

North Dakota REV-E-NEWS



Pam Sharp, Director

September 2011

**OFFICE OF MANAGEMENT AND BUDGET
600 EAST BOULEVARD AVE — DEPT. 110 BISMARCK, ND 58505-0400**

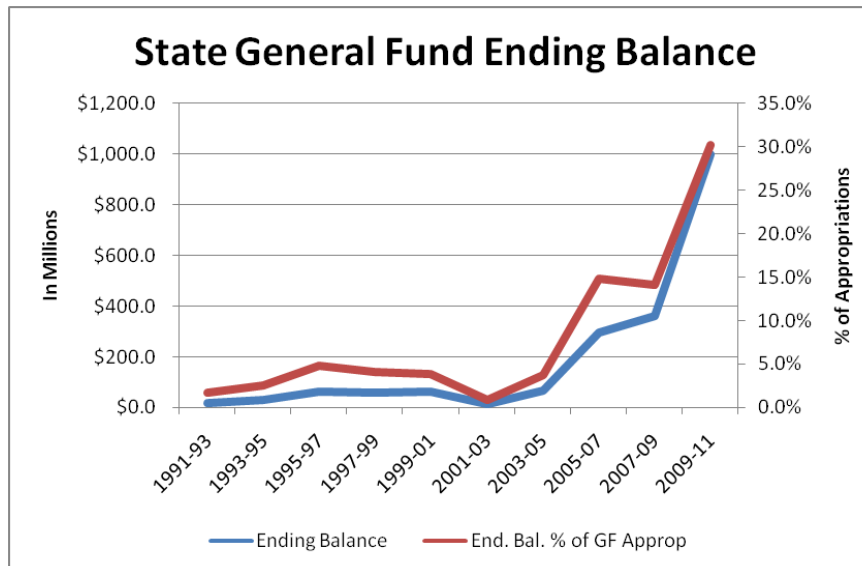
MESSAGE FROM THE DIRECTOR

The 2009-11 biennium ended with revenues nearly 10.0 percent ahead of the original legislative forecast. At the close of the biennium, the permanent oil tax trust fund balance of \$689.9 million was transferred to the general fund and \$61.4 million was transferred from the general fund to the budget stabilization fund, as directed by the 2011 legislature. The biennium ended with a general fund balance of \$996.8 million.

The actual June 30, 2011 general fund balance was \$336.6 million higher than estimated at the close of the 2011 legislative session, due primarily to higher than expected sales, income, and oil tax revenues. In addition, state agencies returned to the general fund \$46.7 million of unused appropriation authority, more than double the amount estimated.

Although the 2011 legislature utilized the estimated June 30, 2011 general fund balance, along

with 2011-13 biennium revenues, in calculating authorized spending levels for the 2011-13 budget, the unanticipated \$336.6 million is not part of the appropriated budget and will add to the projected June 30, 2013 balance. The actual ending balance of \$996.8 million is the highest end-of-biennium balance in North Dakota history, both in nominal terms and as a percent of the appropriated budget. The chart below shows the history of end-of-biennium general fund balances:



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 \$81 per barrel. With warm dry weather, July saw a surge in production of nearly 40,000 barrels per day. The current rig count is 199 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:

	July 2011	June 2011	May 2011
Actual average price per barrel	\$91.79	\$91.49	\$95.79
Production (barrels/day)	423,600	384,800	363,400
Drilling permits	136	138	154
Producing wells	5,756	5,558	5,579
Rig count	177	171	175

Comments or Questions?
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STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Legislative Forecast
2011-13 Biennium
August 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	64,392,000	84,265,196	19,873,196	30.9%	126,953,000	147,099,236	20,146,236	15.9%
Motor Vehicle Excise Tax	7,173,000	11,377,744	4,204,744	58.6%	14,134,000	17,845,841	3,711,841	26.3%
Individual Income Tax	18,974,000	27,772,883	8,798,883	46.4%	58,239,000	67,248,852	9,009,852	15.5%
Corporate Income Tax		472,365	472,365	100.0%		766,306	766,306	100.0%
Insurance Premium Tax	3,100,000	5,361,639	2,261,639	73.0%	3,250,000	5,654,851	2,404,851	74.0%
Financial Institutions Tax		(4,087)	(4,087)	-100.0%		4,599	4,599	100.0%
Oil & Gas Production Tax	43,987,000	43,986,646	(354)	0.0%	43,987,000	43,986,646	(354)	0.0%
Oil Extraction Tax	30,366,000	31,686,624	1,320,624	4.3%	30,366,000	31,686,624	1,320,624	4.3%
Gaming Tax	771,813	1,330,112	558,299	72.3%	1,231,838	1,817,090	585,252	47.5%
Lottery								
Cigarette & Tobacco Tax	1,994,000	2,446,071	452,071	22.7%	3,970,000	4,319,516	349,516	8.8%
Wholesale Liquor Tax	612,000	668,986	56,986	9.3%	1,285,000	1,403,412	118,412	9.2%
Coal Conversion Tax	1,452,000	1,852,268	400,268	27.6%	1,452,000	1,852,268	400,268	27.6%
Mineral Leasing Fees	1,416,667	2,377,392	960,725	67.8%	2,833,334	4,731,456	1,898,122	67.0%
Departmental Collections	1,527,435	1,583,927	56,492	3.7%	3,317,121	2,469,623	(847,498)	-25.5%
Interest Income	850,000	596,218	(253,782)	-29.9%	1,300,000	746,400	(553,600)	-42.6%
State Mill & Elevator-Transfer								
Major Special Fund Transfers					295,000,000	295,000,000	0	0.0%
Other Transfers		(5)	(5)	-100.0%	185,625	185,620	(5)	0.0%
Total Revenues and Transfers	176,615,915	215,773,980	39,158,065	22.2%	587,503,918	626,818,340	39,314,422	6.7%

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

Revenues and Transfers	Fiscal Month				Biennium To Date			
	August 2009	August 2011	Variance	Percent	2009-11	2011-13	Variance	Percent
Sales Tax	46,231,940	84,265,196	38,033,256	82.3%	98,428,485	147,099,236	48,670,751	49.4%
Motor Vehicle Excise Tax	4,055,163	11,377,744	7,322,581	180.6%	9,264,860	17,845,841	8,580,981	92.6%
Individual Income Tax	4,369,801	27,772,883	23,403,082	535.6%	51,289,158	67,248,852	15,959,694	31.1%
Corporate Income Tax	181,146	472,365	291,220	160.8%	2,355,104	766,306	(1,588,799)	-67.5%
Insurance Premium Tax	1,998,249	5,361,639	3,363,390	168.3%	2,276,378	5,654,851	3,378,473	148.4%
Financial Institutions Tax	(647,069)	(4,087)	642,982	-99.4%	(647,069)	4,599	651,668	-100.7%
Oil & Gas Production Tax	17,910,110	43,986,646	26,076,536	145.6%	17,910,110	43,986,646	26,076,536	145.6%
Oil Extraction Tax	10,904,102	31,686,624	20,782,522	190.6%	10,904,102	31,686,624	20,782,522	190.6%
Gaming Tax	1,352,056	1,330,112	(21,944)	-1.6%	2,157,925	1,817,090	(340,835)	-15.8%
Lottery								
Cigarette & Tobacco Tax	2,008,822	2,446,071	437,249	21.8%	4,112,517	4,319,516	206,999	5.0%
Wholesale Liquor Tax	697,070	668,986	(28,084)	-4.0%	1,405,619	1,403,412	(2,207)	-0.2%
Coal Conversion Tax	1,780,612	1,852,268	71,656	4.0%	1,780,612	1,852,268	71,656	4.0%
Mineral Leasing Fees	1,189,681	2,377,392	1,187,711	99.8%	1,997,696	4,731,456	2,733,760	136.8%
Departmental Collections	4,184,236	1,583,927	(2,600,310)	-62.1%	5,248,413	2,469,623	(2,778,791)	-52.9%
Interest Income	1,130,425	596,218	(534,207)	-47.3%	1,560,273	746,400	(813,872)	-52.2%
State Mill & Elevator-Transfer								
Major Special Fund Transfers					295,000,000	295,000,000	0	0.0%
Other Transfers	2,080	(5)	(2,085)	-100.2%	164,773	185,620	20,847	12.7%
Total Revenues and Transfers	97,348,424	215,773,980	118,425,555	121.7%	505,208,957	626,818,340	121,609,383	24.1%

VARIANCES

August 2011 revenues are \$215.8 million, exceeding the forecast by \$39.2 million, or 22.2 percent. Significant variances are as follows:

- **Sales tax** collections exceed the forecast by \$19.9 million, or 30.9 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. In addition, sales tax collections have been bolstered by oil and gas drilling activity and flood recovery expenditures. Compared to the first two months of the previous biennium, sales tax collections in July and August 2011 are 49.4 percent higher.
 - **Motor vehicle excise tax** collections exceed the forecast by \$4.2 million for the month. However, approximately \$1.4 million of this revenue should have been reflected as July collections, thus explaining the shortfall shown for that 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.
 - **Individual income tax** collections exceed the forecast by \$8.8 million, or 46.4 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 newly lowered tax rates.
- **Insurance premium tax** collections exceed the forecast by \$2.3 million, reflecting growth in the tax base and a reduction in legislative appropriations of the tax revenue. Appropriations in the previous biennium resulted in a portion of the tax being directed toward specific programs rather than being deposited in the general fund.
 - **Gaming tax** collections exceed the monthly forecast by \$558,000. The 2011 legislature approved a significant rate reduction, lowering the forecast for gaming taxes. Although the forecast was reduced for all twenty-four months of the biennium, August revenues are based on June gaming, during which time the old rates were still in effect. Consequently, this variance is expected to be corrected over the remainder of the biennium.
 - **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. Revenues exceed the monthly forecast by \$961,000 and exceed the biennium to date forecast by \$1.9 million.

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