

December 2004

FISCAL INFORMATION SUMMARY

This memorandum provides fiscal information reflecting the December 2004 executive budget revenue forecast regarding major tax types and key cost areas.

1. **Sales and use tax revenue.** The estimated impact on state general fund revenues of a one percentage point change in the state's 5 percent sales and use tax, including the motor vehicle excise tax, is approximately **\$186 million per biennium**, or \$93 million per year for the 2005-07 biennium based on the December 2004 executive budget revenue forecast. The following schedule shows general fund revenue collections from sales and use taxes, including motor vehicle excise taxes, for the 1997-99 through 2005-07 bienniums:

Biennium	Actual or Estimated Revenue (In Millions)	Percentage Change From Previous Biennium
1997-99	\$664.4	
1999-2001	\$722.2	8.7%
2001-03	\$760.2	5.3%
2003-05 (revised forecast)	\$849.9	11.8%
2005-07 (executive forecast)	\$896.4	5.5%

2. **Individual income tax revenue.** House Bill No. 1399 (2001) decoupled the state income tax from the federal income tax to a rate based on federal taxable income. The equivalent tax rates range from approximately 2.1 to 5.54 percent of taxable income. The estimated impact on state general fund revenues of a 10 percent change in the state income tax rates (for example, the 3.92 percent rate would increase to 4.31 percent) is approximately **\$44 million per biennium** or \$22 million per year for the 2005-07 biennium based on the December 2004 executive budget revenue forecast. The following schedule shows general fund revenue collections from individual income taxes for the 1997-99 through 2005-07 bienniums:

Biennium	Actual or Estimated Revenue (In Millions)	Percentage Change From Previous Biennium
1997-99	\$358.3	
1999-2001	\$409.3	14.2%
2001-03	\$396.2	(3.2%)
2003-05 (revised forecast)	\$436.0	10.1%
2005-07 (executive forecast)	\$467.0	7.1%

3. **Gas tax revenues.** A one-cent gas tax increase over the current 21 cents per gallon raises an estimated \$3.5 million per year or **\$7 million for a biennium**. A one-cent special fuels (diesel) tax increase over the current 21 cents per gallon raises an estimated \$1.55 million or \$3.1 million per biennium. Of the \$10.1 million total, \$6.4 million, or 63 percent, would be deposited in the state highway fund and \$3.7 million, or 37 percent, would be distributed to counties and cities.
4. **Oil tax revenue.** The estimated impact on state revenues of a \$1 increase or decrease in the price of a barrel of oil is approximately **\$3.5 million per biennium** based on the December 2004 executive budget revenue forecast for oil and gas production and oil extraction tax collections. The 2005-07 estimated impact on state revenues of a \$1 change in the price of oil is \$1.1 million more than the \$2.4 million estimate for the 2003-05 biennium due, in part, to the oil extraction tax increasing from 4 to 6.5 percent as a result of higher oil prices which has triggered the higher tax rate. The following schedule presents general fund revenue collections from oil and gas taxes for the 1997-99 through 2005-07 bienniums:

Biennium	Actual or Estimated Revenue (In Millions)	Percentage Change From Previous Biennium
1997-99	\$43.7	
1999-2001	\$62.0*	41.9%
2001-03	\$62.0*	0.0%
2003-05 (executive budget estimate)	\$71.0*	14.5%
2005-07 (executive budget estimate)	\$84.3*	18.7%

*Transfers to the permanent oil tax trust fund were \$13.2 million for the 1999-2001 biennium and \$7.6 million for the 2001-03 biennium. It is estimated that \$40.8 million will be transferred to the permanent oil tax trust fund for the 2003-05 biennium. The 2005-07 executive budget recommends amending North Dakota Century Code Section 57-51.1-07.2 to increase from \$71 million to \$84.5 million the maximum general fund portion of oil extraction tax and oil and gas gross production tax. The executive budget estimates that oil tax collections during the 2005-07 biennium will total \$84.3 million. Therefore, the executive budget does not anticipate any transfers to the permanent oil tax trust fund during the 2005-07 biennium.

5. **Oil prices.** The following schedule compares estimates during the 2003 Legislative Assembly to actual oil prices during the 2003-05 biennium:

Quarter/ Month	Estimated Average Price Per Barrel During 2003 Legislative Assembly	Actual Average Price Per Barrel ¹	Amount Over (Under) Original Estimate
July-September 2003	\$26.24	\$25.18	(\$1.06)
October-December 2003	\$23.95	\$25.78	\$1.83
January-March 2004	\$23.23	\$29.45	\$6.22
April-June 2004	\$23.06	\$32.86	\$9.80
July-September 2004	\$22.86	\$37.99	\$15.13
October-November 2004	\$22.29	\$44.92	\$22.63

¹The actual market price per barrel of oil is the Tesoro-posted field price for North Dakota sweet crude, including the Montana counties of Sheridan, Roosevelt, and Richland.

6. **Tobacco settlement payments.** North Dakota has received \$129.8 million as of December 2004 as a result of the tobacco settlement, which has been deposited in the tobacco settlement trust fund. The tobacco settlement trust fund collections, through June 30, 2005, are allocated among the community health trust fund, common schools trust fund, and water development trust fund pursuant to North Dakota Century Code Section 54-27-25, as follows:

	Community Health Trust Fund (10%)	Common Schools Trust Fund (45%)	Water Development Trust Fund (45%)	Total Tobacco Settlement Collections
1999-2001 (actual)	\$5,290,078	\$23,805,353	\$23,805,353	\$52,900,784
2001-03 (actual)	5,363,637	24,136,363	24,136,363	53,636,363
2003-05 (as of December 2004)	2,323,863	10,457,382	10,457,382	23,238,627
2003-05 (estimated remaining payments)	2,297,207	10,337,430	10,337,430	22,972,067
Total estimated through June 30, 2005	\$15,274,785	\$68,736,528	\$68,736,528	\$152,747,841

Total collections for the next 10 years as estimated by the Office of Management and Budget are:

2005-07	\$45,944,100
2007-09	\$73,687,000
2009-11	\$73,687,000
2011-13	\$73,687,000
2013-15	\$73,687,000

Collections are estimated to total \$777,144,000 through the year 2025. This compares to a total of \$866,800,000 originally projected during the 1999 Legislative Assembly.

7. **State school aid payments.** The estimated cost of a \$10 increase in the state school aid per student payment is approximately \$1 million per year. This is based on the current estimate of an average of 104,475 weighted students for each year of the 2005-07 biennium. Statutory per student payments for the 2003-05 biennium are \$2,509 for the first year and \$2,623 for the second year.

8. **Teacher payments.** The estimated cost to provide additional teacher compensation payments of \$1,000 per third-year returning teacher in the first year of the 2005-07 biennium and an additional \$1,000 per fourth-year returning teacher in the second year of the biennium is approximately \$25.9 million. This is based on the current estimate of 8,650 full-time equivalent instructional personnel for the 2004-05 school year. The 2001 Legislative Assembly provided teacher compensation payments of \$1,000 for the first year of the 2001-03 biennium and \$2,000 for the second year (second-year total of \$3,000).
9. **State employee salary increase, excluding higher education.** The estimated cost of a 1 percent state employee salary increase **per year**, including fringe benefits, is \$3.4 million, of which \$1.7 million is from the general fund. This estimate excludes higher education employees.
10. **Inflationary increases.** The historic and projected consumer price indexes as recorded or projected by Economy.com based on the consumer price index for all urban consumers are:

1991	4.2%	2000	3.4%
1992	3.0%	2001	2.8%
1993	3.0%	2002	1.6%
1994	2.6%	2003	2.3%
1995	2.8%	2004	2.7%
1996	2.9%	2005	2.2%
1997	2.3%	2006	2.2%
1998	1.5%	2007	2.4%
1999	2.2%	2008	2.1%