

North Dakota REV-E-NEWS



Pam Sharp, Director

January 2011

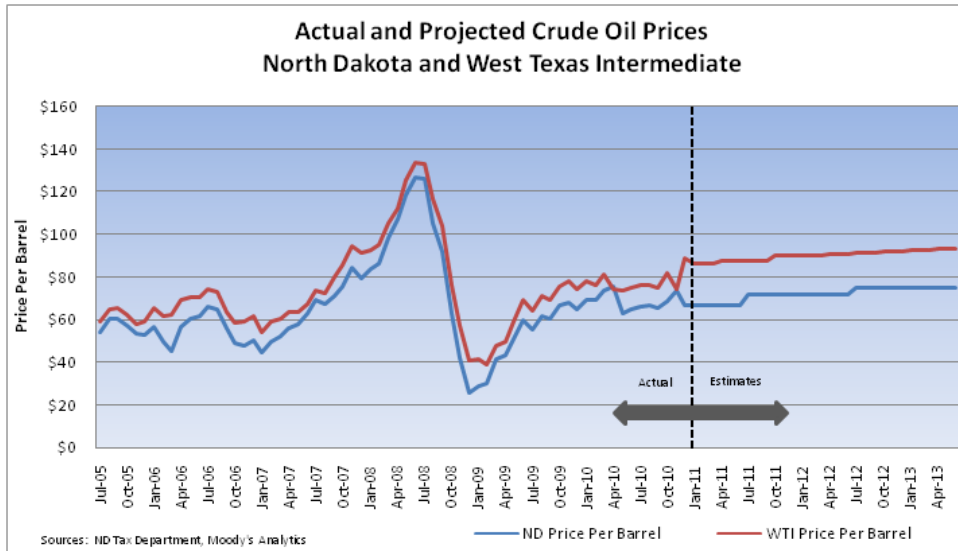
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MESSAGE FROM THE DIRECTOR

Oil prices remain high and relatively stable while North Dakota crude oil production continues to climb to new record levels each month. The average monthly price of West Texas Intermediate (WTI) crude has remained above \$60 per barrel since June 2009; the current price is approaching \$90 per barrel. The actual average monthly price of North Dakota crude, as reported to the Tax Department, has exceeded \$60 since August 2009; the current price is around \$70 per barrel.

Moody's Analytics provides a quarterly forecast for WTI crude prices showing continued stability and growth from around \$86 per barrel during the first quarter of 2011 to \$94 per barrel by the second quarter of 2013. North Dakota crude oil prices typically average between 80 to 90 percent of the WTI price. The chart below shows actual prices for WTI and North Dakota crude from July 2005 through November 2010 and estimated prices through June 2013. Estimated WTI prices are provided by Moody's Analytics; estimated North Dakota crude oil prices reflect amounts included in November 2010 executive revenue forecast.

In its December 2010 Précis U.S. Macro publication, Moody's Analytics predicts that the oil exploration and production outlook will remain positive for North Dakota. "The data suggest that most of the new exploration is occurring in oil shale fields such as the Bakken Shale formation in North Dakota. The technique of fracturing shale formations and pumping in fluids to free up hydrocarbon reserves, already proven in natural gas production, is in the infant stages of being applied to oil shale. The technique could add up to 1 million barrels a day over the next five to eight years, which would boost domestic oil production 18% and allow the U.S. to cut crude imports 11%."



OIL ACTIVITY



The November 2010 executive revenue forecast for fiscal year 2011 is based on stable oil prices and gradually increasing production – \$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 \$70 per barrel. Production continues to climb and reached a new record in November – nearly 355,040 barrels per day. The current rig count is 163 rigs, more than double the number operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:

	Nov 2010	Oct 2010	Sept 2010
Actual average price per barrel	\$73.68	\$68.52	\$65.61
Production (barrels/day)	355,040	342,250	342,100
Drilling permits	245	232	167
Producing wells	5,331	5,300	5,197
Rig count	158	151	143

Comments or Questions?
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STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2009-11 Biennium December 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	38,511,000	47,145,229	8,634,229	22.4%	843,123,000	897,587,458	54,464,458	6.5%
Motor Vehicle Excise Tax	3,326,000	4,952,283	1,626,283	48.9%	61,983,000	86,994,440	25,011,440	40.4%
Individual Income Tax	5,895,000	10,759,080	4,864,080	82.5%	444,386,000	437,272,915	(7,113,085)	-1.6%
Corporate Income Tax	18,986,000	36,266,879	17,280,879	91.0%	154,995,000	149,091,929	(5,903,071)	-3.8%
Insurance Premium Tax	1,500,000	587,896	(912,104)	-60.8%	44,050,000	43,298,222	(751,778)	-1.7%
Financial Institutions Tax		(178,295)	(178,295)	-100.0%	4,750,000	2,838,097	(1,911,903)	-40.3%
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	19,964	9,700	(10,264)	-51.4%	12,431,760	11,768,227	(663,533)	-5.3%
Lottery					5,577,500	5,100,000	(477,500)	-8.6%
Cigarette & Tobacco Tax	1,847,000	2,069,146	222,146	12.0%	34,745,000	34,863,554	118,554	0.3%
Wholesale Liquor Tax	585,000	633,715	48,715	8.3%	10,275,000	11,309,865	1,034,865	10.1%
Coal Conversion Tax	1,915,000	1,447,459	(467,541)	-24.4%	31,954,000	28,557,559	(3,396,441)	-10.6%
Mineral Leasing Fees	(1,000,000)	(478,724)	521,276	-52.1%	16,200,000	11,126,570	(5,073,430)	-31.3%
Departmental Collections	2,207,320	2,918,268	710,948	32.2%	43,622,988	48,784,264	5,161,276	11.8%
Interest Income	574,260	648,385	74,125	12.9%	17,399,665	27,182,989	9,783,324	56.2%
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	140,000,000	140,000,000	0	0.0%	435,000,000	435,000,000	0	0.0%
Other Transfers		1,434	1,434	100.0%	966,000	2,125,192	1,159,192	120.0%
Total Revenues and Transfers	214,366,544	246,782,455	32,415,911	15.1%	2,234,826,831	2,310,161,738	75,334,907	3.4%

* Oil and gas production and extraction tax collections totaled \$52.1 million in December. 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 December, oil tax collections totaling \$526.0 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 December 2010

Revenues and Transfers	Fiscal Month				Biennium To Date			
	December 2008	December 2010	Variance	Percent	2007-09	2009-11	Variance	Percent
Sales Tax	56,450,900	47,145,229	(9,305,671)	-16.5%	792,621,564	897,587,458	104,965,894	13.2%
Motor Vehicle Excise Tax	4,675,999	4,952,283	276,284	5.9%	100,157,089	86,994,440	(13,162,649)	-13.1%
Individual Income Tax	10,493,667	10,759,080	265,412	2.5%	435,212,082	437,272,915	2,060,834	0.5%
Corporate Income Tax	21,484,126	36,266,879	14,782,754	68.8%	177,439,478	149,091,929	(28,347,548)	-16.0%
Insurance Premium Tax	630,662	587,896	(42,766)	-6.8%	46,220,530	43,298,222	(2,922,308)	-6.3%
Financial Institutions Tax	48,868	(178,295)	(227,163)	-464.9%	6,150,748	2,838,097	(3,312,652)	-53.9%
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	23,817	9,700	(14,117)	-59.3%	14,831,689	11,768,227	(3,063,462)	-20.7%
Lottery					5,300,000	5,100,000	(200,000)	-3.8%
Cigarette & Tobacco Tax	1,740,318	2,069,146	328,828	18.9%	34,566,450	34,863,554	297,105	0.9%
Wholesale Liquor Tax	507,501	633,715	126,214	24.9%	10,574,915	11,309,865	734,951	6.9%
Coal Conversion Tax	2,180,537	1,447,459	(733,078)	-33.6%	36,762,883	28,557,559	(8,205,324)	-22.3%
Mineral Leasing Fees	2,865,660	(478,724)	(3,344,384)	-116.7%	21,915,704	11,126,570	(10,789,134)	-49.2%
Departmental Collections	1,648,380	2,918,268	1,269,888	77.0%	43,992,073	48,784,264	4,792,191	10.9%
Interest Income	1,052,942	648,385	(404,557)	-38.4%	31,903,373	27,182,989	(4,720,384)	-14.8%
Bank of North Dakota-Transfer	30,000,000		(30,000,000)	-100.0%	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		140,000,000	140,000,000	100.0%	115,000,000	435,000,000	320,000,000	278.3%
Other Transfers	675	1,434	759	112.5%	1,030,988	2,125,192	1,094,203	106.1%
Total Revenues and Transfers	133,804,054	246,782,455	112,978,401	84.4%	1,974,679,566	2,310,161,738	335,482,172	17.0%

* Oil and gas production and extraction tax collections totaled \$52.1 million in December. 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 December, oil tax collections totaling \$526.0 million have been transferred to the permanent oil tax trust fund and are not reflected on this report.

VARIANCES

December 2010 revenues were \$246.8 million, \$32.4 million more than projected in the legislative forecast. Biennium to date revenues exceed the legislative forecast by \$75.3 million, or 3.4 percent. The November 2010 executive revenue forecast assumed that by the end of the 2009-11 biennium, actual revenues would exceed the original forecast by only \$20.8 million. Consequently, actual revenues exceed not only the original forecast but also the more recent November 2010 executive forecast. Notable variances for the month are as follows:

- **Sales tax** collections for the month exceed the legislative forecast by \$8.6 million, bringing the biennium to date variance to \$54.5 million, or 6.5 percent. Biennium to date collections total \$897.6 million, which is \$105.0 million, or 13.2 percent, higher than during the previous biennium.
- **Motor vehicle excise tax** collections again exceed the legislative forecast -- by \$1.6 million for the month and \$25.0 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 \$4.7 million higher than at the same point in 2007-09.
- **Individual income tax** collections exceed the forecast by \$4.9 million for the month, the second consecutive month of positive variances in this tax type. The combined variance for November and December totals \$18.0 million. Biennium to date collections are currently \$7.1 million lower than the original forecast and \$2.1 million higher than during the 2007-09 biennium. This slight variance represents significant growth in wages and income considering 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. Biennium to date collections are \$5.9 million lower than anticipated in the original forecast, but exceed the November executive forecast.
- **Insurance premium tax** collections fell short of projections by \$912,000 for the month, indicating that the \$890,000 overage realized in November was a result of timing.
- **Departmental collections** exceed the legislative forecast by over \$700,000 for the month and \$5.2 million for the biennium to date. Departmental collections consist of various fees and charges for services collected by state agencies.