

**DEPARTMENT OF COMMERCE TESTIMONY ON ECONOMIC ACTIVITY IN WESTERN NORTH
DAKOTA AND PERSONAL INCOME GROWTH IN THE STATE
DECEMBER 13, 2011, 11:15 A.M.
BUDGET SECTION
SENATE CHAMBER, STATE CAPITOL
SENATOR TONY GRINDBERG, CHAIRMAN**

ALAN ANDERSON – COMMISSIONER, ND DEPARTMENT OF COMMERCE

Good morning, Mr. Chairman and members of the Budget Section, my name is Al Anderson, Commissioner of the North Dakota Department of Commerce.

I'm here today to speak to you about two topics: economic activity in western North Dakota and personal income growth in the state within the past five years.

Economic Activity in Western North Dakota

As you are aware, western North Dakota has seen tremendous economic growth over the past few years caused primarily by oil and natural gas development. Barring any new federal regulatory hurdles or a significant drop in oil prices, this economic growth should continue well into the future.

The Department of Commerce is engaged in whatever we can do to help sustain and leverage the economic growth, such as exploring spinoff manufacturing opportunities tied to the oil and gas industry. We are also working with partners to address the challenges associated with the growth.

Governor Dalrymple provided an update last week on the state's efforts in addressing the impacts created by oil and gas development in western North Dakota. The state has committed a total of \$1.2 billion to address these impacts, of which \$885 million remains to be distributed this biennium. This includes some recent action by the legislature during the special session to increase the limit on the Housing Incentive Fund to \$15 million and provide an additional \$35 million for the Energy Impact Fund. These efforts are appreciated and will help in addressing the impacts. A copy of the information provided by the governor was handed out and provides a breakdown and description of the funds.

Governor Dalrymple has created the Western North Dakota Energy Development Information Exchange Council to address energy development issues in western North Dakota. This council is comprised of state officials, western North Dakota residents, and representatives of the energy industry. Top priorities deal with electrical transmission and pipeline infrastructure. We are currently considering garnering support for updating a recent electric load study that was done in northwest North Dakota.

The Department of Commerce is organizing a series of town hall meetings that will be held in January in 13 cities across the oil patch. These meetings will involve the Department of Transportation, the State Engineer, the Department of Trust Lands including its Energy Impact Office, the Housing Finance Agency, and the Department of Commerce. These meetings are in follow up to the meetings that were held prior to the legislative session. We will provide updates on the state's efforts to address the impacts and to gather input on what more should be done.

Although it may not seem like it at times, significant progress is being made.

Private developers are responding to the housing demand in a big way. More than 2,300 new housing units in Dickinson alone are in various stages of development, including 700 single family homes, 200 duplexes and 270 apartment units. In Williston, more than 1,750 new housing units are in development, including 218 single family homes, 102 manufactured homes and 537 apartment units.

This year, the North Dakota Department of Transportation is overseeing improvements to about 670 miles of North Dakota highways in western North Dakota. The Transportation Department completed this fall "Super 2" construction on 40 miles of U.S. Highway 85, between Watford City and Williston. The \$47 million project includes additional turning lanes and passing lanes that will help ease road congestion and enhance safety for motorists. Plans are for Highway 85 to eventually become an undivided, 4-lane highway between Watford City and Williston.

The city of Williston and Williams County commissioners recently approved a route for a permanent northwest bypass to alleviate traffic in Williston. Transportation Department officials immediately began work to draft an environmental study and a project design- steps toward securing right-of-way property. To help meet the community's pressing needs for traffic relief, the state, in cooperation with Williams County, will begin construction of a temporary gravel-surface bypass in the spring of 2012, with plans to open the temporary bypass to traffic in early summer of 2012.

Personal Income Growth

In North Dakota, personal income increased by over 40% from \$20.5 billion in 2005 to 28.8 billion in 2010. This included a doubling of farm income from \$1.2 billion to \$2.6 billion. Not surprisingly, the largest growth in non farm income was tied to mining, which saw a growth of 206%.

North Dakota's per capita personal income grew by 34.5% from \$31,795 in 2005 to \$42,764 in 2010. Over that same time period, the U.S. average increase was 12.7%. North Dakota went from slightly less than 90% of the national average to 107%. North Dakota has moved from being ranked 36th among U.S. states in 2005 to now being 11th.

Personal income is only one of the measures which demonstrate North Dakota's growing economic strength. We've handed out a document that shows the progress made over the past decade. Examples include:

- North Dakota lead the nation in growth in average wages in 2010. In the past five years, annual average wages have grown by over \$8,000.
- North Dakota lead the nation in growth in GDP, with over 9.67% growth in 2010. In the past five years, North Dakota's GDP grew by over \$10 billion.
- Exports have more than doubled in the past five years.
- Over 30,000 jobs were added between 2005 and 2010. The most recent data shows that 18,500 jobs were added between October 2010 and October 2011.

Mr. Chairman and members of the Budget Section, thank you for allowing me the time to visit with you today. That concludes my testimony and I am happy to entertain any questions.

WESTERN NORTH DAKOTA ROADS, WATER, & HOUSING
Status of 2011-13 Biennium Expenditures and Allocations
as of October 31, 2011
(in millions)

INFRASTRUCTURE

Oil & Gas Tax Distributions to Cities & Counties
\$46.3 mm distributed out of \$247.2 mm total

Energy Impact Grant Expenditures
\$56.8 mm committed out of \$135 mm total

Regular DOT Road Program
\$119.7 mm expended out of \$295.1 mm total

Special State Highway Maintenance Program
\$59.8 mm expended out of \$228.6 mm total

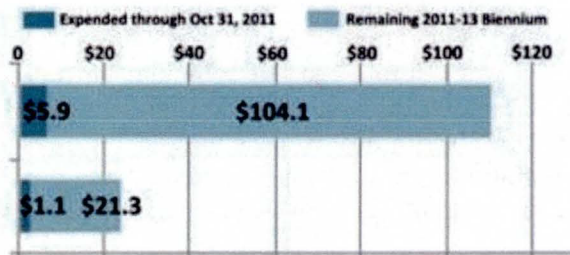
County & Township Road Reconstruction Program
\$19.5 mm expended out of \$142.0 mm total



WATER

Western Area Water Supply Program
\$5.9 mm expended out of \$110 mm total

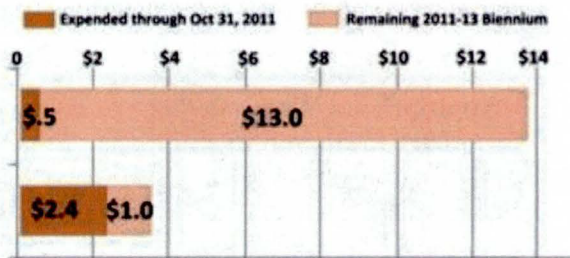
Southwest Water Pipeline Project
\$1.1 mm expended out of \$22.4 total



HOUSING

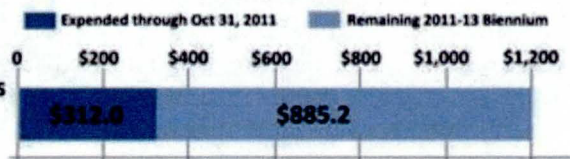
Housing Incentive Fund
\$5 mm allocated out of \$13.5 mm total

Federal Low-Income Housing Tax Credits
\$2.4 mm allocated out of \$3.4 mm total



TOTAL

Total 2011-13 Biennium Expenditures & Allocations
\$312 mm expended out of \$1,197.2 mm total



Following is a summary of funding sources and the status of funding appropriations and expenditures for western North Dakota.

Oil and Gas Tax Distribution to Counties and Cities

Total Available Funds 2011-13 Biennium	Distributions through Oct. 31, 2011	Remaining 2011-13 Biennium
\$ 247,200,000	\$ 46,315,883	\$ 200,884,117

Oil and gas taxes are distributed monthly to oil-producing counties and cities. The legislative forecast provides for \$247.2 million to be distributed to counties and cities during the 2011-13 biennium. However, due to higher than anticipated oil prices and production levels, oil tax collections were about 30 percent higher than anticipated during the first four months of the biennium. Through Oct. 31, 2011, \$46.3 million has been distributed to counties and cities, leaving \$200.9 million left to be distributed, based on the legislative forecast. If receipts continue at the current pace, an additional \$75 million could become available by the end of the biennium.

Energy Infrastructure and Impact Grants

Total Appropriated/Estimated 2011-13 Biennium	Awards through Oct. 31, 2011	Remaining 2011-13 Biennium
\$ 135,000,000	\$ 56,810,291	\$ 78,189,709

The State Land Board awards impact grants to counties, cities, school districts, and emergency service providers adversely impacted by oil development. The 2011 Legislature appropriated a total of \$135 million for impact grants during the 2011-13 biennium. Of the \$135 million, \$100 million is available throughout the biennium and \$30 million will be available contingent upon oil revenues exceeding the original forecast and would be available after April 1, 2012. Another \$5 million is available for qualifying counties that experience impacts from new oil and gas development. In the first four months of the biennium the Land Board has awarded \$56.8 million, which is available to political subdivisions as soon as qualifying projects are completed.

Regular ND Dept. of Transportation Road Program

Total Appropriated/Estimated 2011-13 Biennium	Expenditures through Oct. 31, 2011	Remaining 2011-13 Biennium
\$ 295,138,000	\$ 119,737,487	\$ 175,400,513

The state Department of Transportation's (DOT) Transportation Improvement Program provides for \$295.1 million in regular state, local and federal funds for oil producing counties in the 2011-13 biennium. Through Oct. 31, 2011, \$119.7 million has been spent on regular road projects in oil-producing counties, with \$175.4 million remaining to be expended throughout the biennium. These projects included the recently completed Super 2 design on Highway 85 between Watford City and Williston, which provides turning and passing lanes to improve safety and decrease traffic congestion. Plans are for Highway 85 to eventually become an undivided, four-lane highway between Watford City and Williston. The remaining federal aid will be used for projects on Highway 2 north of Williston, and ND Highways 5, 22, 23, 40, 50 and 1804. Additionally, a number of other roadways will get preventive maintenance treatments such as rut filling and seal coating of the surface.

Special State Highway Maintenance Program

Total Available Funds 2011-13 Biennium	Expenditures through Oct. 31, 2011	Remaining 2011-13 Biennium
\$ 228,600,000	\$ 59,842,000	\$ 168,758,000

Following Dalrymple's recommendation, the Legislature appropriated \$228.6 million to rebuild and repair state highways impacted by increased traffic due to oil and gas development. Through Oct. 31, 2011, \$59.8 million has been spent, leaving \$168.8 million yet to be invested in improvement projects including:

- ND Highway 2 through Williston
- ND Highway 22 from Dickinson north to Highway 23
- ND Highway 23 east and west of New Town
- ND Highway 8 north and south of Stanley
- Other state highway projects in oil-producing counties.

A truck-reliever route is planned for Williston, with additional routes under consideration for Dickinson, Alexander, New Town and Watford City. Construction of a temporary truck reliever route for Williston is expected to be completed by July 2012. The construction costs for all of the truck reliever routes will likely require a combination of regular DOT funds and special State Highway Maintenance funding.

County and Township Road Reconstruction Program

Total Appropriated/Estimated 2011-13 Biennium	Expenditures through Oct. 31, 2011	Remaining 2011-13 Biennium
\$ 142,000,000	\$ 19,527,214	\$ 122,472,786

In addition to investments in state highways, \$142.0 million in state general fund dollars were appropriated for reconstruction and repair projects on county and township roads within the state's oil and gas counties. The funding was based on a study conducted by the Upper Great Plains Transportation Institute. The study is a 20-year strategic plan that is regularly updated to prioritize road improvements in oil and gas counties. Through Oct. 31, 2011, \$19.5 million has been expended by counties and townships, leaving \$122.5 million yet to be used on projects for both paved and unpaved roads.

Western Area Water Supply Project

Total Appropriated/Estimated 2011-13 Biennium	Expenditures through Oct. 31, 2011	Remaining 2011-13 Biennium
\$ 110,000,000	\$ 5,853,708	\$ 104,146,292

The state of North Dakota has committed \$110 million to the Western Area Water Supply Authority. The water supply system will transfer water from the Missouri River to communities and

industrial users in western North Dakota. Of that funding, \$5.9 million has been expended through October 31, 2011, which leaves \$104.1 million to advance the project throughout the rest of the biennium.

Southwest Water Pipeline Project

Total Appropriated/Estimated 2011-13 Biennium	Expenditures through Oct. 31, 2011	Remaining 2011-13 Biennium
\$ 22,369,199	\$ 1,058,409	\$ 21,310,790

The Southwest Pipeline project currently provides water to 28 communities, about 4,000 rural customers, and more than 30 businesses and industrial customers in southwestern North Dakota. When completed, the project will also serve the cities of Hazen, Stanton, Center and Zap. Other users will include more than 1,000 additional rural users and industrial customers. The State Water Commission has allocated \$22.4 million in funding for the 2011-13 biennium. Through Oct. 31, 2011, \$1.1 million has been expended on the project, leaving \$21.3 million to be used to advance the project through the rest of the 2011-13 biennium. Federal funds totaling \$10 million also have been allocated to advance the project during the 2011-13 biennium.

Housing Incentive Fund

Total Appropriated/Estimated 2011-13 Biennium	Committed through Oct. 31, 2011	Remaining 2011-13 Biennium
\$ 13,500,000	\$ 464,000	\$ 13,036,000

Following Dalrymple's recommendation, the 2011 Legislative Assembly expanded the Housing Incentive Fund (HIF) to provide for \$15 million in tax credits for the development of low-income housing during the 2011-13 biennium. Ninety percent of the fund, or \$13.5 million, is targeted to projects in the 17 oil producing counties and federal disaster areas. The Housing Finance Agency has issued two conditional commitments for allocations under the HIF program totaling \$464,000.

Federal Low-Income Housing Tax Credits

Total Appropriated/ Estimated 2011-13	Committed through Oct. 31, 2011	Remaining 2011-13 Biennium
\$ 3,415,184	\$ 2,364,842	\$ 1,050,342

In 2011, The Housing Finance Agency committed \$1,764,876 in federal low-income housing tax credits to projects in Dickinson, Minot and Williston for the construction or rehabilitation of 178 units serving low income or elderly citizens. The agency has committed another \$599,966 to develop a 30-unit housing project in Minot next year, leaving \$1,050,342 in credits still available. In the past five years, \$5,368,789 in tax credits have been allocated in oil-producing counties to facilitate the building of 394 housing units, which are limited to incomes of 60 percent of area median income or less.

North Dakota's Economic Progress 2000-2010

Created 47,900 Net New Jobs (Source: Job Service North Dakota, Labor Market Information Center, CES Unit <http://www.ndworkforceintelligence.com>)

In 2010 North Dakota had 375,600 jobs; an increase of 47,900 from 2000 when ND had 327,700. An increase of 14.6%.

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Average Annual Employment	327,700	329,700	329,800	332,600	337,900	344,700	352,200	358,400	367,300	366,700	375,600
Change		2,000	100	2,800	5,300	6,800	7,500	6,200	8,900	-600	8,900

Nationally, in 2010 there were 129,819,000 jobs; a decrease of 1,966,000 from 2000 when there were 131,785,000 jobs. A decrease of 1.49%. (source: Bureau of Labor and Statistics <http://www.bls.gov/ces/home.htm>)

Average Wages have increased \$13,444 (Source: Job Service North Dakota, Labor Market Information Center, QCEW Unit <http://www.ndworkforceintelligence.com>)

The average wage in 2010 was \$38,127; an increase of \$13,444 since 2000 when the average wage was \$24,683. An increase of 54.47%.

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Average Annual Wage	\$24,683	\$25,707	\$26,550	\$27,629	\$28,987	\$29,955	\$31,316	\$33,086	\$35,075	\$35,970	\$38,127
Change		\$ 1,024	\$ 843	\$ 1,079	\$ 1,358	\$ 968	\$ 1,361	\$1,770	\$1,989	\$895	\$2,157
US Average Annual Wage	\$35,323	\$36,219	\$36,764	\$37,765	\$39,354	\$40,677	\$42,535	\$44,458	\$45,563	\$45,559	\$46,742
Percent of U.S. Average	69.88%	70.98%	72.22%	73.16%	73.66%	73.64%	73.62%	74.42%	76.98%	78.97%	81.57%
Rank among U.S. States	49	48	48	47	47	47	47	47	45	45	40

Nationally, in 2010 the average wage was \$46,742; an increase of \$11,419 since 2000 when the average wage was \$35,323. An increase of 32.33%. (source: Bureau of Labor Statistics <http://www.bls.gov/cew/home.htm>)

Per capita personal income has increased over \$17,000 (source: Bureau of Economic Analysis <http://www.bea.gov/bea/regional/spi/>)

The per capita personal income in 2010 was \$42,764; an increase of \$17,172 since 2000 when the per capita personal income was \$25,592. An increase of 67.1%. This brings North Dakota to 107.0% of the national average.

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Per capita personal income	\$25,592	\$26,574	\$27,161	\$29,468	\$29,925	\$31,795	\$32,914	\$36,208	\$40,903	\$39,644	\$42,764
Change	\$ 2,122	\$ 982	\$ 587	\$ 2,307	\$ 457	\$ 1,870	\$ 1,119	\$ 3,294	\$ 4,695	- \$1,259	\$ 3,120
Percent of U.S. Average	84.4%	85.3%	86.3%	91.3%	88.3%	89.7%	87.3%	91.2%	99.9%	102.0%	107.0%
Rank among U.S. States	38	38	38	34	38	36	38	27	17	17	11

Nationally, in 2010 the per capita personal income was \$39,945; an increase of \$9,626 since 2000 when the per capita personal income was \$30,319. An increase of 31.8%.

North Dakota's Economic Progress 2000-2010

Gross Domestic Product has grown by 90% (source: Bureau of Economic Analysis <http://www.bea.gov/regional/gsp/>)

North Dakota's gross domestic product by state in 2010 was \$34.685 billion; an increase of \$16.435 billion since 2000 when the gross domestic product by state was \$18.250 billion, which equates to a 90% increase. **Since 2000, ND's economy has averaged an annual growth rate of 6.68%.**

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Gross Domestic Product (millions of current dollars)	\$18,250	\$19,105	\$20,420	\$22,309	\$23,335	\$24,672	\$26,068	\$28,552	\$31,677	\$31,626	\$34,685
Change		\$855	\$1,315	\$1,889	\$1,026	\$1,337	\$1,396	\$2,484	\$3,125	(\$51)	\$3,059
Annual Growth Rate		4.68%	6.88%	9.25%	4.60%	5.73%	5.66%	9.53%	10.94%	(0.16%)	9.67%

Nationally, the gross domestic product in 2010 was \$ 14,660.4 billion; an increase of \$4,708.9 billion since 2000 when the gross domestic product was \$9,951.5 billion, which equates to a 47.3% increase. Since 2000, the national economy has averaged an annual growth rate of 3.98%.

Exports have grown by 303% (source: Foreign Trade Division, U.S. Census Bureau. (<http://tse.export.gov/>))

North Dakota had \$2,521.809 million worth of exports in 2010; an increase of \$1,895.893 million since 2000 when the total value of exports was \$625.917 million. An increase of 303%.

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Value of Merchandise Exports (millions of current dollars)	\$625.9	\$806.1	\$860.3	\$852.5	\$1,013.4	\$1,191.7	\$1,519.6	\$2,046.7	\$2,772.2	\$2,193.0	\$2,521.8
Change		\$180.2	\$54.2	(\$7.8)	\$160.9	\$178.38	\$327.9	\$527.0	\$725.6	(\$579.2)	\$328.8
Annual Growth Rate		28.79%	6.72%	-0.91%	18.88%	17.60%	27.52%	34.68%	35.45%	-20.89%	14.99%

The nation as a whole exported \$1,277,503.931 million in 2010; an increase of \$495,586.264 million since 2000 when the value of exports was \$781,917.667 million. An increase of 63.38%.

Population has grown by 30,000 (source: U.S. Census Bureau, U.S. Department of Commerce (<http://2010.census.gov/2010census/>))

North Dakota had a population of 672,591 in 2010; an increase of 30,391 since 2000 when the total population was 642,000. An increase of 4.7%.

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Population	642,200	639,062	638,168	638,817	644,705	646,089	649,422	652,822	657,569	664,968	672,591
Change		(3,138)	(894)	649	5,888	1,384	3,339	3,400	4,747	7,399	7,623

The nation as a whole had a population of 308,745,538 in 2010; an increase of 27,323,632 since 2000 when the population was 281,421,906. An increase of 9.7%.