

North Dakota REV-E-NEWS



Pam Sharp, Director

February 2009

OFFICE OF MANAGEMENT AND BUDGET

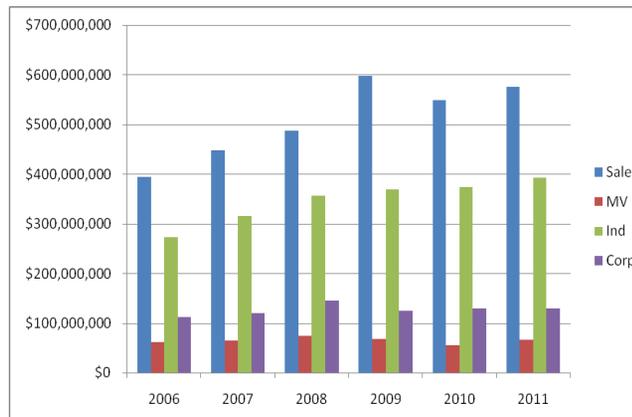
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MESSAGE FROM THE DIRECTOR

The state's economic forecasting consultant, Moody's Economy.com, recently completed work on the February 2009 revenue forecast for the state of North Dakota. Moody's Economy.com is a leading independent provider of economic research for businesses and governments. Moody's Economy.com has over 500 clients worldwide, including some of the world's largest commercial and investment banks, insurance companies, financial services firms, mutual funds, governments, manufacturers, and utility companies.

To develop the revenue forecast, the Office of Management and Budget receives input from the state's Advisory Council on Revenue Forecasting, an ad hoc committee consisting of representatives of the legislative and executive branches of government and various sectors of the North Dakota economy. Input from the Advisory Council is used to review and, if necessary, adjust the Economy.com tax base forecast data so that it accurately reflects the North Dakota economy. Input is sought from the oil and gas industry and the state's Oil and Gas Division, both represented on the Advisory Council, to develop an oil price and production forecast that is reflective of the state's petroleum industry. The Office of Management and Budget works in cooperation with the Tax Department to determine how the tax base forecast data will equate to tax revenue for the state. The tax base forecast data used by the Tax Department includes projections for retail sales, motor vehicle sales, agricultural implement sales, individual farm and nonfarm adjusted gross income, corporate profits, cigarette and tobacco sales, wholesale liquor sales, and crude oil price and production.

This process resulted in the revenue forecast for the remainder of fiscal year 2009, as well as the 2009-11 biennium. The following table shows data relating to the state's four major general fund revenue sources: sales tax, motor vehicle excise tax, individual income tax, and corporate income tax. The table reflects actual collections for fiscal years 2006, 2007, and 2008. With only five months remaining in fiscal year 2009, the forecast for the current year is based primarily on actual collections. Fiscal years 2010 and 2011 comprise the forecast for the 2009-11 biennium. To more accurately reflect year to year trends, motor vehicle amounts shown for fiscal years 2008 and 2009 include the 10 percent share diverted to the highway fund, rather than deposited in the general fund, for only those two years. Individual and corporate tax collections for fiscal years 2008 and 2009 reflect collections before deducting property tax credits provided pursuant to the short-term plan enacted by the 2007 legislature.



OIL ACTIVITY



The February 2009 revenue forecast prepared by the Office of Management and Budget includes a revised fiscal year 2009 forecast. That forecast is based on oil production averaging 205,000 barrels per day through June 30, 2009, and price increasing from around \$25 per barrel in January 2009 to \$40 per barrel by the end of the fiscal year. Currently, the price of North Dakota crude is around \$27 per barrel. As prices continue to falter, production has dropped from a high of 215,700 barrels per day in November to just over 202,000 barrels per day in December. Drilling permit activity remains strong with 101 new permits issued in December. However, the average rig count has begun to decline, falling by 7 rigs from November to December. The current rig count is down to 66 rigs, twenty less than December 2008, but still 7 more than were operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:

	Dec 2008	Nov 2008	Oct 2008
ND sweet crude price per barrel	\$27.11	\$43.85	\$64.72
Production (barrels/day)	202,200	215,700	203,800
Drilling permits	101	77	102
Producing wells	4,270	4,275	4,236
Rig count	86	93	88

Comments or Questions?

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STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2007-09 BIENNIUM January 2009

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	42,634,000	43,672,961	1,038,961	2.4%	719,786,000	836,294,525	116,508,525	16.2%
Motor Vehicle Excise Tax	4,596,000	5,029,530	433,530	9.4%	89,538,000	105,186,619	15,648,619	17.5%
Individual Income Tax	46,323,000	61,488,793	15,165,793	32.7%	380,860,000	496,700,875	115,840,875	30.4%
Corporate Income Tax	4,551,000	10,556,834	6,005,834	132.0%	103,557,000	187,996,312	84,439,312	81.5%
Insurance Premium Tax	9,924	6,988	(2,936)	-29.6%	37,900,810	46,227,519	8,326,709	22.0%
Financial Institutions Tax	112,000	(32,380)	(144,380)	-128.9%	4,812,000	6,118,368	1,306,368	27.1%
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	1,083,802	798,977	(284,825)	-26.3%	15,910,607	15,630,666	(279,941)	-1.8%
Lottery					5,577,500	5,300,000	(277,500)	-5.0%
Cigarette & Tobacco Tax	1,985,000	2,055,683	70,683	3.6%	38,170,000	36,622,133	(1,547,867)	-4.1%
Wholesale Liquor Tax	551,000	694,514	143,514	26.0%	10,153,000	11,269,429	1,116,429	11.0%
Coal Conversion Tax	2,076,000	1,514,600	(561,400)	-27.0%	38,241,000	38,277,483	36,483	0.1%
Mineral Leasing Fees	1,000,000	2,458	(997,542)	-99.8%	10,650,000	21,918,162	11,268,162	105.8%
Departmental Collections	5,118,000	5,626,845	508,845	9.9%	44,414,000	49,618,918	5,204,918	11.7%
Interest Income	1,375,000	2,062,108	687,108	50.0%	27,045,000	33,965,480	6,920,480	25.6%
Bank of North Dakota-Transfer					30,000,000	30,000,000		
State Mill & Elevator-Transfer								
Oil tax trust fund-Transfer					115,000,000	115,000,000		0.0%
Other Transfers	3,259,257	3,259,257		0.0%	4,214,799	4,290,245.38	75,446	1.8%
Total Revenues and Transfers	114,673,983	136,737,168	22,063,185	19.2%	1,746,829,716	2,111,416,734	364,587,018	20.9%

* Oil and gas production and extraction tax collections totaled \$10.4 million in January. 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 January, oil tax collections totaling \$399.3 have been transferred, or are available for transfer, 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
January 2009

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	January 2007	January 2009	Variance	Percent	2005-07	2007-09	Variance	Percent
Sales Tax	53,960,032	43,672,961	(10,287,071)	-19.1%	665,798,501	836,294,525	170,496,025	25.6%
Motor Vehicle Excise Tax	5,202,096	5,029,530	(172,566)	-3.3%	97,590,588	105,186,619	7,596,030	7.8%
Individual Income Tax	51,626,304	61,488,793	9,862,489	19.1%	439,590,574	496,700,875	57,110,301	13.0%
Corporate Income Tax	6,231,941	10,556,834	4,324,894	69.4%	164,931,795	187,996,312	23,064,517	14.0%
Insurance Premium Tax	9,633	6,988	(2,644)	-27.5%	36,075,567	46,227,519	10,151,951	28.1%
Financial Institutions Tax	129,895	(32,380)	(162,275)	-124.9%	4,397,944	6,118,368	1,720,424	39.1%
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	863,938	798,977	(64,961)	-7.5%	14,123,604	15,630,666	1,507,062	10.7%
Lottery					6,300,000	5,300,000	(1,000,000)	-15.9%
Cigarette & Tobacco Tax	1,916,360	2,055,683	139,323	7.3%	35,803,477	36,622,133	818,656	2.3%
Wholesale Liquor Tax	558,249	694,514	136,265	24.4%	10,215,214	11,269,429	1,054,214	10.3%
Coal Conversion Tax	2,218,591	1,514,600	(703,992)	-31.7%	39,638,439	38,277,483	(1,360,956)	-3.4%
Mineral Leasing Fees	1,166,348	2,458	(1,163,890)	-99.8%	12,404,744	21,918,162	9,513,418	76.7%
Departmental Collections	5,674,903	5,626,845	(48,059)	-0.8%	42,167,225	49,618,918	7,451,693	17.7%
Interest Income	1,801,794	2,062,108	260,314	14.4%	23,125,478	33,965,480	10,840,002	46.9%
Bank of North Dakota-Transfer					30,000,000	30,000,000		0.0%
State Mill & Elevator-Transfer								
Oil Tax Trust Fund-Transfer					55,300,000	115,000,000	59,700,000	108.0%
Other Transfers	175,979	3,259,257	3,083,278	1752.1%	18,898,907	4,290,245	(14,608,662)	-77.3%
Total Revenues and Transfers	131,536,063	136,737,168	5,201,105	4.0%	1,767,362,058	2,111,416,734	344,054,675	19.5%

* Oil and gas production and extraction tax collections totaled \$10.4 million in January. 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 January, oil tax collections totaling \$399.3 have been transferred, or are available for transfer, to the permanent oil tax trust fund and are not reflected on this report.

VARIANCES

January 2009 revenues are \$138.3 million, \$23.6 million more than projected in the original legislative forecast and \$6.0 million more than estimated in the recently completed November 2008 forecast. Biennium to date collections exceed the original forecast by \$366.1 million, or 21.0 percent. Notable variances for the month are as follows:

- **Sales tax** collections for the month of January continue to reflect the strength of the North Dakota economy, even in the midst of a worsening national recession. January collections exceed the original legislative forecast by 2.4 percent following an exceptionally strong month in December, in which collections exceeded the forecast by nearly \$18.0 million in that one month alone. Through January, the biennium to date variance is \$116.5 million, or 16.2 percent. Sales tax collections exceed the previous biennium by \$170.5 million, or 25.6 percent.
- **Motor vehicle excise tax** collections also continue to exceed the forecast. In stark contrast to auto sales nationally, auto sales in North Dakota are increasing. Economy.com anticipates that nationally, auto makers will see a 17.5 percent decline in automobile sales. However, in North Dakota, motor vehicle excise tax collections exceed the original forecast for January by 9.4 percent. Biennium to date collections through January exceed the original forecast by 17.5 percent and exceed the previous biennium by over \$7.5 million.
- **Individual income tax** collections continue to outpace the original forecast, as well as the November 2008 executive revenue forecast. January collections exceed the original forecast by \$15.2 million for the month and \$115.8 million for the biennium.
- **Corporate income tax** collections exceed the original forecast by \$6.0 million. Throughout the biennium, corporate tax collections have continually exceeded the original forecast and are currently \$84.4 million, or 81.5 percent, higher than originally estimated.
- **Oil and gas tax** collections for the month are \$10.4 million. Because the \$71.0 million general fund cap was reached in November 2007, the entire \$10.4 million will be deposited in the permanent oil tax trust fund. The current price of North Dakota crude is approximately \$27 per barrel with production of slightly over 202,000 barrels per day in December.
- **Mineral leasing fees** fell short of the forecast by nearly \$1.0 million in January due to the timing of allocations of federal royalties to counties, pursuant to the provisions of 15.1-27-25. These revenues are received by the state as a result of mineral extraction on federal lands within the boundaries of the state and are shared equally with the counties within which the minerals are produced. High oil prices and production have resulted in additional mineral income for the state and counties. The state share exceeds the original forecast by \$11.3 million for the biennium.