

## NORTH DAKOTA LEGISLATIVE MANAGEMENT

## Minutes of the

**LEGISLATIVE REVENUE ADVISORY COMMITTEE**

Tuesday, December 5, 2017  
Harvest Room, State Capitol  
Bismarck, North Dakota

Senator Ray Holmberg, Chairman, called the meeting to order at 2:30 p.m.

**Members present:** Senators Ray Holmberg, Dwight Cook, Joan Heckaman, Rich Wardner; Representatives Larry Bellew, Al Carlson, Corey Mock

**Member absent:** Representative Jeff Delzer

**Others present:** Senator Jerry Klein, Fessenden, member of the Legislative Management  
Jim W. Smith, Legislative Council, Bismarck  
See [Appendix A](#) for additional persons present.

**It was moved by Representative Bellew, seconded by Representative Carlson, and carried on a voice vote that the minutes of the July 27, 2017, meeting be approved as distributed.**

Chairman Holmberg said the committee will review a proposal from a potential consultant related to economic forecasting data as a part of the committee's study of state revenues and state revenue forecasts. He said two proposals were submitted, but only one proposal was accepted for consideration because the other proposal was received after the submission deadline. He said the economic forecasting data will provide additional information, along with the executive budget, for the Legislative Assembly to consider as it develops the state budget.

**REVENUE UPDATE**

The Legislative Council staff presented a memorandum entitled [General Fund Revenues Monthly Update](#). He said the memorandum compares actual and forecast general fund revenue collections for the month of October 2017 and for the biennium to date. He said the actual ongoing tax and fee general fund revenue collections were slightly more than forecast for the biennium to date while the actual collections for October 2017 were 11 percent less than forecast.

The Legislative Council staff presented a memorandum entitled [Oil and Gas Tax Revenues Monthly Update](#). He said the memorandum compares actual and forecasted oil and gas tax revenue collections for November 2017 and for the biennium to date. He said the actual collections for November 2017 were more than the forecast primarily because the actual oil production was more than forecasted. He said oil and gas tax revenue collections for the biennium to date through November 2017 are approximately \$2 million more than forecast.

**PROPOSAL FOR ECONOMIC FORECASTING DATA**

The Legislative Council staff presented a memorandum entitled [Information Regarding the Request for Proposal and Proposal Response - Economic Forecasting Data](#). On October 17, 2017, he said, as directed by the committee, the Legislative Council issued a request for proposal (RFP) for consulting services. He said proposals were due to the Legislative Council office on November 21, 2017. IHS Global Inc., known as IHS Markit, submitted a proposal. He said the memorandum provides a summary of key points from the proposal, including the consultant's background and forecasting plan.

Mr. Brendan O'Neil, Managing Director, Economics Consulting, IHS Markit, and Mr. James Diffley, Executive Director, Economics Consulting, IHS Markit, presented information ([Appendix B](#)) regarding a proposal to provide economic forecasting data.

Mr. O'Neil said IHS Markit is a publicly traded company with its headquarters in London, England. He said Data Resources Inc. merged with Wharton Econometric Forecasting Associates to form Global Insight, which was later acquired by IHS Markit. He said the company provides global information and analysis for a variety of industries. He said the company uses economic models to forecast revenues for all 50 states and for 400 metropolitan areas. He said IHS Markit's forecasts are recognized by third party organizations for their consistent accuracy. He said IHS

Markit has an ongoing forecasting model that provides monthly updates for state and national economic forecasts. He said IHS Markit also develops custom forecasting models to meet client needs, including forecasting regional trends and local revenues.

In response to a question from Chairman Holmberg, Mr. O'Neil said IHS Markit has analysts that monitor local economic activity and work with industry trade groups to understand industry trends. He said IHS Markit works with commodity groups and industry trade groups in a number of states.

Mr. Diffley said the proposed plan to provide revenue forecasting data includes the use of IHS Markit's existing national and regional macroeconomic models as well as the development of a model to forecast North Dakota tax revenues. He said the models are data driven and the outputs from one model become the inputs for another to provide consistency in the forecasts. He said IHS Markit has teams of agriculture and energy analysts that will provide data and insight into the industry-specific forecasts for North Dakota. He said the current outlook for the oil industry reflects stable prices rising and falling with seasonal trends through 2019 followed by steady increases beginning in 2020 based on the forecasts from IHS Markit's energy analysts. He said the economic models estimate the relationship between the underlying activity and the revenue generated. He said as an example from the energy industry, the price of oil determines oil drilling activity which generates revenue for companies to pay expenses as a part of the process that generates economic activity in other industries and results in tax revenue for the state. He said the proposal includes a timeline for the forecasting team to hold a planning meeting, collect tax revenue data, develop tax models, track the model estimates, prepare draft reports, and submit final reports.

Mr. Diffley said the cost to provide the economic forecasting data is \$49,292, including the optional updated forecasting data in March 2019. He said the cost reflects presenting three reports to the Legislative Revenue Advisory Committee or the Appropriations Committees, including a report due by September 28, 2018, a report due by January 18, 2019, and a report due in March 2019.

In response to a question from Senator Cook, Mr. Diffley said the models developed by IHS Markit produce a baseline forecast and pessimistic and optimistic scenarios. He said the pessimistic scenario reflects a recessionary environment which would allow the Legislative Assembly to identify the potential impact to state revenues and plan accordingly in the budgeting process.

In response to a question from Senator Heckaman, Mr. Diffley said federal tax policy changes can be included in the forecasting model to reflect the anticipated changes. He said the fiscal effect of other federal policy changes is difficult to determine so the changes, such as proposed environmental regulations, are generally not included in the forecasting model.

In response to a question from Representative Carlson, Mr. Diffley said the assumptions used in the revenue forecasts will be available to the committee. He said alternate forecasts can be developed to reflect other reasonable assumptions when there is disagreement about the assumptions. He said the forecasting team may also adjust the forecasting model to include alternate assumptions if the alternate assumptions are supported by research data.

**It was moved by Senator Wardner, seconded by Representative Carlson, and carried on a roll call vote that the committee recommend the Chairman of Legislative Management contract with IHS Markit to provide economic forecasting data.** Senators Holmberg, Cook, Heckaman, and Wardner and Representatives Bellew, Carlson, and Mock voted "aye." No negative votes were cast.

No further business appearing, Chairman Holmberg adjourned the meeting at 3:35 p.m.

---

Adam Mathiak  
Senior Fiscal Analyst

---

Allen H. Knudson  
Legislative Budget Analyst and Auditor

ATTACH:2