

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

Members of the North Slope Borough Assembly
Barrow, Alaska

In accordance with the North Slope Borough municipal charter provisions, I am pleased to present the annual budget document for the fiscal year 2017-2018. This operating budget is balanced as required by law, and projects expenditures to equal projected operating revenues of \$376,157,285. This budget reflects a decrease in revenues of \$33,742,551 from prior year's revised budget. This decrease is mainly due to a conservative forecast of our property tax receipts associated with oil and gas assets on the North Slope given the State of Alaska current economic and legislative environment coupled with the financial pressures of the energy sector.

With the State's economic pressures and fiscal deficit, the Borough will be forced to make some tough economic and financial decisions to fulfill the gap in providing key essential services to our region and our people where previously was funded by the State. Through the guidance and leadership of my administration in our Budget Planning and the combined efforts of our Department Directors and Deputy Directors, we have been able to overcome such challenges by working together and uniting as one and aligning our resources with the needs of our people across all of our region while continuing to maintain and improve the services we provide to our people.

With that being said, few years ago through the efforts of Government Affairs and Administration and Finance led by our regions Representative Benny Nageak, the State legislatures passed Senate Bill 138 providing budget flexibility for the Borough through the amendment of our tax cap formula. With the Borough's historical mill rate of 18.5, the modifier was set at 300%, resulting in a paradigm shift where it provided a larger portion of tax dollars to operations as opposed to debt service. In this year's budget, I am proposing to reduce our mill rate to 17.99 in order for the Borough to utilize the 375% modifier which will result in increased operating capacity in order to employ my administration's initiatives that will improve the lives of our people and their well-being including improvements to our dilapidated and aging infrastructure that include entities outside of the Borough that provide meaningful and needed services for each of our respective communities.

As you may already be aware of, the foundation of our budget is built on property tax revenues and, even considering the decline in overall receipts, we continue to be blessed with stable property tax values and expect to receive approximately \$365,677,000 in funding for the coming year. This funding is primarily collected from oil and gas properties, but it also includes tax payments from local businesses and home owners. One of my key priorities and commitments since I was sworn into office has been to establish partnerships and relationship building with external organizations for economic growth and empowerment in our North Slope communities.

In this year's Budget, these are some of my proposed initiatives that I would like to call your attention to. A comprehensive summary of my proposed initiatives will be discussed during the Budget Presentation.

School District

We continue to invest strongly in our future by investing in education for all ages. In a time when the State of Alaska is struggling to meet their financial commitments, the North Slope Borough has been able to increase the local contribution to the School District by \$1,160,000. The proposed contribution of \$36,535,626 represents the highest level of local contribution funding for the school district since the formation of the North Slope Borough. The increased contribution to the School District of \$1,160,000 will go towards the Inupiaq Language Initiatives and Vacation Education with the primary focus on Shop (Mechanical and Wood) and Home Ec (Sewing and Cooking). Other focuses will be in Art and Music. The identified efforts will be carried in a form of MOU between the Borough and the School District.

Ilisagvik College

We are also able to increase the contribution to Ilisagvik College by \$750,000, which will provide training and workforce development for our residents including Borough staff which will mitigate off-slope travel expenditures. This is a vital need for our region and our people to equip them with the training and skill that will help them seek employment positions in a variety of industries.

Permanent Fund

My commitment to investing for the future continues. With the passage of SB 138, this has enabled the Borough to suspend its withdrawal from the Permanent Fund. I am very pleased to report to you that for the third budget cycle in a row, the North Slope Borough Operating Budget is balanced without any transfer from our Permanent Fund. In the last decade, the Permanent Fund transfer into the General Fund has ranged anywhere from \$16 million to \$25 million. Maintaining this newly implemented policy will allow the body of the Permanent Fund to grow to a level which will provide for future operations of the North Slope Borough long after the full decline of oil production is realized. In addition to my commitment of continuing to stay out of the Permanent Fund, I have committed to contribute \$1,000,000 into the Permanent Fund to help the fund grow.

Compensation Adjustment

This budget allows for a 3% cost of living increase for all staff. This is an organization wide increase to all employees to help our employees and their families meet the rising cost of living.

Village Consumer Cost Equalization

In my travel to all the villages, I recognize that all of our villages bear a higher cost of living that include the cost of groceries, air travel and freight and other purchases due to limited resources and available options. In order to mitigate such financial burden to our villages, I have proposed an additional 6% increase in compensation for all village based employees.

Community Drug and Alcohol Alternatives

The Drug and Alcohol epidemic that we are facing continues to hurt our people and our communities. It is my belief that our villages and our families are the strongest and most effective force to combat the use of drugs and alcohol. This is a serious crisis impacting our children and our youth and it is my commitment to work very hard with my administration to help address this predicament. As a start up, I am committing \$1,200,000 to provide financial support for community sponsored events, village mini-grants, youth programs, and other alternatives activities that provide safe and healthy environment for all residents year round in each of our communities. In addition, I have initiated a drug and alcohol task force and in the coming months they will meet and provide a recommendation to addressing such crisis including partnering with the State and identifying operational funding for an on slope detox facility. Further, we have increased our K-9 unit to 12 to mitigate drugs from entering our communities.

Village Dilapidated Infrastructure

As mentioned earlier, during my visits to the outlying villages, I noted a lot of aging and dilapidated infrastructure. I have committed \$3,000,000 to be the first round of upgrades and repairs on village facilities across all communities with special emphasis on helping city and tribal government offices to address their deferred maintenance needs. This includes organizations that are outside of the Borough that provide key essential day to day services to our communities. I understand that this is just the beginning; however this is an important step in supporting our communities and ensuring their infrastructure is safe and reliable to continue providing services to our residents.

Elder 5 Plex and Summer Food Program

As many have stated in the past, we have an obligation to look out for our elders and ensure they have a safe place to live and healthy food to eat. As part of my initiatives, I am committing \$1,000,000 to continue supporting the low-income elder 5 plexes in the villages and make nutritious food available for months when the regular elder meal program are not regularly available.

Debt Service Profile

Our required debt service payments continue to decline due to management's practice of rapid debt amortization. Required payments for FY 18 are \$73,538,640. This is primarily due to the debt restructuring and paying down our existing debt utilizing the TAPS Settlement proceeds of approximately \$43,000,000. The Borough's outstanding General Obligation debt outstanding as of July 1, 2017 will be \$253,580,000. This the lowest debt load in over 35 years. Repaying these commitments provides the Borough with additional financial security during such uncertain times. As a result, I have committed an additional \$2,000,000 to continue paying down our existing debt.

Conclusion

In light of the changing financial landscape and the State's fiscal limits, we have been able to overcome such obstacles by working together as a unit and utilizing the options available to us through SB 138 that provides us with the budget flexibility to ensure we continue delivering quality services to our people across our region.

In closing, I want to thank the Assembly for their stewardship and hard work, and for the notable task you will undertake the next few days in reviewing the 2017-2018 budget. Thank you for your service and leadership. Your continued energy, vision and leadership serve us all. Members of the Assembly, the budget you are going to review these next few days represents the best efforts of our Departments working together to solve our community needs with limited financial resources. I also want to recognize all of my Directors, Deputy Directors, and Division Managers for their time and effort in preparation for the budget that is before you. Last, I want to thank all of our employees for everything that you do every single day in providing key essential services to our people. Your dedication and hard work do not go unnoticed. I hope our communities recognize the excellence in service they are provided by both the staff and the Assembly, and join me in offering you a sincere thank you for all you do.

Respectfully,



Harry K. Brower, Jr.
Mayor