

October 2007

## 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 **\$227 million per biennium**, or \$113.5 million per year for the 2007-09 biennium based on the February 2007 revised revenue forecast. The following schedule shows general fund revenue collections from sales and use taxes, including motor vehicle excise taxes, for the 1997-99 through 2007-09 bienniums:

Biennium	Actual or Estimated Revenue (In Millions)	Percentage Change From Previous Biennium
1997-99	\$664.4	
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 forecast	\$1,030.1	6.4%

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 or decrease by .392 percent to 4.31 percent, or 3.53 percent) is approximately **\$47 million per biennium** or \$23.5 million per year for the 2007-09 biennium based on forecasted revenues net of the \$109.9 million reduction in collections resulting from 2007 Senate Bill No. 2032 (property tax credit and "marriage tax penalty" reduction). The following schedule shows general fund revenue collections from individual income taxes for the 1997-99 through 2007-09 bienniums:

Biennium	Actual or Estimated Revenue (In Millions)	Percentage Change From Previous Biennium
1997-99	\$358.3	
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 forecast (net of property tax credit)	\$497.8	(15.3%)

3. **Gas tax revenues.** A one-cent gas tax increase over the current 23 cents per gallon raises an estimated \$3.5 million per year or **\$7 million for a biennium**. A one-cent special fuels (diesel) tax increase over the current 23 cents per gallon raises an estimated \$1.55 million or **\$3.1 million per biennium**. Of the \$10.1 million total, \$6.4 million, or 63 percent, would be deposited in the state highway fund and \$3.7 million, or 37 percent, would be distributed to counties and cities.
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 **\$8.75 million per biennium** based on the February 2007 revised revenue 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 1997-99 through 2007-09 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
1997-99	\$43.7			
1999-2001	\$62.0*	41.9%	\$13.2	N/A
2001-03	\$62.0*	0.0%	\$7.6	(42.4%)
2003-05	\$71.0*	14.5%	\$49.5	551.3%
2005-07	\$71.0*	0.0%	\$169.8	243.0%
2007-09 forecast	\$71.0*	0.0%	\$146.0	(14.0%)

\*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.

5. **Oil prices.** The following schedule compares estimates from the February 2007 revised 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 2007	\$52.71	\$49.56	(\$3.15)
April-June 2007	\$50.71	\$57.61	\$6.90
July-September 2007	\$47.44	\$67.80	\$20.36

<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 February 2007 revised revenue forecast to actual oil production:

Quarter/ Month	Estimated Average Monthly Production (Barrels)	Actual Average Monthly Production (Barrels)	Amount Over (Under) Estimate
January-March 2007	3,450,000	3,496,268	46,268
April-June 2007	3,488,333	3,647,875	159,542
July 2007	3,565,000	3,832,170	267,170
August 2007	3,565,000	3,864,109	299,109

7. **Tobacco settlement payments.** North Dakota has received \$196.7 million as of October 2007 as a result of the tobacco settlement, which has been deposited in the tobacco settlement trust fund. The tobacco settlement trust fund collections through June 30, 2009, are allocated among the community health trust fund, common schools trust fund, and water development trust fund, pursuant to NDCC Section 54-27-25, as follows:

	Community Health Trust Fund (10%)	Common Schools Trust Fund (45%)	Water Development Trust Fund (45%)	Total Tobacco Settlement Collections
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	19,722,653	19,722,653	43,828,118
2007-09 (estimated)	7,000,290	31,501,306	31,501,306	70,002,902
Total estimated through June 30, 2009	\$26,667,819	\$120,005,179	\$120,005,179	\$266,678,177

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

2009-11	\$73,687,000
2011-13	\$73,687,000
2013-15	\$73,687,000
2015-17	\$73,687,000
2017-19	\$52,504,000

Collections are estimated to total \$771,443,000 through the year 2025. This compares to a total of \$866,800,000 originally projected during the 1999 Legislative Assembly. Additional annual tobacco settlement funds are anticipated to be received beginning in 2008 through 2017 based on each state's

contribution to litigation or resolution of state tobacco lawsuits. The anticipated increase in annual payments is reflected on the above tables.

8. **State school aid program.** The 2007 Legislative Assembly appropriated \$777,165,879, of which \$700,965,879 is from the general fund and \$76,200,000 is from the state tuition fund, for state school aid. The legislative appropriation consolidates funding for state school aid, including per student payments, teacher compensation payments, special education average daily membership payments, revenue supplemental payments, and tuition apportionment payments into a new funding formula. The legislative appropriation, which is summarized as follows, represents an increase of \$78.6 million, of which \$74 million is from the general fund and \$4.6 million is from the state tuition fund, from the 2005-07 legislative appropriation of \$698,565,879.

Per student formula payments	\$726,165,879
Transportation aid payments	33,500,000
Special education - Contracts	17,500,000
<b>Total</b>	<b>\$777,165,879</b>

9. **State employee salary increase, excluding higher education.** The estimated cost of a 1 percent state employee salary increase per year, including fringe benefits for the 2009-11 biennium, is \$4.2 million, of which \$2.1 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 based on the **consumer price index for all urban consumers** are:

1991	4.2%	2000	3.4%
1992	3.0%	2001	2.8%
1993	3.0%	2002	1.6%
1994	2.6%	2003	2.3%
1995	2.8%	2004	2.7%
1996	2.9%	2005	3.4%
1997	2.3%	2006	3.2%
1998	1.5%	2007	2.7% (projected)
1999	2.2%	2008	1.9% (projected)
		2009	2.0% (projected)
		2010	2.2% (projected)
		2011	2.4% (projected)