

North Dakota REV-E-NEWS



Pam Sharp, Director

July 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 defy the national trend with unprecedented growth amid a period of national recession. High energy prices, the housing market crisis, slow gross domestic product (GDP) growth, increasing inflationary pressure, rising unemployment, and a weak job market are turning the national economic slowdown into a full-blown recession. Many states are also in a financial crisis as they deal with increasing costs and declining state revenues.

Nationally, the non-seasonally adjusted unemployment rate rose to 5.7 percent in June, a full percentage point higher than June 2007. In North Dakota, our unemployment rate was only 3.6 percent, unchanged from one year ago. Whereas nationally, the number of employed persons actually declined during fiscal year 2008, the North Dakota labor force and number of employed increased by 2.0 percent.

The June 2008 issue of *State Policy Reports*, published by Federal Funds Information for States, provides an Index of State Economic Momentum. The Index "ranks states based on their most recent performance in three key measures of economic vitality: personal income growth, employment growth, and population growth." *State Policy Reports* ranked North Dakota first in the nation with the highest Index of State Economic Momentum.

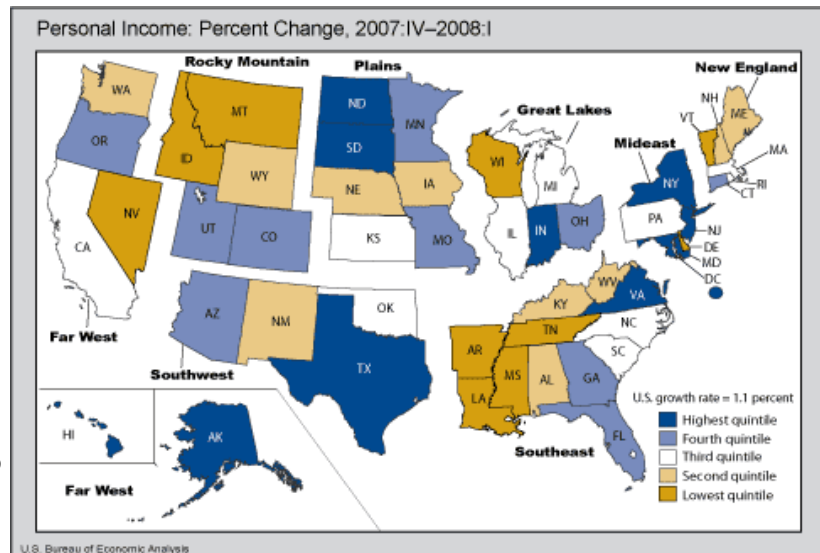
Key economic indicators considered by *State Policy Reports* include:

- Change in personal income from first quarter 2007 to first quarter 2008 – North Dakota ranked first with growth of 13.9 percent compared to the national average of 4.8 percent.
- Change in employment from May 2007 to May 2008 – North Dakota ranked 9th with

growth of 1.3 percent compared to the national average of .3 percent.

- State unemployment rate in May 2008 – North Dakota ranked 5th at 3.3 percent compared to the national average of 5.5 percent.
- Change in housing prices from first quarter 2007 to first quarter 2008 – North Dakota ranked 6th with growth of 4.2 percent compared to the national average of a .03 percent decline.

The table below, prepared by the U.S. Bureau of Economic Analysis (BEA), compares states based on personal income growth from fourth quarter 2007 to first quarter 2008. North Dakota is shown in the highest quintile. What is not shown is that North Dakota ranked first in the nation with personal income growth of 7.6 percent from the preceding quarter, compared to the national average of 1.1 percent.



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 \$114 per barrel. Actual production continues to grow and increased in May to a new record high of over 156,000 barrels per day. The current rig count is 77 rigs, 35 more than were operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:

	May 2008	April 2008	March 2008
ND sweet crude price per barrel	\$117.17	\$104.08	\$96.65
Production (barrels/day)	156,300	150,700	143,800
Drilling permits	73	89	82
Producing wells	4,023	3,988	3,927
Rig count	71	65	61

Comments or Questions?

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STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Legislative Forecast
2007-09 BIENNIUM
June 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	32,821,000	46,324,173	13,503,173	41.1%	436,320,000	487,878,783	51,558,783	11.8%
Motor Vehicle Excise Tax	5,042,000	6,230,355	1,188,355	23.6%	56,210,000	66,901,056	10,691,056	19.0%
Individual Income Tax	16,023,000	21,640,592	5,617,592	35.1%	242,674,000	306,771,328	64,097,328	26.4%
Corporate Income Tax	15,621,000	23,357,803	7,736,803	49.5%	78,483,000	140,737,698	62,254,698	79.3%
Insurance Premium Tax	3,513,441	1,921,319	(1,592,122)	-45.3%	27,381,295	33,590,545	6,209,250	22.7%
Financial Institutions Tax		16,997	16,997	100.0%	4,700,000	5,761,402	1,061,402	22.6%
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	293,440	305,452	12,012	4.1%	9,747,360	9,901,306	153,946	1.6%
Lottery	5,577,500	5,300,000	(277,500)	-5.0%	5,577,500	5,300,000	(277,500)	-5.0%
Cigarette & Tobacco Tax	2,187,000	1,974,620	(212,380)	-9.7%	23,858,000	22,613,687	(1,244,313)	-5.2%
Wholesale Liquor Tax	611,000	585,353	(25,647)	-4.2%	6,297,000	6,915,874	618,874	9.8%
Coal Conversion Tax	2,008,000	1,964,248	(43,752)	-2.2%	23,834,000	23,843,410	9,410	0.0%
Mineral Leasing Fees	(150,000)	(368,321)	(218,321)	145.5%	6,650,000	10,512,674	3,862,674	58.1%
Departmental Collections	3,511,000	2,971,769	(539,231)	-15.4%	28,093,000	29,569,233	1,476,233	5.3%
Interest Income	3,875,000	4,675,272	800,272	20.7%	18,210,000	23,878,862	5,668,862	31.1%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil tax trust fund-Transfer					115,000,000	115,000,000		0.0%
Other Transfers		3,542	3,542	100.0%	637,028	679,270	42,242	6.6%
Total Revenues and Transfers	90,933,381	116,903,175	25,969,794	28.6%	1,154,672,183	1,360,855,127	206,182,944	17.9%

* Oil and gas production and extraction tax collections totaled \$38.8 million in June. 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 June, oil tax collections totaling \$198.0 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 June 2008

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	June <u>2006</u>	June <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	29,721,061	46,324,173	16,603,112	55.9%	394,697,753	487,878,783	93,181,030	23.6%
Motor Vehicle Excise Tax	5,616,532	6,230,355	613,823	10.9%	61,326,559	66,901,056	5,574,497	9.1%
Individual Income Tax	14,510,532	21,640,592	7,130,060	49.1%	272,478,952	306,771,328	34,292,375	12.6%
Corporate Income Tax	21,823,187	23,357,803	1,534,616	7.0%	111,789,587	140,737,698	28,948,112	25.9%
Insurance Premium Tax	1,121,474	1,921,319	799,845	71.3%	25,864,662	33,590,545	7,725,883	29.9%
Financial Institutions Tax	535,135	16,997	(518,138)	-96.8%	4,172,320	5,761,402	1,589,082	38.1%
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	210,711	305,452	94,741	45.0%	9,282,165	9,901,306	619,140	6.7%
Lottery	6,300,000	5,300,000	(1,000,000)	-15.9%	6,300,000	5,300,000	(1,000,000)	-15.9%
Cigarette & Tobacco Tax	2,153,013	1,974,620	(178,393)	-8.3%	21,986,081	22,613,687	627,606	2.9%
Wholesale Liquor Tax	630,715	585,353	(45,362)	-7.2%	6,340,589	6,915,874	575,284	9.1%
Coal Conversion Tax	1,840,245	1,964,248	124,003	6.7%	24,042,047	23,843,410	(198,637)	-0.8%
Mineral Leasing Fees	(447,616)	(368,321)	79,295	-17.7%	7,046,893	10,512,674	3,465,781	49.2%
Departmental Collections	2,167,657	2,971,769	804,113	37.1%	25,472,702	29,569,233	4,096,531	16.1%
Interest Income	3,879,082	4,675,272	796,190	20.5%	12,406,744	23,878,862	11,472,118	92.5%
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	8,452,095	3,542	(8,448,553)	-100.0%	9,266,407	679,270	(8,587,138)	-92.7%
Total Revenues and Transfers	98,513,823	116,903,175	18,389,353	18.7%	1,093,473,462	1,360,855,127	267,381,665	24.5%

* Oil and gas production and extraction tax collections totaled \$38.8 million in June. 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 June, oil tax collections totaling \$198.0 million have been transferred to the permanent oil tax trust fund and are not reflected on this report.

VARIANCES

June 2008 marks the end of the state fiscal year and the half-way point of the biennial budget period. During fiscal year 2008, revenues exceeded the legislative forecast by nearly \$26.0 million, or 28.6 percent. Biennium to date revenues exceed the forecast by over \$206.0 million, or 17.9 percent. Notable variances for the month are as follows:

- **Sales tax** collections for the month of June exceed the forecast by \$13.5 million, or 41.1 percent. A portion of this variance is likely attributable to timing and may be offset in July. However, biennium to date collections exceed the forecast by 11.8 percent and the previous biennium by 23.6 percent, indicating strong economic growth and a high level of consumer confidence.
- **Motor vehicle excise tax** collections continue to exceed the forecast – by \$1.2 million for the month and \$10.7 million for the biennium. Following steady declines during the 2005-07 biennium, collections have increased and are currently 9.1 percent higher than last biennium.
- **Individual income tax** collections exceed the forecast by \$5.6 million for the month and \$64.1 million for the biennium.
- **Corporate income tax** collections continue to grow at a rate that far exceeds the forecast. For the month, collections exceed the forecast by \$7.7 million. Biennium to date collections are \$62.3 million higher than forecast and \$28.9 million higher than the record collections the state realized during the 2005-07 biennium.
- **Insurance premium tax** collections fell short of the forecast by \$1.6 million for the month, following a May variance of \$1.9 million, indicating that a portion of the May overage was likely the result of timing. Biennium to date collections exceed the forecast by \$6.2 million and exceed last biennium by \$7.7 million. 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 \$38.8 million, \$29.1 million more than anticipated. Because the \$71.0 million general fund cap was reached in November 2007, the entire \$38.8 million was deposited in the permanent oil tax trust fund. The current price of North Dakota crude is over \$114 per barrel and May production averaged over 156,000 barrels per day, setting a new record for North Dakota.