



Oil and Water: Sometimes They DO Mix

By Patrick Fridgen

We've all heard it said that this thing or that thing, or this person and that person, go together like oil and water. And in most cases, that's not a good thing. However, when it comes to the relationship between oil and water development in North Dakota—the two go together quite well.

This improbable relationship between oil and water began back in 1981, when the Legislature created the Resources Trust Fund, which ultimately was partially funded by 10 percent of the state's oil extraction tax revenues. This allocation was later increased to 20 percent during the 1997 Legislative Assembly.

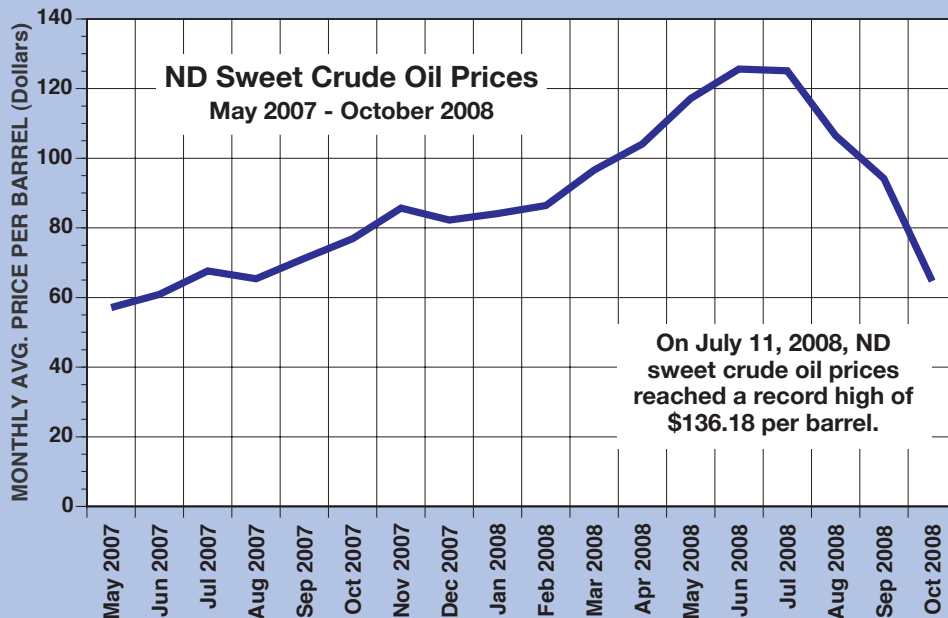
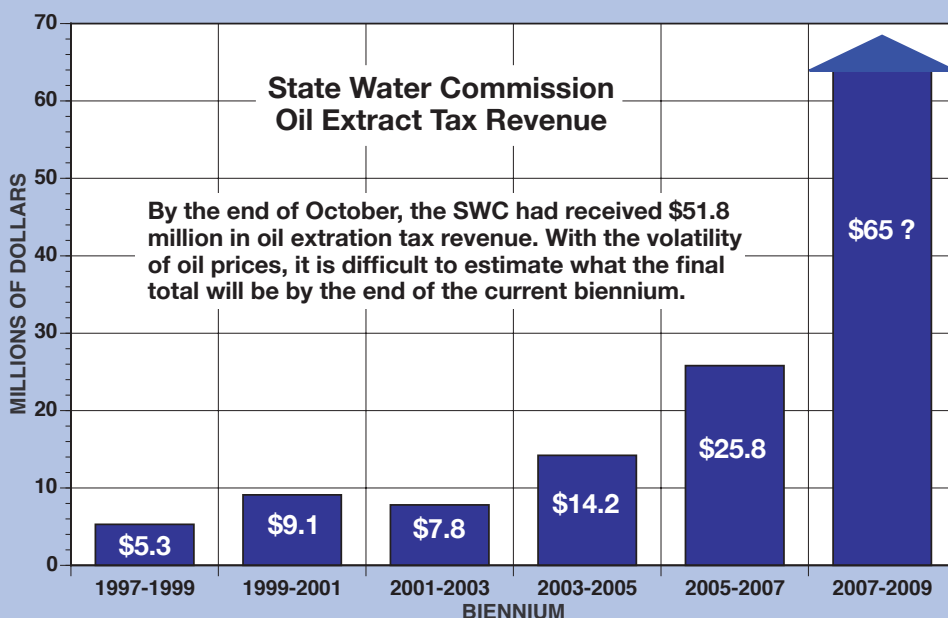
Water development enters this picture because the Resources Trust Fund has been designated by a state constitutional measure to be used for water development projects, and energy conservation. The portion of the Resources Trust Fund destined for water development becomes part of the budget for the Water Commission, which is the primary state agency involved in cost-sharing with, and developing water projects across the state.

It should also be noted, that water projects do give back to the fund. In addition to the oil extraction tax, revenue into the Resources Trust Fund also comes from Southwest Pipeline Project reimbursements, MR&I program loan repayments, interest, and oil royalties. However, the extraction tax does make up the lion's share.

The amount of oil extraction tax collected by the state as a whole is largely due to two factors – the price of oil and the amount produced in

the state. At current prices, the oil extraction tax is 11.5 percent of the total value of the oil produced. But at lower prices, additional tax incentives come into play to encourage drilling and production in the oil fields. Those incentives then impact oil extraction tax revenues. However, since October 2004, few tax incentives have been in place, primarily because the price of oil has exceeded the incentive-triggering level.

Over the course of the last several bienniums, the amount of oil extraction tax, and Resources Trust Fund



SOURCE: TESORO REFINING & MARKETING CO.

dollars that have become part of the Water Commission Budget has grown dramatically. As the adjacent figure suggests, the Water Commission's 1997-1999 biennium budget only included \$5.3 million in revenue from oil extraction taxes. By the 2005-2007 biennium, that number had increased to \$25.8 million.

And, though the Resources Trust Fund has been instrumental in funding a number of water supply, flood control, and other general water management projects across North Dakota, it has also been quite difficult to estimate future revenues into the fund for budgeting purposes. This is the case, because as mentioned previously, future revenues into the Resources Trust Fund are highly dependent on oil prices, which particularly in recent months have been quite volatile.

For example, it was estimated in early 2007 that the 2007-2009 Water Commission budget would include about \$34 million in oil extraction tax revenue. But because of record high oil prices and increasing production, the Water Commission had already received almost \$52 million in revenue from oil extraction taxes by the end of October. With eight months left in the biennium, and with continued volatility in the oil markets (see figure), it is difficult to say what the final oil extraction tax revenue amounts will total in the Commission's current budget. If recent trends continue, and oil prices remain fairly strong, it is entirely possible that oil extraction tax revenues into the Commission's budget may surpass \$65 million this biennium.

However, the increased revenues from oil extraction couldn't be coming in at a better time. With construction and material costs soaring, the costs associated with the development of critical water projects have never been higher, and needs are certainly not diminishing. In fact, it is estimated that the state could receive

almost \$140 million in cost-share requests from project sponsors to develop water projects all across the state in the upcoming 2009-2011 biennium.

With the state's Office of Management and Budget currently

working toward the development of budget estimates for the 2009-2011 biennium, they will certainly have a difficult task in estimating how big of an impact oil, and associated extraction taxes, will have on many of the needed water development efforts throughout North Dakota.

Group Receives Award for Milfoil Work

In September, the Barnes County Water Resource Board was presented the Aquatic Resource Conservation Award by the North Dakota Game and Fish Department (NDGF), along with certificates of appreciation to the Barnes County Wildlife Club, Barnes County Weed Board, U.S. Army Corps of Engineers, Valley City State College, and the Valley City Municipal Water Plant, for their work on controlling Eurasian water-milfoil, an aquatic nuisance species (ANS) in and around Valley City.

"It is an example of North Dakotans recognizing the gravity of the problem and being willing to take responsibility to initiate control efforts. This is an example of agencies, groups, and individuals working together to accomplish an important project," said Lynn Schlueter, Aquatic Nuisance Species Coordinator for NDGF.

Eurasian watermilfoil, an exotic that is native to Europe, Asia, and Africa, is an aquatic weed that infests waterbodies, particularly those that possess low flow areas and high nutrients. Milfoil is tolerant of cooler water temperatures and forms dense canopies at the water surface that shades out and thus competes with native aquatic plants, reducing plant diversity. Milfoil provides less forage value than native plants for waterfowl, and high densities of the plant provide an abundance of cover for invertebrates and smaller fish, making it difficult for larger game fish to find sufficient food. In addition, decay of the large amounts of



Lynn Schlueter, NDGF, presents an award to Jim McAllister, Barnes County Weed Board Supervisor, for his work on combating milfoil in the Sheyenne River.

vegetation leads to oxygen depletion of the water, and dense stands restrict swimming, fishing, and boating.

Milfoil was likely introduced into the waters at Valley City via an angler or boat from an area that already has an infestation. Several sites in Minnesota are known to contain milfoil. An additional milfoil infestation first observed several years ago at Dead Colt Creek Reservoir, has been the focus of similar control efforts by the Ransom County Water Board and NDGF.

The State Water Commission, along with the Friends of Lake Sakakawea, North Dakota Guides and Outfitters Association, North Dakota Sportfishing Congress, North Dakota Wildlife Federation, Red River Basin Commission, North Dakota Department of Health, North Dakota Parks and Recreation Department, North Dakota Tourism and Commerce Department, North Dakota Agriculture Department, and Spirit Lake Nation have representatives on the North Dakota Aquatic Nuisance Species Task Force, which is chaired by Terry Steinwand, director of NDGF.

Measure 3 Passed By ND Voters

On Tuesday, Nov. 4, North Dakota voters were asked to consider four separate measures, including Measure 3. As specifically worded on the ballot, Measure 3: "...would establish a tobacco prevention and control advisory committee and an executive committee; develop and fund a comprehensive statewide tobacco prevention and control plan; and create a tobacco prevention and control trust fund to receive tobacco settlement dollars to be administered by the executive committee."

And by a margin of 53.9 percent (162,793 votes) to 46 percent (139,034 votes), Measure 3 was given the nod by North Dakotans.

The importance of this result to those involved in the "water world," is that during the 1999 Legislative Assembly, House Bill 1475 allocated 45 percent of the funds received by the state from the 1998 tobacco settlement into the Water Development Trust Fund (WDTF), which is intended to fund water development projects.

Because of the WDTF, the Commission was able to issue bonds to advance several critical water projects across the state.

Measure 3 will redirect a portion of the tobacco settlement, known as the strategic contribution fund, toward a statewide tobacco prevention program that is intended to help adults quit smoking, and to prevent kids from ever starting.

The strategic contribution fund portion of the settlement is North Dakota's compensation for work done by the state's Attorney General in completing the national tobacco settlement agreement. It is this increase in the settlement amount, because of the Attorney General's efforts, that will be used for the tobacco prevention program.

The passage of Measure 3 will not change the 45 percent allocation of tobacco settlement funds into the WDTF. However, it will decrease tobacco settlement receipts destined for the WDTF by \$12.4 million per biennium. This should leave enough revenue in the WDTF to cover water development-related bond payments. But, it is important to note that all future WDTF revenues are needed to pay existing bond debt. Therefore, any additional requirements to fund the tobacco program beyond the strategic contribution fund, or other revenue deficiencies, could leave the WDTF short.

Attention! Water Supply Grants Available

Bureau of Reclamation Commissioner, Bob Johnson, has announced the first funding opportunity for fiscal year 2009 under the Water for America Challenge Grant Program. Reclamation is seeking proposals for cooperative projects that create water banks and markets, or improve the water delivery efficiency of systems through conservation or operational improvements. Entities that may submit proposals are irrigation and/or water districts, water authorities of federally recognized tribes, and other entities created under state or territory law with water management authority.

Applicants must be located in the western United States or United States territories. Proposals must be submitted as indicated on www.grants.gov by Jan. 14, 2009, at 4:00 p.m. MST. It is anticipated the awards will be made during the summer of 2009. For more information on Water for America, visit www.usbr.gov/wfa. Or, questions can be directed to the Bureau of Reclamation at 701-221-1289.



North Dakota State Water Commission
Dale L. Frink, State Engineer
900 East Boulevard Ave. • Bismarck, ND 58505
(701) 328-2750 • <http://swc.nd.gov>

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