

North Dakota REV-E-NEWS



Pam Sharp, Director

April 2010

OFFICE OF MANAGEMENT AND BUDGET

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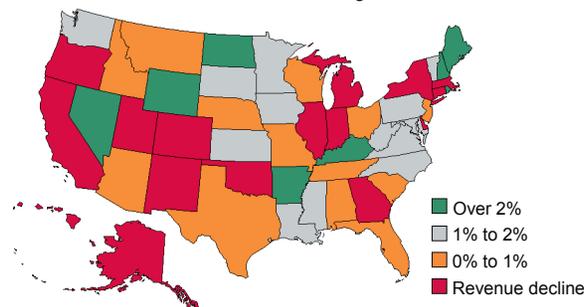
MESSAGE FROM THE DIRECTOR

The economic recovery is spreading. Led by the Midwest and Central Plains, state and local economies are recovering in the Mountain, Great Lakes, Southeast, and Mid-Atlantic regions. However, growth will be slow as the labor market remains weak in many areas. Moody's Economy.com reports that "State tax revenues have now begun to show improvement along with underlying consumer spending and private-sector wage growth. Even so, gains will remain modest until the labor market recovery hits its stride. In one-third of states, growth in tax revenues during fiscal 2011 is not expected to be strong enough to offset the losses experienced this year."

While weakness in the labor market continues to hamper growth in many areas of the country, North Dakota leads the nation in terms of economic growth and low unemployment. As shown below,

Outlook for State Revenues Slowly Improving

State tax revenues, annualized % change, FY2009-FY2011



Sources: Census, Moody's Economy.com

North Dakota is one of only a handful of states that can expect annualized growth of over 2 percent in state revenues for fiscal years 2010 and 2011.

Nonfarm employment, as reported by the Bureau of Labor Statistics, fell nationally by an average of 1.7 percent from March 2009 to March 2010. Forty-seven states recorded a decline in nonfarm employment ranging from -.7 percent in Montana to -4.6 percent in Nevada. Only three states and the District of Columbia reported gains. Nonfarm employment grew by 1.7 percent in the District of Columbia, 1.5 percent in Alaska, .5 percent in North Dakota, and .1 percent in New Hampshire.

The U.S. unemployment rate has remained unchanged at 9.7 percent for all of the first quarter of 2010. The March 2010 unemployment rate in North Dakota was only 4.0 percent, the lowest in the nation. Economists predict the U.S. rate will rise to 10.2 percent by the end of the year. As the improving economy lures more adults back into the labor force, the rate of job creation will be insufficient to immediately absorb the increased number of workers. This is a normal pattern in the cycle of economic recovery and expansion. Moody's Economy.com predicts an improving job market with unemployment averaging 10.1 percent for 2010, 9.7 percent for 2011, and 7.5 percent for 2012. For North Dakota, the Moody's forecast shows an average unemployment rate of 4.4 percent for the current year, 3.9 percent for 2011, and 2.7 percent for 2012.

OIL ACTIVITY

The legislative revenue forecast for the 2009-11 biennium is based on gradually increasing oil price and production – starting at \$40 per barrel and 205,000 barrels per day and ending the biennium at \$55 per barrel and production of 225,000 barrels per day. Currently, the price of North Dakota crude is around \$68 per barrel. Production jumped to a new all time record in February. The current rig count is 108, 67 more than were operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:



	Feb 2010	Jan 2010	Dec 2009
ND sweet crude price per barrel	\$67.58	\$68.57	\$63.96
Production (barrels/day)	261,000	236,000	241,500
Drilling permits	94	101	99
Producing wells	4,655	4,628	4,623
Rig count	93	81	74

Comments or Questions?

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STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2009-11 Biennium March 2010

Revenues and Transfers	Fiscal Month				Biennium To Date			
	May 2009 Leg. Forecast	Actual	Variance	Percent	May 2009 Leg. Forecast	Actual	Variance	Percent
Sales Tax	39,657,000	44,769,074	5,112,074	12.9%	428,863,000	412,827,100	(16,035,900)	-3.7%
Motor Vehicle Excise Tax	3,383,000	4,958,140	1,575,140	46.6%	27,491,000	39,004,507	11,513,507	41.9%
Individual Income Tax	4,530,000	5,981,515	1,451,515	32.0%	190,258,000	193,543,529	3,285,529	1.7%
Corporate Income Tax	15,993,000	12,544,458	(3,448,542)	-21.6%	62,783,000	50,568,182	(12,214,818)	-19.5%
Insurance Premium Tax	7,000,000	10,009,802	3,009,802	43.0%	23,835,000	22,572,912	(1,262,088)	-5.3%
Financial Institutions Tax	972,000	1,100,381	128,381	13.2%	1,288,000	375,507	(912,493)	-70.8%
Oil & Gas Production Tax*					39,309,315	32,718,333	(6,590,982)	-16.8%
Oil Extraction Tax*	2,204,000	0	(2,204,000)	-100.0%	16,313,000	38,281,667	21,968,667	134.7%
Gaming Tax	21,651	29,236	7,585	35.0%	5,771,811	5,948,675	176,864	3.1%
Lottery								
Cigarette & Tobacco Tax	1,599,000	1,424,610	(174,390)	-10.9%	17,364,000	16,784,347	(579,653)	-3.3%
Wholesale Liquor Tax	487,000	518,016	31,016	6.4%	4,926,000	5,461,667	535,667	10.9%
Coal Conversion Tax	2,233,000	1,579,121	(653,879)	-29.3%	13,925,000	14,916,610	991,610	7.1%
Mineral Leasing Fees	(900,000)	(413,542)	486,458	-54.1%	7,500,000	5,005,837	(2,494,163)	-33.3%
Departmental Collections	2,631,995	5,259,859	2,627,864	99.8%	23,594,404	27,048,908	3,454,504	14.6%
Interest Income	1,104,153	815,412	(288,741)	-26.2%	9,026,429	7,833,692	(1,192,737)	-13.2%
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		122,111	122,111	100.0%	483,000	1,602,688	1,119,688	231.8%
Total Revenues and Transfers	80,915,799	88,698,192	7,782,393	9.6%	1,167,730,959	1,169,494,160	1,763,201	0.2%

* Oil and gas production and extraction tax collections totaled \$28.5 million in March. Because the \$71.0 million statutory cap for the 2009-11 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2009-11 biennium. Through March, oil tax collections totaling \$139.0 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
2009-11 Biennium
March 2010

Revenues and Transfers	Fiscal Month				Biennium To Date			
	March 2008	March 2010	Variance	Percent	2007-09	2009-11	Variance	Percent
Sales Tax	28,439,398	44,769,074	16,329,676	57.4%	362,313,578	412,827,100	50,513,522	13.9%
Motor Vehicle Excise Tax	5,297,281	4,958,140	(339,141)	-6.4%	48,067,563	39,004,507	(9,063,056)	-18.9%
Individual Income Tax	5,244,771	5,981,515	736,744	14.0%	168,396,310	193,543,529	25,147,219	14.9%
Corporate Income Tax	13,740,246	12,544,458	(1,195,789)	-8.7%	76,486,270	50,568,182	(25,918,088)	-33.9%
Insurance Premium Tax	9,318,651	10,009,802	691,151	7.4%	25,266,746	22,572,912	(2,693,835)	-10.7%
Financial Institutions Tax	521,814	1,100,381	578,567	110.9%	1,597,999	375,507	(1,222,492)	-76.5%
Oil & Gas Production Tax*					39,309,315	32,718,333	(6,590,982)	-16.8%
Oil Extraction Tax*					31,690,685	38,281,667	6,590,982	20.8%
Gaming Tax	25,830	29,236	3,405	13.2%	6,886,049	5,948,675	(937,374)	-13.6%
Lottery								
Cigarette & Tobacco Tax	1,751,811	1,424,610	(327,201)	-18.7%	17,147,604	16,784,347	(363,257)	-2.1%
Wholesale Liquor Tax	481,099	518,016	36,918	7.7%	5,149,406	5,461,667	312,261	6.1%
Coal Conversion Tax	2,114,741	1,579,121	(535,620)	-25.3%	17,784,110	14,916,610	(2,867,500)	-16.1%
Mineral Leasing Fees	(991,792)	(413,542)	578,250	-58.3%	7,459,202	5,005,837	(2,453,364)	-32.9%
Departmental Collections	1,922,413	5,259,859	3,337,446	173.6%	23,398,361	27,048,908	3,650,547	15.6%
Interest Income	2,024,533	815,412	(1,209,121)	-59.7%	16,550,519	7,833,692	(8,716,828)	-52.7%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer								
Oil Tax Trust Fund-Transfer					115,000,000	295,000,000	180,000,000	156.5%
Other Transfers	(1,196)	122,111	123,308	-10306.4%	516,154	1,602,688	1,086,534	210.5%
Total Revenues and Transfers	69,889,601	88,698,192	18,808,591	26.9%	963,019,871	1,169,494,160	206,474,290	21.4%

* Oil and gas production and extraction tax collections totaled \$28.5 million in March. Because the \$71.0 million statutory cap for the 2009-11 biennium has been reached, no additional oil tax collections will be deposited in the general fund during the 2009-11 biennium. Through March, oil tax collections totaling \$139.0 million have been transferred to the permanent oil tax trust fund and are not reflected on this report.

VARIANCES

March 2010 revenues were \$88.7 million, \$7.8 million more than projected in the legislative forecast. This includes the offsetting negative variance of \$2.2 million related to oil taxes. The oil tax variance results from a timing difference between the forecast and actual collections. The forecast assumed the \$71.0 million general fund cap on oil taxes would not be reached until June 2011. Due to higher than anticipated oil price and production, the general fund limit was reached in November 2009. Consequently, no additional oil tax collections will be deposited in the general fund during the remainder of the 2009-11 biennium and a negative variance will be reported each month through June 2011. Notable variances for the month are as follows:

- **Sales tax** collections for the month of March are \$5.1 million higher than the legislative forecast, reversing timing differences recognized in February. Sales tax collections for the biennium to date are 3.7 percent less than the legislative forecast, but 13.9 percent higher than during the first nine months of the 2007-09 biennium.
- **Motor vehicle excise tax** collections again exceed the legislative forecast -- by \$1.6 million for the month and \$11.5 million for the biennium to date.
- **Individual income tax** collections are \$1.5 million higher than estimated for the month, bringing the biennium to date variance to \$3.3 million.
- **Corporate income tax** collections fell short of the legislative forecast by \$3.4 million for the month, bringing the biennium to date variance for this tax type to -\$12.2 million.
- **Insurance premium tax** collections exceed the legislative forecast by \$3.0 million for the month, more than offsetting a timing related shortfall reflected in February.
- **Oil and gas tax** collections for the month are \$28.5 million, \$26.3 million more than estimated in the legislative forecast. The legislative forecast assumed March general fund oil tax collections of \$2.2 million based on February prices of \$47 per barrel and production of 210,000 barrels per day. February prices actually averaged \$73 per barrel and production averaged 261,000 barrels per day. However the cumulative general fund share of oil taxes for the biennium is statutorily limited to \$71.0 million. This cap was reached in November, so all additional oil tax collections through the end of the biennium will be deposited in the permanent oil tax trust fund.
- **Departmental collections**, which include various permit and licensing fees collected by state agencies, were \$2.6 million more than estimated. This variance is primarily attributable to a \$2.9 million collection by the Adjutant General from the Federal Emergency Management Agency relating to a prior biennium disaster claim.