

Benefits of Alaska Native Corporations and the SBA 8(a) Program to Alaska Natives and Alaska



Prepared for Senator Mark Begich

by the

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July 7, 2009

Acknowledgements

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A. Introduction

Senator Begich's office asked ISER for assistance assembling information to document the social and economic status of Alaska Natives and the benefits of the 8(a) program. His purpose is to brief Missouri Senator McCaskill and her committee which is reviewing the status of ANC contracts awarded under SBA's 8(a) program. This review was triggered by a 2006 GAO report recommending increased SBA oversight to 8(a) contracting activity. Highlights of the GAO report are provided in Tab A.1; a letter dated May 15, 2009, from Senators Begich and Murkowski to Senator McCaskill, outlining their concerns is provided in Tab A.2.

As the Congressional Research Service report (Tab A.3) explains, the Small Business Administration's 8(a) program targeting socially and economically disadvantaged individuals was operating under executive authority from about 1970, and under statutory authority starting in 1978. A series of amendments from 1986 to 1992 recognized Alaska Native Corporations (ANCs) as socially and economically disadvantaged for purposes of program eligibility, exempted them from limitations on the number of qualifying subsidiaries, from some restrictions on size and minimum time in business, and from the ceiling on amounts for sole-source contracts. Between 1988 and 2005, the number of 8(a) qualified ANC subsidiaries grew from one to 154 subsidiaries owned by 49 ANCs. The dollar amount of 8(a) contracts to ANCs grew from \$265 million in FY 2000 to \$1.1 billion in 2004, approximately 80 percent of which was in sole-source contracts. (GAO Highlights, Tab A.1)

The remainder of this briefing book is divided in three sections. Section 2 addresses changes in the social and economic status of Alaska Natives from 1970--the year before the enactment of the Alaska Native Claims Settlement Act and the subsequent creation of the ANCs--to the present. ISER's report on the "Status of Alaska Natives 2004" (Tab B.1) finds that despite really significant improvements in social and economic conditions among Alaska Natives, they still lag well behind other Alaskans in employment, income, education, health status and living conditions. A collection of more recent analyses updates the social and economic indicators to 2008. There were many concurrent changes throughout this dynamic period of Alaska's history and we cannot attribute all the improvements to the ANCs, though it is clear that they play an important catalyst role. In the final part of section 2 we attempt to provide some historical context for understanding the role ANCs have played in improving the well-being of Alaska Natives.

Section C. documents the growth in ANCs and their contributions to Alaska Native employment, income, social and cultural programs and wellbeing, and their major contributions to the Alaska economy and society overall.

Section D. Looks specifically at the 8(a) program. Although there are a handful of 8(a) firms with large federal contracts, the majority are small, village-based corporations engaged in enterprise development in very challenging conditions. A collection of six case studies illustrate the barriers to business development these small firms face and the critical leverage that 8(a) contracting offers them.

B. Status of Alaska Natives, 1970 to 2008

As the *Status of Alaska Natives 2004* executive summary shows (Tab B.1), many social and economic indicators for Alaska Natives have improved substantially since the inception of the ANCs in 1971. “Natives have more jobs, higher incomes and better living conditions, health care and education than ever.” Yet they remain socially and economically disadvantaged: “they remain several times more likely than other Alaskans to be poor and out of work. Alcohol continues to fuel wide spread social problems. Native students continue to do poorly on standard tests, and they’re dropping out in growing numbers.” And the future challenges are formidable: “In the coming decade, when economic growth is likely to be slower than in the past, thousands more young Alaska Natives will be moving into the job market.”

A recent analysis by Stephanie Martin and Alexandra Hill, “Changes in the Status of Natives, 1970 to 2007” (Tab B.2), shows dramatic improvements in employment and income in the decade of the 70s, but little gain since then. Improvements in education and housing have been substantial and steady over the past 38 years, though conditions still fall well short of the non-Native benchmark.

Forty percent of Alaska Natives live in remote rural census areas off the road system in northern and western Alaska. As *Understanding Alaska’s Remote Rural Economy* (Tab B.3) explains, the economic structure of this region is quite different from areas accessible by road or ferry. The population of the region is 78 percent Native, and two thirds live in very small communities of just a few hundred people where fewer than half of the adults have work. While the private sector provides 63 percent of the jobs in the region, 55 percent of these jobs go to non-local workers. Although 85 percent of Alaska Native households have one or more wage earners (compared to 93 percent for non-Native households), most of these jobs are part-time or seasonal. All together, wages account for 69 percent of incomes for Native households (compared to 83 percent for non-Natives in the region and 77 percent statewide). Per capita income is much lower in remote rural Alaska than the state average—25 percent to 50 percent lower—and income from assets—including ANC dividends—is more important, accounting for about eight percent of income. While incomes are low, the cost of living is high: in 2007, household energy costs in Bethel were nearly four times the cost in Anchorage, and food costs were 92 percent higher.

The report on *Expanding Job Opportunities for Alaska Natives: Summary* written in 1998 (Tab B.4) describes the challenges for expanding job opportunities for Alaska Natives. Slow job growth, projected at about two percent per year, coupled with fast growth in the number of Natives wanting to work, projected at about four percent per year, means a shortage of jobs for new workers. And 84 percent of that job growth is projected to be in urban areas, while two-thirds of Native workers live in rural areas. A large share of the new jobs will be in support industries like retail trade. It is difficult for small communities to create these types of jobs because of the low rate of dollars re-circulation and high level of leakage from remote rural, local economies: it takes about \$15 in new community income to support \$1 in wages for a local job in the support sector. The report

goes on to suggest ten promising approaches to increasing Native hire, including 8(a) contracting and five other federal policies favoring local or Native hire.

The chapter by Theodore Lane on “The Labor Force Status of Alaska’s Native Population” (1987; Tab B.5) concludes that “while educational and demographic factors are associated with low [labor force] participation rates, the economic structure of rural labor markets is the major factor causing low Native employment.” Lane then presents a case study analysis of two types of construction contracting in the village of Aniak and their outcomes. He found that construction “force accounting” by the City of Aniak enabled it to modify the structure of employment to make it more culturally responsive, resulting in greater local employment and income, with lower turnover and higher skill acquisition, compared to traditional contracting methods; the project budgets were comparable, while the time-to-completion was longer for the city’s approach which invested in local skill development. This shows that culturally responsive businesses, such as ANCs, are the key to developing jobs and job skills accessible to the majority of Alaska Native job seekers living in rural communities.

C. Benefits from Alaska Native Corporations

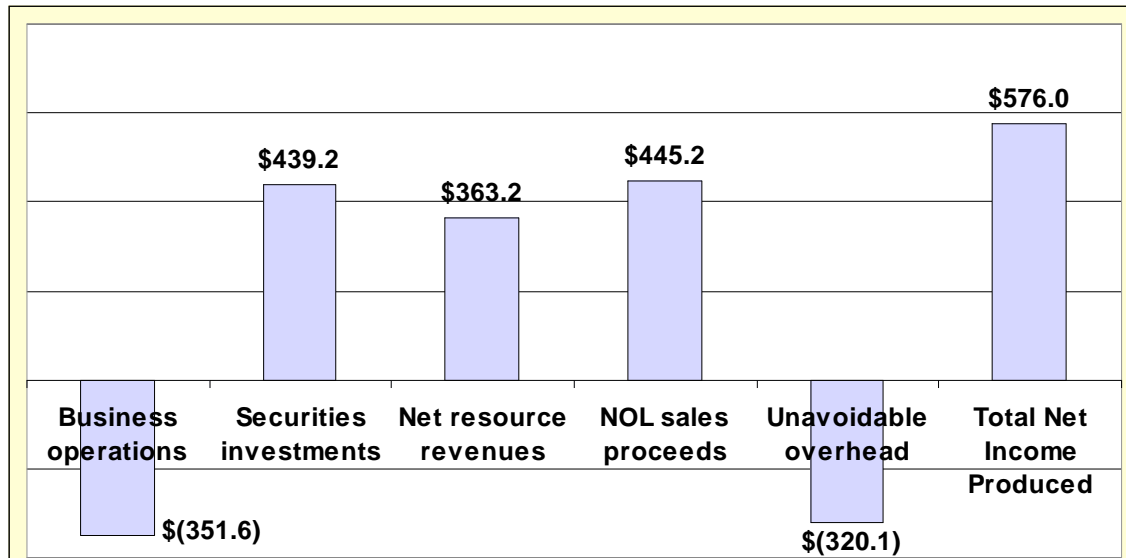
Overview of Alaska Native Claims Settlement Act (ANCSA) Corporations

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)



Source: 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

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

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.)

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 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

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.

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 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

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>

- 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, 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

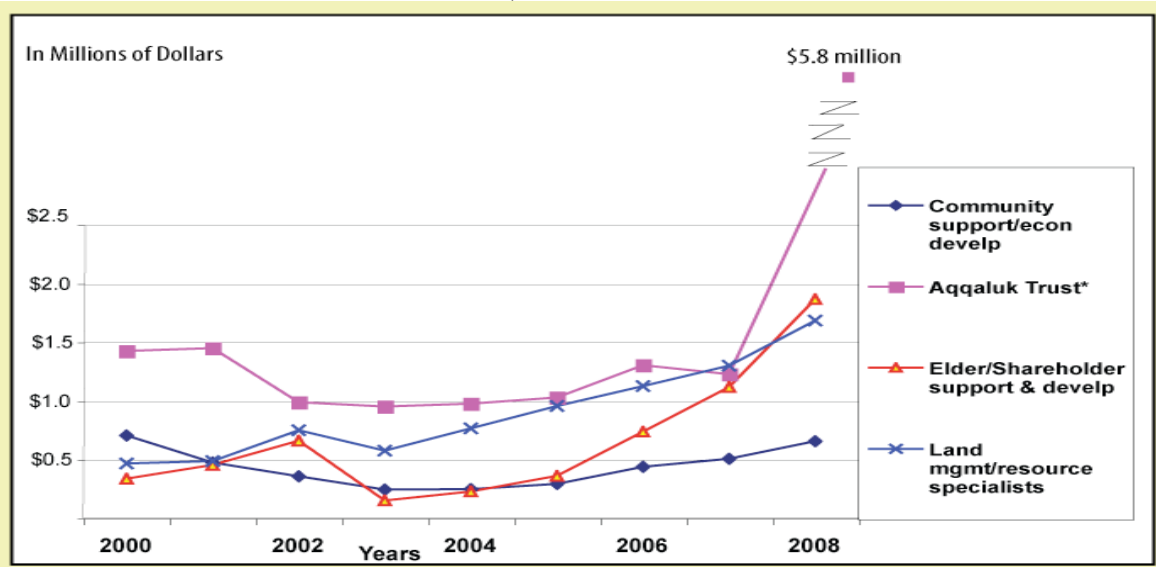
provide their shareholders ranged from low-cost Internet infrastructure and death benefits to scholarships and heating oil subsidies.

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

⁴ Census 2000, U.S. Census Bureau.

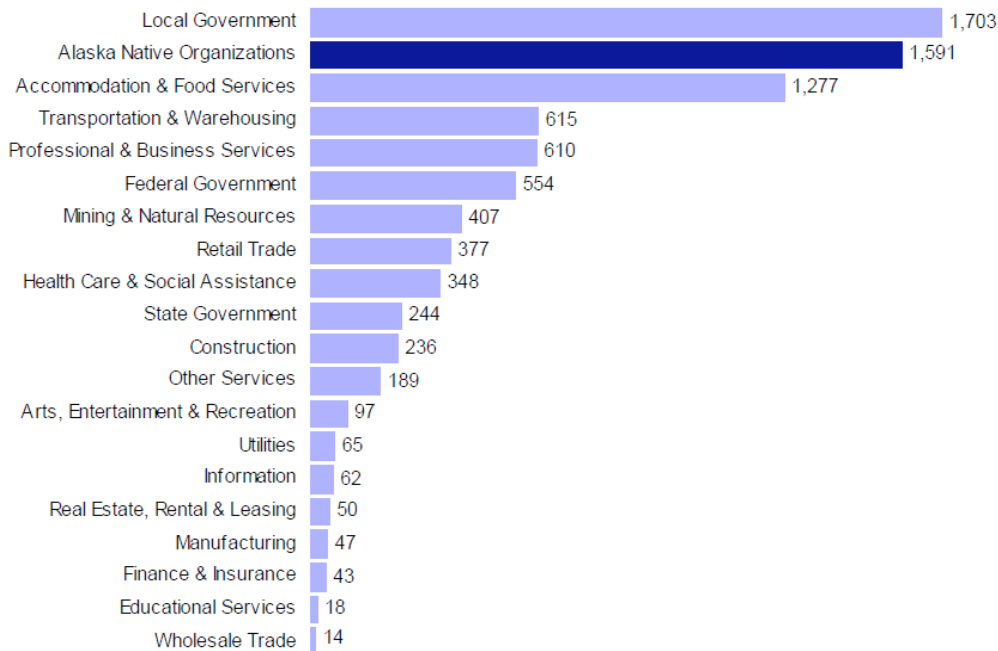
⁵ Institute of Social and Economic Research, *The Status of Alaska Natives Report 2004: Volume I*. (Anchorage, May 2004), 4-1.

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.

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 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.

D. Benefits of Alaska Native 8(a) Corporations

As the documents in the previous section reveal, Alaska Native Corporations benefit Alaska Native people and the larger society in a multitude of ways, including employment, dividends, and investments in social capital. Their 8(a) certified enterprises are no different: Alaska Native Corporations are using their 8(a) Congressional authorization to assist with their

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.)

responsibility to help provide jobs, dividends, scholarships, cultural preservation and protection of subsistence resources and lifestyles.

There are 176 ANC 8(a) contractors in Alaska. The GAO report looked at 26, including the 12 regional and 14 village corporations, mostly with large or high profile contracts. McCaskill's request for information was similarly addressed to 20 ANCs, focusing on the large and high profile ones. The vast majority of ANC 8(a)s however—more than 80 percent—are village corporations working relatively small contracts, hiring local people and sharing the economic benefits with local shareholders in small, remote villages. They are teaching the next generation about American entrepreneurial values and opportunities. There is at this time very little publicly available data to systematically document and describe the kinds of work that these many small ANCs are doing and the benefits that flow from them. Most of the data sources we report below are incomplete and biased toward the largest ANCs. Eagle Eye is the one source that has taken a comprehensive look at the federal procurement data. Their summary of federal procurement from ANCs by industry shows many different types of activities. No other breakouts were available at this time.

Table D.1

Government Procurement from Native Companies in Alaska by Sector FY 2005	
Sector	Proportion
Construction	39%
Administrative, Support, Waste Management, & Remediation Svcs.	26%
Professional, Scientific, and Technical Services	12%
Information	9%
Other	14%

(Eagle Eye, Inc.)

Source: Taylor, *Native American Contracting Under 8(a) of the Small Business Act* (Tab D.2, p.18)

The NACA survey of ten regional corporations and two village corporations documented the benefits flowing from 871 federal 8(a) contracts in 2005: 3,170 jobs for shareholders; 9,750 jobs for Alaskans; 31,717 jobs nationwide in 49 states and 2 U.S. Territories; \$413,645,389 in Alaska payroll; \$33,663,803 in dividends paid to 86,516 shareholders; \$5,433,787 in donations to Native cultural and social programs, plus \$889,835 in donations to other community programs; \$9,575,511 in scholarships; \$7,334,781 for other shareholder programs; and an undisclosed amount in contributions to their permanent fund programs. (NACA, Tab D.1, p.3) 2004 data on 15 ANCs showed over \$141 in Alaska payroll for 8(a) businesses and 7,700 employees in the state. (ANC Annual Economic Report, 2005, Tab C.5, p.8)

The intent of SBA programs is to encourage small business to succeed, with a national goal of having 23% of federal procurement go to small businesses. The 8(a) program helps federal agencies meet their small business goals. The report by Jonathan B. Taylor, *Native American Contracting Under Section 8(a) of the Small Business Act: Economic, Social and Cultural Impacts* (Tab D.2 p.3) claims that the \$1.9 billion in federal contracting to Tribal and ANC 8(a) firms was only 1.3 percent of all sole-source federal contracting, and 17 percent of Section 8(a) contracting in 2005. The 8(a) program appears to be succeeding to promote the competitiveness of ANC contractors: while from 2000 to 2004 ANCs grew their sole-source

8(a) contracting four-fold (GAO), their non-8(a) federal contracting business also grew more than five-fold, and their non-sole-source 8(a) contracts grew more than three-fold. The Taylor report also provides an in-depth description of the history and purpose of Tribal and ANC 8(a) policies, how this mechanism channels federal spending into some of the poorest communities in the nation, and some of the unique aspects of ANCs as for-profit corporations.

One of the examples of 8(a) success that Taylor reports is the case of Chugach Alaska Corporation (on Prince William Sound). In 1991, Chugach began operating under Chapter 11 bankruptcy protections. Section 8(a) contracting helped turn the company around. In 1994, Chugach Development Corporation (CDC), a subsidiary, received two small federal contracts in facilities maintenance and hired sixty employees. By 1998 CDC exceeded the size requirements of the Section 8(a) program and graduated from it, well on the way to paying off its creditors. Since then CDC has partnered with Bechtel and Lockheed Martin to win a full-and open competitive bid contract. Recently, CDC had \$80 million in open contracts and 1,400 employees. To date, Chugach Alaska Corporation has graduated five Section 8(a) companies. (Taylor, 2007. p.13)

As another example, Derik Fredericksen, a Tsimshian shareholder of Sealaska Regional Corporation, earned bachelor and graduate degrees with Sealaska scholarships, interned at the company, and started a new subsidiary that eventually became an 8(a)-certified environmental services company supporting the US Navy. (Taylor, p.13) As the GAO reports, almost a third of the ANCs it studied have manager training programs oriented to developing managers like Fredericksen.(US GAO, 2006, p 82) And the growth in Native adults possessing college degrees has been most pronounced in the four ANCSA regions containing the most active participants in the 8(a) program. (Taylor, 2007)

Taylor also notes that some Alaska Native corporations find the process of 8(a) certification onerous and either do not attempt it or abandon certification applications part way through. Some have been able to certify 8(a) companies, but have found it difficult to obtain contracts, despite the ANC 8(a) advantages. Some have received contracts, but struggled nonetheless to stay in business, essentially departing from the program before graduating. Tyonek Manufacturing Group, for example, has had two 8(a) companies fail and one leave the program for not meeting its target of non-government business. (Taylor, 2007, p. 14)

Business Incubator

While the mission of 8(a) businesses is identical to their ANC parents, there are two benefits that are particular to 8(a): the opportunity to incubate business expertise in a new field of endeavor, and bringing new dollars into the local economy, with all the attendant multiplier effects for Alaska businesses and income.

A recent study, the second Panel Study of Entrepreneurial Dynamics, discovered that the factors commonly associated with a successful entrepreneur – the level of education and personal wealth of the entrepreneur, as well as age and gender – are completely unrelated to the success of a startup venture. The factors that do contribute to success are the planning and preparation put into the first stages of starting a new business and the number of years of

experience the entrepreneur has in the same industry. The method by which the entrepreneur has obtained this experience does not matter – whether it was through formal training or education or helping a family member in a business of the same type, any experience at all will contribute to success, and the more, the better.⁹

Case Studies

Six case studies illustrate how the 8(a) program has helped to launch small businesses in very small communities in some of the remotest and poorest regions of Alaska. (2008, Tab D.3) These were among the 23 business case studies prepared for the *Viability of Business Enterprises for Rural Alaska* project. For example, Iliamna Lake Contractors, from the tiny village of Igiugig, received their first contract from the Air Force to repair and replace telephone lines at the nearby distance early warning system (DEWS) station. With this experience they were able to secure a contract for similar work for the local electric company, and that led to contracts in other villages. Now they have branched out to other types of construction, including work on bulk fuel storage facilities, road construction, and demolition and site reclamation. Earnings by the 4 full-time and 10 to 25 seasonal employees make a substantial contribution to family incomes: the median household income in Igiugig as reported in the 2000 Census was \$21,750.

Yukanna Development Corporation, a tribal enterprise, was established in response to the loss of local jobs when Galena Air Field was closed in 1994. Local people were trained and certified in several areas of environmental remediation and handling hazardous materials. A larger ANC served as a business mentor and gave them their first subcontract. They are now well established contractors for environmental remediation and graduated from the 8(a) program in 2008. Yukaana was one of 16 finalists in the "Honoring Nations Program," sponsored by the *John F. Kennedy School of Government for the company's* for its innovative approach in addressing the Tribe's economic and environmental concerns and challenges.

Tlingit – Haida Technology Industries received a contract to digitize DOD documents using Auto CAD systems on their computers. Their goal was to hire 25 to 40 employees—single mothers in particular—year around in Klawock and Hoonah. But they did not fully anticipate the high cost of running the business from an isolated village, and the enterprise failed after two years.

⁹ Reynolds, P.D. 2007 *New Firm Creation in the U.S.: A PSED I Overview*. Cheltenham, England: Edward Elgar.