

Status of the General Fund

Presented to the
**Government Services
Committee**

March 14, 2012



ECONOMIC INDICATORS

National

Consumer Prices - The 12-month percent change in the non-seasonally adjusted consumer price index (CPI), as reported by the Bureau of Labor Statistics, was 2.9% in January 2012, little changed from the annual average in 2011 of 3.2%. The CPI has spiked in recent months to as high as 3.9% in September 2011 and averaged 3.5% for the last six months of 2011. The annual average for 2010 was only 1.6%. According to *Moody's Analytics*, the CPI is expected to remain moderate, averaging 1.9% for 2012, then fluctuating between 2.1% and 2.9% during the long-term forecast through 2016.

Money Markets - The average yield on a three-month Treasury bill is currently .02%. Rates have remained below 20 basis points since June of 2009 and averaged only .1% for 2011. *Moody's* expects three month T-bill rates to remain low, averaging less than .1% for 2012 and increasing to slightly over 1.0% by 2014. *Moody's* predicts that the prime rate, which has averaged 3.3% since 2009, will continue nearly unchanged through 2013, averaging 3.1% during the next two years. Their forecast, although revised downward, provides for a sharp increase in the ensuing years, to 4.3% in 2014, 6.0% in 2015, and 7.0% in 2016.

Personal Income - Personal income, as reported by *Moody's* in inflation adjusted 2005 dollars, grew by 2.3% during 2011. Quarterly data show the strong growth of 4.0% realized during the first quarter of 2011, shrunk to only 1.3% by the fourth quarter of 2011. *Moody's* predicts personal income growth will average 2.6% during 2012, followed by annual growth of 3.3% to 4.5% through 2016.

Commodity Prices - Agricultural prices rose by an average of 25.9% during 2011, the result of a 32.0% increase in crop prices and a 17.1% increase in livestock prices. The outlook remains positive, with more moderate levels of growth between 1.6% to 4.7% per year through 2016. The outlook for West Texas Intermediate crude, the benchmark oil forecast for *Moody's Analytics*, is increased slightly from previous months. The average price per barrel for 2011 was \$95.10. *Moody's* predicts prices to continue upward until stabilizing at around \$110 per barrel in 2014.

Local

Unemployment - North Dakota's non-seasonally adjusted unemployment rate in December 2011 remains the lowest in the nation at only 3.2%, even lower than the December 2010 rate of 3.8%. The national average unemployment rate was 8.3% in December 2011, an improvement of nearly 1.0% over the December 2010 rate of 9.1%.

Energy - The April 2011 legislative forecast is based on oil production increasing from 390,000 barrels per day at the start of the 2011-13 biennium to 425,000 barrels per day by the end of the biennium. North Dakota crude oil prices are estimated to range from \$72 per barrel to \$75 per barrel during that time. The current rig count is 206 rigs, 34 rigs more than the number operating in the state one year ago. Price, production, and drilling activity are summarized on the following table:

	December 2011	November 2011	October 2011
Actual average price per barrel	\$87.98	\$90.36	\$81.89
Production (barrels/day)	534,900	519,600	487,700
Drilling permits	180	169	201
Producing wells	6,471	6,332	6,210
Rig count	199	199	197

Mortgage Rates - Mortgage rates remain at near record lows. Thirty-year fixed rate mortgages are available locally for 4.0% to 4.25%. Fifteen-year fixed rates are between 2.875% and 3.125%.

**GENERAL FUND STATUS STATEMENT
2011-13 BIENNIUM
AS OF FEBRUARY 29, 2012**

Beginning balance:		
Beginning unobligated balance - July 1, 2011	\$996,832,711	
Balance obligated for authorized carryover of appropriations	<u>106,945,443</u>	
Total beginning balance		\$1,103,778,154
Revenues:		
Revenues collected to date	\$1,689,600,274	
Remaining forecasted revenues	<u>2,163,020,626</u>	
Total revenues		<u>3,852,620,900</u>
Total available		\$4,956,399,054
Expenditures:		
Legislative appropriations - One time	(\$533,958,760)	
Legislative appropriations - Ongoing	(3,532,895,032)	
Legislative appropriations - Special session	(96,832,668)	
Contingent legislative appropriations - Special session	(73,000,000)	
Authorized carryover from previous biennium	(106,945,443)	
2011-13 authority used in 2009-11 pursuant to emergency clause	<u>519,254</u>	
Total authorized expenditures		(4,343,112,649)
Estimated deficiency requests:		
DHS - FY2013 reduced FMAP		<u>(21,200,000)</u>
Estimated ending balance - June 30, 2013		<u>\$592,086,405</u> ¹¹

¹¹ NDCC Section 54-27.2-02 provides that any end of biennium balance in excess of \$65.0 million must be transferred to the budget stabilization fund, up to a cap of 9.5 percent of general fund appropriations.

**SELECTED SPECIAL FUNDS
FEBRUARY 29, 2012 FUND BALANCES**

Fund	Balance
Budget stabilization fund	\$386,351,110
Legacy fund	\$219,528,326
Foundation aid stabilization fund	\$181,935,870
Property tax relief sustainability fund	\$101,487,950

STATEMENT OF GENERAL FUND REVENUES AND FORECASTS
Compared to the Legislative Forecast
2011-13 Biennium
February 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	59,592,000	80,943,379	21,351,379	35.8%	475,687,000	694,249,091	218,562,091	45.9%
Motor Vehicle Excise Tax	6,199,000	9,540,265	3,341,265	53.9%	55,778,000	77,089,174	21,311,174	38.2%
Individual Income Tax	7,445,000	18,349,023	10,904,023	146.5%	154,693,000	230,352,179	75,659,179	48.9%
Corporate Income Tax	1,795,000	10,488,162	8,693,162	484.3%	25,937,000	71,726,613	45,789,613	176.5%
Insurance Premium Tax	4,500,000	7,676,470	3,176,470	70.6%	16,100,000	22,950,304	6,850,304	42.5%
Financial Institutions Tax	89,000	183,670	94,670	106.4%	89,000	(126,695)	(215,695)	-242.4%
Oil & Gas Production Tax*					89,237,000	99,799,206	10,562,206	11.8%
Oil Extraction Tax*					110,763,000	100,200,794	(10,562,206)	-9.5%
Gaming Tax	764,812	672,031	(92,781)	-12.1%	3,379,072	4,251,918	872,846	25.8%
Lottery								
Cigarette & Tobacco Tax	1,615,000	2,001,978	386,978	24.0%	15,117,000	17,786,235	2,669,235	17.7%
Wholesale Liquor Tax	484,000	565,410	81,410	16.8%	4,934,000	5,551,593	617,593	12.5%
Coal Conversion Tax	1,525,000	1,087,761	(437,239)	-28.7%	10,498,000	11,339,995	841,995	8.0%
Mineral Leasing Fees	1,416,667	2,047,002	630,335	44.5%	7,083,336	28,695,243	21,611,907	305.1%
Departmental Collections	1,916,706	5,110,379	3,193,673	166.6%	23,023,316	26,327,913	3,304,597	14.4%
Interest Income	985,000	465,385	(519,615)	-52.8%	6,850,000	3,837,104	(3,012,896)	-44.0%
State Mill & Elevator-Transfer								
Major Special Fund Transfers					295,000,000	295,000,000	0	0.0%
Other Transfers		3	3	100.0%	556,875	569,606	12,731	2.3%
Total Revenues and Transfers	88,327,185	139,130,917	50,803,732	57.5%	1,294,725,599	1,689,600,274	394,874,675	30.5%

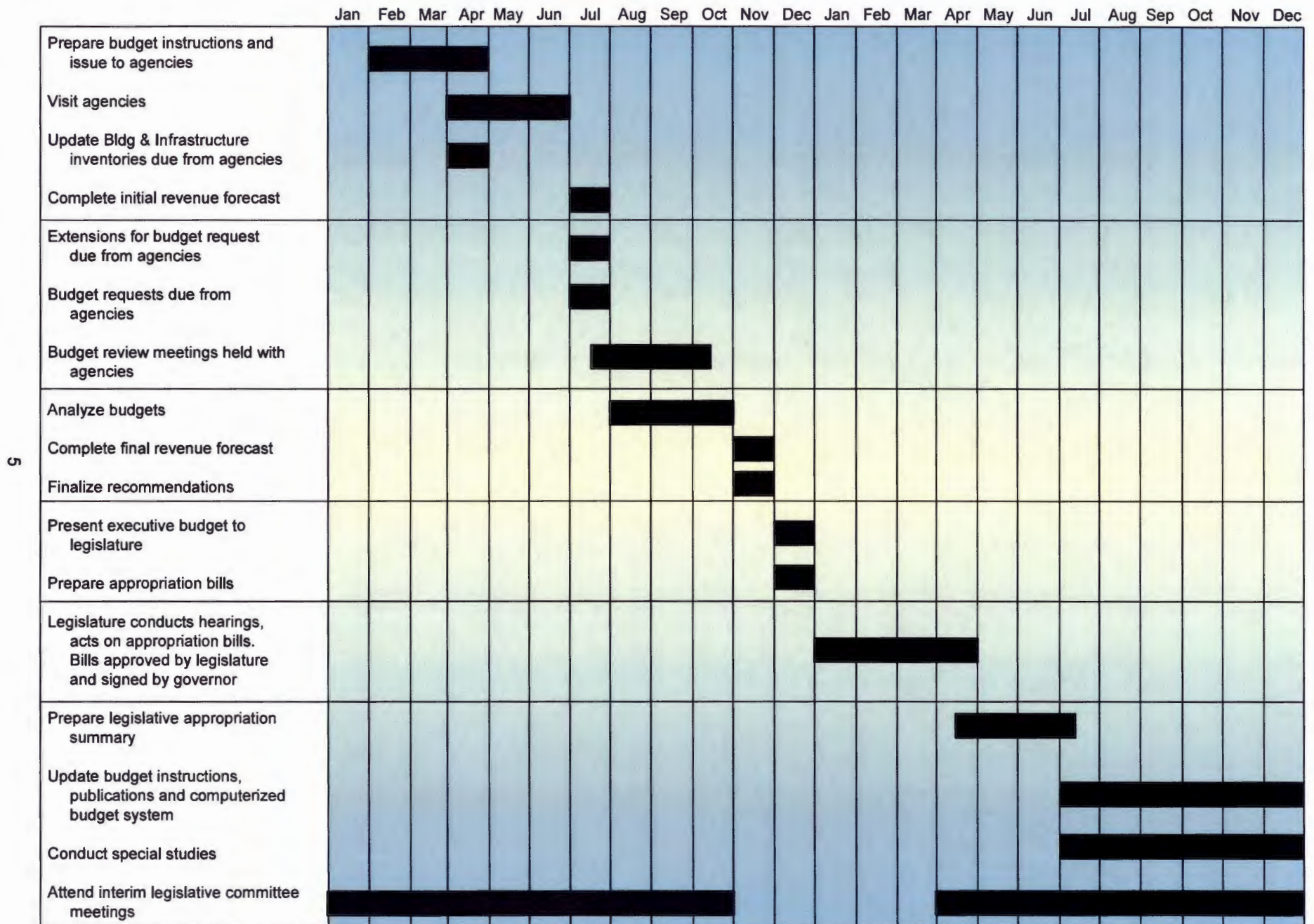
* Oil and gas production and extraction tax collections totaled \$159.0 million in February. Through February, oil tax collections totaling \$200.0 million have been deposited in the general fund and \$101.5 million have been deposited in the property tax relief sustainability fund. Once property tax relief sustainability fund deposits total \$341.8 million, an additional \$100.0 million will be deposited into the general fund. Through February, \$219.5 million has been deposited into the legacy fund.

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

Revenues and Transfers	Fiscal Month				Biennium To Date			
	February 2010	February 2012	Variance	Percent	2009-11	2011-13	Variance	Percent
Sales Tax	43,873,102	80,943,379	37,070,277	84.5%	368,058,026	694,249,091	326,191,065	88.6%
Motor Vehicle Excise Tax	3,992,325	9,540,265	5,547,940	139.0%	34,046,367	77,089,174	43,042,807	126.4%
Individual Income Tax	14,183,870	18,349,023	4,165,153	29.4%	187,562,014	230,352,179	42,790,166	22.8%
Corporate Income Tax	1,729,989	10,488,162	8,758,173	506.3%	38,023,724	71,726,613	33,702,890	88.6%
Insurance Premium Tax	3,642,175	7,676,470	4,034,294	110.8%	12,563,110	22,950,304	10,387,195	82.7%
Financial Institutions Tax	264,395	183,670	(80,725)	-30.5%	(724,874)	(126,695)	598,178	-82.5%
Oil & Gas Production Tax					32,718,333	99,799,206	67,080,873	205.0%
Oil Extraction Tax					38,281,667	100,200,794	61,919,127	161.7%
Gaming Tax	1,339,793	672,031	(667,762)	-49.8%	5,919,439	4,251,918	(1,667,521)	-28.2%
Lottery								
Cigarette & Tobacco Tax	1,603,378	2,001,978	398,599	24.9%	15,359,737	17,786,235	2,426,498	15.8%
Wholesale Liquor Tax	502,138	565,410	63,272	12.6%	4,943,651	5,551,593	607,942	12.3%
Coal Conversion Tax	1,374,650	1,087,761	(286,888)	-20.9%	13,337,489	11,339,995	(1,997,495)	-15.0%
Mineral Leasing Fees	1,414,123	2,047,002	632,878	44.8%	5,419,379	28,695,243	23,275,864	429.5%
Departmental Collections	1,756,781	5,110,379	3,353,599	190.9%	21,789,049	26,327,913	4,538,865	20.8%
Interest Income	729,198	465,385	(263,813)	-36.2%	7,018,280	3,837,104	(3,181,175)	-45.3%
State Mill & Elevator-Transfer								
Major Special Fund Transfers					295,000,000	295,000,000	0	0.0%
Other Transfers	6,083	3	(6,080)	-99.9%	1,480,577	569,606	(910,972)	-61.5%
Total Revenues and Transfers	76,412,001	139,130,917	62,718,917	82.1%	1,080,795,969	1,689,600,274	608,804,305	56.3%

* Oil and gas production and extraction tax collections totaled \$159.0 million in February. Through February, oil tax collections totaling \$200.0 million have been deposited in the general fund and \$101.5 million have been deposited in the property tax relief sustainability fund. Once property tax relief sustainability fund deposits total \$341.8 million, an additional \$100.0 million will be deposited into the general fund. Through February, \$219.5 million has been deposited into the legacy fund.

Budget Process Timeline



Budget Process

The budget process in North Dakota covers a two-year period.

At the beginning of each even-numbered year (2012), the Office of Management and Budget's Fiscal Management Division releases instructions and guidelines for state agencies to use in preparing budget requests for the upcoming biennium (July 1, 2013 – June 30, 2015).

After budget instructions are provided to agencies, OMB budget staff visit their assigned agencies. This provides an opportunity for the budget staff to learn about the agency's programs, functions, and budgetary needs. It is also an opportunity for agencies to ask questions or clarify how budget requests should be presented.

In April, preliminary information on buildings and infrastructure is due from agencies. This information is entered into the building and infrastructure formulas, then recalculated and returned to the agencies to use in budget preparation.

In July, the preliminary revenue forecast for the upcoming biennium is completed. July 15 is the statutory deadline for agencies to submit the budget request. Extensions may be available upon written request to the Office of Management and Budget.

From July to October, budget meetings are held on agency budget requests. After the budget meeting, the budget analyst completes the recommendation for each agency. This is done in discussion with the director of the Office of Management and Budget and the Governor and his policy advisors.

In early November, the executive revenue forecast is completed and recommendations are finalized. Documentation and publications are prepared and printed.

During the first week of December, the Governor presents the budget recommendations to the legislature. Following the Governor, Fiscal Management staff present budget details for each agency and review with legislators how to use the budget publications and budget computer system.

In January of each odd-numbered year (2013), the legislature convenes for a maximum of 80 days. During this time, hearings on all appropriation requests are held by the legislative appropriation committee. Prior to adjourning, the legislature passes the appropriation measures for the state of North Dakota.

Following the legislative session, the Fiscal Management staff prepares and distributes a publication summarizing the state budget for the upcoming biennium.