

# 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

The 2011 legislature made significant changes in the allocation of oil and gas tax revenues. After allowing for distributions to oil producing counties, the state share is allocated between various special funds. The first allocation is to the newly created legacy fund, which receives 30 percent of all state oil and gas tax revenues. Extraction taxes are allocated 20 percent to the resources trust fund, 10 percent to the common schools trust fund, and 10 percent to the foundation aid stabilization fund. The remaining 30 percent of extraction tax revenues, along with a varying percentage of gross production tax revenues (the state percentage varies by county depending on the level of production in each county), is allocated to various funds as follows:

- Oil and gas research fund – Up to \$4.0 million.
- General fund – Up to \$200.0 million.
- Property tax relief sustainability fund – Up to \$341.8 million.
- General fund – Up to \$100.0 million.
- Strategic investment and improvement fund – Up to \$100.0 million.
- State disaster relief fund – Up to \$22.0 million.
- Strategic investment and improvements fund – Up to a fund balance of \$300.0 million, then 75 percent of revenues stay in that fund and 25 percent are deposited in the legacy fund.

The oil and gas research fund, which receives 2 percent of state revenues from both extraction and gross production taxes, reached its \$4.0 million cap in November 2011. The general fund reached its first cap of \$200.0 million in December 2011. Once that cap is reached, moneys that would otherwise flow into the general fund are deposited into the property tax relief sustainability fund, up to \$341.8 million. Consequently, the property tax relief sustainability fund received its first revenue of the 2011-13 biennium in December with deposits of \$3.8 million.

The table below shows oil tax allocations during the first 6 months of the 2011-13 biennium compared to the first 6 months of the 2009-11 biennium.

| OIL TAX ALLOCATIONS                     |  |  |
|---|--|--|
|   | 2009-11<br>Biennium<br>Through<br>Dec 31, 2009 | 2011-13<br>Biennium<br>Through<br>Dec 31, 2011 |
| Distributions to cities and counties    | \$36,542,692                                   | \$64,414,051                                   |
| Tribal allocations                      | 2,840,524                                      | 22,316,208                                     |
| General fund                            | 71,000,000                                     | 200,000,000                                    |
| Legacy fund                             |  | 136,666,378                                    |
| Permanent oil tax trust fund            | 49,046,148                                     |  |
| Property tax relief sustainability fund |  | 3,786,841                                      |
| Foundation aid stabilization fund       | 9,697,582                                      | 27,942,939                                     |
| Common schools trust fund               | 9,697,582                                      | 27,942,939                                     |
| Resources trust fund                    | 19,395,163                                     | 55,885,877                                     |
| Energy infrastructure and impact fund   | 5,726,215                                      | 36,731,446                                     |
| Oil and gas research fund               | <u>2,433,819</u>                               | <u>4,000,000</u>                               |
| Total oil and gas taxes                 | \$206,379,725                                  | \$579,686,679                                  |

## 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 forecasted to range from \$72 per barrel to \$75 per barrel during that time. Currently, the posted price for North Dakota sweet crude is around \$88 per barrel. The current rig count is 202 rigs, 36 more than the number operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:

|                                 | Nov<br>2011 | Oct<br>2011 | Sept<br>2011 |
|---------------------------------|-------------|-------------|--------------|
| Actual average price per barrel | \$90.36     | \$81.89     | \$81.38      |
| Production (barrels/day)        | 509,700     | 487,700     | 463,900      |
| Drilling permits                | 169         | 201         | 176          |
| Producing wells                 | 6,332       | 6,210       | 6,071        |
| Rig count                       | 199         | 197         | 197          |

Comments or Questions?

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**STATEMENT OF GENERAL FUND REVENUES AND FORECASTS**  
**Compared to the Legislative Forecast**  
**2011-13 Biennium**  
**December 2011**

| Revenues and Transfers              | Fiscal Month                |                    |                   |              | Biennium To Date            |                      |                    |              |
|-------------------------------------|-----------------------------|--------------------|-------------------|--------------|-----------------------------|----------------------|--------------------|--------------|
|                                     | April 2011<br>Leg. Forecast | Actual             | Variance          | Percent      | April 2011<br>Leg. Forecast | Actual               | Variance           | Percent      |
| Sales Tax                           | 42,961,000                  | 76,639,714         | 33,678,714        | 78.4%        | 347,088,000                 | 495,750,742          | 148,662,742        | 42.8%        |
| Motor Vehicle Excise Tax            | 6,445,000                   | 10,439,514         | 3,994,514         | 62.0%        | 42,044,000                  | 56,300,501           | 14,256,501         | 33.9%        |
| Individual Income Tax               | 7,312,000                   | 17,657,123         | 10,345,123        | 141.5%       | 106,549,000                 | 144,882,958          | 38,333,958         | 36.0%        |
| Corporate Income Tax                | 12,710,000                  | 40,366,263         | 27,656,263        | 217.6%       | 19,792,000                  | 54,759,050           | 34,967,050         | 176.7%       |
| Insurance Premium Tax               | 1,500,000                   | 432,540            | (1,067,460)       | -71.2%       | 11,500,000                  | 15,211,904           | 3,711,904          | 32.3%        |
| Financial Institutions Tax          |                             | (416,453)          | (416,453)         | -100.0%      |                             | (311,721)            | (311,721)          | -100.0%      |
| Oil & Gas Production Tax*           | 12,830,000                  | 22,435,678         | 9,605,678         | 74.9%        | 77,448,000                  | 99,799,206           | 22,351,206         | 28.9%        |
| Oil Extraction Tax*                 | 17,655,000                  | 15,697,729         | (1,957,271)       | -11.1%       | 94,894,000                  | 100,200,794          | 5,306,794          | 5.6%         |
| Gaming Tax                          | 4,921                       | 31,259             | 26,338            | 535.2%       | 2,325,112                   | 3,000,617            | 675,505            | 29.1%        |
| Lottery                             |                             |                    |                   |              |                             |                      |                    |              |
| Cigarette & Tobacco Tax             | 1,854,000                   | 2,072,810          | 218,810           | 11.8%        | 11,571,000                  | 13,583,836           | 2,012,836          | 17.4%        |
| Wholesale Liquor Tax                | 658,000                     | 665,472            | 7,472             | 1.1%         | 3,813,000                   | 4,227,625            | 414,625            | 10.9%        |
| Coal Conversion Tax                 | 1,500,000                   | 1,788,380          | 288,380           | 19.2%        | 7,589,000                   | 8,718,632            | 1,129,632          | 14.9%        |
| Mineral Leasing Fees                | (708,333)                   | (1,094,903)        | (386,570)         | 54.6%        | 4,250,002                   | 24,591,235           | 20,341,233         | 478.6%       |
| Departmental Collections            | 3,134,645                   | 2,660,709          | (473,936)         | -15.1%       | 14,838,219                  | 13,933,179           | (905,040)          | -6.1%        |
| Interest Income                     | 930,000                     | 480,972            | (449,028)         | -48.3%       | 4,880,000                   | 2,873,584            | (2,006,416)        | -41.1%       |
| State Mill & Elevator-Transfer      |                             |                    |                   |              |                             |                      |                    |              |
| Major Special Fund Transfers        |                             |                    |                   |              | 295,000,000                 | 295,000,000          | 0                  | 0.0%         |
| Other Transfers                     |                             | 1                  | 1                 | 100.0%       | 371,250                     | 380,634              | 9,384              | 2.5%         |
| <b>Total Revenues and Transfers</b> | <b>108,786,233</b>          | <b>189,856,810</b> | <b>81,070,577</b> | <b>74.5%</b> | <b>1,043,952,583</b>        | <b>1,332,902,775</b> | <b>288,950,192</b> | <b>27.7%</b> |

\* Total oil and gas production and extraction tax collections totaled \$140.5 million in December. Through December, oil tax collections totaling \$200.0 million have been deposited in the general fund and \$3.8 million have been deposited in the property tax relief sustainability fund. Once property tax relief sustainability fund deposits total \$341.8 million, an additional \$100.0 million will be deposited into the general fund. Through December, \$136.7 million has been deposited into the legacy fund.

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

| Revenues and Transfers              | Fiscal Month      |                    |                    |               | Biennium To Date   |                      |                    |              |
|-------------------------------------|-------------------|--------------------|--------------------|---------------|--------------------|----------------------|--------------------|--------------|
|                                     | December 2009     | December 2011      | Variance           | Percent       | 2009-11            | 2011-13              | Variance           | Percent      |
| Sales Tax                           | 42,314,901        | 76,639,714         | 34,324,813         | 81.1%         | 279,334,275        | 495,750,742          | 216,416,466        | 77.5%        |
| Motor Vehicle Excise Tax            | 4,350,871         | 10,439,514         | 6,088,643          | 139.9%        | 26,167,998         | 56,300,501           | 30,132,502         | 115.2%       |
| Individual Income Tax               | 10,142,210        | 17,657,123         | 7,514,913          | 74.1%         | 126,084,996        | 144,882,958          | 18,797,961         | 14.9%        |
| Corporate Income Tax                | 11,450,618        | 40,366,263         | 28,915,645         | 252.5%        | 27,589,210         | 54,759,050           | 27,169,841         | 98.5%        |
| Insurance Premium Tax               | 1,599,981         | 432,540            | (1,167,441)        | -73.0%        | 8,838,716          | 15,211,904           | 6,373,189          | 72.1%        |
| Financial Institutions Tax          | (46,043)          | (416,453)          | (370,410)          | 804.5%        | (984,934)          | (311,721)            | 673,212            | -68.4%       |
| Oil & Gas Production Tax*           |                   | 22,435,678         | 22,435,678         | 100.0%        | 32,718,333         | 99,799,206           | 67,080,873         | 205.0%       |
| Oil Extraction Tax*                 |                   | 15,697,729         | 15,697,729         | 100.0%        | 38,281,667         | 100,200,794          | 61,919,127         | 161.7%       |
| Gaming Tax                          | 8,621             | 31,259             | 22,638             | 262.6%        | 4,073,118          | 3,000,617            | (1,072,502)        | -26.3%       |
| Lottery                             |                   |                    |                    |               |                    |                      |                    |              |
| Cigarette & Tobacco Tax             | 1,810,567         | 2,072,810          | 262,243            | 14.5%         | 11,757,440         | 13,583,836           | 1,826,396          | 15.5%        |
| Wholesale Liquor Tax                | 578,212           | 665,472            | 87,261             | 15.1%         | 3,789,280          | 4,227,625            | 438,344            | 11.6%        |
| Coal Conversion Tax                 | 2,048,003         | 1,788,380          | (259,622)          | -12.7%        | 9,875,151          | 8,718,632            | (1,156,519)        | -11.7%       |
| Mineral Leasing Fees                | 10,724,610        | (1,094,903)        | (11,819,512)       | -110.2%       | 13,638,450         | 24,591,235           | 10,952,786         | 80.3%        |
| Departmental Collections            | 1,918,223         | 2,660,709          | 742,486            | 38.7%         | 12,120,827         | 13,933,179           | 1,812,352          | 15.0%        |
| Interest Income                     | 876,875           | 480,972            | (395,903)          | -45.1%        | 5,381,723          | 2,873,584            | (2,508,139)        | -46.6%       |
| State Mill & Elevator-Transfer      |                   |                    |                    |               |                    |                      |                    |              |
| Major Special Fund Transfers        |                   |                    |                    |               | 295,000,000        | 295,000,000          | 0                  | 0.0%         |
| Other Transfers                     | 599               | 1                  | (599)              | -99.9%        | 535,665            | 380,634              | (155,031)          | -28.9%       |
| <b>Total Revenues and Transfers</b> | <b>87,778,248</b> | <b>189,856,810</b> | <b>102,078,562</b> | <b>116.3%</b> | <b>894,201,916</b> | <b>1,332,902,775</b> | <b>438,700,859</b> | <b>49.1%</b> |

\* Total oil and gas production and extraction tax collections totaled \$140.5 million in December. Through December, oil tax collections totaling \$200.0 million have been deposited in the general fund and \$3.8 million have been deposited in the property tax relief sustainability fund. Once property tax relief sustainability fund deposits total \$34.8 million, an additional \$100.0 million will be deposited into the general fund. Through December, \$136.7 million has been deposited into the legacy fund.

## VARIANCES

December 2011 revenues are \$189.9 million, exceeding the forecast by \$81.1 million for the month. The biennium to date variance as of December 31, 2011, is \$289.0 million, or 27.7 percent. Significant variances are as follows:

- **Sales tax** collections total \$76.6 million in December. Compared to the first six months of the previous biennium, sales tax collections are \$216.4 million, or 77.5 percent, higher.
- **Motor vehicle excise tax** collections exceed the forecast by \$4.0 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. Adjusting for this change in allocation, 2011-13 collections are \$21.4 million higher.
- **Individual income tax** collections fell short of the forecast by \$2.0 million for the month of November. December collections made up for November's timing-related shortfall with total collections of \$17.7 million, \$10.3 million higher than projected. The biennium to date variance is \$38.3 million, or 36.0 percent. A portion of this 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.
- **Corporate income tax** collections, which fluctuate based on economic activity at both the state and national level, exceed the monthly forecast by \$27.7 million and exceed the biennium to date forecast by \$35.0 million.
- **Insurance premium tax** collections, which are based on a percentage of premiums collected by insurance companies operating in the state, fell short of the monthly forecast by \$1.1 million, indicating that a portion of the \$2.3 million overage recognized last month was related to timing. The biennium to date variance is a positive \$3.7 million.
- **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 \$7.6 million for the month and \$27.7 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. The initial general fund cap of \$200.0 million was reached in December. Consequently, no additional oil and gas taxes will be deposited in the general fund until after the property tax relief sustainability fund receives \$341.8 million.

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