

STATE REVENUES AND STATE REVENUE FORECASTS STUDY - BACKGROUND MEMORANDUM

STUDY OVERVIEW

After the 2017 legislative session, the Legislative Management appointed a legislative revenue advisory committee and assigned the committee the responsibility to study state revenues and state revenue forecasts during the 2017-18 interim. The Legislative Management has appointed a committee for the 2019-20 interim to continue studying state revenues and state revenue forecasts. The committee consists of the Majority and Minority Leaders of the House and Senate, the chairmen of the House and Senate Appropriations Committees, one member appointed by the House Majority Leader, and one member appointed by the Senate Majority Leader. The committee's duties include monitoring state revenues and state economic activity, reviewing economic forecasting data and models, and reviewing and analyzing executive revenue forecasts and alternative revenue forecasts.

OTHER REVENUE-RELATED STUDIES

Section 32 of Senate Bill No. 2015 (2019) creates a legacy fund earnings committee to study the potential uses of legacy fund earnings, including tax relief, reinvestment options, research and technological advancement initiatives, and economic growth opportunities.

The Legislative Management assigned a study of charitable gaming to the Taxation Committee related to Section 34 of Senate Bill No. 2015. The study must include a review of whether the taxation of charitable gaming is fair, adequate, and appropriate.

Senate Bill No. 2130 (2019) provides for a study of state agency fees in coordination with the State Auditor. The Legislative Management assigned the study to the Government Finance Committee. The study must include a review of when the fees were created, the revenue generated by the fees, where the fees are deposited, and whether the fee is appropriate.

The Legislative Assembly created the Tribal Taxation Issues Committee in Section 4 of Senate Bill No. 2312 (2019). The committee was assigned a study of tribal taxation issues, including tax collection agreements between the tribes and the state and best practices for implementing tax agreements.

Senate Bill No. 2355 (2019) includes a study of an alternative tax for liquid nicotine, which was assigned to the Taxation Committee. The study must include consideration of the current method of taxation, taxation in other states, and the fiscal impact of alternative or additional taxes.

REVENUE FORECASTING PROCESS

The Office of Management and Budget (OMB) prepares revenue forecasts for consideration in developing the state budget. The Office of Management and Budget contracts for economic advisory services, currently Moody's Analytics, to provide economic projections as a basis for developing the revenue forecasts. The Office of Management and Budget coordinates the development of the revenue forecasts with the Tax Department. The Tax Department uses the economic projections from Moody's Analytics along with historical tax collection data to forecast general fund tax revenues.

A revenue advisory committee provides input to OMB as guidance for the development of the revenue forecasts. The committee includes private sector representatives, legislators, and other public officials. The committee meets prior to the issuance of the revenue forecasts to review the economic projections from Moody's Analytics and to provide recommendations based on current economic conditions.

The Legislative Assembly is responsible for approving the state budget, including the revenue forecast. The legislative revenue forecast prepared at the end of each legislative session includes a base revenue forecast and any legislative changes. Legislative changes may include tax incentives and exemptions, tax rate changes, or transfers from other state funds. The Appropriations Committees adopt the initial base revenue forecast during the 1st week of the legislative session and the final base revenue forecast in March during the legislative session.

RECENT REVENUE FORECASTS

2015 Legislative Session

After the development of the December 2014 executive budget revenue forecast, oil prices and oil activity decreased significantly. As a result, the 2015 Legislative Assembly adopted revenue adjustments during the legislative session to reduce the estimated general fund revenues and oil and gas tax revenues.

2015-16 Interim

Due to the decrease in oil activity, the actual 2015-17 biennium general fund revenue collections were less than forecasted. In February 2016, OMB released a revised revenue forecast resulting in a transfer from the budget stabilization fund and reductions to agency budgets.

The Governor ordered a special legislative session in August 2016 to address additional budget challenges. The Legislative Assembly provided transfers from the budget stabilization fund and Bank of North Dakota profits to the general fund, reduced agency budgets, and recognized 2015-17 biennium unspent general fund appropriation authority to balance the general fund budget. An increase in oil activity allowed the Legislative Assembly to recognize an increase in the forecast for oil and gas tax revenues.

2017 Legislative Session

The 2017 Legislative Assembly adopted a base revenue forecast in January 2017, which was lower than the December 2016 executive budget revenue forecast, to reflect current economic conditions. In March 2017, the Appropriations Committees adopted a revised revenue forecast prepared by OMB with an additional reduction to the 2017-19 beginning balance related to lower sales and use tax collections in the 2015-17 biennium.

2017-18 Interim

During the 2017-18 interim, the Legislative Management appointed a legislative revenue advisory committee to study state revenues. The committee received information on current economic trends from industry representatives, information on revenue collections from state agencies, and forecasting data from a consultant.

The committee selected IHS Markit to provide consulting services. IHS Markit provided an overview of economic trends for the United States and developed custom models to forecast sales and use tax collections, motor vehicle excise tax collections, individual income tax collections, and corporate income tax collections. The Legislative Council provided historical tax data and other information to IHS Markit beginning in January 2018, and IHS Markit matched the tax data with economic trends to develop custom forecasting models. In September 2018, IHS Markit provided a report regarding the results of the forecasting models, including a preliminary general fund revenue forecast for the 2019-21 biennium.

The committee did not make a recommendation regarding the study of state revenues; however, IHS Markit provided additional updates to the Appropriations Committees during the 2019 legislative session to assist the committees in the development of the state budget.

2019 Legislative Session

The Appropriations Committees adopted a base revenue forecast in January 2019, which reflected the average of the December 2018 executive revenue forecast and January 2019 estimates prepared by IHS Markit. In March 2019, OMB presented revisions to the executive revenue forecast, and IHS Markit presented an updated report reflecting revised revenue estimates. The Appropriations Committees adopted adjustments to the January 2019 base revenue forecast using the information received from both OMB and IHS Markit.

STUDY PLAN

The following is a proposed study plan for the committee's consideration of its study of state revenues and state revenue forecasts:

1. Contract for consulting services to receive economic forecasting data, including selected general fund tax revenues; oil prices and production; and key economic assumptions, including the value of the US Dollar and demographic trends.
2. Monitor actual revenue collections compared to forecasted amounts.
3. Receive information from industry representatives regarding current trends, including updates from the agriculture industry and the oil and gas industry.
4. Receive information from state agencies regarding revenue collections.

5. Receive testimony from interested persons regarding the study.
6. Develop recommendations and any bill drafts necessary to implement the recommendations.
7. Prepare a final report for submission to the Legislative Management.