

PRELIMINARY OUTLOOK - NORTH DAKOTA 2003-05 GENERAL FUND BUDGET OCTOBER 2002 UPDATE

This memorandum is an update of the July 16, 2002, **preliminary outlook** regarding North Dakota's 2003-05 biennium general fund budget and related information. The information is **very preliminary** and subject to many yet to be determined factors, including revised revenue estimates, agency 2001-03 deficiency appropriation requests, agency 2001-03 unspent appropriations or "turnback," and 2003-05 biennium agency budget requests.

The following information is attached:

Appendix A - Preliminary Outlook - North Dakota 2003-05 Biennium General Fund Budget. Key points regarding the preliminary outlook include:

- A projected July 1, 2003, general fund balance of \$27,292 (the beginning balance on July 1, 2001, was \$62.2 million) - Based on the July 9, 2002, forecast and assumes deficiency appropriations will be funded from additional revenues or agency turnback.
- Total 2003-05 biennium general fund revenues and transfers of \$1,711,104,937, as projected in the Office of Management and Budget's July 9, 2002, preliminary forecast (represents \$4,789,230 more than the 2001-03 biennium original forecast made during the 2001 Legislative Assembly).
- Total projected 2003-05 biennium general fund appropriations of \$1,778,609,764, the amount potentially necessary to fund costs to continue totaling \$52,200,000. (The 2001-03 biennium adjusted general fund appropriations are \$1,726,409,764, reflecting the 1.05 percent general fund allotment.)
- Other potential general fund appropriations totaling \$118 million. These items are identified only as possible legislative considerations and are not recommended amounts but are provided so the reader can substitute whatever level determined appropriate.
- Based on information available to date, the 2003-05 general fund appropriation needs **may** exceed available resources in an amount ranging from \$67.5 million to \$184 million. This amount could be reduced by \$21,700,000 relating to the maximum potential savings resulting from the Governor's 95 percent budget request guideline for the 2003-05 biennium.
- These amounts are **preliminary** and are contingent upon the December revenue forecast for the remainder of the 2001-03 biennium and the 2003-05 biennium and actual agency budget requests. As of October 4, 2002, the budget requests for several major agencies have not been submitted to the Office of Management and Budget, including the Department of Human Services and the Department of Corrections and Rehabilitation.

Appendix B - General Fund Turnback for the 1995-97, 1997-99, and 1999-2001 Bienniums.

Appendix C - History of Bank of North Dakota Profits and Equity.

Appendix D - Summary of Preliminary Revenue Forecasts of the Office of Management and Budget.

Appendix E - A summary of the impact of projected federal medical assistance percentage changes.

Appendix F - Fiscal Information Summary.

ATTACH:6

October 2002

PRELIMINARY OUTLOOK - NORTH DAKOTA 2003-05 BIENNIUM GENERAL FUND BUDGET

This schedule is prepared as an early discussion paper regarding the 2003-05 biennium budget. It is based on available preliminary information, including the July 9, 2002, revised revenue forecast and is subject to updated revenue estimates for the 2001-03 and 2003-05 bienniums expected in December 2002 and other pending factors, including agency deficiency appropriation requests, agency turnback, and actual 2003-05 biennium agency budget requests. As of October 4, 2002, all budget requests were not submitted to the Office of Management and Budget. Although amounts are shown for possible increases in employee salaries, state aid to school districts, etc., they **are not recommended** amounts but are provided so the reader can substitute whatever level he or she believes appropriate.

Estimated July 1, 2003, general fund balance		\$27,292 ¹
2003-05 biennium revenues		
2003-05 biennium preliminary general fund revenues (reflecting July 2002 revenue estimates)		1,711,104,937 ²
Total 2003-05 biennium estimated resources		\$1,711,132,229
2003-05 biennium appropriations		
2001-03 biennium adjusted general fund appropriations	\$1,726,409,764 ₃	
Additional costs to continue funding levels established by the 2001 Legislative Assembly		
Cost to continue 2002-03 teacher compensation payments	17,700,000 ⁴	
Cost to continue 2002-03 fiscal year 2 percent employee salary increases, including higher education	7,100,000	
Bond payments for bond issues authorized by 2001 Legislative Assembly	1,100,000	
Increased cost of Department of Human Services grants resulting from the anticipated changes in the state's federal medical assistance percentage (FMAP)	19,900,000 ⁵	
Replace Department of Human Services funding sources available in 2001-03 but which are not anticipated to be available in 2003-05 (human service center collections, "refinancing" funds (Children's Services Coordinating Committee), and developmental disabilities loan fund)	4,900,000 ⁶	
Increased cost relating to the operation of the seriously mentally ill unit of the James River Correctional Center for a full biennium (funding was provided for nine months during the 2001-03 biennium)	1,400,000	
Increased payments in lieu of taxes to counties relating to the carbon dioxide pipeline	100,000	
Total costs to continue	\$52,200,000	
Projected 2003-05 biennium appropriations needed to maintain current funding levels		\$1,778,609,764
Potential June 30, 2005, general fund deficit before considering the following items		(\$67,477,535)
Potential changes to projected June 30, 2005, general fund balance		
Savings from decreased cost of implementing the statewide information technology network		\$1,500,000 ⁷
Increased cost to maintain the current state employee health insurance plan (assumes a 26 percent increase in premiums)		(\$19,800,000)
Two percent annual state employee salary increases, including higher education		(\$21,800,000)
Two percent increase to the 2001-03 state aid to school districts appropriation of \$474 million		(\$9,500,000) ⁸
An additional \$1,000 per year of teacher compensation payments for each year of the 2003-05 biennium		(\$26,400,000) ⁹
Two percent increase to the 2001-03 special education aid appropriation of \$49.9 million		(\$1,000,000)
Three percent annual increase for major Department of Human Services grants		(\$14,400,000)
Increased cost of continuing the enterprise resource planning (ERP) system initiative with total general fund support - \$7.5 million was provided from the general fund for the 2001-03 biennium. The total required funding for the 2003-05 biennium is \$21.9 million. The agency budget request anticipates funding for this initiative to be provided from bonding to be repaid from increased charges to agencies.		(\$14,400,000) ¹⁰
Increase in risk management insurance premiums, including higher education		(\$800,000) ¹¹

Unemployment insurance premiums	(\$900,000)
Inflationary increases of 2.5 percent per year for remaining expenditures	(\$9,000,000)
Potential June 30, 2005, general fund deficit range	(\$67,500,000)
	to
	(\$184,000,000)

NOTE: The potential deficit may be reduced by up to \$21.7 million depending on reductions that may result from the Governor's 95 percent budget request guideline. However, if the proposed initiated measure providing an individual income tax credit for persons 21 to 29 years old as well as student loan reimbursements is approved at the November 2002 general election, individual income tax revenues may be \$22 million less and funds available for transfer from the Bank of North Dakota may be reduced by up to \$33 million.

¹ **Estimated beginning balance** - The estimated July 1, 2003, general fund balance before any deficiency requests or agency turnback is based on the July 9, 2002, revised revenue forecast which projects 2001-03 biennium general fund revenues, including July 1, 2001, balance, to be \$55.3 million less than projected at the end of the 2001 legislative session. At the end of the 2001 legislative session, the June 30, 2003, general fund balance was estimated to be \$11,994,694. Due to the projected revenue shortfall, the revised estimate for the July 1, 2003, general fund balance is a negative \$43.3 million. In order to address the projected \$43.3 million negative ending general fund balance and provide a \$27,292 positive balance, the Governor has:

- Utilized the contingent transfer of an additional \$25 million from the Bank of North Dakota as authorized in Section 12 of 2001 House Bill No. 1015, and approved by the Budget Section.
- Reduced executive branch agency general fund budgets by 1.05 percent through the budget allotment process authorized in North Dakota Century Code Section 54-44.1-12 to generate \$17.6 million of savings. The \$17.6 million allotment includes \$5.5 million relating to state school aid which will be replaced with \$5.5 million from the foundation aid stabilization fund, leaving an estimated balance in the fund of \$6.6 million.
- Asked the legislative and judicial branches to voluntarily reduce general fund spending by 1.05 percent to generate \$737,000 of savings.

2001-03 Deficiency requests - Potential deficiency appropriation requests include:

Department of Human Services - FMAP change	\$5,500,000*
Division of Emergency Management - 1997-2001 disasters	12,000,000
University of North Dakota - State share of disaster claims	2,200,000
North Dakota State University - State share of disaster claims	2,000,000
Total	\$21,700,000

*This amount is the estimate of additional state general fund money that will be needed to match federal Medicaid funds as a result of the state's FMAP decreasing from 69.87 to 68.36 percent for the final nine months of the 2001-03 biennium. The Department of Human Services reported to the Budget Section in June 2002 that actual 2001-03 medical assistance general fund expenditures may exceed the appropriation by \$13.8 million. The department is planning program changes to generate \$3.3 million of general fund savings and anticipates using \$5 million of increased intergovernmental transfer funds available during the 2001-03 biennium to reduce the anticipated funding shortfall. The department is hopeful that Congress will approve a proposal to provide \$5.5 million of additional funding to reduce the effect of FMAP reductions.

Balanced 2001-03 biennium budget - Based on revised 2001-03 revenues and potential deficiency appropriation requests, it is estimated that \$21,672,708 will be needed from additional revenues, Bank of North Dakota transfers, agency turnback, or other sources prior to June 30, 2003, to provide for a balanced budget. The following table shows general fund turnback for recent bienniums:

Biennium	General Fund Turnback
1995-97	\$20,208,959
1997-99	\$25,257,465
1999-2001	\$20,847,445*

*Includes \$4.3 million relating to the contingent service payments for elderly and disabled (SPED) appropriation which was not needed.

² **Revenue** - The 2003-05 preliminary biennium revenues are based on the July 9, 2002, forecast. The revenues have been **increased by 4.2 percent for the 2003-05 biennium** (approximately 2.1 percent per year) as compared to the July 9, 2002, forecast for the 2001-03 biennium. The following table shows the transfers included in the 2001-03 biennium and 2003-05 biennium revenue forecasts:

	2001-03	2003-05	Variance
Bank of North Dakota	\$60,000,000	\$60,000,000	\$0
Mill and Elevator	6,000,000	3,000,000	(3,000,000)
Student loan trust fund	9,000,000	9,000,000	0
Lands and minerals trust fund	3,500,000	3,000,000	(500,000)
Water development trust fund	9,700,000	9,700,000	0*
Financial institutions fund	300,000	0	(300,000)
Sale of DD loans	2,000,000	0	(2,000,000)
Total	\$90,500,000	\$84,700,000	(\$5,800,000)

*Section 22 of 2001 House Bill No. 1023 provides that the water development trust fund is not to be used as a source of funding for State Water Commission administrative expenses after the 2001-03 biennium.

³ **2001-03 adjusted general fund appropriations** - The 2001-03 biennium general fund appropriations of \$1,746,983,173 have been reduced by \$2,967,789 related to the reduction in the general fund appropriation used to match 2001-03 intergovernmental transfer payments compared to the anticipated amount needed for matching 2003-05 intergovernmental payments and by \$17,606,160 related to the 1.05 percent executive branch budget allotment ordered by Governor Hoeven in July 2002.

- ⁴ **Cost to continue teacher compensation payments** - The cost to continue teacher compensation payments during the 2003-05 biennium at the \$3,000 per teacher level paid during the last year of the 2001-03 biennium is based on the current estimate of 8,786 qualifying teacher FTE positions. The 2001-03 biennium appropriation was based on an estimated 8,884 qualifying FTE positions and payment levels of \$1,000 the first year and \$3,000 the second year.
- ⁵ **FMAP changes** - This amount is based on North Dakota's FMAP decreasing by 1.51 percent, from 69.87 to 68.36 percent, for federal fiscal year 2003, decreasing by .05 percent, from 68.36 to 68.31 percent for federal fiscal year 2004, and decreasing by .84 percent, from 68.31 to 67.47 percent for federal fiscal year 2005.
- ⁶ **Human service center collections** - The Department of Human Services anticipates funding available from human service center collections for the 2003-05 biennium to be \$2.8 million less than the 2001-03 biennium. This reduction results from using collections that had accumulated during the 1999-2001 biennium as a one-time revenue source to reduce the 2001-03 biennium general fund appropriation requirements.
- "Refinancing funds"** - Due to a change in federal regulations, the amount of federal funds that are anticipated to be generated during the 2003-05 biennium from "refinancing" are anticipated to decrease by 75 percent, from \$4 million per year in fiscal year 2002 to \$1 million per year beginning in fiscal year 2003. As a result, the Department of Human Services is estimated to receive \$600,000 less from its 10 percent share. In addition, \$600,000 of "refinancing" funds from the Children's Services Coordinating Committee used during the 2001-03 biennium for the department's partnership project is unlikely to be available.
- ⁷ **Statewide network** - The 2001 Legislative Assembly provided funding of \$9,968,905, of which \$4,920,825 is from the general fund, for implementation of the statewide information technology network. The total estimated cost for the statewide information technology network for the 2003-05 biennium is approximately \$7.5 million, of which approximately \$3.4 million is from the general fund. This represents a possible reduction in general fund appropriations of approximately \$1.5 million.
- ⁸ **State school aid** - The number of weighted student units, which is the basis for determining the amount of per student state school aid paid to each school district, is expected to decline during the 2001-03 biennium. Assuming a 2 percent per year decline in the number of students and continuing the 2002-03 per student payment level of \$2,347 for both years of the 2003-05 biennium, the funding needed for state school aid would be \$458.2 million, \$15.8 million less than the 2001-03 biennium appropriation of \$474 million. A 2 percent increase in the biennial appropriation from the 2001-03 level will cost \$9.5 million and provide a foundation aid appropriation of \$483.5 million for the 2003-05 biennium.
- ⁹ **Additional teacher compensation payments** - The cost to increase teacher compensation payments by \$1,000 per year, to \$4,000 per FTE position in 2003-04 and \$5,000 per FTE position in 2004-05, is based on the current estimate of 8,786 qualifying teacher FTE positions. The 2001-03 biennium appropriation was based on an estimated 8,884 qualifying FTE positions and payment levels of \$1,000 the first year and \$3,000 the second year.
- ¹⁰ **ERP computer system** - The 2001 Legislative Assembly provided funding of \$7.5 million from the general fund for the implementation of an ERP system for the state of North Dakota. The total estimated cost for continued implementation of the ERP system for the 2003-05 biennium is \$21.9 million, \$14.4 million more than the \$7.5 million appropriation for the 1999-2001 biennium. A portion of the funding could be provided from a number of sources, including revenue bond proceeds, higher education, and current agency budgets. The agency's 2003-05 budget request anticipates this funding to be provided from revenue bond proceeds.
- ¹¹ **Risk management premiums** - The amount shown is the estimated cost increase for risk management premiums for the 2003-05 biennium.

SELECT SPECIAL FUND BALANCES

The schedule below presents the estimated balances in select special funds on July 1, 2003:

Permanent oil tax trust fund	\$13,200,000*
Community health trust fund (tobacco settlement)	\$5,200,000
Health care trust fund (intergovernmental transfer program)	\$41,400,000**
Lands and minerals trust fund	\$500,000
Resources trust fund	\$4,100,000

*Pursuant to North Dakota Century Code Section 57-51.1-07.2, any oil tax collections received in a biennium in excess of \$62 million are transferred to the permanent oil tax trust fund and may be spent only upon approval by two-thirds of each chamber of the Legislative Assembly.

**The Department of Human Services plans to request from the 2003 Legislative Assembly authority to spend \$5 million to address a portion of its projected 2001-03 budget shortfall. Section 17 of 2001 House Bill No. 1196 provides that the June 30, 2003, unobligated balance in the health care trust fund and any investment earnings on that amount during the 2003-05 biennium not be appropriated but be retained in the fund to be used to continue, for periods subsequent to the 2003-05 biennium, the increased funding levels authorized by the 2001 Legislative Assembly in House Bill No. 1196. The cost of continuing the funding levels provided for in 2001 House Bill No. 1196 for the 2003-05 biennium is estimated to be \$21.4 million.

September 2002

**GENERAL FUND TURNBACK FOR THE 1995-97, 1997-99,
AND 1999-2001 BIENNIUMS**

Dept. No.	Agency Name	Actual 1995-97 General Fund Turnback	Actual 1997-99 General Fund Turnback	Actual 1999-2001 General Fund Turnback
	Miscellaneous			
070	Homestead Tax Credit	\$62,626	\$367,494	\$535,605
	Total Miscellaneous	\$62,626	\$367,494	\$535,605
	General Government			
101	Office of the Governor	\$121,342	\$109,773	\$49,991
108	Secretary of State	236,582	34,671	189,072
110	Office of Management and Budget	332,914	1,513,734	1,301,750
112	Information Technology Department	0	0	3,821
117	State Auditor	32,923	65,911	14,269
118	Central Services	3,567	26,590	84,834
120	State Treasurer	8,080	1,606	8,333
125	Attorney General	146,824	2,722	963
127	Tax Commissioner	334,621	2,077,092	977,829
140	Office of Administrative Hearings	16,291	100,000	0
150	Legislative Assembly	0	0	439,462
160	Legislative Council	0	0	1,036,303
180	Judicial Branch	1,082,520	1,669,944	1,179,356
190	Retirement and Investment Office	0	0	0
192	Public Employees Retirement System	0	0	0
	Total General Government	\$2,315,664	\$5,602,043	\$5,285,983
	Education			
201	Department of Public Instruction	\$4,547,429	\$11,775,703	\$3,520,972
215	University System Office	0	0	0
226	Land Department	0	0	0
227	Bismarck State College	0	0	0
228	Lake Region State College	0	0	0
229	Williston State College	0	0	0
230	University of North Dakota	0	0	0
232	UND School of Medicine and Health Sciences	0	0	0
235	North Dakota State University	0	0	0
238	State College of Science	0	0	0
239	Dickinson State University	0	0	0
240	Mayville State University	0	0	0
241	Minot State University	0	0	0
242	Valley City State University	0	0	0
243	Minot State University - Bottineau	0	0	0
244	Forest Service	0	0	0

Dept. No.	Agency Name	Actual 1995-97 General Fund Turnback	Actual 1997-99 General Fund Turnback	Actual 1999-2001 General Fund Turnback
250	State Library	876	523	2,350
252	School for the Deaf	2	2,003	32,196
253	School for the Blind	1,864	5,600	5,370
270	State Board for Vocational Education	0	3,004	187
	Total Education	\$4,550,171	\$11,786,833	\$3,561,075
	Health and Welfare			
301	State Department of Health	\$663,754	\$116,142	\$162,360
313	Veterans Home	0	9	0
316	Indian Affairs Commission	2,002	2,578	14,267
321	Department of Veterans Affairs	2,351	2	1,146
324	Children's Services Coordinating Committee	0	0	0
325	Department of Human Services	10,497,806	4,584,642	8,168,981
360	Protection and Advocacy	53	0	40
380	Job Service North Dakota	182,692	317,714	164,204
	Total Health and Welfare	\$11,348,658	\$5,021,087	\$8,510,998
	Regulatory			
401	Insurance Commissioner	\$0	\$0	\$0
405	Industrial Commission	918,588	867,605	702,346
406	Labor Commissioner	36,892	47,326	41,254
408	Public Service Commission	39,236	122,951	17,916
412	Aeronautics Commission	0	0	0
413	Department of Banking and Financial Institutions	0	0	0
414	Securities Commissioner	20,072	1,194	79,103
471	Bank of North Dakota	0	0	0
473	Housing Finance Agency	0	0	0
475	Mill and Elevator Association	0	0	0
485	Workers Compensation Bureau	0	0	0
	Total Regulatory	\$1,014,788	\$1,039,076	\$840,619
	Public Safety			
504	Highway Patrol	\$0	\$63,520	\$13,054
506	State Radio Communications	0	5,241	78,137
512	Emergency Management	904	56,780	102,601
530	Department of Corrections and Rehabilitation	165,307	870,263	1,411,737
540	Adjutant General	125,255	167,555	30,365
	Total Public Safety	\$291,466	\$1,163,359	\$1,635,894
	Agriculture and Economic Development			
601	Economic Development and Finance	\$207,871	\$21,028	\$97,292
602	Department of Agriculture	179,479	16,508	7,677
616	Seed Department	0	0	0

Dept. No.	Agency Name	Actual 1995-97 General Fund Turnback	Actual 1997-99 General Fund Turnback	Actual 1999-2001 General Fund Turnback
627	Upper Great Plains Transportation Institute	0	0	0
630	NDSU Extension Service	0	0	0
638	Northern Crops Institute	0	0	0
640	Main Research Center	0	0	0
641	Dickinson Research Center	0	0	0
642	Central Grasslands Research Center	0	0	0
643	Hettinger Research Center	0	0	0
644	Langdon Research Center	0	0	0
645	North Central Research Center	0	0	0
646	Williston Research Center	0	0	0
647	Carrington Research Center	0	0	0
649	Agronomy Seed Farm	0	0	0
665	State Fair	0	0	0
	Total Agriculture and Economic Development	\$387,350	\$37,536	\$104,969
	Natural Resources			
701	State Historical Society	\$65,070	\$57,713	\$149,118
709	Council on the Arts	89,197	37,283	12,352
720	Game and Fish Department	641	0	0
740	Tourism Department	48,144	105,950	1,020
750	Parks and Recreation	35,184	4,506	742
770	State Water Commission	0	34,585	127,945
	Total Natural Resources	\$238,236	\$240,037	\$291,177
	Transportation			
801	Department of Transportation	\$0	\$0	\$81,128
	Total Transportation	\$0	\$0	\$81,128
	TOTAL	\$20,208,959	\$25,257,465	\$20,847,448

August 2002

HISTORY OF BANK OF NORTH DAKOTA PROFITS AND EQUITY**HISTORIC BANK OF NORTH DAKOTA PROFITS, CAPITAL, ASSETS, AND LIABILITIES**

The following schedule shows the Bank of North Dakota profits (before transfers), capital, assets, and liabilities for calendar years 1992 through 2002:

Calendar Year	Profits (Before Transfers)	Year-End Capital	Year-End Assets	Year-End Liabilities
1992	\$22,340,000	\$114,119,000	\$1,064,109,000	\$949,990,000
1993	\$17,530,000	\$100,000,000	\$872,220,000	\$772,220,000
1994	\$18,031,000	\$100,206,000	\$935,070,000	\$934,864,000
1995	\$21,639,000	\$76,000,000	\$1,033,816,000	\$957,816,000
1996	\$23,191,000	\$98,477,000	\$1,068,082,000	\$969,605,000
1997	\$25,544,000	\$128,888,000	\$1,162,415,000	\$1,033,527,000
1998	\$28,137,000	\$139,931,000	\$1,609,039,000	\$1,469,108,000
1999	\$30,459,000	\$139,275,000	\$1,687,167,000	\$1,547,892,000
2000	\$32,582,000	\$153,045,000	\$1,806,517,000	\$1,653,472,000
2001	\$33,059,000	\$170,496,000	\$2,107,456,000	\$1,936,960,000
2002 (estimates)	\$31,300,000	\$170,000,000	\$1,800,000,000	\$1,630,000,000

BANK OF NORTH DAKOTA TRANSFERS TO THE GENERAL FUND

The following schedule shows the Bank of North Dakota-authorized transfers to the general fund and actual transfers to the general fund from the 1991-93 biennium to the 2001-03 biennium:

Biennium	Authorized Transfers	Actual Transfers
1991-93	\$23,217,457 ¹	\$27,217,457 ¹
1993-95	\$48,000,000	\$14,100,000 ²
1995-97	\$59,900,000	\$50,214,540
1997-99	\$29,600,000	\$29,600,000 ³
1999-2001	\$50,000,000 ⁴	\$50,000,000
2001-03	\$85,000,000 ⁵	\$30,000,000 ⁶

¹ The 1991 Legislative Assembly authorized the transfer of \$23.2 million from the accumulated profits of the Bank of North Dakota to the general fund during the 1991-93 biennium. Senate Bill No. 2053 (1993) transferred an additional \$4 million from the accumulated profits of the Bank to the general fund prior to June 30, 1993.

² The 1995 Legislative Assembly reduced the 1993-95 biennium Bank of North Dakota transfers to \$14.1 million.

³ Section 21 of 1997 House Bill No. 1015 provided that any balance in or amounts to be transferred to the budget stabilization fund on July 1, 1997, were to be transferred to the Bank of North Dakota and added to the Bank's undivided profits (capital). As a result, in October 1997, \$17,116,291 was transferred to the Bank of North Dakota.

⁴ Section 12 of 1999 Senate Bill No. 2015 provided that the Bank of North Dakota transfer \$50 million from the Bank's current earnings and accumulated undivided profits (capital) to the state general fund. No more than \$15 million of the \$50 million to be transferred could come from the accumulated and undivided profits of the Bank, and no transfer could reduce the Bank's capital structure below \$100 million.

⁵ The 2001-03 budget provides that the Bank of North Dakota transfer \$60 million from the Bank's current earnings and accumulated undivided profits to the state general fund. No more than \$15 million of the \$60 million to be transferred may come from the accumulated and undivided profits of the Bank, and no transfer may reduce the Bank's capital structure below \$140 million. The Budget Section approved the transfer of an additional amount of up to \$25 million to the state general fund from the earnings and accumulated and undivided profits of the Bank pursuant to Section 12 of 2001 House Bill No. 1015.

⁶ As of July 2002, \$30 million has been transferred from the Bank of North Dakota to the general fund.

SUMMARY OF PRELIMINARY REVENUE FORECASTS OF THE OFFICE OF MANAGEMENT AND BUDGET

Revenues and Transfers	2001-03 Biennium			2003-05 Biennium		
	2001 Legislative Forecast	2001-03 Revised Forecast (July 2002)	Change	Preliminary Forecast	Change From 2001-03 Legislative Forecast	Change From 2001-03 July 2002 Forecast
Sales and use tax	\$643,705,000	\$642,969,748	(\$735,252)	\$678,755,000	\$35,050,000	\$35,785,252
Motor vehicle excise tax	113,531,000	118,425,256	4,894,256	121,030,000	7,499,000	2,604,744
Individual income tax	450,847,000	397,216,355	(53,630,645)	432,618,000	(18,229,000)	35,401,645
Corporate income tax	104,439,000	84,701,973	(19,737,027)	87,746,000	(16,693,000)	3,044,027
Business privilege/financial institutions tax	4,800,000	5,101,892	301,892	5,200,000	400,000	98,108
Oil and gas production tax	38,431,000	38,115,849	(315,151)	36,754,000	(1,677,000)	(1,361,849)
Oil extraction tax	23,569,000	22,944,638	(624,362)	25,246,000	1,677,000	2,301,362
Cigarette and tobacco tax	38,796,000	39,738,046	942,046	37,635,000	(1,161,000)	(2,103,046)
Coal conversion tax	48,670,000	47,266,821	(1,403,179)	48,413,000	(257,000)	1,146,179
Insurance premium tax	39,896,000	46,633,682	6,737,682	47,665,000	7,769,000	1,031,318
Wholesale liquor tax	10,540,543	11,159,550	619,007	11,647,514	1,106,971	487,964
Gaming	20,403,000	23,928,000	3,525,000	20,178,000	(225,000)	(3,750,000)
Departmental collections	48,977,350	55,647,050	6,669,700	53,382,211	4,404,861	(2,264,839)
Interest	21,011,000	10,889,000	(10,122,000)	14,868,000	(6,143,000)	3,979,000
Mineral leasing fees	6,757,500	4,976,000	(1,781,500)	3,870,000	(2,887,500)	(1,106,000)
Bank of North Dakota profits - Transfer	60,000,000	60,000,000 ²		60,000,000		
Student loan trust fund interest	9,000,000	9,000,000		9,000,000		
State Mill profits - Transfer	6,000,000	6,000,000		3,000,000	(3,000,000)	(3,000,000)
Gas tax administration - Transfer	1,363,392	1,363,392		1,363,392		
Other transfers	15,578,922 ¹	15,349,772	(229,150)	12,733,820 ³	(2,845,102)	(2,615,952)
Total revenue and transfers	\$1,706,315,707	\$1,641,427,024	(\$64,888,683)	\$1,711,104,937	\$4,789,230	\$69,677,913
¹ 2001-03 other transfers include:						
Land and minerals trust fund	\$3,545,102					
Water development trust fund	9,733,820					
Financial institutions regulatory fund	300,000					
Developmental disabilities loan sale	<u>2,000,000</u>					
Total	\$15,578,922					
² In addition, a \$25 million transfer from the Bank of North Dakota was approved by Budget Section action on August 22, 2002.						
³ 2003-05 other transfers include:						
Land and minerals trust fund	\$3,000,000					
Water development trust fund	<u>9,733,820</u>					
Total	\$12,733,820					

October 2002

FEDERAL MEDICAL ASSISTANCE PERCENTAGE - IMPACT OF PROJECTED CHANGES FOR FEDERAL FISCAL YEARS 2003, 2004, AND 2005

The federal medical assistance percentage (FMAP) is calculated for each state to determine each state's share of Medicaid payments. The federal medical assistance percentage is based on the relationship between each state's per capita personal income and the national average per capita personal income over three calendar years.

The federal funds information for states (FFIS) has reported that the federal medical assistance percentage for North Dakota for federal fiscal year 2003 will be 68.36 percent, 1.51 percent less than the current 69.87 percent for federal fiscal year 2002 and also 1.51 percent less than the rate anticipated for federal fiscal year 2003 in the Department of Human Services 2001-03 biennium budget. Federal fiscal year 2003 begins October 1, 2002; therefore, the lower percentage will affect the last nine months of the 2001-03 biennium.

The Department of Human Services estimates the federal medical assistance percentage change for the last nine months of the 2001-03 biennium will require an additional \$6 million of state matching funds for the state's medical assistance program, developmental disabilities services grants, Healthy Steps, foster care,

subsidized adoption, and programs at the Developmental Center and human service centers.

For the 2003-05 biennium, the federal medical assistance percentage will remain at 68.36 percent for the first three months of the biennium. The Department of Human Services and federal funds information for states have projected the federal medical assistance percentage to **decrease** by an additional .05 percent, to 68.31 percent, for federal fiscal year 2004. For federal fiscal year 2005, which will affect the last nine months of the 2003-05 biennium, preliminary estimates by federal funds information for states indicate North Dakota's federal medical assistance percentage may be as low as 67.47 percent. Preliminary estimates indicate that these federal medical assistance percentage changes will require an additional \$19.9 million of state matching funds for the 2003-05 biennium compared to the 2001-03 biennium appropriation level, assuming program expenditures at the same level.

The schedule below provides the impact of the federal medical assistance percentage changes for the 2001-03 and the 2003-05 bienniums:

Estimated Cost of Federal Medical Assistance Percentage Changes						
		Federal Medical Assistance Percentage	69.87% to 68.36% (1.51%)	68.36% to 68.31% (.05%)	68.31% to 67.47% (.84%)	Total
2001-03	Federal fiscal year 2002 - Current percentage	69.87%				
	Federal fiscal year 2003 - 9 months	68.36%	\$6.0 million	\$0	\$0	\$6.0 million
2003-05	Federal fiscal year 2003 - 3 months	68.36%	\$2.0 million	\$0	\$0	\$2.0 million
	Federal fiscal year 2004 - 12 months	68.31%	\$8.0 million	\$.3 million	\$0	8.3 million
	Federal fiscal year 2005 - 9 months	67.47%	\$6.0 million	\$.2 million	\$3.4 million	9.6 million
						\$19.9 million

NOTE: Department of Human Services estimates each 1 percent reduction in the federal medical assistance percentage will require an additional \$5.4 million of state matching funds per year.

August 2002

FISCAL INFORMATION SUMMARY

This memorandum provides fiscal information, reflecting the July 2002 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 \$174 million per biennium, or \$87 million per year, for the 2003-05 biennium based on the July 2002 general fund 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 2003-05 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 (legislative estimate)	\$757.2	4.8%
2001-03 (July 2002 estimate)	\$761.4	5.4%
2003-05 (July 2002 estimate)	\$799.8	5.0%

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 percent 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 (Example: the 3.92 percent rate would increase to 4.31 percent) is approximately \$43.26 million per biennium, or \$21.63 million per year, for the 2003-05 biennium based on the July 2002 general fund revenue forecast. The following schedule shows general fund revenue collections from individual income taxes for the 1997-99 through 2003-05 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 (legislative estimate)	\$450.8	10.1%
2001-03 (July 2002 estimate)	\$397.2	-3.0%
2003-05 (July 2002 estimate)	\$432.6	8.9%

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 the 2001-03 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 is deposited in the state highway fund, and \$3.7 million or 37 percent is 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 \$3.3 million per biennium (oil and gas production and oil extraction tax collections based on the production and price estimates made for the 2003-05 biennium (July 2002, general fund revenue forecast)). North Dakota Century Code (NDCC) Section 57-51.1-07.2 provides that, at the end of any biennium, if oil and gas production and 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. Money in the permanent oil tax trust fund may only be spent upon approval of two-thirds of the members-elect of each house of the Legislative Assembly (currently there is \$13.2 million in the trust fund). General fund oil and gas tax collections exceeded \$62 million during the 1999-2001 biennium and are estimated to exceed \$62 million during the 2003-05 biennium. The following schedule shows general fund revenue collections from oil and gas taxes for the 1997-99 through 2003-05 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 (legislative estimate)	\$62.0*	0.0%
2001-03 (July 2002 estimate)	\$61.1	-1.5%
2003-05 (July 2002 estimate)	\$62.0*	1.5%

* \$13.2 million was transferred to the permanent oil tax trust fund for the 1999-2001 biennium. Based on the 2001-03 legislative revenue forecast, \$9 million was estimated to be transferred to the permanent oil tax trust fund. Based on the July 2002 general fund revenue forecast, \$2.9 million is estimated to be transferred to the permanent oil tax trust fund for the 2003-05 biennium.

5. **Oil prices.** The following schedule compares estimates during the 2001 Legislative Assembly to actual oil prices during the 2001-03 biennium:

Quarter/Month	Estimated Average Price Per Barrel During 2001 Legislative Assembly	Actual Average Price Per Barrel ¹	Amount Over (Under) Original Estimate
July-September 2001	\$22.39	\$21.38	(\$1.01)
October-December 2001	\$22.19	\$15.27	(\$6.92)
January-March 2002	\$21.18	\$16.63	(\$4.55)
April-June 2002	\$20.17	\$21.36	\$1.19

¹ The actual market price per barrel of oil is the Amoco-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 \$79.7 million as of July 2002 as a result of the tobacco settlement and that has been deposited in the tobacco settlement trust fund. The tobacco settlement trust fund collections are allocated among the community health trust fund, common schools trust fund, and water development trust fund pursuant to NDCC Section 54-27-25, as follows:

	Community Health Trust Fund (10%)	Common Schools Trust Fund (45%)	Water Development Trust Fund (45%)	Total
1999-2001 Actual	\$5,290,078	\$23,805,353	\$23,805,353	\$52,900,784
2001-03 (as of July 2002)	2,678,071	12,051,320	12,051,320	26,780,711
2001-03 (estimated remaining payments)	2,653,644	11,941,400	11,941,400	26,536,444
Total estimated through June 30, 2003	\$10,621,793	\$47,798,073	\$47,798,073	\$106,217,939

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

2003-05	\$45,944,100
2005-07	\$45,944,100
2007-09	\$73,687,000
2009-11	\$73,687,000
2011-13	\$73,687,000

Collections are estimated to total \$776,558,000 through the year 2025. This compares to a total of \$866,800,000 projected during the 1999 Legislative Assembly.

7. **Foundation aid payments.** The estimated cost of a \$10 increase in the foundation aid per student payment is approximately \$1.1 million per year or \$1 million for each annual \$9.18 increase per student. This is based on the current estimate of 108,985 weighted students for the 2002-03 school year.

Statutory per student payments for the 2001-03 biennium are \$2,287 for the first year and \$2,347 for the second year.

8. **Teacher payments.** The 2001 Legislative Assembly appropriated \$35,036,000 for teacher compensation payments of \$1,000 the first year of the biennium and an additional \$2,000 the second year to approximately 8,884 FTE instructional personnel. The estimated cost to continue the 2002-03 teacher compensation payments in the 2003-05 biennium is approximately \$17.7 million. The estimated cost to provide additional teacher compensation payments of \$1,000 for each year of the 2003-05 biennium is approximately \$26.4 million.

9. **State employee salary increase.** The estimated cost of a 1 percent state employee salary increase per year including fringe benefits is:

	Employees Other Than Higher Education	Higher Education	Total
General fund	\$1,600,000	\$2,025,000	\$3,625,000
Special funds	1,553,000	122,000	1,675,000
Total	\$3,153,000	\$2,147,000	\$5,300,000

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%	1999	2.2%
1992	3.0%	2000	3.4%
1993	3.0%	2001	2.8%
1994	2.6%	2002	1.8%
1995	2.8%	2003	2.5%
1996	2.9%	2004	2.4%
1997	2.3%	2005	2.5%
1998	1.5%	2006	2.4%