

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, 2022

In accordance with the North Slope Borough municipal charter provisions, I am pleased to present the Mayor's Fiscal Year 2022-2023 Annual Budget for the Assembly's consideration. This operating budget is required by law to be balanced resulting in planned revenues and expenditures totaling \$410,487,968. This level of funding is expected to support NSB's operations and maintenance activities at approximately 2% more as compared to last year's budget and provide funding to pay down general obligation debt.

The foundation of the NSB's budget is based on estimates of 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 for municipal operations. Accordingly, the Administration & Finance director has calculated \$383.2 million of property tax revenues, which is the same level of estimated planned revenues as last year. Operations and Maintenance revenues is \$315.3 million and \$67.8 million debt service. We have other estimated revenues of \$27.3 million that include charges for services, projected investment income, and Federal and State grant resources.

Since budgets are based on estimated property tax valuations, we expect to bring to the Assembly another revenue and expense appropriation in early fall to true-up all property tax revenue after the State of Alaska Oil and Gas Division issues their certified property valuations. This is necessary because the proposed operating budget plans submitted to the Assembly are distributed on or before March 15, 2022, governed by NSB Municipal Code 3.11.010 – therefore the requirement to estimate and/or forecast revenues long before the assessment rolls are finalized. These operating plans will be presented to the Assembly on March 21, and continuing on the 22nd in workshop sessions. Then on 23rd of March, a public hearing and special meeting with the Assembly, for their action to approve the Mayor's Annual Budget.

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. Other tax-cap computation requirements factor the State's issuance of the FY 22 Population Determination for Property Tax Revenue Limitation purposes and the Alaska Taxable Roll's Per Capita Average Full Property Tax Value. The tax cap computation resulted in a maximum operating budget of \$325.0 million however the NSB can only apply \$315.3 million for operations because the debt service obligations of \$67.8 million must be first considered. This year's maximum operating budget resulted in a lower available O & M revenues allowed by \$8.2 million due to the reduction of labor workforce in the oil & gas sector which was included in the population determination. We were able to make up these shortfalls because debt obligation requirements were \$6 million lighter freeing up funds to support operations.

Because allowed O & M revenues are lower by \$8.2 million for FY23, we started our planning with some operating departments have prepared their departmental budgets factoring a 5% reduction from last year's appropriation levels. Some departments such as Housing, Fire, Search & Rescue and Public Works were not able to meet this objective because of increased cost in services. When we true-up our property tax revenues in the fall, additional funding shortfalls will be considered.

Looking back two years, we have all certainly persevered dealing with the COVID crisis affecting our people and local economy. Thank God for our people's resiliency and we do express our heartfelt condolences to those who succumbed to the sickness. While the nation's economy was impacted by the pandemic, the North Slope Borough was also impacted. We know the oil & gas property tax revenues were lighter in FY 22 by 1% compared to FY 21. In FY 23 we see an improvement in the industry's preliminary roll by 2% however we continue to experience higher cost of services with inflation at a 40-year record high of nearly 7 to 8%.

In the next three days we will provide information about my plans to carry out a wide array of public services. We will discuss plans to provide services in all eight communities and my proposed initiatives during the budget presentation. My administration has worked collectively with our department directors, deputy directors, division managers, and the NSB Assembly budget committee to develop this budget for the upcoming fiscal year. We will continue to align our resources with the needs of our people to maintain and improve the NSB's services.

Housing Department

During my administration, providing for Housing has been a priority. The department budget has increased by \$1 million for a total budget of \$6.9 million. I have also planned to continue an additional \$3 million in Public Interest Determination (PID) to fund housing construction activities through the Mayor's initiatives program contained in my department budget.

I would also like to thank you for supporting my administration to go forward with new housing for our residents. During the last two years, we have made progress with new construction of five multi-family housing units. We are near completion in the communities of Nuiqsut, Atqasuk, Point Lay, and Point Hope. Construction is continuing in Anaktuvuk Pass. These new homes makes forty-four units of new housing available to families living in multi-generational homes. This was the first phase of new housing that was a significant new direction in addressing Slope-wide housing shortages. This budget includes an additional investment in new housing for the communities of Barrow, Kaktovik, and Wainwright.

I am continuing with the home-loan program in the amount of \$2 million to facilitate private residents to build on their own land. We have transferred FY 22 program funds into the Housing Assistance Loan Program (HALP) to ensure its continuation without the funds lapsing and propose a \$2 million transfer to HALP, an enterprise activity, in FY23.

Public Works

Another department worth highlighting today is Public Works who has an overall increase of funding needs of \$7.6 million for a total budget of \$89.8 million. The primary reasons are two-fold; one, the department has had to step-up to support the new housing maintenance activities and; two, the Borough received a notice of enforcement action from the U.S. Department of Justice alleging violations of the Clean Water Act and the Resource Conservation and Recovery Act across all Borough communities. The notice of violations included, among other things, an injunctive relief to address the Borough's handling of oil and waste management practices across the Slope. We have successfully negotiated a reduced civil penalty which will be settled in Fiscal Year 2021-2022. We remain committed to support the actions of the consent decree to meet the compliance matter and are resolute in the completion of mandated tasks. We are also committed to ensure future administrations do not fall short of resources for handling and disposal of listed hazardous waste including proper training of personnel.

Oil and Gas Activities

The North Slope Borough finances are largely driven by the annual assessed property valuations of the oil & gas exploration and development. Approximately 95% of the Borough's revenue stream is derived from the oil industry's ability and willingness to invest capital infrastructure to produce, transport and market liquid hydrocarbons.

The North Slope enjoys a healthy mix of public and private companies who have identified attractive opportunities and are willing to employ new technologies and risk capital to explore for and develop new oilfields. Producers are in initial phases of a post-COVID renaissance 'reset' in oilfield activity, but as in any basin, oil and gas development and production must compete in a global environment

constrained by available financial capital and human resources. This year's preliminary roll was received on the 25th of February which gave us time to confirm that our estimated oil & gas property valuations were within range.

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 about to enter the fourth year of that agreement, and this proposed budget includes funding of \$10,112,871. This Program provides pass-through funding to eight local municipalities for their discretionary use which has resulted in a positive economic impact to each community.

Power and Light Subsidy

This budget also provides the power and light subsidy funding for seven of eight communities – the village of Barrow is excluded from the subsidy. As such, the general fund operating transfers include \$17.5 million in support of power generation systems to the residents in those communities.

Educational Component Units

This budget includes funding to public schools in eight communities and to the local tribal college. The recommended appropriation to the North Slope Borough School District is \$36,828,052 and to Ilisaġvik College of \$11,734,916. In addition, this budget includes \$3.1 million in the Mayor's Office education initiative program. The initiative funding is dependent on signed memorandum of agreements with any educational entity.

Permanent Fund Investments

My commitment to invest for the future remains. The Permanent Fund Investments were formed in 1984 in perpetuity in the event the oil & gas sector is unable to generate property tax revenue for the Borough. Today, I am very pleased to report to you that for the seventh consecutive year, the NSB Operating Budget is balanced without any reliance on funds from our Permanent Fund Investments. During my tenure as Mayor, the portfolio has benefited greatly from compounding of investment earnings, infusion of new capital investment funds and market strengths resulting in major growth of the portfolio especially during the 2021-2022 timeframe. Today that savings has a market value of just over a billion dollars however in the recent weeks, the markets have been volatile but the market value of investments are holding well.

Debt Service Requirement

This budget includes an appropriation for debt service of \$67,885,381. This amount includes principal and interest of all current bond debt obligations of \$61.8 million and another \$6 million of anticipated new debt. This budgeted debt service level is lower than last year's total debt service payments by \$6 million. It does not include significant payment plans towards a new bond issuance however when the certified roll is completed we should see additional funds available for debt service.

The NSB currently has total general obligation bond debt of \$299.3 million which \$268.4 million is the principal portion and \$30.9 million for interest due on the notes. The NSB has the debt capacity to take on new debt and this budget assumes plans to pay down debt therefore, my administration has recommended \$100 million new bond issuance during the fiscal year of 2022-2023. This would be the 2nd year that the Borough plans to take-on \$100 million in new debt. There remains significant capital infrastructure needs in our communities and maintaining a steady \$100 million issuance allows us to maintain their needs. With the new debt, Finance has projected debt to be \$251 million at fiscal year-end 2023 should the assembly and the voters approve the October 2022 new bond debt propositions.

Capital Improvement Plan

The capital improvement projects on the books at year-end December 2021 were just under \$300 million with that level to drop at fiscal year-end to \$229 million however we have another \$659 million in total CIP project needs. There remain significant projects that cannot be fully funded however my administration desires to keep making progress towards projects that are considered non-discretionary deeming they are verified emergency and is related to life, health and safety. There are also projects listed as priority discretionary which are listed in the Borough's Six-Year CIP Plan and designed to support the borough's existing capital assets and level of service and not expand them. The last category is discretionary projects. Prioritization of these projects have been underway by the Planning & Community Services department staff who have been engaged in prioritization of projects with community members and leaders. Then the department will present their plans to the Project Review Committee who will identify \$75 million worth of projects plus \$25 million selected by the Mayor for a total of \$100 million to be presented to the Planning Commission, then to the Assembly for their considerations. Today, the annual capital projects program remains on schedule with the final ordinance to be presented to the assembly and public no later than June 15, 2022.

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 2022-2023 budget. Your continued energy, vision, and leadership serves us all very well.

Respectfully,

A handwritten signature in blue ink that reads "Harry K. Brower, Jr." in a cursive style.

Harry K. Brower, Jr.

Mayor