

North Dakota REV-E-NEWS



Pam Sharp, Director

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**OFFICE OF MANAGEMENT AND BUDGET
600 EAST BOULEVARD AVE — DEPT. 110 BISMARCK, ND 58505-0400**

MESSAGE FROM THE DIRECTOR

In September 2010, the Office of Management and Budget, working in cooperation with the Tax Department, Moody's Economy.com, and the Advisory Council on Revenue Forecasting, completed work on the 2011-13 biennium preliminary revenue forecast. With one year remaining in the current biennium, this forecast encompasses estimates for three fiscal years. The forecast builds on actual data from the first fiscal year of the current biennium and provides projections through June 30, 2013. Estimates are developed based on tax base forecasts provided by Economy.com using their model of the North Dakota economy and their macro level forecast for the U.S. economy. These estimates are analyzed by OMB, the Tax Department, and the Advisory Council and adjusted where necessary to ensure consistency with the local view of economic conditions in our state.

The state's four major general fund tax types – sales, motor vehicle, individual income, and corporate income – are expected to continue to grow, reflecting strong consumer confidence, continuing low unemploy-

ment, and growing personal and corporate income. Average growth in these four tax types is projected to be 8.5 percent in fiscal year 2011, 4.0 percent in 2012, and 6.0 percent in 2013. Considering the tax types individually, from fiscal year 2010 to fiscal year 2013, sales and use taxes are expected to grow at an annualized average rate of 7.5 percent, motor vehicle by 7.2 percent, individual income tax by 4.3 percent, and corporate income tax by 3.5 percent.

Sales and use taxes, the state's major tax type which accounts for approximately 40.0 percent of state general fund revenues, is projected to grow at a rate slightly below the 2007 to 2010 actual annual average of 9.0 percent. However, it is important to keep in mind that past and projected growth is occurring in the midst of the worst national economic crisis to occur since the Great Depression. As many states are faced with unprecedented budget shortfalls, North Dakota continues to lead the nation in terms of budget reserves, low unemployment and growing personal income.

The preliminary forecast assumes general fund revenues for the 2009-11 biennium will be close to the original legislative forecast, exceeding the prior estimate by only \$7.0 million. However, September tax collections were not known at the time the forecast was completed. Actual September collections are higher than expected, exceeding both the original and revised forecasts. For the biennium to date through September, actual collections vary from the original forecast by less than 1.0 percent.

Major Tax Types - Preliminary Forecast for Fiscal Years 2011-2013



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 posted price for North Dakota sweet crude is around \$60 per barrel. Production jumped to a new record in August, at over 321,000 barrels per day. The current rig count is 153 rigs, nearly 100 rigs more than the number operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:

	August 2010	July 2010	June 2010
Actual average price per barrel	\$66.78	\$66.21	\$64.76
Production (barrels/day)	326,900	321,100	314,500
Drilling permits	138	145	128
Producing wells	5,115	5,051	4,977
Rig count	140	135	125

Comments or Questions?
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STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2009-11 Biennium September 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	40,028,000	58,825,753	18,797,753	47.0%	704,453,000	722,460,132	18,007,132	2.6%
Motor Vehicle Excise Tax	4,128,000	5,378,058	1,250,058	30.3%	51,337,000	72,028,461	20,691,461	40.3%
Individual Income Tax	18,231,000	17,127,150	(1,103,850)	-6.1%	389,455,000	372,159,409	(17,295,591)	-4.4%
Corporate Income Tax		14,708,069	14,708,069	100.0%	120,164,000	103,760,669	(16,403,331)	-13.7%
Insurance Premium Tax	800,000	112,150	(687,850)	-86.0%	35,935,000	35,283,306	(651,694)	-1.8%
Financial Institutions Tax		(64,367)	(64,367)	-100.0%	4,750,000	3,077,513	(1,672,487)	-35.2%
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	24,161	27,144	2,983	12.3%	10,316,606	9,896,960	(419,646)	-4.1%
Lottery					5,577,500	5,100,000	(477,500)	-8.6%
Cigarette & Tobacco Tax	2,076,000	2,202,276	126,276	6.1%	29,118,000	28,817,338	(300,662)	-1.0%
Wholesale Liquor Tax	592,000	632,571	40,571	6.9%	8,559,000	9,407,651	848,651	9.9%
Coal Conversion Tax	1,946,000	1,483,036	(462,964)	-23.8%	26,191,000	24,064,305	(2,126,695)	-8.1%
Mineral Leasing Fees	(1,000,000)	(1,525,675)	(525,675)	52.6%	13,200,000	9,242,852	(3,957,148)	-30.0%
Departmental Collections	3,336,614	6,096,113	2,759,499	82.7%	37,201,437	41,789,709	4,588,272	12.3%
Interest Income	828,113	692,700	(135,413)	-16.4%	14,849,429	25,151,759	10,302,330	69.4%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer					2,367,918	6,260,457	3,892,539	164.4%
Oil tax trust fund-Transfer					295,000,000	295,000,000	0	0.0%
Other Transfers					805,000	1,924,678	1,119,678	139.1%
Total Revenues and Transfers	70,989,888	105,694,979	34,705,091	48.9%	1,820,279,890	1,836,425,197	16,145,307	0.9%

* Oil and gas production and extraction tax collections totaled \$31.8 million in September. 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 September, oil tax collections totaling \$386.6 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 September 2010

Revenues and Transfers	Fiscal Month				Biennium To Date			
	September 2008	September 2010	Variance	Percent	2007-09	2009-11	Variance	Percent
Sales Tax	55,472,878	58,825,753	3,352,875	6.0%	641,629,441	722,460,132	80,830,691	12.6%
Motor Vehicle Excise Tax	6,273,554	5,378,058	(895,495)	-14.3%	85,292,867	72,028,461	(13,264,407)	-15.6%
Individual Income Tax	18,936,339	17,127,150	(1,809,189)	-9.6%	362,023,792	372,159,409	10,135,617	2.8%
Corporate Income Tax	531,456	14,708,069	14,176,614	2667.5%	142,892,376	103,760,669	(39,131,707)	-27.4%
Insurance Premium Tax	1,160,192	112,150	(1,048,042)	-90.3%	38,186,733	35,283,306	(2,903,427)	-7.6%
Financial Institutions Tax	48,391	(64,367)	(112,758)	-233.0%	6,547,557	3,077,513	(3,470,045)	-53.0%
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	28,826	27,144	(1,682)	-5.8%	12,308,209	9,896,960	(2,411,249)	-19.6%
Lottery					5,300,000	5,100,000	(200,000)	-3.8%
Cigarette & Tobacco Tax	2,062,518	2,202,276	139,758	6.8%	28,785,473	28,817,338	31,865	0.1%
Wholesale Liquor Tax	542,896	632,571	89,675	16.5%	8,778,351	9,407,651	629,300	7.2%
Coal Conversion Tax	2,204,671	1,483,036	(721,634)	-32.7%	30,277,629	24,064,305	(6,213,324)	-20.5%
Mineral Leasing Fees	(334,681)	(1,525,675)	(1,190,994)	355.9%	14,931,543	9,242,852	(5,688,691)	-38.1%
Departmental Collections	5,443,951	6,096,113	652,162	12.0%	37,905,612	41,789,709	3,884,097	10.2%
Interest Income	1,518,397	692,700	(825,697)	-54.4%	27,227,356	25,151,759	(2,075,597)	-7.6%
Bank of North Dakota-Transfer								
State Mill & Elevator-Transfer						6,260,457	6,260,457	100.0%
Oil Tax Trust Fund-Transfer					115,000,000	295,000,000	180,000,000	156.5%
Other Transfers					846,216	1,924,678	1,078,462	127.4%
Total Revenues and Transfers	93,889,386	105,694,979	11,805,592	12.6%	1,628,933,153	1,836,425,197	207,492,044	12.7%

* Oil and gas production and extraction tax collections totaled \$31.8 million in September. 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 September, oil tax collections totaling \$386.6 million have been transferred to the permanent oil tax trust fund and are not reflected on this report.

VARIANCES

September 2010 revenues are \$105.7 million, \$34.7 million more than projected in the legislative forecast. Biennium to date revenues are within a variance of 1.0 percent compared to the original forecast and are 12.7 percent higher than at the same point of the 2007-09 biennium. Notable variances for the month are as follows:

- **Sales tax** collections for the month exceed the legislative forecast by \$18.8 million. Biennium to date collections, which have trailed slightly below forecast for several months, are now 2.6 percent more than projected and 12.6 percent higher than the previous biennium.
- **Motor vehicle excise tax** collections again exceed the legislative forecast -- by \$1.3 million for the month and \$20.7 million for the biennium to date.
- **Individual income tax** collections have trailed below forecast since April, when we realized an unexpected shortfall due primarily to capital losses and declining unearned income attributable to the national recession. September collections were less than originally estimated due to transfers made by the Tax Department to the refund reserve account. The transfers were made in anticipation of refunds that may be required for taxpayers with deadline extensions filing returns in October.
- **Coal conversion tax** collections continue to fall short of projections, primarily reflecting the impact of the coal conversion tax credits enacted by the 2009 legislature in Senate Bill No. 2221.
- **Departmental collections**, which include various fees and service charges collected by state agencies, exceed the forecast by \$2.8 million for the month. Included in the budgeted amount is the annual transfer to the general fund of any balance in the insurance regulatory trust fund in excess of \$1.0 million, as required by NDCC Section 26.1-01-07.1. Budgeted at only \$1.5 million, the transfer was actually \$3.9 million.
- **Mineral leasing fees**, received from the federal government for mineral extraction on federal land located within the state, have consistently fallen short of the forecast despite the increasing volume of oil activity in the state. This variance is likely the result of variations in the bonus amounts paid for oil exploration leases on federal land.