

North Dakota REV-E-NEWS



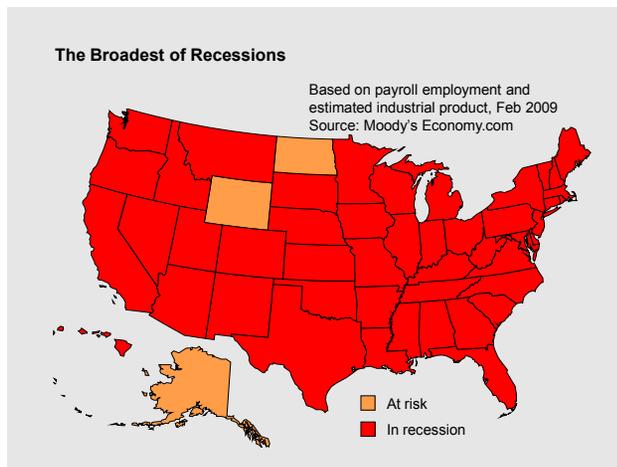
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**OFFICE OF MANAGEMENT AND BUDGET
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MESSAGE FROM THE DIRECTOR

Economic woes continue as the nation's economy languishes in recession. According to Moody's Economy.com, North Dakota's economic forecasting consultant, the "current recession is the most broad-based across regions in recent history." Although data used to measure such trends extends only to the 1970's, Moody's has declared that "never have so many states and metropolitan areas simultaneously been in recession." Moody's has identified only three states -- North Dakota, Alaska and Wyoming -- that have thus far avoided the recession, as shown on the following map. However, because the economic downturn is so widespread, even those three states are determined to be somewhat "at-risk."



Although the breadth of the national recession gives reason to be cautious, economic indicators con-

tinue to be positive in North Dakota. Sales tax collections, a strong indicator of consumer confidence and economic activity, continue to exceed expectations. March collections exceed the original legislative forecast by \$14.2 million and exceed the more current November 2008 executive budget forecast by \$8.4 million. Cumulatively, all state revenues exceed the original legislative forecast by 22.2 percent through March 2009, led by growth in individual income taxes, sales taxes, and corporate income taxes. This is a stark contrast to most other states.

An April 2009 *State Revenue Report* released by The Nelson A. Rockefeller Institute of Government, indicates that "total state tax revenue [combined total of all states] in the fourth quarter of 2008 declined 4.0 percent relative to a year ago, before adjustments. The income tax was down by 1.1 percent, the sales tax was down by 6.1 percent, and the corporate income tax was down by 15.5 percent." The report indicates that personal income tax withholding, "a good indicator of the current strength of personal income tax revenue because it comes largely from current wages," was up only .6 percent in the last quarter of 2008 compared to the last quarter of 2007. However, in North Dakota, personal income tax withholding in the fourth quarter of 2008 was up 15.3 percent, the highest reported increase of any state.

The Rockefeller Institute report compares the July through December period of 2008 to 2007 for major state tax revenue. Major tax revenue is defined as personal income tax, corporate income tax, and sales tax. Nationally, the combined total of these state tax revenue sources declined .9 percent. However, in North Dakota, these tax types increased by 28.4 percent during that period.

OIL ACTIVITY

The February 2009 revenue forecast prepared by the Office of Management and Budget is based on oil production averaging 205,000 barrels per day through June 30, 2009, and price increasing to \$40 per barrel by the end of the fiscal year. Currently, the price of North Dakota crude is around \$41 per barrel. Production rebounded slightly in February after a significant drop in January, primarily related to the harsh winter weather conditions. The current rig count is down to 39 rigs, 31 rigs less than the number operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:



	Feb 2009	Jan 2009	Dec 2008
ND sweet crude price per barrel	\$31.11	\$30.56	\$27.11
Production (barrels/day)	191,500	187,800	202,200
Drilling permits	37	64	101
Producing wells	4,145	4,151	4,270
Rig count	64	73	86

Comments or Questions?

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

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	April 2007 Leg. Forecast	Actual	Variance	Percent	April 2007 Leg. Forecast	Actual	Variance	Percent
Sales Tax	27,032,000	41,272,447	14,240,447	52.7%	794,116,000	926,546,660	132,430,660	16.7%
Motor Vehicle Excise Tax	4,694,000	4,259,575	(434,425)	-9.3%	97,920,000	113,734,156	15,814,156	16.2%
Individual Income Tax	3,179,000	12,646,757	9,467,757	297.8%	391,994,000	534,132,876	142,138,876	36.3%
Corporate Income Tax	9,328,000	10,594,716	1,266,716	13.6%	115,102,000	201,994,147	86,892,147	75.5%
Insurance Premium Tax	6,703,810	6,183,714	(520,096)	-7.8%	47,391,371	56,572,743	9,181,372	19.4%
Financial Institutions Tax	922,000	683,155	(238,845)	-25.9%	5,938,000	6,977,687	1,039,687	17.5%
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	37,632	27,366	(10,266)	-27.3%	17,522,511	17,261,404	(261,107)	-1.5%
Lottery					5,577,500	5,300,000	(277,500)	-5.0%
Cigarette & Tobacco Tax	1,637,000	1,675,192	38,192	2.3%	41,630,000	40,034,218	(1,595,782)	-3.8%
Wholesale Liquor Tax	458,000	542,455	84,455	18.4%	11,030,000	12,290,920	1,260,920	11.4%
Coal Conversion Tax	1,964,000	2,084,175	120,175	6.1%	41,526,000	42,923,028	1,397,028	3.4%
Mineral Leasing Fees	(500,000)	(5,271,682)	(4,771,682)	954.3%	11,150,000	25,116,397	13,966,397	125.3%
Departmental Collections	1,133,639	3,727,796	2,594,157	228.8%	49,106,639	55,151,993	6,045,354	12.3%
Interest Income	1,375,000	2,433,579	1,058,579	77.0%	29,795,000	38,550,579	8,755,579	29.4%
Bank of North Dakota-Transfer					30,000,000	30,000,000		0.0%
State Mill & Elevator-Transfer								
Oil tax trust fund-Transfer					115,000,000	115,000,000		0.0%
Other Transfers		2,287	2,287	100.0%	4,214,799	4,343,997	129,198	3.1%
Total Revenues and Transfers	57,964,081	80,861,528	22,897,447	39.5%	1,880,013,820	2,296,930,806	416,916,986	22.2%

* Oil and gas production and extraction tax collections totaled \$12.9 million in March. 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 March, oil tax collections totaling \$422.8 million 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 March 2009

REVENUES AND TRANSFERS	FISCAL MONTH				BIENNIUM TO DATE			
	March <u>2007</u>	March <u>2009</u>	<u>Variance</u>	<u>Percent</u>	<u>2005-07</u>	<u>2007-09</u>	<u>Variance</u>	<u>Percent</u>
Sales Tax	27,680,932	41,272,447	13,591,515	49.1%	725,489,753	926,546,660	201,056,907	27.7%
Motor Vehicle Excise Tax	5,529,603	4,259,575	(1,270,028)	-23.0%	107,113,229	113,734,156	6,620,927	6.2%
Individual Income Tax	4,420,250	12,646,757	8,226,507	186.1%	458,121,175	534,132,876	76,011,701	16.6%
Corporate Income Tax	13,909,372	10,594,716	(3,314,656)	-23.8%	181,660,276	201,994,147	20,333,872	11.2%
Insurance Premium Tax	6,219,145	6,183,714	(35,432)	-0.6%	44,999,706	56,572,743	11,573,037	25.7%
Financial Institutions Tax	1,065,583	683,155	(382,428)	-35.9%	5,699,480	6,977,687	1,278,207	22.4%
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	30,489	27,366	(3,124)	-10.2%	15,409,225	17,261,404	1,852,179	12.0%
Lottery					6,300,000	5,300,000	(1,000,000)	-15.9%
Cigarette & Tobacco Tax	1,580,411	1,675,192	94,780	6.0%	39,144,141	40,034,218	890,076	2.3%
Wholesale Liquor Tax	437,297	542,455	105,158	24.0%	11,136,673	12,290,920	1,154,247	10.4%
Coal Conversion Tax	2,003,074	2,084,175	81,101	4.0%	43,257,335	42,923,028	(334,307)	-0.8%
Mineral Leasing Fees	(869,657)	(5,271,682)	(4,402,025)	506.2%	12,215,457	25,116,397	12,900,940	105.6%
Departmental Collections	1,518,237	3,727,796	2,209,559	145.5%	46,975,162	55,151,993	8,176,831	17.4%
Interest Income	2,303,799	2,433,579	129,780	5.6%	27,319,597	38,550,579	11,230,982	41.1%
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	1,148	2,287	1,139	99.2%	18,945,920	4,343,997	(14,601,923)	-77.1%
Total Revenues and Transfers	65,829,682	80,861,528	15,031,846	22.8%	1,900,087,130	2,296,930,806	396,843,675	20.9%

* Oil and gas production and extraction tax collections totaled \$12.9 million in March. 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 March, oil tax collections totaling \$422.8 million have been transferred, or are available for transfer, to the permanent oil tax trust fund and are not reflected on this report.

VARIANCES

March 2009 revenues are \$80.9 million, \$22.9 million more than projected in the original legislative forecast and \$9.5 million more than estimated in the recently completed November 2008 executive revenue forecast. Biennium to date collections exceed the original forecast by \$416.9 million, or 22.2 percent and exceed the November 2008 forecast by \$49.3 million. Notable variances for the month are as follows:

- **Sales tax** collections for the month of March exceed the original legislative forecast by \$14.2 million and the previous biennium collections by \$13.6 million. The continuing strength of sales tax collections is a good indicator of the healthy, expanding North Dakota economy. However, a portion of this month's variance appears to result from a timing issue and will likely be corrected in April. Through March, collections exceed the original forecast by \$132.4 million, or 16.7 percent. Sales tax collections exceed the previous biennium by \$201.1 million, or 27.7 percent.
- **Motor vehicle excise tax** collections fell short of the original legislative forecast by \$400,000 for the month, but exceed the forecast by \$15.8 million for the biennium to date.
- **Individual income tax** collections continue to outpace the original forecast, as well as the November 2008 executive revenue forecast. March collections exceed the original forecast by \$9.5 million for the month and \$142.1 million for the biennium.
- **Corporate income tax** collections exceed the original forecast by \$1.3 million. Throughout the biennium, corporate tax collections have continually exceeded the original forecast and are currently \$86.9 million, or 75.5 percent, higher than originally estimated.
- **Insurance premium tax** collections for the month fell short of the forecast by

approximately \$500,000, correcting a timing issue from February. Biennium to date collections exceed the original forecast by \$9.2 million.

- **Oil and gas tax** collections for the month are \$12.9 million. Because the \$71.0 million general fund cap was reached in November 2007, the entire \$12.9 million will be deposited in the permanent oil tax trust fund. The current price of North Dakota crude is approximately \$41 per barrel with production of 191,500 barrels per day in February.
- **Mineral leasing fees** were \$4.8 million lower than anticipated. 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. Higher than anticipated oil prices and production have resulted in additional mineral income for the state and counties. In addition, the state has received a one-time distribution of lease bonuses that were temporarily withheld pending settlement of an environmental lawsuit. Every three months, fifty percent of the revenues collected during the preceding quarter are allocated to counties and offset state revenues collected in that month. Because revenues during the quarter were higher than anticipated, the quarterly payment to counties was also larger than previously anticipated, resulting in the variance shown for March.
- **Departmental collections** were \$2.6 million higher than anticipated in the original legislative forecast. Although this category consists of numerous fees collected by a multitude of agencies, the March variance is primarily attributable to telecommunications taxes collected by the Tax Department. These tax collections were \$2.1 million higher than anticipated as a result of a large delinquent tax payment received by the department.