

January 2009

## FISCAL INFORMATION SUMMARY

This memorandum provides fiscal information regarding major tax types and key cost areas:

1. **Sales and use tax revenue (including motor vehicle excise tax).** The estimated impact on general fund revenues of a one percentage point change in the state's 5 percent sales and use tax, including the motor vehicle excise tax, is approximately **\$277.5 million per biennium**, or \$138.75 million per year for the 2009-11 biennium based on the December 2008 executive budget revenue forecast. The following schedule shows general fund revenue collections from sales and use taxes, including motor vehicle excise taxes, for the 1999-2001 through 2009-11 bienniums:

Biennium	Actual or Estimated Revenue (In Millions)	Percentage Change From Previous Biennium
1999-2001	\$722.2	8.7%
2001-03	\$760.2	5.3%
2003-05	\$845.8	11.3%
2005-07	\$967.7	14.4%
2007-09 (revised forecast)	\$1,211.0	25.1%
2009-11 (executive forecast)	\$1,275.6	5.3%

2. **Individual income tax revenue.** House Bill No. 1399 (2001) decoupled the state income tax from the federal income tax to a rate based on federal taxable income. The equivalent tax rates range from approximately 2.1 percent to 5.54 percent of taxable income. The estimated impact on general fund revenues of a 10 percent change in the state income tax rates (e.g., the 3.92 percent rate would increase by .392 percent to 4.31 percent, or decrease by a like amount to 3.53 percent) is approximately **\$65.5 million per biennium**, or \$32.75 million per year for the 2009-11 biennium based on forecasted revenues net of the \$100 million reduction in collections resulting from the executive budget recommendation relating to income tax relief. The following schedule shows general fund revenue collections from individual income taxes for the 1999-2001 through 2009-11 bienniums:

Biennium	Actual or Estimated Revenue (In Millions)	Percentage Change From Previous Biennium
1999-2001	\$409.3	14.2%
2001-03	\$396.2	(3.2%)
2003-05	\$452.5	14.2%
2005-07	\$587.7	29.9%
2007-09 (revised forecast) (net of property tax credit)	\$614.5	4.6%
2009-11 (executive forecast) (net of income tax relief)	\$675.5	9.9%

3. **Gas tax revenues.** A one-cent gas tax increase over the current 23 cents per gallon raises an estimated \$3.4 million per year or **\$6.8 million for a biennium**. A one-cent special fuels (diesel) tax increase over the current 23 cents per gallon raises an estimated \$1.9 million or **\$3.8 million per biennium**. Under the current distribution formula, the **\$10.6 million total** would be allocated as follows: \$6.7 million, or 63 percent, would be deposited in the state highway fund and \$3.9 million, or 37 percent, would be distributed to counties and cities. Under the proposed distribution formula recommended in the 2009-11 executive budget, the \$10.6 million total would be allocated as follows: \$6.7 million, or 63.28 percent, would be deposited in the state highway fund and \$3.4 million, or 32.45 percent, would be distributed to counties and cities. In addition, the proposed distribution formula would provide \$300,000, or 2.74 percent, to townships and \$200,000, or 1.53 percent, to public transit programs.
4. **Oil tax revenue.** The estimated impact on state revenues of a \$1 increase or decrease in the price of a barrel of oil is approximately \$11 million per biennium based on the December 2008 executive budget forecast for oil and gas production and oil extraction tax collections. The following schedule presents general fund and permanent oil tax trust fund revenue collections from oil and gas taxes for the 1999-2001 through 2009-11 bienniums:

Biennium	General Fund		Permanent Oil Tax Trust Fund	
	Actual or Estimated Revenue (In Millions)	Percentage Change From Previous Biennium	Actual or Estimated Revenue (In Millions)	Percentage Change From Previous Biennium
1999-2001	\$62.0 <sup>1</sup>	41.9%	\$13.2	N/A
2001-03	\$62.0 <sup>1</sup>	0.0%	\$7.6	(42.4%)
2003-05	\$71.0 <sup>1</sup>	14.5%	\$49.5	551.3%
2005-07	\$71.0 <sup>1</sup>	0.0%	\$169.8	243.0%
2007-09 (executive budget estimate)	\$71.0 <sup>1</sup>	0.0%	\$565.0	232.7%
2009-11 (executive budget estimate)	\$110.0 <sup>2</sup>	54.9%	\$566.5	.3%

<sup>1</sup>North Dakota Century Code (NDCC) Section 57-51.1-07.2 limits the oil tax revenue collections deposited in the general fund and provides that the excess be deposited in the permanent oil tax trust fund.

<sup>2</sup>The 2009-11 executive budget recommends increasing the general fund share of the oil and gas taxes to \$110.0 million.

5. **Oil prices.** The following schedule compares estimates from the 2007 Legislative Assembly revenue forecast to actual oil prices:

Quarter/Month	Estimated Average Price Per Barrel	Actual Average Price Per Barrel <sup>1</sup>	Amount Over (Under) Estimate
January-March 2008	\$42.10	\$88.99	\$46.86
April-June 2008	\$39.79	\$115.09	\$75.30
July-September 2008	\$38.94	\$108.86	\$69.92
October-November 2008	\$37.68	\$54.85	\$17.17

<sup>1</sup>The actual market price per barrel of oil is the Tesoro-posted field price for North Dakota sweet crude, including the Montana counties of Sheridan, Roosevelt, and Richland.

6. **Oil production.** The following schedule compares estimates from the 2007 Legislative Assembly revenue forecast to actual oil production:

Quarter/Month	Estimated Average Production (Barrels)		Actual Average Production (Barrels)		Amount Over (Under) Estimate	
	Per Day	Monthly	Per Day	Monthly	Per Day	Monthly
January-March 2008	114,725	3,480,000	139,796	4,240,491	25,071	760,491
April-June 2008	116,659	3,538,667	157,732	4,784,523	41,073	1,245,856
July-September 2008	118,000	3,618,667	180,322	5,529,876	62,322	1,911,209

7. **Tobacco settlement payments.** North Dakota has received \$233.2 million as of December 2008 as a result of the tobacco settlement, which has been deposited in the tobacco settlement trust fund. The tobacco settlement trust fund collections through November 2008 were allocated among the community health trust fund (10 percent), common schools trust fund (45 percent), and water development trust fund (45 percent) pursuant to NDCC Section 54-27-25. Additional annual tobacco settlement funds, strategic contribution payments, began in 2008 and continue through 2017 and are based on each state's contribution to litigation or resolution of state tobacco lawsuits. In the November 2008 general election, voters approved initiated measure No. 3 that amended Section 54-27-25 to establish a tobacco prevention and control trust fund. The measure provides for a portion of tobacco settlement funds received by the state to be deposited in a new fund rather than the entire amount in the tobacco settlement trust fund. Tobacco settlement money received under subsection IX(c)(1) of the Master Settlement Agreement, which continue in perpetuity, will continue to be deposited into the tobacco settlement trust fund and allocated 10 percent to the community health trust fund, 45 percent to the common schools trust fund, and 45 percent to the water development trust fund. Tobacco settlement money received under subsection IX(c)(2) of the Master Settlement Agreement relating to the strategic contribution payments will be deposited beginning in 2009 into the newly created tobacco prevention and control trust fund. The tobacco settlement payment received by the state in April 2008 was the first payment that included funds relating to subsection IX(c)(2) of the agreement. This payment was received prior to the approval of the measure and was deposited in the tobacco settlement trust fund and disbursed as provided for in Section 54-27-25 prior to amendment by the measure. Future tobacco settlement payments will be deposited in the tobacco settlement trust fund and the tobacco prevention and control trust fund pursuant to Section 54-27-25, as amended by the measure. Actual and estimated tobacco settlement trust fund and tobacco prevention and control trust fund collections and allocations are:

Biennium	Tobacco Settlement Trust Fund			Tobacco Prevention and Control Trust Fund	Total Tobacco Settlement Collections
	Community Health Trust Fund	Common Schools Trust Fund	Water Development Trust Fund		
1999-2001 (actual)	\$5,290,078	\$23,805,353	\$23,805,353		\$52,900,784
2001-03 (actual)	5,363,637	24,136,363	24,136,363		53,636,363
2003-05 (actual)	4,631,002	20,839,504	20,839,504		46,310,010
2005-07 (actual)	4,382,812	18,722,653	19,722,653		43,828,118
2007-09 (estimated)	5,842,167	26,289,752	26,289,752	\$13,797,729	72,219,400
2009-11 (estimated)	4,388,119	19,746,536	19,746,536	27,595,458	71,476,649
Total estimated through June 30, 2011	\$29,897,815	\$134,540,161	\$134,540,161	\$41,393,187	\$340,371,324

Total collections for the next 10 years as estimated by the Office of Management and Budget are:

2011-13	\$73,687,000
2013-15	\$73,687,000
2015-17	\$73,687,000
2017-19	\$52,504,000
2019-21	\$52,504,000

8. **State school aid program.** The 2009-11 executive budget recommendation provides funding of \$891,125,879, of which \$805,625,879 is from the general fund and \$85,500,000 from the state tuition fund, for the state school aid program. Under the program, per student payments, teacher compensation payments, special education average daily membership payments, revenue supplemental payments, and tuition apportionment payments are consolidated into a single funding formula. The recommended funding level, summarized below, represents an increase of \$110,360,000, of which \$101,060,000 is from the general fund and \$9,300,000 is from the state tuition fund, from the 2007-09 legislative appropriation of \$780,765,879.

Per student formula payments	\$837,125,879
Transportation aid payments	38,500,000
Special education - Contracts	15,500,000
Total	\$891,125,879

9. **State employee salary increase, excluding higher education.** The estimated cost of a 1 percent state employee salary increase per year, including fringe benefits, is \$4.5 million, of which \$2.4 million is from the general fund. This estimate excludes higher education employees.
10. **Inflationary increases.** The historic and projected consumer price indexes as recorded or projected by Economy.com (November 2008) based on the **consumer price index for all urban consumers** are:

1991	4.2%	2002	1.6%
1992	3.0%	2003	2.3%
1993	3.0%	2004	2.7%
1994	2.6%	2005	3.4%
1995	2.8%	2006	3.2%
1996	2.9%	2007	2.8%
1997	2.3%	2008	4.3% (projected)
1998	1.5%	2009	1.8% (projected)
1999	2.2%	2010	2.1% (projected)
2000	3.4%	2011	1.8% (projected)
2001	2.8%		