



## City Revenue Projections for 2023

The League has developed several projections for city revenue sources to be used as you prepare 2023 budgets. These projections are based on information from the ND Tax Department, the ND Office of Management and Budget, the ND State Treasurer's office, the ND Insurance Department and the ND Department of Transportation.

Currently, there is a lot of discussion about inflation and the Federal Reserve raising interest rates in order to slow the current inflation rate. There is also a lot of speculation about the impact raising the interest rate will have on economic activity. As a result, these projections are limited to the information that is available as of June of 2022. The State of North Dakota's Revenue Advisory Committee will meet in August and revise the current state forecast based on their consultant's data for expected economic outcomes. In early September, the League will send out revised Revenue Projections that take into account the adjustment made by the Revenue Advisory Committee.

In order to use these projections in the budget process, it is necessary to make comparisons to the level of funds received previously. For most revenue sources, comparisons are made to the level of funding received in calendar year 2021, since that is the latest year for which actual total figures are available.

### **State Aid Distribution Fund (distribution to cities, NDCC 57-39.2-26.1)**

State Aid includes distributions from the state's collection of sales, gross receipts, use and motor vehicle excise taxes. Starting in August, state aid distributions will be made monthly. Remember that the actual amount to be distributed under the state aid distribution fund is based on sales tax collections during the period involved, so distributions will not necessarily be uniform. Forty-three and one-half percent of one cent of the sales tax is deposited into the state aid distribution fund, with cities and park districts receiving 46.3 percent of this amount.

Distributions are made on a per capita basis based on the most recent US Census population data available at the beginning of the State's fiscal year. Starting with the August 2022 monthly payment, state aid distribution fund payments will be based on the 2021 Census estimates. The 2021 census estimates are available on NDLC's website at [www.ndlc.org/budgeting](http://www.ndlc.org/budgeting).

As in the past, we are using ND Tax Department's sales, use and motor vehicle tax April 2022 estimates as the foundation for this projection. The Tax Department generates these in conformance with the assumptions used by ND OMB and the state's economic advisor. The results, therefore, are only as accurate as those assumptions used by OMB and the state's economic advisor. **Keep in mind that sales tax collections are currently running 13.4% higher than the legislative budget forecast, so these numbers are likely conservative.**

Please note that due to a change from quarterly distributions to monthly distributions in calendar year 2021, state aid payments for two months were shifted to 2021 from 2022.

Calendar Year 2021 (total of quarterly/monthly payments – actual)	\$ 54,108,729
Calendar Year 2022 (total of monthly payments – <b>projected</b> )	\$ 48,000,000
Calendar Year 2023 (total of monthly payments – <b>projected</b> )	\$ 48,910,000

*Projected to be about \$81.30 per capita for 2023.*

### **Highway Tax Distribution (distribution to cities, NDCC 54-27-19)**

Revenue for the highway tax distribution fund is dependent on fuel sales and the level of the gas tax and motor vehicle registration fees. Cities receive about 12.5% of highway tax distribution fund revenues. Distributions are based on formulas relying on population numbers that changes based on the size of the cities in the county and the size of the city. For more information on the formula, review the North Dakota Treasurer’s Highway Tax Distribution Fund Flow chart at <https://www.treasurer.nd.gov/sites/www/files/documents/Highway%20Tax%20Distribution%20Flow%20Chart.pdf>.

We experienced a substantial downturn in fuel tax collections in 2020 during COVID and although we anticipated returning closer to “normal” in 2021, fuel tax collections are still lagging behind pre-COVID numbers for 2022. Overall, we are expecting about a 5% increase from 2022 to 2023. During the 2023 Legislative Session, the North Dakota Legislature made an additional appropriation of \$60,000,000 from Legacy Fund earnings to the Highway Tax Distribution Fund. This additional appropriation results in an additional approximately \$7,400,000 being distributed to cities in July of 2023.

Calendar Year 2021 (total of monthly payments – actual)	\$ 32,115,641
Calendar Year 2022 (total of monthly payments – <b>projected</b> )	\$ 31,159,000
Calendar Year 2023 (total of monthly payments – <b>projected</b> )	\$ 40,116,500

*Projected to be 28.7% more in 2023 as compared with 2022.*

### **Fire Insurance Premium Tax (NDCC 18-04)**

The fire insurance premium tax is distributed to city fire departments, certified rural fire departments, or fire protection districts on or before December first of each year based on legislative appropriation. The 2021 state legislature in HB 1010 appropriated \$19,588,470 for the biennium or \$9,794,235 for each year. (NDCC 18-04-05)

*There is an 8.9% increase in the appropriation for Fire Tax Insurance Premium distributions for fire departments from the 2019-21 biennium to the 2021-23 biennium.*

### **Oil and Gas Gross Production Tax (NDCC 57-51-15, 16)**

During the June 2022 [Director’s Cut](#) report (based on April production), the Department of Mineral Resources (DMR) said they are anticipating a 2-5% increase in oil production by the end of 2022 following a recovery from the substantial loss of production that resulted after two April blizzards where production was reduced by 45% to as much as 100%. Drilling and completion of wells will be limited due to the workforce challenges the oil industry is experiencing where drilling and fracking crews are in very short supply. DMR does not expect a big change from the current oil price of \$110/bbl and gas price of \$9/mcf in the foreseeable future. We encourage you to refer to Western Dakota Energy Association’s website for guidance and updated forecasts: <https://www.ndenergy.org/> and to the Department of Mineral Resources website for the monthly Directors Cut reports found here: <https://www.dmr.nd.gov/dmr/oilgas/directorscut>.

### **Coal Conversion Tax (NDCC 57-60-14, 15)**

Coal Conversion tax distributions are based on the actual coal production in each county. Cities that receive coal conversion tax distributions should rely on local data and information to determine revenue projections for 2023.

### **City Cigarette Tax (NDCC 57-36-31)**

City cigarette tax distributions are distributed in June and December each year on a per capita basis. The allocation is based on the population of each city according to the last federal census. City Cigarette Tax disbursements will be made based on 2020 Census numbers.

Calendar Year 2021 (total of biannual payments – actual)	\$ 1,303,408
Calendar Year 2022 (total of biannual payments – <b>projected</b> )	\$ 1,270,000
Calendar Year 2023 (total of biannual payments – <b>projected</b> )	\$ 1,251,000

*Projected to be approximately 4% less in 2023 as compared with 2021*

### **Municipal Infrastructure Fund, aka Prairie Dog Funds (NDCC 57-51.1-07.7)**

In 2019 the North Dakota Legislature passed HB 1066 which allocated up to \$250,000,000 of oil and gas tax revenue per biennium for infrastructure projects to cities, counties, townships, and airports in non-oil producing counties. For the money to be disbursed, different “buckets” must fill before the municipal infrastructure buckets fill. The buckets fill based on the amount of oil and gas taxes that are collected. The amount of tax collected is dependent on the amount of oil and gas produced and the price oil and gas producers receive for their product. The process of filling the buckets starts over each biennium. You can follow the progress of the buckets filling on the North Dakota Treasurer’s website at <https://www.treasurer.nd.gov/operation-prairie-doghouse-bill-1066>.

Based on current projections, we expect the buckets to fill early in 2023 and for cities to receive their distributions from the fund in Spring of 2023. A *rough estimate* of what cities may receive from the municipal infrastructure funds is available at [www.ndlc.org/budgeting](http://www.ndlc.org/budgeting). The population data and the valuation data will be updated with the most current data available at the time the disbursement is made and these estimates will change.

### **NDPERS Health Insurance**

This is a cost and not a revenue; however, many cities provide health insurance for their employees through the NDPERS program. Participating cities should have received the rates memo for the 2021-2023 biennium; however, it is also available online at <https://www.ndpers.nd.gov/sites/www/files/documents/employer-additional-information/2021-5-political-subdivisions-health-plan-rates-2021-2023.pdf>.

Please note that the memo above only covers rates for January through June of 2023. NDPERS was not able to provide an estimate of the July to December 2023 premium, as of publication of this memo, because the contract is currently being negotiated.