

NORTH DAKOTA'S REVENUE FORECASTING PROCESS

REVENUE FORECASTS

The Executive Budget Office (Office of Management and Budget) has primary authority for revenue forecasting in North Dakota. Historically, during each biennium, the Office of Management and Budget issues three revenue forecasts:

- **June preliminary revenue forecast** - Issued in the year prior to the start of the legislative session.
- **December executive budget revenue forecast** - The forecast is presented, along with the executive budget recommendations, to the Budget Section and to the organizational session of the Legislative Assembly.
- **February/March revised revenue forecast** - The forecast is revised in either February or March during the legislative session at which time the forecast is reviewed by legislative leadership, Appropriations Committee members, and Finance and Taxation Committee members of both houses. The Appropriations Committees, by motion, approve the revised revenue forecast which is then used as the "official" legislative revenue forecast. The Legislative Assembly has generally not changed the revised revenue forecast.

During the 2007 legislative session, this forecast was received in February. Previously, this forecast was received in March.

MOODY'S ECONOMY.COM

The Office of Management and Budget contracts with Moody's Economy.com to provide economic projections for the state of North Dakota. Moody's Economy.com, which is headquartered in West Chester, Pennsylvania, is a leading independent provider of economic, financial, country, and industry research. Moody's Economy.com has over 500 clients worldwide, including the largest commercial and investment banks, insurance companies, financial service firms, mutual funds, governments at all levels, manufacturers, utilities, and industrial and technology clients. Moody's Economy.com was founded in January 1990 under the name Regional Financial Associates (RFA). In November 2005 the company joined the Moody's Corporation.

The state of North Dakota first contracted with RFA in September 1999 for economic forecasting services. North Dakota's current contract with Moody's Economy.com is for the period beginning November 14, 2005, and ending November 13, 2007. The contract provides for the state of North Dakota to pay Moody's Economy.com two annual payments of \$26,185 or \$52,370 per biennium. The annual payment consists of \$8,300 for custom consulting services and \$17,885 for publication subscriptions.

The state subscribes to the following Moody's Economy.com publications:

- *Regional Financial Review.*
- *Precis: State.*
- *Precis: Macro With U.S. Macro/Financial Database.*

Moody's Economy.com provides tax-based forecasts for each of the major taxable sectors. Reports prepared by Moody's Economy.com include analyses and forecasts of sweet crude oil prices and production. As needed, Moody's Economy.com will also include analyses and forecasts of North Dakota's major crops and livestock, including farm income and cash receipts for livestock and products.

The Office of Management and Budget went through a request for proposal process in 2005 prior to awarding the current contract. Two companies, including Moody's Economy.com, submitted bids. Based on the Office of Management and Budget's scoring system, Moody's Economy.com had the highest rating and was awarded the contract.

TAX DEPARTMENT ROLE IN THE REVENUE FORECASTING PROCESS

The Tax Department is responsible for the basic methodology for forecasting the following general fund tax types--sales, motor vehicle excise, individual income, corporation income, financial institution, oil extraction, oil and gas production, cigarette and tobacco, coal conversion, and wholesale liquor taxes. The revenue forecasting process includes the following steps:

- At the start of each of the three forecasts, the Tax Department updates the historical tax base statistics and provides the results to Moody's Economy.com.
- Moody's Economy.com processes the historical data through forecasting models, adjusting and updating forecast equations or "drivers" as needed.
- The Tax Department and Office of Management and Budget participate in conference calls with Moody's Economy.com to discuss views on the United States and North Dakota economies.
- Moody's Economy.com creates North Dakota's tax-based forecasts for each of the next three fiscal years.
- The Office of Management and Budget schedules a meeting of the Revenue Advisory Committee to review the tax-based forecasts and make any modifications as determined by the committee.
- The Tax Department applies the appropriate tax rates and statutory distributions through the use of in-house tax revenue models to produce the tax revenue forecast, which is supplied to the Office of Management and Budget.

REVENUE ADVISORY COMMITTEE

The Revenue Advisory Committee is a committee generally consisting of private sector members, at least two legislators, and other public officials. The Revenue Advisory Committee, which was created by the Office of Management and Budget, meets before each forecast is issued to review the economic projections and resulting tax-based forecasts.