

NORTH DAKOTA LEGISLATIVE MANAGEMENT

Minutes of the

ENERGY DEVELOPMENT AND TRANSMISSION COMMITTEE

Monday and Tuesday, October 30-31, 2017

City Hall, 99 Second Street East

Dickinson, North Dakota

Senator Rich Wardner, Chairman, called the meeting to order at 1:00 p.m.

Members present: Senators Rich Wardner, Brad Bekkedahl, Merrill Piepkorn, David S. Rust; Representatives Tracy Boe, Corey Mock, Gary R. Sukut

Members absent: Senators Jim Dotzenrod, Jessica Unruh; Representatives Mike Brandenburg, Ben Koppelman, Todd Porter

Others present: Representative Mike Lefor, Dickinson, member of the Legislative Management
Representative Vicky Steiner, Dickinson
See [Appendix A](#) for additional persons present.

It was moved by Senator Rust, seconded by Representative Sukut, and carried on a voice vote that the minutes of the October 9-10, 2017, meeting be approved as distributed.

Chairman Wardner said the committee is gathering information from hub cities and hub city school districts related to the committee's study of the formulas for allocating oil and gas tax revenues. He said the committee's meeting will include tours to various sites in Dickinson to view the impact of oil and gas development activity.

CITY TOUR

Mr. Scott Decker, President, Dickinson City Commission, provided comments ([Appendix B](#)) regarding an overview of Dickinson's growth and challenges. He said the city used oil and gas gross production tax allocations for infrastructure investments to support the growth of the city. He said challenges remain because the oil and gas development activity is anticipated to remain for at least 20 years.

The committee conducted a bus tour of the city of Dickinson. Mr. Shawn Kessel, City Administrator, City of Dickinson, identified infrastructure projects that were recently completed to address impacts related to oil and gas development activities. The infrastructure projects included the State Avenue overpass, which facilitates traffic flow over the railroad; and the west lift station, which pumps waste water to the water reclamation facility.

OIL AND GAS INDUSTRY

Mr. Josh Demorrett, Stakeholder Relations, ConocoPhillips Company, presented information ([Appendix C](#)) regarding the company's operations and the oil industry's impact on local communities. He said an estimated 20 percent of jobs and 38 percent of state tax revenue in North Dakota are related to the oil and gas industry according to estimates by the North Dakota Petroleum Council. He said due to operating efficiencies, the company's breakeven cost for oil production is less than \$35 per barrel in the most economical areas of the Williston Basin. He said the company plans to operate four drilling rigs through the end of calendar year 2017, but plans to operate with three drilling rigs in 2018 because of efficiencies in the drilling process. He said ConocoPhillips selected the city of Dickinson for its operations in the Williston Basin because of the city's infrastructure development, education and health care systems, and quality of life.

In response to a question from Senator Piepkorn, Mr. Demorrett said an estimated 12 percent of the state's tax revenue returns to support the oil and gas industry through government spending compared to the 38 percent contributed by the oil and gas industry.

CITY INFRASTRUCTURE

Mr. Craig Kubas, City Engineer, City of Dickinson, and Mr. Gary Zuroff, Public Works Director, City of Dickinson, led the committee on a tour of the public works building. Mr. Kubas explained the computer monitoring system for the water lines, water towers, lift stations, and sewer lines in the water systems control room. He said the city has 6 million gallons of water storage capacity.

Mr. Zuroff identified the fleet vehicle storage and maintenance areas of the building. He said the Public Works Department employs 65.5 full-time equivalent (FTE) employees, most of whom are located at the public works building.

Public Works

Mr. Kubas presented information ([Appendix D](#)) regarding water and road infrastructure projects. He said the City of Dickinson completed \$45 million of water projects since 2008 including 12 miles of water pipes and three pumping stations. He said \$166 million of road projects have been completed in Dickinson, including the State Highway 22 bypass and 15 miles of new city roads. He said the city constructed infrastructure based on the current needs, but designed the projects for future expansion. He said the 21st Street extension, which provides access to the new middle school building, was completed as a three-lane roadway that can be expanded to five lanes of traffic in the future.

Mr. Zuroff presented information ([Appendix E](#)) regarding waste water and solid waste infrastructure projects. He said the waste water reclamation facility was completed in October 2014 at a cost of \$30 million. He said of the \$30 million cost, \$8 million was provided from a grant from the oil and gas impact grant fund while the remaining \$22 million was from a loan from the state revolving loan fund managed by the Public Finance Authority. He said the facility has the capacity to serve a population of approximately 38,000 and can be expanded in the future to serve a population of approximately 76,000. He said the treated waste water is sold to the oil and gas industry for oil well fracturing and to the Dakota Prairie Refinery. He said the city has invested \$60 million in sewer lines and lift stations since 2008, including the lines to distribute treated water. He said the city's solid waste service accepts waste from 10 counties in southwestern North Dakota with waste collection from the region increasing significantly because of oil and gas development activity. He said the city is in the process of developing plans to reclaim an existing portion of the landfill or to expand the landfill to extend its useful life.

In response to a question from Representative Boe, Mr. Zuroff said the City of Dickinson and the Dakota Prairie Refinery shared the cost of the line to deliver treated wastewater from the water reclamation facility to the refinery. He said the refinery needed a 6-inch line, but the city chose to build a 16-inch line so that the oversupply of treated wastewater can be sold to other industrial users in southwestern North Dakota.

Water Reclamation Facility

Mr. Gregory Stack, Waste Water Manager, City of Dickinson, distributed information ([Appendix F](#)) regarding the water reclamation facility and led the committee on a tour of the facility. He identified the treatment units at the facility. He said the new facility utilizes a mechanical treatment process and replaced the former lagoon system. He said after the treatment process, the remaining biosolids are applied to cropland adjacent to the facility.

MIDDLE SCHOOL

Dr. Marcus Lewton, Principal, Dickinson Middle School, distributed information ([Appendix G](#)) regarding Dickinson Middle School and led the committee on a tour of the new middle school building. He said construction on the new middle school building was completed in the summer of 2017 at a cost of approximately \$65 million. He said enrollment at Dickinson Middle School totaled 841 as of September 2017.

AIRPORT

Mr. Kelly Braun, Airport Manager, Dickinson Theodore Roosevelt Regional Airport, presented information ([Appendix H](#)) regarding the airport's operations and capital projects. He said the airport served 16,800 passengers in 2016 and is forecasted by the Federal Aviation Administration to serve 23,300 passengers annually by 2035. He said the airport recently started a project to construct a new taxiway and runway. He said the new runway will be 50 feet wider and 900 feet longer than the existing runway to meet federal design standards for jet aircraft. He said the project is scheduled to be completed by 2021 at a cost of \$61.7 million. He said the estimated funding to cover the cost includes \$40 million from federal grants, \$18.5 million from the state, and \$3.2 million from the City of Dickinson.

In response to a question from Representative Sukut, Mr. Braun said the Federal Aviation Administration committed \$10 million to the project as of October 2017.

PUBLIC SAFETY

Mr. Dustin Dassinger, Chief of Police, Dickinson Police Department, and Mr. Robert Sivak, Fire Chief, Dickinson Fire Department, led the committee on a tour of the new public safety building. Mr. Dassinger identified the areas of the building related to the Police Department's operations. He said the building cost approximately \$14 million to construct and was completed in September 2015.

Mr. Sivak identified the areas of the building related to the Fire Department's operations. He said the building received a national award as one of the best shared-use public safety buildings in the country.

Police Department

Mr. Dassinger presented information ([Appendix I](#)) regarding the Police Department's operations. He said calls for service increased from 20,300 in 2008 to 26,000 in 2016. He said the department has 58 full-time employees, including 39.5 sworn officers. He said the department's budget increased from \$2.5 million for the 2008 budget year to \$5.3 million for the 2018 budget year, primarily because of staffing increases and a higher cost of doing business associated with oil and gas development activity. He said the department has two specialty response teams, the Southwest Tactical Team and the Crisis Negotiation Team, which provide services for southwestern North Dakota. He said southwestern North Dakota does not currently have a mental health facility, which continues to challenge the department when responding to drug- and alcohol-related incidents.

In response to a question from Senator Rust, Mr. Dassinger said the starting pay for a new entry-level officer is approximately \$25 per hour.

Fire Department

Mr. Sivak presented information ([Appendix J](#)) regarding the Fire Department's operations. He said the Fire Department had 4 full-time employees and a budget of \$370,000 in 2008. He said as of October 2017, the department had 16 full-time employees and a budget of \$1.57 million. He said the department also has 34 volunteer firefighters in addition to the 16 full-time firefighters. He said in 2008 the department responded to 271 incidents and responded to 524 incidents in 2017 to date.

DICKINSON STATE UNIVERSITY

Dr. Thomas Mitzel, President, Dickinson State University, presented information ([Appendix K](#)) regarding Dickinson State University. He said the estimated economic impact of Dickinson State University on the local economy includes \$30 million of direct economic impact and \$91 million of indirect economic impact. He said many of the graduates stay in the Dickinson area after graduation because of an abundance of employment opportunities. He said the university is in the process of expanding its certificate programs, technical courses, and associate degrees to meet the demands of local employers for workforce training.

STARK COUNTY

Mr. Jay Elkin, Chairman, Stark County Board of Commissioners, presented information ([Appendix L](#)) regarding the shared impacts of oil and gas development activities that affect Dickinson and Stark County. He said the county's staff increased from 90 full-time employees in 2008 to 114 full-time employees in 2017. He said the county implemented a hiring freeze after the oil and gas development activity slowed in 2015 and 2016. He said property taxes generated \$5.5 million for the county's general fund in 2008. He said property tax revenue increased to \$17.1 million in 2016, but decreased to \$12.8 million in 2017 because the state started providing funding for county social services. He said the county maintains 1,100 miles of gravel roads and 100 miles of paved roads. He said Stark County received \$21.6 million in 2015 Senate Bill No. 2103, which provided "surge" funding. He said the county used the funding to improve 30 miles of gravel roads and to reconstruct 30.55 miles of paved roads. He said the county is in the process of completing a \$6.5 million expansion project at the county courthouse in Dickinson.

DICKINSON PUBLIC SCHOOLS

Dr. Doug Sullivan, Superintendent, Dickinson Public Schools, presented information ([Appendix M](#)) regarding enrollment growth, challenges in operations, and funding needs. He said enrollment in the school district increased by 1,152, or 46 percent, from 2,519 in the fall of 2008 to 3,671 in the fall of 2017. He said kindergarten enrollments are anticipated to surpass 500 students by the fall of 2020 based on current birth rates, which reflects an increase of over 100 students compared to current enrollments. He said the increases in enrollment will require additional classroom space at the elementary schools within 5 years and at the high school in about 15 years. He said the school district has exhausted its bonding capacity, which will be a challenge for the district when the additional classroom space is needed in a few years. He said the district is currently in the process of holding public forums to gather input from the community about future plans for high school building needs. He said the school district also acquired 114 acres of land near the new middle school for future school district needs which may include a new elementary school building.

In response to a question from Senator Rust, Dr. Sullivan said the school district currently utilizes all of the oil and gas gross production tax revenue allocations in the district's general fund. He said prior to the current school year, the district distributed a portion to the capital projects fund and the remainder to the district's general fund.

CITY OF DICKINSON Planning for the Future

Mr. Shawn Gaddie, Division Manager, Advanced Engineering and Environmental Services, Inc., Grand Forks, presented information ([Appendix N](#)) regarding a study of the operational and financial needs of cities in western North Dakota. He said additional research subsequent to the six-city study that was presented to the committee at the September 6-7, 2017, meeting identified concerns from the oil and gas industry regarding the long-term affordability in western North Dakota. He said Dickinson and western North Dakota cities have a higher cost of living than other oil and gas plays in the United States. He said the oil and gas gross production tax allocations and other state funding for western North Dakota have helped communities fund infrastructure projects without the need to significantly increase the local tax burden. He said Dickinson may need an additional 57 FTE positions and \$198 million of funding for capital projects by 2023 based on the six-city study. He said Dickinson's projected cumulative budgetary shortfall for 2018 through 2023 is \$111 million based on the study's projections for revenue sources and expenses.

In response to a question from Senator Piepkorn, Mr. Gaddie said the revenue projections for the six-city study reflect the price of West Texas Intermediate oil prices reaching \$65 per barrel by 2023. He said the forecasting model used for the study correlates oil and gas activity to the price of oil. He said the city's needs could increase if the price of oil increases faster than projected.

Representative Sukut said political subdivisions in western North Dakota face challenges when planning for the future because of changes to the oil and gas gross production tax allocation formulas. He said developing a formula that can be used for many bienniums could provide more certainty to cities when making long-term plans for infrastructure projects and operating needs.

City Finances

Ms. Linda Carlson, Deputy City Administrator, City of Dickinson, presented information ([Appendix O](#)) regarding an overview of Dickinson's finances. She said the city's revenue increased from \$19 million in 2008 to \$62 million in 2016. She said the voters of Dickinson approved sales tax increases to finance various city needs. She said the city's 6.5 percent sales tax includes the state's 5 percent tax and 1.5 percent tax for city needs. She said two-thirds of the city's 1.5 percent sales tax is dedicated to infrastructure, debt reduction, and property tax relief (50 percent); capital purchases to enhance the social and economic vitality of the city (30 percent); and job development and senior citizen programs (20 percent). She said the remaining one-third of the 1.5 percent sales tax is dedicated to the community center operations and maintenance. She said Dickinson has approximately \$90 million of debt. She said \$5.3 million of the oil and gas gross production tax allocations received by the city are allocated to debt repayments each year.

Property Values

Mr. Joe Hirschfeld, City Assessor, City of Dickinson, presented information ([Appendix P](#)) regarding Dickinson's property values. He said a 1950s ranch style home located in Dickinson had the highest value when compared to similar properties in the other 9 largest cities in the state. He said the total property values increased from about \$600 million in 2008 to \$2.75 billion in 2017. He said Dickinson and other hub cities have experienced an increase in property foreclosures in the past 5 years while property foreclosures in other large cities in the state have decreased. He said the abatement process can be a challenge for city finances because a taxpayer can have property tax liabilities reduced for the prior 3 years resulting in lost revenue in current and future tax years along with loss related to the payment of refunds to taxpayers.

Information Technology

Mr. Aaron Meyer, Information Technology Coordinator, City of Dickinson, presented information ([Appendix Q](#)) regarding information technology changes for the City of Dickinson. He said the city's electronic data storage capacity increased from 2,000 gigabytes in 2011 to 100,000 gigabytes in 2017. He said the growth in data storage is related to the city's rapid growth during the oil boom and the growth of information technology in general. He said automation and technology solutions helped the city create efficiencies during the increase in oil and gas development activity. He said information technology automation helps the city save an estimated \$96,000 per year.

City Overview

Mr. Kessel presented information ([Appendix R](#)) regarding Dickinson's demographics, building permits, and commission goals. He said the city's population grew by more than 5 percent per year from 2010 through 2014. He said Dickinson's population is approximately 23,000 with a median age of 34. He said the city issued approximately 800 building permits in 2012 during the height of oil and gas development activity. He said since the city was unable to process the large volume of building permits, Dickinson entered into a memorandum of understanding with Grand Forks for building permit review services. He said Dickinson ended the agreement after the building permits

decreased to manageable levels in 2015. He said the city commission adopted three goals as a part of the 2018 budget process. He said the goals include passing a sales tax to support public safety, investment in downtown, and expanding sidewalks and pathways. He said the focus of the goals is to improve the quality of life in order to attract and retain qualified workers who will support a strong local economy.

OTHER

Chairman Wardner thanked the representatives from the City of Dickinson for their participation in the meeting. He said the committee's next meeting will be in Minot on Wednesday and Thursday, November 29-30, 2017.

No further business appearing, Chairman Wardner adjourned the meeting at 3:45 p.m.

Adam Mathiak
Senior Fiscal Analyst

ATTACH:18