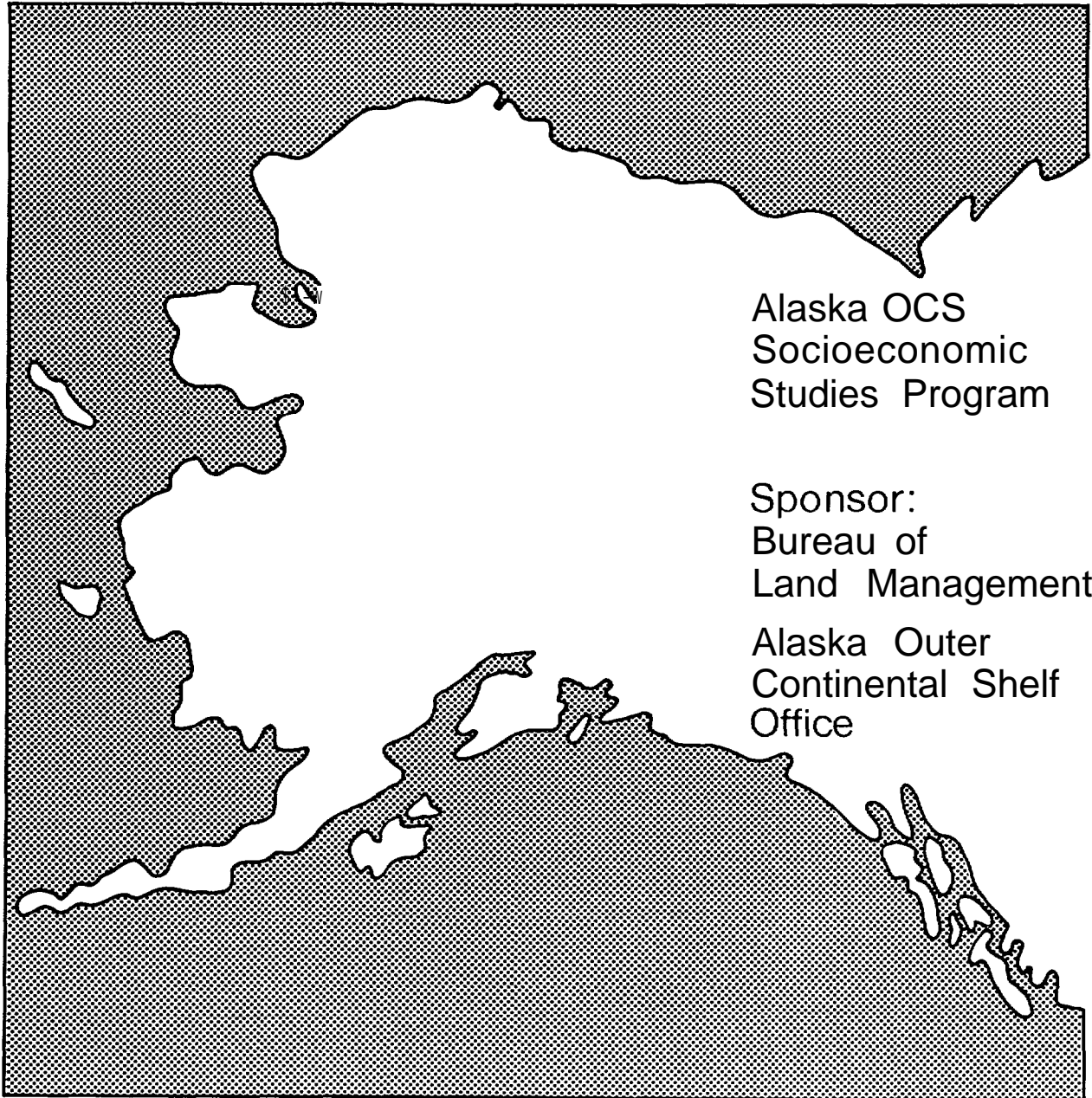


Technical Report
Number 16a



Alaska OCS
Socioeconomic
Studies Program

Sponsor:
Bureau of
Land Management
Alaska Outer
Continental Shelf
Office

Beaufort Sea Region
Governance Study
Executive Summary

The United States Department of the Interior was designated by the Outer Continental Shelf (OCS) Lands Act of 1953 to carry out the majority of the Act's provisions for administering the mineral leasing and development of offshore areas of the United States under federal jurisdiction. Within the Department, the Bureau of Land Management (BLM) has the responsibility to meet requirements of the National Environmental Policy Act of 1969 (NEPA) as well as other legislation and regulations dealing with the effects of offshore development. In Alaska, unique cultural differences and climatic conditions create a need for developing additional socioeconomic and environmental information to improve OCS decision making at all governmental levels. In fulfillment of its federal responsibilities and with an awareness of these additional information needs, the BLM has initiated several investigative programs, one of which is the Alaska OCS Socioeconomic Studies Program.

The Alaska OCS Socioeconomic Studies Program is a multi-year research effort which attempts to predict and evaluate the effects of Alaska OCS Petroleum Development upon the physical, social, and economic environments within the state. The analysis addresses the differing effects among various geographic units: the State of Alaska as a whole, the several regions within which oil and gas development is likely to take place, and within these regions, the various communities.

The overall research method is multidisciplinary in nature and is based on the preparation of three research components. In the first research component, the internal nature, structure, and essential processes of these various geographic units and interactions among them are documented. In the second research component, alternative sets of assumptions regarding the location, nature, and timing of future OCS petroleum development events and related activities are prepared. In the third research component, future oil and gas development events are translated into quantities and forces acting on the various geographic units. The predicted consequences of these events are evaluated in relation to present goals, values, and expectations.

In general, program products are sequentially arranged in accordance with BLM's proposed OCS lease sale schedule, so that information is timely to decision making. In addition to making reports available through the National Technical Information Service, the BLM is providing an information service through the Alaska OCS Office. Inquiries for information should be directed to: Program Coordinator (COAR), Socioeconomic Studies Program, Alaska OCS Office, P. O. Box 1159, Anchorage, Alaska 99510.

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Executive Summary

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Alaska OCS Socioeconomic Studies Program

GOVERNANCE IN THE BEAUFORT SEA REGION:
PETROLEUM DEVELOPMENT AND THE NORTH SLOPE BOROUGH
EXECUTIVE SUMMARY

Prepared for

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Alaska OCS Socioeconomic Studies Program
Governance in the Beaufort Sea Region:
Petroleum Development and the North Slope Borough

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16. Abstract

This study examines relationships between petroleum development and the evolution of local government institutions on Alaska's North Slope in the decade since the oil and gas discoveries at Prudhoe Bay in 1968. It focuses on the North Slope **Borough**, and it attempts to explain the formation and major operations of the borough essentially as responses to the problems and opportunities that **arctic** oil and gas development present to the Native people of the region.

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GOVERNANCE IN THE BEAUFORT SEA REGION:
PETROLEUM DEVELOPMENT AND THE NORTH SLOPE BOROUGH

EXECUTIVE SUMMARY

This study examines relationships between **petroleum** development and the evolution of local government institutions on Alaska's North Slope in the decade since the oil and gas discoveries at **Prudhoe** Bay in 1968. It focuses on the North Slope Borough, and it attempts to explain the formation and major operations of the borough essentially as responses to the problems and opportunities that arctic oil and gas development present to the Native people of the region.

Specifically, the report analyzes key issues of taxation, development, and environmental protection and the interactions of the borough and external organizations--federal and state government agencies and oil companies--concerning these issues. It also examines institutional relationships within the region, particularly those between the borough and the villages and between the borough and the Arctic Slope Regional Corporation. Finally, the report assesses some of the present meanings and effects of Native self-determination on the North Slope.

Borough Formation and Growth

By the late **1960s**, the momentum of the land claims movement and the stimulus of the oil and gas discoveries of Prudhoe Bay provided necessary preconditions for the incorporation of the North Slope Borough. The Arctic Slope Native Association (**ASNA**) was the **organizational** vehicle for pursuing both land claims and borough formation, and, by 1969, when ASNA

began taking official steps toward incorporation of the North **Slope**, the borough idea had acquired a force of its own. By that time, too, the magnitude and implications of the Prudhoe Bay discoveries were sufficiently clear: the North **Slope** now **had** a tax base of large and growing proportions, even a **small** part of which **could** apparently support a very ambitious borough development program. ASNA leaders, however, were repeatedly frustrated by what they perceived as overly cautious or otherwise objectionable positions taken on the claims issue by other regional associations and by the statewide Alaska Federation of Natives, which was dominated by regional groups other than their own. And it was in any case not **at all** clear that a satisfactory settlement of the **claims** would ultimately be won. Thus, on the North Slope, borough incorporation became a second instrument of great potential for asserting Native control over North Slope lands and resources and capturing some of the economic benefits of petroleum development, regardless of the final legislative outcome on land claims in Washington.

In 1972, the North Slope Borough started with **an** elected mayor and assembly, a handful of employees, and budgeted revenues of about \$500 thousand. In 1977, it had 180 general government employees (not counting school district and seasonal construction workers), it collected \$30 million in revenues, and it was in the third year of a projected \$150 million capital **improvements** program. Nearly two-thirds of its revenues come from the taxation of oil properties at Prudhoe Bay, which comprise the **largest** concentration of property values in Alaska outside of Anchorage. The state administration was at first reluctant to act favorably on

incorporation of the borough primarily because it considered Prudhoe Bay a statewide and not a local taxable resource. Since 1972, state laws and a series of oil company legal challenges to the borough's tax authority have kept the borough's taxing and spending programs in check.

The incorporation and growth of North Slope Borough government has thus been achieved in the face of varying amounts of opposition and resistance, primarily to the borough's tax authority. But the borough has also met resistance to its claims to control of the land, waters, and subsistence resources that are closely associated with traditional Native values. Conflicts with external agencies and interests have been central and persistent in the experience of the borough's leaders, who accordingly have been preoccupied with strengthening and exercising the centralized regional authority necessary to defend and extend North Slope claims to self-determination vis-a-vis outside authorities and interests.

Through all of this, borough officials have also been attempting to follow through on promises of borough government to North Slope villagers. Basic objectives of incorporation included gaining control of public educational programs and improving social and economic conditions in North Slope villages. And villagers' interests have not been ignored as the broader regional process of development has evolved. They are direct beneficiaries of the services, facilities, and jobs that are the major tangible products of the borough's efforts. In borough leaders, they also have aggressive spokesmen defending more traditional Native values against perceived outside encroachments. But while villagers are beneficiaries

of the region's political development, they are not significant participants in it. They are primarily recipients and consumers of borough government goods. Given their past dependence on even more remote and less beneficent federal and state agencies, this does not **necessarily** represent a backward step. In material terms, it is clearly an advance.

North Slope Borough government has not yet stabilized into a "normal local government" pattern; financially and in its external relations, its **vulnerabilities** continually force it into reactive, "crisis government" modes.

Policy Issues and External Relations

The borough asks two basic questions of all proposed development activity: **Will** it pay? and what **will** be its effect on subsistence resources? **Com-**mitted to a \$150 million capital improvements program--with facilities in place and debt service mostly paid before Native corporation **lands** become taxable after 1991--and looking for economic viability in the longer run, the borough must favor development in practice if not always in its pronouncements. It takes strong positions against developments that appear to have high environmental risks and relatively limited local economic pay-offs. And in order to assure that existing and future developments will, indeed, pay off as desired, the borough must persistently seek changes in state tax laws and regulations that will expand its authority to tax, and it must be prepared to spend substantial time in court with the oil companies.

In exploiting the economic opportunities that began with the Prudhoe Bay discoveries, the borough has become heavily dependent on the petroleum property tax base. At the same time, borough leaders have attempted to protect Native villagers and their subsistence resource interests from the social and environmental disturbance and change that accompany oil development and growth in the region's cash economy.

An underlying objective in the borough's efforts to protect subsistence resources, traditional land use areas, and other Native values is to extract increasingly greater shares of control over the North Slope region from federal and state agencies. As in the area of oil development and taxation, the borough is here demanding acceptance and recognition of its local governmental status and authority. The effective limits of the borough's authority in a region formerly the exclusive province of federal and state agencies are still to be defined. The borough is continuously testing the limits of law, pressing into formerly exclusive federal and state agency domains, and asserting its prerogatives.

Thus the North Slope Borough's efforts to protect Native subsistence and related values is part of its broader campaign to achieve an identity and to be recognized as a legitimate and authoritative presence in the region--a local government that is "taken seriously" by federal and state governments and by oil companies. As a result, it is often difficult to distinguish the borough's environmental protection responses from its broader political responses to federal and state actions affecting the region.

In practical effect, the borough's demands for environmental protection are not incompatible with its encouragement of petroleum development **that** offers potential economic benefits. Except for federal OCS development, which may have a smaller potential payoff for the borough than **developments** elsewhere in the region, borough officials have not **sought** seriously to impede exploration and development activities on North **Slope** lands. The borough instead is seeking protection particularly of subsistence resource habitats and specific Native traditional use lands--protection that can be accommodated without significantly deterring **oil** exploration or development activities on the National Petroleum Reserve, on regional corporation lands, or at **Prudhoe** Bay and in adjacent areas. And, it is also making claims to some share of control over federal and state lands and waters, regardless of whether oil exploration and development activities are directly involved.

There are indications that borough relations with state and federal governments increasingly are taking more moderate and conventional forms. There are signs, too, that state and federal officials are responding to the borough's plea to be "taken seriously." **The borough** has had some successes in its congressional and state legislative lobbying activities and in its efforts to influence federal and state executive agency decisions. It has been able to find and cooperate effectively with influential allies. Currently, the borough is directly represented in several intergovernmental advisory groups, and it participates routinely in various federal and state development and environmental permitting processes affecting North Slope lands and waters.

Borough government has enabled North Slope leaders to influence and to participate in federal and state decision making as never before in the region's experience. In this sense, the North Slope Borough clearly is serving as an effective means of enhancing regional self-determination, and it is progressively becoming integrated into an evolving **federal-state-local** intergovernmental system for the region.

Regional Institutional Development

Preoccupied with their external relations, borough leaders have sought to establish the borough's presence and win acceptance of its rights and authority. The borough has also sought to ensure an expanding stream of revenues to support its growing expenditure programs and to meet village expectations for the delivery of promised material benefits. In the process, the North Slope Borough has become a highly centralized institution that depends on outside expertise to help guide it through a very insecure period of development.

North Slope oil and gas development has stimulated the formation and growth of a regional government that has used oil property tax revenues to provide an unprecedented level of new jobs, facilities, and services to the Native people of the North Slope. Further, borough activities in the villages, particularly capital improvement projects, have contributed to a new and higher level of organized public involvement in village affairs. Village council governments, however, already displaced in part by village corporations, have been further eclipsed by these developments.

Villagers now look to borough leaders in Barrow to deliver jobs, services, and facilities and to exercise the local government powers transferred to the borough by the village **councils**.

Local government authority has largely been consolidated at the regional level, and it is exercised by the borough's top executive officials and their advisors. The institutionally and personally strong borough executive, centered in the mayor's office, is relatively autonomous and can chart the borough's course unencumbered by significant internal institutional or political checks. Outside of Barrow, villagers are minimally represented in the borough structure. Villagers "participate" in borough affairs primarily as employees (in capital improvement projects) and consumers of borough goods. Borough officials are not responsible to oil company taxpayers as elected officials are to a voting constituency. Oil companies on the North Slope are outside institutional adversaries, not borough citizens. Within the borough structure, the assembly has yielded to the executive on all major matters, foregoing the usual legislative checks on executive power.

The Arctic Slope Regional Corporation is potentially the major regional institutional check on borough government, but it has not yet acted consistently or aggressively in this role. There is instead a pattern of non-interference, mutual accommodation, and even of cooperation between the two organizations, notwithstanding personal conflicts and other surface tensions between some of their officials. It is likely, however, that their institutional differences will grow, particularly as borough

taxation increasingly impinges on corporation activities. There are already signs of corporation resistance to borough tax policies affecting the oil exploration programs in which the corporation is engaged both as a land owner and a business contractor.

For the present, borough executive leaders are limited and checked primarily by external rather than internal 'political and institutional factors-- by oil companies filing suits in the courts, by state and federal laws reserving tax and regulatory powers over North Slope lands and resources, and by federal and state agencies interpreting and administering these laws.

State Interest

On the North Slope, the drive toward self-determination has been based on the consolidation of new **power and authority** at the regional level through the development of a strongly executive-centered borough government. The borough has served primarily as an instrument for extracting and spending tax revenues derived from petroleum development at **Prudhoe Bay** and for claiming greater shares of local control over the **terms** and conditions of development on which the borough depends. But self-determination and dependence are not mutually exclusive conditions, as borough leaders undoubtedly know. The more they press and expand their claims on North Slope resources, the greater becomes their relative vulnerability to federal, state, and oil company decisions. The borough's dependence on oil property tax revenues is the outstanding case, where borough access to its major source of funds is directly subject to state

state tax laws and regulations, oil company legal action, and federal and state leasing, exploration, and development policies.

The most important limit on borough taxation of oil properties is not oil company opposition but state government laws and regulations. The state government's interest in assuring some measure of statewide tax and revenue equity transcends the North Slope Borough's interest in gaining unrestricted authority to tax the greatest concentration of oil company properties in Alaska. State policies directed to achieving greater degrees of tax and service equity statewide are potentially the most important factors affecting local government institutional change in Alaska's rural regions. Even in the North Slope case, where **intra-**regional Native responses are so prominent, the state's interest was and remains a dominant factor affecting the North Slope Borough's terms of access to the Prudhoe Bay tax base. It is within this broader context of state tax and service equity considerations that resource development policies **will** affect future local government **institutional** responses and change in Alaska.