



LEGISLATIVE REVENUE ADVISORY COMMITTEE

Tuesday, September 22, 2020
Roughrider Room, State Capitol
Bismarck, North Dakota

Senator Ray Holmberg, Chairman, called the meeting to order at 1:00 p.m.

Members present: Senators Ray Holmberg, Joan Heckaman, Rich Wardner; Representatives Josh Boschee, Jeff Delzer, Lawrence R. Klemin, Chet Pollert

Member absent: Senator Dwight Cook

Others present: Senator Jerry Klein, Fessenden, member of the Legislative Management
Senator Jessica Unruh-Bell, Beulah; Representatives Mike Nathe, Bismarck, and Don Vigesaa, Cooperstown
See [Appendix A](#) for additional persons present.

It was moved by Senator Heckaman, seconded by Senator Wardner, and carried on a voice vote that the minutes of the August 13, 2020, meeting be approved as distributed.

REVENUE FORECAST

Mr. Jim Diffley, Executive Director, Economics, IHS Markit, presented information ([Appendix B](#)) regarding forecasting results for general fund revenues. He said gross domestic product (GDP) for the United States in the 2nd quarter of 2020 decreased by 40 percent compared to levels in February 2020. He said GDP for the United States is anticipated to increase by 30 percent in the 3rd quarter of 2020 compared to the 2nd quarter followed by moderate growth in the 4th quarter. He said gross state product for North Dakota is anticipated to remain below 2019 levels until 2023. He said IHS Markit revised its forecasting model for North Dakota to estimate the taxable sales by sector before aggregating the results and applying the tax rate. He said the preliminary forecast for sales and use tax collections totals \$1,888 million for the 2021-23 biennium compared to a revised forecast of \$1,827 million for the 2019-21 biennium and the original forecast of \$1,868 million for the 2019-21 biennium. He said forecasted sales and use tax collections for the 2021-23 biennium range from \$1,482 million under a pessimistic scenario to \$2,016 million under an optimistic scenario.

Mr. Curtis Smith, Director, Upstream Oil and Gas Consulting, IHS Markit, presented information ([Appendix C](#)) regarding forecasting results for West Texas Intermediate oil prices and North Dakota oil production. He said global oil demand exceeds global oil production with the shortfall covered by record levels of supply held in storage. He said the forecast of West Texas Intermediate oil prices reflects prices remaining below \$55 per barrel through 2025. He said oil well completions in North Dakota are forecast to average approximately 70 wells per month through 2025, including the completion of wells previously drilled but not fractured. He said an optimistic scenario for oil well completions reflects completions increasing to a peak of 90 wells per month by the end of 2021 before decreasing to an average of 70 wells per month by the end of 2022. He said oil well completions are forecast to average less than 20 wells per month through 2022 followed by an increase to 60 wells per month by 2025 under a pessimistic scenario. He said the forecast anticipates West Texas Intermediate oil prices to rise from \$40.92 per barrel in 2020 to \$53.25 per barrel in 2023. He said North Dakota oil production is anticipated to increase from 1.11 million barrels per day in 2021 to 1.19 million barrels per day in 2023.

Mr. Stewart Ramsey, Senior Principal, Agriculture, IHS Markit, presented information ([Appendix D](#)) regarding agriculture price and production trends. He said the decrease in demand for oil associated with the Coronavirus (COVID-19) pandemic caused a decrease in demand for corn, which is used to produce ethanol and biodiesel fuel. He said crop yields for corn, soybeans, and wheat in North Dakota during 2020 are anticipated to match or exceed the historical 5-year average. He said corn, soybean, and wheat prices are forecast to remain at current levels through the end of 2022 unless global crop production is negatively impacted by weather or other factors. He said

federal stimulus payments have caused an increase in farm machinery sales but overall sales for 2020 are lower than 2019.

Subsequent to the meeting, IHS Markit submitted a comprehensive report ([Appendix E](#)) detailing the economic outlook and forecasting data pursuant to the contract.

BUDGET INFORMATION

Mr. Adam Mathiak, Senior Fiscal Analyst, Legislative Council, presented a memorandum entitled [General Fund Revenue Forecast Comparison](#), which compares the revenue forecasting estimates prepared by the Office of Management and Budget (OMB) and IHS Markit. He said the IHS Markit baseline forecast for sales and use tax collections in the 2019-21 and 2021-23 bienniums exceeded OMB's forecast. He said OMB's forecast for individual and corporate income tax collections in the 2019-21 and 2021-23 bienniums exceeded IHS Markit's baseline forecast.

Mr. Allen H. Knudson, Legislative Budget Analyst and Auditor, Legislative Council, presented a memorandum entitled [Budget Outlook - 2019-21 and 2021-23 Bienniums](#). He said the general fund revenues are based on the 2019 legislative revenue forecast and adjustments for OMB's September 2020 revised revenue forecast. He said anticipated deficiency appropriations for the 2019-21 biennium total \$54.4 million which could be offset by estimated unspent appropriations (turnback) of \$118.4 million. He said estimated cost to continue items for the 2021-23 biennium total \$42.8 million in addition to \$35 million of estimated increases for state employee health insurance premiums. He said the projected shortfall at the end of the 2021-23 biennium totals \$735.1 million based on the preliminary budget outlook. He said additional spending requests may increase the shortfall while additional sources of funding may be available to address the shortfall.

In response to a question from Chairman Holmberg, Mr. Knudson said the estimated shortfall for the 2019-21 biennium was approximately \$470 million based on the preliminary outlook for the 2019-21 biennium, which was presented to the committee 2 years prior.

Chairman Holmberg said IHS Markit will provide additional revenue forecasting data to the Appropriations Committees during the 2021 legislative session, including forecasts in January 2021 and March 2021.

It was moved by Senator Wardner, seconded by Senator Heckaman, and carried on a voice vote that the Chairman and the Legislative Council staff be requested to prepare a report and to present the report to the Legislative Management.

It was moved by Representative Pollert, seconded by Senator Heckaman, and carried on a voice vote that the committee be adjourned sine die.

No further business appearing, Chairman Holmberg adjourned the committee sine die at 2:50 p.m.

Adam Mathiak
Senior Fiscal Analyst

Allen H. Knudson
Legislative Budget Analyst and Auditor

ATTACH:5