

AREC (America's Rural Energy Coalition) Panel at IOGCC (Interstate Oil & Gas Compact Commission) Spring Meeting – Community Outreach

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Introduction:

Watford City, North Dakota is the county seat of McKenzie County, known as the largest of the four core western North Dakota Bakken counties (both geographically and in terms of oil and gas production). These four counties produce 93% of North Dakota's oil. McKenzie itself produces 40% (520,000 bbl/day) of North Dakota's oil and 50% (1.2 M mcf/day) of its gas. If McKenzie were its own state, it would be the 6th largest oil producer in the United States. Surface ownership is 40% federally owned land and 60% privately owned land in the county.

From 2010 to 2017 (based on US Census estimates), Watford City has grown from 1,744 to 6,523 (274%) people.

From 2010 to 2017 (based on US Census estimates), McKenzie County grew from 6,409 to 12,724 (99%) people. The US Census report released in early April of 2019 report of the fastest growing counties in the United States from 2017 to 2018. McKenzie County topped that list with a 7.1% population increase and a current estimate of 13,627 people. Williams, our neighbor to the north, was second on that list with a 5.9% population increase.

In the same time frame of 2010 to 2017, McKenzie County School District #1 enrollment has grown by 312% from 581 (K-12) students to 1,814 (K-12) students. The school district is expected to grow to 3,793 (K-12) students by 2028. In the first nine years of the district's 18 year enrollment projections (2010 to 2028), the firm hired by the district to build its projection model was 200 students shy of actual enrollment for the 2018 – 2019 school year.

Last week the District broke ground on a 650 student K-5 elementary school, which will ultimately be one of three K-5 buildings in the district, each designed to 650 students. The existing elementary school was historically a K-6 school. It was expanded from 300 students to 650 students in 2011. The historic 7-12 High School (which was constructed in 1985) is currently serving as the 3-6 Intermediate grade school. It will transition into a traditional 6-8 Junior High. The new High School was bonded for and constructed in 2015. It is currently a 7-12 but will ultimately be a traditional 9-12 high school. WCHS (McKenzie District #1) will graduate 80 seniors in its Class of 2019. Expected Kindergarten enrollment in 2019-2020 is expected to be between 225 – 250 students.

Go WCHS Wolves!!!! #wolfpride

What would you consider the biggest challenge the oil/gas industry presents to you? Is the industry playing a role in helping you address it and if so, what are they doing?

The Oil and Gas industry presents three primary challenges that would be good to discuss today from a North Dakota perspective.

- (1) First, community impacts from shale development arrive well before the allocated tax revenue does that is needed to build critical impact infrastructure. It makes planned growth development very difficult. This issue diminishes quality of life for existing residents and causes business inefficiencies and logistical challenges for shale players and Main Street businesses. Public and prior communications of impacts (expected population influxes, transportation, water, and treatment needs) need to be discussed in advanced and planned for with communities. As part of state permitting processes, legislative bodies also need to be educated on and understand impacts and implement funding mechanisms to provide for needed impact infrastructure. When impact dollars do not arrive timely to communities (or don't arrive at all), the change that community members see and feel (especially the negative change) plants a seed of resentment toward the industry in the community.
- (2) Second, the extreme crowding out effect. Currently, McKenzie County's unemployment rate is 1.6%. North Dakota uses a term, the 'Bakken Surcharge'. Job Service North Dakota reported in the 3rd quarter of 2018 monthly weekly wages in the 4 core counties of \$1,500 / week while the non-oil producing counties in the same quarter reported average weekly wages of \$900. Annualized, that is \$ 78,000 compared to \$ 47,000. That one example of the 'Bakken Surcharge' moves through the entire local economy impacting construction and housing costs, grocery and restaurant costs, and wages that non-oil and gas employers have to pay to attract needed workforce. In April of this year, Job Service North Dakota released a 2018 Cost of Living Indicators Report. In Watford City, a single person needs to make \$26,439.10 to meet 'basic need' expenses. That same person living in Carrington, ND in Foster County needs to make \$ 18,880.82 to meet the same basic needs. In the same two communities, a family of six needed to make \$82,468.88 and \$66,492.88 respectively. This 'Bakken Surcharge' crowds out the rest of the community and grows resentment toward the industry and local officials who are not able to address the crowding out. What looking at these two sets of numbers additionally frame out is that if Mom can't work because she doesn't have quality, reliable day care, on average, a family of six on the Bakken, with Dad making an average wage, that family isn't making enough to meet their 'basic needs' expenses. I just brought up Day Care. I can tell you one of our most pressing community needs right now in Watford City is quality, reliable, affordable day care.
- (3) Third, the lack of cultural empathy that oil and gas exploration and production bring in a rapid growth environment burdens / challenges local and rural culture. McKenzie

County has a serious litter problem and issues with unlawful trespass and destruction and damage to both public lands and private property. In discussing unlawful behavior, I want to be clear that it is by individuals coming to western North Dakota to work in the jobs brought by shale development. When onboarding employees, expectations of zero tolerance of any behavior that is either unlawful or culturally incompatible with local culture will be necessary to build trust in and respect for your industry and company. That NEEDS to extend to your service contractors as well. Your service contractors represent you and although one degree of separation may bring some liability relief, their actions directly reflect on the companies that contract their business. I know that in a low unemployment environment, that is difficult to hear, but unwillingness to execute on zero tolerance policies continues to grow the resentment that was seeded upon initial impact.

What is the most valuable opportunity they have brought you? Do you feel you're maximizing it? If not, what's holding you back?

The most valuable opportunity that being a shale development community has brought us in Watford City and North Dakota is robust economic growth and a vibrant, youthful community. This is a 180 degree turn from where we were headed in the early 2000's with a declining and aging population. Over the last decade we have become home to young families who are pursuing the American Dream and who wouldn't be here if it weren't for the development of the Bakken. That is an exciting and amazing opportunity for our community. The city has leveraged this opportunity in an effort to position itself for a sustainable future. The city's approach to resource allocation is to focus on building an attractive, family friendly community and one that the millennial workforce is attracted to.

The county has possibly missed out on some opportunities for sustainable positioning. The county did not adopt a Comprehensive Land Use Plan or a Planning and Zoning Ordinance until 2013 and still today has not established a Home Rule Charter. In my opinion, what is holding the county back from seizing the opportunity for sustainability is current county government structure and also culturally, farming and ranching communities (especially of Scandinavian decent such as ours) who are rural and close knit are resistant to change and traditionally struggle to be visionary. If you cannot get beyond the day to day survival activities and provide long term visionary planning for the community to collectively work toward in this rapid environment, opportunities will be missed.

If you could tell the industry one thing about how your organization could be enhanced by their presence in your community, what would that one thing be?

In North Dakota, the oil & gas industry has an effective tax rate of 10%. The first 30% of all O&G tax goes to the state's Legacy Fund.

After that:

5% is an extraction tax (with high price triggers up to 6.5%). This is the state's tax.
The Extraction Tax was enacted through initiated measure by the voters of North Dakota in 1980. It has various fund caps and transfers, but in 1995 the allocation was set as:
60% to North Dakota General Fund
20% to North Dakota Education Fund(s)
20% to North Dakota Resources Trust Fund

AND

5% gross production tax (GPT).

The GPT was legislatively enacted in 1953 after the discovery and successful proving of the Clarence Iverson #1 oil well near Tioga, ND in Williams County and the Benhomer Risser oil well near Keene, ND in McKenzie County. The gross production tax was established IN LEAU OF PROPERTY tax and the law enacting the tax also prohibited counties in North Dakota from assessing taxes on property RELATED to downhole production. The state collects all GPT and legislatively determined how to reallocate it.

I explain all of this because although we are incredibly grateful that the Bakken sits 10,000 feet under Watford City and McKenzie County and that oil and gas companies invest greatly and pay their taxes, we also realize two things. One, North Dakota is right in the middle of the pack when comparing effective tax rates on a state by state basis. Two, public dollars alone cannot build the community that needs to be built.

From 2010 to 2018 the portion of the 5% GPT that was reallocated to the impacted Local Political Subdivisions was 11.4%. In that same time frame, our emergency response districts throughout the 19 oil and gas counties in North Dakota (ambulance, fire, law enforcement) received 2.7% of the IMPACT tax through grants to address shale development impacts to their departments and agencies. Note - In McKenzie County, we continue to be served by fully volunteer fire districts and blended professional / volunteer medical and ambulance districts.

With all of that background, the WAY(s) the INDUSTRY can enhance its presence in our community is three fold:

FIRST:

Create, development and maintain company policies that encourage employees to identify with the community you have them working in as their HOME. One quick example, Watford City through the City's Roughrider Fund (1.5% city sales tax) commissioned a study to support retail development in Watford City. The results of that study showed that 85% of credit card transactions were from cards outside 58854 (Watford City zip code). Upon follow-up research, one of the issues identified was that oil and gas employees who benefited from

per/diem for living expenses through company policy, even though they lived in Watford City, they did not update their addresses in fear of losing out on that per/diem benefit. Another example, we are preparing for the 2020 US Census. The definition of where you should count yourself is where ever you sleep most of the time (51%) in the previous twelve months. For every employee of yours that is in our community 51% of the time and does not count themselves as being from McKenzie County in the 2020 Census, the community loses out on nearly \$2,000 / year (\$20,000 over the life of the Census) of federal funding and also we lose out on some state funding that hasn't been quantified. We want your lawful and culturally empathetic employees here. We also want them to reciprocate that with taking the steps to confirm that they are living in our community.

SECOND:

Incentivize and reward employees who civically participate and volunteer in their communities. Many hands make light work. Show up. Be present. Buy in. Take ownership. Be a member of "TEAM WATFORD CITY" or "TEAM ANY TOWN USA".

THIRD:

I gave the taxation background for North Dakota. The reason for doing this is to highlight that in rapid growth communities 1.14% of every barrel of oil sold going to the communities where it was produced from is not enough to build livable communities with attractive amenities that the millennial workforce expects. We cannot achieve this with public dollars alone. Communities need to work with your COMMUNITY GIVING plans and the activities of your FOUNDATIONS to build livable communities with attractive amenities for your workforce.

In recent discussions with industry representatives, we identified mutually beneficial information that can be exchanged by discussing and communicating community projects and priorities and by sharing community giving missions and application processes with each other. We are excited to further explore how through this communication process, companies doing business in Watford City and McKenzie County can most effectively leverage their community giving resources and where the community can benefit from successful public and private partnership projects that will attract a quality workforce and their families to our community.

This conference is hosted by the IOGCC, which is the organization that brings together all of the state oil/gas regulatory agencies. Does your state regulatory office interact with you or your community in any regular or meaningful way? If the answer is no (or not to your knowledge) is there something that you feel they could do to help you or your community?

From a community development perspective, the North Dakota Department of Mineral Resources is very good about briefing elected officials, both state and local level, as well as State, City, County, and School administration and staff.

The feeling from the rural community and surface landowners and operators who rely on the surface natural resources for their livelihood, there is concern that North Dakota Industrial Commission (NDIC) permit applications are heard in Bismarck and away from the place of impact. Additionally, that same population would likely share concern with the limited enforcement capacity of environmental and resource protection rules. More robust enforcement capacity by state agencies would help western North Dakota communities in building a greater level of trust in the oil and gas industry that doesn't necessarily exist today.

Workforce is a huge issue in rural America. The industry didn't create the issue, but they have definitely exacerbated it. How is it impacting you and are there joint efforts between you and the industry that are focused on addressing it? A lesson learned, or learning, that you could share with us? Something others could copy.

A couple examples of addressing skilled labor shortages:

- (1) McKenzie County Job Development Authority has stepped forward and funded an innovative and unique approach to skilling up our workforce and growing our hometown students from within to meet the skill sets needed in our 21st Century workforce. Working collaboratively with oil and gas industry representatives and in conjunction with the University of Mary, Williston State College, and Train ND, the McKenzie County School District #1 is developing a four semester curriculum for High School juniors and seniors to prepare them for skills and expose them to tools which will fast track them into oil and gas careers. Additionally, the Skills Initiative is working with the industry to identify continued education that is needed and to offer it in an efficient and convenient manner.
- (2) My sister, Kim Murphy is an educator and works for the Great Northwest Regional Education Cooperative (GNWREC) headquartered out of Williston. With just over 760,000 people in the entire state, North Dakota's K-12 education system has many school districts that have ten students or less per class. The GNWREC and its regional counterparts throughout the state provide curriculum modules that are "time shared" with other rural schools in their REC that would not be able to independently offer advanced STEM (Science, Technology, Engineering and Math) without the time-share equipment and modules.
- (3) Recently, Kim was at a regional conference in Bozeman MT and came home with a program that was presented there that she was really excited about. It was the MILL National Training Center (Manufacturing Industry Learning Lab) <https://themillco.org/> in Colorado Springs, CO. The Mission is to empower the next generation of industry leaders. Although it is missioned to lean manufacturing

techniques, it is a great example of what private and public partnerships can do to attract talent to their industry and grow a 21st century workforce.

Last, a cool nationwide campaign which has several goals, one of which is to grow capacity in technical careers: www.PromisedLandProject.com - *The power of purpose in business and life*
<https://www.thepromiselandproject.com/americas-front-porch-austin/>

My observation is that in the typical rural shale play, the industry is reticent to toot their own horn. Although they have reasons for taking that approach, with the continuing growth of a “progressive” urban America population, the long term effects of that silence will hurt rural America. Have I described your region and if so, how do you think your community leaders would react if the industry/state approached them about a joint campaign to “educate” urban America on where their energy comes from, who’s bearing the burden of developing that energy, and what those burdens are?

My only recommendation, don’t stay silent. The agriculture community stayed silent far too long before they started engaging with their consuming public. By that time, public perception of food production was that it was factory farming that was ruining the environment and poisoning consumers with chemicals. Oh, and don’t forget, also treating animals inhumanely for entertainment purposes (please don’t miss the sarcasm). Another example of the negative impact on public perception of staying silent for too long, the American West timber wars. Before rural communities responded to the federal government’s policy changes banning responsible timber harvest, businesses, communities, families and lives, and ironically the conditions of US public forests were deteriorated or destroyed. Bruce Vincent has been to North Dakota several times to share his story and his message. Check out his book. He has a great message that is relevant to this discussion: <https://www.amazon.com/Against-Odds-Forward-Rural-America/dp/1544035306>

If time allows, we will proceed to these questions

1. How would you describe the relationship between your “organization” and the industry? Do they complement each other and if so, in what ways?
2. What is the biggest misconception your peers have about the oil/gas industry?
3. Do you see any correlation between being a “good neighbor” and the financial size of the individual energy company?
4. In your particular community, on industry-related community issues, how do you interact with the leaders of the other businesses on this panel?
5. How would you describe the quality of the relationship between your community’s leaders and the industry? Are there specific efforts, regular meetings, etc. ongoing in your community designed to enhance those relationships?

