

North Dakota REV-E-NEWS



Pam Sharp, Director

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MESSAGE FROM THE DIRECTOR

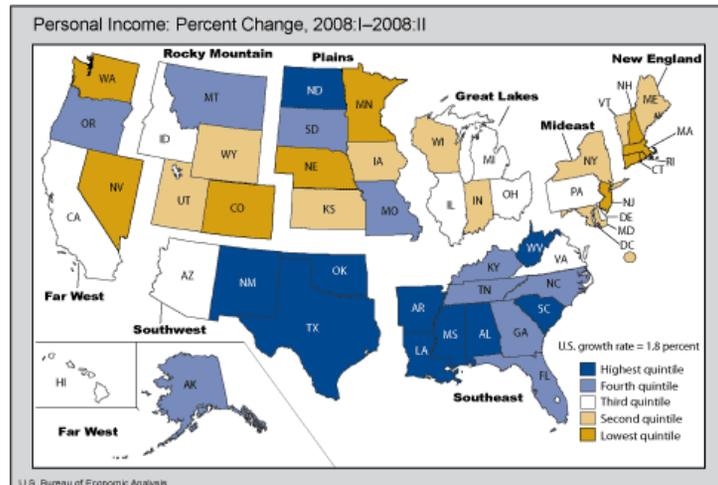
The national economy continues to struggle in a growing recession and expanding financial market turmoil. In the midst of this crisis, North Dakota stands out as one of the few states with a strong, growing economy and positive state government fiscal outlook. North Dakota's economy, strengthened by diversification and strong growth in energy, agriculture, and manufacturing, continues to outpace the nation, the region, and even our own forecast.

However, there are risks to the North Dakota economy. The longer the national economy struggles to pull itself from the recession, the more likely North Dakota will feel its effects. Moody's Economy.com, in their August 2008 *Regional Financial Review*, predicts a slowing in the state's rapid growth. They anticipate a contracting in manufacturing and construction, as well as a slowing in the service sector of the economy. However, even though construction has slowed in the state, they acknowledge that the North Dakota housing market is stronger than most other regions. "Nationally, the median price of an existing single-family home is expected to decline an additional 11% by early next year while prices in the state will remain intact".

Although consumer confidence and consumption have fallen off sharply at the national level, both seem strong in North Dakota. Sales tax collections in North Dakota are 13.1 percent higher than the original legislative forecast, 22.7 percent higher than during the same period of the 2005-07 biennium, and are already 1.0 percent higher than estimated in the recently completed revised forecast. The *North Dakota Sales and Use Tax Statistical Report – First Quarter 2008*, published by the Office of State Tax Commissioner, shows that first quarter taxable sales and purchases in the state

grew by 12.9 percent compared to the first quarter of 2007. Growth was strong in various sectors, including mining and oil extraction (59.9 percent), manufacturing (19.9 percent), and wholesale trade (28.9 percent), offsetting declines in construction and recreation.

Contributing to the continued strong consumer confidence and spending in North Dakota is the exceptional growth we have realized in personal income. In a September 18, 2008, report published by the Bureau of Economic Analysis (BEA), North Dakota once again stands out exhibiting personal income growth nearly double the national average. Personal income includes all sources of income and is measured before the deduction of personal income taxes. The BEA report shows North Dakota tied with Mississippi for the largest percentage increase at 3.5 percent from first to second quarter 2008. The average of the plains region was only 1.5 percent; the national average only 1.8 percent.



OIL ACTIVITY



The revised forecast for the 2007-09 biennium is based on fiscal year 2009 oil production averaging approximately 160,000 barrels per day and price declining from \$110 per barrel at the start of the fiscal year to \$95 per barrel by June 2009. Currently, the price of North Dakota crude is around \$111 per barrel. Production continues to set new records and increased in July to nearly 172,000 barrels per day. The current rig count is 89 rigs, 43 more than were operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:

	July 2008	June 2008	May 2008
ND sweet crude price per barrel	\$125.10	\$125.62	\$117.17
Production (barrels/day)	171,800	166,000	156,400
Drilling permits	83	90	73
Producing wells	4,102	4,056	4,023
Rig count	76	75	71

Comments or Questions?
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STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2007-09 BIENNIUM August 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	40,443,000	44,729,522	4,286,522	10.6%	518,293,000	586,156,563	67,863,563	13.1%
Motor Vehicle Excise Tax	5,381,000	6,006,383	625,383	11.6%	66,288,000	79,019,314	12,731,314	19.2%
Individual Income Tax	10,452,000	2,771,929	(7,680,071)	-73.5%	289,319,000	343,087,453	53,768,453	18.6%
Corporate Income Tax		672,775	672,775	100.0%	78,483,000	142,360,920	63,877,920	81.4%
Insurance Premium Tax	3,917,268	3,433,413	(483,855)	-12.4%	31,298,563	37,026,541	5,727,978	18.3%
Financial Institutions Tax		9	9	100.0%	4,700,000	6,499,166	1,799,166	38.3%
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	1,560,474	1,646,462	85,988	5.5%	12,106,887	12,279,383	172,496	1.4%
Lottery					5,577,500	5,300,000	(277,500)	-5.0%
Cigarette & Tobacco Tax	2,178,000	2,079,719	(98,281)	-4.5%	28,122,000	26,722,954	(1,399,046)	-5.0%
Wholesale Liquor Tax	548,000	698,304	150,304	27.4%	7,447,000	8,235,454	788,454	10.6%
Coal Conversion Tax	2,080,000	2,152,806	72,806	3.5%	27,970,000	28,072,958	102,958	0.4%
Mineral Leasing Fees	1,000,000	3,543,570	2,543,570	254.4%	8,650,000	15,266,224	6,616,224	76.5%
Departmental Collections	1,778,000	1,329,280	(448,720)	-25.2%	31,166,000	32,461,661	1,295,661	4.2%
Interest Income	1,375,000	1,502,929	127,929	9.3%	20,170,000	25,708,959	5,538,959	27.5%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil tax trust fund-Transfer					115,000,000	115,000,000		0.0%
Other Transfers		6,279	6,279	100.0%	796,285	846,216	49,931	6.3%
Total Revenues and Transfers	70,712,742	70,573,382	(139,360)	-0.2%	1,316,387,235	1,535,043,766	218,656,531	16.6%

* Oil and gas production and extraction tax collections totaled \$31.7 million in August. 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 August, oil tax collections totaling \$275.2 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 August 2008

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	August 2006	August 2008	Variance	Percent	2005-07	2007-09	Variance	Percent
Sales Tax	35,771,231	44,729,522	8,958,290	25.0%	477,574,680	586,156,563	108,581,883	22.7%
Motor Vehicle Excise Tax	5,962,424	6,006,383	43,959	0.7%	73,184,392	79,019,314	5,834,921	8.0%
Individual Income Tax	10,508,270	2,771,929	(7,736,340)	-73.6%	319,376,713	343,087,453	23,710,740	7.4%
Corporate Income Tax	20,084	672,775	652,691	3249.9%	112,254,313	142,360,920	30,106,607	26.8%
Insurance Premium Tax	3,802,342	3,433,413	(368,930)	-9.7%	29,667,018	37,026,541	7,359,523	24.8%
Financial Institutions Tax	(1,084)	9	1,093	-100.8%	4,175,922	6,499,166	2,323,244	55.6%
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	1,244,157	1,646,462	402,305	32.3%	11,162,983	12,279,383	1,116,400	10.0%
Lottery					6,300,000	5,300,000	(1,000,000)	-15.9%
Cigarette & Tobacco Tax	2,102,510	2,079,719	(22,791)	-1.1%	26,102,443	26,722,954	620,511	2.4%
Wholesale Liquor Tax	600,107	698,304	98,197	16.4%	7,521,873	8,235,454	713,582	9.5%
Coal Conversion Tax	2,209,783	2,152,806	(56,976)	-2.6%	28,328,716	28,072,958	(255,757)	-0.9%
Mineral Leasing Fees	1,240,535	3,543,570	2,303,036	185.6%	9,400,773	15,266,224	5,865,451	62.4%
Departmental Collections	1,911,069	1,329,280	(581,789)	-30.4%	28,580,340	32,461,661	3,881,321	13.6%
Interest Income	1,603,354	1,502,929	(100,425)	-6.3%	14,356,316	25,708,959	11,352,643	79.1%
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	798	6,279	5,482	687.2%	9,442,714	846,216	(8,596,498)	-91.0%
Total Revenues and Transfers	66,975,579	70,573,382	3,597,802	5.4%	1,258,429,196	1,535,043,766	276,614,571	22.0%

* Oil and gas production and extraction tax collections totaled \$31.7 million in August. 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 August, oil tax collections totaling \$275.2 million have been transferred to the permanent oil tax trust fund and are not reflected on this report.

VARIANCES

August 2008 revenues were \$70.6 million, slightly less than the \$70.7 million anticipated in the legislative forecast. However, August revenues were \$8.2 million less than estimated in the recently completed revised forecast, primarily due to a variance in individual income tax collections, explained below. Notable variances for the month are as follows:

- **Sales tax** collections for the month of July exceed the original forecast by \$4.3 million. This sizable variance follows a July variance of \$12.0 million and a June variance of \$13.5 million, contributing to the biennium to date variance of \$67.9 million, or 13.1 percent more than the original forecast. Compared to the 2005-07 biennium, sales tax collections have grown by \$108.6 million, or 22.7 percent, indicating strong economic growth and a high level of consumer confidence.
- **Motor vehicle excise tax** collections continue to exceed the forecast and North Dakota continues to defy the national trend by showing strong automotive sales. Collections exceed the original forecast by \$600,000 for the month and by \$12.7 million for the biennium to date. Following steady declines during the 2005-07 biennium, collections are currently 8.0 percent higher than last biennium.
- **Individual income tax** collections fell short of the original forecast by \$7.7 million and missed the revised forecast estimate by over \$9.3 million. Two factors contributed to this shortfall. Additional transfers were made to the Tax Department's refund reserve account in anticipation of refunds relating to property tax credits. In addition, timing appears to also be a factor and some part of this variance will likely be offset by overages in September. Biennium to date collections exceed the original forecast by \$53.8 million.
- **Corporate income tax** collections continue to grow at a rate that far exceeds the original forecast. For the month, \$0 was anticipated due to the fact that collections during the first quarter of each fiscal year are typically deposited into the refund reserve account to allow the payment of refunds when claimed. However, because August collections were higher than anticipated, a portion was deposited into the general fund. Biennium to date collections are \$63.9 million higher than forecast and \$30.1 million higher than the record collections the state realized during the 2005-07 biennium.
- **Oil and gas tax** collections for the month were \$31.7 million, \$25.2 million more than anticipated in the legislative forecast and \$4.7 million more than anticipated in the revised forecast. Because the \$71.0 million general fund cap was reached in November 2007, the entire \$31.7 million was deposited in the permanent oil tax trust fund. The current price of North Dakota crude is approximately \$111 per barrel and July production averaged nearly 172,000 barrels per day, setting a new record for North Dakota.