

2013 SENATE FINANCE AND TAXATION

SB 2258

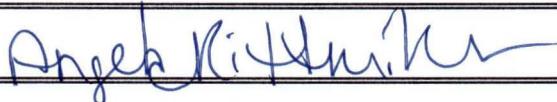
2013 SENATE STANDING COMMITTEE MINUTES

Senate Finance and Taxation Committee Lewis and Clark Room, State Capitol

SB 2258
1/29/2013
Job Number 17875

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A BILL for an Act to amend and reenact section 57-51-15 of the North Dakota Century Code, relating to allocation of gross production taxes; and to provide an effective date.

Minutes:

Testimony Attached

Chairman Cook opened the hearing on SB 2258.

Ryan Raushenberger, Tax Department gave an overview of the bill and handed out attachment 1.

Dan Brosz, City of Bowman, spoke of the needs of smaller towns and adjustments that need to be made in their favor and then handed out testimony on behalf of Kimberly Steffan, City Auditor of Ray (attachment 2).

Senator Oehlke - In your position in Bowman County you probably have crunched the numbers, can you give me an idea, is this 5 times what you normally have been receiving last year or the year before, 6 times, 4 times, do you have any idea?

Dan Brosz - It's about double.

Brent Sanford, Watford City Mayor - See attached testimony 3 in favor of SB 2258.

Chairman Cook - You make the statement, 'we aren't in a financial position to even consider providing special assessment or TIF options'. When you say special assessments you mean to finance the infrastructure and then bond it and special assess it back to the property?

Brent Sanford - Correct, we are in a different situation where the core is so small that the market doesn't want to buy bonds if we are guaranteeing it with this small of a market. For the small towns it's not even really financially possible to bring this about.

Brent Sanford then spoke of the situations in his town as examples. Brief discussion followed.

Ward Koeser, Mayor of Williston - See attached testimony 4 in favor of SB 2258.

Senator Triplett - I think I heard the previous speaker suggest something nearer to 35% would be better than something nearer to 25%, what is it that you are asking for specifically for cities?

Ward Koeser - What we are looking for is something that helps with what we call operating costs. We have the oil impact grants that we use for infrastructure. In the last biennium the city of Williston got about \$21.6 million that we received to help with that and we hope that number increases, but those dollars are used for infrastructure. What we are finding happening when we are growing this rapidly we talk about adding 35 employees, that's I think 9 policemen, new building inspectors, planning department people, basically in all areas. Not only are we adding 35 employees but we also have to pay more as we try to complete in the oil sector. We had our budget increase \$14.7 million that is the operating part of that budget. That is where we are looking for help.

Chairman Cook - What is your taxable value of the city of Williston?

Ward Koeser - I just saw that number within the last 30 days. It has increased substantially. It's been in that 10-15% a year increase.

Chairman Cook - Have you increased staff in the assessment office to see that all property that is being built is being assessed on February 15th?

Ward Koeser - We contract with the county and we use their assessing department. I believe they are adding the necessary staff. Since it's not under city jurisdiction I don't know for sure, but I believe they are making a good faith effort.

Chairman Cook - Your mill rate, what has that done in the last 5-6 years?

Ward Koeser - It has stayed about the same because the values have gone up substantially.

Brief conversation followed regarding numbers in the Williston area.

Shawn Kessel - See attachment 5.

Ron Ness, ND Petroleum Council, spoke briefly in support of this bill.

Chairman Cook - The way this bill is written right now and the way it's been for years, there's no requirement that any money or that a certain part of this money goes for roads. Should there be?

Ron Ness - We want to see as much money put into roads as possible. I would let the ones who follow me answer that.

Senator Dotzenrod - You suggested that we take a look at this bill and add some money for some cities. We had earlier testimony that there is interest in the cities out there in getting some more money. If there is a House bill designed to do that, would it not be better for the efforts we have in the legislature to deal with that issue in that bill?

Ron Ness - You and I both know what happens in one chamber doesn't mean it's going to happen in the other. I think the appropriate thing to do is to work on this bill and get it as good as possible and send it across because we don't know what the House is going to support.

Daryl Dukart, Dunn County Commissioner - See attached testimony 6 in favor of SB 2258.

Steve Holzen, McKenzie County School District #1 - See attached testimony 7 in favor of SB 2258.

Brief discussion followed regarding mill levy information in McKenzie County.

Chairman Cook - There are a lot of people making their living in the oil patch; they don't want to live out there because of the hectic nature. Do you know where they fall back on?

Shane Goettle - Cities like Minot that are outside that oil patch.

Chairman Cook - Or Mandan and Bismarck. We have a tremendous amount of that.

Shane Goettle - We have tried to document what has happened in Minot. (Shane then provided some statistical information)

Senator Dotzenrod - Is there any way for us to know by looking at these numbers what share of the burden has fallen on the property owners in Minot?

Shane Goettle - I don't think you can tell from these numbers.

Senator Triplett - When a city like Minot and others across the state ask for extra money over and above what they would get by normal means from the state, do you think the state has a right to impose additional standards on how they develop, or are we just supposed to give you the money and let the city do whatever they want with it?

Shane Goettle - I think when the state puts the money into the projects it ought to fall within what the legislative intent is for those infrastructure funds. I don't think the state needs to oversee spending infrastructure money on water and sewer projects.

Senator Triplett - At the same time the state gives you money for basic infrastructure that you otherwise would spend yourself and you have other funds freed up to do other things.

Greg Boschee - Stood up in support of SB 2258.

Mark Bragg, Bakken Housing Partners - See attached testimony 8 in favor of SB 2258.

Conversation followed on the cost of rent in the Williston area.

Chairman Cook asked for testimony opposed, and then neutral.

Gary Wilz, Superintendent at Killdeer, stood neutral with changes on SB 2258, asking for schools to receive some benefit from this.

Conversation followed on some numbers for the Killdeer area.

Chairman Cook closed the hearing on SB 2258.

2013 SENATE STANDING COMMITTEE MINUTES

Senate Finance and Taxation Committee

Lewis and Clark Room, State Capitol

SB 2258

2/13/2013

Job Number 18893

Conference Committee

Committee Clerk Signature



Explanation or reason for introduction of bill/resolution:

A BILL for an Act to amend and reenact section 57-51-15 of the North Dakota Century Code, relating to allocation of gross production taxes; and to provide an effective date.

Minutes:

Committee Work

Chairman Cook opened discussion on SB 2258.

Chairman Cook - This is the bill that reflects what the governor had in his budget dealing with distribution of production tax revenues to the counties. It is a bill that is going to get a lot of attention before we go home. It's an issue right now that is getting a lot more attention in the House than it is here. There seems to be a whole lot more action working on a House bill in interest in getting it to somewhere. With the workload we have had and we haven't seen a whole lot of desire in the Senate to get this one anywhere close to what that one is. I have talked with leadership and so it would be my hope that we would just give this a do not pass.

Senator Miller - So moved.

Seconded by **Senator Burckhard**.

Senator Dotzenrod - The big push in this is to get more money back to the local subdivisions back in oil country. The only comments I remember as far as improvements is that there was people here that wanted, they had this hub cities idea, that was one of them, and their might have been some other thoughts but I've heard that's what's going on in the House. They've got some amendments or made some changes in that the legislators from that area have been involved in developing whatever they've got over there. I thought this was a good effort in this bill but I can go along with the idea that if there is a more developed, more work put in to it product over there then it seems to me, even though I thought this was really a good step forward, I would be willing to vote for the do not pass.

Roll Call Vote 7-0-0

Carried by **Chairman Cook**.

FISCAL NOTE
Requested by Legislative Council
01/21/2013

Bill/Resolution No.: SB 2258

- 1 A. **State fiscal effect:** *Identify the state fiscal effect and the fiscal effect on agency appropriations compared to funding levels and appropriations anticipated under current law.*

	2011-2013 Biennium		2013-2015 Biennium		2015-2017 Biennium	
	General Fund	Other Funds	General Fund	Other Funds	General Fund	Other Funds
Revenues				\$(-233,000,000)		
Expenditures						
Appropriations						

- 1 B. **County, city, school district and township fiscal effect:** *Identify the fiscal effect on the appropriate political subdivision.*

	2011-2013 Biennium	2013-2015 Biennium	2015-2017 Biennium
Counties		\$233,000,000	
Cities			
School Districts			
Townships			

- 2 A. **Bill and fiscal impact summary:** *Provide a brief summary of the measure, including description of the provisions having fiscal impact (limited to 300 characters).*

SB 2258 changes the allocation of oil and gas gross production tax revenues to counties.

- B. **Fiscal impact sections:** *Identify and provide a brief description of the sections of the measure which have fiscal impact. Include any assumptions and comments relevant to the analysis.*

Section 1 of SB 2258 increases the allocation of oil and gas gross production tax revenue to counties. The bill increases the "lowest tier" of allocation to counties to 100% of the first \$5 million. After the first \$5 million, Section 1 also provides 25% of the remaining to be allocated to counties.

3. **State fiscal effect detail:** *For information shown under state fiscal effect in 1A, please:*

- A. **Revenues:** *Explain the revenue amounts. Provide detail, when appropriate, for each revenue type and fund affected and any amounts included in the executive budget.*

If enacted, SB 2258 is expected to reduce revenues in the strategic investment and improvements fund by an estimated \$233 million in the 2013-15 biennium. The revenue allocated to counties is expected to increase by \$233 million in the 2013-15 biennium. This revenue allocation is contained in the executive budget.

- B. **Expenditures:** *Explain the expenditure amounts. Provide detail, when appropriate, for each agency, line item, and fund affected and the number of FTE positions affected.*

- C. **Appropriations:** *Explain the appropriation amounts. Provide detail, when appropriate, for each agency and fund affected. Explain the relationship between the amounts shown for expenditures and appropriations. Indicate whether the appropriation is also included in the executive budget or relates to a continuing appropriation.*

Name: Kathryn L. Strombeck
Agency: Office of Tax Commissioner
Telephone: 328-3402
Date Prepared: 01/28/2013

Date: 2-13-13
Roll Call Vote #: 1

**2013 SENATE STANDING COMMITTEE
ROLL CALL VOTES
BILL/RESOLUTION NO. 2258**

Senate Finance & Taxation Committee

Check here for Conference Committee

Legislative Council Amendment Number

Action Taken: Do Pass Do Not Pass Amended Adopt Amendment
 Rerrefer to Appropriations Reconsider

Motion Made By Senator Miller Seconded By Senator Burckhard

Total (Yes) 7 No 0

Absent O

Floor Assignment Senator Cook

If the vote is on an amendment, briefly indicate intent:

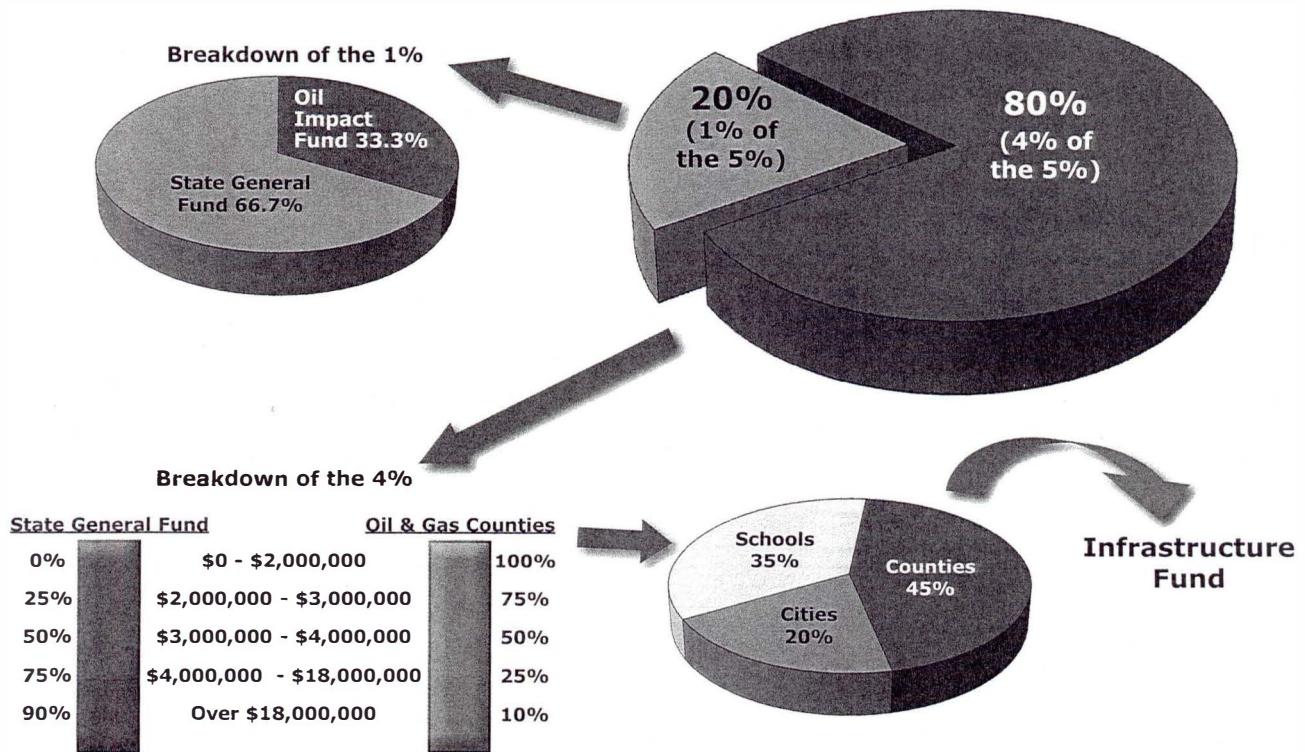
REPORT OF STANDING COMMITTEE

SB 2258: Finance and Taxation Committee (Sen. Cook, Chairman) recommends DO NOT PASS (7 YEAS, 0 NAYS, 0 ABSENT AND NOT VOTING). SB 2258 was placed on the Eleventh order on the calendar.

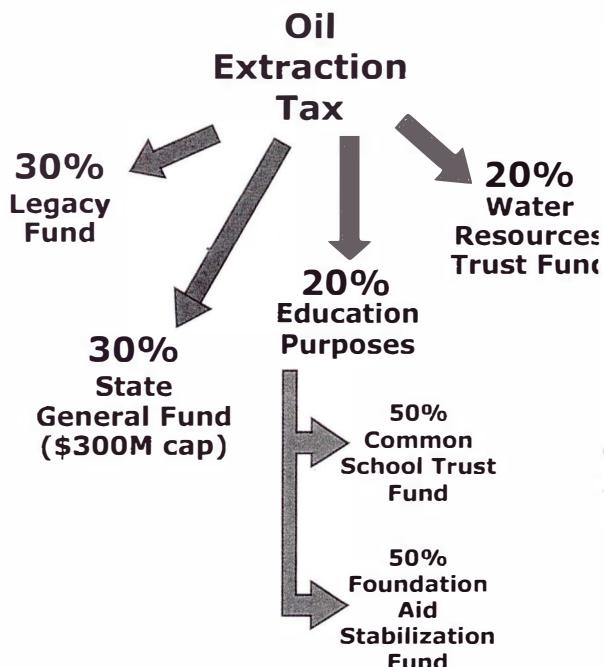
2013 TESTIMONY

SB 2258

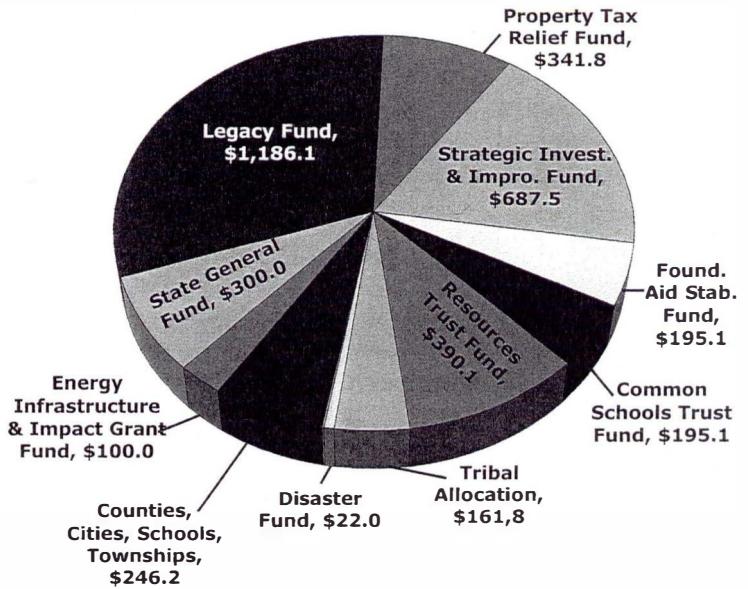
5% Gross Production Tax



6 1/2% Oil Extraction Tax



Estimated Distribution*



City of Ray

Incorporated March 9, 1914

Post Office Box 67

Ray, North Dakota 58849-0067

Telephone: 701-568-2204 *** Email: raynd@nccray.net

January 25, 2013

My name is Kimberly Steffan and I am the City Auditor for the City of Ray, North Dakota. I was asked to give you some information regarding the recent oil activity in our area and the resulting impacts.

The City of Ray, North Dakota had a population of around 500 people when I started as the City Auditor in December, 2008. In the summer of 2009 we replaced every water meter in the city which amounted to 198 meters. We currently have 406 meters. Our population has doubled and we are bursting at the seams.

Our waste water lagoon is at full capacity. The City used their discharge permit for the first time in many, many years. The State Health Department has kindly guided many waste water treatment facilities to help us with our waste water problem but all of them have come at a cost we can't afford. We have applied for Impact funding every year. In 2011 we received a grant for \$50,000 to help cover the cost of engineering that we commissioned for a waste water lagoon project. In 2012 we received \$1,800,000 for our waste water project. The City of Ray borrowed SRF funds to replace water mains in the amount of \$1,000,000 with an additional \$1,500,000 in loan forgiveness. We also borrowed \$1,242,000 with loan forgiveness around \$500,000 to assist in our waste water pond issue and to replace collapsing sewer mains. In order to cover our loan payments, our water rates were increased by 67%, and our sewer rate jumped from \$1.50 per month to \$27.82 per month. We cannot increase rates again to pay for any more debt. Our residents simply can't afford it.

With the increase in population the stress on water and sewer mains has been tremendous. We have replaced 18,000 feet of cast iron pipe that was installed in the early 1950's with the funds borrowed from SRF. We sponsored a Safe Routes to School Project that is imperative for students to be able to get to school and school functions safely due to the increased traffic. We have hired planners who have re-written our Planning & Zoning Ordinance to assist with dealing with the developers that are bombarding us to develop here since Highway 2 runs through our city. Our engineers have been working diligently to help solve the problems we are facing and even though we have a debt of approximately \$2,500,000, we still have a funding shortfall of \$20,212,000. Our biggest needs include a new wastewater pond system, new sewer mains to replace aging collapsing mains, an adequate water tower to supply fire suppression and water for our growing population, and due to increased traffic and funding shortfalls, our city streets are crumbling.

The City annexed 213 acres of property for housing and commercial development. The expansion is a 76% increase to the size of the City of Ray. There are currently three developments that would provide much needed housing that could add an additional 1,000 people to our population by 2014. They are currently unable to continue development until the waste water system is completed, so housing is still an issue. Our school district and local businesses had to resort to purchasing homes to provide housing for desperately needed teachers and employees. The City had to turn a parking lot into a mobile home park in order to have housing for the contractors that are working on our water and sewer mains.

Other issues we are faced with, that we can't even begin to address, are law enforcement and public buildings. We have no law enforcement and can't afford to hire due to lack of funding. The Williams County Sheriff's Department has provided the law enforcement, but they must cover the entire County and can't always be available if a problem arises in Ray.

While we appreciate every penny that is directed to the City of Ray, it just isn't covering all the needs this oil activity has produced. Our growing population and resulting needs are placing a very high burden on the residents of Ray. We have lost many long time residents because they just can't afford to live here anymore. We can't keep up with increasing costs. The City of Ray would be grateful for any relief that can be directed to our community and the other communities directly impacted by oil activity.

Kimberly Steffan

Kimberly Steffan
Ray City Auditor

Bill: SB 2258 -- Senate Tax and Finance

Date: January 29, 2013

Presenter: Brent Sanford, Watford City Mayor

Thank you, Mr. Chairman and Members of the Committee, for the opportunity to provide testimony in support of SB 2258. My name is Brent Sanford. I am the mayor of Watford City. The increase in the local share of the gross production tax allocation formula outlined in this bill shows tremendous commitment to the oil impacted communities from the Governor and the Leadership in both Houses.

Our communities have risen to the daunting task of providing the infrastructure and services needed by the expanding oil industry and to absorb the impacts of the increased activity. For the last four years, the smaller cities have been getting by on existing reserves, one time impact grant funds and on the backs of the developers trying to grow our cities. However, to bring the infrastructure up to the level required to house the latest projections of new residents, a much larger and long-term investment is needed. The short term local infrastructure needs in Oil Country are now in the billions of \$\$'s. The current distribution allocation formula and impact fund can't keep up with these types of infrastructure investment demands.

We realize the State government can't be asked to fund all of the oil community's infrastructure needs, so if growing to meet the needs of the oil industry is our goal, bonding will be a large part of the financing structure. However, as our smaller communities do not have large enough tax bases to back this with general obligation (G.O.) bonds, the only method available becomes revenue bonding. Leveraging the anticipated local gross production tax allocations to issue revenue bonds for improvements is a viable option for communities to invest in our own infrastructure improvements.

But the current distribution allocation formula only pays for basic government services and general maintenance. So to be able to issue and sell oil tax revenue bonds, we need a significantly higher level of gross production tax allocation to show the ability to pay the debt service on the new bonding. SB 2258 is a good step in that direction. Increasing the local gross production tax distributions by 2 ½ times will help to wean the small cities from relying on one-time competitive impact grant funding. More importantly it allows the communities to plan in an orderly long-term fashion for our own needs, versus holding our breath for the impact grant results.

Speaking of impact grants, on a positive note, we would like to thank you all for last biennium's Energy Impact grant funds increase. In Watford City's case we utilized the \$100 million energy infrastructure impact grant fund to the tune of \$16 million. Prior to the last legislative session, our needs for City infrastructure were estimated to be \$20 million by our consulting firm, AE2S. So we received around 80% of the needs through the competitive grant process. These needs were mainly in the form of constructing water and sewer trunk line extensions 2-3 miles in all directions along the highways heading out of town, as well as some basic sewage treatment modifications. Those City infrastructure projects along with the WAWSA project bringing adequate water supply to our community has created a frenzy of development rarely seen in this country. Due to the infrastructure investments funded from the Energy Impact Fund program last biennium, our small town, with a 2010 census population of 1,744 people, now has a planning area covering 5 square miles with active development occurring throughout. For the year 2012, we approved \$91,912,167 of building permits and collected \$382,007 of permit fees. We have 7 active developments in various stages along these trunkline projects. Each of these major developments show plans for between 1,000-3,000 population. That is like building 7 more Watford City's!

Based on these developments, The City has an infrastructure plan for the next 3 years that would help us get the base City infrastructure to a level to support a population of 13,600 people. The price tag for this plan is staggering. Earlier I mentioned that last biennium's portion of that growth plan was \$20 million, to get us to 3-5,000 population. This time the plan calls for \$192 million, to get us to 13,600 population. (Please note that the Vision West project is estimating the County's permanent population to reach 20,000 so we are only getting started with \$192 million.)

I have provided a copy of the City of Watford City Capital Improvements Plan report with my testimony. The plan consists of \$25 million of water system improvements, \$40 million of wastewater system improvements, \$9 million of existing transportation system improvements, and a whopping \$118 million for expanded transportation improvements to provide corridor streets and roads within the 5 mile square area under development. This \$192 million of needs does not include the neighborhood streets or the water and sewer lines under the new developments. The developers will need to provide their own funds for the infrastructure necessary to construct "buildable lots". Not having buildable lots, only open prairie, puts the small towns like Watford City at a competitive disadvantage against larger communities in the State and the rest of the country. Developers find it harder to do business and more cost prohibitive to build homes here. We aren't in a financial position to even consider providing special assessment or TIF options to turn bare land into buildable lots. So they have to do it themselves. Meanwhile the City attempts to finance and build \$192 million worth of new lagoons, corridor streets and water towers. All from a tax base that didn't have the G.O. bonding ability to finance our last \$3 million Main Street improvement project without tying up future oil tax distribution allocations. Even with increasing property taxes and permit fees, we desperately need increased gross production tax allocations to consider bonding for even a portion of the \$192 million of needs we currently have.

In conclusion, we are especially grateful and supportive of this bill's gross production tax allocation formula increases as it would help us get closer to the 35% local distribution figure our State distributes to coal counties and the 30-35% distributed to impacted counties in neighboring states from oil and gas production taxes. This predictable monthly distribution of gross production tax can be used to leverage bonding projects necessary in all of our counties, cities and schools. Without these predictable distributions, at adequate levels, we cannot even consider bonding for the infrastructure improvements necessary to do justice to the demands placed on our communities. Our current tax base could not even fully bond our latest \$3,000,000 Main Street improvement project using our entire City's General Obligation authority. We had to leverage a majority of those bonds with oil tax revenue bonds. So this community, and all communities of this size and smaller, need a higher gross production tax allocation to even consider bonding for more infrastructure. SB 2258 is a good step in that direction.

Thank you for your continued support for the oil impacted communities. We want to thank you again for the faith in us that this bill demonstrates by investing more of the oil and gas gross production tax allocation with us. We will continue to be good stewards of this funding.

Sincerely,

Brent Sanford, Watford City Mayor

City of Watford City

Short Term Capital Improvements Plan
2013-2015

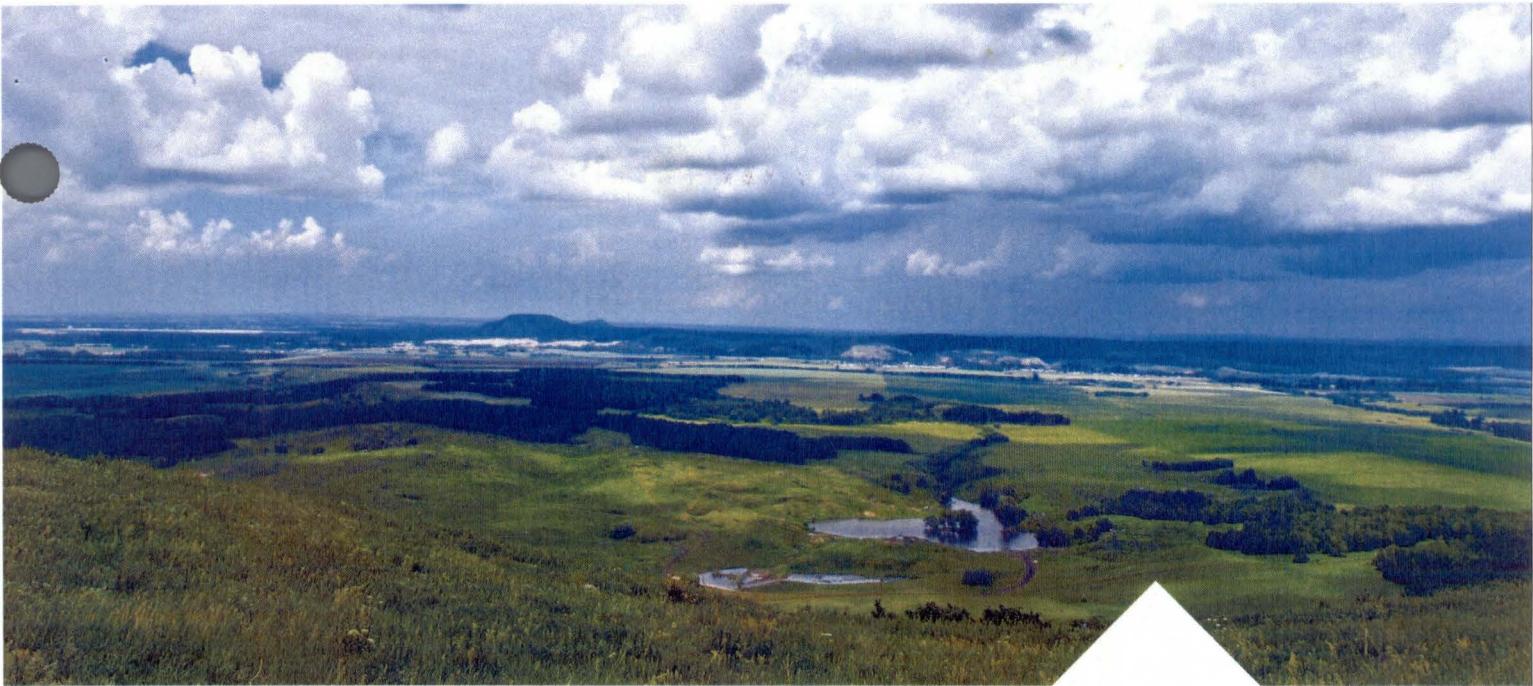


DECEMBER 2012



Investing in our future





City of Watford City

Short Term Capital Improvements Plan

DECEMBER 2012

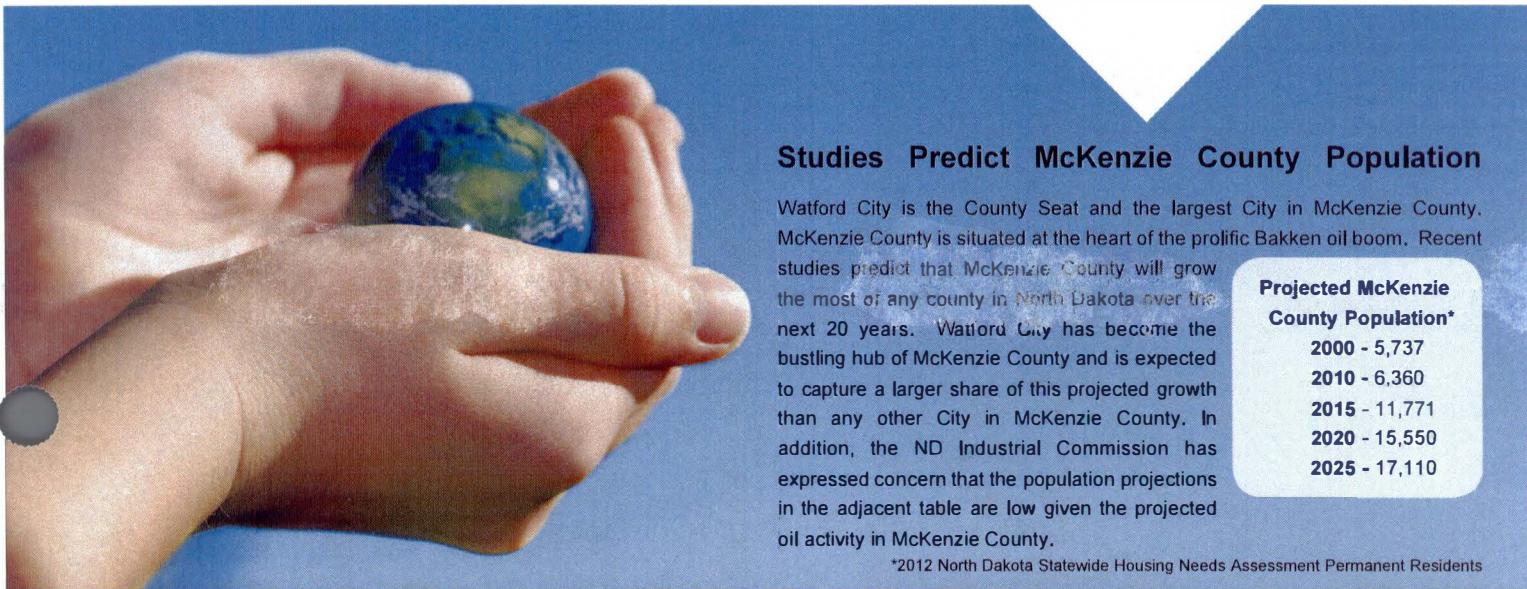
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Investing in Our Future

This Short Term Capital Improvements Plan summarizes the necessary infrastructure projects for 2013 to 2015 to support the current and projected future growth of Watford City to serve a population range from 9,000 up to 13,600 people.

Total 2013-2015 Estimated Costs = \$193,886,000

(Future \$)



Studies Predict McKenzie County Population

Watford City is the County Seat and the largest City in McKenzie County. McKenzie County is situated at the heart of the prolific Bakken oil boom. Recent studies predict that McKenzie County will grow the most of any county in North Dakota over the next 20 years. Watford City has become the bustling hub of McKenzie County and is expected to capture a larger share of this projected growth than any other City in McKenzie County. In addition, the ND Industrial Commission has expressed concern that the population projections in the adjacent table are low given the projected oil activity in McKenzie County.

Projected McKenzie County Population*
2000 - 5,737
2010 - 6,360
2015 - 11,771
2020 - 15,550
2025 - 17,110

*2012 North Dakota Statewide Housing Needs Assessment Permanent Residents

Growing Infrastructure to Meet Needs - Now and In the Future

To accommodate Watford City's growth, a phased short-term capital improvements plan (CIP) was developed to provide the framework for core infrastructure implementation. The short-term CIP identifies infrastructure projects to be constructed from 2013 through 2015, and is expected to provide adequate capacity to serve a population range from 9,000 up to 13,600 people. All infrastructure recommendations will support existing or pending residential and commercial developments.

Watford City Infrastructure Population Service Capacity				
	Population Estimate		Cumulative Total	
	Low	High	Low	High
Estimated Population Served with Existing Infrastructure	3,500	3,500	3,500	3,500
CIP Proposed Infrastructure (Year)				
Priority 1 (2012-2013)	1,400	2,550	4,900	6,050
Priority 2 (2013-2014)	1,750	3,200	6,650	9,250
Priority 3 (2014-2015)	2,350	4,350	9,000	13,600



WATER*

Total Costs for Water System Improvements:
\$25,032,000



WASTEWATER*

Total Costs for Wastewater System Improvements:
\$40,659,000



EXISTING TRANSPORTATION*

Total Costs for Existing Transportation System Improvements:
\$9,725,000



EXPANDED TRANSPORTATION*

Total Costs for Expanded Transportation System Improvements:
\$118,141,000



MASTER PLANNING*

Total Costs for Master Planning:
\$329,000

*Future \$'

Water System Improvements

- Watford City currently utilizes water from five wells for municipal purposes with two iron and manganese removal treatment facilities. The existing wells have limited capacity and the finished water quality exceeds several secondary maximum contaminant levels (SMCLs).
- Due to the poor quality and limited capacity of the existing source water, Watford City is currently transitioning from utilizing the City's existing well water source to service from the Western Area Water Supply Project (WAWSP), a higher quality source water that does not typically exceed any SMCLs and has a greater capacity, accommodating population expansion.
- The City's distribution system is comprised of a mixture of cast iron (CI), asbestos concrete (AC) and PVC pipe approximately 23 miles in length and ranging in diameter from four to 16 inches with two 1.0 million gallon finished water storage standpipes.
- To accommodate current growth in Watford City, recent improvements have included the installation of 2 miles of distribution main ranging in diameter from 8 to 16 inches. Additional water main extensions are required to accommodate growth.
- Due to pending water storage shortages and the necessity of different pressure zones caused by topographic relief, additional storage is also required to serve anticipated future needs.

COST SUMMARY OF PRIORITIES (FUTURE \$)

- » PRIORITY #1: TOTAL PROJECT COSTS: \$5,750,000
- » PRIORITY #2: TOTAL PROJECT COSTS: \$14,749,000
- » PRIORITY #3: TOTAL PROJECT COSTS: \$4,533,000
- » TOTAL PROJECT COSTS FOR WATER SYSTEM IMPROVEMENTS: \$25,032,000

» PRIORITY #1: PROJECT DESCRIPTIONS

Water Main Improvements

- The identified water main extensions will serve existing and new residential, commercial, and industrial developments by providing new transmission main loops in the northwest and northeast corners of town. Additionally, these transmission main loops will provide fire flow to new growth areas and improve the reliability of the existing system.

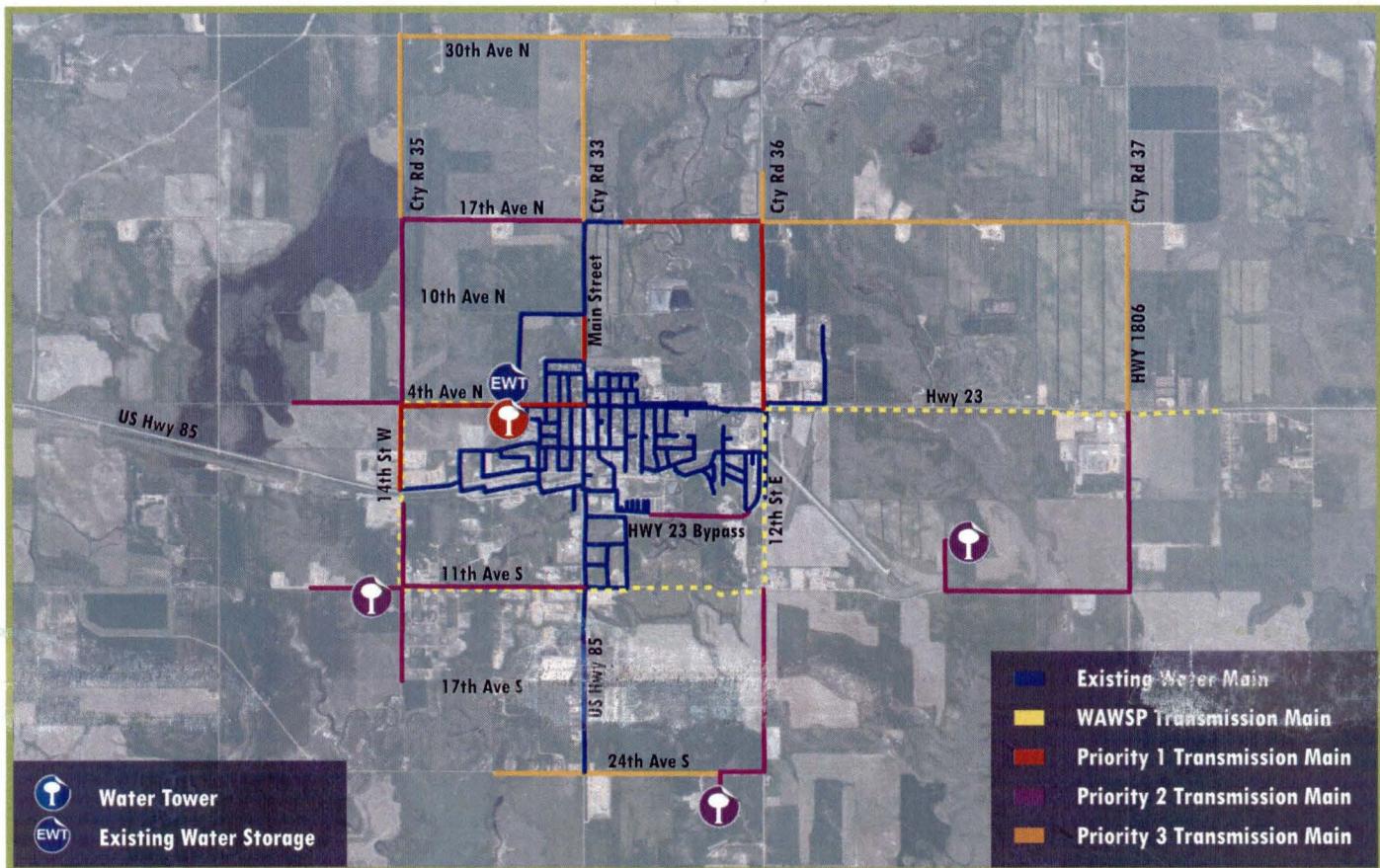
Water Storage Improvements

- The Northwest elevated water tower will create a new pressure zone to provide adequate system pressure and fire flow to new residential, commercial, and industrial areas northwest of town. Construction of this water tower also provides increased pressures to areas that currently have inadequate water pressure and fire flows in the vicinity of the existing ground storage tanks.
- The Priority 1 projects are expected to provide infrastructure to allow Watford City to serve a total population of 4,900 to 6,050 people.

» PRIORITY #2 & #3: PROJECT DESCRIPTIONS

In general, the priority 2 and 3 areas include the following areas of Watford City: the south, the north, and the east expansion areas.

- These water main extensions and water towers will primarily serve new residential, commercial, and industrial developments by providing new transmission main loops that will provide fire flow to new growth areas and improve the reliability of the existing system. Many of these new developments have been approved; however, in general, construction has not commenced.
- Priorities 2 and 3 are expected to accommodate service populations ranging from 6,650 to 9,250 and 9,000 up to 13,600 people, respectively.



WATER SYSTEM IMPROVEMENTS*

Priority 1 Projects	Priority 2 Projects			Priority 3 Projects	
Main St (between 7th Ave N and 10th Ave N)	\$140,000	14th St W (between 4th Ave N and 10th Ave N)	\$260,000	24th Ave S	\$887,000
4th Ave N (between Main St and 14th St W)	\$940,000	14th St W (between US HWY 85 and 17th Ave S)	\$562,000	14th St W (between 17th Ave N and 30th Ave N)	\$541,000
14th St W (between US HWY 85 and 4th Ave N)	\$300,000	11th Ave S (west of 14th St W)	\$395,000	Main St (between 17th Ave N and 30th Ave N)	\$541,000
17th Ave N (between Pheasant Ridge and 12 St E (CR 36))	\$470,000	11th Ave S (between US HWY 85 and 14th St W)	\$593,000	12 St E (north of 17th Ave N)	\$141,000
12th St E (CR 36) (between HWY 23 and 17th Ave N)	\$610,000	HWY 23 Bypass Loop	\$385,000	30th Ave N (between 14th St W and 12th St E)	\$800,000
Northwest Water Tower - 1.0 MG (NW Pressure Zone)	\$3,290,000	14th St W (between 10th Ave N and 17th Ave N)	\$322,000	17th Ave N (between 12th St E and HWY 1806)	\$1,082,000
		17th Ave N (between Main St and 14th St W)	\$718,000	HWY 1806 (between HWY 23 and 17th Ave N)	\$541,000
		4th Ave N (west of 14th St W)	\$312,000		
		Southwest Water Tower - 0.5 MG (SW Pressure Zone)	\$1,966,000		
		Southeast Transmission Main for Water Tower	\$884,000		
		Southeast Water Tower - 1.0 MG (SE Pressure Zone)	\$3,422,000		
		East Transmission Main for Water Tower	\$1,508,000		
		East Water Tower - 1.0 MG (East Pressure Zone)	\$3,422,000		
PRIORITY 1 SUBTOTAL	\$5,750,000	PRIORITY 2 SUBTOTAL	\$14,749,000	PRIORITY 3 SUBTOTAL	\$4,533,000

Future \$'s Total Cost for Water System Improvements* = \$25,032,000

Watford City Short Term CIP | Page 6

Wastewater System Improvements



- The existing wastewater collection system is comprised of 21.3 miles of gravity sewer with diameters ranging from 6 to 21 inches, 8 lift stations, and 5.4 miles of forcemain with diameters ranging from 4 to 12 inches. The collection system was originally constructed of clay tile pipe in the 1940s, and underwent additions and replacements in the 1970s, 1980s, and 2006 with clay tile and PVC pipe.
- Recent Collection System Improvements: In order to meet the City's growth, the trunkline system was improved and expanded in recent years. The City has installed over 5 miles of gravity sewer pipe (10 to 21 inch), added 5 new lift stations, rehabilitated 1 lift station, and installed over 4 miles of new forcemain (8 to 12 inch). Additional trunkline extensions are required to accommodate growth.
- The existing wastewater treatment system is comprised of 3 primary treatment ponds with a booster station that pumps pre-treated wastewater to 3 secondary ponds.

Recent Wastewater Treatment Improvements: Improvements currently underway will increase the City's organic treatment capacity to serve a population of 7,500 and storage for a population of 3,500. These projects include construction of two new aeration ponds, a new master lift station, a new booster station, and conversion of the existing primary ponds to secondary storage ponds. Additional wastewater treatment improvements are required to provide additional storage capacity accommodate growth.

COST SUMMARY OF PRIORITIES (FUTURE \$)

- » PRIORITY #1: TOTAL PROJECT COSTS: \$14,880,000
- » PRIORITY #2: TOTAL PROJECT COSTS: \$17,462,000
- » PRIORITY #3: TOTAL PROJECT COSTS: \$8,317,000
- » TOTAL PROJECT COSTS FOR WASTEWATER SYSTEM IMPROVEMENTS: \$40,659,000

» PRIORITY #1: PROJECT DESCRIPTIONS

Collection System Improvements

- The identified gravity sewer, lift station, and forcemain projects extend the trunkline system to serve new and existing residential, commercial, and industrial developments on the north, west, and southeast ends of town.

Wastewater Treatment Improvements

Secondary storage expansion project

- The project includes a new transfer pump station to pump wastewater from the existing wastewater treatment ponds to the location of two new secondary treatment ponds. A phased addition of the first secondary treatment pond allows the wastewater treatment system to serve a population of 7,500.

» PRIORITY #2 & #3: PROJECT DESCRIPTIONS

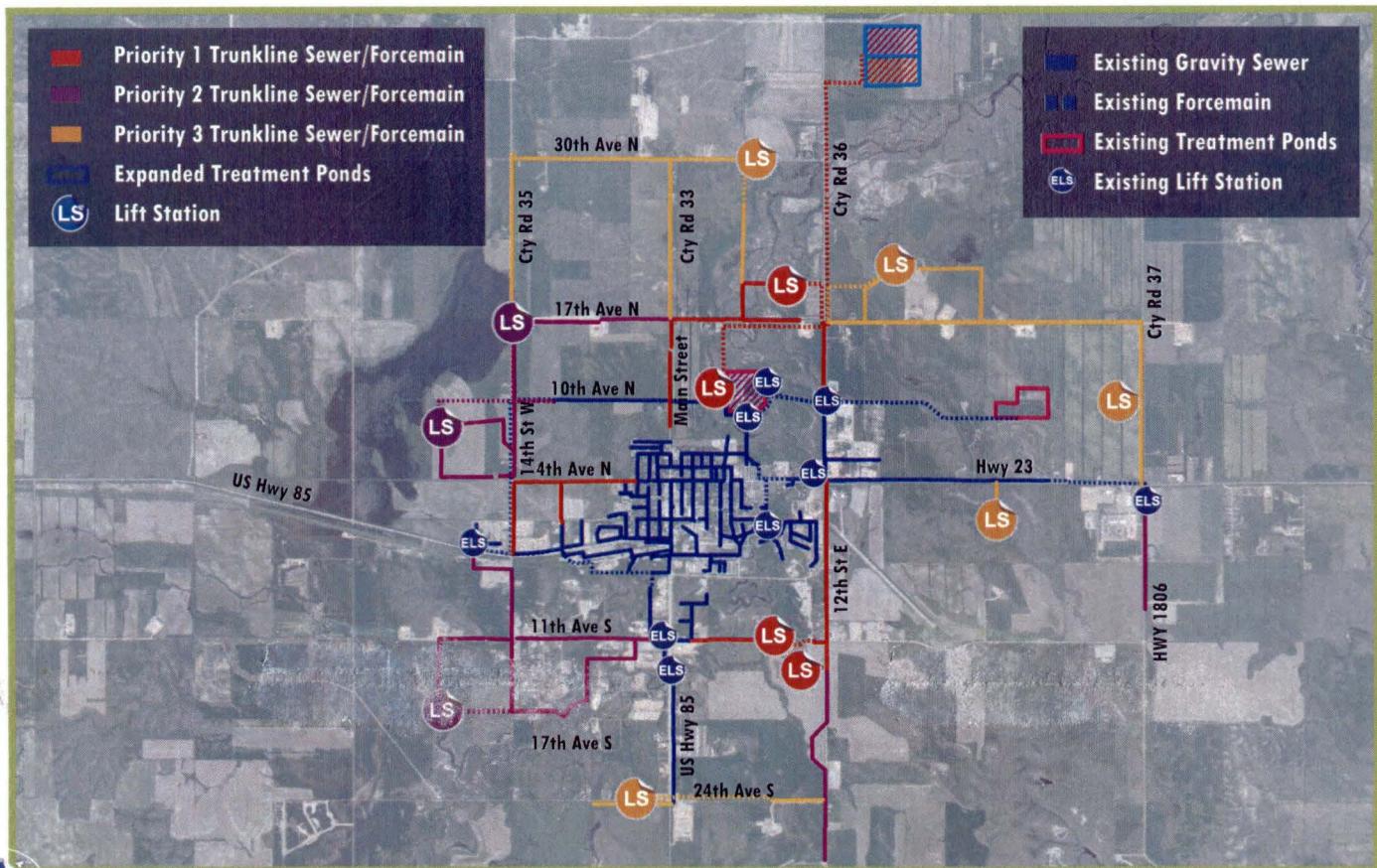
Collection System Improvements

- In general, the Priority 2 and 3 gravity sewer, lift station, and forcemain projects extend the trunkline system to serve new and existing residential, commercial, and industrial developments in the northwest, southwest, southeast, and northeast expansion areas of Watford City.

Wastewater Treatment Improvements

Aeration and Secondary Storage Expansion Project

- These projects include the rehabilitation of the existing primary treatment ponds, the addition of two new aeration ponds, and the addition of the final secondary treatment pond. These improvements will allow Watford City's wastewater treatment system to serve 15,000 people.



WASTEWATER SYSTEM IMPROVEMENTS*

Priority 1 Projects	Priority 2 Projects	Priority 3 Projects			
12th St E (CR 36) (between 11th Ave S and HWY 23 including lift station and forcemain)	\$1,120,000	11th Ave S (between 14th St W and US HWY 85)	\$489,000	24th Ave S (including sewer, lift station, and forcemain)	\$1,298,000
11th Ave S (between US HWY 85 and 12th St E (CR 36) including lift station and forcemain)	\$710,000	14th St W (between 11 Ave S and US HWY 85)	\$593,000	14th St W (between 17th Ave N and 30th Ave N)	\$562,000
4th Ave N (between 6th St NW and 14th St W) 10th St W (between 4th Ave N and Park Ave W)	\$510,000	11th Ave S (west of 14th St W and south to lift station and forcemain) 14th St W (south of 11th Ave S) 17th Ave S (from 14th St W northeast to 11th Ave S)	\$1,851,000	Main St (between 17th Ave N and 30th Ave N)	\$562,000
12th St E (CR 36) (between 17th Ave N and 10th Ave N)	\$310,000	12th St SE (CR 36) (south of 11th Ave S)	\$770,000	30th Ave N (including liftstation, forcemain, and sewer to south)	\$1,676,000
Main St (south of 17th Ave N)	\$240,000	County Rood 37 (south of HWY 23)	\$385,000	17th Ave N (east of 12th St E including sewer to north, lift station, and forcemain)	\$2,726,000
17th Ave N (between Main Street and 12th St E (CR 36), and north to lift station and forcemain)	\$1,830,000	14th St W (between 4th Ave N and 10th Ave N and west to lift station and forcemain)	\$1,466,000	HWY 1806 (between HWY 23 and 17th Ave N including lift station and forcemoain)	\$898,000
14th St W (between 4th Ave N and US HWY 85)	\$230,000	14th St W (between 10th Ave N and 17th Ave N including lift station and forcemain)	\$957,000	HWY 23 Lift Station	\$595,000
Secondary Storage Expansion Project (population to 7,500)	\$9,930,000	4th Ave N (west of 14th St W and north to lift station) 17th Ave N (between Main Stand 14th St W)	\$333,000 \$530,000		
		Wastewater Treatment Existing Pond Rehab	\$1,768,000		
		Aeration and Secondary Storage Expansion Project (population to 15,000)	\$8,320,000		
PRIORITY 1 SUBTOTAL	\$14,880,000	PRIORITY 2 SUBTOTAL	\$17,462,000	PRIORITY 3 SUBTOTAL	\$8,317,000

*Future \$'s Total Cost for Wastewater System Improvements = \$40,659,000



Existing Transportation Improvements



- The existing Watford City street system generally consists of a mix of paved and gravel two-lane streets. The City is bisected by two major highways, US Highway 85 and ND State Highway 23, which serve as major transportation corridors for the petroleum industry. The explosion in population and petroleum industry activity in western North Dakota have significantly impacted the existing transportation system.
- Rehabilitation projects within the City will target improvements such as applying seal coats and edge mill and overlays to economically increase the longevity of these roadways before more expensive major restoration projects are required. Other rehabilitation projects will include re-construction of corridors that experience heavy residential and industrial traffic that were not previously constructed to handle these traffic volumes.

COST SUMMARY OF PRIORITIES

- » PRIORITY #1: TOTAL PROJECT COSTS: \$920,000
- » PRIORITY #2: TOTAL PROJECT COSTS: \$4,315,000
- » PRIORITY #3: TOTAL PROJECT COSTS: \$4,489,000
- » TOTAL PROJECT COSTS FOR EXISTING TRANSPORTATION IMPROVEMENTS: \$9,725,000

» PRIORITY #1: PROJECT DESCRIPTIONS

Reconstruction of 3rd Ave SW and new construction on 6th St NW

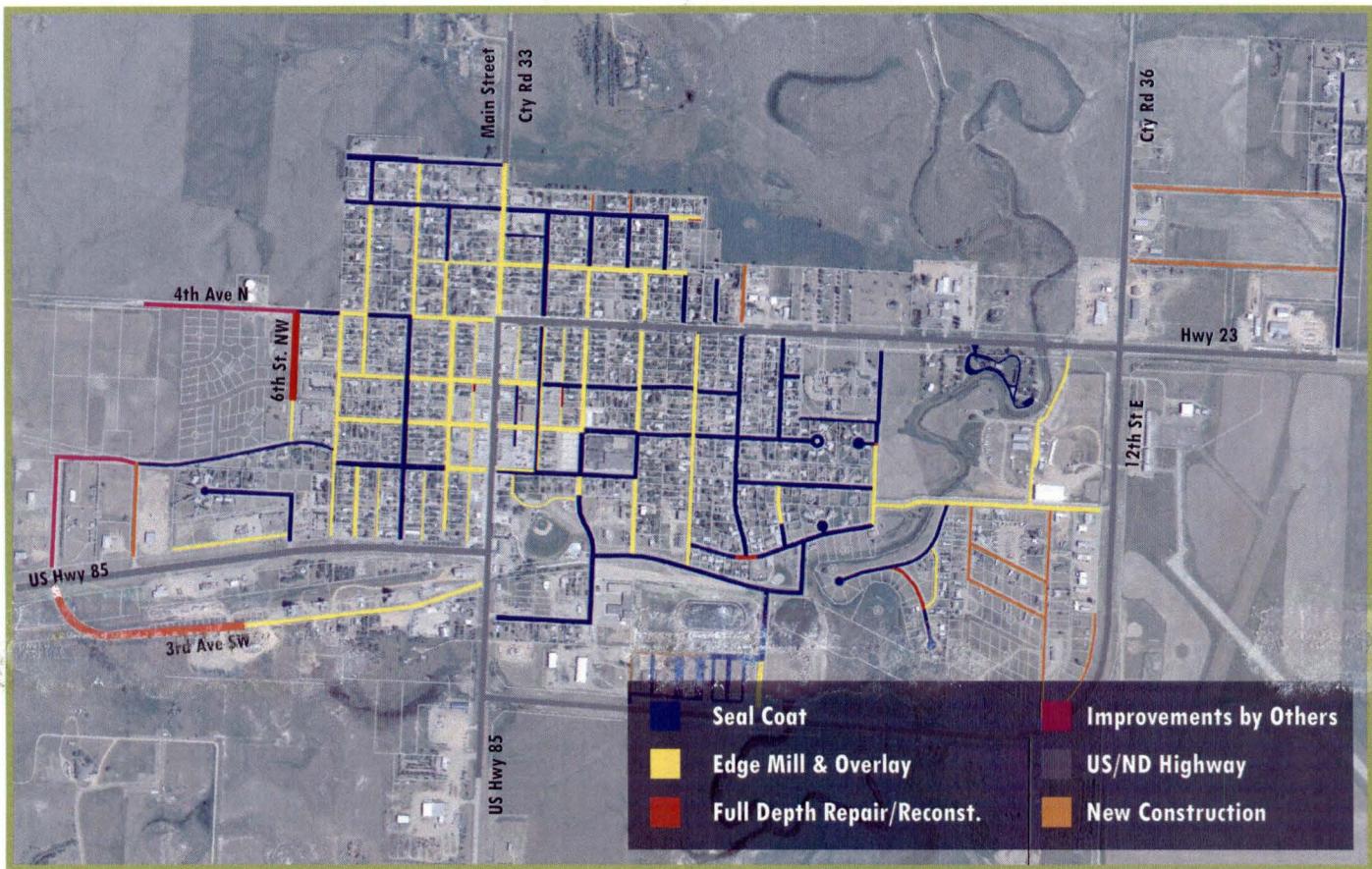
- Third Avenue Southwest is a gravel access road that has historically served the local grain elevator south of US Highway 85 in the southwest corner of the City. Recently completed and pending developments in this area served by 3rd Ave SW include a new hotel, RV park, and 144 unit residential development. The traffic has greatly increased on this street and it now requires heavy duty paving, curb and gutter, and storm sewer.

- 6th St NW is a gravel access road that has served existing developments on the east side of the road and will serve new developments on the west side of the road. Increased traffic on this street now requires paving, curb and gutter, and storm sewer

» PRIORITY #2 & #3: PROJECT DESCRIPTIONS

City-Wide Street Improvements

- Includes improvements throughout the existing Watford City street system, primarily focusing on seal coats and edge mill and overlay improvements. Full depth repair and reconstruction for a few heavily impacted roads is also recommended.



EXISTING TRANSPORTATION IMPROVEMENTS*

Priority 1 Projects		Priority 2 Projects		Priority 3 Projects	
3rd Ave SW Reconstruction	\$600,000	First half of remaining improvements (includes seal coat, edge mill & overlay, full depth repair/reconstruction, new construction)	\$4,316,000	Second half of remaining improvements (includes seal coat, edge mill & overlay, full depth repair/reconstruction, new construction)	\$4,489,000
6th St NW New Construction	\$320,000				
PRIORITY 1 SUBTOTAL	\$920,000	PRIORITY 2 SUBTOTAL	\$4,316,000	PRIORITY 3 SUBTOTAL	\$4,489,000

*Future \$'s Total Cost for Existing Transportation Improvements = \$9,725,000

Expanded Transportation Improvements



COST SUMMARY OF PRIORITIES

- » PRIORITY #1: TOTAL PROJECT COSTS: \$33,000,000
- » PRIORITY #2: TOTAL PROJECT COSTS: \$22,256,000
- » PRIORITY #3: TOTAL PROJECT COSTS: \$62,885,000
- » TOTAL PROJECT COSTS FOR EXPANDED TRANSPORTATION IMPROVEMENTS: \$118,141,000

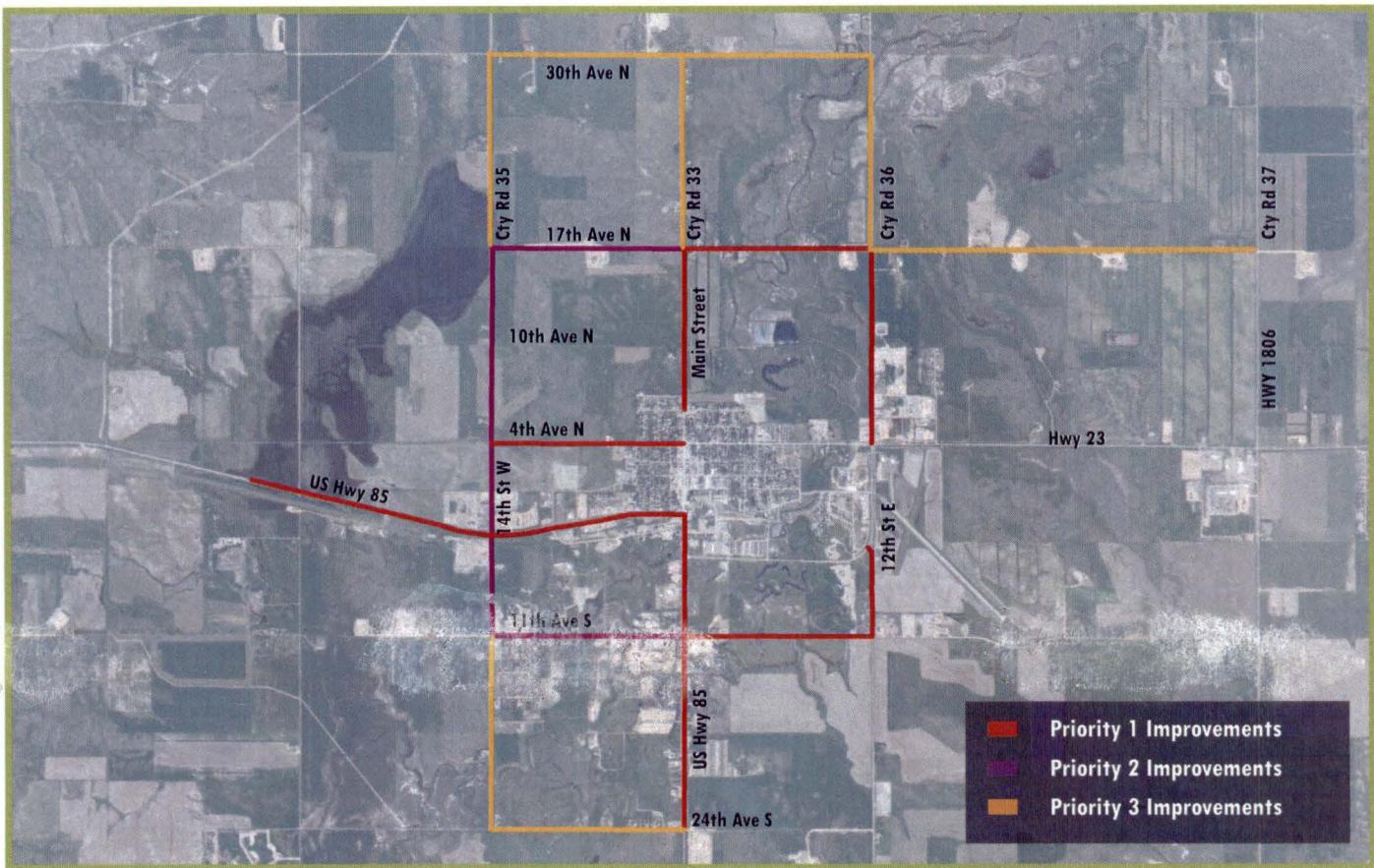
» PRIORITY #1: PROJECT DESCRIPTIONS

- **HWY 85:** The North Dakota Department of Transportation (NDDOT) is currently in the project development stage for reconstructing the 8-mile section of US Highway 85 through Watford City. The initial plans are to expand this corridor to a five-lane roadway section. Watford City does not have adequate financial resources to match federal funding for this project. As a result, this short term CIP includes approximately \$1,000,000 to cover local match for lighting, frontage road and other improvements associated with this project.
- **11 Ave S & 12 St E:** 11th Avenue Southeast funding is needed to construct a bridge across an intersecting stream, and to improve and pave the corridor to tie into existing and future developments south of the Watford City Airport. 11th Avenue Southeast has current conditions ranging from a gravel roadway to an unimproved earth road to nonexistence. Improving 11th Avenue Southeast will increase overall network connectivity and accessibility, potentially spurring development along this segment of the corridor.

- **North End Projects** (12th St. East, 17th Ave. North, 4th Ave. NW, and Main Street) – Four developments were recently approved along this corridor. Improving this north end corridor will provide access to major growth areas on the north side of Watford City and will increase overall network connectivity and accessibility.

» PRIORITY #2 & #3: PROJECT DESCRIPTIONS

- Major arterial corridor expansion to the southwest of Watford City including 11th Avenue S, 24th Avenue S, and 14th Street W will be necessary to support existing and future developments and improve connection and mobility with US Highway 85.
- Major arterial corridor expansion to the north of Watford City including improvements to 17th Avenue North, 14th Street W, 30th Avenue N, Main Street, and 12th Street E will be necessary to support existing and future developments and improve mobility between the major county road network to the north of town.



EXPANDED TRANSPORTATION IMPROVEMENTS*

Priority 1 Projects		Priority 2 Projects		Priority 3 Projects	
US Highway 85 through Watford City (Federal Funding Match)	\$1,000,000	14th St W (between US HWY 85 and 11th Ave S)	\$3,224,000	14th St W (between 11th Ave S and 24th Ave S)	\$6,663,000
11th Ave S (between US HWY 85 and 12th St E (CR 36))	\$6,400,000	11th Ave S (between 14th St W and US HWY 85)	\$6,656,000	24th Ave S (between 14th St W and US HWY 85)	\$7,896,000
12th St E (CR 36) (between HWY 23 and 17th Ave N)	\$6,400,000	14th St W (between US HWY 85 and 17th Ave N)	\$6,240,000	14th St W (between 17th Ave N and 30th Ave N)	\$6,663,000
17th Ave N (between Main Street and 12th St E (CR 36))	\$7,000,000	17th Ave N (between 14th St W and Main St)	\$6,136,000	Main St (between 17th Ave N and 30th Ave N)	\$7,301,000
Main St (between 6th Ave N and 17th Ave N)	\$5,100,000			12 St E (between 17th Ave N 30th Ave N)	\$7,733,000
4th Ave NW (between Main St and 14th St W)	\$4,100,000			30th Ave N (between 14th St W and 12th St E)	\$13,325,000
12th St E (between 11th Ave S and HWY 23 Bypass)	\$3,000,000			17th Ave N (between 12th St E and HWY 1806)	\$13,304,000
PRIORITY 1 SUBTOTAL	\$33,000,000	PRIORITY 2 SUBTOTAL	\$22,256,000	PRIORITY 3 SUBTOTAL	\$62,885,000

*Future \$'s Total Cost for Expanded Transportation Improvements = \$118,141,000



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January 29, 2013

Chairman Dwight Cook
Senate Finance and Taxation Committee
Senate Bill 2258

Chairman Dwight Cook and Committee Members:

My name is Ward Koeser and I serve as the Mayor of Williston. I have held this position for over 18 years and I am honored for the opportunity to testify this morning on Senate Bill 2258.

While I stand in support of the bill and the increase in overall funding to oil and gas counties, I am here to also say more assistance is essential.

I represent the City that is truly at ground zero in the Bakken Oil Play. We are the most impacted hub city in the industrialization of Western North Dakota. While Senate Bill 2258 provides for increased funding to counties, it does not increase formula funding to Williston as other 2013 Session filed bills propose.

We currently receive \$1.5 million per year Gross Production Tax (GPT) formula funding and another \$1 million per year in infrastructure formula funding. These numbers are less than one tenth of one percent of total oil and gas tax receipts to the State, and are not projected to increase with the passage of Senate Bill 2258.

As a City, we have used GPT formula funding to assist our City general fund with expenses to public safety and damaged infrastructure repairs. However, when comparing our 2012 City budget to our 2013 City budget, these operational costs have increased by \$14.7 million. This is due to an additional 35 employees, adding a housing allowance necessary to recruit and retain employees, and all the ancillary costs to supply and support these services provided by the employees.

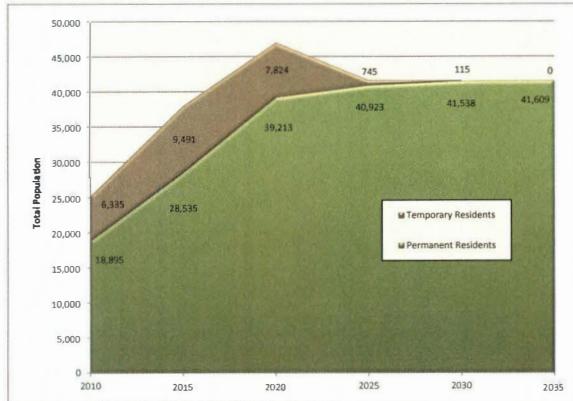
With the highest wage base in the state and the tightest housing market and subsequent highest housing and rental costs, one can see the difficulties we face as a city in the employment area. As a City with a 2010 population of 14,750 we are currently supporting a service population of over 38,000, adding increased expenses and stresses to our required City services.

We support Senate Bill 2258 and hope it could be improved to address our funding issues as a hub City as it is considered by your committee. I would be happy to answer any questions at this time.



DICKINSON 2035. *Roadmap to the Future*

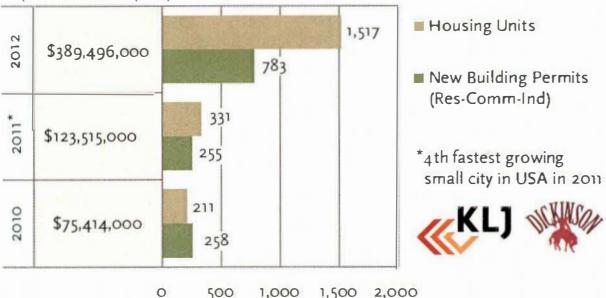
PROJECTED GROWTH



Source: NDSU Department of Economics

New Construction Permit Values

(Does not include remodel permits)



INFRASTRUCTURE NEEDS

2013-2014 2015-2016

WATER	\$32.0 Million	\$21.0 Million
SEWER	\$39.5 Million	\$3.4 Million
ROADS	\$72.1 Million	\$48.8 Million
TOTAL	\$143.6 Million*	\$73.2 Million

* Does not include \$48 million waste water treatment plant, \$18 million public works facility and \$8 million public safety center

January 29th, 2013

Testimony for SB2258:

Senate Finance and Taxation committee:

Presented by Dunn County Commissioner Daryl Dukart

Dunn County Commissioners support SB2258 and offer a few suggested items:

Dunn County views this bill as an extremely important bill for many Western ND counties, cities, and school districts.

Dunn County continues to experience above average energy growth of the oil and gas development along with the infrastructure challenges associated with this industrial growth continue to be issues in our county. During the month of December of 2011 our county produced 2,605,042 barrels of oil and the last record month as per state records available for 2012 is November, as we had produced 3,090,984 barrels of oil. Gas production was at 1,875,380 MCF for the month of December 2011 and end the month of November 2012 at 2,317,469 MCF. This is roughly about a 20% growth in both areas for the state in Dunn County alone. Dunn County along with other counties who had realized this same growth has been handing over a large amount of additional generated oil and gas revenues to the state.

Dunn County stands forth in the state as to oil production per county, as development continues to the South and East in our county we will continue to see even more growth over the next two years. Provided additional oil and gas revenues tour wonderful state. Yes, as commissioner we are often challenged by the many infrastructure items needed, we continue to deliver to all county departments what we can afford to and we pride ourselves as a progressive, active, supportive oil producing county. We encourage greater returns of the production tax to our county to allow us to deal with the continuing challenges of growth.

We offer this suggestion for consideration in the following areas:

- 1 Small adjustment to the 45% of revenues allocated to a county should be increased to 55% for the first percentage to be placed into the county's general fund.
- 2 Supporting this idea is the results of last year's budget in our general fund along with our special road fund.
- 2 Together these two funds ended the year over budget by \$1.5 million dollars.
- 3 Reason for the impacted needs came from these areas:
 - 1: Increased road and sheriff's department employees (salaries and benefits—

estimated @ *60% over)

2: Additional equipment (trucks for the road department and hired construction equipment for water and gravel hauling, sheriff's department vehicles with installed necessary equipment—estimated @ *25% over)

3: Additional road materials such as gravel and scoria (road materials cost to fix up damaged roads not budgeted -- estimated@ *15%over)

*estimated percentage numbers because I have not had the auditor check my math.

We offer this idea as we support the general concept of this bill which continues to give us direction as commissioners. I would hope continued discussion will lead us to additional revenues back to these highly impacted areas. Many smaller rural towns such as Killdeer, Dunn Center, and Halliday are seeing impacts which are becoming very costly and yes as we agree the hub cities of Williston, Dickinson and Minot are also realizing this great growth. Dunn County would appreciate some greater consideration in the bill for small rural towns.

Thank you,

We Dunn County support and offer this suggestion to the committee.

Senate Finance and Tax Committee**January 29st, 2013****SB 2258 Testimony by Dr. Steven Holen****Superintendent of Schools – McKenzie County Public School District #1 (Watford City)**

Good morning. My name is Steve Holen. I am the superintendent of schools for McKenzie County Public School District #1 - Watford City. I am also a member of the North Dakota Oil and Gas Producing Counties Executive Committee representing schools districts in oil producing counties. I am here to testify in support of the increased funding to oil and gas producing counties as presented in SB 2258; however, I am also here to express concern and disappointment in the lack of change regarding oil and gas production tax revenue for school districts brought forth in this bill.

Going back to the 2009 session when the caps were removed in the production tax formula for counties and cities; school districts were isolated and segregated from the cap removal process with the formation of the Infrastructure Fund. Unfortunately, SB 2258 still contains the Infrastructure Fund language and in essence, still views school impacts as strictly transportation related. The language of the Infrastructure Fund for school districts is extremely restrictive in it can only be used for school district vehicles and vehicle maintenance. While this was "acceptable" six years ago when the impacts were primarily based on roads and student increases were not being experienced; SB 2258 continues the misconception that school districts in high production areas are still "only" being impacted by roads and bus maintenance in 2013. I believe it has been well publicized over the past biennium that school district impacts are expanding and exponential with their surrounding city and county growth. It is understood, with SB 2258, that these impacts are indeed increasing for western area counties and cities and additional funds are needed; the question then becomes why not include school districts in additional direct funding beyond the first five million (previous cap)?

With school districts still acting as political subdivisions in these impacted areas; it is no longer acceptable or equitable for school districts to not be included in the formula that serves as a local funding source (in-lieu) property tax. The implications of school district omission have a direct impact on local property owners and tax payers. While the legislature is determined to bring property tax reduction through school districts to taxpayers; putting the costs of school infrastructure on the backs of local taxpayers while the production tax revenues are kept in a fund that only allows bus purchases is difficult to comprehend. I believe the concept of imputation and its misinterpretation through the years has helped create this scenario of treating school districts differently than the other subdivisions; however, this thought process is flawed and needs to change.

School districts are facing another dramatic change in state foundation aide funding proposed this session; school district inclusion in the production tax formula needs to be done regardless of the state foundation payment program. This production tax revenue is "local" revenue that represents the local tax base of our communities and inevitably, it represents the oil and gas industry contributions to school infrastructure issues. As a school district representative of oil and gas producing school districts; I cannot support a production tax formula change that does not provide direct dollars to school districts that reflect the level of production in that area. This is not just about transportation issues anymore. This is about school districts preparing for sustained growth of factors 3 to 5 times their current size and the costs associated with this preparation. School districts, in being no different from cities and counties, need sustained dollars to utilize for planning and bonding capacity to address this

growth.

Truth be told, this is an equity issue. It is an issue regarding western ND school districts being provided our full capacity of local revenue in meeting the educational demands of our area. Continual ignoring of school districts in the formula beyond the first five million represents an inequity for western ND school districts that needs to be addressed. Our taxpayers do not need an excessive tax burden compared to others across the state in paying for school facility expansion. Major infrastructure improvements are not going to be accomplished through the foundation aide program, regardless of its proposed increases; local taxpayers will need to pay for these changes. The local taxpayer has plenty of "skin in the game" already; the production tax formula needs to balance this impact and provide true property tax relief to western ND.

School districts are currently receiving planning data from studies performed in our area, including work done in the NDSU school study and the Vision West planning process. Estimates show McKenzie County preparing for upwards of 9,000 permanent homes in the next 15-20 years. With even conservative estimates of children per household; the landscape of MCPSD #1 will change forever. The school district will likely need to add multiple education buildings to accommodate a permanent population of this size; not to mention the staffing increases required for this new population. Again, we are not talking about a few school buses getting banged up on roads. We are talking about immense infrastructure needs of a district looking to potentially double to triple its size over a 10 year period. The current period of in/out traffic will end when our cities expand and permanent housing is available. When this happens, our school districts will face a more rapid increase in student population and the effects on education will be immediate and substantial. We need to plan as any other entity and be ready for this growth; with the reassurance of local and production tax dollars to help support the outcomes of this planning.

An opportunity like this for western ND is a one-time opportunity; it needs to be done well and with progressive actions of the legislature. Let's make this process one that will ensure the next generation(s) of our community a quality way of life and a quality education system; of which western ND was accustomed to for generations.

The following represents a list of facts regarding MCPSD #1 and the process that occurs in a district with rapid enrollment growth. The data may help to refute the many perceptions found with western ND schools; the most common being the "wealthy" school districts in western ND.

School District facts for McKenzie County Public School District #1:

1. School Enrollment for Spring 2010 = 543 students (K-12)
School Enrollment for Fall 2012 = 872 students (K-12)
61% growth in 2.5 years
333 new students enrolled for the 2012-2013 school year (just under 300 students enrolled 2011-2012)
2. Since fall of 2010 – 14.5 FTE new teaching positions added to accommodate new sections plus one new administrative position. *Transition from two sections in elementary to four sections in K-2.* 5 new aides hired in 2012-2013 due to larger classroom sizes at the elementary school.
Both grades kindergarten and first grade have approximately 80 students. With 20+ students per classroom; the district is over classroom size expectations, but additional classrooms not available.

3. Elementary school building was supporting around 225 students in grades K-6 in 2008. Current enrollment in grades K-6 is approximately 510 students. All potential areas were converted to classrooms – school lost its computer labs, music room (utilizing a portable classroom), storage room, and teacher workroom. Current capacity of elementary building is 450 students. Sixth grade students transferred to high school building fall of 2012 to remain within capacity. Current \$11.5 million dollar expansion/renovation will increase capacity to 600 students and be ready August, 2013. This may provide a 1-2 year window before other adjustments need to be made in facilities to accommodate students. An additional **\$50 million** may be needed to accommodate projected levels of population and permanent households over 5 year period.
4. The revenue received directly from the oil and gas production tax has remained constant since 2005. The only change in revenue occurred when the district exceed 6,000 population as per the formula. The school district received approximately \$1.2 million in oil and gas production tax revenue in 1982; today it receives less than \$950,000. The 1982 school district budget was around \$3 million. Current budget is just under \$10 million. Watford City High school built for approximately \$5 million in 1984. Current building would cost around \$25 million to replace.
5. School district acquired an ELL instructor for the 2012-2013 year to accommodate the new ELL population.
6. Special education numbers show a slight increase; however, the impacts are found in the variety and level of disabilities not typically seen in our area.
7. The MCPSD #1 currently has 115 students that qualify as “homeless” by the McKinney Vento Act. Students are living in RVs or hotels to qualify for the homeless definition.
8. The continual in/out migration of students creates ultimate challenges to teachers and office/administration in registering and transferring students on a continual basis. District educates students as if they will be in the district permanently.
9. 2010 Taxable Valuation = \$12,625,353. 2012 Taxable Valuation = \$30,022,004
2010 General Fund Mills = 100.76 mills. 2012 General Fund Mills = 53.15 mills
**** This drop in mills occurred while district levies the maximum 12% each year.**
10. School district purchases 8 housing units during the summer of 2012. School district commits funds for additional eight units for 2013; may need to consider more units to accommodate the hiring of a minimum 12 new teachers for 2013-2014.
11. School district hired a demographer and planner to begin process of planning for future student enrollment increases to accommodate a projected Watford City population of 10,000 and McKenzie County population of 20,000+.
12. McKenzie County School District #1 general fund carryover percentage is around 25% and has fluctuated between 20% and 30% over the past several years. NDCC allows for 45% + \$20,000.
13. The MCPSD #1 received \$288,139 of the \$640,780 it was eligible for with state Rapid Enrollment Grants.
14. The MCPSD #1 needs to find a funding mechanism for the \$620,000 annual bond payment required for the current elementary addition project; which has yet to be determined. Current additional state funding used for new staffing and other supplies/books needed for additional student population; is not suitable for additional infrastructure issues.



BAKKEN
HOUSING PARTNERS

Testimony of Mark Bragg, President

Regarding distribution of oil production tax revenue to cities, counties and school districts in The Bakken

For more information: 701-580-6684

My name is Mark Bragg. I am the president of Bakken Housing Partners, a North Dakota real estate development company. I came to Watford City a year and a half ago to build a master-planned community. Friends warned me to bring my own bedroom because there was no place to stay. So, with my son, I arrived in a motorhome, which we used as our headquarters for the first six months. We found a 300 acre parcel, did all the appropriate studies. . . soils, hydrology, endangered critters. . .and we began spending substantial money on planning. We didn't do a market study. All you have to do for that is look at the hills and plains surrounding Watford City to see the thousands of people living in Third World conditions. . . .trailers, campers, backs of trucks, mancamps. . . basically conditions no one in this room would tolerate. A story in last Sunday's Minneapolis Star Tribune paints an ugly picture of living conditions in our town and the rest of the Bakken. Unfortunately, that reputation is spreading around the

country along with the story of booming wealth, and it isn't just the good news people are remembering. But we didn't realize that. We invested nearly seven million dollars in this 300 million dollar project before we started bringing the big institutional investors to see the challenges and the opportunities. The city has now approved eleven hundred units of apartments, townhomes, single family homes, several small office buildings, a hotel and a shopping center. We thought we had calmed investor nerves somewhat. . . it isn't a boom and bust scenario; we can handle the logistics of building in the climate; we can manage the material shortages; there is financing available for home buyers. . .etc etc. But even with all those assurances, none of the big money sources have been willing to invest in our part of the Bakken. And until recently, I couldn't figure out why. Now I know. About three weeks ago, we hosted one of Wall Street's largest real estate investment banking firms. Eight people visited Watford City. Investors at that level do their research and they explained after their visit why they were declining to invest in North Dakota. I will quote from the email I received from one of the principals. Quote: "There are three conditions we have discovered that will keep us and many investors from putting money at risk in the Bakken. First, we have discovered that McKenzie County produces about \$400 million in oil tax revenue to the state. We

estimate the state returns about four percent of that revenue to the county to help resolve the adverse conditions created by the production of all that wealth. Secondly, we believe the workers creating this wealth for the state will not tolerate these living conditions for long. Our research shows the oil industry is experiencing an enormous rate of employee turnover, raising their costs well above those of other oil producing states. Oil companies will continue to invest where their profit margins are best and the high costs of turnover could be a major factor. Lastly, we see no evidence that the state is willing to reinvest very much of its oil revenue in the Bakken. We have seen a study that shows McKenzie County and Watford City need several hundred million dollars worth of expanded infrastructure at minimum in order to assure the building of a quality, sustainable community. Instead, we are aware that the state sent at least \$500 million to a money manager in Pasadena last year to invest in other places. How can we be expected to risk our investment capital in a state that is not reinvesting in its own source of wealth.” Unquote.

Unfortunately, we are convinced many members of the legislature believe that returning adequate funds to the oil producing counties of North Dakota is an expense. We believe it is an investment just

like feeding a cow to produce milk or a golden goose to produce golden eggs.

McKenzie County, Watford City and our school district need real, substantial help from the state in expanding our schools, law enforcement, wastewater systems and building the infrastructure to handle the 15 thousand people that are now living and working in McKenzie County. . . .up ten times in three years. We invite you to come see for yourself. But you may want to bring your own bedroom.

I am not asking for help for commercial enterprise. But without help for local government in providing basic services, we are stopped. Please. . . . help us find ways to ensure the continued production and expansion of wealth for all the people of North Dakota.