

North Dakota REV-E-NEWS



Pam Sharp, Director

November 2011

**OFFICE OF MANAGEMENT AND BUDGET
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MESSAGE FROM THE DIRECTOR

Moody's Analytics, in its October 2011 *Précis U.S. State* publication, provided a brief analysis of the North Dakota economy, including a look at its recent performance and projections for the future. North Dakota's state gross domestic product (GPD), the value of goods and services produced in the state, has grown by nearly 19 percent from 2007 through 2010. In sharp contrast, GDP nationally has declined by 1 percent during that time. Moody's noted that "North Dakota's economy continues to set the bar in terms of U.S. economic growth and is one of only two states to have transitioned from recovery to expansion."

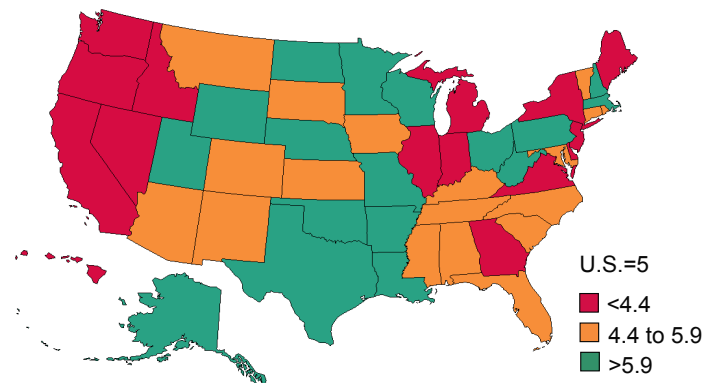
Moody's predicts that North Dakota's GDP will continue to outpace the nation through 2012 and is expected to grow at double the national average during the current year. The state's unemployment rate, currently only about one-third the U.S. rate, is expected to remain well below 4 percent and could potentially fall below 3 percent in the long-term forecast.

The high level of economic activity, combined with the extremely low unemployment rate, has been a source of growth for the state, encouraging migration from states with much weaker labor markets. From 2007 through 2010, employment in North Dakota grew by 4.7 percent; nationally, it has

declined by 5.7 percent during that time. According to Moody's "nonfarm payrolls [in North Dakota] have been expanding at more than 4.5 times the national average, a trend that has continued to strengthen in recent months."

The map below, prepared by Moody's Analytics for its November 2011 *Précis U.S. Macro* publication, shows the disparity in wage and salary income growth across states as of the second quarter of 2011. The strongest growth is concentrated in the central states, where high energy and farm commodity prices have helped spur economic activity.

Wage and Salary Income Growth
annual quarterly % change, 2011Q2



Source: BEA, Moody's Analytics

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 to \$75 per barrel during that time. Currently, the posted price for North Dakota sweet crude is around \$89 per barrel. A high level of hydraulic fracturing activity once again increased production by nearly 20,000 barrels per day for the month of September. The current rig count is 203 rigs, 44 rigs more than the number operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:

	Sept 2011	August 2011	July 2011
Actual average price per barrel	\$81.38	\$80.71	\$91.79
Production (barrels/day)	464,100	446,100	425,000
Drilling permits	176	207	136
Producing wells	6,071	5,951	5,756
Rig count	197	192	177

Comments or Questions?
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STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Legislative Forecast
2011-13 Biennium
October 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	58,132,000	95,931,701	37,799,701	65.0%	235,596,000	332,742,879	97,146,879	41.2%
Motor Vehicle Excise Tax	7,863,000	9,421,086	1,558,086	19.8%	29,275,000	36,833,827	7,558,827	25.8%
Individual Income Tax	18,155,000	32,367,576	14,212,576	78.3%	87,540,000	117,573,883	30,033,883	34.3%
Corporate Income Tax	5,808,000	10,947,769	5,139,769	88.5%	5,808,000	11,797,697	5,989,697	103.1%
Insurance Premium Tax	100,000	70,294	(29,706)	-29.7%	3,500,000	5,957,654	2,457,654	70.2%
Financial Institutions Tax		45,502	45,502	100.0%		95,548	95,548	100.0%
Oil & Gas Production Tax*	8,376,000	13,581,437	5,205,437	62.1%	53,964,000	60,353,152	6,389,152	11.8%
Oil Extraction Tax*	17,594,000	16,808,529	(785,471)	-4.5%	59,973,000	66,643,013	6,670,013	11.1%
Gaming Tax	381,517	590,189	208,672	54.7%	1,621,113	2,436,420	815,307	50.3%
Lottery								
Cigarette & Tobacco Tax	1,879,000	2,330,755	451,755	24.0%	7,885,000	9,144,905	1,259,905	16.0%
Wholesale Liquor Tax	653,000	675,623	22,623	3.5%	2,546,000	2,789,075	243,075	9.5%
Coal Conversion Tax	1,601,000	1,653,008	52,008	3.2%	4,553,000	5,304,033	751,033	16.5%
Mineral Leasing Fees	1,416,667	20,421,537	19,004,870	1341.5%	3,541,668	23,744,749	20,203,081	570.4%
Departmental Collections	1,827,101	4,762,785	2,935,684	160.7%	9,759,750	9,165,792	(593,959)	-6.1%
Interest Income	900,000	524,077	(375,923)	-41.8%	3,050,000	1,897,364	(1,152,636)	-37.8%
State Mill & Elevator-Transfer								
Major Special Fund Transfers					295,000,000	295,000,000	0	0.0%
Other Transfers	185,625	185,625	0	0.0%	371,250	371,245	(5)	0.0%
Total Revenues and Transfers	124,871,910	210,317,493	85,445,583	68.4%	803,983,781	981,851,236	177,867,455	22.1%

* In addition to the oil and gas tax collections reflected on this report, through October 31, 2011, \$67.0 million has been deposited in the legacy fund.

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

Revenues and Transfers	Fiscal Month				Biennium To Date			
	October 2009	October 2011	Variance	Percent	2009-11	2011-13	Variance	Percent
Sales Tax	46,378,118	95,931,701	49,553,584	106.8%	185,021,426	332,742,879	147,721,453	79.8%
Motor Vehicle Excise Tax	4,257,905	9,421,086	5,163,182	121.3%	18,348,152	36,833,827	18,485,676	100.7%
Individual Income Tax	29,895,835	32,367,576	2,471,740	8.3%	100,075,592	117,573,883	17,498,291	17.5%
Corporate Income Tax	11,300,273	10,947,769	(352,504)	-3.1%	13,769,008	11,797,697	(1,971,311)	-14.3%
Insurance Premium Tax	93,715	70,294	(23,421)	-25.0%	2,501,704	5,957,654	3,455,950	138.1%
Financial Institutions Tax	(464,869)	45,502	510,371	-109.8%	(854,393)	95,548	949,941	-111.2%
Oil & Gas Production Tax*	11,336,966	13,581,437	2,244,471	19.8%	32,718,333	60,353,152	27,634,819	84.5%
Oil Extraction Tax*	12,544,621	16,808,529	4,263,908	34.0%	34,092,595	66,643,013	32,550,419	95.5%
Gaming Tax	668,340	590,189	(78,150)	-11.7%	2,839,856	2,436,420	(403,436)	-14.2%
Lottery								
Cigarette & Tobacco Tax	1,927,075	2,330,755	403,679	20.9%	8,094,435	9,144,905	1,050,470	13.0%
Wholesale Liquor Tax	607,207	675,623	68,415	11.3%	2,556,679	2,789,075	232,396	9.1%
Coal Conversion Tax	2,117,127	1,653,008	(464,120)	-21.9%	6,001,193	5,304,033	(697,161)	-11.6%
Mineral Leasing Fees	998,886	20,421,537	19,422,651	1944.4%	1,758,612	23,744,749	21,986,137	1250.2%
Departmental Collections	1,311,376	4,762,785	3,451,410	263.2%	7,769,922	9,165,792	1,395,870	18.0%
Interest Income	913,987	524,077	(389,910)	-42.7%	3,576,385	1,897,364	(1,679,022)	-46.9%
State Mill & Elevator-Transfer								
Major Special Fund Transfers					295,000,000	295,000,000	0	0.0%
Other Transfers	336,300	185,625	(150,675)	-44.8%	511,315	371,245	(140,070)	-27.4%
Total Revenues and Transfers	124,222,863	210,317,493	86,094,629	69.3%	713,780,814	981,851,236	268,070,421	37.6%

* In addition to the oil and gas tax collections reflected on this report, through October 31, 2011, \$67.0 million has been deposited in the legacy fund.

VARIANCES

October 2011 revenues are \$210.3 million, exceeding the forecast by \$85.4 million for the month. The biennium to date variance as of October 31, 2011, is \$177.9 million, or 22.1 percent. Significant variances are as follows:

- **Sales tax** collections, which total \$95.9 million, set another new record in October. Actual collections exceed the forecast by \$37.8 million, or 65.0 percent. The biennium to date variance is \$97.1 million after only four months. Of that variance, \$77.0 million has been realized in just the last two months alone. Compared to the first four months of the previous biennium, sales tax collections are \$147.7 million, or 79.8 percent, higher.
- **Motor vehicle excise tax** collections exceed the forecast by \$1.6 million for the 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. Allowing for these changes in allocation, 2011-13 collections are \$12.4 million higher.
- **Individual income tax** collections exceed the forecast by \$14.2 million for the month; \$30.0 million for the biennium to date. Despite rate reductions enacted by the 2011 legislature, collections are growing on a year-over-year basis. This increase in collections is primarily attributable to income growth. However, a portion of the variance is likely related to over-withholding as employers and taxpayers filing quarterly estimated tax payments are slow to adjust to lowered tax rates. Overpayments will be recognized when 2011 tax returns are filed in 2012, at which time any required refunds will be paid to taxpayers.
- **Oil and gas taxes** deposited in the general fund are limited to \$300.0 million for the entire biennium. Due to higher than estimated price and production levels, oil tax collections exceed the forecast by \$4.4 million for the month and \$13.1 million for the biennium to date. If price and production remain above projections, the result will be additional revenue collections for the state and political subdivisions. However, because the general fund share is capped, the current general fund variance will be offset later in 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 state 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. To illustrate this point, the 2011-13 biennium forecast includes \$17.0 million for the state share of these revenues for the entire biennium. However, October collections total \$20.4 million in just one month. It should be noted that half of this amount will be distributed to counties and will be reflected as a negative revenue amount in the month during which the distribution is made.
- **Departmental collections** exceed the forecast by \$2.9 million as a result of the timing of the annual transfer from the insurance regulatory trust fund to the general fund. This transfer, estimated at \$3.0 million and budgeted for September, was very close to estimates, but took place in October. Consequently, the positive variance reflected in October offsets the negative variance reflected in September.

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