

North Dakota REV-E-NEWS



Pam Sharp, Director

November 2009

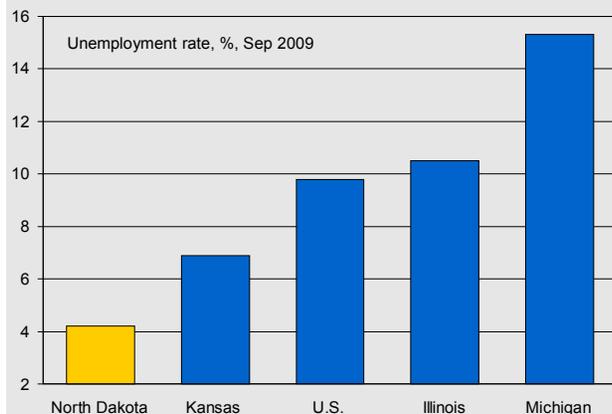
**OFFICE OF MANAGEMENT AND BUDGET
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MESSAGE FROM THE DIRECTOR

A recent review of the North Dakota economy by Economy.com, the state's economic forecasting consultant, highlights the state's strong job market, robust housing and finance sectors, and healthy state budget.

Low unemployment continues to set North Dakota apart from the rest of the nation. Economy.com notes that "North Dakota has weathered the nation's Great Recession with tremendous poise. Its labor market has held up remarkably well. Smoothed for monthly volatility, ND is the only state where employment is still expanding on a year-ago basis. At 4.2%, the unemployment rate is the lowest of any state and far below the 9.8% national average."

Unemployment Ranks Lowest in Nation



Additional highlights from the articles published by Economy.com in the October 2009 *Précis State Midwest* and September 2009 *Regional Financial Review* are listed below:

"North Dakota will emerge from a national housing downturn and financial panic with minimal damage. Financial and housing-related industries have been clobbered nationwide by the housing downturn but have been resilient in the state. For instance, construction employment has increased by 16% in ND since late 2006, while falling 38% nationwide."

"While many states face large budget shortfalls, ND's significant surplus has been a potent weapon against recession and will help support the initial recovery. The \$1.2 billion surplus has ... allowed ND to recruit business investment via attractive tax incentives."

"North Dakota's forecast has changed very little in recent months. The state government's prudent budgeting and sound financial services industry coupled with rising energy prices, stable household balance sheets, and renewed business investment will usher in a recovery that will lead the nation's recovery."

OIL ACTIVITY

The legislative revenue forecast for the 2009-11 biennium is based on gradually increasing oil price and production. The biennium was anticipated to begin with oil prices at \$40 per barrel and production of 205,000 barrels per day; by June 30, 2011, price was projected to increase to \$55 per barrel and production was anticipated to grow to 225,000 barrels per day. Currently, the price of North Dakota crude is around \$67 per barrel. Production continues to climb and set another new record in September – over 238,000 barrels per day. The current rig count is 65, on the rise, but still 26 rigs fewer than the number operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:



	Sept 2009	Aug 2009	July 2009
ND sweet crude price per barrel	\$59.26	\$61.41	\$54.87
Production (barrels/day)	238,000	232,400	227,000
Drilling permits	87	40	33
Producing wells	4,579	4,541	4,460
Rig count	51	45	40

Comments or Questions?

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STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Legislative Forecast
2009-11 Biennium
October 2009

Revenues and Transfers	Fiscal Month				Biennium To Date			
	May 2009 <u>Leg. Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>	May 2009 <u>Leg. Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
Sales Tax	50,287,000	46,378,118	(3,908,882)	-7.8%	197,206,000	185,021,426	(12,184,574)	-6.2%
Motor Vehicle Excise Tax	3,293,000	4,257,905	964,905	29.3%	12,710,000	18,348,152	5,638,152	44.4%
Individual Income Tax	37,325,000	29,895,835	(7,429,165)	-19.9%	105,905,000	100,075,592	(5,829,408)	-5.5%
Corporate Income Tax	12,734,000	11,300,273	(1,433,727)	-11.3%	12,734,000	13,769,008	1,035,008	8.1%
Insurance Premium Tax	111,654	93,715	(17,939)	-16.1%	4,285,000	2,501,704	(1,783,296)	-41.6%
Financial Institutions Tax		(464,869)	(464,869)	-100.0%		(854,393)	(854,393)	-100.0%
Oil & Gas Production Tax	4,895,000	11,336,966	6,441,966	131.6%	15,717,000	32,718,333	17,001,333	108.2%
Oil Extraction Tax	1,986,000	12,544,621	10,558,621	531.7%	5,814,000	34,092,595	28,278,595	486.4%
Gaming Tax	769,849	668,340	(101,509)	-13.2%	2,413,331	2,839,856	426,525	17.7%
Lottery								
Cigarette & Tobacco Tax	2,003,000	1,927,075	(75,925)	-3.8%	8,293,000	8,094,435	(198,565)	-2.4%
Wholesale Liquor Tax	580,000	607,207	27,207	4.7%	2,287,000	2,556,679	269,679	11.8%
Coal Conversion Tax	1,696,000	2,117,127	421,127	24.8%	5,255,000	6,001,193	746,193	14.2%
Mineral Leasing Fees	1,600,000	998,886	(601,114)	-37.6%	4,000,000	1,758,612	(2,241,388)	-56.0%
Departmental Collections	2,086,939	1,311,376	(775,563)	-37.2%	7,787,240	7,769,922	(17,318)	-0.2%
Interest Income	1,318,452	913,987	(404,465)	-30.7%	4,075,694	3,576,385	(499,309)	-12.3%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil tax trust fund-Transfer					295,000,000	295,000,000	0	0.0%
Other Transfers	161,000	336,300	175,300	108.9%	322,000	511,315	189,315	58.8%
Total Revenues and Transfers	120,846,894	124,222,863	3,375,969	2.8%	683,804,265	713,780,814	29,976,549	4.4%

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Previous Biennium Revenues
2009-11 Biennium
October 2009

Revenues and Transfers	Fiscal Month				Biennium To Date			
	October <u>2007</u>	October <u>2009</u>	<u>Variance</u>	<u>Percent</u>	<u>2007-09</u>	<u>2009-11</u>	<u>Variance</u>	<u>Percent</u>
Sales Tax	52,286,536	46,378,118	(5,908,418)	-11.3%	164,461,778	185,021,426	20,559,648	12.5%
Motor Vehicle Excise Tax	6,130,291	4,257,905	(1,872,387)	-30.5%	22,637,804	18,348,152	(4,289,653)	-18.9%
Individual Income Tax	27,990,284	29,895,835	1,905,551	6.8%	85,955,514	100,075,592	14,120,078	16.4%
Corporate Income Tax	11,030,704	11,300,273	269,569	2.4%	12,404,913	13,769,008	1,364,095	11.0%
Insurance Premium Tax	64,017	93,715	29,698	46.4%	4,138,242	2,501,704	(1,636,538)	-39.5%
Financial Institutions Tax	(193,494)	(464,869)	(271,375)	140.2%	91,046	(854,393)	(945,438)	-1038.4%
Oil & Gas Production Tax	9,144,101	11,336,966	2,192,865	24.0%	33,438,401	32,718,333	(720,068)	-2.2%
Oil Extraction Tax	7,699,889	12,544,621	4,844,732	62.9%	26,742,352	34,092,595	7,350,243	27.5%
Gaming Tax	918,467	668,340	(250,128)	-27.2%	2,879,220	2,839,856	(39,364)	-1.4%
Lottery								
Cigarette & Tobacco Tax	1,810,118	1,927,075	116,957	6.5%	7,938,841	8,094,435	155,595	2.0%
Wholesale Liquor Tax	528,523	607,207	78,684	14.9%	2,349,612	2,556,679	207,067	8.8%
Coal Conversion Tax	2,041,476	2,117,127	75,651	3.7%	8,534,389	6,001,193	(2,533,195)	-29.7%
Mineral Leasing Fees	2,283,309	998,886	(1,284,422)	-56.3%	3,189,269	1,758,612	(1,430,657)	-44.9%
Departmental Collections	1,694,353	1,311,376	(382,977)	-22.6%	9,243,461	7,769,922	(1,473,540)	-15.9%
Interest Income	2,417,464	913,987	(1,503,476)	-62.2%	7,473,039	3,576,385	(3,896,653)	-52.1%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil Tax Trust Fund-Transfer	115,000,000		(115,000,000)	-100.0%	115,000,000	295,000,000	180,000,000	156.5%
Other Transfers	159,257	336,300	177,043	111.2%	350,713	511,315	160,602	45.8%
Total Revenues and Transfers	241,005,295	124,222,863	(116,782,432)	-48.5%	506,828,593	713,780,814	206,952,222	40.8%

VARIANCES

October 2009 revenues were \$124.2 million, \$3.4 million more than projected in the legislative forecast. However, it should be noted that this variance is primarily attributable to oil tax collections exceeding the legislative forecast by \$17.0 million for the month. Although oil tax collections exceed the legislative forecast, the result is that the \$71.0 million cap on oil tax deposits to the general fund will be reached sooner than expected. Additional oil tax collections will not result in additional general fund revenue for the biennium. Oil tax collections in excess of \$71.0 million will be deposited in the permanent oil tax trust fund. Oil tax collections through the end of October total \$66.8 million. Notable variances for the month are as follows:

- **Sales tax** collections for the month of October fell short of estimates by \$3.9 million. A Tax Department analysis of November collections indicates that this variance is attributable to timing. Sales tax collections through October 2009 are \$12.2 million lower than the legislative forecast, but \$20.6 million higher than during the 2007-09 biennium.
- **Motor vehicle excise tax** collections again exceed the legislative forecast - by nearly \$1.0 million for the month and \$5.6 million for the biennium to date. Although projected to decline significantly in the legislative forecast, motor vehicle sales have been bolstered by federal stimulus programs and the confidence of North Dakota consumers.
- **Individual income tax** collections fell short of projections by \$7.4 million for the month, resulting in biennium to date collections falling \$5.8 million below the forecast. However, this

variance appears to be related to timing and is expected to be reversed with November collections. Biennium to date collections exceed the 2007-09 biennium by \$14.1 million.

- **Corporate income tax** collections fell short of projections by \$1.4 million for the month, but exceed the biennium to date forecast by \$1.0 million.
- **Oil and gas tax** collections for the month are \$23.8 million, \$17.0 million more than estimated in the legislative forecast. The legislative forecast assumed September prices would average \$46 per barrel and production 205,000 barrels per day. September prices averaged \$59 per barrel and production reached a new record high of 238,000 barrels per day.
- **Financial institutions tax** collections have been adjusted to reflect the transfer of collections from financial institutions tax to corporate income tax to correct improper filings by corporate entities that filed as financial institutions.
- **Mineral leasing fees** were \$601,000 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.
- **Departmental collections** were nearly \$800,000 lower than anticipated due primarily to the timing of certain collections and the correction of previous entries erroneously recorded as departmental collections.

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