North Dakota Legislative Council
Prepared for the Government Finance Committee
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STATE REVENUES AND STATE REVENUE FORECASTS STUDY - BACKGROUND MEMORANDUM

STUDY OVERVIEW

After the 2017 legislative session, the Legislative Management appointed a Legislative Revenue Advisory Committee and assigned the committee the responsibility to study state revenues and state revenue forecasts during the 2017-18 interim. The Legislative Management also appointed a committee for the 2019-20 interim to continue studying state revenues and state revenue forecasts. For the 2021-22 interim, the Legislative Management assigned the study of state revenues to the Government Finance Committee. The committee's duties include monitoring state revenues and state economic activity, reviewing economic forecasting data and models, and reviewing and analyzing executive revenue forecasts and alternative revenue forecasts.

OTHER REVENUE-RELATED STUDIES

House Bill No. 1015 (2021) provides for a study of the fiscal impact of providing a sales tax exemption for raw materials critical to the manufacturing process used to support biologic product generation, product impurity removal, chemical or physical product alteration, and analysis of in-process to final deliverable products, which was assigned to the Taxation Committee.

House Bill No. 1031 (2021) provides for a study of state agency fees. The Legislative Management assigned the study to the Government Finance Committee. State agencies are required to submit reports to the committee regarding details on their fees.

Section 6 of House Bill No. 1380 (2021) creates a Legacy Fund Earnings Committee to study the potential uses of legacy fund earnings, including tax relief, research and technological advancement, innovation, economic growth diversification, and workforce development.

Senate Bill No. 2299 (2019) includes a study of the feasibility and desirability of providing a credit against the purchase of a motor vehicle in an amount equal to the total amount the person received for the private sale of the vehicle being replaced. The Legislative Management assigned the study to the Taxation Committee.

REVENUE FORECASTING PROCESS

The Office of Management and Budget (OMB) prepares revenue forecasts for consideration in developing the state budget. The Office of Management and Budget contracts for economic advisory services, currently Moody's Analytics, to provide economic projections as a basis for developing the revenue forecasts. The Office of Management and Budget coordinates the development of the revenue forecasts with the Tax Department. The Tax Department uses the economic projections from Moody's Analytics along with historical tax collection data to forecast general fund tax revenues.

An advisory committee provides input to OMB as guidance for the development of the revenue forecasts. The committee includes private sector representatives, legislators, and other public officials. The committee meets prior to the issuance of the revenue forecasts to review the economic projections from Moody's Analytics and to provide recommendations based on current economic conditions.

The Legislative Assembly is responsible for approving the state budget, including the revenue forecast. The legislative revenue forecast prepared at the end of each legislative session includes a base revenue forecast and any legislative changes. Legislative changes may include tax incentives and exemptions, tax rate changes, or transfers from other state funds. The Appropriations Committees adopt the initial base revenue forecast during the 1st week of the legislative session and the final base revenue forecast in March during the legislative session.

RECENT REVENUE FORECASTS

2015-17 Biennium

After the development of the December 2014 executive budget revenue forecast, oil prices and oil activity decreased significantly. As a result, the 2015 Legislative Assembly adopted revenue adjustments during the legislative session to reduce the estimated general fund revenues and oil and gas tax revenues.

Due to the decrease in oil activity, the actual 2015-17 biennium general fund revenue collections were less than forecasted. In February 2016, OMB released a revised revenue forecast resulting in a transfer from the budget stabilization fund and reductions to agency budgets.

The Governor ordered a special legislative session in August 2016 to address additional budget challenges. The Legislative Assembly provided transfers from the budget stabilization fund and Bank of North Dakota profits to the general fund, reduced agency budgets, and recognized 2015-17 biennium unspent general fund appropriation authority to balance the general fund budget. An increase in oil activity allowed the Legislative Assembly to recognize an increase in the forecast for oil and gas tax revenues.

2017-19 Biennium

The 2017 Legislative Assembly adopted a base revenue forecast in January 2017, which was lower than the December 2016 executive budget revenue forecast, to reflect current economic conditions. In March 2017, the Appropriations Committees adopted a revised revenue forecast prepared by OMB with an additional reduction to the 2017-19 biennium beginning balance related to lower sales and use tax collections in the 2015-17 biennium.

During the 2017-18 interim, the Legislative Management appointed a Legislative Revenue Advisory Committee to study state revenues. The committee received information on current economic trends from industry representatives, information on revenue collections from state agencies, and forecasting data from a consultant.

The committee selected IHS Markit to provide consulting services. IHS Markit provided an overview of economic trends for the United States and developed custom models to forecast sales and use tax collections, motor vehicle excise tax collections, individual income tax collections, and corporate income tax collections. The committee did not make a recommendation regarding the study of state revenues; however, IHS Markit provided additional updates to the Appropriations Committees during the 2019 legislative session to assist the committees in the development of the state budget.

2019-21 Biennium

The Appropriations Committees adopted a base revenue forecast in January 2019, which reflected the average of the December 2018 executive revenue forecast and January 2019 estimates prepared by IHS Markit. In March 2019, OMB presented revisions to the executive revenue forecast, and IHS Markit presented an updated report reflecting revised revenue estimates. The Appropriations Committees adopted adjustments to the January 2019 base revenue forecast using the information received from both OMB and IHS Markit.

During the 2019-20 interim, the Legislative Management appointed a Legislative Revenue Advisory Committee to continue studying state revenues, and the committee selected IHS Markit to provide forecasting services. The COVID-19 pandemic caused oil prices and oil production to decrease significantly and caused general fund revenue collections to decrease slightly as travel abruptly halted and businesses temporarily closed. Significant levels of federal fiscal relief and the resumption of economic activity allowed the state to avoid agency budget reductions and the need to access the budget stabilization fund. The committee monitored revenue collections closely during the pandemic, and IHS Markit adjusted the revenue forecasts based on the rapidly changing economic conditions. The committee did not make a recommendation regarding the study of state revenues; however, IHS Markit provided additional updates to the Appropriations Committees during the 2021 legislative session to assist the committees in the development of the state budget.

STUDY PLAN

The following is a proposed study plan for the committee's consideration of its study of state revenues and state revenue forecasts:

1. Contract for consulting services to receive economic forecasting data, including selected general fund tax revenues; oil prices and production; and key economic assumptions, including the value of the US Dollar and demographic trends.
2. Monitor actual revenue collections compared to forecasted amounts.

3. Receive information from industry representatives regarding current trends, including updates from the agriculture industry and the oil and gas industry.
4. Receive information from state agencies regarding revenue collections.
5. Receive testimony from interested persons regarding the study.
6. Develop recommendations and any bill drafts necessary to implement the recommendations.
7. Prepare a final report for submission to the Legislative Management.