

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

ENERGY DEVELOPMENT AND TRANSMISSION COMMITTEE

Thursday, October 29, 2015
Mountrail County Fair Building, 8101 61st Street NW
Stanley, ND, North Dakota

Senator Rich Wardner, Chairman, called the meeting to order at 9:00 a.m.

Members present: Senators Rich Wardner, Brad Bekkedahl, Bill L. Bowman, John M. Warner; Representatives Dick Anderson, Chuck Damschen, Ben Hanson, Corey Mock

Members absent: Senators Kelly M. Armstrong, Philip M. Murphy; Representatives Mike Brandenburg, Todd Porter

Others present: Representatives Marvin Nelson and Kenton Onstad, members of the Legislative Management Bert Anderson, State Representative, Crosby David Rust, State Senator, Tioga
See [Appendix A](#) for additional persons present.

It was moved by Representative Hanson, seconded by Senator Bekkedahl, and carried on a voice vote that the minutes of the October 12-13, 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 oil and gas gross production tax allocation formulas provide distributions to political subdivisions in oil-producing counties in lieu of property taxes. 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.

COUNTY UPDATES**Divide County**

Mr. Doug Graupe, Commissioner, Divide County, presented information ([Appendix B](#)) regarding the use of "surge funding" and challenges in government operations in Divide County. He said the county accepted a bid of \$992,000 for a three-mile construction project on County Road 2, which was about \$710,000 less than the estimate of \$1.7 million. He said the county plans to open bids in the spring of 2016 for a construction project on County Road 11 with an estimated cost of \$5.5 million. He said the county is developing plans for a project on County Road 14 with an estimated cost of \$3.3 million. He said these three projects would be paid with "surge funding." He said the infrastructure challenges for the county include the need to expand the county courthouse with an estimated cost of \$10.5 million. He said the need to expand the county courthouse is directly related to oil activity. He said the construction of the county courthouse will be funded by a loan from the Bank of North Dakota.

In response to a question from Chairman Wardner, Mr. Graupe said the Divide County Sheriff's office has eight deputies. He said some inmates have been transported to facilities in Montana because of a lack of jail space. He said the Sheriff's office will be able to use some of the cells in the new jail in Williston through a cooperative agreement with Williams County. He said criminal activity has not decreased even though oil activity has decreased.

In response to a question from Chairman Wardner, Mr. Graupe said the county needs to hire an additional social worker to help with the large case load. He said placement options within the county for foster children are limited resulting in placements in other counties. He said placements in other counties result in increased travel costs.

In response to a question from Chairman Wardner, Representative B. Anderson said fire protection services and emergency medical services are contracted because the county was not able to hire adequate staff. He said the contract costs are high but are necessary to provide services to residents. He said calls for service have not decreased.

In response to a question from Senator Bekkedahl, Mr. Graupe said the city of Crosby has a 1 percent city sales tax for the hospital in Crosby. He said Divide County created a taxing district to levy property taxes to provide additional funding for the hospital.

In response to a question from Representative Mock, Mr. Graupe said the primary housing issue is high rent prices. He said rent prices have not decreased in Divide County. He said rent prices are anticipated to decrease in the near future as oil activity moderates.

2015-17 Biennium State Revenue Collections

At the request of the Chairman, the Legislative Council staff presented a memorandum entitled [2015-17 Biennium Revenue - Monthly Summary](#) regarding 2015-17 biennium revenues, including general fund revenue and oil and gas tax revenue. The memorandum provides a comparison of actual to forecasted general fund revenue collections and includes a chart that compares actual and forecasted ongoing general fund revenue collections. The memorandum provides a comparison of actual to forecasted amounts for oil production, oil prices, rig counts, and oil tax revenue allocations. The Legislative Council staff said actual ongoing general fund revenue collections were 10.5 percent less than the forecast for the biennium to date through September. The Legislative Council staff said actual oil tax allocations were significantly more than the forecast for the biennium to date because the "large trigger" did not take effect as forecasted.

In response to a question from Representative D. Anderson, the Legislative Budget Analyst and Auditor said the decrease in sales tax collections is directly related to the decrease in oil activity based on information presented by the Office of Management and Budget.

Senator Bekkedahl said 30 percent of the sales tax collections in western North Dakota are attributed to oil exploration activities and 70 percent are attributed to oil production based on information presented by the Department of Mineral Resources.

In response to a question from Senator Bekkedahl, the Legislative Council staff said the 2015-17 biennium forecasted oil prices were based on a discount from West Texas Intermediate futures prices.

In response to a question from Representative Nelson, the Legislative Council staff said the \$300 million allocation to the tax relief fund during the 2015-17 biennium will be available for legislative appropriations for the 2017-19 biennium.

Mountrail County

Mr. Arlo Borud, Commissioner, Mountrail County, presented information ([Appendix C](#)) regarding the use of "surge funding" and challenges in government operations in Mountrail County. He said the county prioritized \$78 million of road construction projects for the 2015 construction season. He said projects totaling approximately \$38 million will be completed using the "surge funding" while approximately \$40 million will not be completed until additional funding becomes available. He said funding ongoing road maintenance is a challenge for the county because oil tax revenue allocations to the county have been lower than anticipated.

In response to a question from Chairman Wardner, Mr. Corey Bristol, Sheriff, Mountrail County, said the Sheriff's office has 15 deputies compared to 4 deputies 10 years earlier. He said the construction of a new jail in Mountrail County is anticipated to be completed in December 2016. He said the new jail will have 42 beds compared to 12 beds in the existing facility.

In response to a question from Representative D. Anderson, Mr. Bristol said a significant number of calls for service are related to substance abuse. He said substance abuse often leads to other criminal activity.

In response to a question from Senator Bowman, Mr. Bristol said some of the criminal activity in the county is related to gang activity. He said gang activity is more prominent in larger communities, but has spread to smaller communities.

Mr. Borud said the cost of the new jail is approximately \$28 million, which will be paid with a loan from the Bank of North Dakota. He said the county plans to repay the loan using oil tax revenue allocations. He said the county currently spends approximately \$20,000 per month transporting and housing inmates at other jails. He said the new facility will eliminate the need to transfer inmates due to space issues.

In response to a question from Senator Wardner, Mr. Borud said fire protection services are provided by a volunteer staff. He said the county has two paid full time equivalent positions for emergency medical services along with additional volunteer positions. He said the county provided funding to cities within the county for fire protection and emergency service equipment prior to the 2013-15 biennium, but currently does not have sufficient funding sources to assist cities with equipment purchases.

In response to a question from Senator Wardner, Ms. Lisa Lee, Planning and Zoning Committee, Mountrail County, said a special waste disposal facility has been approved by the county for drill cuttings. She said the company is in the process of obtaining permits from the State Department of Health. She said construction is anticipated to begin in the spring of 2016.

In response to a question from Senator Wardner, Ms. Lori Hanson, Mountrail County Tax Equalization Board, said at least 18 saltwater disposal sites exist within the county. She said the disposal sites receive saltwater by pipeline and by truck. She said some companies are voluntarily monitoring their saltwater pipelines to ensure public safety.

In response to a question from Representative D. Anderson, Ms. Lee said the county has not received any applications for permits to recycle drill cuttings into usable products.

Mr. Bryan Quigley, Director, Social Services, Mountrail County, said Mountrail County constructed a 5-bed home to house foster children. He said Mountrail County hired an addiction counselor and contracted for a therapist to address the growing demand for services.

CITY UPDATES

Crosby

Representative Bert Anderson, Mayor, Crosby, said the city of Crosby received \$8.3 million from the "surge funding" appropriation. He said the city is in the process of procuring bids for a road paving project, which will use the entire \$8.3 million. He said the city evaluated the utility infrastructure under the road prior to starting the paving project and determined that the sewer lines needed to be replaced which delayed the start of the paving.

In response to a question from Senator Bekkedahl, Representative B. Anderson said the city is studying space needs for city hall employees. He said the city is considering purchasing additional space.

In response to a question from Senator Wardner, Representative B. Anderson said rent prices are decreasing. He said the city spent \$400,000 of sales tax collections to construct a day care center because of a significant shortage of day care services in Crosby.

In response to a question from Senator Bekkedahl, Representative B. Anderson said the sales tax rate in Crosby is 8 percent, which includes the state's 5 percent tax, 1 percent for the city, 1 percent for the park district, and 1 percent for the hospital. He said in addition to the 1 percent sales tax for the park district, the city of Crosby has a property tax levy for the park district.

Tioga

Ms. Abby Salinas, Auditor, Tioga, presented information ([Appendix D](#)) regarding Tioga's use of "surge funding" and challenges related to oil and gas development activity. She said the city received \$11.3 million from the "surge funding" appropriation and used the funding for water and wastewater system upgrades and road construction projects. She said Tioga's infrastructure needs for the period 2015 to 2020 total approximately \$130 million. She said the city anticipates completing \$32 million of projects during 2015 and 2016 including the the projects related to the "surge funding." She said challenges for the city include decreasing revenue from sales tax collections and oil tax allocations, additional infrastructure maintenance, and staff recruitment and retention issues.

In response to a question from Senator Bowman, Ms. Salinas said the current population of Tioga is approximately 2,600 based on sewer usage rates compared to 2,800 a year earlier.

In response to a question from Senator Bekkedahl, Ms. Salinas said the city has approximately \$2.3 million of debt related to a state revolving fund loan for infrastructure projects. She said the city's debt was approximately \$170,000 a few years earlier.

In response to a question from Senator Bekkedahl, Mr. Antonio Conti, Senior Civil Engineer, Ackerman-Estvold, Minot, said some crew camps are located within city limits of Tioga. He said the crew camps are given conditional use permits that expire annually.

In response to a question from Representative Nelson, Mr. Conti said developers pay for infrastructure construction in new developments so the city of Tioga has not needed to use the special assessment process for new developments.

Ray

Ms. Lonni Fleck, Professional Engineer, Interstate Engineering, Williston, presented information ([Appendix E](#)) regarding Ray's use of "surge funding" and challenges related to oil and gas development activity. She said the city of Ray received \$5.4 million from the "surge funding" appropriation of which \$3.1 million will be spent in 2015 and \$1.3 million will be spent in 2016. She said the city identified \$10.4 million of additional infrastructure needs including water, sewer, and road projects. She said the current debt per capita is \$5,816 based on the 2010 census. She said approximately 52 percent of Ray's operating expenses are funded with oil and gas gross production tax allocations. She said the population in Ray has not decreased even as oil activity decreases. She said the city implemented a .5 percent sales tax for law enforcement beginning in 2014.

In response to a question from Senator Wardner, Mr. Troy Kupper, Finance Commissioner, Ray, said the city of Ray has 26 acres of commercial and industrial zoning. He said the city sales tax of 7 percent includes the state's 5 percent tax, 1.5 percent for the city and .5 percent for law enforcement. He said over 80 percent of the city's portion of the sales tax is used for infrastructure projects.

In response to a question from Senator Bekkedahl, Mr. Kupper said the city received oil bonus payments but has not yet received oil royalty payments. He said a trust was established to receive any future oil royalty payments.

In response to a question from Senator Rust, Mr. Kupper said emergency medical services and fire protection services are provided by volunteers. He said the city anticipates purchasing an ambulance in the near future with funding generated from the Williams County public safety sales tax.

Stanley

Mr. Fritz Weisenberger, Mayor, Stanley, presented information ([Appendix F](#)) regarding Stanley's use of "surge funding" and challenges related to oil and gas development activity. He said the city received approximately \$6.6 million from the "surge funding" appropriation. He said the city anticipates \$8.1 million of infrastructure projects to be completed during 2015 and 2016 using the "surge funding" and other city funds. He said estimated future infrastructure project needs total \$113 million, including \$8.1 million for water, \$21.6 million for sewer, \$49.5 million for roads, and \$33.8 million for public buildings and other infrastructure.

In response to a question from Senator Wardner, Mr. Weisenberger said calls for public safety services have not decreased. He said emergency medical services and fire protection services are provided by volunteers. He said the city has identified the need to purchase a new ladder truck for the fire department.

Parshall

Ms. Kelly Woessner, Auditor, Parshall, presented information ([Appendix G](#)) regarding Parshall's use of "surge funding" and challenges related to oil and gas development activity. She said the city of Parshall received \$4.1 million in "surge funding," which is committed to the construction of a new wastewater treatment facility. She said construction of the new wastewater treatment facility is anticipated to be complete in December 2015 at a cost of \$9 million. She said the city of Parshall receives funding from industrial water sales, which will be used for various water and wastewater infrastructure projects totaling \$5 million.

In response to a question from Senator Bekkedahl, Ms. Woessner said the city receives approximately \$900 per month from oil royalties, which are used for infrastructure projects.

New Town

Mr. Dan Uran, Mayor, New Town, presented information ([Appendix H](#)) regarding New Town's use of "surge funding" and challenges related to oil and gas development activity. He said the city of New Town identified \$93 million of infrastructure needs, including \$23.2 million for water, \$22.9 million for wastewater, \$14.5 million for roads, and \$32.4 million for public buildings. He said the city received approximately \$8.8 million of "surge funding," of which \$5.8 million has been spent on various road and water projects. He said the city recently completed a road construction project on Main Street improving traffic flow and safety. He said the city approved new housing developments to address the housing shortage. He said the developers are required to build the roads and utility infrastructure within new developments. He said public safety challenges in New Town include the need for a new fire truck, a new fire station, and a new police station.

In response to a question from Senator Bekkedahl, Mr. Uran said New Town has limited plans for construction

projects in 2016 because most of the surge funding was spent during the 2015 construction season. He said the city also incurred \$2 million of engineering costs related to the 2015 construction projects, which further decreased the funding available for the 2016 construction season.

SCHOOL UPDATES

Tioga Public School District

Mr. Brodie Odegaard, Principal, Tioga High School, presented information ([Appendix I](#)) regarding challenges related to oil and gas development for the Tioga Public School District. He said student enrollment increased from 233 students in 2006 to 474 students in 2015. He said the rapid increase in enrollment required the school district to use modular classrooms beginning in 2012. He said the city's voters approved issuing bonds of \$9.9 million to expand the kitchen and classroom space at the elementary school and the high school. He said additional remodeling and expansion projects will be needed in the future to replace aging infrastructure. He said teacher recruitment remains a challenge related in part to a lack of affordable housing. He said rent prices remain high, but have decreased in the past month. He said a two bedroom apartment rented for \$2,400 per month in September 2015, but was available in October 2015 for \$1,500 per month. He said the school district owns nine modular housing units and rents seven apartments for teachers and other school district staff.

In response to a question from Chairman Wardner, Mr. Odegaard said the starting salary for a new teacher is approximately \$49,000 per year. He said although certain specialized teaching positions have higher starting salaries, recruitment is still a challenge. He said the school district added a full-time English Language Learner teaching position to serve the increasing number of students in the school district whose native language is not English.

New Town Public School District

Mr. Uran presented information ([Appendix J](#)) regarding challenges related to oil and gas development for the New Town Public School District. He said the rental price for a two bedroom apartment in New Town is approximately \$1,800 per month. He said due to a lack of affordable housing, the school district owns 49 rental units to house faculty and staff. He said enrollment increased by 81 students in the 2014-15 school year and 94 students in the 2015-16 school year despite the decrease in oil activity. He said one of the school district's primary concerns is the 75 percent revenue offset in the state school aid funding formula.

In response to a question from Representative Nelson, Mr. Uran said the New Town school district receives federal funding, which has decreased significantly in recent years. He said the school district did not receive any state school aid payments during the 2014-15 school year because federal and local revenue provided adequate base level support as determined in the state school aid formula. He said the school district is receiving state school aid payments for the 2015-16 school year because of changes in federal and local revenue.

In response to a question from Chairman Wardner, Mr. Uran said the school district has coordinated with Williston State College and Fort Berthold Community College to develop dual credit programs for high school students.

In response to a question from Chairman Wardner, Mr. Uran said teacher recruitment remains a challenge. He said the school district recently hired six teachers who were from foreign countries in order to fill vacant positions.

OTHER

Chairman Wardner said the next committee meeting will be in Bismarck on Tuesday, November 24, 2015. He said the committee will receive information related to the committee's other responsibilities, including a study of federal Environmental Protection Agency regulations of carbon dioxide emissions.

No further business appearing, Senator Rich Wardner adjourned the meeting at 2:00 p.m.

Adam Mathiak
Fiscal Analyst

ATTACH:10