

North Dakota REV-E-NEWS



Pam Sharp, Director

September 2012

**OFFICE OF MANAGEMENT AND BUDGET
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MESSAGE FROM THE DIRECTOR

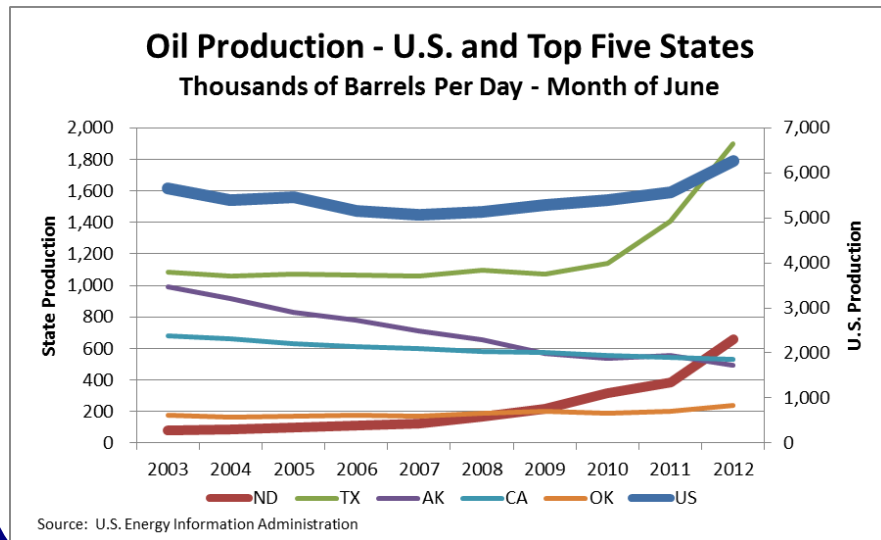
Oil production in North Dakota continues to increase. During the past ten years, as shown on the chart below, oil production in North Dakota has steadily increased from around 80,000 barrels per day in June 2003 to over 660,000 barrels per day in June 2012. In 2003, North Dakota was the fifth largest producer of oil among the fifty states, behind Texas, Alaska, California, and Oklahoma. Since that time, as production has remained fairly flat or declined in most other states, production in North Dakota has grown by over 700 percent. North Dakota now ranks second in terms of oil production, behind only Texas. As depicted on the chart, oil production in Texas has followed a similar pattern of growth to that of North Dakota and they remain firmly in first place producing approximately 1.9 million barrels per day.

The legislative revenue forecast for the 2011-13 biennium, completed in April 2011, assumed oil production would grow from around 390,000 barrels per day at the start of the biennium to 425,000 barrels per day by June 30, 2013. Production has outpaced the original forecast and the revised forecast shows production increasing to 830,000 barrels per day by the end of the biennium.

The original forecast predicted total oil tax revenues of around \$2 billion for the 2011-13 biennium. The revised forecast predicts nearly double that amount at around \$3.8 billion, estimated to be allocated as follows:

- \$300 million to the general fund.
- \$508 million to counties, cities, tribes, and political subdivisions.
- \$1.186 billion to the legacy fund.
- \$390 million to education trust funds.
- \$390 million to the resources trust fund for water projects.
- \$342 million to the property tax relief sustainability fund.
- \$22 million to the state disaster fund.
- \$688 million to the strategic investment and improvements fund.

Visit www.StrongFutureND.com for a chart depicting projected oil tax revenues, as well as the status of collections to date.



OIL ACTIVITY



The 2011-13 biennium revised revenue forecast is based on oil production increasing to 830,000 barrels per day by the end of the biennium. North Dakota crude oil prices are forecasted to remain around \$70 per barrel during that time. The current rig count is 193 rigs, 6 fewer than the number operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:

	July 2012	June 2012	May 2012
Actual average price per barrel	\$73.61	\$73.21	\$81.76
Production (barrels/day)	674,000	664,600	639,300
Drilling permits	266	204	180
Producing wells	7,467	7,365	7,205
Rig count	211	213	211

Comments or Questions?
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STATEMENT OF GENERAL FUND REVENUES AND FORECASTS Compared to the Legislative Forecast 2011-13 Biennium August 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	70,499,000	101,992,607	31,493,607	44.7%	803,137,000	1,253,709,677	450,572,677	56.1%
Motor Vehicle Excise Tax	7,520,000	11,773,285	4,253,285	56.6%	104,193,000	144,802,154	40,609,154	39.0%
Individual Income Tax	19,054,000	6,316,237	(12,737,763)	-66.9%	315,916,000	499,661,896	183,745,896	58.2%
Corporate Income Tax		172,405	172,405	100.0%	61,734,000	199,897,981	138,163,981	223.8%
Insurance Premium Tax	3,500,000	3,641,526	141,526	4.0%	38,000,000	42,687,818	4,687,818	12.3%
Financial Institutions Tax		2,367	2,367	100.0%	2,270,000	3,785,326	1,515,326	66.8%
Oil & Gas Production Tax*	16,956,688	16,956,688	0	0.0%	163,458,104	163,458,104	0	0.0%
Oil Extraction Tax*	23,991,583	23,991,583	0	0.0%	136,541,896	136,541,896	0	0.0%
Gaming Tax	892,799	872,505	(20,294)	-2.3%	5,634,118	6,984,646	1,350,528	24.0%
Lottery					5,500,000	7,000,000	1,500,000	27.3%
Cigarette & Tobacco Tax	1,962,000	2,552,422	590,422	30.1%	26,033,000	31,491,799	5,458,799	21.0%
Wholesale Liquor Tax	617,000	796,312	179,312	29.1%	8,748,000	10,115,941	1,367,941	15.6%
Coal Conversion Tax	1,464,000	1,494,871	30,871	2.1%	19,290,000	20,992,996	1,702,996	8.8%
Mineral Leasing Fees	1,416,667	2,237,512	820,845	57.9%	11,333,338	30,158,326	18,824,988	166.1%
Departmental Collections	1,732,132	2,678,462	946,330	54.6%	34,933,842	39,271,876	4,338,034	12.4%
Interest Income	985,000	478,072	(506,928)	-51.5%	21,762,500	7,674,798	(14,087,702)	-64.7%
State Mill & Elevator-Transfer					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					928,125	1,048,638	120,513	13.0%
Total Revenues and Transfers	150,590,868	175,956,853	25,365,984	16.8%	2,057,737,923	2,898,106,861	840,368,938	40.8%

* Oil and gas production and extraction tax collections totaled \$162.1 million in August. The general fund reached its biennial cap of \$300.0 million and \$24.1 million was deposited into the strategic investment and improvements fund. Once \$100.0 million is deposited into this fund, \$22.0 million will be deposited into the state disaster fund. After the cap is reached in that fund, additional revenues will once again be deposited into the strategic investment and improvements fund. Through August, \$489.8 million has been deposited into the legacy fund.

The original legislative forecast assumed the general fund cap would not be reached until March 2013. However, due to the general fund cap of \$300.0 million, the biennium total will not change, regardless of timing. In order to avoid overstating the general fund variance, the remaining forecasted amount for oil taxes is reflected in the month of August, which is the last month oil taxes will be deposited into the general fund during this biennium.

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

Revenues and Transfers	Fiscal Month				Biennium To Date			
	August 2010	August 2012	Variance	Percent	2009-11	2011-13	Variance	Percent
Sales Tax	61,853,228	101,992,607	40,139,379	64.9%	663,634,379	1,253,709,677	590,075,298	88.9%
Motor Vehicle Excise Tax	5,901,013	11,773,285	5,872,272	99.5%	66,650,403	144,802,154	78,151,751	117.3%
Individual Income Tax	21,573,206	6,316,237	(15,256,969)	-70.7%	355,032,259	499,661,896	144,629,637	40.7%
Corporate Income Tax	797,860	172,405	(625,455)	-78.4%	89,052,600	199,897,981	110,845,381	124.5%
Insurance Premium Tax	3,859,199	3,641,526	(217,673)	-5.6%	35,171,156	42,687,818	7,516,661	21.4%
Financial Institutions Tax	255,040	2,367	(252,673)	-99.1%	3,141,880	3,785,326	643,446	20.5%
Oil & Gas Production Tax*		16,956,688	16,956,688	100.0%	32,718,333	163,458,104	130,739,771	399.6%
Oil Extraction Tax*		23,991,583	23,991,583	100.0%	38,281,667	136,541,896	98,260,229	256.7%
Gaming Tax	1,564,000	872,505	(691,495)	-44.2%	9,869,816	6,984,646	(2,885,169)	-29.2%
Lottery					5,100,000	7,000,000	1,900,000	37.3%
Cigarette & Tobacco Tax	2,159,769	2,552,422	392,653	18.2%	26,615,062	31,491,799	4,876,738	18.3%
Wholesale Liquor Tax	647,839	796,312	148,473	22.9%	8,775,079	10,115,941	1,340,862	15.3%
Coal Conversion Tax	1,467,400	1,494,871	27,471	1.9%	22,581,269	20,992,996	(1,588,273)	-7.0%
Mineral Leasing Fees	1,299,466	2,237,512	938,046	72.2%	10,768,527	30,158,326	19,389,799	180.1%
Departmental Collections	1,395,004	2,678,462	1,283,458	92.0%	35,693,596	39,271,876	3,578,281	10.0%
Interest Income	783,719	478,072	(305,647)	-39.0%	24,459,059	7,674,798	(16,784,261)	-68.6%
State Mill & Elevator-Transfer					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					1,924,678	1,048,638	(876,040)	-45.5%
Total Revenues and Transfers	103,556,744	175,956,853	72,400,109	69.9%	1,730,730,218	2,898,106,861	1,167,376,643	67.4%

* Oil and gas production and extraction tax collections totaled \$162.1 million in August. The general fund reached its biennial cap of \$300.0 million and \$24.1 million was deposited into the strategic investment and improvements fund. Once \$100.0 million is deposited into this fund, \$22.0 million will be deposited into the state disaster fund. After the cap is reached in that fund, additional revenues will once again be deposited into the strategic investment and improvements fund. Through August, \$489.8 million has been deposited into the legacy fund.

VARIANCES

August 2012 revenues total \$176.0 million, \$25.4 million more than forecasted for the month. The biennium-to-date variance is \$840.4 million, or 40.8 percent. Significant variances are as follows:

- **Sales tax** collections total \$102.0 million in August, \$31.5 million more than estimated. The biennium-to-date variance from the forecast is \$450.6 million, or 56.1 percent. Compared to the first fourteen months of the previous biennium, sales tax collections are \$590.1 million, or 88.9 percent, higher.
- **Motor vehicle excise tax** collections exceed the forecast by \$4.3 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 \$55.9 million higher.
- **Individual income tax** collections fell short of the forecast by \$12.7 million for the month. This is likely the result of timing. July collections were double the amount estimated, resulting in a variance of \$32.3 million in a single month. The biennium-to-date variance is \$183.7 million.
- **Oil and gas taxes** reached the \$300.0 million biennial cap during August. The original forecast assumed that cap would not be reached until March 2013. In order to avoid overstating the biennium-to-date variance, the entire forecasted amount is restated to match the actual collections, both for the month and the biennium to date. No additional oil taxes will be deposited into the general fund during the 2011-13 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, reflected on this report as a negative amount. Revenues fluctuate based on the timing of one-time bonus payments, as well as on-going royalties. August collections exceed the monthly forecast by \$821,000; biennium-to-date collections exceed the forecast by \$18.8 million.
- **Departmental collections** are comprised of various fees charged by a multitude of state agencies. Consequently, causes of variations from the forecast are often difficult to identify and in many cases are timing-related. For the month of August, collections were \$946,000 higher than estimated and exceed the biennium-to-date forecast by \$4.3 million.