

North Dakota REV-E-NEWS



Pam Sharp, Director

June 2008

**OFFICE OF MANAGEMENT AND BUDGET
600 EAST BOULEVARD AVE — DEPT. 110 BISMARCK, ND 58505-0400**

MESSAGE FROM THE DIRECTOR

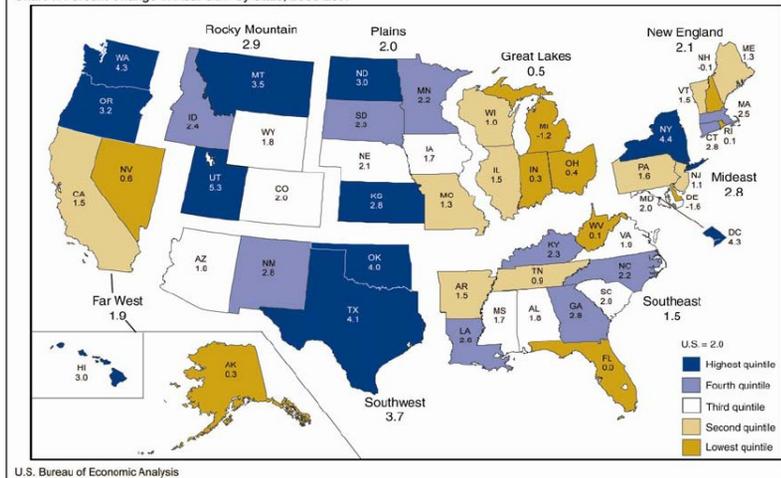
Although May revenues varied from the forecast by less than 1.0 percent, biennium to date collections exceed the forecast by nearly 17.0 percent. Based on collections through the end of May 2008 and forecasted revenues for the remainder of the biennium (2007 legislative revenue forecast), we anticipate a June 30, 2009, ending general fund balance of approximately \$271.0 million.

An updated forecast will be developed in July, giving us a more current view of the revenues we can anticipate for the remainder of the biennium. It is important to note that pursuant to North Dakota Century Code Section 57-27.2-02, a portion of the ending balance will be transferred to the budget stabilization fund. Beginning July 1, 2009, the budget stabilization fund will be increased from its current cap of \$200.0 million to 10.0 percent of appropriations for the 2009-11 biennium. The amount of appropriations will not be known until after the 2009 legislative session. Moneys in the budget stabilization fund can only be used in the event of a revenue shortfall.

Nationwide, many states are tapping into rainy day funds, such as our budget stabilization fund, to offset revenue shortfalls in their current budgets. In North Dakota, we continue to enjoy strong economic performance in the midst of the national economic slowdown. A broad measure of economic growth is the Gross Domestic Product by state, as calculated by the Bureau of Economic Analysis (BEA).

In June 2008, the BEA released a report comparing GDP by state data. North Dakota GDP increased by 3.0 percent from 2006 to 2007, the highest rate of growth of any state in the plains region, as shown on the map below. North Dakota's 3.0 percent GDP growth compared to 2.0 percent for the plains region as well as 2.0 percent for the United States. Wyoming (1.8 percent), South Dakota (2.3 percent), Minnesota (2.2 percent), and Nebraska (2.1 percent) were all considerably lower. Kansas was second in the region with growth of 2.8 percent. North Dakota's rate of growth ranked 8th in the nation and regionally was second only to Montana, which showed GDP growth of 3.5 percent.

Chart 1. Percent Change in Real GDP by State, 2006-2007



U.S. Bureau of Economic Analysis

OIL ACTIVITY

The price of North Dakota crude continues well above the forecasted price. The legislative forecast assumed fiscal year 2008 prices would average \$44 per barrel with production increasing to 116,000 barrels per day by the end of the year. The current price is over \$125 per barrel. Actual production continues to grow and increased in April to over 150,000 barrels per day, surpassing North Dakota's previous record set in 1984. The current rig count is 74 rigs, 33 more than were operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:



	April 2008	Mar 2008	Feb 2008
ND sweet crude price per barrel	\$104.08	\$96.65	\$86.42
Production (barrels/day)	150,600	143,800	138,000
Drilling permits	89	82	51
Producing wells	3,988	3,927	3,871
Rig count	65	61	61

Comments or Questions?
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STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2007-09 BIENNIUM May 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	37,241,000	35,509,622	(1,731,378)	-4.6%	403,499,000	441,554,610	38,055,610	9.4%
Motor Vehicle Excise Tax	5,433,000	6,212,458	779,458	14.3%	51,168,000	60,670,701	9,502,701	18.6%
Individual Income Tax	11,394,000	8,816,980	(2,577,020)	-22.6%	226,651,000	285,130,736	58,479,736	25.8%
Corporate Income Tax	3,394,000	4,602,139	1,208,139	35.6%	62,862,000	117,379,895	54,517,895	86.7%
Insurance Premium Tax	4,304,515	6,163,879	1,859,364	43.2%	23,867,854	31,669,226	7,801,372	32.7%
Financial Institutions Tax	490,000	195,316	(294,684)	-60.1%	4,700,000	5,744,405	1,044,405	22.2%
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	1,730,400	1,954,913	224,513	13.0%	9,453,920	9,595,854	141,934	1.5%
Lottery								
Cigarette & Tobacco Tax	1,971,000	1,786,258	(184,742)	-9.4%	21,671,000	20,639,067	(1,031,933)	-4.8%
Wholesale Liquor Tax	518,000	633,097	115,097	22.2%	5,686,000	6,330,520	644,520	11.3%
Coal Conversion Tax	1,987,000	2,024,921	37,921	1.9%	21,826,000	21,879,162	53,162	0.2%
Mineral Leasing Fees	1,000,000	1,714,833	714,833	71.5%	6,800,000	10,880,995	4,080,995	60.0%
Departmental Collections	2,043,000	1,516,785	(526,215)	-25.8%	24,582,000	26,597,464	2,015,464	8.2%
Interest Income	1,375,000	1,254,857	(120,143)	-8.7%	14,335,000	19,203,590	4,868,590	34.0%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil tax trust fund-Transfer					115,000,000	115,000,000		0.0%
Other Transfers		316	316	100.0%	637,028	675,727	38,699	6.1%
Total Revenues and Transfers	72,880,915	72,386,373	(494,542)	-0.7%	1,063,738,802	1,243,951,952	180,213,150	16.9%

* Oil and gas production and extraction tax collections totaled \$31.8 million in May 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 May, oil tax collections totaling \$159.0 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 May 2008

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	May 2006	May 2008	Variance	Percent	2005-07	2007-09	Variance	Percent
Sales Tax	37,978,873	35,509,622	(2,469,252)	-6.5%	364,976,693	441,554,610	76,577,918	21.0%
Motor Vehicle Excise Tax	6,124,180	6,212,458	88,278	1.4%	55,710,027	60,670,701	4,960,674	8.9%
Individual Income Tax	26,559,775	8,816,980	(17,742,795)	-66.8%	257,968,421	285,130,736	27,162,315	10.5%
Corporate Income Tax	3,856,438	4,602,139	745,702	19.3%	89,966,400	117,379,895	27,413,495	30.5%
Insurance Premium Tax	5,134,172	6,163,879	1,029,707	20.1%	24,743,188	31,669,226	6,926,038	28.0%
Financial Institutions Tax	6,100	195,316	189,216	3101.9%	3,637,185	5,744,405	2,107,220	57.9%
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	1,672,970	1,954,913	281,943	16.9%	9,071,454	9,595,854	524,400	5.8%
Lottery								
Cigarette & Tobacco Tax	1,544,460	1,786,258	241,798	15.7%	19,833,067	20,639,067	806,000	4.1%
Wholesale Liquor Tax	528,081	633,097	105,015	19.9%	5,709,874	6,330,520	620,646	10.9%
Coal Conversion Tax	1,880,951	2,024,921	143,970	7.7%	22,201,802	21,879,162	(322,639)	-1.5%
Mineral Leasing Fees	956,032	1,714,833	758,801	79.4%	7,494,510	10,880,995	3,386,485	45.2%
Departmental Collections	1,728,236	1,516,785	(211,451)	-12.2%	23,305,045	26,597,464	3,292,418	14.1%
Interest Income	646,809	1,254,857	608,049	94.0%	8,527,662	19,203,590	10,675,928	125.2%
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	163	316	153	94.3%	814,312	675,727	(138,585)	-17.0%
Total Revenues and Transfers	88,617,238	72,386,373	(16,230,866)	-18.3%	994,959,639	1,243,951,952	248,992,313	25.0%

* Oil and gas production and extraction tax collections totaled \$31.8 million in May 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 May, oil tax collections totaling \$159.0 million have been transferred to the permanent oil tax trust fund and are not reflected on this report.

VARIANCES

May revenues vary from forecasted revenues by less than 1.0 percent. The forecast called for May revenues of \$72.9 Million, while actual revenues were \$72.4 million. Notable variances for the month are as follows:

- **Sales tax** collections for the month of May fell short of the forecast by \$1.7 million, or 4.6 percent. This variance is likely attributable to timing since April collections exceeded the forecast by \$9.5 million. Biennium to date collections exceed the forecast by 9.4 percent and the previous biennium by 21.0 percent.
 - **Motor vehicle excise tax** collections continue to exceed the forecast – by \$780,000 for the month and \$9.5 million for the biennium. Following steady declines during the 2005-07 biennium, collections have increased and are currently 8.9 percent higher than last biennium.
 - **Individual income tax** collections fell short of the forecast by \$2.6 million for the month but still exceed the biennium to date forecast by \$58.5 million. The biennium to date variance is primarily the result of growth in income tax withholding, indicating strong wage growth in North Dakota. The monthly variance is attributable to timing.
 - **Corporate income tax** collections continue to grow at a rate that far exceeds the forecast. For the month, collections exceed the forecast by \$1.2 million. Biennium to date collections are \$54.5 million higher than forecast and \$27.4 million higher than the record collections the state realized during the 2005-07 biennium.
- **Insurance premium tax** collections exceed the forecast by \$1.9 million for the month and \$7.8 million for the biennium. Insurance premium rates, especially for health and long term care insurance, have grown at a higher rate than anticipated, resulting in additional insurance premium tax collections.
 - **Oil and gas tax** collections for the month were \$31.8 million, \$22.8 million more than anticipated. Because the \$71.0 million general fund cap was reached in November 2007, the entire \$31.8 million was deposited in the permanent oil tax trust fund. The current price of North Dakota crude is over \$125 per barrel and April production averaged over 150,000 barrels per day, surpassing North Dakota's previous record set in 1984.
 - **Mineral leasing fees**, reflective of the oil activity in the state, exceed the forecast by over \$700,000 for the month and \$4.1 million for the biennium.

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