

C. Benefits from Alaska Native Corporations

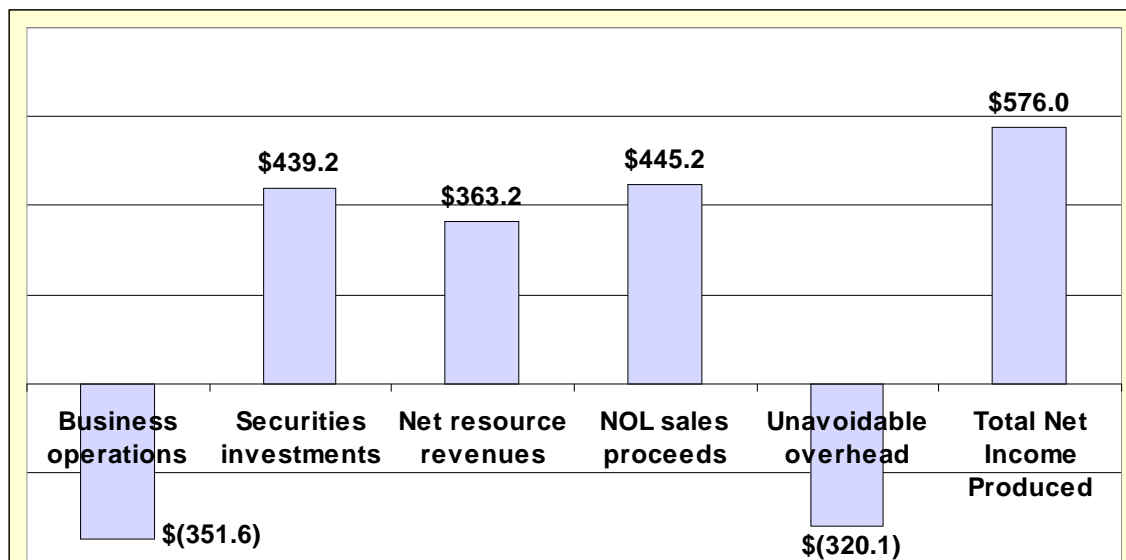
Overview of Alaska Native Claims Settlement Act (ANCSA) Corporations

In 1971, for a number of reasons including enabling the permitting and construction of the TransAlaska pipeline, Congress passed the Alaska Native Claims Settlement Act (ANCSA). (The article “Alaska Claims Settlement Act at 35” (Linxwiler, 2007, Tab C.1) provides more detail on the purposes and provisions of the Act.) The act ended the lands claims struggle but set in motion a new process: the establishment of business corporations, owned by Alaska Natives, to manage their claims settlement of nearly \$1 billion and 44 million acres.

Twelve regional and more than 200 village corporations were organized soon after the act was passed, and by 1973 about 75,000 Alaska Native had enrolled as shareholders. (A thirteenth corporation was later organized for Alaska Natives not residing in the state.) The ANSCA corporations (ANC) were given the broad but elusive task of benefiting their shareholders and future generations of Natives. But the form those benefits ought to take, and how to generate them, was not clear. The shareholders, Congress, and others expected the corporations to do everything from earning profits and creating jobs to improving conditions in the villages and protecting subsistence resources.

A 1991 report by Steve Colt, *Financial Performance of Native Regional Corporations* (Tab C.2), showed that while all the regional corporations survived their first 20 years, several did just barely (Figure 1). In their first twenty years, the regional corporations earned a combined average annual return on equity of negative 3.9%, notwithstanding the very substantial natural resource sales that took place in that period. (Colt, 1991, p.3) A big part of their relative financial success or failure can be traced to different resource endowments: some corporations received more natural resources to begin with, and a few were subsequently able to obtain rich resource lands through negotiations and trades.

Figure 1
Cumulative Financial Performance of Native Regional Corporations, 1974-1990 (\$millions 1990)



Colt, 1991, *Financial Performance of Alaska Native Corporations*, UAA, ISER.

Most—not all—were held back by business losses. A number of corporations lost by putting too much of their money into single big, risky business ventures. But they were not alone in their business failures; hundreds of Alaska businesses went into bankruptcy during the recession of the late 1980s. Alaska, especially rural Alaska, is a hard place to do business. The regional corporations in rural areas often involve themselves in marginal ventures, partly to sustain jobs.

In light of this weak performance in the early years, it is not surprising that a 1984 analysis *Changes in the Well-being of Alaska Natives Since ANCSA* (Kruse, 1984, Tab C.3) attributed most of the changes in the well-being of Alaska Natives to a complex of factors other than ANCSA, including state capital spending on housing, education and health facilities, improvement of transportation and public utilities in rural Alaska, and the oil-fueled expansion of the state economy generally. At the same time, the conclusion emphasized the important role ANCSA and ANCs play in fostering a generation of Native leaders and role models that catalyze positive changes for Alaska Natives, as well as providing education and employment opportunities.

ANC performance has improved since then. The *Alaska Economic Performance Report 2007* (Tab C.4): reported that all twelve regional ANCs were profitable in 2007, showing combined revenues of \$3.9 billion and profits of \$483.7 million. For the prior year, *Alaska Native Corporations 2006 Economic Data* (Tab C.5) reported combined assets for the 13 ANCs at \$3.8 billion with an average return on assets of 13.1 percent. Shareholder equity totaled \$2.35 billion, up from the \$962.5 million in original capitalization under ANCSA (p.32). ANCSA regional corporations now comprise 16 percent of the 100 largest employers in Alaska (ADOL Tab C.6). The performance of the smaller village corporations is still quite checkered; unfortunately, public data are not systematically available to document this.

These corporations generate economic and social benefits for Alaska Natives in the form of dividends and distributions, employment and income, as well as providing a range of other benefits such as training, scholarships, cultural programs and community development. ANCSA corporation spending and payroll also flow into the regional and state economy to the benefit of other businesses, individuals and the state as a whole. These benefits are described below.

Dividends and Distributions

The dividend policies among the corporations vary widely. Some pay out a fixed share of annual net profits; others pay a fixed share of a five-year moving average of net profits; and a number of ANCs have developed programs to invest profits for the long term. A Native American Contractors Association (NACA) survey of twelve ANCs reports that \$88.2 million was contributed to Native corporation permanent fund programs in 2005 (Taylor 2007, p. 12, Tab D.2). In 2006, the GAO reported that one-third of the thirty ANCs it studied had created permanent funds to build reserves for future dividends; two corporations reported that the funds allowed them to issue dividends even in unprofitable years.

Not included in the annual dividend distribution, are special distributions for Native elders, intended to ensure a comfortable quality of life. While some corporations choose to pay these dividends to community support programs such as social, food, and transportation services, others may pay a significant portion directly to Native elders (US GAO, 2006, p.82). In 2003, CIRI distributed \$16,810,000 to Elders and Arctic Slope Regional Corporation distributed \$699,000 (ANCSA Regional Association 2005, Tab C.5, p.14). In 2008 NANA distributed \$879,000 for their Elders' Trust Payment.

Dividend distributions do not only have direct benefits for a single corporation's shareholders, but can have a broader impact on the Alaska Native population through 7(i) revenue sharing. The 7(i) program mandates that 70 percent of income from timber and subsurface operations are shared with the other regional corporations. As part of an annual dividend distribution, 50 percent of this shared revenue is passed on to the village corporations, while the remaining 50 percent is paid directly to shareholders at-large. Given the variation of ex-dividend share prices, 7(i) revenue sharing can have positive effects for those Alaska Natives living in regions with smaller dividend payouts. (Colt, 1991, p.5, Tab C.2).

The dividend distributions of ANCs are designed to have a larger social benefit and financial impact on the income of shareholders relative to the residual dividend structure of most public corporations. Historically, dividends have accounted for a third of total returns for an investor in a publicly traded "blue-chip" corporation, while capital gains made up the other two-thirds of earnings (Standard & Poors, 2008, pg. 1). Since Alaska Natives are not able to sell their shares, no profit from capital gains can be made. For this reason, ANCs tend to payout a higher percentage in dividends when compared to other publicly owned corporations as exemplified 2004 dividend payouts. That year, 42 ANCs paid \$117.5 million in dividends from a net profit of \$120.3 million, meaning that the average dividend payout ratio was 98 percent (ANCSA Regional Association, 2006 Economic Data, p.17, Tab C.5). The implication of this is that the dividend structure of ANCs is better designed to ensure an improvement in the quality of life for their shareholders.

The importance of dividends distributions to the Alaska Native population cannot be understated, especially in the most remote rural regions of Alaska. The 2006 GAO study found the cost of living in these rural villages to extremely high relative to the US average, where a gallon of fuel cost \$5 per gallon and milk was a lofty \$12 per gallon (in 2006 US\$). Corporation officials interviewed by the GAO pointed out that even smaller dividend payouts helped Native residents to obtain these basic requirements. (US GAO, 2006, p.81 Tab A.2).

In 2007 the Alaska Economic Performance Report shows that shareholders received dividends ranging from \$1.00 per share to \$58.55 per share. The ANCs with the largest share of 8(a) contracts also paid the highest dividends to shareholders. The 2007 dividend per share by corporation are shown below:

<u>ANCSA Corporation</u>	<u>Dividend per share</u>	<u># of Shareholders</u>
Ahtna	\$ 2.79 for	1,200 shareholders
Aleut	5.00 for	3,574 shareholders
Arctic Slope	58.55 for	9,616 shareholders
Bering Straits	1.00 for	6,334 shareholders
Bristol Bay	9.60 for	8,200 shareholders
Calista	1.50 for	13,000 shareholders
Chugach	52.51 for	2,002 shareholders
CIRI	33.93 for	7,292 shareholders
Doyon	3.22 for	16,000 shareholders
Koniag	3.00 for	3,633 shareholders
NANA	15.00 for	11,495 shareholders
Sealaska	7.61 for	19,445 shareholders

Source: Alaska Economic Report, 2007 (Tab C.4, p.3)

Employment

Under federal law ANCs are able to exercise a preference for American Indian and Alaska Native applicants and face strong shareholder pressure to hire their own people. As a result, Native companies dedicate a substantial amount of time and expense to recruiting, training, developing, and retaining Native employees. They use internships, scholarships, on-the-job coaching and subcontractor agreements; Native companies grow their own talent, as exhibited by the large number of corporations that are now lead by young, college educated shareholders. Young people share the leadership of ASRC, Ahtna, Aleut Corp, Bristol Bay, , Calista, Chugach, CIRI, Koniag NANA and Sealaska.¹

According to the ANCSA Regional Association 2006 Economic Data (Tab C.3 page 37), there were 30,584 people working for ANCSA Regional Corporations with 14,084 living in Alaska. These Native corporations accounted for an Alaska annual payroll of \$695.25 million and a worldwide payroll of \$1,114.72 million. By rough comparison, in 1991, there were 2,113 Native shareholders who worked in the original twelve regional corporations across all lines of work. (Colt, 2001, Tab C.2, p 8) Alaska Native hire by the 13 regional and largest village corporations averages 25 percent. (ANCSA Regional Association 2006 Economic Data, p16.) Doyon Drilling has met its goal of 41 percent Alaska hire in recent years. (Information Insights, 2008, Tab C.7, p.27.)

¹ Sherri Buretta, Chairman of the Board, Chugach Corporation, interview by Jane Angvik, June 2009.

Alaska Native Employers, Employment 2007

	Average Monthly Employment in 2007 ¹
1 ASRC Energy Services	2,000 to 2,249
2 NANA Management Services	1,750 to 1,999
3 Alaska Native Tribal Health Consortium (ANTHC)	1,250 to 1,499
4 Yukon-Kuskokwim Health Corporation	1,000 to 1,249
5 Southcentral Foundation	"
6 Doyon/Universal Ogden, Joint Venture	750 to 999
7 SouthEast Alaska Regional Health Consortium (SEARHC)	"
8 Chugach Development Corporation	500 to 749
9 Maniilaq Association	"
10 Tanana Chiefs Conference	250 to 499
11 Peak Oilfield Service Company	"
12 Norton Sound Health Corporation	"
13 Bristol Bay Area Health Corporation	"
14 NANA/Colt Engineering	"
15 Doyon Drilling	"
16 AES - Houston Contracting Company	"

¹ These are ranges that a company or organization's specific employment number falls into; the ranking is based on the specific employment number.

Source: Alaska Department of Labor and Workforce and Development, Research and Analysis Section

Source: Alaska Department of Labor and Workforce Development, Alaska Economic Trends, October, 2008. (Tab C.6, p. 10)

Social Capital

The importance of ANCSA for fostering the development of social capital in Alaska Native communities cannot be overstated. The foremost body of research on Indian economic development in the United States has been produced by the Harvard Project on American Indian Economic Development.² What they have learned can be summarized in three key concepts:

1. *Sovereignty matters.* Tribes do better when they themselves make the decisions over tribal affairs and resources. Not only is the tribe more in tune with the goals of the community than are outsiders, but they themselves bear the consequences of the decisions, good or bad: so they have the most incentive to learn to make good decisions.
2. *Institutions matter.* Sovereignty is not enough: tribes must also be able to exercise power effectively. There are three key elements: business management separate from the political leadership; an independent judiciary to resolve disputes; and effective bureaucracy to get things done.
3. *Culture matters.* For the institutions to be effective, they must be legitimate in the eyes of the community. For them to be legitimate, they must fit with the community's beliefs about how authority should be organized and exercised.

ANCSA embodies all three principles, giving Alaska Native shareholders clear title to lands and resources and the institutional resources manage them, balancing traditional cultural

² <http://www.ksg.harvard.edu/hpaied/>; Stephen Cornell and Joseph P. Kalt. 2000. "Where's the Glue: Institutional and Cultural Foundations of American Indian Economic Development." *Journal of Socio-Economics* 29: 443-70.

values with 21st century ambitions. While in the 1960s Alaska Natives still experienced discrimination, segregation and social exclusion, we now see prominent Alaska Native leaders in the highest circles in every field of civic life, from business, to social services, government and the arts. These Alaska Native leaders are working on every front to improve the well-being of Alaska Natives throughout the state, and achieve standards of living similar to those non-Native Americans enjoy.

With their dual missions of corporate profits and social benefits, Alaska Native corporations actively seek business and investment opportunities that provide work for Alaska Natives with few job skills and those who live in remote areas. At the same time, they provide on-the-job training and experience as managers and corporate officers for a growing pool of Alaska Native leaders. Alaska Native for-profit and nonprofit corporations also raise the economic conditions and future prospects of Alaska Natives by providing scholarships, job training and educational opportunities. These efforts help to provide a trained workforce for all employers in Alaska.

The Red dog EIS, Appendix G (Tab C.9) provides an excellent case study of how one regional corporation has leveraged the development of their mineral resources to provide employment opportunities, education and training, and strengthen self-governance, while protecting traditional subsistence lifestyles and values. The evidence suggests that employment opportunities at the mine, coupled with their collaborative leadership to strengthen education outreach and make GED completion available in the villages, has accelerated the gains in educational attainment for Alaska Natives in this region. Their corporate goal of 100 percent shareholder hire has motivated innovative efforts in outreach, training and employment policies to better fit cultural norms. Currently achieving 64 percent shareholder hire, they are world leaders in the field of indigenous hire.

The 2006 Government Accounting Office report noted many types of direct and indirect benefits provided by the 30 ANCs they reviewed:³ (Tab A.1)

- Shareholder hiring preference and job opportunities. All of the corporations interviewed reported a hiring preference for shareholders. Some corporations extended this preference to shareholders' families, other Alaska Natives, and/or other Native Americans.
- Other employment assistance programs. In addition to offering a shareholder hire preference, corporations made efforts to encourage other shareholder employment. Nine of the 30 corporations offered a management training program.
- Benefits for elder shareholders. Twelve of the 30 corporations interviewed reported issuing benefits for elder shareholders.
- Scholarships. Almost all corporations offered scholarships for shareholders. In 2006 Regional Corporations invested \$21.8 million in scholarships. [ANCSA Association,

³ Unless otherwise cited, this discussion on ANCSA benefit is from: United States Government Accountability Office, 2006, Increased Use of Alaska Native Corporations' Special 8(a) Provisions Calls for Tailored Oversight, GAO-06-399, pgs. 80-84. <http://www.gao.gov/products/GAO-06-399>

- 2006 Annual Report]. Using money set aside by Sealaska Corporation, Sealaska Heritage Institute awarded \$600,000 in scholarships in 2007 [McDowell, 2008].
- Internships and other youth programs. Many corporations provided internships or other youth programs for shareholders at parent and subsidiary companies. Corporate officials said they instituted mentoring and internship programs to lead to future involvement of shareholders in management and leadership roles.
 - Burial assistance. Twenty-two of the 30 corporations reported providing some kind of assistance to the family of a deceased shareholder.
 - Land leasing, gifting or other use. Most of the village and urban corporations interviewed leased, gifted, or made other use of the land given to the village corporation in the Alaska Native Claims Settlement Act settlement for shareholders.
 - Community infrastructure. Several corporations invested in the infrastructure of their villages. For example, after the Department of the Interior's Bureau of Indian Affairs ceased barge service to its remote village, one corporation established a transportation company that became the only mechanism to bring goods to the community.
 - Support of the subsistence lifestyle. Corporations took steps to protect and maintain the subsistence lifestyle of their shareholders.
 - As can be seen in the graph of Northwest Alaska Native Association benefits from 2000 to 2008, the policy of most ANCs is to maximize contributions to shareholders as profits increase.
 - Cultural preservation. Twenty-four of the 30 corporations interviewed invested in cultural and heritage programs, which included museums, culture camps, or native language preservation.
 - Establishment and support of affiliated foundations or nonprofit organizations. Twenty-one of the 30 corporations established affiliated foundations or nonprofit organizations.
 - Donations to other nonprofit organizations. Almost all of the corporations donated to various nonprofit organizations. For example, one corporation donated to organizations that advocate for Alaska Natives, such as the Alaska Federation of Natives, Alaska Native Arts Foundation, Alaska Native Justice Center, and Get Out the Native Vote.

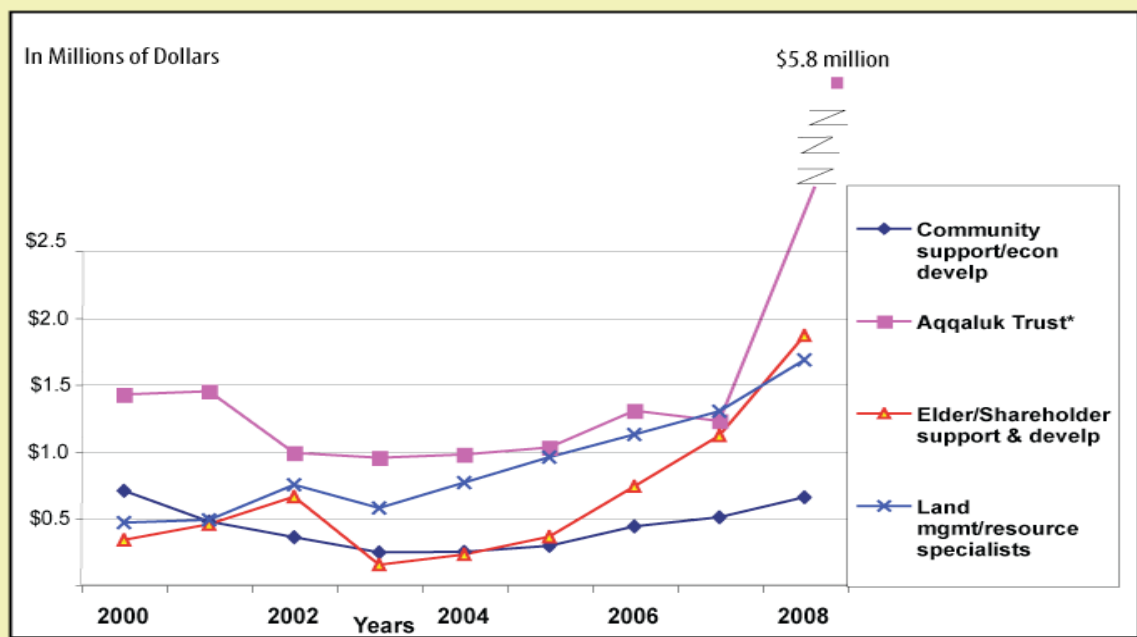
Alaska Native corporations spend corporate profits on a variety of programs that enhance life in remote rural communities, such as subsistence lifestyle support and advocacy, burial assistance, elder benefits, police and emergency services, habitat protection, early childhood education and a range of other services. The GAO noted that the direct benefits which ANCs provide their shareholders ranged from low-cost Internet infrastructure and death benefits to scholarships and heating oil subsidies.

In case after case, these corporate benefits respond to local needs imaginatively. One ANC offers subsistence leave in its personnel policy. Another built a barge service to replace the only village transportation link to the outside world. Yet another had a policy to grant five acres of land to any shareholder that requested it. And another ANC built a "washeteria" so that villagers—none of whom had running water—could shower and launder clothing. (US GAO 2006, 80-1)

Altogether, the twelve ANCs responding to NACA's survey reported \$5.4 million in donations to Native cultural and social programs in 2005. In addition, the companies contributed \$7.3 million to school programs, elders' trust funds, potlatches, intern programs, and similar programs or events. Those same companies awarded \$9.6 million in scholarships to Alaska Natives and donated nearly \$900,000 to non-Native communities. In sum, the 2005 charitable, social, cultural, and educational contributions of these ANCs amounted to \$23.2 million. (NACA 2006 Tab D.2)

The 2003 ANCSA Regional Association report *Native Corporations: A Legacy of Sharing* (Tab C.5) discusses the corporations' social mission and presents data on philanthropy by the 13 regional ANCs and 30 of the 172 village corporations. They report that in 2001, when the gross revenues for the 40 ANCs were \$2.9 billion, they donated \$9.3 million to charitable organizations and distributed \$4.1 million in scholarships to 2,821 individuals. They also made substantial contributions to endowments, which were not tallied. This is a substantial contribution to Alaska philanthropy and community life. That same year, the same 40 ANCs paid \$52.1 million in dividends and \$434 million in payroll in Alaska. As figure 2 below illustrates, as NANA's income has increased, so have benefits paid to shareholders.

Figure 2
NANA Contributions to Shareholders, 2000 to 2008



*Contributions to Aqqaluk Trust were \$5.8 million in 2008 but shown as \$2 million for scaling purposes.
Source: NANA, 2009.

Regional Economic Impact of Alaska Native Corporations

Recent economic impact studies document the contributions of two regional ANCs: *The Economic Impact of Alaska Native Organizations on Interior Alaska* (Information Insights, 2008, Tab C.7), and the *Role of the Sealaska Corporation on the Southeast Alaska Economy* (McDowell Group, June 2008, Tab C.8) While these assessments are not statewide, they highlight the status of Alaska Natives and the role of Native corporations in improving living conditions Natives and rural villages as well as economic benefits to all Alaskans.

As in other areas of the state, the economic condition of Alaska Natives lags behind non-Native residents of the Interior. As a group, Alaska Natives continue to have lower incomes and experience higher rates of unemployment and poverty. The income and employment gap between Alaska Natives and non-Natives cannot be explained only by the fact that a greater share of Alaska Natives live in rural areas where there is less economic opportunity. Even in Yukon-Koyukuk, where Alaska Natives make up the majority of the population, they make less than three-quarters of what non-Natives earn, and almost 30 percent have incomes below the federal poverty threshold, compared to 24 percent for the census area as a whole.⁴

Table 5: Income and poverty in Interior Alaska, 2000 and 2004

	Per Capita Income	Median Household Income	Percent Below Poverty
Fairbanks North Star Borough	\$41,539	\$86,200	7.9%
Denali Borough	\$31,641	\$69,700	7.8%
Southeast Fairbanks Census Area	\$29,613	\$61,900	18.9%
Yukon-Koyukuk Census Area	\$24,777	\$39,200	23.8%
Alaska	\$33,889	\$72,400	9.4%

Sources: Poverty statistics: U.S. Census, 2000; Income statistics: U.S. Bureau of Economic Analysis (BEA) and HUD, 2004

The 2004 *Status of Alaska Natives Report* (Tab B.1) found that Alaska Natives still lag behind non-Natives in participation in the cash economy; the share of the Alaska Native population in the workforce is smaller, and when they do work, they are less likely to work full-time or year-round.⁵ Average wages for Alaska Natives are also lower, because they have lower levels of educational attainment and tend to work in lower-paying occupations.⁶ More Alaska Natives work in service jobs than non-Natives, while they are underrepresented in professional, managerial, technical and sales occupations. They are also less likely than non-Natives to get jobs with federal or state government agencies; when they do, they tend to be clustered in lower-paid positions.⁷

While the growing economic consequence and output of Alaska Native organizations in the Interior strengthens the entire economy, it plays a special role in remediating the persistent economic lag between Alaska Natives and non-Native populations in the region by providing

⁴ Census 2000, U.S. Census Bureau.

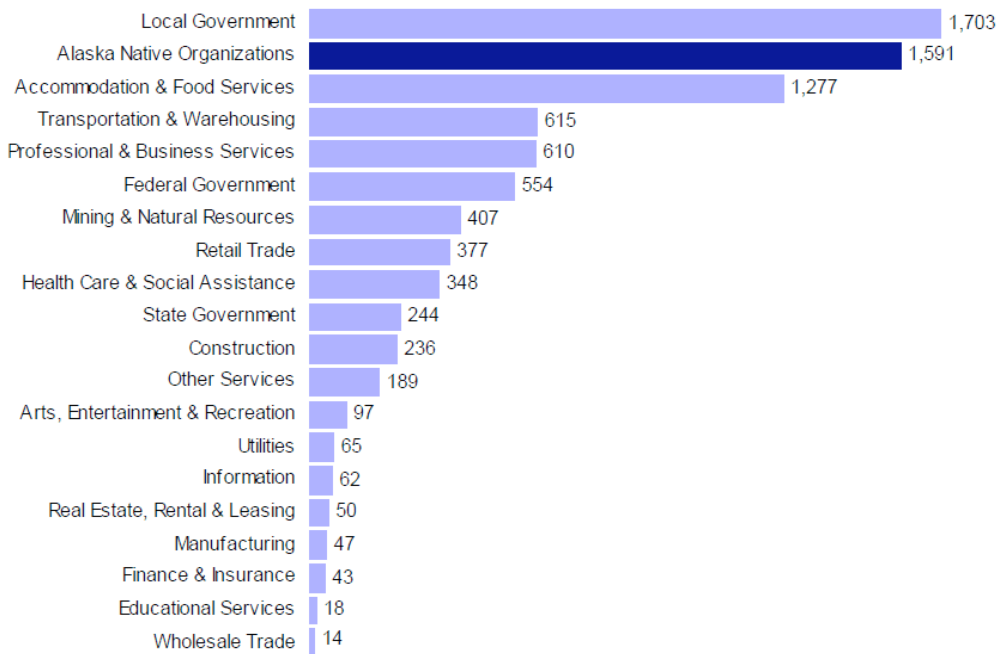
⁵ Institute of Social and Economic Research, *The Status of Alaska Natives Report 2004: Volume I*. (Anchorage, May 2004), 4-1.

⁶ An exception to this is Alaska Native women, a growing share of who are working full-time. A recent study by The McDowell Group found that Alaska Native women with college degrees out-earned whites and other minorities with similar degrees. [The McDowell Group, *The Economic Impact of the University of Alaska 2007 Update*. (Juneau, February 2007), 3.]

⁷ Goldsmith, et al. *Status of Natives, 2004*, 4-2.

direct income in the form of shareholder dividends, and by employing a greater percentage of Alaska Natives in their operations than other Alaska companies.⁸

Figure 7: 2006 Employment by industry, rest of the Interior



Data sources for Figure 6 and Figure 7: ADOLWD 2006 Firm List by Industry; Information Insights, Inc.

In Southeast Alaska, Sealaska Corporation, Sealaska Timber Corporation, and Sealaska Heritage Institute spent \$41 million in 2007 in support of corporate and timber-related operations in Southeast Alaska. This spending included payroll and the purchase of goods and services, including timber harvest-related contracts. Spending was spread throughout the Southeast region. Approximately 350 businesses and organizations in 19 Southeast communities received spending from Sealaska-related activities. Including direct and indirect employment and payroll, Sealaska-related employment totaled nearly 580 workers and approximately \$22 million in payroll in Southeast Alaska in 2007.

⁸ Alaska Native hire by the 13 regional and largest village corporations averages 25 percent. (ANCSA Regional Corporation Presidents and CEOs, 16.) Doyon Drilling has met its goal of 41 percent Alaska hire in recent years. (Doyon, Limited, 5.)