

North Dakota looks to make most of unique budget situation — a surplus

Changes in how schools are funded, property tax cuts considered

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Revenues have been higher than expected, there is a \$1 billion projected budget surplus, wages are up, and the unemployment rate is 3.5 percent. Lawmakers are considering numerous proposals to reduce taxes and increase spending on key programs. For most Midwestern lawmakers, this scenario sounds like something from the distant past — or a recent dream.

But for legislators in North Dakota, this is the situation in which they find themselves as they get down to the business of approving the state's biennial budget.

Why is North Dakota in this enviable position, at a time when most other states are dealing with slumping economies and budget deficits? Has the Peace Garden state been that good in navigating the fiscal waters or just plain lucky? The short answer is that the state has been both good and lucky.

North Dakota benefits from having an economy that never quite mirrors the national trends. When a recession hits the rest of the nation, there is about a one-year lag before the effects are felt in North Dakota.

And when the state economy does have a downturn, it never falls to the depths that the national or other state economies do. North Dakota, too, has not had the same housing crisis seen in other states.

Meanwhile, North Dakota's strong agricultural base, combined with its coal and crude-oil resources, has laid the foundation for strong revenue growth, particularly over the past year, when commodity prices shot up dramatically.



Sen. David O'Connell

In August, crude reached a high of \$126 per barrel; as a result, wages have gone up and additional jobs have been created in and around the oil fields in the western part of the state. Employment in service industries increased, and even auto sales were up in the state.

"There was a heck of a spinoff from the oil," says Sen. David O'Connell, the Democratic minority leader from Lansford, located in the north-central part of the state.

In addition to the oil boom, the state has benefited from steep increases in the price of wheat ("I have never seen such high prices in my life," O'Connell says) and a weak U.S. dollar that has boosted the sale of North Dakota's farm commodities and manufactured goods in the global market. Over the past two years, North Dakota has led the nation in export growth.

'Running on all eight cylinders'

Along with this robust economic activity, some fiscal practices and policies have helped put North Dakota in the position it is now in, and could help the state weather any future revenue slowdown.

Even in the best of times, lawmakers say, North Dakota maintains a fairly conservative budget, a practice that has helped the state build up its reserves and insulate it from economic fluctuations. Meanwhile, significant strides have been made in efforts to diversify the economy.

In 2005, for example, Republican Gov. John Hoeven created Centers for Excellence to encourage and support innovation as well as research and development. Located on the state's university campuses, the centers have successfully brought more than \$20 million to the campuses for business-university partnerships that, in turn, have spurred economic development and business creation.

The state also has focused on developing its alternative-energy resources, including wind power.

"We're running on all eight cylinders," North Dakota Sen. Dwight Cook, a Republican from Mandan, says about his state's current economic and fiscal situation.

Plan cuts taxes, boosts K-12 funding

Lawmakers want the new biennial budget to help keep that engine going, by deciding on the right mix of state tax cuts and spending.

Republican Gov. John Hoeven's \$3.1 billion budget proposal, first released in December, would increase state spending by 9 percent a year and seek to reduce property taxes by \$300 million (using proceeds from the state's Oil Tax Trust Fund).

His plan also would mark a significant shift in how North Dakota's K-12 schools are funded, with the state's share of the cost of education jumping from 49 percent to the long-sought goal of 70 percent.

"In North Dakota, if there's one tax that the voters are really sensitive to, it's the property tax," says Cook, who is chair of the Finance and Taxation Committee and a sponsor of the governor's tax plan.

Under the proposal to boost education funding, school districts would be required to lower their mill levies by an amount equal to the increased dollars they receive from the state.

Hoeven also has proposed a \$100 million cut in income taxes, an idea that Cook says could be tougher to get through the Legislature. His plan would cut rates in all five of North Dakota's tax brackets by 0.42 percentage points. In November, the state's voters rejected a ballot measure that would have lowered personal and corporate income taxes.

Budget gaps in Midwest and estimated gaps for FY 2010 (as of mid-February)*

State	Size of total FY 2009 gap	Gap as % of FY 2009 general fund	Projected FY 2010 budget gaps	Gap as % of FY 2009 general fund
Illinois	\$8.0 billion	21.1%	Not yet available	Not yet available
Indiana	\$1.1 billion	8.0%	—	—
Iowa	\$484 million	7.6%	\$779 million	12.2%
Kansas	\$185 million	2.9%	\$1.1 billion	16.7%
Michigan	\$672 million	2.9%	\$1.6 billion	6.9%
Minnesota	\$1.4 billion	7.9%	\$2.5 billion	14.7%
Nebraska	—	—	\$152 million	4.3%
Ohio	\$1.9 billion	6.8%	\$2.0 billion	7.1%
South Dakota	\$27 million	2.2%	\$32 million	2.7%
Wisconsin	\$1.2 billion	8.8%	\$2.9 billion	20.3%
<i>U.S. total</i>	<i>\$98.6 billion</i>	<i>14.9%</i>	<i>\$93.5 billion</i>	<i>15.9%</i>

* North Dakota is one of only four U.S. states not facing budget shortfalls for FY 2009 and 2010.

Source: Center on Budget and Policy Priorities (center uses different sources for each state, including state financial officers, revenue and budget forecasts, legislative fiscal offices and governors' budgets)

'Make sure we restrain ourselves'

In keeping with the way that they have historically approached the state budget, lawmakers this session say they will be cautious about how deeply they cut taxes or how much they commit to additional long-term spending.

"We recognize what's going on in this economy around us, and we are starting to feel some of the effects of this world economy," Cook says. "We know we're not immune from it."

In recent months, the price of the state's crude oil has dropped to about \$50 per barrel, and the number of rigs operating has dropped since last summer. Farm commodity prices also have fallen, and two of the state's major employers — Bobcat, Case New Holland and Microsoft — are among those that have announced layoffs.

Cook says part of the Legislature's task this year is "to keep our general fund budget and the size of our government from growing too fast."

"Everybody wants more [money], and I mean everybody," he adds, "so that will be our challenge: to balance all these ideas of how we might spend it and make sure we restrain ourselves so that we can sustain what we do in the future."

A \$1 billion budget surplus offers the state some unique policy opportunities, but some temptation as well.

"We don't want to spend ourselves out to the point where we have to make cuts in two years," O'Connell says. "And if we give a tax break, we want to be able to sustain it over a long time."

"We don't want to have to come back in two years and say, 'Oops, we don't have the money now and we're going to have to [take it back]. That's the most dangerous thing we can do." ★



Sen. Dwight Cook