

North Dakota REV-E-NEWS



Pam Sharp, Director

July 2012

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

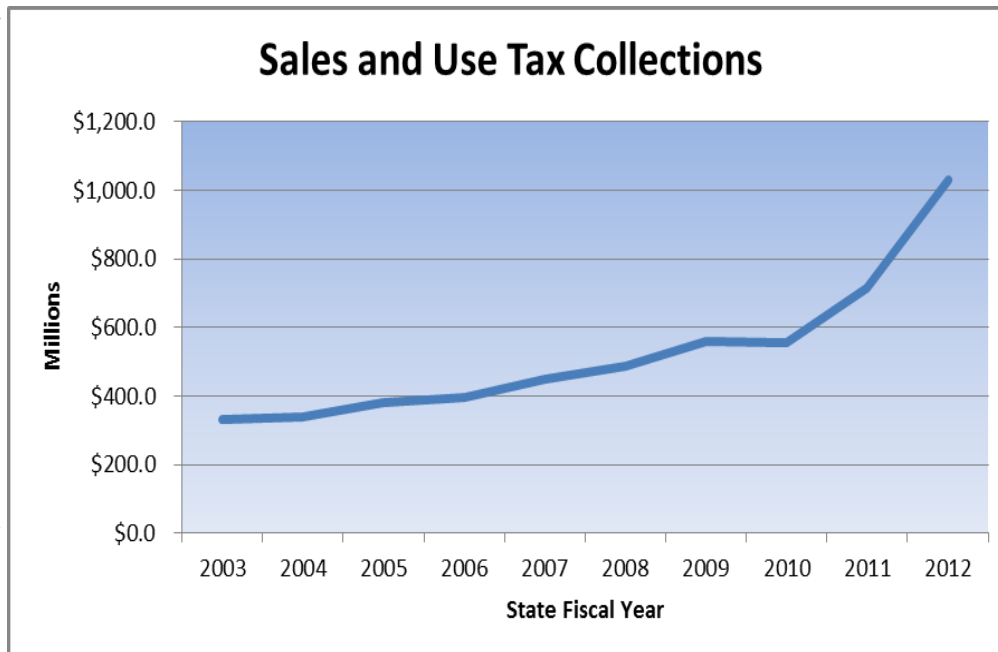
MESSAGE FROM THE DIRECTOR

June marks the end of fiscal year 2012 and the half-way point in the 2011-13 biennium. Revenues have consistently exceeded expectations during the year and finished 45 percent higher than originally projected and 64 percent higher than at the half-way point of the previous biennium. It is important to note that this exceptional revenue growth is taking place after the passage of tax reduction measures by the 2011 legislature that were anticipated to reduce income tax collections by nearly \$150 million for the 2011-13 biennium.

Sales and use taxes are the largest single revenue source for the state general fund and were anticipated to

constitute nearly 40 percent of all general fund revenues. For fiscal year 2012, sales and use tax collections totaled slightly over \$1.0 billion and grew by an astounding 45 percent.

The chart below depicts the annual growth in state sales and use tax collections during the past ten years:



OIL ACTIVITY

The 2011-13 biennium legislative revenue 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. The current rig count is 207 rigs, 24 more than the number operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:



	May 2012	Apr 2012	Mar 2012
Actual average price per barrel	\$81.76	\$83.92	\$84.73
Production (barrels/day)	639,300	609,500	577,500
Drilling permits	180	167	181
Producing wells	7,188	7,036	6,932
Rig count	211	209	205

Comments or Questions?
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STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Legislative Forecast
2011-13 Biennium
June 2012

Revenues and Transfers	Fiscal Month				Biennium To Date			
	April 2011 Leg. Forecast	Actual	Variance	Percent	April 2011 Leg. Forecast	Actual	Variance	Percent
Sales Tax	42,381,000	78,819,952	36,438,952	86.0%	666,735,000	1,031,442,016	364,707,016	54.7%
Motor Vehicle Excise Tax	8,528,000	10,659,589	2,131,589	25.0%	89,376,000	122,173,505	32,797,505	36.7%
Individual Income Tax	13,157,000	25,819,818	12,662,818	96.2%	265,797,000	429,996,013	164,199,013	61.8%
Corporate Income Tax	14,805,000	39,120,120	24,315,120	164.2%	61,734,000	198,746,771	137,012,771	221.9%
Insurance Premium Tax	1,100,000	3,575,915	2,475,915	225.1%	34,350,000	39,028,484	4,678,484	13.6%
Financial Institutions Tax		(25,016)	(25,016)	-100.0%	2,270,000	3,783,160	1,513,160	66.7%
Oil & Gas Production Tax*		46,702,210	46,702,210	100.0%	89,237,000	146,501,416	57,264,416	64.2%
Oil Extraction Tax*		12,349,519	12,349,519	100.0%	110,763,000	112,550,313	1,787,313	1.6%
Gaming Tax	152,295	147,685	(4,610)	-3.0%	4,682,168	5,822,421	1,140,253	24.4%
Lottery	5,500,000	7,000,000	1,500,000	27.3%	5,500,000	7,000,000	1,500,000	27.3%
Cigarette & Tobacco Tax	1,905,000	2,559,434	654,434	34.4%	22,127,000	26,608,013	4,481,013	20.3%
Wholesale Liquor Tax	747,000	785,370	38,370	5.1%	7,452,000	8,463,477	1,011,477	13.6%
Coal Conversion Tax	2,890,000	3,226,273	336,273	11.6%	17,826,000	19,498,126	1,672,126	9.4%
Mineral Leasing Fees	(708,333)	(1,435,852)	(727,519)	-102.7%	8,500,004	26,281,711	17,781,707	209.2%
Departmental Collections	2,532,169	3,261,824	729,655	28.8%	31,327,223	35,611,017	4,283,794	13.7%
Interest Income	9,987,500	1,885,468	(8,102,032)	-81.1%	19,792,500	7,083,358	(12,709,142)	-64.2%
State Mill & Elevator-Transfer	3,325,000	3,822,989	497,989	15.0%	3,325,000	3,822,989	497,989	15.0%
Major Special Fund Transfers					295,000,000	295,000,000	0	0.0%
Other Transfers		97,526	97,526	100.0%	742,500	863,013	120,513	16.2%
Total Revenues and Transfers	106,301,631	238,372,824	132,071,193	124.2%	1,736,536,395	2,520,275,804	783,739,409	45.1%

* Oil and gas production and extraction tax collections totaled \$174.3 million in June. In June, the property tax relief sustainability fund reached its cap of \$341.8 million and will not receive any additional allocations this biennium. The general fund has received \$259.1 million in oil and gas taxes. Once general fund collections total \$300.0 million, it will reach its cap and moneys will begin to be deposited into the strategic investment and improvements fund. Through June, \$446.3 million has been deposited into the legacy fund.

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Previous Biennium Revenues
2011-13 Biennium
June 2012

Revenues and Transfers	Fiscal Month				Biennium To Date			
	June 2010	June 2012	Variance	Percent	2009-11	2011-13	Variance	Percent
Sales Tax	58,318,685	78,819,952	20,501,267	35.2%	554,253,326	1,031,442,016	477,188,690	86.1%
Motor Vehicle Excise Tax	5,234,584	10,659,589	5,425,005	103.6%	55,476,899	122,173,505	66,696,606	120.2%
Individual Income Tax	16,140,252	25,819,818	9,679,566	60.0%	301,638,335	429,996,013	128,357,678	42.6%
Corporate Income Tax	22,069,645	39,120,120	17,050,474	77.3%	87,874,592	198,746,771	110,872,179	126.2%
Insurance Premium Tax	1,470,897	3,575,915	2,105,018	143.1%	31,252,315	39,028,484	7,776,169	24.9%
Financial Institutions Tax	29,324	(25,016)	(54,340)	-185.3%	2,830,665	3,783,160	952,495	33.6%
Oil & Gas Production Tax*		46,702,210	46,702,210	100.0%	32,718,333	146,501,416	113,783,083	347.8%
Oil Extraction Tax*		12,349,519	12,349,519	100.0%	38,281,667	112,550,313	74,268,646	194.0%
Gaming Tax	266,790	147,685	(119,105)	-44.6%	8,202,195	5,822,421	(2,379,774)	-29.0%
Lottery	5,100,000	7,000,000	1,900,000	37.3%	5,100,000	7,000,000	1,900,000	37.3%
Cigarette & Tobacco Tax	1,795,552	2,559,434	763,882	42.5%	22,435,315	26,608,013	4,172,698	18.6%
Wholesale Liquor Tax	650,483	785,370	134,887	20.7%	7,367,872	8,463,477	1,095,605	14.9%
Coal Conversion Tax	3,209,576	3,226,273	16,697	0.5%	21,113,869	19,498,126	(1,615,743)	-7.7%
Mineral Leasing Fees	(4,511)	(1,435,852)	(1,431,340)	-31728.2%	8,033,904	26,281,711	18,247,806	227.1%
Departmental Collections	2,563,281	3,261,824	698,543	27.3%	33,191,948	35,611,017	2,419,069	7.3%
Interest Income	2,759,714	1,885,468	(874,246)	-31.7%	23,400,448	7,083,358	(16,317,090)	-69.7%
State Mill & Elevator-Transfer	6,260,457	3,822,989	(2,437,468)	-38.9%	6,260,457	3,822,989	(2,437,468)	-38.9%
Major Special Fund Transfers					295,000,000	295,000,000	0	0.0%
Other Transfers	(11)	97,526	97,537	100.0%	1,763,678	863,013	(900,665)	-51.1%
Total Revenues and Transfers	125,864,718	238,372,824	112,508,107	89.4%	1,536,195,819	2,520,275,804	984,079,985	64.1%

* Oil and gas production and extraction tax collections totaled \$174.3 million in June. In June, the property tax relief sustainability fund reached its cap of \$341.8 million and will not receive any additional allocations this biennium. The general fund has received \$259.1 million in oil and gas taxes. Once general fund collections total \$300.0 million, it will reach its cap and moneys will begin to be deposited into the strategic investment and improvements fund. Through June, \$446.3 million has been deposited into the legacy fund.

VARIANCES

June 2012 revenues of \$238.4 million, exceed the forecast by \$132.1 million for the month. The biennium to date variance as of June 30, 2012, is \$783.7 million, or 45.1 percent. Significant variances are as follows:

- **Sales tax** collections total \$78.8 million in June, \$36.4 million more than estimated. The biennium to date variance from the forecast is \$364.7 million, or 54.7 percent. Compared to the first half of the previous biennium, sales tax collections are \$477.2 million, or 86.1 percent, higher.
- **Motor vehicle excise tax** collections exceed the forecast by \$2.1 million for the month. 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 \$48.2 million higher.
- **Individual income tax** collections exceed the forecast by \$12.7 million for the month, and by \$164.2 million biennium to date.
- **Corporate income tax** collections exceed the monthly forecast by \$24.3 million, bringing the biennium to date variance to 137.0 million – more than 220.0 percent above forecast.
- **Insurance premium tax** collections, which are based on a percentage of insurance premiums paid, exceed the forecast by \$2.5 million for the month and \$4.7 million for the biennium to date.
- **Oil and gas taxes** deposited in the general fund are limited to \$300.0 million for the entire biennium -- an initial \$200.0 million, then an additional \$100.0 million after the property tax relief sustainability fund reaches its cap. The property tax fund reached its cap in June and, consequently, oil tax moneys once again were deposited into the general fund. Due primarily to higher than anticipated oil production, oil

tax collections have exceeded projections. The final \$100.0 million deposit into the general fund was budgeted to occur between January and March of 2013. Because no oil tax moneys were forecasted to be deposited in the general fund during June 2012, the June deposits result in a positive variance of \$59.0 million. However, because of the general fund cap of \$300.0 million, the June variance related to oil taxes will be offset later in the biennium.

- **Mineral leasing fees** are received from the federal government 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 through a quarterly distribution. The monthly revenue amount is negative to reflect the quarterly distribution to counties, which offsets revenues in the month the distribution occurs. Because these revenues have been higher than anticipated, the quarterly distribution to counties was also higher than anticipated.
- **Interest income** has been lower than anticipated for several reasons. First, interest rates have remained low, whereas the forecast had assumed steadily increasing rates based on Moody's Analytics projections. Second, the forecast assumed a significant transfer of earnings from the budget stabilization fund. Appropriations authorized during the 2011 special legislative session resulted in the need to increase the maximum balance of the fund and retain the earnings in the fund. Third, the forecast assumed earnings from the permanent oil tax trust fund would continue to be deposited into the general fund. The 2011 legislature eliminated the permanent oil tax trust fund but the interest income forecast was not adjusted to remove this revenue source.

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