

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

National Economic Recovery Expected to Continue Despite Increased Petroleum Prices

Moody's Analytics, the state's economic forecasting consultant, recently updated its forecast to determine the potential impact of rising oil prices on the national economic recovery. As prices for heating oil, propane, and gasoline increase, consumer spending on goods and services is negatively impacted. Moody's indicates that "Every \$1 increase in the price of crude oil raises gasoline prices by 2.2 cents per gallon and costs consumers about \$3 billion over the course of a year."

Moody's calculates the fundamental market price of a barrel of West Texas Intermediate crude oil at around \$93 per barrel, based on global supply and demand. To this market-based price is added a \$5 per barrel risk premium based on current social unrest in Libya and other oil producing countries. Consequently, Moody's predicts oil prices around \$98 per barrel for the rest of 2011. This baseline forecast assumes the Libyan conflict will be resolved by the end of the year and there will be no further reduction in oil production in Libya or the region.

Although the recovery may be weakened by the increase in oil prices, Moody's does not expect the national economy to dip back into recession. Overall, their outlook remains positive, but recognizes some negative impact from the rise in oil prices. "The economic outlook for this year and next remains good, but not as good as it appeared just a few months ago."

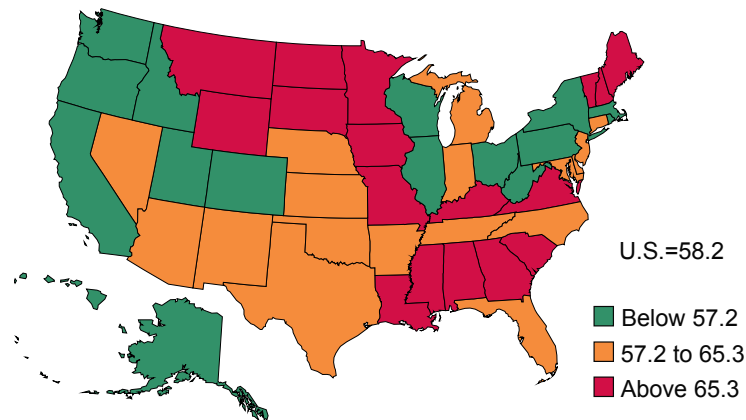
At the state level, consumers in different states are affected disproportionately by increasing fuel prices. As shown on the map below, rural states, such as North Dakota, have higher per capital gasoline consumption

due to the greater distances people drive and the lower reliance on alternative forms of transportation. For North Dakota, increasing crude oil prices are a double-edged sword. Consumers, agricultural producers, and businesses are forced to absorb higher fuel costs. On the other hand, the increasing price of crude oil helps to continue the momentum of growth in the state's oil industry, resulting in continued wage and income growth, additional jobs, and economic development in western North Dakota.

Increasing crude oil prices raise costs for businesses and reduce disposable income for consumers. However, the price level predicted by Moody's for 2011 is not anticipated to have a substantial negative economic impact either nationally or here in North Dakota.

Annual Gasoline Consumption Per Capita

mil BTUs, 2000-2008



Sources: EIA, Moody's Analytics

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 through fiscal year 2013. Currently, the posted price for North Dakota sweet crude is around \$101 per barrel, far exceeding the forecasted price of \$67 per barrel. February production grew by 5,000 barrels per day, but remains significantly below the forecasted level of 390,000 barrels per day. The current rig count is 174 rigs, 66 more than the number operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:

	Feb 2011	Jan 2011	Dec 2010
Actual average price per barrel	\$78.19	\$78.59	\$79.10
Production (barrels/day)	348,400	343,300	344,100
Drilling permits	155	142	134
Producing wells	5,324	5,317	5,331
Rig count	167	163	163

Comments or Questions?

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STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2009-11 Biennium March 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	34,773,000	50,095,854	15,322,854	44.1%	980,676,000	1,081,566,116	100,890,116	10.3%
Motor Vehicle Excise Tax	3,977,000	6,786,735	2,809,735	70.6%	73,074,000	104,820,446	31,746,446	43.4%
Individual Income Tax	4,715,000	17,478,704	12,763,704	270.7%	519,222,000	530,551,622	11,329,622	2.2%
Corporate Income Tax	15,830,000	11,082,700	(4,747,300)	-30.0%	182,311,000	170,217,922	(12,093,078)	-6.6%
Insurance Premium Tax	8,000,000	6,639,870	(1,360,130)	-17.0%	57,600,000	54,393,057	(3,206,943)	-5.6%
Financial Institutions Tax	972,000	1,593,763	621,763	64.0%	6,038,000	4,265,987	(1,772,013)	-29.3%
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	22,938	17,800	(5,138)	-22.4%	14,468,321	13,742,678	(725,643)	-5.0%
Lottery					5,577,500	5,100,000	(477,500)	-8.6%
Cigarette & Tobacco Tax	1,564,000	1,682,020	118,020	7.5%	39,947,000	40,355,030	408,030	1.0%
Wholesale Liquor Tax	494,000	540,897	46,897	9.5%	11,825,000	13,091,404	1,266,404	10.7%
Coal Conversion Tax	1,916,000	1,630,967	(285,033)	-14.9%	37,719,000	32,734,479	(4,984,521)	-13.2%
Mineral Leasing Fees	(1,100,000)	(368,595)	731,405	-66.5%	19,500,000	14,706,577	(4,793,423)	-24.6%
Departmental Collections	2,706,672	2,939,312	232,640	8.6%	54,414,247	60,813,555	6,399,308	11.8%
Interest Income	1,327,241	622,739	(704,502)	-53.1%	21,024,961	28,963,600	7,938,639	37.8%
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		331,567	331,567	100.0%	1,127,000	2,632,168	1,505,168	133.6%
Total Revenues and Transfers	75,197,851	101,074,333	25,876,482	34.4%	2,532,891,947	2,670,215,101	137,323,154	5.4%

* Oil and gas production and extraction tax collections totaled \$58.6 million in March. 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 March, oil tax collections totaling \$695.9 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 March 2011

Revenues and Transfers	Fiscal Month				Biennium To Date			
	March 2009	March 2011	Variance	Percent	2007-09	2009-11	Variance	Percent
Sales Tax	41,272,447	50,095,854	8,823,408	21.4%	926,546,660	1,081,566,116	155,019,456	16.7%
Motor Vehicle Excise Tax	4,259,575	6,786,735	2,527,161	59.3%	113,734,156	104,820,446	(8,913,710)	-7.8%
Individual Income Tax	12,646,757	17,478,704	4,831,947	38.2%	534,132,876	530,551,622	(3,581,254)	-0.7%
Corporate Income Tax	10,594,716	11,082,700	487,985	4.6%	201,994,147	170,217,922	(31,776,225)	-15.7%
Insurance Premium Tax	6,183,714	6,639,870	456,156	7.4%	56,572,743	54,393,057	(2,179,686)	-3.9%
Financial Institutions Tax	683,155	1,593,763	910,608	133.3%	6,977,687	4,265,987	(2,711,700)	-38.9%
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	27,366	17,800	(9,565)	-35.0%	17,261,404	13,742,678	(3,518,726)	-20.4%
Lottery					5,300,000	5,100,000	(200,000)	-3.8%
Cigarette & Tobacco Tax	1,675,192	1,682,020	6,828	0.4%	40,034,218	40,355,030	320,812	0.8%
Wholesale Liquor Tax	542,455	540,897	(1,558)	-0.3%	12,290,920	13,091,404	800,484	6.5%
Coal Conversion Tax	2,084,175	1,630,967	(453,208)	-21.7%	42,923,028	32,734,479	(10,188,549)	-23.7%
Mineral Leasing Fees	(5,271,682)	(368,595)	4,903,087	-93.0%	25,116,397	14,706,577	(10,409,820)	-41.4%
Departmental Collections	3,727,796	2,939,312	(788,484)	-21.2%	55,151,993	60,813,555	5,661,563	10.3%
Interest Income	2,433,579	622,739	(1,810,840)	-74.4%	38,550,579	28,963,600	(9,586,979)	-24.9%
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	2,287	331,567	329,280	14398.5%	4,343,997	2,632,168	(1,711,829)	-39.4%
Total Revenues and Transfers	80,861,528	101,074,333	20,212,805	25.0%	2,296,930,806	2,670,215,101	373,284,295	16.3%

* Oil and gas production and extraction tax collections totaled \$58.6 million in March. 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 March, oil tax collections totaling \$695.9 million have been transferred to the permanent oil tax trust fund and are not reflected on this report.

VARIANCES

March 2011 revenues were \$101.1 million, \$25.9 million more than projected in the original legislative forecast. The recently completed March 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 \$137.3 million, or 5.4 percent. Notable variances for the month are as follows:

- **Sales tax** collections, the state's largest tax source, exceed the legislative forecast by \$15.3 million for the month, bringing the biennium to date variance to \$100.9 million, or 10.3 percent. Biennium to date collections total \$1.082 billion, which is 16.7 percent higher than during the previous biennium.
- **Motor vehicle excise tax** collections again exceed the legislative forecast -- by \$2.8 million for the month and \$31.7 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 \$13.4 million higher than at the same point in 2007-09.
- **Individual income tax** collections are \$12.8 million higher than estimated for the month, resulting in the biennium to date total being 2.2 percent over forecast. Biennium to

date collections are only \$3.6 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. The March variance corrects the timing related shortfall of \$9.6 million recorded in February.

- **Corporate income tax** collections fell short of projections by \$4.7 million for the month, bringing the biennium to date variance to -\$12.1 million. The majority of corporate tax payers are multi-state or national corporations. Consequently, the national business climate plays a significant role in state corporate income tax collections. In addition, federal tax policies, such as allowances for accelerated depreciation of business assets, also impacts taxable income at the state level.
- **Insurance premium tax** collections are \$1.4 million less than projected in the original forecast, bringing the biennium to date variance to -\$3.2 million. A factor contributing to the shortfall is tax credits for 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 CHAND assessments.