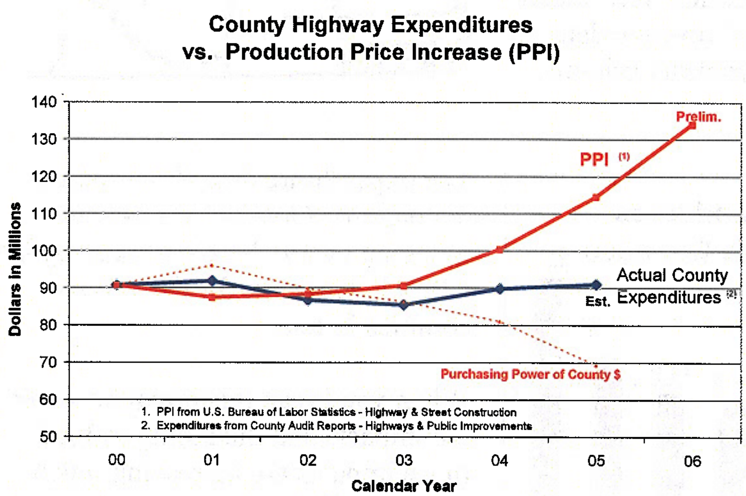
Testimony To
THE INTERIM TAXATION COMMITTEE
Prepared Tuesday, September 4, 2007 by
Terry Traynor – Assistant Director
North Dakota Association of Counties

REGARDING COUNTY ROAD COSTS – OIL COUNTIES

Chairman Stenehjem and members of the Taxation Committee, thank you for your request to provide information regarding county road construction and improvement costs, particularly as they relate to those counties facing oil impacts.

As background, it must be noted that these costs are increasing at a rapid pace for all counties, indeed for all road authorities across the nation. For the Legislative Session, NDACo prepared the chart below to contrast county road expenditures statewide with the Production Price Index (PPI) for highway and street construction.



As this chart so clearly shows, road costs in general have increased by 50% in the last three years, while county resources on a statewide basis have been largely stagnant.

Obviously, this translates into less reconstruction, less maintenance, and further deterioration of the roadways.

The Federal Highway Administration (FHWA) and the American Association of State Highway and Transportation Officials (AASHTO) jointly conducted a survey of cost increases in April of 2006. In summary, the data correlates with the Dept. of Labor statistics, showing dramatic increases in construction contract costs as well as the individual material components – again on a nationwide basis.

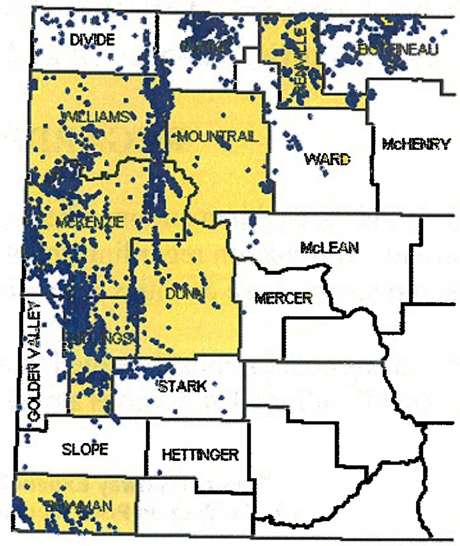
Annual Increase - Construction Contracts Nationwide			
Year / State	2003	2004	2005
Average	5.80%	12.70%	17.10%
Component Cost Increase - Contract Bids - Last 3 Years			
Earthwork	Asphalt	PCC	Steel
26.60%	17.10%	21.00%	24.20%

Source: www.fhwa.dot.gov

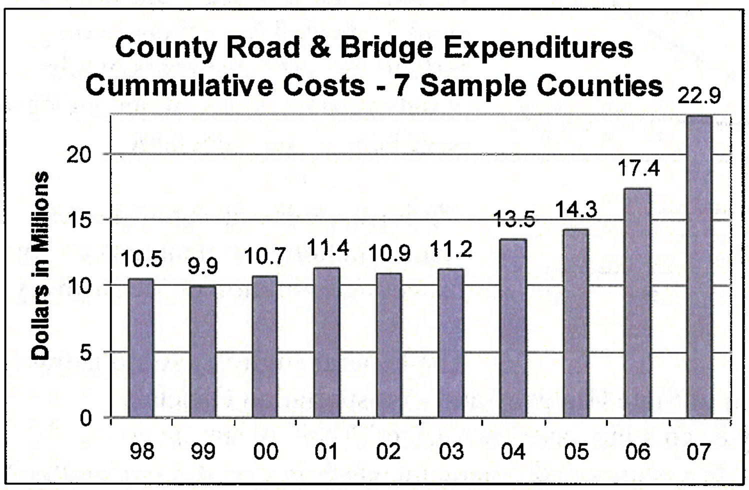
North Dakota counties, as a whole, are clearly falling further behind in their efforts to improve, and even maintain our secondary road system. The interim Transportation Committee is looking at this issue from a systemwide perspective, and the Upper Great Plains Transportation Institute is conducting a special study directed at generating public involvement in issues related to transportation infrastructure and personal mobility. We are hopeful these efforts will generate support for the needed revenues to restore our transportation infrastructure.

Your Committee, Mr. Chairman, however asked our Association to gather information that specifically relates to the road construction and maintenance costs of those North Dakota counties impacted by oil development.

Understandably, these counties are facing the nationwide cost trends with the added pressure of dramatically increased competition from the oil industry for labor, materials, equipment, and other resources; as well as the profound effects of the development and production traffic on the roadways. This "perfect storm" of impacts is hitting each "oil county" a bit differently, as they are all in slightly different phases and degrees of development, but each is clearly impacted.



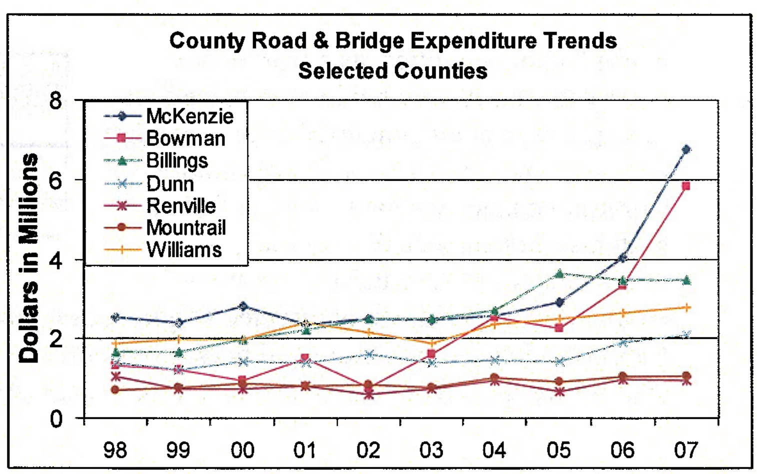
The map shows the North Dakota oil fields and the counties involved. The highlighted counties were asked to provide detailed road expenditure and revenue data, as well as information regarding bid and contract pricing over the last ten years.



The expenditure data shows part of the picture. Obviously, costs are going up everywhere – increasing by 120% in ten years for the seven counties in total.

When you break this down however, the impacts and the ability to fund those impacts are increasing much more rapidly in those counties with production revenue. McKenzie's costs have increased by 166%, while Bowman's have gone up a staggering 344%.

For those counties with emerging and more recent growth in development, the problem is complicated by the timing. They are seeing the road damage of development, but have yet to experience the proportional increase in the benefits of production. Dunn and Mountrail are examples of expenditures increasing at a slower rate largely because of the lack of revenue to adequately address the needs of development.



As noted earlier, the skyrocketing expenditures have several components – one of which is the larger than the national average increases in costs resulting from local competition for resources. All of the sample counties could provide anecdotal data regarding the escalation in costs, but Bowman County had the most detailed historical information. This has been reproduced below.

COST COMPARISON FOR VARIOUS ITEMS IN ROAD CONSTRUCTION
BOWMAN COUNTY
CONSTRUCTION MATERIALS AND SERVICES

YEAR	OIL FOR CHIP SEAL
1999	$167 PER TON
2004	$225 PER TON
2007	$262 PER TON

56% Increase in 8 years

YEAR	COMMON EXCAVATION
1999	$0.64 PER CUBIC YARD
2001	0.72 PER CUBIC YARD
2004	$0.95 PERCUBIC YARD
2006	1.47 PER CUBIC YARD
2007	$1.25 PER CUBIC YARD

95% Increase in 8 years

YEAR	GRAVEL CRUSHING
1999	$1.82 PER CUBIC YARD
2002	$2.30 PER CUBIC YARD
2005	$2.95 PER CUBIC YARD
2007	$3.85 PER CUBIC YARD

112% Increase in 8 years

YEAR	AGGREGATE FOR CHIP SEAL
1998	$12.30 PER C;UBIC YARD
2002	$16.80 PER CUBIC YARD
2006	$21.00 PER CUBIC YARD
2007	$29.25 PER CUBIC YARD

138% Increase in 9 years

When examining the funding sources available to address these escalating costs, it becomes clear that oil & gas tax revenue is critical to the ability of counties to address their increasing road maintenance needs. While property taxes levied to support county roads have increased in the region by about 4% per year, this minimal growth has done little to address cost increases of 3 to 8 times that annual rate.

Oil production has helped some counties in their federal payments-in-lieu of taxes, but the key slice of the funding pie has been State imposed oil & gas taxes. The individual counties impacted by this industry can certainly give you much more detailed information, but I hope this was helpful in painting a picture of the increasing needs of these counties.