

**NORTH DAKOTA
LEGISLATIVE COUNCIL**



North Dakota

LEGISLATIVE COUNCIL

PRESENTATION TO NEW MEXICO LEGISLATIVE FINANCE COMMITTEE

AND

REVENUE STABILIZATION AND TAX POLICY COMMITTEE

North Dakota Legislative Council
600 East Boulevard Avenue
Bismarck, ND 58505-0360

701.328.2916

lcouncil@nd.gov

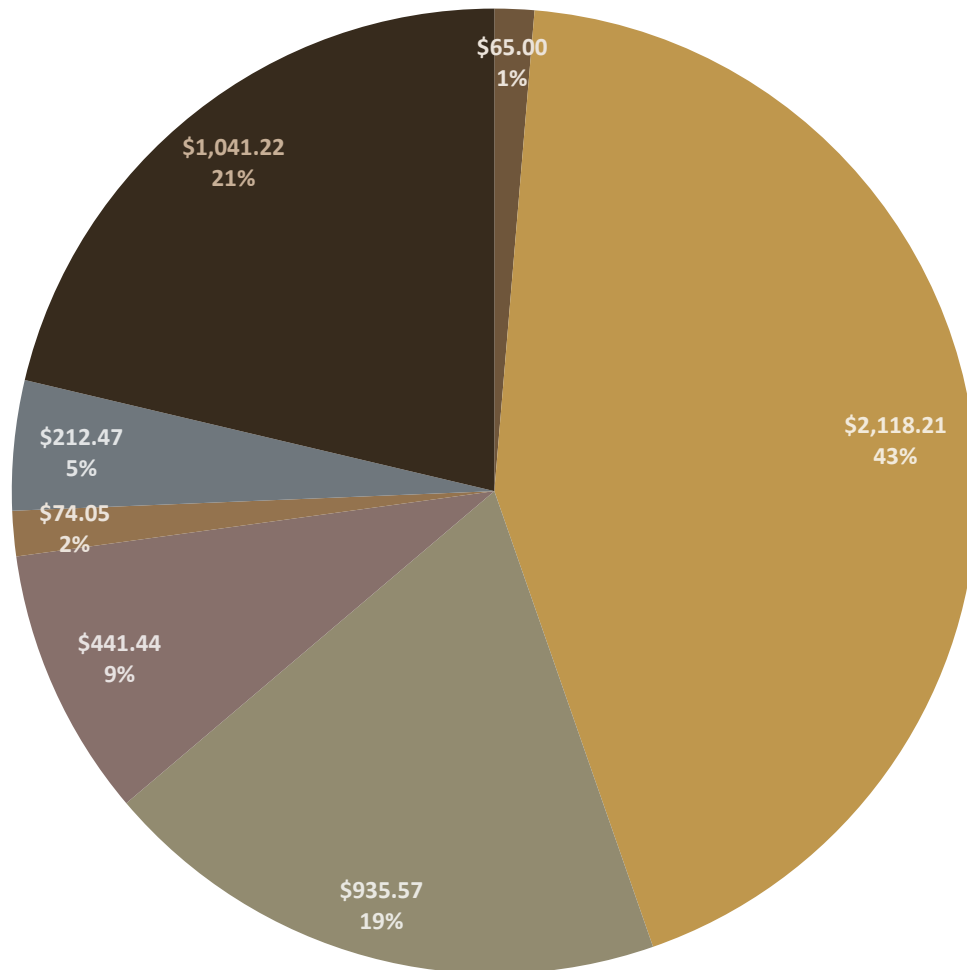
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North Dakota's Oil Experience

- Roller coaster ride
- Oil projections – Never right, sometimes not even close
- Don't always count on the “experts”
- Try to plan for the expected unexpected

2019-21 General Fund Revenues

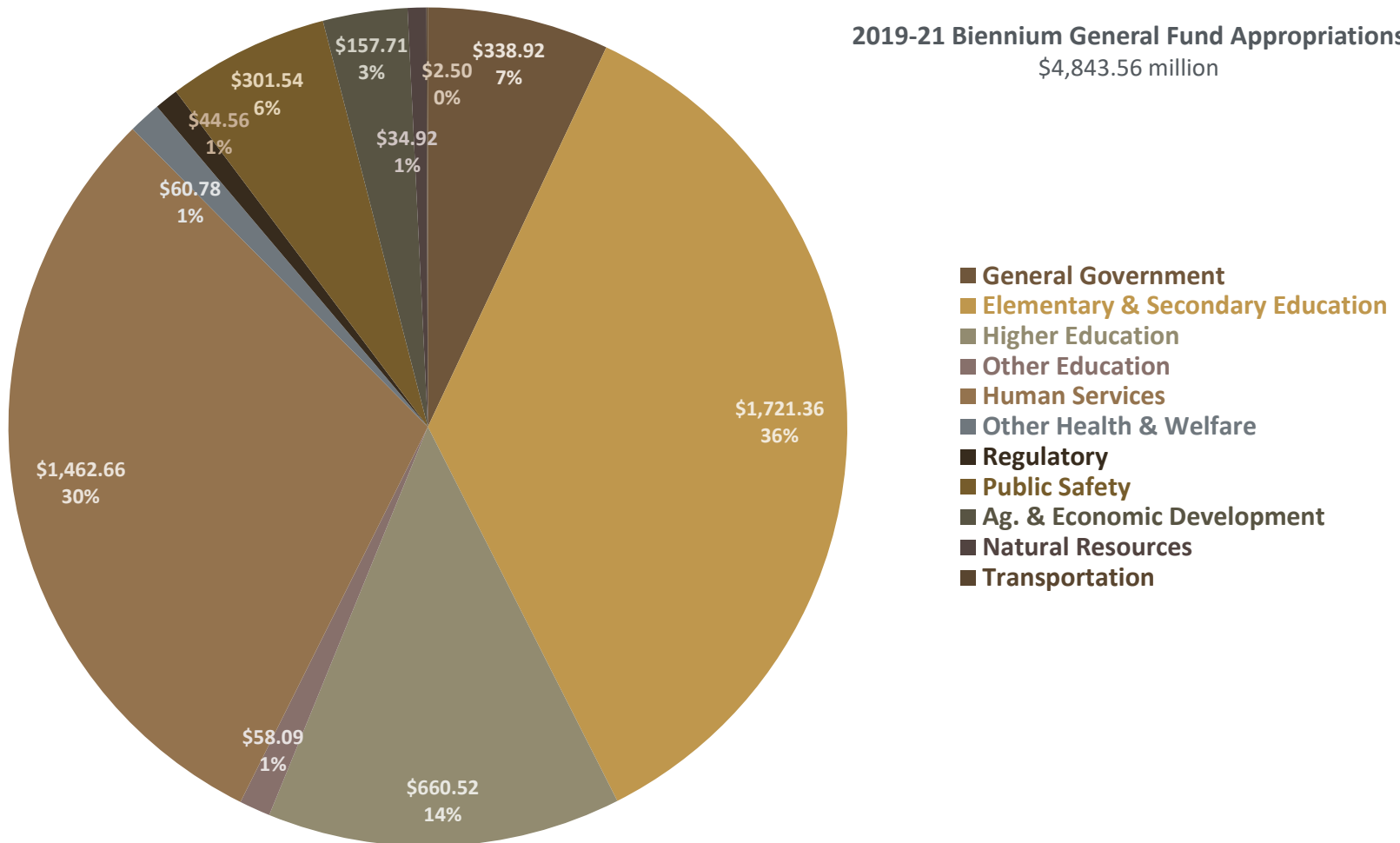
2019-21 Biennium General Fund Revenues
\$4,887.96 million (Budget Estimate)



- Beginning balance
- Sales, use, and motor vehicle taxes
- Individual and corporate income taxes
- Oil and coal taxes
- Alcohol, tobacco, and gaming taxes
- Other tax and fee revenues
- Transfers and other sources

2019-21 General Fund Appropriations

2019-21 Biennium General Fund Appropriations
\$4,843.56 million



Oil Taxes

- 5% oil and gas gross production tax
- 5% oil extraction tax
- Royalty income – Individual income tax

1980's Lesson

- Early to mid 80's boom
- Legislative Assembly budgeted for its oil revenue in the general fund
- 1986 bust
- Major budget reductions – Negatively affected state funding to schools
- Unfinished housing developments
- Major drought in late 80's affected agriculture
- Budget didn't recover until mid 90's

1990's Plan

- Limited general fund reliance on oil revenues
- Established a “permanent” oil tax trust fund in statute
- Created a statutory budget stabilization fund
- Created a separate constitutional stabilization fund for K-12 funding

Early 2000's – Oil Begins to Return

- Oil not a big factor in budget
- Relatively small amounts being generated
- Prices began increasing, production increases were delayed
- Found out “permanent” oil tax trust fund was not permanent – Turned into “General fund II”

2008 – Boom

- Just as rest of the country was entering the Great Recession, ND was booming:
 - Oil price and production increasing
 - Population growth
 - High-paying jobs and lots of them
 - Vehicle sales
 - Construction projects
 - Gasoline and diesel fuel sales
 - State revenues skyrocketing

Growing Gains and Pains

- In boom years, pressure on legislature to:
 - Reduce property taxes
 - Reduce individual and corporate income taxes
 - Increase spending on:
 - Infrastructure improvements for political subdivisions – housing, water, sewer, roads, bridges, airports
 - Road repairs and improvements – Safety concerns
 - More students required more schools and more teachers
 - Public safety
 - Human services
 - FMAP

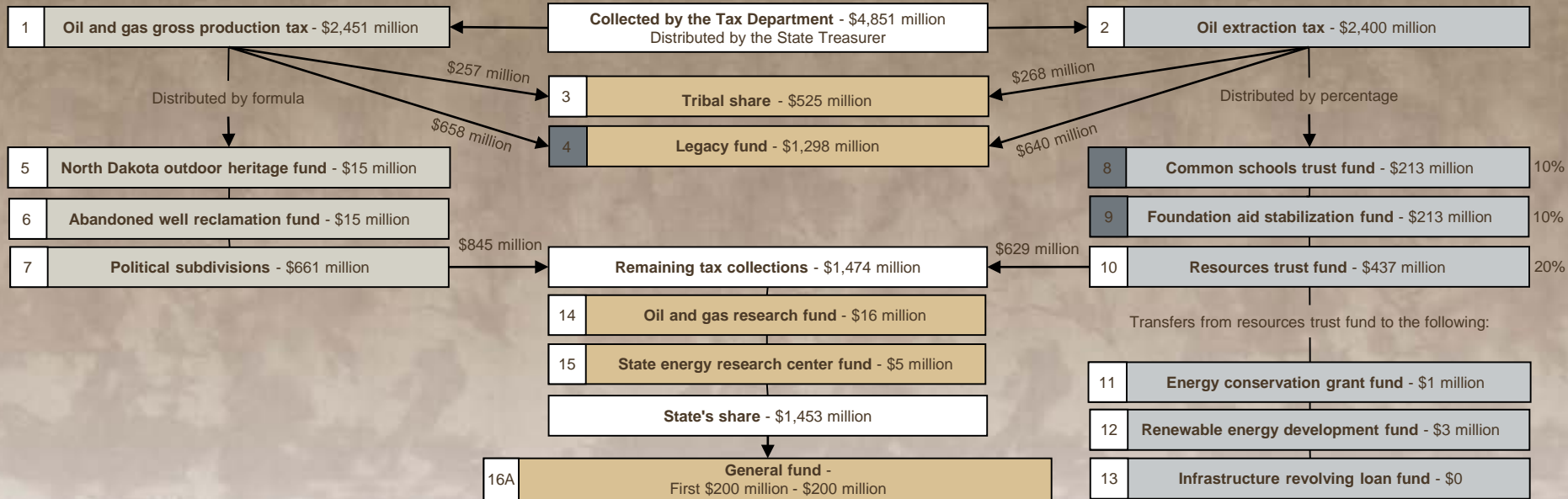
Updated Plan in 2000's

- Identify ongoing vs one-time spending
- Legacy Fund – Constitutional “permanent” fund established in 2011
- Oil “buckets” – Tax relief fund and strategic investment fund – 2011
- Don't spend the money until we have the money

Strategic Investment and Improvements Fund

- Fund is to be used for one-time expenditures to improve state infrastructure and for initiatives to improve the efficiency and effectiveness of state government. Money in the fund may be appropriated, but only to the extent that the moneys are estimated to be available at the beginning of the biennium in which the appropriations are authorized. (NDCC Section 15-08.1-08)

2019-21 Biennium Oil and Gas Tax Revenue Allocation Flowchart



16A	General fund - First \$200 million - \$200 million
17	Tax relief fund - Next \$200 million - \$200 million
18	Budget stabilization fund - Next \$75 million - \$75 million
16B	General fund - Next \$200 million - \$200 million
19	Lignite research fund - Next \$10 million - \$10 million
20	State disaster relief fund - Next \$15 million if fund balance does not exceed \$15 million - \$0
21A	Municipal infrastructure fund - Next \$30 million - \$30 million
22A	Strategic investment and improvements fund - Next \$400 million - \$400 million
23A	County and township infrastructure fund - Next \$30 million - \$30 million
21B 23B	Non-oil-producing political subdivision infrastructure funds 50 percent - Municipal infrastructure fund - \$85 million 50 percent - County and township infrastructure fund - \$85 million
24	Airport infrastructure fund - Next \$20 million - \$20 million
22B	Strategic investment and improvements fund - Any remaining revenues - \$118 million

The shading in the number boxes represents constitutional allocations

Summary of Estimated 2019-21 Biennium Allocations	
	Total
3 Tribal share	\$525,110,000
4 Legacy fund	1,297,820,000
5 North Dakota outdoor heritage fund	15,000,000
6 Abandoned well reclamation fund	14,820,000
7 Political subdivisions	661,150,000
8 Common schools trust fund	213,290,000
9 Foundation aid stabilization fund	213,290,000
10 Resources trust fund (net deposits)	433,040,000
11 Energy conservation grant fund	1,200,000
12 Renewable energy development fund	3,000,000
13 Infrastructure revolving loan fund	0
14 Oil and gas research fund	16,000,000
15 State energy research center	5,000,000
16 General fund	400,000,000
17 Tax relief fund	200,000,000
18 Budget stabilization fund	75,000,000
19 Lignite research fund	10,000,000
20 State disaster relief fund	0
21 Municipal infrastructure fund	115,000,000
22 Strategic investment and improvements fund	517,470,000
23 County and township infrastructure fund	115,000,000
24 Airport infrastructure fund	20,000,000
Total	\$4,851,190,000

2015-17 Bust

- Oil revenues dropped by over 50%
- General fund revenues declined 30%
- Governor called special session due to revenue shortfall and Legislative Assembly:
 - Used all available funding in stabilization funds and others
 - Reduced budgets by about 7%
- 2017 Session:
 - Another 7% budget reduction
 - Accessed other available funds
 - Legacy fund earnings available
- Working our way back in 2019

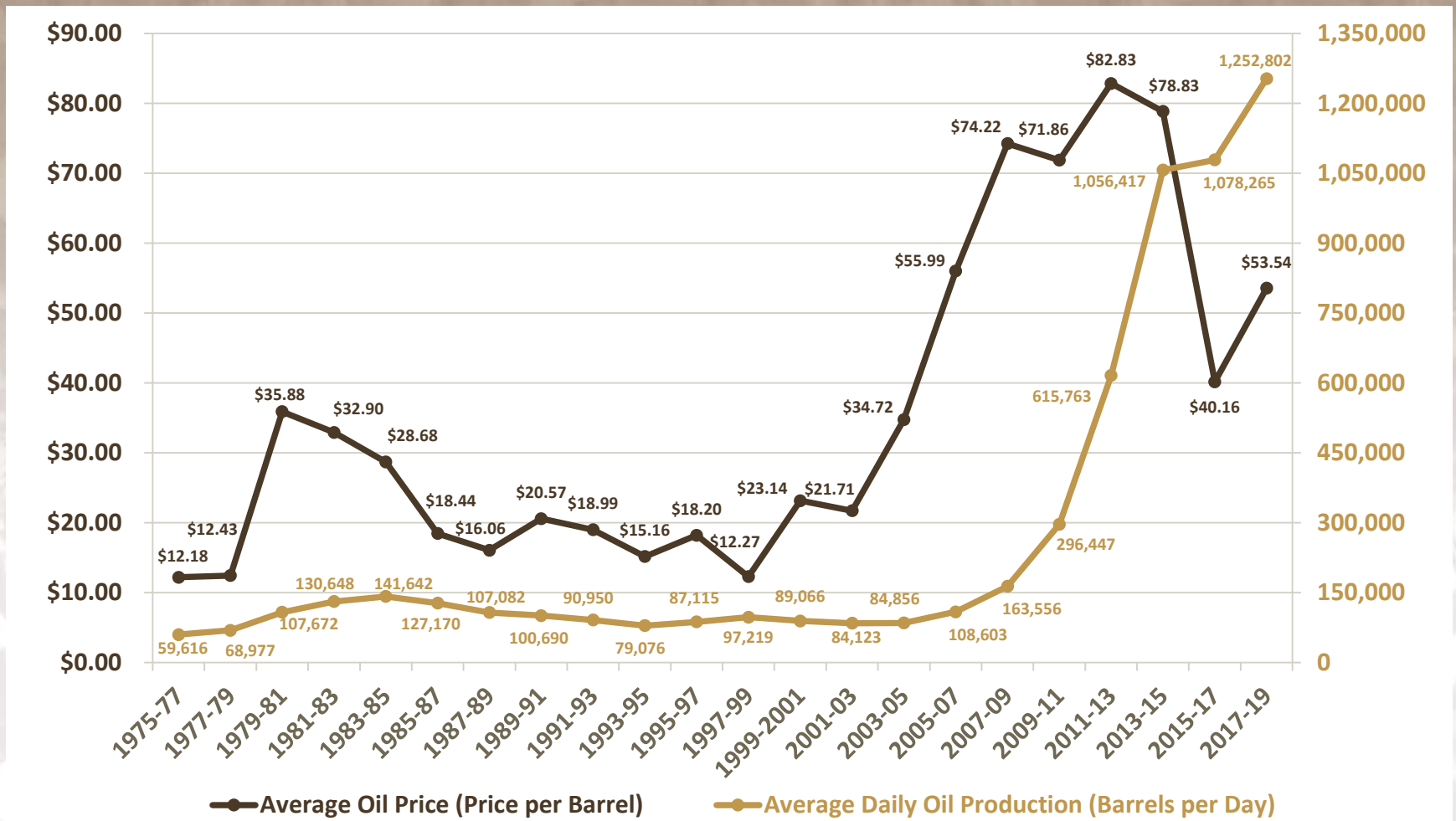
Lessons from this Bust

- With revenue growth – Pressure for new spending and also tax relief
- Individual and corporate income tax rate reductions – Decreased ongoing revenue
- Increased ongoing spending beyond traditional long-term ongoing revenue growth rate
- Underestimated impact of oil on sales tax revenues
- Ongoing revenues are still not sufficient to meet ongoing spending

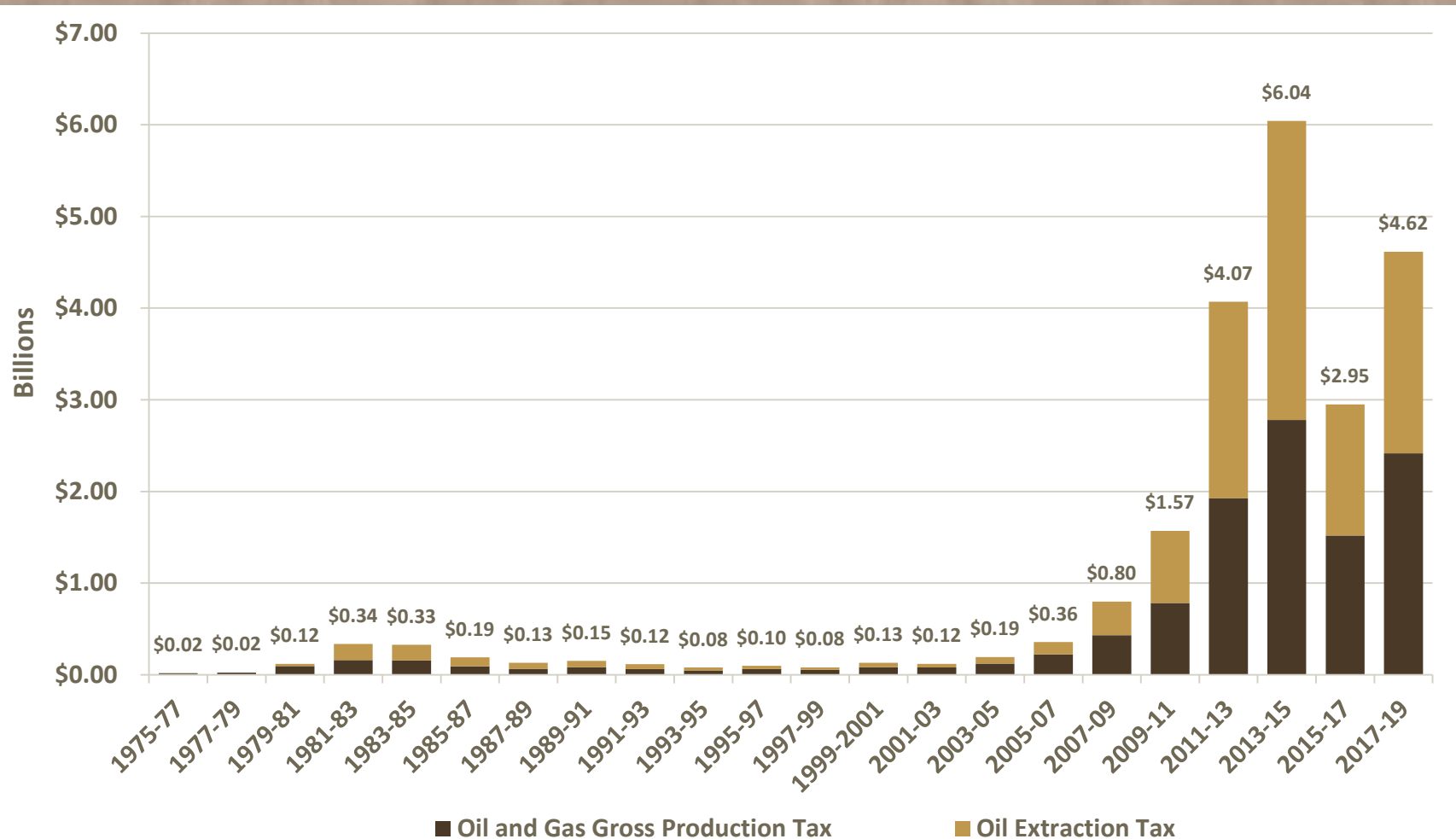
Positives of the Budgeting Plan

- Budget stabilization and K-12 stabilization fund – Cap now set at 15%
- Limiting ongoing general fund reliance on oil
- “Bucket” system for oil revenues
- Not spending the revenue until it is collected - Tax relief fund and strategic investment fund
- Legacy fund – Constitutionally protected - Earnings to general fund

Oil Price and Production



Oil and Gas Tax Collections



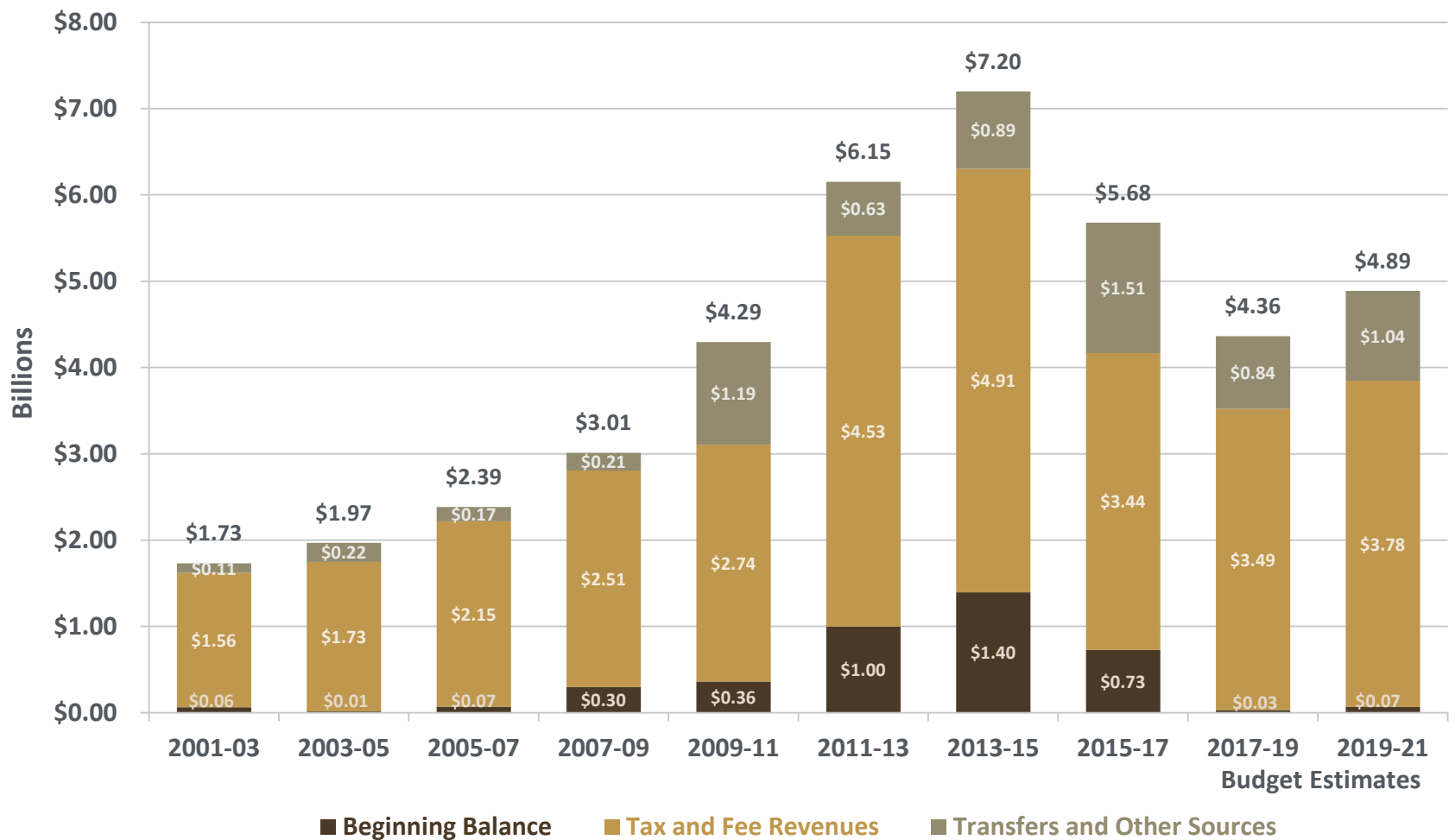
Oil Tax Revenue to General Fund

Biennium	General Fund (GF) Share	Percentage of GF Budget
1977-79	\$15,000,000	2%
1979-81	\$24,000,000	3%
1981-83	\$229,000,000	22%
1983-85	\$239,000,000	23%
1985-87	\$232,000,000	22%
1987-89	\$100,000,000	10%
1989-91	\$82,000,000	7%
1991-93	\$106,000,000	9%
1993-95	\$73,000,000	6%
1995-97	\$35,000,000	3%
1997-99	\$59,000,000	4%

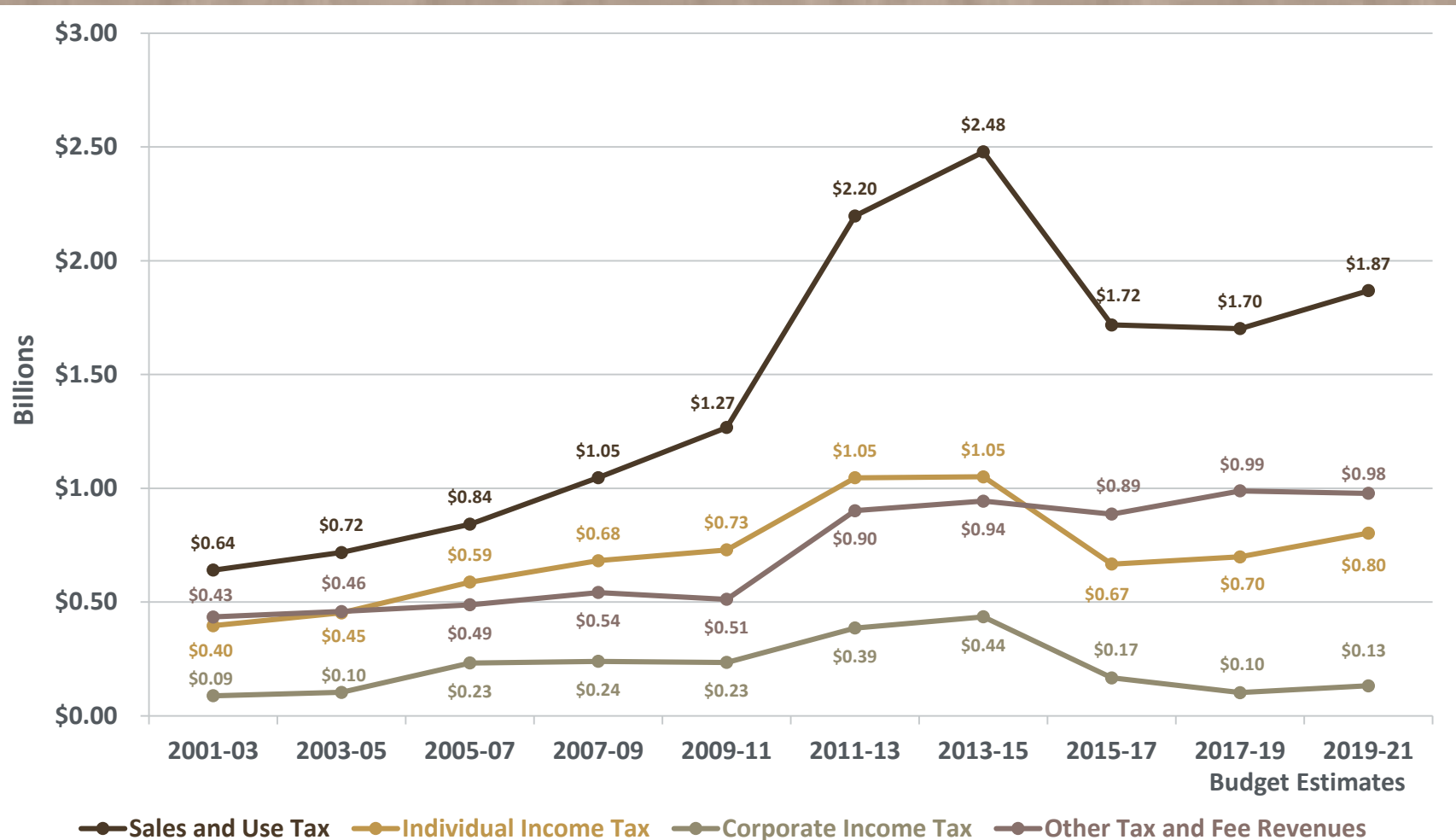
Oil Tax Revenue to General Fund

Biennium	General Fund (GF) Share	Percentage of GF Budget
1999-2001	\$37,000,000	2%
2001-03	\$62,000,000	4%
2003-05	\$71,000,000	4%
2005-07	\$71,000,000	4%
2007-09	\$71,000,000	3%
2009-11	\$71,000,000	3%
2011-13	\$300,000,000	9%
2013-15	\$300,000,000	5%
2015-17	\$300,000,000	5%
2017-19	\$400,000,000	9%
2019-21	\$400,000,000	8%

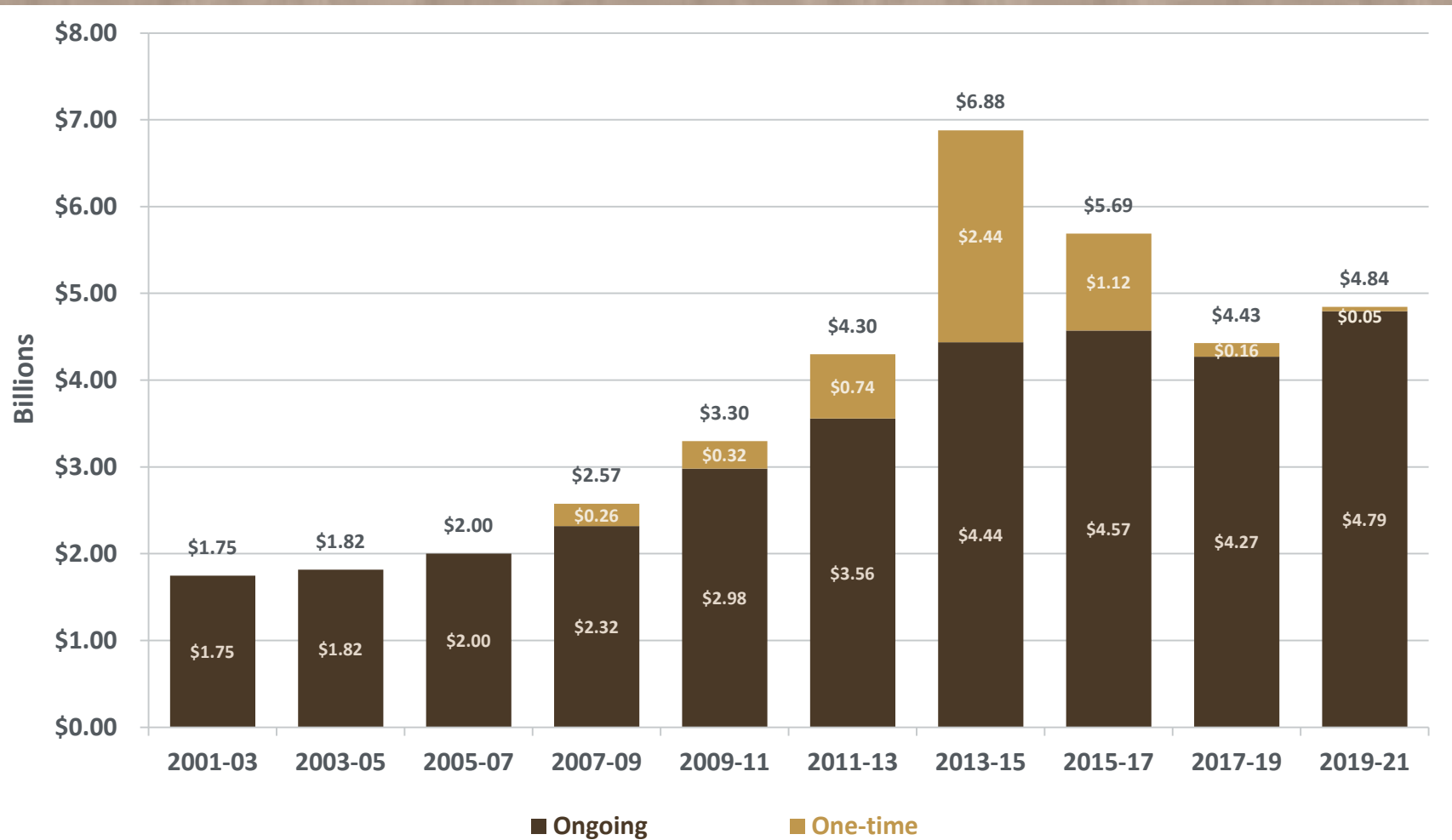
General Fund Revenues



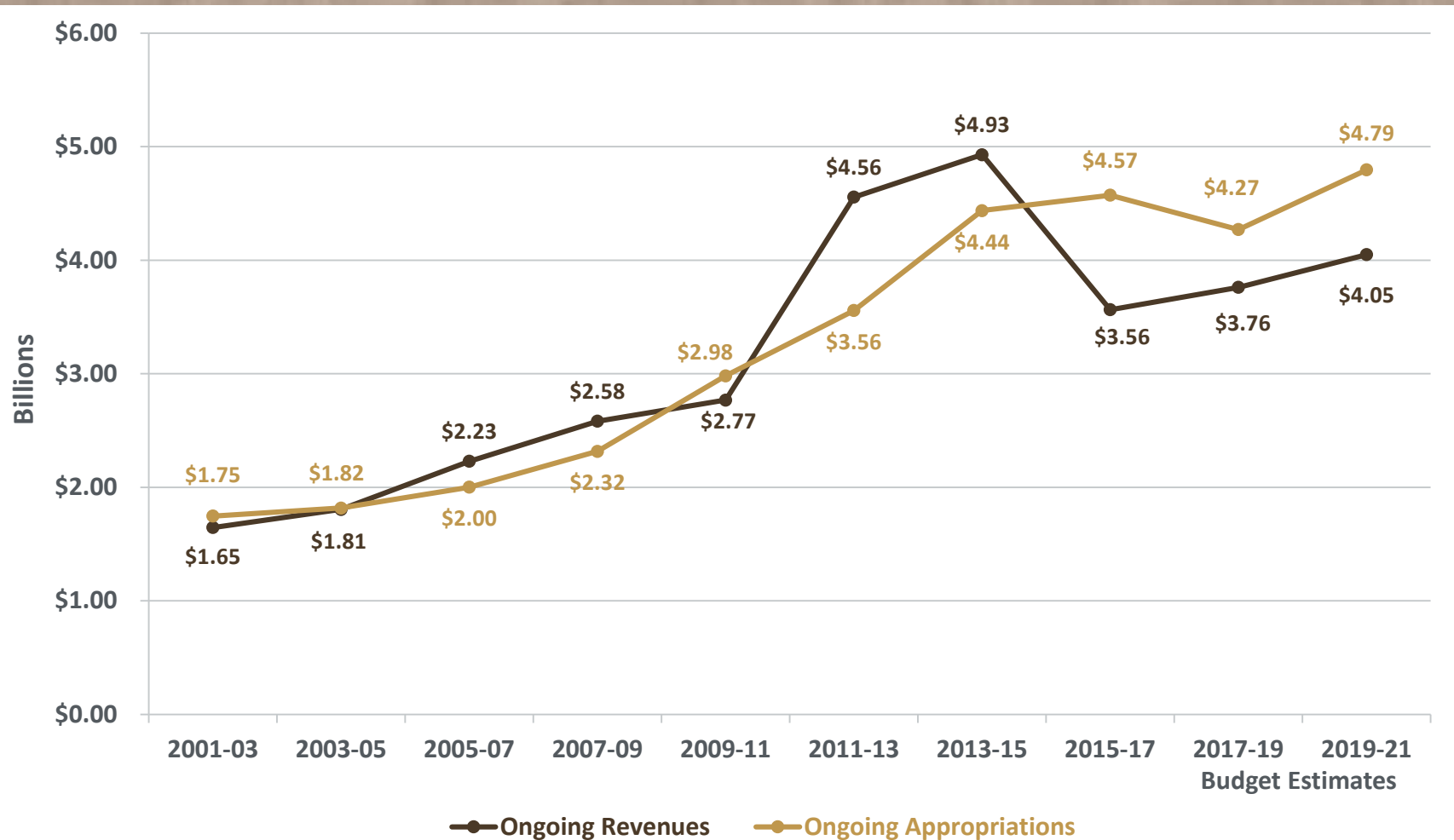
Major Tax and Fee Revenues



General Fund Appropriations



Ongoing General Fund Revenues and Appropriations



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