

# North Dakota REV-E-NEWS



**Pam Sharp, Director**

**October 2011**

**OFFICE OF MANAGEMENT AND BUDGET  
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## MESSAGE FROM THE DIRECTOR

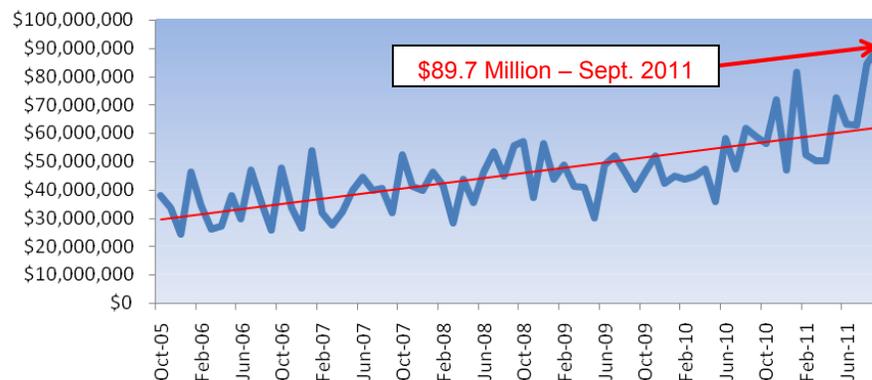
Many states continue to face significant budget crises as fund balances have been depleted and budget cuts have been implemented. Moody's Analytics estimates that the "probability of recession [in the U.S. economy] in the next six to 12 months is an uncomfortably high 40%." Consequently, many states are concerned that the marginal improvements experienced in fiscal year 2011 revenue collections will be short-lived.

As reported by the National Association of State Budget Officers in its *Spring 2011 Fiscal Survey of States*, on average, states expected fiscal year 2011 revenues to grow by 4.9 percent in sales taxes, 6.6 percent in personal income taxes, and 12.8 percent in corporate income taxes. Estimates are more conservative for fiscal year 2012, anticipating growth of only .3 percent in sales tax, 6.8 percent in personal income tax, and 4.3 percent in corporate income tax.

In North Dakota, we continue to see strong

consumer confidence resulting from our healthy labor market and growing personal income. Although Moody's Analytics projects personal consumption expenditures to grow nationally at only around 2 percent during calendar years 2011 and 2012, that projection holds little relevance to North Dakota. Only three months into the 2011-13 biennium, sales tax collections exceed the April 2011 legislative forecast by \$59.3 million, or 33.4 percent. In fact, sales tax collections reached a new high of \$89.7 million in September 2011, exceeding the previous record of \$81.4 million collected in January 2011.

**Monthly North Dakota Sales and Use Tax Revenue  
October 2005 Through September 2011**



## OIL ACTIVITY



The 2011-13 biennium legislative forecast is based on oil production increasing from 390,000 barrels per day at the start of the 2011-13 biennium to 425,000 barrels per day by the end of the biennium. North Dakota crude oil prices are estimated to range from \$72 per barrel to \$75 per barrel during that time. Currently, the posted price for North Dakota sweet crude is around \$80 per barrel. A high level of hydraulic fracturing activity increased August production by nearly 20,000 barrels per day. The current rig count is 196 rigs, 43 rigs more than the number operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:

	August 2011	July 2011	June 2011
Actual average price per barrel	\$80.71	\$91.79	\$91.49
Production (barrels/day)	444,100	425,000	384,800
Drilling permits	207	136	138
Producing wells	5,951	5,756	5,558
Rig count	192	177	171

Comments or Questions?  
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**STATEMENT OF GENERAL FUND REVENUES AND FORECASTS**  
**Compared to the Legislative Forecast**  
**2011-13 Biennium**  
**September 2011**

Revenues and Transfers	Fiscal Month				Biennium To Date			
	April 2011 Leg. Forecast	Actual	Variance	Percent	April 2011 Leg. Forecast	Actual	Variance	Percent
Sales Tax	50,511,000	89,711,942	39,200,942	77.6%	177,464,000	236,811,177	59,347,177	33.4%
Motor Vehicle Excise Tax	7,278,000	9,566,900	2,288,900	31.4%	21,412,000	27,412,741	6,000,741	28.0%
Individual Income Tax	11,146,000	17,957,456	6,811,456	61.1%	69,385,000	85,206,307	15,821,307	22.8%
Corporate Income Tax		83,623	83,623	100.0%		849,929	849,929	100.0%
Insurance Premium Tax	150,000	232,510	82,510	55.0%	3,400,000	5,887,360	2,487,360	73.2%
Financial Institutions Tax		45,447	45,447	100.0%		50,046	50,046	100.0%
Oil & Gas Production Tax	1,601,000	2,785,069	1,184,069	74.0%	45,588,000	46,771,715	1,183,715	2.6%
Oil Extraction Tax	12,013,000	18,147,861	6,134,861	51.1%	42,379,000	49,834,485	7,455,485	17.6%
Gaming Tax	7,758	29,140	21,382	275.6%	1,239,596	1,846,231	606,635	48.9%
Lottery								
Cigarette & Tobacco Tax	2,036,000	2,494,634	458,634	22.5%	6,006,000	6,814,150	808,150	13.5%
Wholesale Liquor Tax	608,000	710,040	102,040	16.8%	1,893,000	2,113,452	220,452	11.6%
Coal Conversion Tax	1,500,000	1,798,757	298,757	19.9%	2,952,000	3,651,025	699,025	23.7%
Mineral Leasing Fees	(708,333)	(1,408,244)	(699,911)	98.8%	2,125,001	3,323,212	1,198,211	56.4%
Departmental Collections	4,615,528	1,933,384	(2,682,145)	-58.1%	7,932,649	4,403,006	(3,529,643)	-44.5%
Interest Income	850,000	626,886	(223,114)	-26.2%	2,150,000	1,373,287	(776,713)	-36.1%
State Mill & Elevator-Transfer								
Major Special Fund Transfers					295,000,000	295,000,000	0	0.0%
Other Transfers					185,625	185,620	(5)	0.0%
<b>Total Revenues and Transfers</b>	<b>91,607,953</b>	<b>144,715,404</b>	<b>53,107,451</b>	<b>58.0%</b>	<b>679,111,871</b>	<b>771,533,743</b>	<b>92,421,872</b>	<b>13.6%</b>

**STATEMENT OF GENERAL FUND REVENUES AND FORECASTS**  
*Compared to the Previous Biennium Revenues*  
**2011-13 Biennium**  
**September 2011**

Revenues and Transfers	Fiscal Month				Biennium To Date			
	September <u>2009</u>	September <u>2011</u>	<u>Variance</u>	<u>Percent</u>	<u>2009-11</u>	<u>2011-13</u>	<u>Variance</u>	<u>Percent</u>
Sales Tax	40,214,823	89,711,942	49,497,119	123.1%	138,643,308	236,811,177	98,167,869	70.8%
Motor Vehicle Excise Tax	4,825,387	9,566,900	4,741,513	98.3%	14,090,247	27,412,741	13,322,494	94.6%
Individual Income Tax	18,890,599	17,957,456	(933,143)	-4.9%	70,179,757	85,206,307	15,026,551	21.4%
Corporate Income Tax	113,631	83,623	(30,008)	-26.4%	2,468,735	849,929	(1,618,807)	-65.6%
Insurance Premium Tax	131,611	232,510	100,899	76.7%	2,407,989	5,887,360	3,479,372	144.5%
Financial Institutions Tax	257,545	45,447	(212,098)	-82.4%	(389,524)	50,046	439,570	-112.8%
Oil & Gas Production Tax	3,471,257	2,785,069	(686,188)	-19.8%	21,381,367	46,771,715	25,390,348	118.7%
Oil Extraction Tax	10,643,871	18,147,861	7,503,989	70.5%	21,547,974	49,834,485	28,286,511	131.3%
Gaming Tax	13,591	29,140	15,550	114.4%	2,171,516	1,846,231	(325,286)	-15.0%
Lottery								
Cigarette & Tobacco Tax	2,054,843	2,494,634	439,791	21.4%	6,167,360	6,814,150	646,790	10.5%
Wholesale Liquor Tax	543,853	710,040	166,187	30.6%	1,949,472	2,113,452	163,981	8.4%
Coal Conversion Tax	2,103,454	1,798,757	(304,697)	-14.5%	3,884,066	3,651,025	(233,041)	-6.0%
Mineral Leasing Fees	(1,237,971)	(1,408,244)	(170,273)	13.8%	759,725	3,323,212	2,563,487	337.4%
Departmental Collections	1,210,133	1,933,384	723,251	59.8%	6,458,546	4,403,006	(2,055,540)	-31.8%
Interest Income	1,102,126	626,886	(475,239)	-43.1%	2,662,398	1,373,287	(1,289,112)	-48.4%
State Mill & Elevator-Transfer								
Major Special Fund Transfers					295,000,000	295,000,000	0	0.0%
Other Transfers	10,241		(10,241)	-100.0%	175,015	185,620	10,605	6.1%
<b>Total Revenues and Transfers</b>	<b>84,348,994</b>	<b>144,715,404</b>	<b>60,366,409</b>	<b>71.6%</b>	<b>589,557,951</b>	<b>771,533,743</b>	<b>181,975,792</b>	<b>30.9%</b>

## VARIANCES

September 2011 revenues are \$144.7 million, exceeding the forecast by \$53.1 million for the month and \$92.4 million for the biennium to date. Significant variances are as follows:

- **Sales tax** collections, which totaled \$89.7 million, set a new record. Actual collections exceed the forecast by \$39.2 million, or 77.6 percent. Compared to many areas of the country, consumer confidence remains strong in North Dakota and is reflected in the growing level of taxable sales and purchases. Compared to the first three months of the previous biennium, sales tax collections are \$98.2 million, or 70.8 percent higher.
- **Motor vehicle excise tax** collections exceed the forecast by \$2.3 million for the month. Comparison to the 2009-11 biennium is difficult due to legislatively authorized changes in the allocation of motor vehicle excise taxes. For 2009-11, only 75.0 percent of the tax was allocated to the general fund, but for 2011-13, 100.0 percent of the tax is allocated to the general fund. Allowing for these changes in allocation, 2011-13 collections are \$8.6 million higher.
- **Individual income tax** collections exceed the forecast by \$6.8 million, or 61.1 percent. This increase is primarily attributable to income growth, but it is likely that a portion is also related to over-withholding as employers and taxpayers filing quarterly estimated tax payments are slow to adjust to lowered tax rates.
- **Oil and gas taxes** deposited in the general fund are limited to \$300.0 million for the entire biennium. Due to higher than estimated price and production levels, oil tax collections exceed the forecast by \$7.3 million for the month and \$8.7 million for the biennium to date. If prices and production remain above projections, the result will be additional revenue collections for the state and political subdivisions. However, because the general fund share is capped, the current general fund variance will be offset later in the biennium.
- **Mineral leasing fees** are received by the state for mineral leasing and extraction on federal lands located within the state. These revenues are shared equally with the counties in which the minerals are located. Revenues are volatile and fluctuate based on price, activity, and the timing of bonuses paid for the leasing of mineral rights. Negative amounts reflected in the month of September reflect quarterly payments to counties for their share of the previous quarter's revenues.
- **Departmental collections** fell short of projections by \$2.7 million as a result of the timing of the annual transfer from the insurance regulatory trust fund to the general fund. This transfer, estimated at \$3.0 million and budgeted for September, was very close to estimates, but took place in October. Consequently, the negative variance reflected for September will be corrected in October.