

## ECONOMIC ASSUMPTIONS AND CONDITIONS USED IN THE 2003-05 BIENNIUM EXECUTIVE BUDGET RECOMMENDATION

1. **General fund revenue growth** - General fund revenues, including transfers, for the 2003-05 biennium are anticipated to increase by 3.6 percent, or \$62.0 million, from the original 2001-03 legislative revenue forecast and by 5.9 percent, or \$98.4 million, from the revised 2001-03 revenue forecast.
2. **Taxable sales and purchases** - Taxable sales and purchases are estimated to increase by 2.3 percent in fiscal year 2004 and 3.2 percent in fiscal year 2005, resulting in additional general fund revenue of \$38.3 million from sales and use tax and motor vehicle excise tax collections.
3. **Lottery income** - North Dakota voters approved an initiated measure in November 2002 to amend the Constitution and allow North Dakota to join a multistate lottery. The 2003-05 executive budget anticipates \$5 million of general fund revenues from the lottery.
4. **Oil and gas tax collections** - Oil and gas tax collections are expected to increase slightly from \$63.2 million in 2001-03 to \$65.4 million in 2003-05. North Dakota Century Code (NDCC) Section 57-51.1-07.2 provides that if, at the end of any biennium, oil and gas production and oil extraction tax collections during the biennium exceed \$62 million, the excess amount must be transferred from the general fund to the permanent oil tax trust fund. The Governor recommends in Section 13 of Senate Bill No. 2015 that NDCC Section 57-51.1-07.2 be suspended during the 2003-05 biennium and the anticipated \$3.4 million of collections in excess of \$62 million be deposited in the general fund. In addition, the executive budget recommends the July 1, 2003, estimated balance of \$14.3 million in the permanent oil tax trust fund be transferred to the general fund.
5. **Oil prices** - Oil prices are anticipated to average \$23 per barrel during the first year of the 2003-05 biennium and are anticipated to decline to an average price of \$19.50 per barrel during the second year of the biennium. The average oil price in November 2002 for North Dakota crude oil was \$21.41 per barrel.
6. **Oil production** - Oil production is anticipated to average 84,000 barrels per day throughout the 2003-05 biennium. Oil production for September 2002 averaged 84,628 barrels per day.
7. **Individual income tax** - Adjusted gross income is projected to grow by 9.1 percent during the first year of the biennium and by 5.7 percent during

the second year of the biennium, resulting in additional general fund revenue of \$42.3 million from individual income tax collections.

8. **Corporate income tax** - Corporate income tax collections are expected to increase by \$4.9 million based on expectations that corporate profits are increasing nationally. The Governor is proposing to decouple the state corporate income tax from the federal corporate income tax. The new rates would be established to be revenue-neutral to the current system.
9. **Cigarette and tobacco tax collections** - The executive budget recommends increasing cigarette and tobacco taxes by approximately 80 percent. The tax on cigarettes would increase by 35 cents per pack, from 44 cents to 79 cents per pack. These increases are estimated to generate additional general fund revenue of \$29.7 million for the 2003-05 biennium. Surrounding states' tobacco excise tax rates and how the states rank nationally as of December 1, 2002, are:

Minnesota	48 cents per pack (26th highest)
North Dakota	44 cents per pack (27th highest)
South Dakota	33 cents per pack (34th highest)
Montana	18 cents per pack (41st highest)
Wyoming	12 cents per pack (46th highest)
National average	61 cents per pack