NORTH Dakota | Water Resources
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Neutral Testimony
HB 1577
Senate Energy & Natural Resources
April 3, 2025

TESTIMONY OF
Reice Haase, Director, Department of Water Resources

Chairman Patten, and members of the Senate Energy and Natural Resources Committee – I am Reice Haase, Director of the Department of Water Resources (DWR) and Secretary to the State Water Commission (SWC). I am here today to provide neutral testimony related to Re-engrossed House Bill (HB) 1577 – which pertains to the development of a wastewater infrastructure grant program through the Department of Environmental Quality (DEQ). The general purpose of my testimony is to provide background information to the committee concerning DWR and SWC's Cost-Share Program, its history, and eligibility criteria as it relates to various types of infrastructure – including wastewater.

State Water Commission Cost-Share Program

The State Water Commission was created in 1937 for the specific purpose of fostering and promoting water resources development throughout the state. In particular, the state's original efforts to financially support water development were focused on irrigation works. That then set the foundation for the Commission to continue support of water supply infrastructure over the last several decades. Today, the DWR and SWC serve as the state's primary mechanism to financially support water supply, flood protection, and other general water management efforts.

In terms of water supply specifically, through DWR's Cost-Share Program, municipalities are eligible for up to 60 percent cost-share, while rural and large-scale regional systems are eligible for up to 75 percent cost-share. For other general water management and flood protection works, local project sponsors are eligible for cost-share ranging from 40 percent to 80 percent – depending on project type. The state's primary revenue source to provide cost-share is the Resources Trust Fund (RTF), which is supported by 20.5 percent of North Dakota's Oil Extraction Tax.

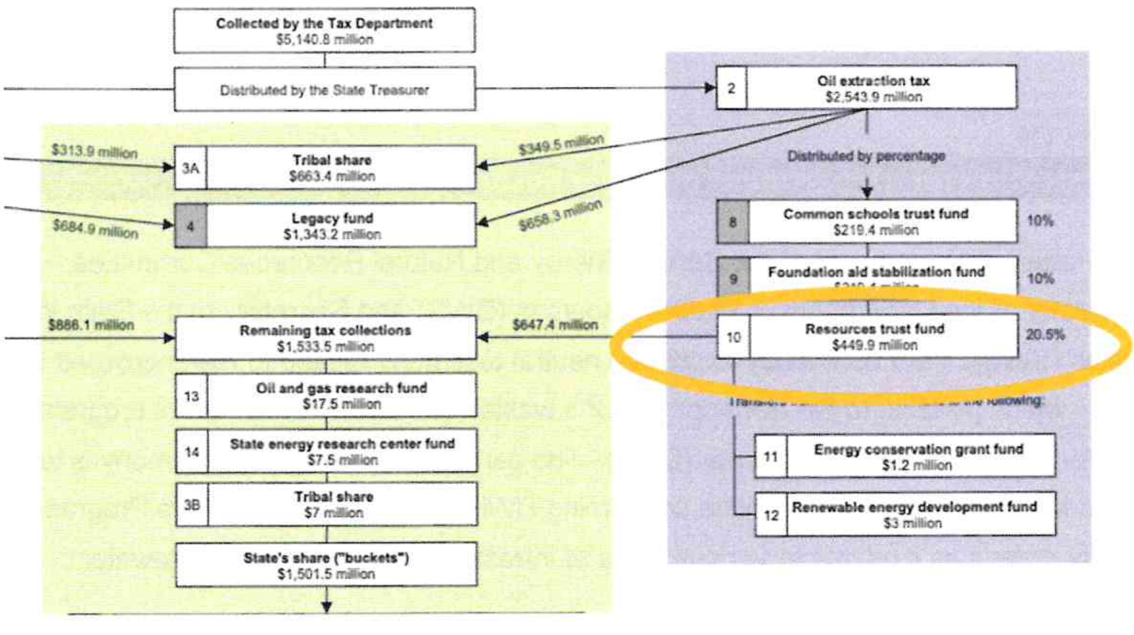

Figure 1: DWR cost-share funding from 20.5% of the State's oil extraction tax revenue

COST-SHARE PERCENTAGES

DWR shares in the costs of eligible projects at different percentages, depending on project type.

40%	Recreation
45%	Rural Flood Control
50%	Snagging & Clearing
50%	Bank Stabilizations
60%	FEMA Levee Accreditation
60%	Flood Control
60%	Municipal Water Supply
60%	Dam Repairs, Removals, & Retention
75%	Irrigation
75%	Rural Water & Regionalizations
75%	Low Head Dam Roller Mitigation
80%	Emergency Dam Action Plans

Figure 2: Cost-share percentages by project type

Wastewater Funding Under DEQ

Please note, at no time in DWR's history has wastewater infrastructure been eligible for assistance through the agency's Cost-Share Program. Instead, state support of wastewater projects has primarily fallen under the Clean Water State Revolving Fund (CWSRF) Program, which is jointly administered by DEQ and Public Finance Authority (PFA). Funding for the CWSRF is authorized under the federal Clean Water Act, which is then awarded to states through the Environmental Protection Agency (EPA). CWSRF involves low interest loans instead of grants, which is where the purpose of HB 1577 would then help to fulfill a granting role at the state level through DEQ.

State Water Commission Funding Shortfalls

With regard to DWR's ability to support wastewater from a financial perspective – should that be considered, we thought it important to outline budget shortfall projections the agency anticipates under various revenue scenarios, and in consideration of currently eligible project types. Over the course of the next seven biennia, or 14 years, DWR estimates project sponsors could need approximately $3.4 billion is state support – under current Cost-Share Program eligibility criteria (which does not include wastewater or stormwater infrastructure). Most recent revenue projections suggest that future RTF revenues will range between $300 million and $400 million per biennium. At those levels, we would then anticipate funding shortfalls of between $621 million and $1.3 billion – again, under current Cost-Share Program eligibility criteria (see Figure 3).

Oil Extraction Tax Exemptions

As oil and gas wells age, production decreases, following a typical decline curve. NDCC 57-51.1-03 provides for an exemption from oil extraction tax when a well's production falls below an average of 35 barrels per day for 12 months. Such wells are known as "stripper wells". Since RTF dollars originate only from oil extraction taxes, future RTF revenues are expected to decline at a faster rate than the rest of the state budget due to the stripper well exemption. Should wastewater (and/or stormwater) projects be added to eligible projects accessing RTF revenues, shortfalls would increase dramatically.

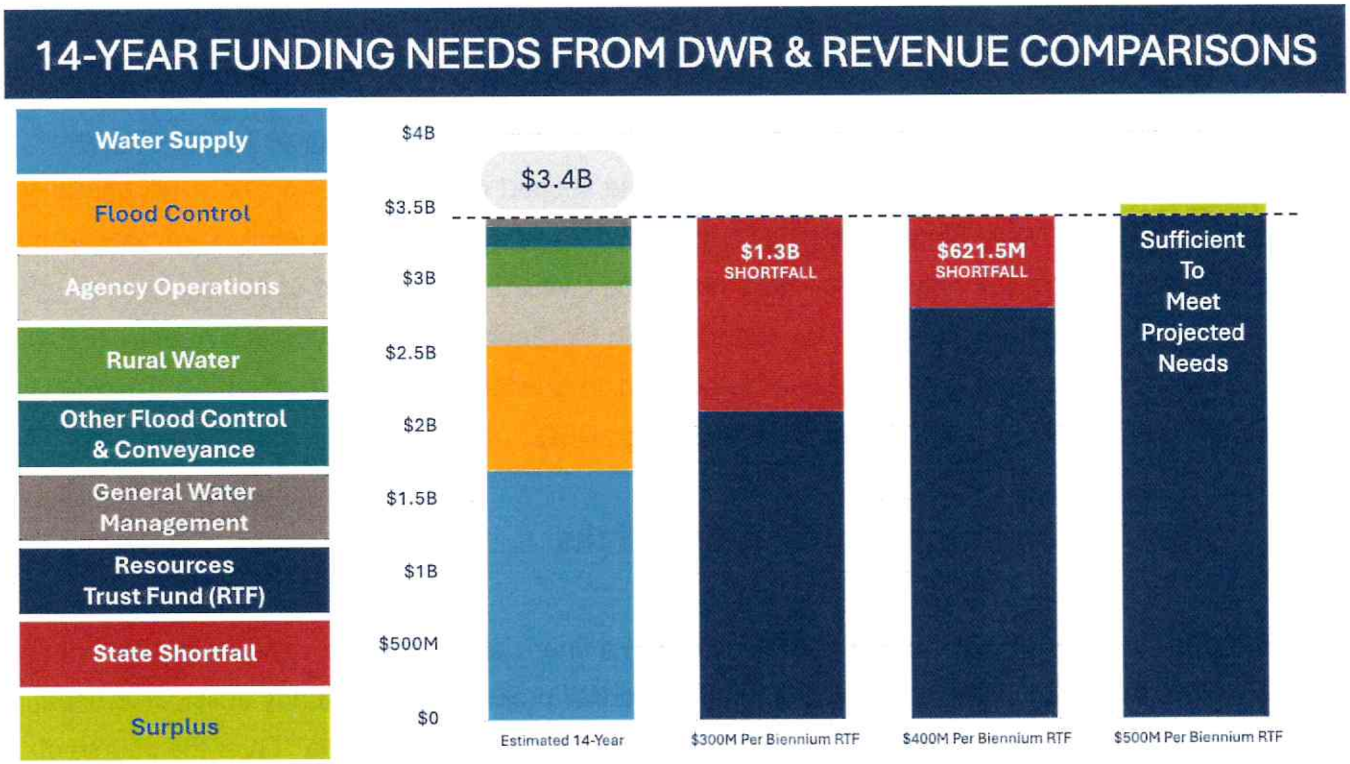

Figure 3: Revenues are not expected to cover total funding needs over the next 14 years

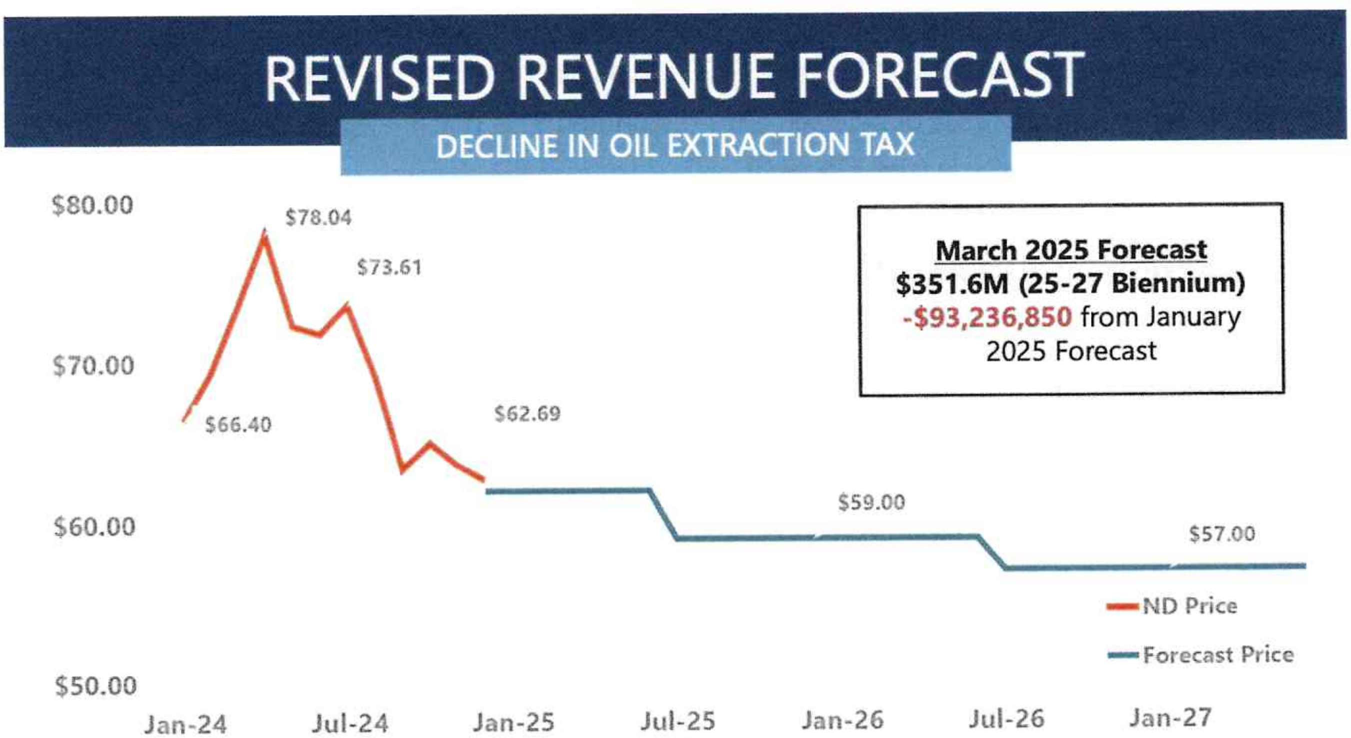

Figure 4: Resources Trust Fund revenues are expected to decline by $93 million from the January 2025 forecast, due in part due to a lower oil price and additional stripper well exemptions

EFFECTIVE EXTRACTION TAX RATE ADJUSTED FOR STRIPPER WELL EXEMPTIONS

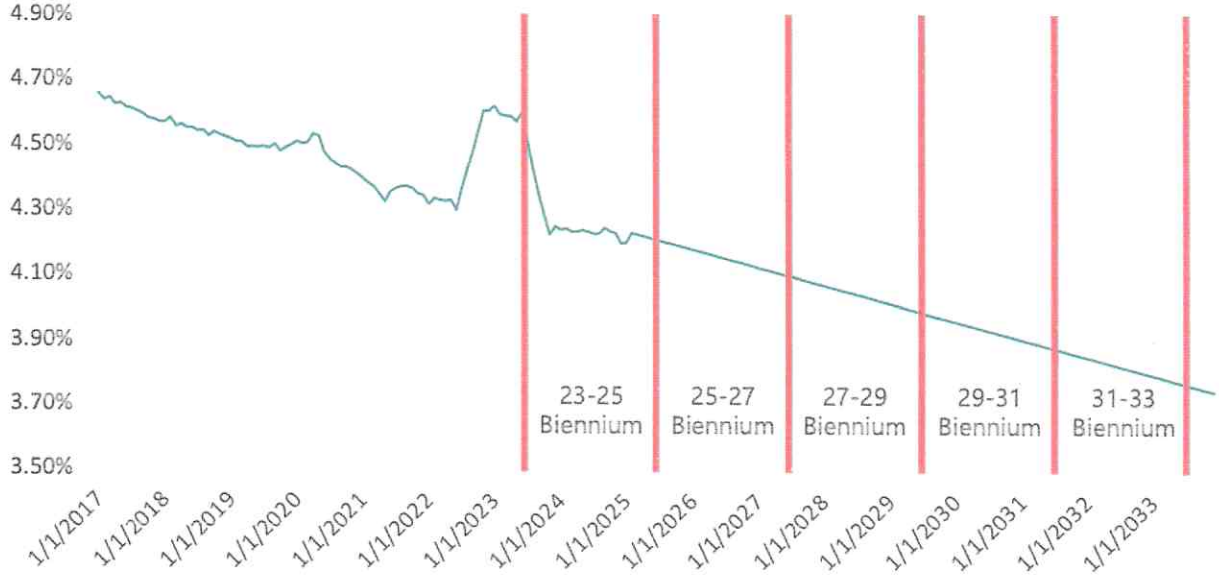

Figure 5: Effective Extraction Tax Rate, Adjusted for New Stripper Well Exemptions, Continues to Decline, leading to future decreases in Resources Trust Fund Revenues