

North Dakota REV-E-NEWS



Pam Sharp, Director

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**OFFICE OF MANAGEMENT AND BUDGET
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MESSAGE FROM THE DIRECTOR

Moody's Analytics, the state's economic forecasting consultant recently completed its periodic analysis of the North Dakota economy and the result is not surprising – continued growth across a broad spectrum of the state's economy.

Moody's indicates that, as most states deal with the lingering effects of the national recession, "North Dakota is one of only two states in the country whose economies have transitioned to expansion. A sharp increase in energy exploration, combined with a strong financial services sector, stable

household balance sheets, and surplus tax revenues, has helped shield ND from a deep recession and facilitated earlier gains than have occurred in the nation."

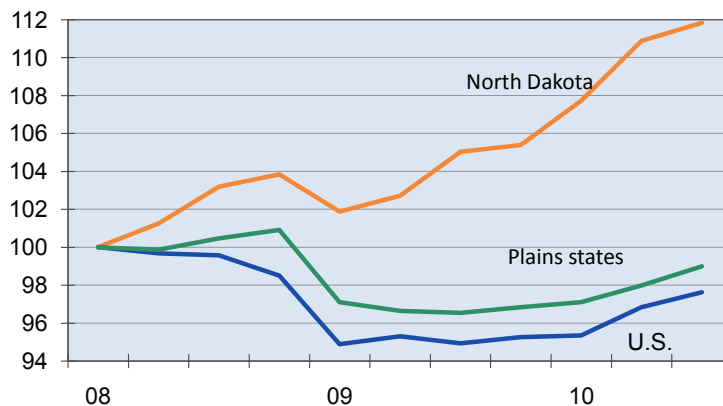
With the lowest unemployment rate in the nation and strong job growth in energy, construction, and other sectors, wage and salary growth in North Dakota has far exceeded that of the region and the nation. "Wage and salary disbursements remain extremely strong in ND relative to the rest of the region and country. This strength demonstrates the

mild nature of the Great Recession's impact on the state." As shown on the chart below, wage and salary income has increased approximately 12.0 percent in North Dakota from first quarter 2008 through third quarter 2010, whereas wage and salary income in the region and in the nation has declined during that period.

Moody's notes that since the effects of the recession in North Dakota have been mild, we should not expect a "measurable surge in growth." However, the outlook remains positive. As the rest of the country recovers from the recession, "the North Dakota economy will expand over the extended forecast horizon."

Wage and Salary Income Growth

Wage and salary income, 2008Q1=100



Source: Moody's Analytics, BEA

OIL ACTIVITY



The revised February 2011 revenue forecast is based on oil prices in the range of \$67 to \$75 per barrel and production gradually increasing from 390,000 to 425,000 barrels per day. Currently, the posted price for North Dakota sweet crude is around \$90 per barrel, exceeding the forecasted price of \$67 per barrel. Adverse weather restricted January production, which fell slightly to approximately 342,100 barrels per day, 12.3 percent lower than the forecasted production level of 390,000 barrels per day. The current rig count is 172 rigs, 68 more than the number operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:

	Jan 2011	Dec 2010	Nov 2010
Actual average price per barrel	\$78.59	\$79.10	\$73.68
Production (barrels/day)	342,100	344,100	356,500
Drilling permits	142	134	245
Producing wells	5,315	5,331	5,331
Rig count	163	163	158

Comments or Questions?

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STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2009-11 Biennium February 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	51,020,000	52,458,283	1,438,283	2.8%	945,903,000	1,031,470,262	85,567,262	9.0%
Motor Vehicle Excise Tax	3,211,000	5,640,705	2,429,705	75.7%	69,097,000	98,033,711	28,936,711	41.9%
Individual Income Tax	15,051,000	5,454,817	(9,596,183)	-63.8%	514,507,000	513,072,919	(1,434,081)	-0.3%
Corporate Income Tax	3,763,000	4,949,214	1,186,214	31.5%	166,481,000	159,135,222	(7,345,778)	-4.4%
Insurance Premium Tax	5,500,000	4,356,784	(1,143,216)	-20.8%	49,600,000	47,753,187	(1,846,813)	-3.7%
Financial Institutions Tax	204,000	34,527	(169,473)	-83.1%	5,066,000	2,672,224	(2,393,776)	-47.3%
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	1,343,929	972,692	(371,237)	-27.6%	14,445,383	13,724,878	(720,505)	-5.0%
Lottery					5,577,500	5,100,000	(477,500)	-8.6%
Cigarette & Tobacco Tax	1,742,000	1,774,898	32,898	1.9%	38,383,000	38,673,010	290,010	0.8%
Wholesale Liquor Tax	452,000	482,912	30,912	6.8%	11,331,000	12,550,507	1,219,507	10.8%
Coal Conversion Tax	1,942,000	1,149,360	(792,640)	-40.8%	35,803,000	31,103,513	(4,699,487)	-13.1%
Mineral Leasing Fees	2,200,000	2,435,386	235,386	10.7%	20,600,000	15,075,172	(5,524,828)	-26.8%
Departmental Collections	1,847,089	2,023,974	176,885	9.6%	51,707,575	57,874,244	6,166,669	11.9%
Interest Income	1,173,410	543,334	(630,076)	-53.7%	19,697,720	28,340,861	8,643,141	43.9%
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		9,274	9,274	100.0%	1,127,000	2,300,601	1,173,601	104.1%
Total Revenues and Transfers	89,449,428	82,286,161	(7,163,268)	-8.0%	2,457,694,096	2,569,140,767	111,446,671	4.5%

* Oil and gas production and extraction tax collections totaled \$58.6 million in February. 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 February, oil tax collections totaling \$637.3 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 February 2011

Revenues and Transfers	Fiscal Month				Biennium To Date			
	February 2009	February 2011	Variance	Percent	2007-09	2009-11	Variance	Percent
Sales Tax	48,979,688	52,458,283	3,478,595	7.1%	885,274,214	1,031,470,262	146,196,048	16.5%
Motor Vehicle Excise Tax	4,287,963	5,640,705	1,352,742	31.5%	109,474,582	98,033,711	(11,440,870)	-10.5%
Individual Income Tax	24,785,245	5,454,817	(19,330,428)	-78.0%	521,486,120	513,072,919	(8,413,201)	-1.6%
Corporate Income Tax	3,403,120	4,949,214	1,546,095	45.4%	191,399,432	159,135,222	(32,264,210)	-16.9%
Insurance Premium Tax	4,161,511	4,356,784	195,273	4.7%	50,389,029	47,753,187	(2,635,842)	-5.2%
Financial Institutions Tax	176,164	34,527	(141,637)	-80.4%	6,294,532	2,672,224	(3,622,308)	-57.5%
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	1,603,372	972,692	(630,680)	-39.3%	17,234,039	13,724,878	(3,509,161)	-20.4%
Lottery					5,300,000	5,100,000	(200,000)	-3.8%
Cigarette & Tobacco Tax	1,736,893	1,774,898	38,006	2.2%	38,359,026	38,673,010	313,984	0.8%
Wholesale Liquor Tax	479,037	482,912	3,875	0.8%	11,748,465	12,550,507	802,042	6.8%
Coal Conversion Tax	2,561,371	1,149,360	(1,412,011)	-55.1%	40,838,854	31,103,513	(9,735,341)	-23.8%
Mineral Leasing Fees	8,469,917	2,435,386	(6,034,531)	-71.2%	30,388,079	15,075,172	(15,312,907)	-50.4%
Departmental Collections	1,805,279	2,023,974	218,695	12.1%	51,424,197	57,874,244	6,450,047	12.5%
Interest Income	2,151,520	543,334	(1,608,186)	-74.7%	36,117,000	28,340,861	(7,776,139)	-21.5%
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	51,465	9,274	(42,190)	-82.0%	4,341,710	2,300,601	(2,041,109)	-47.0%
Total Revenues and Transfers	104,652,544	82,286,161	(22,366,383)	-21.4%	2,216,069,277	2,569,140,767	353,071,490	15.9%

* Oil and gas production and extraction tax collections totaled \$58.6 million in February. 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 February, oil tax collections totaling \$637.3 million have been transferred to the permanent oil tax trust fund and are not reflected on this report.

VARIANCES

February 2011 revenues were \$82.3 million, \$7.2 million less than projected in the original legislative forecast. 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. Through February 2011, biennium to date revenues already exceed the original forecast by \$111.4 million, or 4.5 percent. Notable variances for the month are as follows:

- **Sales tax** collections, the state's largest tax source, exceed the legislative forecast by \$1.4 million for the month, bringing the biennium to date variance to \$85.6 million, or 9.0 percent. Biennium to date collections total \$1.031 billion, which is 16.5 percent higher than during the previous biennium and a reflection of the strong consumer confidence level in the state.
- **Motor vehicle excise tax** collections again exceed the legislative forecast -- by \$2.4 million for the month and \$28.9 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 \$9.0 million higher than at the same point in 2007-09.
- **Individual income tax** collections are \$9.6 million less than estimated for the month, resulting in the biennium to date total being just .3 percent below forecast. Biennium to date collections are \$8.4 million below the previous biennium, which reflects significant growth in wages and income considering the \$90.0 million individual income tax reduction measure approved by the 2009 legislature. A portion of the February variance is attributable to timing; January collections exceeded the forecast by \$15.3 million and March collections appear to be exceeding expectations.
- **Corporate income tax** collections exceed the original forecast by \$1.2 million for the month, bringing the biennium to date variance to -\$7.3 million, or -4.4 percent.
- **Insurance premium tax** collections are reduced due to credits related to the Comprehensive Health Association of North Dakota (CHAND) program. Pursuant to NDCC Section 26.1-03-17, insurance companies who are participating members of CHAND are allowed a credit against insurance premium taxes for assessments paid for CHAND costs. February collections are \$1.1 million less than projected in the original forecast, bringing the biennium to date variance to -\$1.8 million.
- **Gaming tax** collections are short of projections by \$371,000, correcting a timing variance from January. January collections exceeded projections by \$314,000.
- **Coal conversion tax** collections are \$793,000 less than estimated for the month, bringing the biennium to date variance to -\$4.7 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.

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