

North Dakota REV-E-NEWS



Pam Sharp, Director

February 2011

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

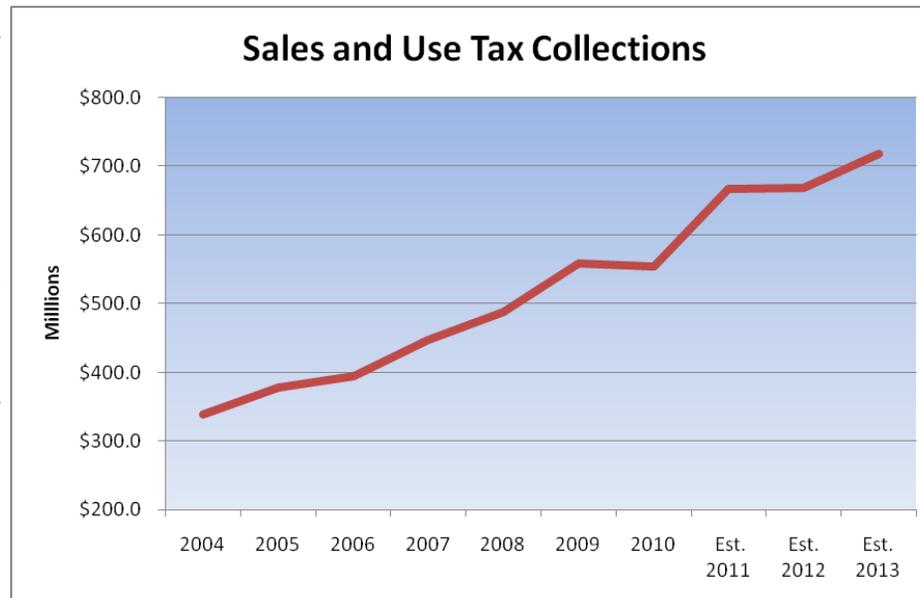
MESSAGE FROM THE DIRECTOR

The Office of Management and Budget, in cooperation with the Tax Department, State Advisory Council on Revenue Forecasting, and Moody's Analytics, recently completed the February 2011 revised revenue forecast. This forecast, which includes fiscal years 2011, 2012, and 2013, has since been adopted by the House and Senate Appropriations committees and will serve as the baseline forecast to which any legislatively approved tax changes will be applied. The forecast provides a conservative outlook for the next two and a half years, recognizing gains made in the current biennium, but keeping the forecast for next biennium relatively unchanged. In comparison to the November 2010 forecast on which the Governor's budget recommendation was based, the February forecast results in an additional \$42.6 million for the 2009-11 biennium and an additional \$4.2 million for the 2011-13 biennium.

The oil price and production forecast remains unchanged from the November 2010 forecast, with prices anticipated to gradually increase from \$67 to \$75 and production to increase from 390,000 to 425,000 barrels

per day by the end of the 2011-13 biennium. Currently, prices are slightly higher than forecasted and production is slightly lower. Oil tax collections are tracking close to forecast.

Sales and use taxes collections, an important barometer of consumer confidence, have continually exceeded the original legislative forecast for the 2009-11 biennium. The February forecast anticipates continued growth in this tax type, which is expected to increase by over 100.0 percent in the ten years from 2004 through 2013, as shown on the chart below:



OIL ACTIVITY



The revised February 2011 revenue forecast is based on stable oil prices and gradually increasing production through 2013 – \$67 to \$75 per barrel and 390,000 to 425,000 barrels per day. Currently, the posted price for North Dakota sweet crude is around \$78 per barrel, exceeding the forecasted price of \$67 per barrel. Adverse weather restricted production in December which fell slightly to approximately 343,900 barrels per day, lower than the forecasted production of 380,000 barrels per day. The current rig count is 171 rigs, 77 more than the number operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:

	Dec 2010	Nov 2010	Oct 2010
Actual average price per barrel	\$79.10	\$73.68	\$68.52
Production (barrels/day)	343,900	356,500	342,250
Drilling permits	134	245	232
Producing wells	5,331	5,331	5,300
Rig count	163	158	151

Comments or Questions?
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STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2009-11 Biennium January 2011

Revenues and Transfers	Fiscal Month				Biennium To Date			
	May 2009 Leg. Forecast	Actual	Variance	Percent	May 2009 Leg. Forecast	Actual	Variance	Percent
Sales Tax	51,760,000	81,424,521	29,664,521	57.3%	894,883,000	979,011,979	84,128,979	9.4%
Motor Vehicle Excise Tax	3,903,000	5,398,566	1,495,566	38.3%	65,886,000	92,393,006	26,507,006	40.2%
Individual Income Tax	55,070,000	70,345,187	15,275,187	27.7%	499,456,000	507,618,102	8,162,102	1.6%
Corporate Income Tax	7,723,000	5,094,078	(2,628,922)	-34.0%	162,718,000	154,186,007	(8,531,993)	-5.2%
Insurance Premium Tax	50,000	98,181	48,181	96.4%	44,100,000	43,396,403	(703,597)	-1.6%
Financial Institutions Tax	112,000	(200,399)	(312,399)	-278.9%	4,862,000	2,637,697	(2,224,303)	-45.7%
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	669,694	983,959	314,265	46.9%	13,101,454	12,752,186	(349,268)	-2.7%
Lottery					5,577,500	5,100,000	(477,500)	-8.6%
Cigarette & Tobacco Tax	1,896,000	2,034,557	138,557	7.3%	36,641,000	36,898,112	257,112	0.7%
Wholesale Liquor Tax	604,000	757,730	153,730	25.5%	10,879,000	12,067,596	1,188,596	10.9%
Coal Conversion Tax	1,907,000	1,396,593	(510,407)	-26.8%	33,861,000	29,954,153	(3,906,847)	-11.5%
Mineral Leasing Fees	2,200,000	1,513,216	(686,784)	-31.2%	18,400,000	12,639,786	(5,760,214)	-31.3%
Departmental Collections	6,237,498	7,066,005	828,507	13.3%	49,860,486	55,850,269	5,989,783	12.0%
Interest Income	1,124,645	614,538	(510,107)	-45.4%	18,524,310	27,797,527	9,273,217	50.1%
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					435,000,000	435,000,000	0	0.0%
Other Transfers	161,000	166,135	5,135	3.2%	1,127,000	2,291,327	1,164,327	103.3%
Total Revenues and Transfers	133,417,837	176,692,869	43,275,032	32.4%	2,368,244,668	2,486,854,607	118,609,939	5.0%

* Oil and gas production and extraction tax collections totaled \$52.7 million in January. 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 January, oil tax collections totaling \$578.7 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 January 2011

Revenues and Transfers	Fiscal Month				Biennium To Date			
	January 2009	January 2011	Variance	Percent	2007-09	2009-11	Variance	Percent
Sales Tax	43,672,961	81,424,521	37,751,560	86.4%	836,294,525	979,011,979	142,717,453	17.1%
Motor Vehicle Excise Tax	5,029,530	5,398,566	369,037	7.3%	105,186,619	92,393,006	(12,793,612)	-12.2%
Individual Income Tax	61,488,793	70,345,187	8,856,393	14.4%	496,700,875	507,618,102	10,917,227	2.2%
Corporate Income Tax	10,556,834	5,094,078	(5,462,757)	-51.7%	187,996,312	154,186,007	(33,810,305)	-18.0%
Insurance Premium Tax	6,988	98,181	91,193	1305.0%	46,227,519	43,396,403	(2,831,116)	-6.1%
Financial Institutions Tax	(32,380)	(200,399)	(168,019)	518.9%	6,118,368	2,637,697	(3,480,671)	-56.9%
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	798,977	983,959	184,982	23.2%	15,630,666	12,752,186	(2,878,481)	-18.4%
Lottery					5,300,000	5,100,000	(200,000)	-3.8%
Cigarette & Tobacco Tax	2,055,683	2,034,557	(21,126)	-1.0%	36,622,133	36,898,112	275,979	0.8%
Wholesale Liquor Tax	694,514	757,730	63,216	9.1%	11,269,429	12,067,596	798,167	7.1%
Coal Conversion Tax	1,514,600	1,396,593	(118,006)	-7.8%	38,277,483	29,954,153	(8,323,330)	-21.7%
Mineral Leasing Fees	2,458	1,513,216	1,510,759	61464.2%	21,918,162	12,639,786	(9,278,376)	-42.3%
Departmental Collections	5,626,845	7,066,005	1,439,161	25.6%	49,618,918	55,850,269	6,231,351	12.6%
Interest Income	2,062,108	614,538	(1,447,569)	-70.2%	33,965,480	27,797,527	(6,167,953)	-18.2%
Bank of North Dakota-Transfer					30,000,000	0	(30,000,000)	-100.0%
State Mill & Elevator-Transfer						6,260,457	6,260,457	100.0%
Oil Tax Trust Fund-Transfer					115,000,000	435,000,000	320,000,000	278.3%
Other Transfers	3,259,257	166,135	(3,093,122)	-94.9%	4,290,245	2,291,327	(1,998,919)	-46.6%
Total Revenues and Transfers	136,737,168	176,692,869	39,955,701	29.2%	2,111,416,734	2,486,854,607	375,437,873	17.8%

* Oil and gas production and extraction tax collections totaled \$52.7 million in January. 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 January, oil tax collections totaling \$578.7 million have been transferred to the permanent oil tax trust fund and are not reflected on this report.

VARIANCES

January 2011 revenues were \$176.7 million, \$43.3 million more than projected in the legislative forecast. Biennium to date revenues exceed the legislative forecast by \$118.6 million, or 5.0 percent. The recently completed February 2011 revised revenue forecast assumes that by the end of the 2009-11 biennium, actual revenues will exceed the original forecast by \$63.4 million. Notable variances for the month are as follows:

- **Sales tax** collections for the month exceed the legislative forecast by \$29.7 million, bringing the biennium to date variance to \$84.1 million, or 9.4 percent. Biennium to date collections total \$979.0 million, which is \$142.7 million, or 17.1 percent, higher than during the previous biennium.
- **Motor vehicle excise tax** collections again exceed the legislative forecast -- by \$1.5 million for the month and \$26.5 million for the biennium to date. Adjusting for legislatively authorized changes in the allocation of motor vehicle excise tax revenues between the general fund and the highway fund, 2009-11 biennium collections are \$6.3 million higher than at the same point in 2007-09.
- **Individual income tax** collections exceed the forecast by \$15.3 million for the month, the third consecutive month of positive variances in this tax type. The combined variance for

November through January totals \$33.3 million in just three months. Biennium to date collections now exceed the forecast for the first time since April 2010. Comparisons to the previous biennium need to consider the impact of the \$90.0 million individual income tax reduction measure approved by the 2009 legislature.

- **Corporate income tax** collections, which have lagged the forecast throughout the biennium, made significant gains in December, exceeding the forecast by \$17.3 million for the month. January collections were \$2.6 million below forecast, bringing the biennium to date variance to -\$8.5 million.
- **Coal conversion tax** collections fell short of projections by \$510,000 for the month, bringing the biennium to date variance to -\$3.9 million. The variance is a result of several factors which result in decreased state coal conversion taxes, including low natural gas prices and tax credits and exemptions authorized by the 2007 and 2009 legislature.
- **Departmental collections** exceed the legislative forecast by \$830,000 for the month and \$6.0 million for the biennium to date. Departmental collections consist of fees and charges for services collected by various state agencies. The January variance relates primarily to telecommunications taxes collected by the Tax Department.