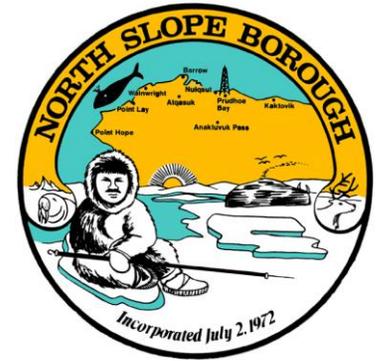


NORTH SLOPE BOROUGH
Office of the Mayor
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HARRY K. BROWER, JR., MAYOR

Members of the North Slope Borough Assembly
Utqiagvik, Alaska

March 15, 2021

In accordance with the North Slope Borough municipal charter provisions, I am pleased to present the Mayor's Fiscal Year 2021-2022 Annual Budget Document for the Assembly's consideration. This operating budget is balanced as required by law, and plans expenditures to equal estimated revenues of \$408,776,329. This will support NSB's services at approximately the same level as prior year.

The foundation of the NSB's budget is based on estimated local and oil & gas property tax revenues. Alaska State Statute AS 29.45.080 imposes a tax cap formula to determine the maximum allowable tax a municipality may levy and collect on oil / gas production and pipeline properties. Accordingly, the Administration & Finance director has calculated revenues of \$383,187,000, resulting in a very minor reduction of \$3,598,000 property tax revenue from prior year's original budget (FY 2020-2021) revenues. The applicable portions allocated for Operations & Maintenance (O & M) are \$309,291,372 and the balance for debt service payments of \$73,895,628. We have also included other estimated revenues of \$25,589,329, which are derived from expected charges for services, projected investment income, and from known Federal and State grant resources.

We anticipate bringing to the Assembly's consideration another appropriation in September to true-up all property valuation assessments once those rolls are completed. This is required because the Mayor introduces his operating plans to the Assembly as required by NSB Municipal Code 3.11.010 by March 15, 2021 – hence the estimates and/or forecasts are considered when the Mayor presents his operating plans for the March 23, 24 and 25 workshops and Assembly action.

This year's budget took into consideration \$21.3 billion valuations in taxable oil and gas properties, local real estate, and equipment property. We have factored a proposed mill rate of 17.99 and taken into consideration a statute-imposed tax cap computation that determines the maximum operating budget allowed, and the remaining portion to pay down capital debt. The mill rate selected determined the applicable multiplier of 375%, per statute. Another tax cap variable used was the 2020 population of the North Slope Borough. The tax

cap computation resulted in a maximum operating budget of \$333,178,322, however the NSB can only apply \$309,291,372 for operations because the debt service requirement of \$73,895,628 must be first considered.

Because O & M revenues are lower for FY22, the operating departments have prepared their departmental budgets with a 5% reduction from last year's appropriation levels. Some departments were able to meet this objective, but there were other departments which could not attain the reduction because of costs beyond their control. We also instructed the two educational bodies to lower their expectations of local revenue support from the North Slope Borough. When we true-up our property tax revenues in September, we will consider all funding shortfalls during the supplemental appropriation.

Looking back two years, we have forestalled a serious legislative threat to our taxing authority in Senate Bill 257 and House Bill 59, which expired without floor votes. I will continue to affirm and defend the self-determination and sustainability of the NSB's Home-Rule government so that the NSB may continue to provide services that its residents deserve. As mayor, I shall always defend the NSB's constitutional authority of Home Rule governance.

My administration has worked collectively with our department directors, deputy directors, division managers, and the NSB Assembly budget committee to implement this budget for the upcoming fiscal year. We will continue to align our resources with the needs of our people in maintaining and improving the NSB's services.

In the next section are some of my proposed initiatives that I call to your attention. A summary of my proposed initiatives will be discussed during the budget presentation.

Oil and Gas Activities

This budget assumes the oil & gas sector generates \$21.3 billion in assessed valuations. This value is an estimate, as the certified assessment roll is not finalized by the State of Alaska until the last day of May 2021. Compared to last year's budget estimate, the oil and gas sector assessed value is lower by \$200 million. The pandemic certainly had a slight impact on the sector in 2020, but not all industry taxpayers have been adversely affected. As you know, last year's exploration drilling program was cut short, and most of the development drilling activity was curtailed in April 2020. It should come as no surprise that the largest impact on valuations has been on the oil and gas service industry, those companies that provide the rigs, drilling personnel, camps and other support services. When rigs are not drilling, oil production declines, and the assessed value of the production facilities, wells and cross-country pipelines decline. In April 2020, low oil prices resulted in ConocoPhillips curtailing 100,000 barrels per day of production from the two fields it operates, Kuparuk and Colville River (Alpine), for over a month. The resulting production drop impacted the assessed value at those fields.

There were some bright spots, however. Hilcorp continued to add production and investments at the Milne Point field, significantly increasing the valuation there. Exxon resolved equipment issues at the Point Thomson Unit, resulting in the highest production ever for that field.

The net result was a reduction in value of only \$150 million, testimony to the resiliency of the North Slope operators, who realize the expanding opportunities for oil development and take a long-term approach to investment. The pandemic appears to be under control, and oil prices are now at pre-pandemic levels (\$64 per barrel for ANS crude on Feb. 24, 2021). Drilling activity is scheduled to resume in the second half of 2021, and we expect continued strengthening in our financial base.

Economic Impact Assistance Program for Our Communities

The North Slope Borough entered into a five-year agreement in June of 2019 with oil and gas industry taxpayers, which is the Economic Impact Assistance Program (EIAP) in lieu of sales taxes. We are in year three of that agreement, and this proposed budget will distribute \$9,438,940 and retain \$500,000 per NSB Resolution (09-2020) to administer the program. This Program provides vital funding to local municipalities for their discretionary use.

School District

This budget will continue to provide the resources and investments to our schools. The recommended appropriation of \$36,828,052 reflects a 5% decline from prior year. In addition, this budget will provide \$3,100,000 in funding to the District through the Mayor's office initiative programs. The funds through initiatives are in contractual form for breakfast, school activities, vocational education, and the residential learning center programs.

Permanent Fund Investments

My commitment to investing for the future continues. I am very pleased to report to you that for the sixth consecutive year, the NSB Operating Budget is balanced without any reliance on funds from our Permanent Fund investments. Prior administrations withdrew from Permanent Fund investments and transferred to General Funds to support O & M activities, which prevented the growth of the investments needed for future generations. In the past four years, we have contributed approximately \$24.5 million to the Permanent Fund. We are committed to contributing 25% of growth in Unassigned Fund Balance and the Real Property Management Fund. The equivalent unassigned fund balance growth in FY 20/21 has triggered a calculation, based on NSB Municipal Code 3.03.030, that \$14,076,950 may be transferred into the Permanent Fund investments.

Housing Department

During the previous three years, operating expenses of the Housing Department were substantially budgeted through Mayor's Office initiatives as projects were developed and as the Department was staffed. For two consecutive years now, an operating budget for the Housing Department is presented independently as a stand-alone from other Mayor's initiatives.

Last year we planned and funded the construction of five multi-family housing units, making forty-four units of housing available to families living in multi-generational homes. This was a significant first step in addressing our housing shortages. I continue to request funding in the amount of \$3 million to complete these projects in Anaktuvuk Pass, Atkasuk, Nuiqsut, Point Lay and Point Hope. I have also recommended the additional appropriation \$2 million for our Home Loan Program to provide for new home ownership and rehabilitations of existing homes.

Debt Service Requirement

This budget includes an appropriation for debt service of \$73,895,628. This amount includes principal and interest of all current bond debt payable during the fiscal year, and also estimates principal and interest payments on anticipated new debt. Currently my administration has recommended the new bond debt issuance level to be \$100 million which is \$25 million more than last year's issuance. The annual capital projects program is currently underway with final ordinance to be presented to the assembly and public no later than June 15, 2021.

Conclusion

In light of the ever changing financial landscape, the State's fiscal limits, and legislative challenges, I will continue to work tirelessly with the Assembly to value and respect our residents, our local businesses, and our traditional forms of government to overcome common obstacles and find workable solutions. I remain committed to protecting the NSB's financial resources and I will oppose any actions that threaten our taxing authority or Home Rule governance. Together, we will hold fast to our values and continue to provide essential services.

This proposed budget represents the best efforts of the departments working together to serve our community needs with limited financial resources. I want to recognize all of the directors, deputy directors, and division managers for their time and effort in preparation of the budget that is before you. I also thank all of our employees for everything they do in providing essential services to our people. Their dedication and hard work must not be taken for granted.

In closing, I thank the Assembly for their stewardship, hard work, and for the responsible task you will undertake during the next few days in reviewing the 2021-2022 budget. Your continued energy, vision, and leadership serves us all very well.

Respectfully,


Harry K. Brower, Jr.
Mayor