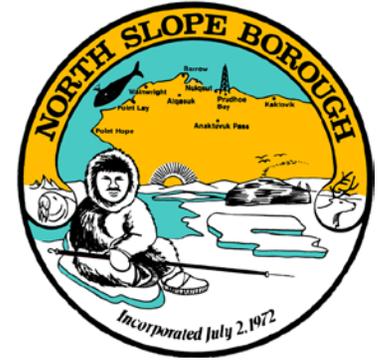


NORTH SLOPE BOROUGH
Office of the Mayor
P.O. Box 69
UTQIAGVIK, AK 99723



HARRY K. BROWER, JR., MAYOR

Members of the North Slope Borough Assembly
Utqiagvik, Alaska

In accordance with the North Slope Borough municipal charter provisions, I am pleased to present the annual budget document for the fiscal year 2019-2020. This operating budget is balanced as required by law, and projects expenditures to equal projected operating revenues of \$402,359,380. This budget reflects a decrease in revenues of \$15,889,635 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 continued financial pressures of the energy sector. In addition, as a result of significant reductions in our initial population determination mainly within the oil patch which has further warranted a significant decrease to our resources available for operations, I have communicated to our departments for a status quo budget and a downward adjustments in some areas in order to have a balanced budget without reliance from our savings.

I wanted to remind ourselves today that the foundation of the Borough is attributed to the vision and leadership of the Founding Father Eben Hopson Sr. as outlined in the Preamble of the Borough Charter which reads: "We, the People of the North Slope Borough area, in order to form an efficient and economical government with just representation, and in order to provide local government responsive to the will of the people, and to the continuing needs of the communities, do hereby ratify and establish this Home Rule Charter of the North Slope Borough of Alaska." This was the first time Native Americans had taken control of their destiny through the use of municipal government and remains as one of the boldest moves ever made by an indigenous people to regain control of their lives and future.

As your leader, a Whaling Captain, my sentiment and vision have emulated that of our Founding Fathers in providing a solid foundation and stable outlook on the Borough's finances and continue working towards self-determination and sustainability of our Home-Rule government for the betterment of our people in providing the sheer basic necessities and services that our people deserve that are otherwise taken for granted by residents in more established cities within the State.

In the wake of the State's Legislative Session this year, our values, our beliefs, and our vision of self-determination in continuing to provide much needed services to our communities and our people, were compromised and attacked by the Governor's proposed budget legislation surrounding our taxing ability pertaining to the oil and gas infrastructure that makes up 95% of our well-deserved tax base. It is evident that the Governor's proposed legislation was nothing more than a cost shift to local municipalities and school districts that already bear the brunt of the State's obligation in an effort to fulfill a campaign promise that is not sustainable.

It is because of the abundance of natural resources in our lands that have been extracted over the last five decades that has served as a lifeline to urban communities within the State. The Borough has been part of the solution in so many ways for the State of Alaska since the Borough's inception. When Alaska became statehood, it immediately imposed a state income tax to its residents until 1980 when Governor Jay Hammond signed a bill repealing the tax when the State was seeing billions of dollars of oil revenues from our region after the completion of the Trans-Alaska oil pipeline in 1977.

Despite our legislative and legal challenges over the five decades surrounding our taxing authority and tax cap limitations within our municipal jurisdiction that spans the size of more than 40 States in the country, the Borough has always been fiscally responsible and prudent with our financial resources and has always been a good neighbor in sharing our resources with the rest of the State. In fact, over the last 30 yrs., the Borough has not levied taxes to its full taxing authority compared to other municipalities, resulting in significant resources to the State in excess of \$643,000,000. This represents more than 10% of the Borough's annual budget consecutively over the last three decades. This does not include the many programs we have funded on-behalf of the State and the capital infrastructure that's in place.

With that being said, my administration and I will continue to march forward working collectively with the combined efforts of our Department Directors, Deputy Directors, Division Managers, and Assembly Budget Committee to overcome such challenges in putting together our budgets for the upcoming fiscal year and continuing to align 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.

As noted earlier, 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 \$378,490,000 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.

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

Education continues to be one of my top priorities to ensure we provide the needed resources and investments to our schools in order for our youth to excel academically. As a result in reduction of operating resources available, the proposed contribution to the School District for this budget cycle is \$31,838,063. This represents a decrease of 10% to the prior year baseline support. I understand that the decrease in the baseline support will be difficult for our schools to absorb; however I am confident that with our population appeal we will be successful in seeing a population increase which will result in additional supplemental resources available to the School District and our other Departments for much needed resources. In addition, as part of by budget initiatives, I have continued to fund the breakfast feed program in the amount of \$1,100,000.

Ilisagvik College

The proposed contribution to the baseline support for the Ilisagvik Collage is \$11,879,680. This is an overall reduction of \$1,319,965 or 10% from prior year's commitment. As noted earlier, in an effort to balance our operating budget as a result in reductions to operating resources available, we had to adjust some of our departments' budgets including the support to Ilisagvik College. During the supplemental budget, we will re-evaluate our resources and determine if additional resources will be available to support the current shortfall.

Permanent Fund

My commitment to investing for the future continues. I am very pleased to report to you that for the fifth 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 has allowed 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 the established policy, I have committed to planned annual contributions to the fund. In the last three years, we have contributed approximately \$13.6 million. As a result, the fund stands today at approximately \$722 million which represents an increase of \$146,450,767 or 26% over such timeframe to an all-time high. In addition to my commitment of continuing to stay out of the Permanent Fund, I have committed to contribute \$5,000,000 into the Permanent Fund for this upcoming budget.

Debt Service Profile

In FY18, under the recommendation of Administration and Finance, I decided to embark on a program to consolidate the Borough's outstanding debt. The process to consolidate the Borough's debt was performed in three phases. Phase 1 comprised of the callable debt in the par amount of \$77,025,000, Phase 2 comprised of the tendering of bonds in the par amount of \$33,445,000, and Phase 3 consisted of a

defeasance in the par amount of \$56,355,000. As a result of extinguishing such debt including the defeasance in FY17 in the par amount of \$38,100,000, the net present value savings on the interest amounted to approximately \$35.7 million. The Borough has reduced its outstanding debt in the last two years by nearly 60% to an all-time low of \$150,275,000 as of June 30, 2018. Since then, we have issued the 2018A&B Series and the outstanding debt as of July 1, 2019 will be \$173,310,000. It is the expectation of my administration to continue working towards eliminating the Borough's outstanding debt and continue working towards the Pay as you go Capital Policy which will enable the Borough to have more operating budget flexibility but more importantly eliminate the need for paying enormous amount of interest in the Borough's borrowing. This will further enable the net savings in resources to be redeployed in all the North Slope communities. Historically, the average interest expense over the last 5 years has been in excess of \$22 million annually. 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 including the Legislative challenges, I am committed and will continue to work tirelessly with my administration, our Assembly, our residents, elders, our corporations, previous leaders to overcome such obstacles at all costs to ensure our resources are not taken away from us and our values and beliefs are not compromised surrounding the delivery of our services we provide 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 2019-2020 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