OFFICE OF MANAGEMENT AND BUDGET

600 EAST BOULEVARD AVE — DEPT. 110 BISMARCK, ND 58505-0400

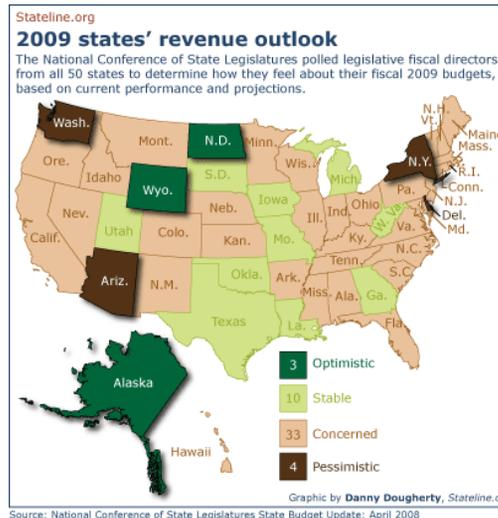
MESSAGE FROM THE DIRECTOR

The North Dakota economy continues to grow at a rate that outpaces the region and the nation. Through April 2008, general fund revenue exceeds the legislative forecast by 18.2 percent and exceeds the previous biennium by over 29.0 percent. This rate of growth is not only exceptional in comparison to our own forecast and past economic performance...it is exceptional in comparison to the rest of the nation. While the petroleum industry clearly plays a role in the North Dakota economy, our economic expansion is unique even among other oil producing states.

The March 2008 *Purchasing Economy Survey Report* indicated that "for a second consecutive month, North Dakota's Business Conditions Index was the highest in the region." The Business Conditions Index is a leading economic indicator derived from a monthly survey of supply managers. The survey is conducted by Creighton University for its *Survey of Economic Conditions for Business in the Mid-American and Mountain States*.

Stateline.org, referencing an April 2008 *State Budget Update* from the National Conference of State Legislatures (NCSL), noted that unlike North Dakota, "many states are bracing against a faltering economy they expect to get worse." NCSL reported that North Dakota was among only three states to indicate an optimistic outlook for fiscal year 2009 state revenues, as shown on the graphic below prepared by Stateline.org. Twenty-three states are projecting fiscal year 2009 budget shortfalls. Expenditures are anticipated to exceed revenues by a collective total of over \$26.0 billion. Arizona is facing the largest deficit of any state, estimated at nearly 18.0 percent of the state's general fund.

The Nelson A. Rockefeller Institute of Government indicated in a May 2008 report that "preliminary tax collection data for the January-March quarter show widespread declines in state sales tax revenue" with 21 states reporting sales tax declines compared to the same period one year ago. The report concludes that "sales tax declines suggest that consumption, retail sales, and the income needed to support spending are slowing considerably." However, the report also shows that in North Dakota, sales tax revenue grew by 2.6 percent compared



to .1 percent growth on average in the plains region and a .1 percent decline for the United States. Total taxes, defined as the sum of personal income, corporate income, sales, and other taxes, grew by 20.2 percent in North Dakota, the highest rate of growth of any state included in the report. Total taxes grew by 3.8 percent on average in the plains region and only 1.7 percent on average for the United States.

Federal Funds Information for States, in the April 2008 edition of *State Policy Reports*, published its annual Camelot Index. The Camelot Index "brings together measures of economic vitality, health, education, crime, society and government." North Dakota ranked first in the Crime Free and Prudent Government components of the ranking. The report gave North Dakota the second highest aggregate Camelot Index ranking of any state.

As other states face an uncertain economic outlook, the North Dakota economy continues to diversify and show exceptional growth.

OIL ACTIVITY

The price of North Dakota crude continues well above the forecasted price. The current price is over \$118 per barrel. The legislative forecast assumed March prices would average \$42 per barrel with production of 116,000 barrels per day. Actual production also continues to grow well in excess of the forecast. The current rig count is 71 rigs, 34 more than were operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:



	Mar 2008	Feb 2008	Jan 2008
ND sweet crude price per barrel	\$96.65	\$84.42	\$84.14
Production (barrels/day)	143,700	138,000	137,600
Drilling permits	82	51	70
Producing wells	3,927	3,871	3,870
Rig count	61	61	53

Comments or Questions?

Contact

Pam Sharp, Director

Phone: 701-328-2680

Fax : 701-328-3230

E-mail:

psharp@nd.gov

Visit the North Dakota web site

www.nd.gov

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

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	34,246,000	43,731,411	9,485,411	27.7%	366,258,000	406,044,989	39,786,989	10.9%
Motor Vehicle Excise Tax	4,871,000	6,390,680	1,519,680	31.2%	45,735,000	54,458,243	8,723,243	19.1%
Individual Income Tax	74,092,000	107,917,446	33,825,446	45.7%	215,257,000	276,313,756	61,056,756	28.4%
Corporate Income Tax	18,462,000	36,291,486	17,829,486	96.6%	59,468,000	112,777,756	53,309,756	89.6%
Insurance Premium Tax	141,285	238,601	97,316	68.9%	19,563,339	25,505,347	5,942,008	30.4%
Financial Institutions Tax	2,972,000	3,951,090	979,090	32.9%	4,210,000	5,549,089	1,339,089	31.8%
Oil & Gas Production Tax*					39,839,000	39,309,315	(529,685)	-1.3%
Oil Extraction Tax*					31,161,000	31,690,685	529,685	1.7%
Gaming Tax	861,280	754,892	(106,388)	-12.4%	7,723,520	7,640,940	(82,580)	-1.1%
Lottery								
Cigarette & Tobacco Tax	1,665,000	1,705,206	40,206	2.4%	19,700,000	18,852,809	(847,191)	-4.3%
Wholesale Liquor Tax	496,000	548,017	52,017	10.5%	5,168,000	5,697,424	529,424	10.2%
Coal Conversion Tax	2,081,000	2,070,132	(10,868)	-0.5%	19,839,000	19,854,242	15,242	0.1%
Mineral Leasing Fees	1,000,000	1,706,960	706,960	70.7%	5,800,000	9,166,162	3,366,162	58.0%
Departmental Collections	1,776,000	1,682,318	(93,682)	-5.3%	22,539,000	25,080,678	2,541,678	11.3%
Interest Income	1,375,000	1,398,213	23,213	1.7%	12,960,000	17,948,732	4,988,732	38.5%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil tax trust fund-Transfer					115,000,000	115,000,000	-	0.0%
Other Transfers	159,257	159,257		0.0%	637,028	675,411	38,383	6.0%
Total Revenues and Transfers	144,197,822	208,545,708	64,347,886	44.6%	990,857,887	1,171,565,579	180,707,692	18.2%

* Oil and gas production and extraction tax collections totaled \$30.2 million in April 2008. Because the \$71.0 million statutory cap for the 2007-09 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2007-09 biennium. Through April, oil tax collections totaling \$127.1 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 April 2008

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	April <u>2006</u>	April <u>2008</u>	<u>Variance</u>	<u>Percent</u>	<u>2005-07</u>	<u>2007-09</u>	<u>Variance</u>	<u>Percent</u>
Sales Tax	27,209,960	43,731,411	16,521,450	60.7%	326,997,819	406,044,989	79,047,169	24.2%
Motor Vehicle Excise Tax	5,296,559	6,390,680	1,094,122	20.7%	49,585,847	54,458,243	4,872,396	9.8%
Individual Income Tax	69,818,384	107,917,446	38,099,062	54.6%	231,408,646	276,313,756	44,905,110	19.4%
Corporate Income Tax	23,925,581	36,291,486	12,365,905	51.7%	86,109,962	112,777,756	26,667,794	31.0%
Insurance Premium Tax	208,670	238,601	29,931	14.3%	19,609,016	25,505,347	5,896,331	30.1%
Financial Institutions Tax	2,731,527	3,951,090	1,219,563	44.6%	3,631,085	5,549,089	1,918,004	52.8%
Oil & Gas Production Tax*					45,970,447	39,309,315	(6,661,131)	-14.5%
Oil Extraction Tax*					25,029,553	31,690,685	6,661,131	26.6%
Gaming Tax	629,542	754,892	125,350	19.9%	7,398,484	7,640,940	242,457	3.3%
Lottery								
Cigarette & Tobacco Tax	1,699,688	1,705,206	5,518	0.3%	18,288,607	18,852,809	564,202	3.1%
Wholesale Liquor Tax	547,749	548,017	268	0.0%	5,181,793	5,697,424	515,631	10.0%
Coal Conversion Tax	2,122,939	2,070,132	(52,807)	-2.5%	20,320,851	19,854,242	(466,609)	-2.3%
Mineral Leasing Fees	2,067,852	1,706,960	(360,891)	-17.5%	6,538,478	9,166,162	2,627,684	40.2%
Departmental Collections	1,005,097	1,682,318	677,221	67.4%	21,576,809	25,080,678	3,503,869	16.2%
Interest Income	1,454,980	1,398,213	(56,767)	-3.9%	7,880,853	17,948,732	10,067,879	127.8%
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	175,445	159,257	(16,188)	-9.2%	814,149	675,411	(138,738)	-17.0%
Total Revenues and Transfers	138,893,970	208,545,708	69,651,738	50.1%	906,342,401	1,171,565,579	265,223,178	29.3%

* Oil and gas production and extraction tax collections totaled \$30.2 million in April 2008. Because the \$71.0 million statutory cap for the 2007-09 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2007-09 biennium. Through April, oil tax collections totaling \$127.1 million have been transferred to the permanent oil tax trust fund and are not reflected on this report.

VARIANCES

April revenues are \$64.3 million, or 44.6 percent, higher than projected. Notable variances for the month are as follows:

- **Sales tax** collections for the month of April exceeded the forecast by \$9.5 million, or 27.7 percent. Although a portion of this variance may be attributable to timing, sales tax collections have shown a consistent growth in excess of the forecast. Biennium to date collections exceed the forecast by 10.9 percent and the previous biennium by 24.2 percent.
- **Motor vehicle excise tax** collections continue to exceed the forecast – by \$1.5 million for the month and \$8.7 million for the biennium. Following steady declines during the 2005-07 biennium, collections have increased and are currently 9.8 percent higher than last biennium.
- **Individual income tax** collections exceed the forecast by nearly \$34.0 million for the month and by \$61.1 million for the biennium. This variance is primarily the result of growth in income tax withholding, indicating very strong wage growth. However, there will be additional property tax relief payments to tax payers in coming months, potentially reducing the positive variance.
- **Corporate income tax** collections continue to grow at a rate that far exceeds the forecast. For the month, collections exceed the forecast by \$17.8 million. Biennium to date collections are \$53.3 million higher than forecast and \$26.6 million higher than the record collections the state realized during the 2005-07 biennium.
- **Financial institutions tax** collections exceed the forecast by nearly \$1.0 million for the month and \$1.3 million, or 31.8 percent, for the biennium. The forecast assumed an increase of approximately 12.0 percent for the 2007-09 biennium, but actual collections currently exceed 2005-07 collections by over 50.0 percent. This tax is imposed upon financial institutions and is based on their taxable income.
- **Oil and gas tax** collections for the month were \$30.2 million, \$20.4 million more than anticipated. Because the \$71.0 million general fund cap was reached in November 2007, the entire \$30.2 million was deposited in the permanent oil tax trust fund. The current price of North Dakota crude is over \$118 per barrel and March production averaged over 143,600 barrels per day. The legislative forecast assumed March 2008 production of 116,000 barrels per day at a price of \$42 per barrel.
- **Mineral leasing fees**, reflective of the oil activity in the state, exceed the forecast by over \$700,000 for the month and \$3.4 million for the biennium.

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600 EAST BOULEVARD AVE — DEPT. 110
BISMARCK, ND 58505-0400
<http://www.nd.gov/fiscal> or www.nd.gov/omb