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## **MQEC – Energy Impacts on School Districts in the Bakken**

On December 17 and 18, 2014, MQEC Executive Director Dianne Burke traveled to NE Montana to view firsthand the impacts of energy development on area school districts. This trip was a follow-up to discussion at the November, 2014 MQEC board meeting where the board discussed the exceptional circumstances affections districts in that part of the state. In addition to attending a regional meeting of oil and gas-impacted districts, Burke met individually with Larry Crowder (Culbertson), Renee Rasmussen (Bainville), Daniel Farr (Sidney), Luke Kloker (Fairview), Lynne Peterson (Savage), and Ross Farber (Glendive). Conversations with area superintendents centered on the following impacts that are unique to the region:

### **Recruitment and Retention**

**Housing cost and availability** – Housing is a significant problem for all districts I visited. Candidates will often not consider a position in the area unless affordable housing is available, and a ‘no’ answer effectively ends an interview. Many districts have taken action to purchase land, purchase and set up modular housing, build traditional stick housing (stand-alone and duplex), and/or lease rental property on behalf of district employees. Most of these purchases are made with cash from oil & gas receipts and a few involve short-term loans.

Taking these steps allows districts to hire new employees, but they also complicate relationships with existing employees. Not all employees directly benefit from district housing, and many believe that the substantial housing expenditures should instead be applied toward employee salaries. Several superintendents expect this to be an issue in upcoming contract negotiations.

**Cost of living** – The Richland Economic Development Corp (<http://www.richlandeconomicdevelopment.com/cost-of-living-analysis/>) has compiled detailed information on the price of housing, food, and ‘lifestyle’ elements (medical visits, dry cleaning, haircuts) comparing prices in Sidney, Williston, and Bismarck to Denver, Billings, and Bozeman. There is variation but many items in Sidney are comparable or higher in cost to prices in Billings. Recent ads for a 3 bedroom apartment show a monthly rental in Billings at \$1400 and a monthly rental in Sidney at \$2450. It would be useful to compare these items to pre-energy costs in the area to help further determine impacts.

Many districts provide an impact differential to certified and classified employees, ranging from an annual payment (\$3,000 for certified staff in Sidney) to hourly increases of \$1-\$2.50 for classified staff. Impact stipend payments are not tied to salary schedules and there is no annual guarantee of payment to employees as stipends are dependent on oil and gas revenue received. Activity bus drivers are paid upward of \$18/hour and paid time includes driving as well as wait time. Route drivers are paid \$24/hour in some districts, and a flat rate of \$95/route is the starting structure in one area. These costs are paid from oil & gas receipts. In some cases the entire salary for a certified employee are paid from oil & gas funds.

## **Facilities and Crowding**

Student numbers have increased in districts close to development areas. Some districts have sufficient capacity to absorb additional students, but others are at their maximum. Construction costs are estimated at \$300/sq. ft. and an 800 sq. ft. classroom would run \$240,000. Availability of construction crews is a consideration as local tradespeople are frequently unavailable. Frontier Elementary school had to wait a month to repair a sewer problem where backups occurred twice a week. The plumber who eventually corrected the problem did not have any assistants and picked up 2 hitchhikers on the way to the school to help with plumbing tasks. (The repairs were conducted on a weekend.)

Bonding capacity, even if increased to 100% of taxable value, is often not sufficient to construct sufficient classroom space. Superintendents are pessimistic that bond elections in any amount will pass, citing that many home- and landowners already pay significant taxes for energy production and would probably be unwilling to increase their tax burden.

## **Downturn in oil prices**

About 5% of the 180 drilling rigs in the Bakken are active in the state of Montana, so the majority of activity takes place in North Dakota (Eggelston, 2014). The price of Bakken crude has dropped significantly in recent months and major companies have announced 20% decreases in exploration/drilling budgets for 2015 (Aasand, 2014 and Alford, 2014a). Over 8,000 wells are presently in production in the North Dakota Bakken, and average production is over 1 million barrels/day or 125 barrels/well/day (North Dakota Department of Mineral Resources, 2014). Montana Bakken production is about 25% of that in North Dakota, producing approximately 64,000 barrels/day from 2000 wells or 32 barrels/well/day (Montana Department of Natural Resources, 2014).

Industry analysts predict that U.S. light crude oil prices in 2015 will likely fluctuate between \$50 and \$70/barrel (Conerly, 2014 and Samanta & Vedala, 2014). Industry executives suggest that as long as oil prices remain above \$40/barrel, production will continue even if at a slower rate (Alford, 2014b). However, a study commissioned by the North Dakota Legislature indicates that Bakken crude profitability is more closely aligned with initial production rates on a per well basis. Higher volume wells (initial production over 1,000 barrels/day) can be profitable at prices of \$30/barrel where mid-volume wells (initial production of 500 barrels/day) require \$70/barrel to be profitable (KLJ Engineering, 2014).

## **Preliminary Plan of Action**

Districts proposed the following action items for the legislative session:

1. Remove Section 9(5)(a) in SB 175, which requires that "...the trustees shall budget in the general fund an amount of oil and natural gas production taxes equal to the lesser of 25% of the total oil and natural gas production taxes received by the district in the prior year or the general fund levy requirement..."
2. Modify Section 9(1) in SB 175 to permit districts to retain 150% of their maximum budget, up from the current 130%.
3. Address extremely restrictive OPI licensure requirements for out-of-state and in-state educators. For example, a teacher with a 5-12 endorsement who wants to teach in lower grades is now required to student teach, and military and workforce experience should count toward licensing requirements.
4. Retain a version of concentric circle language and distribution for the FY17 biennium.

## Supplemental Reading

Billings Gazette – Oil may boom, but infrastructure is busting Montana oil, gas counties:

[http://billingsgazette.com/news/state-and-regional/montana/oil-may-boom-but-infrastructure-is-busting-montana-oil-gas/article\\_2da7780d-773d-57dd-8b26-4bc6a55f2622.html#ixzz3MgzoxVNu](http://billingsgazette.com/news/state-and-regional/montana/oil-may-boom-but-infrastructure-is-busting-montana-oil-gas/article_2da7780d-773d-57dd-8b26-4bc6a55f2622.html#ixzz3MgzoxVNu)

National Geographic – Bakken Oil Boom Brings Growing Pains to Small Montana Town:

<http://news.nationalgeographic.com/news/special-features/energy/2014/07/140709-montana-oil-boom-bakken-shale/>

Richland Economic Development Corp – Cost of Living - Groceries:

<http://www.richlandeconomicdevelopment.com/storage/cost-of-living/Cost%20of%20living%20groceries.pdf>

Richland Economic Development Corp – Cost of Living – Lifestyle:

<http://www.richlandeconomicdevelopment.com/storage/cost-of-living/Cost%20of%20living%20lifestyle.pdf>

Sidney Herald – Sidney’s cost of living comparable to big cities: [http://www.sidneyherald.com/news/sidney-s-cost-of-living-comparable-to-big-cities/article\\_3f62e680-24bf-11e4-aa38-0019bb2963f4.html?mode=print](http://www.sidneyherald.com/news/sidney-s-cost-of-living-comparable-to-big-cities/article_3f62e680-24bf-11e4-aa38-0019bb2963f4.html?mode=print)

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Alford, E. (2014a). *Falling Oil Prices: How Low is Too Low for Bakken Producers?* Retrieved December 22, 2014 from <http://bakkenshale.com/news/falling-oil-prices-low-low-bakken-producers/>

Alford, E. (2014b). *Bakken Operators Slash Projected Budgets*. Retrieved December 22, 2014 from <http://www.bakkendispatch.com/bakken-operators-slash-projected-budgets>

Conerly, B. (2014). *Oil Price Forecast: 2015-2015*. Forbes,

Eggelston, K. (2014). *Bakken Shale Rig Count Decreases by Three to 188*. Retrieved December 22, 2014 from <http://bakkenshale.com/drilling-rig-count/>

KLJ Engineering. (2014). *2014-2019: North Dakota Oil and Gas Industry Impacts Study*. [http://kljeng.com/wp-content/uploads/2014/09/Oil-and-Gas-Study\\_with-Appendices\\_Printable\\_Version4.pdf](http://kljeng.com/wp-content/uploads/2014/09/Oil-and-Gas-Study_with-Appendices_Printable_Version4.pdf)

Montana Department of Natural Resources. (2014). *Montana Board of Oil and Gas Conservation Online Information System*. Retrieved December 22, 2014 from <http://www.bogc.dnrc.mt.gov/WebApps/DataMiner/Production/ProductionMonthlyByCounty.aspx>

North Dakota Department of Mineral Resources. (2014). *North Dakota Monthly Bakken Oil Statistics*. Retrieved December 22, 2014 from <https://www.dmr.nd.gov/oilgas/stats/historicalbakkenoilstats.pdf>

Samanta, K. and Vedala, V. (2014). *Oil prices likely to rebound in second half of 2015: Reuters poll*. Retrieved December 22, 2014 from <http://www.reuters.com/article/2014/12/22/us-oil-prices-idUSKBN0K00W320141222>.