

## NORTH DAKOTA LEGISLATIVE MANAGEMENT

## Minutes of the

**ENERGY DEVELOPMENT AND TRANSMISSION COMMITTEE**

Wednesday and Thursday, September 6-7, 2017  
Workforce Training Centre 415 22<sup>nd</sup> Avenue NE, Williston, North Dakota

Senator Rich Wardner, Chairman, called the meeting to order at 12:00 noon.

**Members present:** Senators Rich Wardner, Brad Bekkedahl, Jim Dotzenrod, Merrill Piepkorn, David S. Rust; Representatives Mike Brandenburg, Ben Koppelman, Corey Mock, Gary R. Sukut

**Members absent:** Senator Jessica Unruh; Representatives Tracy Boe, Todd Porter

**Others present:** Representatives Bert Anderson, Crosby; and Patrick Hatlestad, Williston  
See [Appendix A](#) for additional persons present.

**It was moved by Senator Bekkedahl, seconded by Senator Dotzenrod, and carried on a voice vote that the minutes of the August 1, 2017, meeting be approved as distributed.**

Chairman Wardner said the committee has the responsibility to study the formulas for allocating oil and gas tax revenue collections to hub cities and hub city school districts. He said the committee is gathering information from the hub cities and hub city school districts to help the committee determine the appropriate level of oil and gas tax revenue allocations. He said the committee is touring an oil well pad site where fracturing is in progress to gain an understanding of the fracturing process in conjunction with the committee's study of oil well refracturing.

**COMMITTEE TOURS****Oil Well Fracturing Site**

Mr. Brent Eslinger, Senior District Manager, Halliburton, presented information ([Appendix B](#)) regarding Halliburton's fracturing operations. He said the refracturing process has been used in the Bakken Formation for 2 years. He said refracturing is economical because refracturing has lower costs than drilling and completing new oil wells. He said the refracturing process has improved with new equipment, including sandbox systems that store the proppant and a well head connection unit that allows two wells to be refractured at the same time. He said Halliburton donates to local organizations and has 864 employees in North Dakota.

In response to a question from Senator Piepkorn, Mr. Eslinger said the sandbox systems have been in use for 1 year and are advantageous because they eliminate dust emissions.

Mr. Eslinger led the committee on a tour of an oil well pad where Halliburton was in the process of fracturing two oil wells. He explained the fracturing process and identified the equipment used in the process.

**Williston High School**

Mr. Jason Germundson, Principal, Williston High School, led the committee on a tour of the new Williston High School building. He said construction of the high school was completed in 2016, but the school has capacity challenges because of enrollment growth. He said additional teachers and classroom space may be needed in the near future.

**Water Resource Recovery Facility**

Mr. David Tuan, City Administrator, Williston, led the committee on a tour of the water resource recovery facility. He said he was involved in the planning and construction oversight in his former position as the Director of Public Works. He said the facility has a capacity to serve 60,000 residents. He said the facility is the first in the state to produce Class A biosolids. He said most other facilities produce Class B biosolids, which have restricted uses. He said the Class A biosolids are a beneficial byproduct which could be sold as nutrient-rich soil. He said the city currently plans to use the biosolids as a cover soil at the landfill to reduce the cost of purchasing topsoil.

The committee recessed at 5:30 p.m. and reconvened at 8:00 a.m. on Thursday, September 7, 2017.

## CITY OF WILLISTON

### Introduction

Mr. Howard Klug, Mayor, Williston, provided comments ([Appendix C](#)) regarding an overview of Williston's growth and challenges. He welcomed the committee and thanked the Legislative Assembly for providing funding to Williston. He said the city's land area has expanded by 210 percent since 2006. He said the city provides water treatment services for Western Area Water Supply, which serves five counties in northwestern North Dakota. He said the oil and gas gross production tax allocations are an important part of debt repayments for infrastructure projects that were needed to support the growth of the city.

### Population and Demographic Changes

Mr. Shawn Wenko, Executive Director, Economic Development Office, Williston, presented information ([Appendix D](#)) regarding Williston's population and demographic changes. He said Williston's population is approximately 31,850 with a median age of 30. He said North Dakota State University conducted a study of the potential economic activity and the potential workforce and population changes through the year 2040. He said Williston's population is projected to increase by 2.8 percent per year through the year 2023 compared to an increase of 5.7 percent per year in Watford City.

In response to a question from Representative Brandenburg, Mr. Wenko said occupancy rates in multifamily units range from 40 to 90 percent depending on the price and age of the units. He said single family home sales increased by 30 percent from 2016 to 2017.

### City Staffing and Organizational Changes

Mr. Tuan presented information ([Appendix E](#)) regarding Williston's staffing and organizational changes. He said the city's staff increased from 120 employees in 2006 to 323 in 2017 with the largest increases related to public safety positions. He said the police department has 55 officers along with additional support staff. He said the police department may have more officers than similarly sized cities because the city is addressing challenges with crime associated with the oil and gas development activity.

### City Infrastructure

Mr. Bob Hanson, Engineer, Williston, presented information ([Appendix F](#)) regarding Williston's infrastructure development. He said the city invested \$220 million in infrastructure to provide connections to new residential and commercial developments. He said developers have spent a similar amount on infrastructure because the developers are responsible for building the infrastructure within the new developments. He said the Bakken pricing premium for construction costs decreased from a 40 percent premium in the 2014 construction season to a 10 percent premium in the 2017 construction season. He said the city needs additional road and water infrastructure in the next few years, including \$25 million to improve rural residential service and \$25 million for industrial park connections and upgrades.

In response to a question from Senator Piepkorn, Mr. Hanson said the city is in the process of closing and remediating man camp sites.

In response to a question from Representative Brandenburg, Mr. Hanson said the city and county coordinate services for efficiency. He said some challenges remain with extraterritorial zoning and the maintenance of county roads within city limits.

Mr. Tuan presented information ([Appendix G](#)) regarding major investments in city facilities. He said major projects include \$125 million for a water resource recovery facility, \$80 million for a water treatment plant, \$60 million for public safety facilities, and \$5.2 million for landfill expansions. He said the city hall was also renovated to accommodate additional staff at a cost of \$1.5 million.

In response to a question from Representative Mock, Mr. Jason Catrambone, Fire Chief, Williston, said calls for fire protection service and emergency medical services increased from approximately 600 per month prior to the oil and gas development activity to 2,800 calls per month in 2017. He said response times decreased from an average of 11 minutes when the city had one fire station to under 7 minutes with the completion of the third fire station.

Mr. David Peterson, Police Chief, Williston, said calls for service are anticipated to exceed 29,000 in 2017. He said recent expansion projects have increased the capacity of the jail from 120 beds to 240 beds.

Mr. Tuan presented information ([Appendix H](#)) regarding future capital project needs. He said future projects include \$83 million for roadway improvements to increase connectivity, \$240 million for the new airport, and \$20 million for a public works facility expansion project.

In response to a question from Senator Rust, Mr. Tuan said any proceeds from the sale of the old airport must be applied to the cost of the new airport. He said the federal government will receive the proceeds.

### City Revenues

Senator Bekkedahl, Finance Commissioner, Williston, presented information ([Appendix I](#)) regarding Williston's finances and major revenue sources. He said the voters of Williston approved sales tax increases to finance city infrastructure, park district improvements, and public safety. He said the city's 8 percent sales tax includes the state's 5 percent tax, 1 percent for city infrastructure, 1 percent for the park district, and 1 percent shared with the county for public safety. He said property tax mill levies have decreased from 79 mills to 31 mills, but property tax revenues have increased because of the increase in property values. He said the value of a sample residential property increased by 190 percent, from \$75,500 in 2007 to \$218,800 in 2016. He said the oil and gas gross production tax revenue allocations to the city of Williston are important because the tax is in lieu of property tax. He said local property tax revenues would not be adequate to cover the cost of the impact of oil and gas development activity even with the increase in property values. He said the city's debt totaled \$222 million in 2016 and is projected to total \$417 million by 2023. He said \$9 million of the city's oil and gas gross production tax revenues per year are dedicated to debt repayment.

In response to a question from Representative Koppelman, Senator Bekkedahl said oil and gas gross production tax allocations have helped Williston to maintain a similar tax burden as other areas of the state. He said most of the growth in the city was directly related to oil and gas development activity. He said the city has 122 oil wells within city limits, but cannot levy property taxes on the wells because the oil and gas gross production tax is in lieu of property tax. He said infrastructure projects have been financed with oil and gas gross production tax revenue allocations and sales tax collections rather than special assessments.

In response to a question from Senator Dotzenrod, Senator Bekkedahl said the city's utility rates are based on operating costs and any capital improvements are financed through sales tax collections or oil and gas gross production tax allocations.

Chairman Wardner said state law regulates oil and gas taxes and does not allow taxing districts to levy property taxes. He said if another large industry developed in a city in eastern North Dakota, the city would be able to levy property taxes to finance the capital improvements and operating costs associated with the increase in activity. He said the hub cities have acquired debt to support the oil and gas industry and need a fair amount of oil and gas tax revenue allocations to address their needs.

### Planning for the Future

Mr. Shawn Gaddie, Division Manager, Advanced Engineering and Environmental Services, Inc., Grand Forks, presented information ([Appendix J](#)) regarding a study of the operational and financial needs for six cities in western North Dakota. He said the study was completed in early 2017 and included Williston, Watford City, Dickinson, Tioga, Stanley, and Killdeer. He said the study included projections for low, moderate, and high levels of growth based on oil prices, jobs, and housing. He said the study used regional analysis with comparisons to Grand Forks, Minot, and West Fargo, North Dakota; Bozeman, Montana; and Gillette, Wyoming. He said based on the moderate growth scenario, Williston may need an additional 72 full-time equivalent (FTE) positions primarily in public safety positions and \$257 million of funding for capital improvement projects by 2023. He said Williston's projected cumulative budgetary shortfall for 2018 through 2023 is \$181 million based on the study's projections for revenue sources and expenses. He said the study projected sales tax revenue and property tax revenue to increase by approximately 5 percent per year. He said Williston's debt repayments are projected to total \$30 million per year by 2023.

Mr. Klug provided comments ([Appendix K](#)) summarizing Williston's challenges and need for oil and gas gross production tax allocations. He said the development of the oil and gas industry changed the city of Williston by bringing new opportunities and challenges for the citizens. He said the city is committed to supporting the oil and gas industry and has acquired debt to build the necessary infrastructure to support the growth in the city. He said the city received state funding for some of the infrastructure projects, but the city has also contributed financial resources to projects, including a sales and use tax dedicated to supporting public safety.

### WILLIAMS COUNTY

Mr. Steve Kemp, Commissioner, Williams County, presented information ([Appendix L](#)) regarding the shared impacts of oil and gas development activities that affect Williston and Williams County. He said staff employed by the county increased from 132.5 FTE positions in 2006 to 264 FTE positions in 2017. He said the city and county share a law enforcement facility, coordinate emergency management and 911 administration, and will both benefit from the development of the new airport. He said the county has completed or is in the process of completing \$88.5 million of infrastructure projects, including \$40 million for a law enforcement center expansion, \$22 million for

a highway complex, and \$26.5 million for a courthouse and other administration buildings. He said Williams County had the largest amount of taxable sales and purchases of all the counties from 2011 to 2014, which contributed to the growth in the state's general fund revenues. He said the funding from the oil and gas tax revenue allocations allows the county to build infrastructure to support the oil and gas industry, which benefits the county and the state.

Representative Brandenburg said political subdivisions in both oil-producing and non-oil-producing counties have funding needs for infrastructure projects. He said the funding needs for political subdivisions in the oil-producing counties vary, but the formula for oil and gas tax revenue allocations does not distribute funds based on need. He said some cities and counties that receive oil and gas tax revenue allocations may have financial resources available to pay for operating costs, debt repayments, and infrastructure projects. He suggested the committee consider changes to the oil and gas tax allocation formulas to direct funding to political subdivisions based on financial need.

### **WILLISTON PUBLIC SCHOOL DISTRICT**

Mr. Michael Campbell, Superintendent, Williston Public School District, presented information ([Appendix M](#)) regarding Williston Public School District's enrollment changes, finances, and buildings. He said kindergarten enrollment increased from 294 students in the 2016-17 school year to 364 in the 2017-18 school year. He said the district had 967 new enrollees for the 2017-18 school year, including the 364 kindergarten students and 603 new students in grades 1 through 12. He said the net change in enrollment from the 2016-17 school year to the 2017-18 school year is less than 967 because of graduations and other students leaving the district. He said the district's revenues are anticipated to decrease from \$44.7 million in the 2016-17 school year to \$41.5 million in the 2017-18 school year. He said the decrease is related to a decrease in oil and gas tax revenue allocations and a decrease in property tax revenue collections. He said the state funding portion of school district revenues decreased from 66 percent in the 2013-14 school year to 51 percent in the 2016-17 school year, while local revenues increased from 17 percent in the 2013-14 school year to 33 percent in the 2016-17 school year. He said many of the schools in the district are nearing capacity due to the increase in enrollments. He said the district has already identified a need to add six additional classrooms to the new high school building, which was completed in 2016.

Representative Koppelman said other school districts, such as the West Fargo Public School District, are also experiencing challenges because of enrollment growth. He said the school districts located in oil-producing counties receive oil and gas gross production tax allocations that help to address funding needs. He said the school districts in non-oil-producing counties are more reliant on property tax revenue collections to address funding needs.

In response to a question from Senator Rust, Mr. Campbell said the school district deposits all of its oil and gas tax revenue allocations into the district's general fund and does not distribute the revenue into the district's other funds such as the special reserve fund or the building fund. He said property tax revenue collections are distributed to the school district's general fund, special reserve fund, building fund, sinking and interest fund, a fund for miscellaneous purposes, and a fund for special assessments.

In response to a question from Chairman Wardner, Mr. Campbell said the school district levies 70 mills for general purposes, but due to decreased property values, property tax revenue for the 2017-18 school year is anticipated to decrease.

In response to a question from Senator Piepkorn, Senator Bekkedahl said property tax valuations will decrease by approximately 15 percent for taxes levied in 2017 and payable in 2018. He said the overall value of residential and commercial properties decreased 12 percent during the assessment process for taxes levied in 2017. He said some hotels and multifamily housing units appealed their valuations and were granted reductions by the State Board of Equalization, which will result in additional decreases in property tax revenue collections.

### **OTHER Oasis Petroleum**

Mr. John Lee, General Manager, Oasis Petroleum, Williston, presented information ([Appendix N](#)) regarding Oasis Petroleum's operations in Williston. He said the city of Williston is a good location for the company because of the proximity to the oil fields, a good school system for families, and improvements to city infrastructure such as the new airport. He said Oasis Petroleum produces approximately 60,000 barrels of oil per day from the Bakken Formation and anticipates a 15 percent increase in production in 2018. He said the company plans to invest \$605 million into its operations during 2017. He said the completion of the Dakota Access Pipeline has decreased the pricing differential between West Texas Intermediate oil prices and North Dakota oil prices to less than \$3 per barrel.

### **Go Wireline**

Mr. Lucas Gjovig, General Counsel and Operations Manager, Go Wireline, Williston, presented information ([Appendix O](#)) regarding Go Wireline's operations and community impact. He said the company provides wireline services in the Williston Basin, including scoping wells for inspection, perforating to prepare for hydraulic fracturing, placing well plugs, and repairing well gauges and valves. He said the company has 100 employees.

### **Job Service North Dakota**

Ms. Cindy Sanford, Manager, Customer Service Office, Job Service North Dakota, Williston, provided comments regarding job statistics in Williston. She said job applications have decreased from an average of approximately 200 per day in 2011 to an average of approximately 45 per day in 2017. She said Williams County had approximately 1,000 job openings as of the beginning of September 2017. She said approximately 65 percent of the job openings are related to the oil and gas industry.

### **Bank of North Dakota**

Mr. Kelvin Hullet, Economic Development and Government Program Manager, Bank of North Dakota, distributed information ([Appendix P](#)) regarding loans issued by the Bank of North Dakota to political subdivisions in western North Dakota. He said the repayments for the loans are supported by the oil and gas gross production tax allocations to the political subdivisions.

### **First National Bank and Trust Company**

Mr. Chris Jundt, Senior Vice President and Chief Lending Officer, First National Bank and Trust Company, Williston, provided comments regarding business lending. He said lending and credit services are available to businesses with good credit. He said businesses rely on city infrastructure such as quality roads and adequate water supply to grow their operations. He said banks are concerned that the city infrastructure may not be available to support business growth, especially if any changes to the oil and gas tax allocation formulas reduce the funding for hub cities.

### **City of Ray**

Senator Rust distributed written testimony ([Appendix Q](#)) provided by the City of Ray regarding the impact of oil and gas development activities on the city. He said the city is in the process of completing a few infrastructure projects, including road repairs with the "surge" funding received in 2015. He said one of the reasons hub cities receive separate oil and gas tax revenue allocations is to allow additional funding to be provided to other cities located in oil-producing counties, such as the City of Ray.

### **Public Comment and Committee Discussion**

Mr. Robert Harms, Lobbyist, Economic Development Corporation of Tioga, Bismarck, said political subdivisions in western North Dakota face challenges because of the oil and gas development activity. He said more oil wells will be drilled as the development of the Bakken Formation matures and communities are planning for the future. He said the rapid development of the oil and gas industry negatively impacted residents' quality of life, but the infrastructure improvements have restored the balance in the day-to-day lives of people in western North Dakota.

Representative Sukut said developing any proposed changes to the oil and gas tax allocation formulas early in the interim may allow hub cities and hub city school districts to budget more efficiently and plan for projects and programs.

Senator Dotzenrod said the City of Williston has responded well to the challenges of the oil and gas development activity while also responding to the needs of residents and property owners.

Chairman Wardner said the committee's next meeting will be in Bismarck on Monday and Tuesday, October 9-10, 2017. He said the committee will attend the Great Plains and EmPower ND Energy Conference on October 10, 2017.

No further business appearing, Chairman Wardner adjourned the meeting at 3:20 p.m.

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Adam Mathiak  
Fiscal Analyst

ATTACH:17