

# North Dakota REV-E-NEWS



**Pam Sharp, Director**

**August 2011**

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

North Dakota has been fortunate to enjoy economic growth and budget surpluses at a time when most states are dealing with unprecedented budget crises. Moody's Analytics continues to have concerns for the national economy, but believes recovery is spreading across most states. While Nevada is the only state that continues in recession, Moody's has identified only two states – North Dakota and Alaska – that are experiencing an economic expansion. Most states are in economic recovery with a few continuing to be at risk of falling back into recession. "The U.S. economy is struggling to maintain growth strong enough to generate the kind of confidence that will lead to accelerated hiring, business investment and consumer spending. Yet one of the more positive signs of economic performance is that the recovery, modest as it is, is prevalent across nearly all of the country."

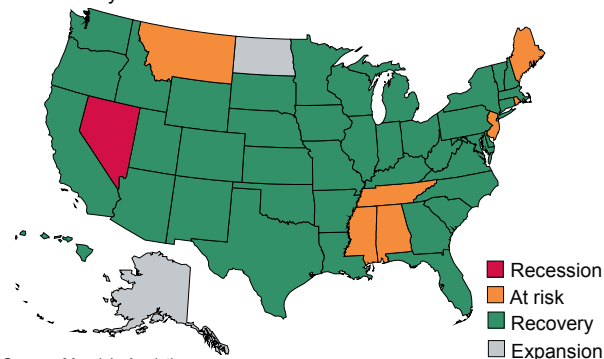
An indicator of the state's economic vitality is the healthy labor

market. An August 2011 news release from the U.S. Bureau of Labor Statistics indicates that in July 2011, North Dakota led the nation in terms of year-over-year percentage growth in employment. "In July, nonfarm payroll employment increased in 31 states and the District of Columbia and decreased in 19 states....The largest over-the-year percentage increase occurred in North Dakota (+5.2 percent), followed by Texas (+2.6 percent), Utah (+2.5 percent), and Oklahoma and Wyoming (+2.2 percent each)." The same news release indicates that North Dakota continues to have the lowest unemployment rate in the nation, nearly one-third the national

average. "Nevada continued to register the highest unemployment rate among the states, 12.9 percent in July. California recorded the next highest rate, 12.0 percent. North Dakota reported the lowest jobless rate, 3.3 percent, followed by Nebraska, 4.1 percent."

### Most of U.S. Still Slowly Recovering...

Business cycle indicator as of Jun 2011



Source: Moody's Analytics

## OIL ACTIVITY



The 2011 legislative 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 \$80 per barrel. Although still constrained by wet weather and load restrictions, June production grew by 21,000 barrels per day. The current rig count is a record 200 rigs, 57 rigs more than the number operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:

	June 2011	May 2011	Apr 2011
Actual average price per barrel	\$91.69	\$94.69	\$103.91
Production (barrels/day)	384,700	363,400	351,300
Drilling permits	138	154	125
Producing wells	5,558	5,579	5,536
Rig count	177	175	173

Comments or Questions?  
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**STATEMENT OF GENERAL FUND REVENUES AND FORECASTS**  
**Compared to the Legislative Forecast**  
**2011-13 Biennium**  
**July 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	62,561,000	62,834,040	273,040	0.4%	62,561,000	62,834,040	273,040	0.4%
Motor Vehicle Excise Tax	6,961,000	6,468,097	(492,903)	-7.1%	6,961,000	6,468,097	(492,903)	-7.1%
Individual Income Tax	39,265,000	39,475,968	210,968	0.5%	39,265,000	39,475,968	210,968	0.5%
Corporate Income Tax		293,940	293,940	100.0%		293,940	293,940	100.0%
Insurance Premium Tax	150,000	293,212	143,212	95.5%	150,000	293,212	143,212	95.5%
Financial Institutions Tax		8,686	8,686	100.0%		8,686	8,686	100.0%
Oil & Gas Production Tax								
Oil Extraction Tax								
Gaming Tax	460,025	486,978	26,953	5.9%	460,025	486,978	26,953	5.9%
Lottery								
Cigarette & Tobacco Tax	1,976,000	1,873,445	(102,555)	-5.2%	1,976,000	1,873,445	(102,555)	-5.2%
Wholesale Liquor Tax	673,000	734,426	61,426	9.1%	673,000	734,426	61,426	9.1%
Coal Conversion Tax								
Mineral Leasing Fees	1,416,667	2,354,064	937,397	66.2%	1,416,667	2,354,064	937,397	66.2%
Departmental Collections	1,789,686	885,696	(903,990)	-50.5%	1,789,686	885,696	(903,990)	-50.5%
Interest Income	450,000	150,182	(299,818)	-66.6%	450,000	150,182	(299,818)	-66.6%
State Mill & Elevator-Transfer								
Major Special Fund Transfers	295,000,000	295,000,000	0	0.0%	295,000,000	295,000,000	0	0.0%
Other Transfers	185,625	185,625	0	0.0%	185,625	185,625	0	0.0%
<b>Total Revenues and Transfers</b>	<b>410,888,003</b>	<b>411,044,360</b>	<b>156,357</b>	<b>0.0%</b>	<b>410,888,003</b>	<b>411,044,360</b>	<b>156,357</b>	<b>0.0%</b>

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

Revenues and Transfers	Fiscal Month				Biennium To Date			
	July 2009	July 2011	Variance	Percent	2009-11	2011-13	Variance	Percent
Sales Tax	52,196,545	62,834,040	10,637,495	20.4%	52,196,545	62,834,040	10,637,495	20.4%
Motor Vehicle Excise Tax	5,209,697	6,468,097	1,258,400	24.2%	5,209,697	6,468,097	1,258,400	24.2%
Individual Income Tax	46,919,357	39,475,968	(7,443,389)	-15.9%	46,919,357	39,475,968	(7,443,389)	-15.9%
Corporate Income Tax	2,173,959	293,940	(1,880,018)	-86.5%	2,173,959	293,940	(1,880,018)	-86.5%
Insurance Premium Tax	278,129	293,212	15,083	5.4%	278,129	293,212	15,083	5.4%
Financial Institutions Tax		8,686	8,686	100.0%		8,686	8,686	100.0%
Oil & Gas Production Tax								
Oil Extraction Tax								
Gaming Tax	805,869	486,978	(318,891)	-39.6%	805,869	486,978	(318,891)	-39.6%
Lottery								
Cigarette & Tobacco Tax	2,103,695	1,873,445	(230,250)	-10.9%	2,103,695	1,873,445	(230,250)	-10.9%
Wholesale Liquor Tax	708,549	734,426	25,878	3.7%	708,549	734,426	25,878	3.7%
Coal Conversion Tax								
Mineral Leasing Fees	808,015	2,354,064	1,546,049	191.3%	808,015	2,354,064	1,546,049	191.3%
Departmental Collections	1,064,177	885,696	(178,481)	-16.8%	1,064,177	885,696	(178,481)	-16.8%
Interest Income	429,848	150,182	(279,666)	-65.1%	429,848	150,182	(279,666)	-65.1%
State Mill & Elevator-Transfer								
Major Special Fund Transfers	295,000,000	295,000,000	0	0.0%	295,000,000	295,000,000	0	0.0%
Other Transfers	162,693	185,625	22,932	14.1%	162,693	185,625	22,932	14.1%
<b>Total Revenues and Transfers</b>	<b>407,860,533</b>	<b>411,044,360</b>	<b>3,183,827</b>	<b>0.8%</b>	<b>407,860,533</b>	<b>411,044,360</b>	<b>3,183,827</b>	<b>0.8%</b>

## VARIANCES

July 2011 is the start of the 2011-13 biennium and the first month where revenues are compared to the forecast finalized during the 2011 legislative session. July revenues are \$411.0 million and most tax types tracked closely to the forecast. The overall variance is only \$156,400, a difference of less than .1 percent. The largest component of July revenues was the \$295 million transfer from the property tax relief sustainability fund, transferred to the general fund on July 1, 2011, as required by 2011 House Bill No. 1047.

- **Sales tax** collections tracked closely to the legislative forecast with a variance of only \$273,000, or .4 percent. However, compared to July 2009, the first month of the 2009-11 biennium, sales tax collections in July 2011 were \$10.6 million higher, a variance of 20.4 percent.
- **Motor vehicle excise tax** collections fell short of the forecast by nearly \$500,000, or 7.1 percent. 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. Accounting for this change in tax allocation, 2011-13 biennium collections were \$478,000 lower than in July 2009.
- **Individual income tax** collections exceeded the forecast by a mere .5 percent, but were \$7.4 million lower than two years earlier. The lower collections are primarily the result of income tax reduction measures approved during both the 2009 and 2011 legislative sessions.
- **Corporate income tax** collections deposited into the general fund were anticipated to be \$0 during the first quarter of the fiscal year as those collections are typically deposited into the state's refund reserve account and used to pay corporate tax refunds. However, since collections were slightly higher than anticipated, nearly \$300,000 was deposited into the general fund.
- **Mineral leasing fees** are received by the state for leasing mineral rights and extracting minerals 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.
- **Departmental collections** are comprised of various fees for services and permits collected by numerous state agencies. The revenue forecast is based on the cumulative estimates provided by all state agencies. Timing issues commonly result in monthly variances from the forecast.