

Scenarios for Energy and Resource Development on the North Slope and Adjacent Seas

Research and Monitoring
Prioritization for the NSSI

Local Economy | North Slope

Summary

The North Slope Borough hosts the enclave production center for the oil industry. Consequentially, a high proportion of the Borough's tax revenue comes from property tax collections. Local residents only hold a small amount of jobs in the oil patch with most jobs being associated with a large public sector. The Arctic Slope Regional Corporation (ASRC) is one of the largest Native owned businesses in Alaska and owns large mostly undeveloped natural resources. Together with village corporations, Native owned businesses provide many of the private sector jobs in the eight communities. Subsistence continues to play an important economic, social, cultural, and spiritual role in the local economy.

The local economy on the North Slope is closely linked to the oil industry as an important source of revenue. A balance to meet wage employment and subsistence needs in the local economy may drive support for continued oil production or possible future diversification to other industries to obtain a sustainable source of revenue.

Overview

The North Slope Borough encompasses nearly 87,861 square miles and almost 9,700 people reside in its eight communities, resulting in the least inhabited region of Alaska (0.1 persons vs. 1.2 persons per square mile statewide). More than half of the population is Alaska Native or American Indian with the majority being Iñupiat. On average, households in the North Slope Borough are larger (3.7 persons) compared to the statewide average (2.7 persons). The population contains a lower percentage of women (38 percent) compared to the statewide proportion of females (48 percent). The median household income between 2008 and 2012 was \$76,679, above the median household income for Alaska as a whole which was \$69,917 (9).

Despite the low population density, the North Slope Borough has one of the largest local economies in Alaska due to being host to the production center for the state's oil industry. Two distinct economies exist, the oil industry with its support services and the remaining communities and their mixed cash subsistence economies (1, 2). In the first quarter of 2014, more than 15,300 jobs were reported to be located within the North Slope Borough. The majority of jobs, 72% (11,100 jobs) are associated with the oil fields with the remainder in local communities. A little less than two thirds of the oil field jobs are held by Alaska residents with the remainder held by commuters from out-of-state (8,10).

Local public revenue for the North Slope Borough government highly depends on collection of property taxes related to the oil industry. In 2013 the Borough collected \$348 million from oil companies in form of property taxes, equaling 99 percent of total property tax revenue for the year (8).

Currently, the NSB government is the largest employer of NSB residents in the region. NSB gets most of its tax revenue to fund government operations from property taxes on high valued onshore oil and gas infrastructure. In 2012, for example, NSB received \$322 million, and \$43,959 per capita, in revenues from oil and gas property taxes (ADCCED). Future development and production of oil and gas that requires new onshore infrastructure would substantially increase NSB property tax revenues and have the opportunity to provide even more jobs to local residents, who in turn would spend a portion of their income locally.

Local tax revenue supports a little over 1,900 local government jobs. Non-oil private sector employment is low, and a much lower percentage of women own businesses (12 percent vs. 26 percent statewide). Retail is the largest private industry followed by education and health care. Native Corporations provide most of the private sector jobs. The Arctic Slope Regional Corporation (ASRC) is the largest Native owned business in the region and one of the financially strongest Native organizations in Alaska. ASRC has many subsidiaries that are headquartered outside of the region, and it owns vast land holdings with untapped resources including oil, coal, and minerals. Village corporations also own land in the vicinity of their communities and are involved in business operations providing local wage earning jobs (2, 5, 9).

The State of Alaska is another important source of revenue, and provides important contributions for K-12 education, and health and social services funding. Government workers in villages may also receive salaries from the state or passed through the state.

Besides wage earning employment, the local population particularly Alaska Native people are engaged in subsistence with wage earning opportunities comprising an important source of cash income that allows the purchase of equipment and fuel (6). With an estimated 438 pounds of usable weight of wild foods per person per year, communities of the North Slope harvest more wild foods than any other region in rural Alaska and about twenty times more than Alaskans living in urban parts of the state. The most important subsistence resources are marine mammals, but game as well as plants and berries are also harvested. For many, subsistence is a way of life that includes vital economic, social, cultural and spiritual dimensions beyond the provisioning of nutritious foods (1, 2).

Participation in the non-cash economy is partly offset by the high cost of living in the North Slope Borough. A standardized basket of goods and services is 50 percent higher in Barrow than in Anchorage and likely even higher in more remote communities of the region. The North Slope Borough is the only borough in Alaska subsidizing a centralized water and sewer system as well as subsidizing energy sources for residential use such as heating fuel. In Alaska, Barrow and Nuiqsut are the only rural communities to have natural gas turbines for generating electricity other than Southcentral Alaska, which results in energy costs much lower compared to other rural communities of the state. In communities other than Barrow, difficulty in fuel delivery results in high costs for electricity and heat (2, 7). Barrow is also the hub for fuel to arrive by barge or to be rolligoned in for villages like Atkasuk.

Trends

The local economy will continue to be highly dependent on cash coming into the region through taxation from the oil industry. Just like the state economy, the local economy of the North Slope will continue to face declining oil production and potential budget shortfalls associated with the decline. But there are also potential future opportunities related to investments in future oil and gas development on the North Slope and Outer Continental Shelf. In addition to wage earning opportunities that arise through spending of oil-related property tax revenue, the subsistence economy will continue to provide important social, cultural, and economic goods and services to the local population and comprise a backbone for the long term viability and resilience at the community level.

Most recent population projections predict a decrease in the next two decades before slightly rising again to current levels by 2040 (4). In the 1990s, out-migration to larger urban areas has slowed local population growth but the overall population continued to grow due to its high birthrate (2). Looking at the in-state migration pattern between the North Slope Borough (NSB) and Anchorage, Mat-Su, and Fairbanks (Fig. 1), the past ten years showed that fewer people left the North Slope Borough to reside in Alaska's main population centers compared to ten years ago (3). This trend may indicate a slowing of out-migration observed in the 1990s as more people return than leave the NSB.

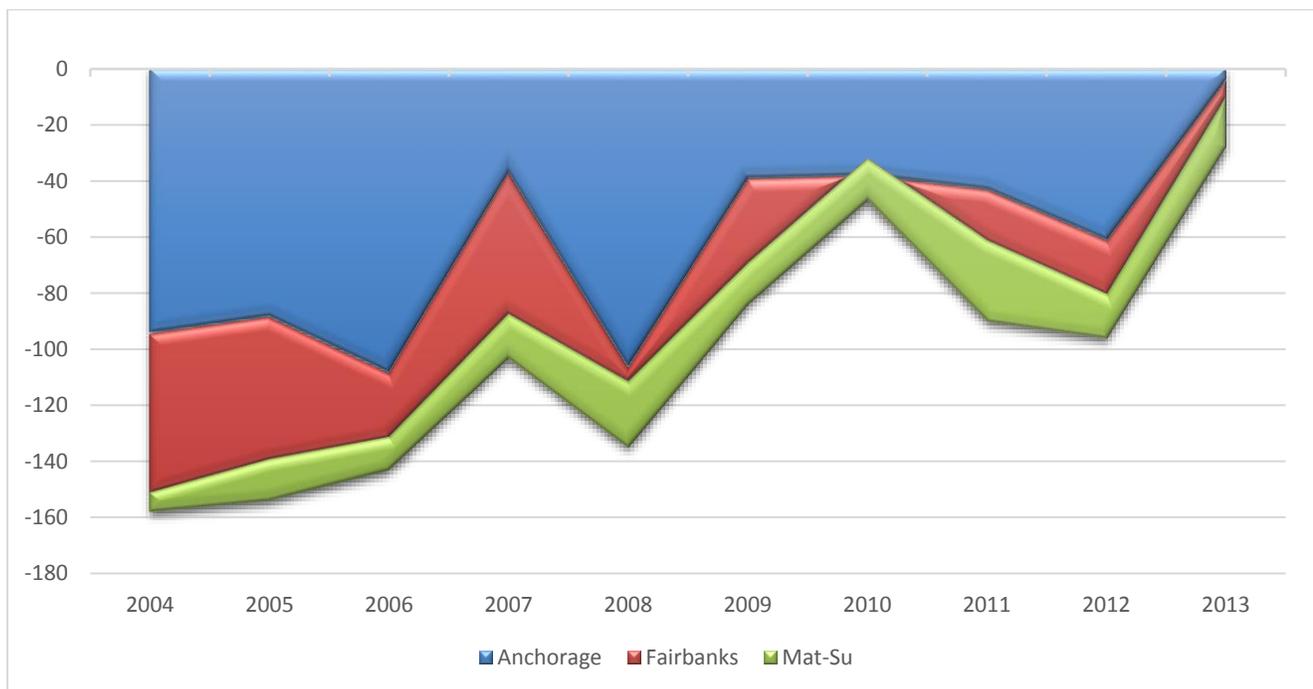


Figure 1. Net migrants between North Slope Borough and southcentral population centers. Graph does not show population trends in the North Slope Borough, only net migrants from the North Slope Borough to other Alaska population centers
Source: Alaska Department of Labor and Workforce Development, ISER

Shareholders of Alaska Native Regional and Village corporations could also stand to benefit economically from the recent creation of a new company referred to as the Arctic Iñupiat Offshore, LLC (AIO). According to a July 31, 2014, press release, Arctic Slope Regional Corporation (ASRC) and six North Slope Alaska Native Villages have joined together to create a new company known as the Arctic Iñupiat Offshore, LLC (AIO).

The members of AIO are ASRC, Ukpeaġvik Iñupiat Corporation, Tikigaq Corporation, Olgoonik Corporation, Kaktovik Iñupiat Corporation, Atqasuk Corporation and Nunamiut Corporation. Communities represented by these corporations include Barrow, Point Hope, Wainwright, Kaktovik, Atqasuk and Anaktuvuk Pass. The Village Corporations for Point Lay and Nuiqsut were not included in the AIO, but still have the option to become part of the joint venture.

According to the press release, AIO's primary focus is creating alignment for responsible development within the Arctic Slope region, planning for the future, providing a voice for Arctic Slope Iñupiat with a seat at the development table, and economic stability. Toward that end, AIO and Shell Gulf of Mexico Inc. (Shell) entered into a binding agreement that will allow AIO the option to acquire an interest in Shell's Chukchi Sea leases and projects on the leases. Under the option agreement, Shell will assign AIO an overriding royalty interest in oil and gas produced from specific leases in the Chukchi Sea. AIO would also have the option to obtain a working interest in leases owned by Shell at the time Shell proceeds with development and production.

AIO does not pertain to leases in the Beaufort Sea. The overriding royalty interest would provide AIO a share of revenues from production, free of all costs. This would guarantee AIO a share of the revenues from production of Chukchi leases held by Shell without incurring any of the risks or costs of that production. If AIO obtains a working interest, it would be obligated to pay a percentage of development and production costs, and would receive a share of the production profits after royalties have been paid. Some of the revenue to AIO from the royalty or working interest would be distributed as dividends to the shareholders of its member Native corporations.

The AIO represents another potential source of revenue for shareholders who could reside anywhere - in the NSB, the State, or elsewhere. The economic effects from any revenues distributed to shareholders of the AIO member corporations could be widespread. This potential increase in AIO revenues and shareholders' income could create additional jobs and generate other types of income, as AIO invests in projects and shareholders spend some of their dividends from AIO (11).

Uncertainties

Similar to Alaska's State economy, the high dependence on revenue from the oil industry leaves the local economy closely linked to industry activity. Uncertainties in revenues are related to changes in taxable infrastructure (e.g. infrastructure reaching the end of its useful life, or no new infrastructure being built). These forces are out of the control of local people. The long-term viability of the local economy will depend on local capacity for resilience, and the ability of locals to protect their subsistence resources, while at the same time harnessing economic opportunities related to continued resource development on Alaska's North Slope. The challenge will be to strike a balance between these opposing factors.

Driver interactions

Petroleum resource development has a large impact on job and wealth creation in the North Slope Borough just like it does for the Alaska economy as a whole. It provides cash income and supports direct and spin-off economic activity in the Borough. Declining petroleum production can result in a contracting local economy and reduction in public services potentially leading to increased outmigration.

The health and abundance of marine mammals and other subsistence resources is a vital part of the subsistence economy. Changes in the abundance of wild foods will have implications for local community viability, food security, and the cultural and spiritual health of local people.

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