

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

ENERGY DEVELOPMENT AND TRANSMISSION COMMITTEE

Wednesday, September 2, 2015

Williston Area Recreation Center, Williston, North Dakota

Thursday, September 3, 2015

McKenzie County Courthouse, Watford City, North Dakota

Senator Rich Wardner, Chairman, called the meeting to order at 8:00 a.m.

Members present: Senators Rich Wardner, Kelly M. Armstrong, Brad Bekkedahl, Bill L. Bowman, Philip M. Murphy, John M. Warner; Representatives Mike Brandenburg, Ben Hanson, Corey Mock, Todd Porter

Members absent: Representatives Dick Anderson, Chuck Damschen

Others present: Patrick Hatlestad, State Representative, Williston
Gary Sukut, State Representative, Williston
Denton Zubke, State Representative, Watford City
See [Appendix A](#) for additional persons present.

It was moved by Representative Mock, seconded by Senator Armstrong, and carried on a voice vote that the minutes of the July 29, 2015, meeting be approved as distributed.

Chairman Wardner said the committee has the responsibility to study oil and gas tax allocation formulas during the 2015-16 interim. He said the committee is gathering information from political subdivisions in western North Dakota to help the committee determine the appropriate level of oil and gas tax funding allocations to political subdivisions.

WILLISTON**Finances**

Mr. Howard Klug, Mayor, Williston, welcomed the committee and thanked the Legislative Assembly for the funding allocations to Williston.

Senator Bekkedahl, Finance Commissioner, Williston, presented information ([Appendix B](#)) regarding Williston's financial situation. He said property tax levies for 2015 were approximately \$4.3 million compared to \$3.5 million in 2014. He said sales taxes in the first half of 2015 generated \$8.5 million for the city, \$8.5 million for the park district, and \$3.3 million for public safety. He said the city's debt obligation has increased from \$28.1 million in 2005 to \$131.7 million in 2014. He said future debt obligations include approximately \$125 million for water projects and \$200 million for the airport project.

In response to a question from Representative Mock, Senator Bekkedahl said the 8 percent sales tax in Williston includes the state's 5 percent tax, 1 percent for the city, 1 percent for the park district, and 1 percent for public safety.

In response to a question from Senator Wardner, Senator Bekkedahl said local funding for the new airport includes a portion of the city's 1 percent sales tax revenue and the proceeds from the sale of the existing airport.

Infrastructure Projects

Mr. Bob Hanson, Engineer, Williston, presented information ([Appendix C](#)) regarding the use of "surge funding" and road projects in Williston. He said the city has spent or committed \$64 million of the \$65 million received from the "surge funding" in 2015 Senate Bill No. 2103. He said the "surge funding" is for road projects in the 2015 construction season. He said the city is in the process of extending infrastructure, including roads and water lines, to the new high school.

In response to a question from Senator Bowman, Mr. Hanson said city planners are designing infrastructure to connect areas bordering existing city limits in preparation for potential development in areas that may be annexed by the city in the future. He said future expansion plans give consideration to the slowdown in oil activity because of the lessons learned from the economic downturn in the 1980s.

Mr. David Tuan, Director of Public Works, Williston, presented information ([Appendix D](#)) regarding infrastructure projects in Williston. He said the city is building a new water treatment plant, new water storage systems, and a new water resource recovery system. He said the cost of the new water resource recovery system is \$105 million. He said the project was scheduled to be completed by 2017, but is currently ahead of schedule.

In response to a question from Senator Wardner, Mr. Tuan said the city will need to build at least one additional water tower or reservoir to provide adequate water supply for the city, particularly during peak usage periods.

In response to a question from Senator Warner, Mr. Tuan said the city's water resource recovery system no longer accepts waste water hauled from temporary housing units and man camps because the strong concentration of waste created unpredictable flows and overwhelmed the existing system. He said the new system will be able to handle the unpredictable flows.

Mr. Steven Kjergaard, Airport Director, Williston, presented information ([Appendix E](#)) regarding the construction of a new airport in Williston. He said the name for the new airport will be Williston Basin International Airport. He said the current airport is limited to 50-seat jets while the new airport will be able to accommodate 150-seat jets. He said the terminal and primary runway at the new airport are designed for future expansion. He said the construction of the new airport may begin as early as the spring of 2016, which would allow the new airport to begin operations in the fall of 2018.

Challenges in Government Operations

Mr. Jim Lokken, Police Chief, Williston, presented information ([Appendix F](#)) regarding challenges related to law enforcement. He said calls for service increased from 16,500 in 2010 to 23,100 in 2014. He said the city's law enforcement budget increased from \$2 million in 2010 to \$6 million in 2015. He said the lack of mental health facilities in Williston requires transporting individuals to Minot, Bismarck, Grand Forks, and Fargo.

In response to a question from Representative Brandenburg, Mr. Lokken said human trafficking is still a problem in western North Dakota. He said enforcement operations are being conducted, but prosecution remains a challenge.

Mr. Jason Catrambone, Fire Chief, Williston, presented information ([Appendix G](#)) regarding challenges related to fire protection and emergency medical services. He said the fire department provides both fire protection services and emergency medical services. He said the city is in the process of building a second fire station with plans for two more stations. He said the new stations are designed with the flexibility to accommodate an entirely professional crew, an entirely volunteer crew, or a mix of professional and volunteer crew members.

In response to a question from Senator Murphy, Mr. Catrambone said 99 percent of the fire fighters are cross-trained as paramedics.

In response to a question from Representative Porter, Mr. Catrambone said the new airport will have its own fire station because of the distance from the city.

In response to a question from Senator Warner, Mr. Catrambone said the response time for situations involving hazardous materials is two to three hours because the closest hazardous materials team is located in Minot.

Financial Needs

Mr. Shawn Gaddie, Division Manager, Advanced Engineering and Environmental Services, Inc. (AE2S), Grand Forks, presented information ([Appendix H](#)) regarding Williston's anticipated growth and financial needs. He said Williston's population is projected to grow from 33,800 in 2015 to 49,700 in 2020. He said capital improvement projects anticipated between 2016 and 2020 are estimated to cost \$925 million. He said annual debt repayment is projected to range from \$20 million to \$50 million between 2015 and 2025. He said major revenue sources include property tax collections, sales tax collections, utility rate collections, and gross production tax allocations. He said projected revenues are as follows:

- Property tax collections increasing from \$4.3 million in 2016 to \$9.8 million in 2020;
- Sales tax collections related to infrastructure remaining constant at \$14 million per year from 2016 to 2020;

- Sales tax collections related to public safety remaining constant at \$18.7 million per year from 2016 to 2020; and
- Gross production tax allocations ranging from \$40.2 million to \$44.7 million annually from 2016 to 2020.

WILLISTON-RELATED GROUPS

Ms. Sonya Owan, Director, Opportunity Foundation, presented information ([Appendix I](#)) regarding recent activities and challenges related to serving individuals with developmental disabilities. She said the Opportunity Foundation provides residential support services and work opportunities. She said the foundation has 120 employees. She said the employee turnover rate increased from 24 percent in 2005 to 36 percent in 2014. She said affordable housing is the primary challenge for retaining employees.

Mr. Kurt Stoner, Foundation Director, Bethel Lutheran Home, said challenges related to nursing home operations include recruiting and retaining employees. He said affordable housing is a concern for employees. He said approximately 50 percent of the staff is from foreign countries. He said foreign-born staff bring diversity but lack permanent ties to the local community resulting in a high turnover rate.

Ms. Viola LaFontaine, Superintendent, Williston Public School District, presented information ([Appendix J](#)) regarding the school district's growth. She said K-12 student enrollment increased by 1,400, or 56 percent since 2010. She said the school district has plans to eliminate the 52 modular classrooms that are currently being used. She said construction of the new high school building is anticipated to be completed in the fall of 2016.

In response to a question from Chairman Wardner, Ms. LaFontaine said the cost of the new high school is \$76 million. She said funding sources for the project include a loan from the Bank of North Dakota, a loan backed by gross production tax allocations, grant funding from the oil and gas impact grant fund, and bonding.

Ms. Tana Hinricksen, Service Provider, Family Crisis Shelter, presented information ([Appendix K](#)) regarding recent activities and challenges related to serving victims of domestic abuse and sexual violence. She said the shelter currently has a facility with nine beds but plans to expand to a larger facility because of increased demand for the shelter's services. She said the length of clients' stay at the shelter has increased from about 3 to 30 days because of a lack of affordable housing options in Williston.

In response to a question from Chairman Wardner, Ms. Hinricksen said the shelter receives funding from grants and donations.

Mr. Ben Zachmeier, Local Superintendent, Montana-Dakota Utilities Co., presented information ([Appendix L](#)) regarding growth and challenges related to electrical transmission and distribution issues. He said electricity demand increased by 20 percent since 2010 while natural gas demand increased by 62 percent since 2010. He said Montana-Dakota Utilities Co. (MDU) continues to face various challenges in western North Dakota including recruiting and retaining staff, increasing easement costs, and the forced relocation of existing electrical and gas infrastructure resulting from road and other infrastructure projects.

TOUR OF WILLISTON

Senator Bekkedahl led the committee on a tour of Williston and distributed information ([Appendix M](#)) regarding construction projects in Williston. He said hotel occupancy rates are approximately 55 percent. He said approximately 1,200 apartment units are being built per year.

The committee recessed for lunch and reconvened at the TrainND Center, 415 22nd Ave NE, Williston.

Dr. Raymond Nadolny, President, Williston State College, provided information on Williston State College. He said enrollment at Williston State College increased for fall 2015. He said bonds for the residence halls have been downgraded resulting in higher costs. He said student fees have been increased effective for the fall 2015 semester.

Ms. Deanette Piesik, Director, TrainND, distributed information ([Appendix N](#)) regarding the TrainND program. She said the northwest quadrant of the TrainND program accounts for the majority of employee training and program revenue. She said demand remains strong for the programs and services through TrainND.

The committee returned to the Williston Area Recreation Center.

WESTERN AREA WATER SUPPLY AUTHORITY

Mr. Jaret Wirtz, Executive Director, Western Area Water Supply Authority, presented information ([Appendix O](#)) regarding water projects. He said the authority has spent \$210 million on water projects since 2011. He said the authority estimates the total cost for future projects is \$480 million. He said interest payments from the authority's seven outstanding loans totals approximately \$7.7 million per year. He said monthly industrial water sales decreased by about 50 percent in the past six months related to the slowdown in oil development activity.

In response to a question from Chairman Wardner, Mr. Wirtz said rural water supply infrastructure is built and operated by the Western Area Water Supply Authority. He said in a few cases, independent rural water system providers operate portions of the infrastructure system after the Western Area Water Supply Authority constructs the infrastructure.

WILLIAMS COUNTY

Mr. Scott Busching, Sheriff, Williams County, presented information ([Appendix P](#)) regarding challenges related to law enforcement. He said criminal activity still remains high despite the slowdown in oil development activity. He said the correctional center is reaching capacity and needs to be expanded to provide additional beds even though an expansion project was completed in 2013. He said a lack of mental health services requires law enforcement to place individuals in jail or transport them to other regions of the state for services. He said transporting individuals to other regions removes staff from their primary responsibilities and service area resulting in additional staffing costs.

In response to a question from Chairman Wardner, Mr. Busching said there are no local inpatient facilities for alcohol and drug rehabilitation.

In response to a question from Senator Warner, Mr. Busching said juvenile crimes are becoming more severe. He said Williams County needs additional space for juvenile detention.

Mr. Martin Hanson, Commissioner, Williams County, presented information ([Appendix Q](#)) regarding challenges related to rural public safety. He said the county and cities within the county are cooperating to address public safety challenges. He said a board was formed to distribute funds from the 1 percent sales tax to public safety agencies. He said the funds allow small public safety agencies to purchase the necessary equipment that would otherwise have been too expensive for the agency to obtain.

In response to a question from Senator Bowman, Mr. Hanson said the 1 percent sales tax is anticipated to generate \$30 million per year, which is split equally between Williston and Williams County.

Mr. Dan Kalil, Commissioner, Williams County, presented information ([Appendix R](#)) regarding Williams County's financial situation and infrastructure projects. He said the county's budget increased from \$20 million to \$150 million over the past five years. He said 75 percent of the county's revenue is from oil and gas gross production tax revenue allocations. He said the county's debt is anticipated to total \$47 million by 2018.

Mr. Dennis Nelson, Highway Superintendent, Williams County, presented information ([Appendix S](#)) regarding road projects and the use of "surge funding." He said the county is using the "surge funding" to complete road work totaling \$43.5 million covering approximately 80 miles along five county roads. He said the county has plans for \$100 million of road work for the 2016 construction season if the funding is available. He said the initial results from the use of permazyme on gravel roads indicate it is an effective method for dust control and lower road maintenance costs.

In response to a question from Representative Brandenburg, Mr. Nelson said the county paid \$52,000 per acre for wetland mitigation related to the County Road 17 project.

WILLIAMS COUNTY-RELATED GROUPS

Ms. Daphne Clark, Protection Team Leader, Upper Missouri District Health Unit, presented information ([Appendix T](#)) regarding challenges related to district health units. She said the increase in disease rates, particularly sexually transmitted diseases, is a major challenge in western North Dakota. She said human immunodeficiency virus (HIV) cases increased from 0 in 2010 to 34 in 2014. She said many clients are from other states and are accustomed to receiving more services than are provided in North Dakota. She said vaccinating children has been a priority since many of the new students lack the required vaccines. She said vaccinations are a critical component to prevent a disease outbreak.

Ms. Lacy Thompson, In Home Supervisor, Williams County Social Services, presented information ([Appendix U](#)) regarding challenges related to social services. She said within the child welfare and economic assistance program, cases related to child protection services increased from 22 percent in 2011 to 48 percent in 2015 while cases related to foster care increased from 28 percent in 2011 to 67 percent in 2015. She said more children are being exposed to drugs along with an increase in the number of babies testing positive for drugs at birth. She said Williams County Social Services faces staff recruitment and retention issues which limits the organization's ability to serve clients' health needs.

In response to a question from Senator Murphy, Ms. Thompson said children are not always removed from their homes if they test positive for drug exposure. She said staff evaluate each situation to determine the best options for the children.

In response to a question from Senator Warner, Ms. Thompson said licensing requirements and the high cost of living are barriers to recruiting addiction counselors for western North Dakota.

Ms. Laurie Gotvaslee, Director of Northwest Human Service Center and North Central Human Service Center, Department of Human Services, presented information ([Appendix V](#)) regarding the recent activities of the Northwest Human Service Center. She said the Northwest Human Service Center is in the process of developing a voucher system for addiction services allowing clients to use services provided by private entities. She said the center is using telehealth to provide psychiatric and psychological services.

In response to a question from Senator Warner, Ms. Gotvaslee said provider payments under the voucher system are at the same level as Medicaid.

In response to a question from Chairman Wardner, Ms. Gotvaslee said the Northwest Human Service Center has addiction counselors who conduct evaluations and low-level treatment. She said the counselors do not provide residential treatment services.

Mr. Chris Brostuen, Assistant General Manager, Mountrail-Williams Electric Cooperative, presented information ([Appendix W](#)) regarding challenges related to electricity distribution. He said the number of customers increased from 7,100 in 2005 to 18,000 in 2015. He said the cooperative's long-term debt increased by \$303 million, from \$20 million in 2005 to \$323 million in 2015. He said right-of-way acquisitions are taking longer and costing more, which is a challenge for the cooperative.

In response to a question from Senator Warner, Mr. Brostuen said the Mountrail-Williams Electric Cooperative focuses on electrical distribution and does not have generation units. He said some of the electricity purchased by the cooperative from Basin Electric Power Cooperative comes from natural gas electrical generation units.

Chairman Wardner recessed the meeting at 4:35 p.m. and called the meeting to order at 8:35 a.m. on Thursday, September 3, 2015, at the McKenzie County Courthouse in Watford City.

WATFORD CITY

Mr. Brent Sanford, Mayor, Watford City, presented information ([Appendix X](#)) regarding the use of "surge funding," infrastructure projects, and Watford City's financial situation. He said the city's infrastructure needs total \$345 million, including \$214 million for roads, \$78 million for wastewater facilities, \$23 million for water supply, \$23 million for airport improvements, and \$7 million for public facilities. He said \$40.1 million from the "surge funding" is being used on four road projects, which are anticipated to be complete in 2016. He said the city's current debt level is \$154 million. He said the city's debt level is anticipated to increase by \$75 million in the next few years related to water projects and a new elementary school project. He said Watford City's projected oil and gas gross production tax allocations decreased by \$500,000 per month, from \$1.5 million to \$1 million, because of the decline in oil prices. He said the city's annual expenses are estimated to be \$13 million, which includes \$7 million for debt repayment and \$6 million for operations.

In response to a question from Chairman Wardner, Mr. Sanford said cost-benefit analysis by engineers determined two wastewater treatment plants would be less expensive than a pressurized pumping system. He said the topography of the land creates challenges for managing wastewater.

In response to a question from Representative Mock, Mr. Sanford said almost all building permits are for new construction and not renovation projects. He said even though oil development activity has slowed, building permits have not decreased.

In response to a question from Senator Bekkedahl, Mr. Sanford said the repayment terms of the debt financing are for 20 to 30 years.

Mr. Art Walgren, Police Chief, Watford City, presented information ([Appendix Y](#)) regarding challenges related to law enforcement. He said the police department grew from 5 police officers to 20 police officers in five years. He said more than half the police officers have less than two years of experience. He said two of the major challenges for the department are the lack of local mental health resources and cost of training new officers.

In response to a question from Senator Armstrong, Mr. Walgren said the estimated cost to train a new officer is \$50,000.

In response to a question from Representative Porter, Mr. Walgren said some state resources are available to help train officers. He said the small staff limits the amount of time available for training since the officers are needed in the field.

In response to a question from Representative Mock, Mr. Walgren said his department received grants from the Energy Infrastructure and Impact Office as well as the Attorney General to purchase equipment.

WATFORD CITY-RELATED GROUPS

Mr. Steve Holen, Superintendent, McKenzie County Public School District, said preliminary fall 2015 enrollment for K-12 is 1,411, an increase of 104 students compared to enrollment of 1,307 in May 2015. He said estimated construction costs for the new high school are \$53 million. He said the school funding formula and the gross production tax allocation formulas do not account for school construction debt.

In response to a question from Senator Bekkedahl, Mr. Holen said the new high school will be approximately 160,000 square feet with capacity for 800 students. He said the new high school will be used by students in grades 7-12. He said the building is designed for future expansion to provide capacity for up to 1,200 students.

Mr. Dan Kelly, Chief Executive Officer, McKenzie County Healthcare Systems, presented information ([Appendix Z](#)) regarding challenges related to health care. He said McKenzie County Healthcare Systems is in the process of building a \$75 million facility. He said funding for the project includes a United States Department of Agriculture loan, a Bank of North Dakota loan, and funding from McKenzie County and Watford City. He said bad debt increased from \$700,000 in 2011 to \$2.4 million in 2014 resulting in operating losses for 2012, 2013, and 2014. He said McKenzie County Healthcare Systems implemented a policy requiring uninsured patients to prepay for nonemergency services. He said bad debt is decreasing with the new policy, but remains a challenge.

In response to a question from Representative Porter, Mr. Kelly said the new facility was not designed to address mental health services. He said various entities are discussing the possibility of using the old facility to serve patients with mental health issues.

Mr. Zachmeier presented information ([Appendix AA](#)) regarding growth and challenges related to electrical transmission and distribution issues. He said electricity demand increased by 100 percent since 2010 while natural gas demand increased by 251 percent since 2010. He said the challenges in Watford City are the same as in Williston and include recruiting and retaining staff, increasing easement costs, and the forced relocation of existing electrical and gas infrastructure resulting from road and other infrastructure projects. He said MDU added a line crew dedicated to serving Watford City because of the growth in electrical demand.

Mr. Gene Veeder, Public Relations Director, McKenzie County Economic Development, said the cost of living in Watford City remains high. He said housing incentive fund projects have provided 160 units of affordable housing for essential service workers and 201 units of affordable housing for the public. He said rents have stabilized but not yet decreased in Watford City. He said rent is anticipated to decrease as more permanent housing is constructed.

TOUR OF WATFORD CITY

Mr. Sanford led the committee on a tour of Watford City and distributed information ([Appendix BB](#)) regarding construction projects in Watford City. He said the estimated hotel occupancy rate is 70 to 85 percent.

The committee recessed for lunch and reconvened at the McKenzie County Courthouse in Watford City.

MCKENZIE COUNTY

Mr. Ron Anderson, Commissioner, McKenzie County, presented information ([Appendix CC](#)) regarding county infrastructure projects and finances. He said the county is using the "surge funding" to complete road work totaling \$61.9 million covering approximately 29 miles along four roads. He said two projects totaling \$59.1 million are planned for the 2016 construction season. He said the cost to regravels a road in McKenzie County is approximately \$125,000 per mile. He said future infrastructure needs total \$97.9 million, including \$6 million for employee and senior housing, \$57.2 million for a law enforcement center, \$14.7 million for courthouse renovations and additions, and \$20 million for a new public works facility. He said budgeted expenses for 2015 are \$150.9 million compared to \$91.5 million of actual expenses in 2014. He said the increase in expenditures relates primarily to road projects. He said expenditures for dust control increased from \$470,000 in 2009 to \$2.5 million in 2014.

In response to a question from Senator Bekkedahl, Mr. Anderson said McKenzie County uses magnesium chloride because the lower cost allows for a larger coverage area. He said dust control in McKenzie County has had limited success.

Mr. Chas Neff, Jr., Assistant State's Attorney, McKenzie County State's Attorney Office, presented information ([Appendix DD](#)) regarding challenges related to law enforcement. He said Watford City did not have any state district court judges prior to 2013, but now has two judges. He said the number of cases filed doubled between 2011 and 2014. He said criminal activity has not decreased even though oil development activity is slowing.

Judge Robin Schmidt, District Judge, District Court, said the number of civil cases has increased significantly in recent months related to contract disputes. She said the calendar for civil cases is booked until 2017.

In response to a question from Chairman Wardner, Judge Schmidt said developing a drug court in Watford City may help address some of the challenges faced by law enforcement related to behavioral health.

Mr. Gary Schwartzenberger, Sheriff, McKenzie County, presented information ([Appendix EE](#)) regarding challenges related to law enforcement. He said the sheriff's office anticipates the need to hire between 40 and 50 corrections officers to staff the new jail. He said training officers remains a challenge because there are not enough officers on staff to fill the coverage gaps when an officer leaves for training. He said the sheriff's office is in the process of conducting a cost-benefit analysis of developing a 911 dispatch center in McKenzie County.

In response to a question from Representative Porter, Mr. Schwartzenberger said State Radio provides 911 dispatch services from Bismarck for McKenzie County. He said McKenzie County would benefit from a local dispatch center because the dispatchers would be more familiar with the local area. He said the possible costs and the funding sources for a local dispatch center are unknown.

MCKENZIE COUNTY-RELATED GROUPS

Mr. Roger Brenna, Supervisor, Riverview Township, McKenzie County, presented information ([Appendix FF](#)) regarding challenges related to townships. He said dust control costs approximately \$1,000 per mile while road building costs approximately \$120,000 per mile. He said maintenance costs for township roads has increased because of the oil field traffic. He said an organized township's income is approximately \$15,000 per year, which includes \$3,300 from fuel taxes, \$5,000 from state aid distribution, and \$6,700 from property taxes. He said townships receive an additional \$30,000 to \$100,000 per year from oil and gas gross production tax revenue allocations. He said even with the additional income from oil tax revenue allocations, high maintenance costs limit the amount of repair work that townships can complete.

Mr. Anderson presented information ([Appendix GG](#)) regarding challenges related to social services. He said language and cultural barriers create communication challenges for social service workers. He said applications for health and economic assistance programs have increased significantly.

Mr. John Skurupey, General Manager, McKenzie Electric, said energy sales by McKenzie Electric have increased 765 percent since 2006. He said the company now operates 56 substations compared to 19 substations in 2006. He suggested the committee review North Dakota Century Code Section 24-01-42 relating to the placement of utility lines along state and county roads. He said in the past, McKenzie Electric was able to receive permission from counties to place utility lines within 75 feet of county roads. He said some counties are no longer granting permission which creates easement challenges for McKenzie Electric.

Chairman Wardner said the next committee meeting will be in Bismarck on Tuesday and Wednesday, October 13-14, 2015. He said the committee will attend the Great Plains and EmPower Energy Conference on October 13, 2015. He said the committee will meet in Stanley on Thursday, October 29, 2015.

No further business appearing, Chairman Wardner adjourned the meeting at 3:05 p.m.

Adam Mathiak
Fiscal Analyst

ATTACH:33