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Financial Performance of Native Regional Corporations

Twenty years ago this month, Congress passed the Alaska Native Claims Settlement Act (ANCSA). That act ended the 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 Natives had enrolled as shareholders.[1] (See more about the corporations on page 24.) The corporations have since become a familiar part of the Alaska landscape, and in 1991 employed nearly 7,500 Alaskans—including about 2,500 shareholders.

The ANCSA corporations were given the broad but elusive task of benefiting their shareholders and future generations of Natives. But what form those benefits ought to take, and how the corporations should achieve 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.

This *Review* examines one narrow measure of how well the corporations have done: it describes the financial performance of the regional corporations from their beginnings in 1973 through 1990.[2] We also report available information on shareholder employment.

The regional corporations got about half the ANCSA cash settlement, full ownership of some land, and subsurface rights to their own and village corporation land. The endowment of natural resources in each region explains a lot about the relative financial success of the corporations: some regions just have more marketable resources than others. But aside from the differences attributable to random resource distribution, we can make several points about the corporations' cumulative financial performance from their start through 1990.

- The regional corporations made more than $575 million, adjusted for inflation. But two public policies implemented after ANCSA accounted for most of that.

- First, almost all the $363 million in net resource revenues they collected came from petroleum and timber on lands that were not originally open for selection. Several corporations acquired those resource lands through negotiations and amendments to ANCSA.

- Second, a special tax law allowed them to collect real proceeds of $445 million by selling their net operating losses (NOLs) to other corporations.

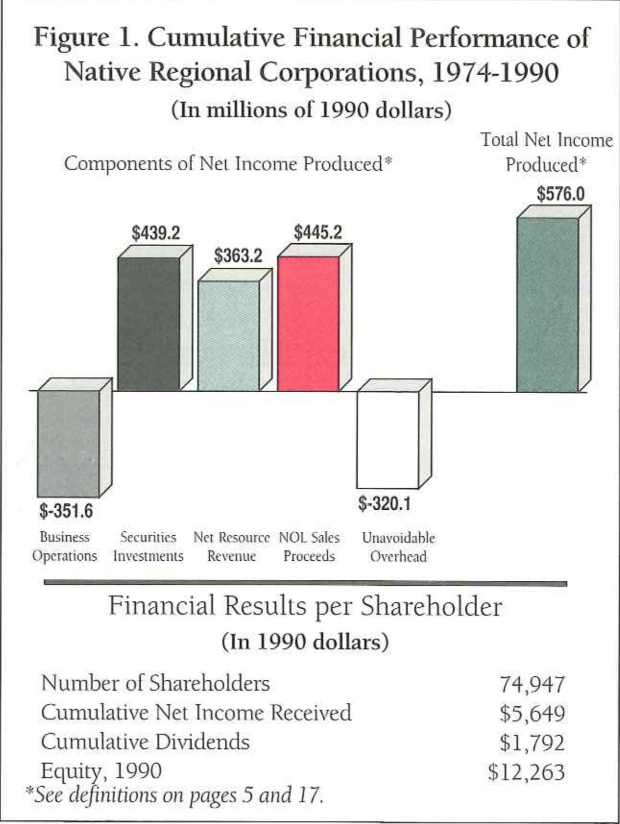

Figure 1. Cumulative Financial Performance of Native Regional Corporations, 1974-1990
(In millions of 1990 dollars)

Financial Results per Shareholder
(In 1990 dollars)

Number of Shareholders	74,947
Cumulative Net Income Received	$5,649
Cumulative Dividends	$1,792
Equity, 1990	$12,263

**See definitions on pages 5 and 17.*

FINANCIAL PERFORMANCE OF NATIVE REGIONAL CORPORATIONS
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• Aside from those two special sources of income, investments in stocks and other securities worked well for the corporations, producing real returns of $439 million.

• As a group they lost money on many of their business ventures, for a cumulative real loss of $352 million. However, a few individual corporations did well in business ventures, and some suffered losses while providing jobs for shareholders.

Our analysis is based largely on annual reports of the corporations themselves. This publication marks the first time such comprehensive data on the financial gains and losses of the regional corporations have been drawn together. Previous studies have looked at standard measures of financial performance like return on equity.[3] We concentrate instead on how the corporations achieved the results they did—by examining where they got their financial wealth, how they used it, and what strategies proved most profitable for them. We look at the corporations as a group and individually, and at total and per shareholder figures.

We do not report on the finances of village corporations. Also, our financial analysis does not directly include the value of Native lands. For the most part, corporations have not assigned a dollar value to ANCSA lands. We do of course include any income that ANCSA lands held by regional corporations have generated.[4]

Native Regional Corporations

	Number of Shareholders
Ahtna Incorporated	1,100
Aleut Corporation	3,249
Arctic Slope Regional Corporation (ASRC)	3,738*
Bering Straits Native Corporation	6,200
Bristol Bay Native Corporation	5,200
Calista Corporation	13,306
Chugach Alaska Corporation	2,109
Cook Inlet Region Inc. (CIRI)	6,553
Doyon Limited	9,061
Koniag Incorporated	3,731
NANA Regional Corporation	5,000
Sealaska Corporation	15,700

Source: Regional corporations, October 1991
**Excludes new shareholders enrolled in 1990.*

Current and Real Dollars

We use both ***real*** (adjusted for inflation) and ***current*** (not adjusted for inflation) dollars. Real dollars are best for showing changes and making comparisons over time. In making our inflation adjustment, we converted figures to 1990 purchasing power using the Anchorage consumer price index. We use current dollars to keep historical figures recognizable. Also, some accounting calculations can't be performed in real dollars.

Summary of Findings

All Corporations

• The regional corporations reported close to a billion dollars in book equity in 1990, or more than $12,000 per shareholder. For comparison, Alaska's Permanent Fund had equity of about $10.5 billion in 1990, or roughly $20,800 per Alaskan.

• Adjusted for inflation, the real accrued wealth of the corporations in 1990 was slightly more than their original capital. They received (in 1990 dollars) $700 million in initial ANCSA payments and $265 million in additional payments in lieu of land, for a total of $965 million. By 1990, their accrued real wealth was about $1.05 billion—or about 10 percent more than their initial capital.

• Substantial additional wealth that is not valued on corporate books is embodied in marketable natural resources remaining on ANCSA lands. If undeveloped resource wealth were valued on the books, total book assets and equity could be as much as billions of dollars greater than they are now.

• NOL sales brought the corporations two-thirds as much cash as they received in original ANCSA payments, if we adjust everything to today's buying power. (However, a significant share of that income is unavailable, pending final IRS approval of the sales.)

• Total book assets of the corporations grew tenfold between 1974 and 1990, increasing from $159 million to almost $1.5 billion (in 1990 purchasing power).

• The corporations on average put about half their available assets into business capital, 10 percent into joint ventures, and 35 percent into stocks and other securities from 1974 through 1990.

• The share of assets corporations held in the safest and most liquid assets—stocks and other securities—dropped over time, reaching a low of 18 percent in 1990.

• The poorest year for the corporations as a group was 1977, when they suffered $33 million in losses. In 1988 they had real net income of $212 million, but if we exclude proceeds from NOL sales, their best year was 1990, when they produced real net income of $82 million.

• The corporations altogether lost money on business operations every year except 1974 and 1985. Businesses providing services for the oil industry were among the most profitable, while ventures in seafood processing were among the least.

• Together the regional corporations employed nearly 7,500 people in 1991. That represented roughly 5 percent of Alaska's total private sector wage and salary jobs.

Differences Among Corporations

• Book equity per shareholder in 1990 varied from $500 for Calista to $54,500 for CIRI .

• Cumulative real net income produced by the individual corporations through 1990 varied from $400 million for CIRI to $117 million in net losses for Calista.

• Cumulative dividends paid by corporations varied widely. At the end of 1990 Koniag had paid no dividends while CIRI had paid real (inflation-adjusted) dividends of $10,500 per shareholder.

• Petroleum and timber resources owned by CIRI, ASRC, and Sealaska contributed almost all the $400 million in total net resource revenues the corporations collected through 1991. All three corporations acquired the resource lands in negotiations after ANCSA was passed. Selling resources to produce income is, in effect, liquidating assets, and may not be sustainable.

• Shared resource revenues are an important source of income for village corporations and for those regional corporations with few commercial resources of their own. Of the $400 million in net resource revenues generated largely by CIRI, ASRC, and Sealaska through 1991, they kept $162 million, the other nine regional corporations received $96 million, and the village corporations received $139 million.

• NANA and Arctic Slope (ASRC) employ far more of their shareholders than any other corporations. As of 1991, ASRC employed 22 percent of its 3,700 shareholders and NANA 20 percent of its 5,000 shareholders. Other corporations employed anywhere from less than 1 percent to 5 percent.

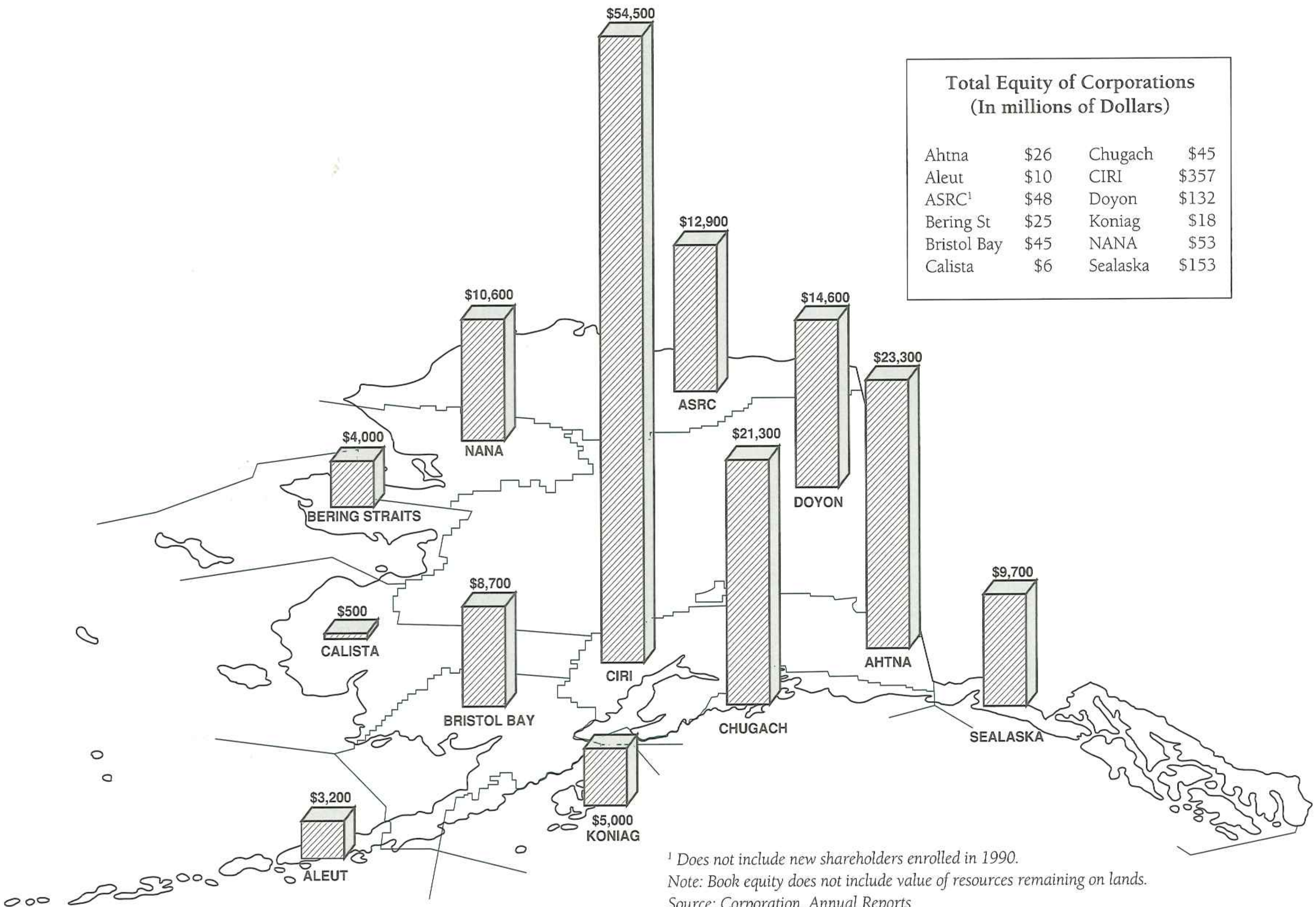
• CIRI, the wealthiest corporation, benefited much more from NOL sales than did struggling corporations like Calista, Bering Straits, and Aleut. CIRI collected $13,272 per shareholder from NOL sales, while Calista collected $1,346 , Bering Straits $5,610, and Aleut $940.

• Chugach Alaska collected the largest proceeds per shareholder ($25,121) from NOL sales, which will likely rescue it in its current bankruptcy proceedings.

• NOL sales made Doyon and Sealaska among the most profitable corporations through 1990. Of the $112 million Doyon produced in real net income, 70 percent was from NOL sales. Of the $116 million Sealaska produced, almost all was from NOL sales.

• CIRI, Doyon, and Sealaska together collected $272 million from NOL sales, but as of 1990 $175 million of this total was in escrow pending approval by the IRS.

Figure 2. Book Equity Per Shareholder of Regional Corporations, 1990



Total Equity of Corporations (In millions of Dollars)

Ahtna	$26	Chugach	$45
Aleut	$10	CIRI	$357
ASRC[1]	$48	Doyon	$132
Bering St	$25	Koniag	$18
Bristol Bay	$45	NANA	$53
Calista	$6	Sealaska	$153

[1] *Does not include new shareholders enrolled in 1990.*

Note: Book equity does not include value of resources remaining on lands.

Source: Corporation Annual Reports

Glossary of Terms

Financial Terms

Assets: What a corporation owns. Assets can be in many forms—including stocks and bonds, timber resources, or fish processing plants.

Liabilities: What a corporation owes to others, including loans and outstanding debts.

Equity: The portion of a corporation's assets that is owned outright by the shareholders. Equal to the difference between assets and liabilities.

Book Value: The value assigned on a corporation's books to an asset, liability, or other item. The book value of items can differ sharply from their market value. For example, the book value of most ANCSA lands is zero, because it is difficult to determine their value. But those lands would have some value on the market.

Market Value: The amount a buyer is willing to pay for a corporation's assets or shares of stock. The value of ANCSA corporations' stock is unknown, because sale or trade of stock was prohibited during their first 20 years.

Book Equity: The shareholders' stake in the book value of assets. It is equal to the difference between the book value of assets and the book value of liabilities. Because the book value of ANCSA corporation assets typically doesn't include a value for ANCSA lands, the book equity doesn't reflect land value either.

NOL (Net Operating Loss) : A loss of money for tax purposes. If an NOL generated by one corporation can be used by another, more profitable corporation to offset its taxable income and reduce its taxes, the profitable corporation will be willing to pay a fee to the generating corporation for the right to use the NOL.

Net Income: An accounting term meaning the difference between total revenues and total expenses. Net income is the money corporations earn from their activities. It can be used to pay shareholder dividends, or re-invested to promote future wealth.

Net Income Received: This is just the same as Net Income. In this publication we have added the word "received" to make it plain that this is the value the corporation receives, after it pays taxes and shares resource revenues as mandated by Section 7(i) of ANCSA.

Net Income Produced: This differs from Net Income Received in that it is measured before the corporations pay taxes and share resource revenues. It is a good measure of the economic production of a corporation, and is more readily divided into components.

Unavoidable Overhead: Our estimate of the minimum required to carry out the legal mandates of ANCSA, including land selection and shareholder relations. Since this expense is unrelated to profitmaking, it can't be charged against any specific component of income.

ANCSA Terms

Village Corporation: Corporations formed under ANCSA to manage money and land received by villages. Village corporations generally received title to the surface rights of lands near the village. The regional corporations hold the subsurface rights to village lands.

Urban Corporation: Corporations organized under ANCSA to represent Alaska Natives living in larger communities, mostly in southeast Alaska.

At-Large Shareholder: ANCSA shareholders enrolled in regional corporations but not in village or urban corporations. All shareholders were required to enroll in regional corporations but had the choice of enrolling in village or urban corporations or remaining at-large shareholders of the region. Most did enroll in both regional and village or urban corporations.

Section 7(i) Net Resource Revenues: Derived from development of timber or subsurface resources of ANCSA lands, minus costs of production. Sections 7(i) and 7(j) of ANCSA require that the regional corporations share net resource revenues among themselves and with the village corporations and at-large shareholders.

Equity and Wealth

Most business corporations try to maximize shareholder wealth, either by paying dividends or accumulating shareholder equity. So equity and wealth are good starting points for our discussion.

Figure 2 shows the total and per shareholder book equity of the twelve regional corporations as of 1990. Book equity does not include the value of natural resources remaining on ANCSA lands, because the corporations generally have not assigned them a value. Total equity is one measure of the economic power of a corporation. Per shareholder equity is a measure of how well a corporation has done for its shareholders.

Figure 3 shows condensed balance sheets for the corporations. The balance sheets show how much money they started out with, how much they earned or lost, and how much they ended up with in 1990, after 17 years of operations. In technical terms, the figure illustrates the following accounting relationship:

Start-up Capital from ANCSA Payments
plus Additional Capital
plus Cumulative Net Income (or Loss)
minus Cumulative Dividends Paid
equals Shareholder Equity at end of 1990

The corporations all began with ANCSA payments based on the number of shareholders as their start-up capital. It's important to remember that while the total ANCSA cash settlement was $962.5 million, the regional corporations got only about $440 million, paid out over a decade. The rest went to village corporations and individuals. Four corporations got significant additional capital in two ways. CIRI and Chugach Alaska negotiated for surplus federal properties and cash, respectively, in lieu of land. Ahtna and NANA merged with their village corporations, thereby acquiring their wealth.

During 17 years of operations, eight corporations earned cumulative net income and four suffered cumulative losses. Eleven of the twelve paid out some dividends. As a group, they ended up with book equity of just over $900 million.

• *CIRI had both the largest total and per shareholder equity in 1990: $357 million in total equity and $54,500 per shareholder.*

• *After CIRI, Sealaska and Doyon have the next largest total equity—but Ahtna and Chugach have the next largest per shareholder equity.* That's because Sealaska and Doyon have many shareholders and Ahtna and Chugach few.

• *For most corporations, ANCSA payments amounted to roughly one-quarter to one-half of their cumulative financial wealth through 1990.* The exceptions are Bering Straits and Calista, which accumulated no wealth beyond their ANCSA payments, and CIRI, which accumulated so much more that ANCSA payments made up just 8 percent.

• *The size of original ANCSA payments per corporation did not determine financial success.* They all began with equal amounts per shareholder, but some received much larger total payments because they had more shareholders. For example, Calista with 13,000 shareholders started with much more capital than Ahtna, which has just 1,100 shareholders. But by 1990 Calista had just $500 equity per shareholder, while Ahtna had $23,000.

• *CIRI's additional capital through 1990 was triple its original ANCSA payments.* That additional capital CIRI acquired through 1990 ($128 million) is the value of surplus federal properties CIRI obtained in lieu of land .

• *CIRI earned three times the net income of any other corporation through 1990.* Much of that net income was from sale of oil and gas leases on lands it acquired through a land trade with the state and federal governments, but it also collected substantial amounts from other sources.

• *Dividends paid out by corporations ranged from 17 percent of cumulative wealth (NANA) to zero (Koniag). Other corporations paid out anywhere from less than 1 percent (Calista) to 14 percent (Bristol Bay).*

Figure 3. Condensed Balance Sheets of Regional Corporations

(In thousands of current dollars)

Combined Balance Sheet

	ANCSA Payments, 1972-1990	440,274
plus	Other Contributed Capital, 1972-1990	170,959
plus	Cumulative Net Income (Loss), 1973-1990	429,750
minus	Cumulative Dividends Paid, 1973-1990	121,894
equals	1990 Shareholder Equity	919,089

Source: Annual reports of Native regional corporations.
ANCSA Payment is total cash received and retained by the regional corporations under terms of ANCSA. Does not include ANCSA payments attributable to merged villages.
Other Capital is additional capital resulting from events unique to each corporation. Includes payments in lieu of land, equity of merged villages, ANCSA payments attributable to merged villages. Does not include NOL sales proceeds. See text.
Net Income or Loss is cumulative net income from inception through fiscal 1990. Includes NOL sales proceeds. Does not include cumulative net income of merged villages.
Equity is total shareholder equity as reported by the corporations at the close of fiscal 1990.
Dividends are cumulative dividends paid to shareholders from inception through fiscal 1990.

	Ahtna	Aleut	ASRC	Bering St	Bristol Bay	Calista	Chugach	Doyon	Koniag	NANA	Sealaska	CIRI
ANCSA Payments	6,429	19,504	22,540	38,086	32,525	80,147	11,471	53,423	20,031	28,594	93,162	34,363
Other Capital	12,819	0	0	139	170	0	12,000	357	1,563	15,179	0	128,732
Net Income (Loss)	8,748	(7,593)	31,564	(12,786)	19,795	(73,074)	22,906	87,128	(3,096)	19,960	79,603	256,595
Dividends	2,326	1,376	6,069	633	7,211	665	1,488	8,697	0	10,836	19,991	62,601
1990 Equity	25,669	10,535	48,035	24,805	45,279	6,407	44,889	132,211	18,498	52,897	152,774	357,089

Business Strategies

Most businesses are established to produce a specific product or service. Management worries about how to produce, not what to produce. By contrast, Congress created the regional corporations to somehow produce social and economic benefits for their shareholders, and corporate managers were faced with the question of how to allocate their assets to meet that broad goal. Stocks and bonds are relatively safe ways to make money. Joint ventures and local business operations, on the other hand, can provide jobs and training for shareholders. And while programs to preserve cultural heritage may have broad payoffs in the long term, they cost money in the short term and their benefits are sometimes hard to quantify.

During their first 20 years, the corporations by and large concentrated on making profits, but used their political clout to help preserve and increase public spending for social programs that benefit Alaska Natives. Long before they received their land or all their money, the corporations tried many kinds of business operations, financial investments, and resource development.[5] By looking at the allocation of their assets over time, we can begin to see how they attempted to balance risk, return, and other values in pursuit of economic and social benefits.

Figure 4 shows the year-by-year allocation of corporate assets among six categories defined below—securities, escrow accounts, joint ventures, natural resources, business capital, and other. The figure suggests that the corporate history can be broken down into three periods: start-up (1974-1980), divergence (1981-1986), and the NOL boom (1987-1990).

Start-Up (1974-1980)

Although the corporations were established soon after ANCSA was passed, their business operations were very slight before 1974. So we can think of the start-up period as beginning in 1974 and running through 1980. During that period, total corporate assets grew rapidly as more than $400 million dollars of ANCSA payments flowed into the corporations. But liquid assets (stocks,

Asset Categories

Securities: Includes financial investments—stocks, bonds, and bank accounts. These are among the safest and most liquid of assets.

Escrow accounts: Covers funds placed in escrow and which are unavailable for other investments because their final disposition is uncertain.* Most of the funds shown in this category are proceeds from net operating loss (NOL) sales that the IRS has yet to approve. These escrowed funds continue to earn significant returns, but much of the interest is also escrowed.

Natural Resources: Includes natural resource assets related to ANCSA lands which are listed on the corporations' books. However, the vast majority of these resources are *not* on the books. Most of the assets which *are* carried on the books are land selection and exploration expenses which have been put off until later.

Joint Ventures: Corporations buy part ownership in already established corporations or share ownership in a new venture. They then have some say in the operation of the business but don't carry all the financial risks. Some corporations have used joint ventures to secure jobs for shareholders. Assets allocated to joint ventures generally represent business investments other than natural resources, but do include some ventures exploiting resources on ANCSA lands. Often, only the corporation's share of the *equity* of the joint venture is reported as an asset on the overall corporate balance sheet. Therefore, the size of this category understates the relative importance of joint ventures in total assets.

Business Capital: This category includes buildings, equipment, real estate and inventories. These kinds of holdings, together with joint ventures, generally represent the business operations of the corporations. Because they tend to be very specific and immobile, business capital assets represent the riskiest form of investment.

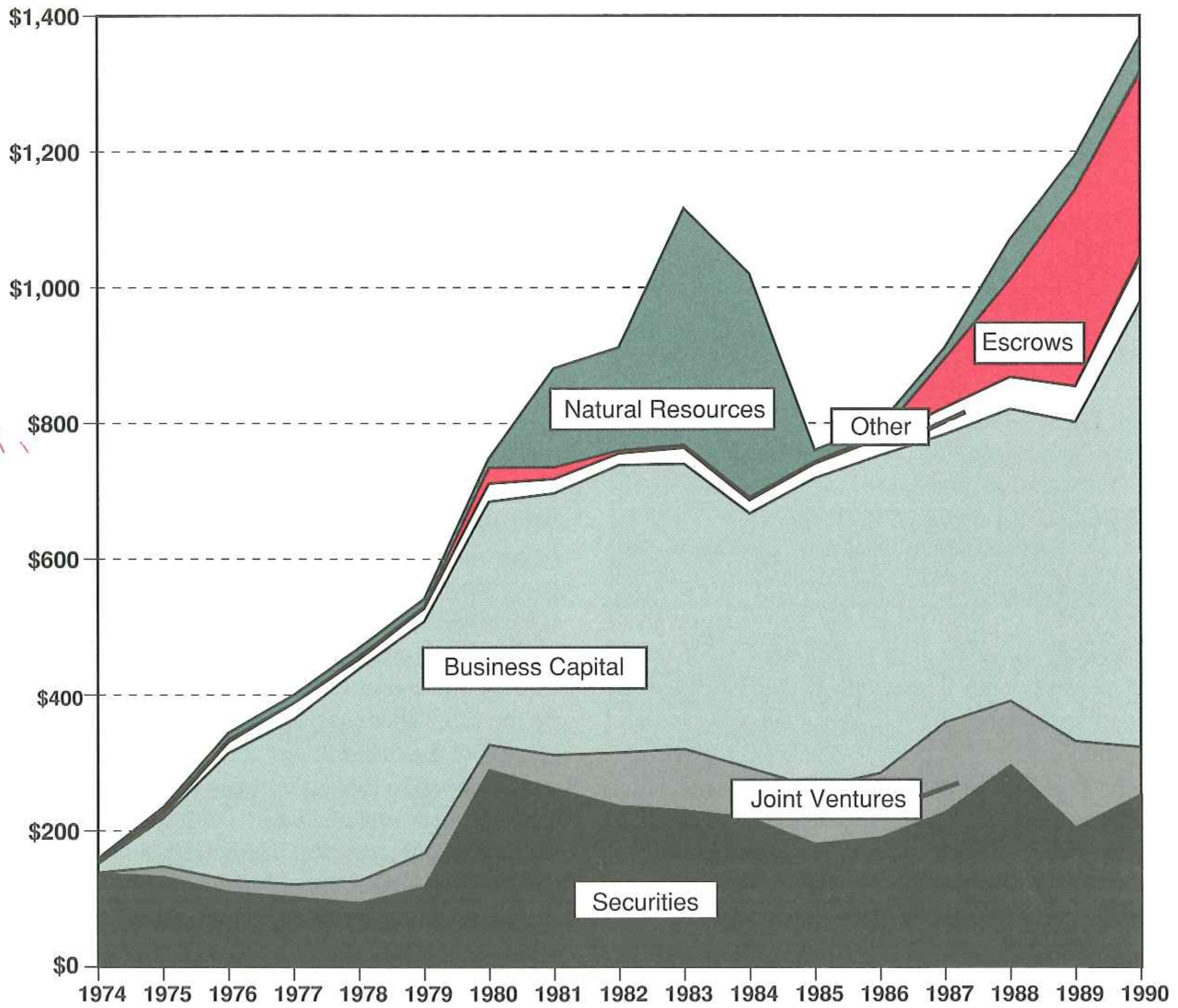
Other: This is a residual category that includes goods and services paid for in advance, such as insurance policies, and items which cannot be classified elsewhere, such as 7(i) revenues payable to other regions.

*For clarity, we exclude from this category funds containing 7(i) resource revenues payable to other corporations, because we consider their final disposition relatively certain.

Note: A final asset category—receivables—is not included in Figure 4. Receivables are payments owed the corporation, largely for goods and services recently provided. They are not useful in explaining corporate strategy.

Figure 4. Combined Asset Allocation of Regional Corporations

(In millions of 1990 dollars)



	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Other	3	4	16	24	14	19	27	21	17	24	20	21	25	39	47	53	67
Business Capital	14	72	187	243	312	340	358	385	423	420	375	455	468	424	430	470	656
Joint Ventures	1	15	17	19	33	50	37	50	82	94	74	83	95	133	95	127	71
Natural Resources	4	6	10	12	12	12	14	145	152	348	329	17	16	16	59	50	51
Escrows	0	6	4	0	5	2	24	18	4	4	4	3	6	72	144	290	272
Securities	137	132	110	102	93	117	289	262	233	226	218	180	190	227	296	204	252
Total	159	235	344	400	469	541	749	881	912	1,116	1,020	760	798	911	1,070	1,194	1,370

Notes: Excludes receivables. Natural Resources includes temporary valuation of timber by Sealaska between 1981 and 1984. See text for discussion.

Source: Corporation Annual Reports

bonds, and cash) declined as the corporations rapidly transformed ANCSA receipts into business capital. For example, Bristol Bay bought the Anchorage Hilton Hotel, and Calista built the Sheraton Anchorage Hotel from the ground up. Sealaska purchased Ocean Beauty Seafoods. NANA moved into the catering business as a joint venture with the Mariott Corporation.

Corporate leaders also invested in research to help them choose lands. Many corporations listed the costs of acquiring that information about land value as an asset on their balance sheets. Those costs, rather than the value of the land itself, make up the assets shown in the natural resources category in the early years.

In 1980, the corporations received their last major ANCSA payments, causing securities as a share of the asset base to nearly double—from 22 percent to 40 percent. The following year, the corporations were on their own financially.

Divergence (1981-1986)

As the corporations received their lands, none except Sealaska valued on their books the resources on those lands. Sealaska did attempt to place a book value on the timber on forest lands it received. In 1983 it listed the original value of timber on 190,000 acres of conveyed land at $279 million.[6] By 1985, however, Sealaska had reduced the book value of this huge resource asset to zero, because management no longer believed it could determine the value within the "reasonable limits" required by accounting principles.

In Figure 4 we show the timber assets as they were reported by Sealaska from 1981 through 1984 to underscore the importance of natural resources in total corporate wealth. In this instance, the estimated value of one resource of one corporation accounted for 32 percent of the *entire* book asset base of all the corporations.

During the early and middle 1980s the corporations as a group continued to move assets into active businesses, both subsidiaries and joint ventures. Between 1981 and 1986 securities dropped from 39 percent of the asset base to 24 percent, while business capital increased from 50 to 60 percent. But while Figure 4 shows a fairly stable asset base for the corporations as a group, the overall figures mask major moves by individual corporations into and out of business activities. Some corporations began to have business losses, and sold some operations. Bristol Bay, for example, lost money on its processed food operations and sold them in 1986. The Aleut corporation withdrew from the shipping and fishing industries during 1983, and Chugach Alaska began to suffer losses in fish processing. The 1986 collapse of world oil prices and the resulting recession in the Alaska oil and construction industries hurt regional corporations involved in construction and oil field service operations.

By the end of 1986, the financial results of the individual corporations had diverged substantially. CIRI, NANA, Bristol Bay, ASRC, and Ahtna had all made cumulative profits up to that point, but each of the other seven corporations had suffered cumulative losses. Bering Straits was already emerging from a bankruptcy reorganization, and Calista was having trouble paying the debt service on the Sheraton Anchorage Hotel.

NOL Boom (1987-1990)

Sales of net operating losses (described in detail later) rescued several corporations from financial distress and helped others embark on new business ventures from a stronger financial position. Figure 4 shows the effect these large cash infusions had on the corporations' overall asset base. Proceeds from almost all the NOL sales had been recognized as corporate income by the end of 1989, but $270 million remained locked away in escrow accounts through the end of 1990 because of expected challenges by the IRS.[7] Those escrowed proceeds amounted to 20 percent of the corporations' total assets in 1990.

There was a modest increase in business capital as a share of total assets between 1987 and 1990—but the individual corporations made very different strategic choices about business operations. CIRI and ASRC expanded aggressively into communications and petroleum refining. But Sealaska sold its fish processing ventures and Calista sold the Sheraton Hotel.

Figure 4 also shows a significant increase in natural resource assets in the late 1980s, resulting from CIRI's more active involvement in the oil and gas industry.

At the end of 1990, the corporations seemed to fall into three groups, each with its own strategy and asset allocation. The first group consists of those recovering from heavy losses sustained during the 1980s and with few total assets—Aleut, Bering Straits, Bristol Bay, Calista, Chugach, and Koniag. The second group has consolidated operations, focused on natural resource development where possible, and appears to see large portfolios of securities as major long-term sources of income. This group is made up of NANA, Ahtna, Doyon, and Sealaska. In fact, NANA and Sealaska have established shareholder permanent funds with more than $91 million at the end of 1990. The third group consists of ASRC and CIRI. Both

are continuing major business expansions and active participation in the oil and gas industry. They may not consider securities a major source of long term earnings.

Our review of the combined asset base of the regional corporations leaves one big question unanswered: Assuming that the IRS ultimately approves most of the corporations' NOL sales, what will CIRI, Doyon, and Sealaska do with the combined $225 million they are holding in escrow?[8] What they choose to do with that huge amount of cash will have a major effect on the future finances of each.

Financial Results

We've seen a glimpse of the business strategies the corporations used through 1990. Now we look at how those strategies translated into income. We consider four major sources of income from 1974 through 1990: (1) business operations, (2) securities, (3) resource revenues, and (4) proceeds from sales of net operating losses (NOLs). First we talk in some detail about the corporations special sources of income—resource revenues and proceeds from NOL sales. Then we show how all four sources added up to total net income produced through 1990.

Special Sources of Income

RESOURCE REVENUES

All the corporations have looked for natural resources on their lands, and a few have been very successful in developing them. Resource development is risky, partly because extracting resources in Alaska is expensive and resource prices can change quickly. In many cases, the corporations chose to limit their risk by leasing their lands.

The corporations' success in developing natural resources is reflected in the revenues shared under sections 7(i) and 7(j) of ANCSA. Congress recognized that some regions would have more natural resources than others. So it required the regional corporations to share 70 percent of net revenues from developed timber and subsurface resources among themselves and with the village corporations and urban and at-large shareholders. The example box explains the process.

Figure 5 shows how net resource revenues were generated and shared among the regional and village corporations from 1976 through 1991.[9]

• *The regional corporations generated $398 million in net resource revenues from 1976 through 1991.*

Revenue Sharing Process

To make the numbers simple, we assume a hypothetical corporation with 20 percent of total shareholders. The shares of the actual regional corporations depend on their percentages of total shareholders.

The hypothetical corporation first subtracts its expenses to determine net revenues, and then keeps 30 cents of each dollar.[10] The remaining 70 cents is put into a pool which is divided among all twelve regions. With twenty percent of the shareholders, the hypothetical corporation gets 20 percent of this pool (14 cents). The other eleven corporations get the rest (56 cents). Next, all twelve corporations pay half of their shares of the pool money to their village corporations and to their urban and at-large shareholders. The other 11 regional corporations pay their village corporations 28 cents and keep 28 cents. Likewise, the hypothetical corporation splits its 14 cents in half, paying 7 cents to its village corporations and keeping 7 cents.

At the end, the hypothetical corporation keeps 37 cents—its original 30 cents, plus its share of the other 70 cents. The village corporations in the hypothetical region receive 7 cents. The other eleven regional corporations get 28 cents, and their village corporations get 28 cents.

• *CIRI, Sealaska, and Arctic Slope (ASRC) generated 95 percent of the total net resource revenues through 1991.* CIRI contributed $187 million, Sealaska $135 million, and ASRC $56 million. To get the money, CIRI and ASRC sold oil and gas leases; Sealaska sold timber.

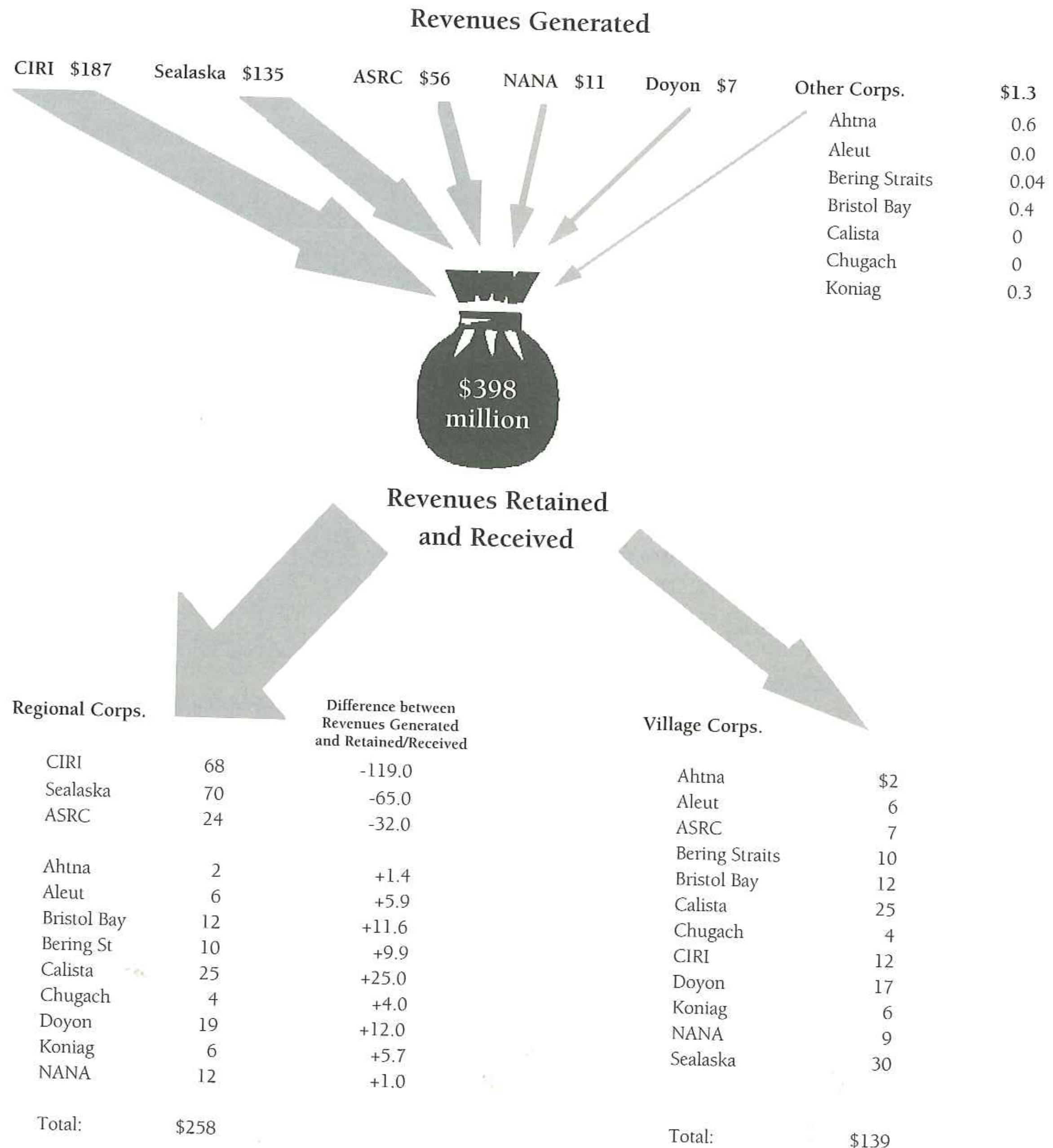
• *After sharing, the regional corporations kept $258 million (or 65 percent) of net resource revenues and the village corporations received $139 million (35 percent).*

• *Shared resource revenues have been an important source of income for the corporations without resource revenues of their own.* Aleut, Bristol Bay, Bering Straits, Calista, Chugach , and Koniag generated very little or no resource revenues but collected more than $60 million.

• *ASRC has collected over $30 million in revenues from an oil lease in the Arctic National Wildlife Refuge—but it doesn't have to share them.* ASRC acquired subsurface rights in ANWR under a 1984 land trade with the federal government. In making the trade, ASRC did not give up any resources subject to 7(i) sharing—and the 7(i) settlement agreement (signed by all the corporations in 1982) says that if no 7(i) resources are given up in a trade, no 7(i) obligations apply to the lands received. So if other corporations hope to benefit from any future development in ANWR, they will have to negotiate their own trades (and several are currently attempting to do so).

Figure 5. Estimated Net Resource Revenues Generated and Received by Corporations, 1976-1991

(In millions of dollars)



Source: Estimated by author based on receipts data provided by CIRI, and cross-checked with available annual report data. Actual amounts may differ due to the timing of cash payments and changes over time in regional enrollment percentages.

Revenues Generated are net resource revenues (revenues after expenses are subtracted) generated within each region from 1976 through fiscal year 1991 and subject to the sharing provisions of ANCSA sections 7(i) and 7(j)

Revenues Retained and Received are the final disposition of the generated revenues. Only regional corporations generate revenues subject to 7(i) distribution. Village corporations and urban and at-large shareholders receive a portion of those revenues. Regional corporations retain a portion of 7(i) revenues they generate and receive shares from other corporations.

NOL SALES

For Alaska Native corporations, the brief opportunity to sell tax net operating losses between 1986 and 1988, when nobody else could, was a bright shooting star in the financial sky. For the regional corporations as a group, NOL sales proceeds provided a cash infusion equal (in real dollars) to two thirds of the original ANCSA payments. Bering Straits and Chugach Alaska were probably saved from liquidation.

A net operating loss (NOL) is a loss of taxable income as recognized by the Internal Revenue Service. Firms generally use accumulated NOLs from past years to offset current taxable income. But NOLs can only be used within a certain period after they're generated, so a company with low profits can end up with large accumulated NOLs that it can't use directly.

During the early 1980s U.S. corporations got around that problem because they were allowed to sell their accumulated net operating losses (NOLs) to one another. Alaska Native corporations had NOLs to sell, and some U.S. companies cut small deals with them. But by and large their bargaining power was weak and the proceeds they received were small.

But all that changed in 1986 when Alaska Native corporations become the only ones in the country that could sell their NOLs. In that year Congress eliminated NOL sales for all U.S. corporations *except* Alaska Native corporations. They found themselves courted by scores of huge corporations eager to buy their tax losses. The results of this sudden popularity and bargaining power are plain in Figure 6, which shows the amount of income recorded as a result of NOL sales.[11] Some Congressmen became alarmed at the magnitude of the sales, and they were stopped in 1988. But corporations continued to receive proceeds from past transactions until 1990.

The box above shows a highly simplified example of what they did. That example shows that $100 worth of NOLs generates about $27 in NOL income for the seller. So we can see that to collect $426 million in NOL sale proceeds, the regional corporations would have had to claim over $1.5 billion in losses for tax purposes.

What were the corporations' NOLs made up of? While some sold actual accrued losses of cash, most claimed losses resulting from sales of natural resources on their land. But since the corporations paid no money for the resources and assigned them a value of zero on their books, most of the tax losses claimed did not show up on the books as a current or accumulated loss of financial wealth.[12]

Furthermore, the corporations that generated NOLs by selling natural resources successfully argued against sharing the resulting NOL proceeds under 7(i) procedures. (The revenues from the resource sales themselves were shared, however.) The issued was hotly debated and settled out of court.

Some people feel that the claimed losses were exaggerated and only occurred on paper.[13] And the IRS has challenged many of them. But others point out that many of the losses are based on actual declines in the world price of commodities such as timber and asbestos. If the Native corporations had been in control of their lands when these prices were high, they could have reaped the gains from these higher prices. But they weren't—largely because of delays in implementing ANCSA.

For example, Sealaska still has not received all its promised timberland, and most of what it does have wasn't conveyed until the early 1980s. Meanwhile, the average price of standing timber harvested from Alaska national forests plummeted from more than $15 per thousand board feet in 1980 to about zero in 1986.

Moreover, Native corporation NOL sales may look big by themselves, but they are tiny compared to those carried out by other U.S. corporations prior to 1986—and which are still carried out by firms big enough to merge with other companies and use their NOLs.

How NOLs Work

Suppose Native corporation A received timber worth $110 at the time of conveyance, and eventually sells it to logger B for $10. This transaction creates an NOL equal to ($110 - $10) or $100. Now Native corporation A turns around and sells the $100 NOL to company C, which uses it to offset $100 worth of taxable income. Company C avoids $34 in taxes since the corporate income tax rate is 34 percent. In return for this $34 benefit, company C pays Native corporation A about $27 — roughly 80 percent of the tax savings generated.

Figure 6 and Table 1 show how the corporations as a group and individually benefited from NOL sales.

- *In 1986, before they became the only source of NOLs, the regional corporations booked $18 million in NOL income.*

- *Between 1986 and 1987 the corporations' NOL sale proceeds grew sixfold to $100 million, and in 1988 nearly doubled again to $185 million.*

- *By the end of fiscal 1990 the corporations had recognized $426 million as NOL income. However, a large portion of this money — $270 million in 1990 — is held in escrow accounts, pending IRS approval of the transactions.* In addition to the $426 million, more than $50 million in proceeds have been sold but will not be recognized as income until approved.

- *The top three recipients — Sealaska, CIRI, and Doyon — represent 42 percent of the shareholders but collected almost 60 percent of the NOL income.*

- *Per-shareholder NOL income varied by a factor of 50 among the individual corporations.*

- *Chugach Alaska collected the most money per shareholder, about $25,000, which moved it from the poorest to the third-richest corporation in terms of 1990 equity per shareholder.*[14]

- *The richest corporations got richer while some of the poor got poorer: CIRI collected ten times as much per shareholder as Calista.*

Figure 6. Total NOL Sale Proceeds, All Regional Corporations
(In Millions of Dollars)

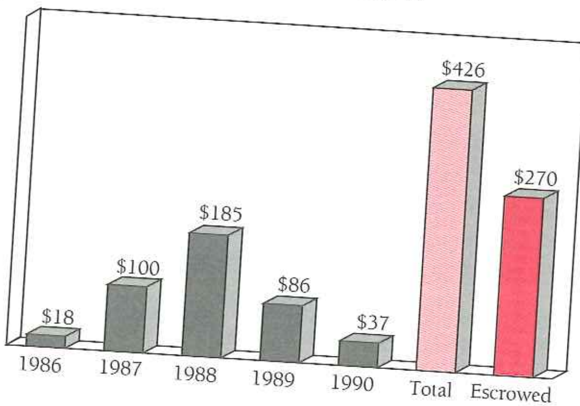


Table 1. NOL Sale Proceeds by Regional Corporation
(In Current Dollars)

	Total (Millions)	Per Shareholder
Ahtna	4.9	4,440
Aleut	3.1	940
ASRC	2.5	669
Bering St.	34.8	5,610
Bristol Bay	19.2	3,697
Calista	17.9	1,346
Chugach	53.0	25,121
CIRI	87.0	13,272
Doyon	76.6	8,454
Koniag	16.8	4,512
NANA	2.7	540
Sealaska	107.7	6,859
Total	426.1	5,686

Overall, the corporations with the most resources benefited most from NOL sales, while resource-poor corporations missed out —because NOL proceeds weren't shared under 7(i) provisions. The 7(i) revenue sharing requirements help compensate for unequal resource endowments among corporations. By contrast, the NOL sales exacerbated these inequalities. NOL sales provided a great benefit to Native corporations as a group, but they were a poorly targeted policy, if they were intended primarily to help those corporations in the worst financial trouble.

Total Net Income

So how did business operations, securities, resource revenues, and NOL sale proceeds contribute to total net income of the corporations? It would be impossible to answer that question precisely, even if we had complete accounting data. But we have estimated how much net income came from each source.

To do that, we started with a measure of income we call net income produced. This is net income before revenue sharing and before taxes. By contrast, the accountant's measure of net income, which for emphasis we call net income received, is net income after revenue sharing and after taxes.

Three of the four sources of net income produced—securities investments, net resource revenues, and NOL sale proceeds—are reported directly.[15] The

fourth component, net income from business operations, is difficult to estimate directly because the available accounting data does not straightforwardly reflect the economic costs and benefits of those operations.[16] To get around that problem, we indirectly estimated net income produced by business operations. (See notes to Figure 7 for more information.) Our estimates are different from standard definitions of operating income or net income by business segment. They represent instead an economist's view of the overall contribution of business activities to net income produced.

ALL CORPORATIONS

Figures 7 and 8 show cumulative net income produced by the corporations as a group from 1974 through 1990. Notice that our income figures are adjusted for inflation, so they are comparable over time.

• *Stocks, bonds, and other securities have been solid moneymakers for the corporations from the beginning.* Securities made money every year from 1974 through 1990, with income growing from $7 million in 1974 to $60 million in 1990, after an adjustment for inflation.

• *Real net resource revenues for the corporations as a whole ranged from $2 million in 1980 to a high of $65 million in 1989.*[17]

• *If there had been no NOL sales, the corporations as a whole would have lost money in 1987, and income would have been modest in 1986 and 1988.* That's because the corporations as a group lost heavily on business operations in 1987, and income from financial investments was much smaller from 1985-1987 than it became in 1989-1990.

• *The corporations as a group suffered net losses in 7 of the past 17 years. Total income produced was less than $35 million in six more years, and above $80 million in the four most recent years.*

• *The best financial performance of the corporations as a whole was actually in 1990, even though total net income figures for the three previous years are higher.* That's because (as Figure 7 shows) NOL sales accounted for most of the total income produced in 1987 and 1988 and nearly half in 1989. In 1990, without NOL sales, the corporations produced real net income of $82 million.

INDIVIDUAL CORPORATIONS

Figure 9 portrays the cumulative financial performance of the individual corporations over the period 1974 through 1990. As before, we show the components and total amount of net income produced. This is a good measure of the economic production of a corporation. We also show the cumulative amounts of net income received by shareholders, as reported on the financial statements. This concept of net income is a better measure of the economic benefits received by the shareholders.

• *Timber revenues and sales of NOLs made Sealaska among the more profitable corporations as of 1990, despite major business losses.* Sealaska's real income amounted to $116 million through 1990. But it was well ahead mostly because $112 million in resource revenues and $105 million in NOL sales outweighed an estimated $150 million in business losses.

• *Returns on securities and sales of net operating losses (NOLs) contributed most of Doyon's cumulative income through 1990.* Doyon produced real net income of $112 million through 1990. It earned about $62 million on financial investments, and $75 million from NOL sales.

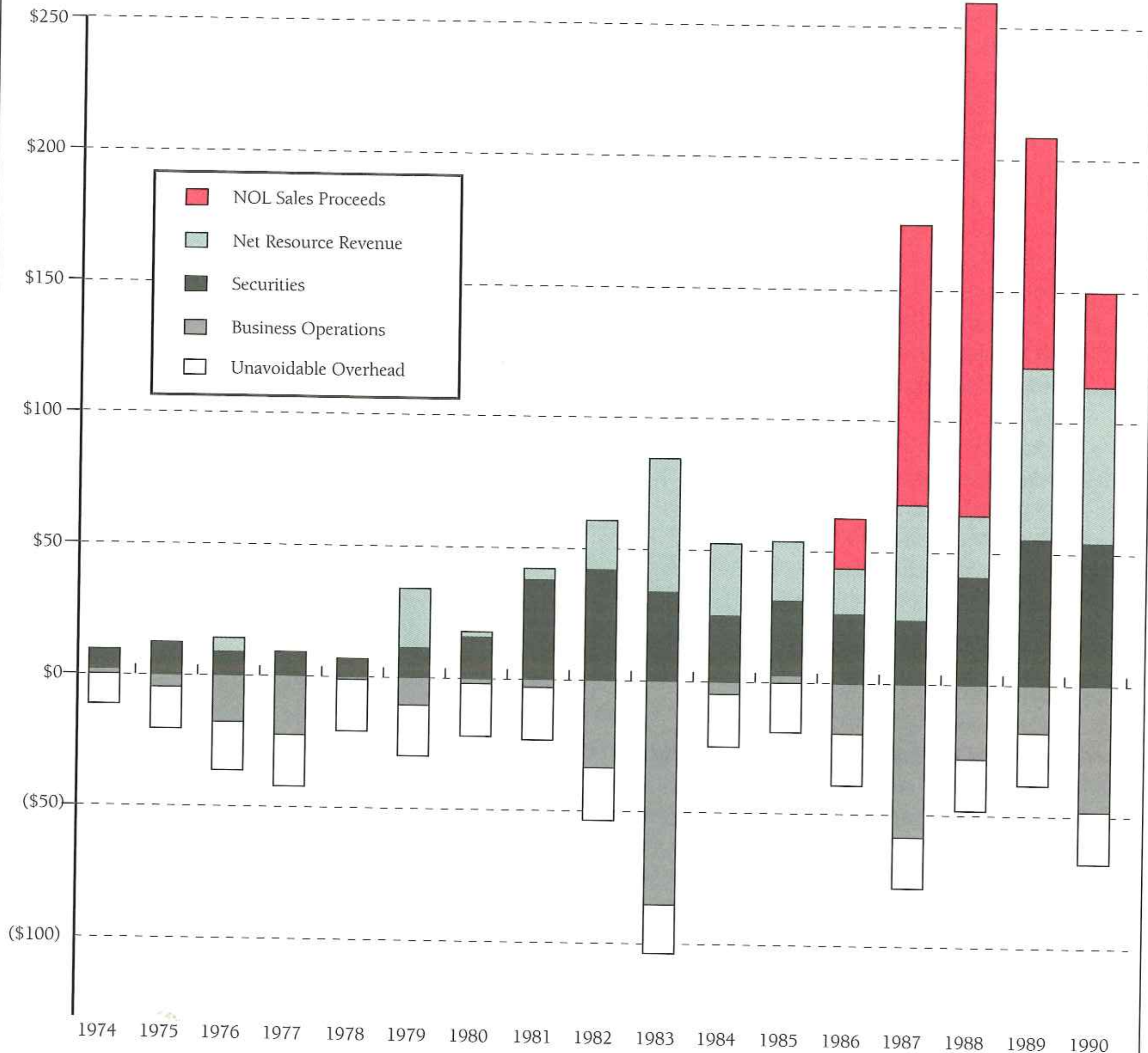
• *Sales of net operating losses (NOLs) kept Chugach Alaska and Bristol Bay from suffering losses through 1990.* From 1974 through 1990 Chugach produced real income of $31 million—but that positive balance was made possible by NOL sales that brought Chugach $52 million. Bristol Bay's cumulative real income through 1990 was $5.6 million—but it was in the black only because it gained $18.6 million through NOL sales.

• *NANA's cumulative net income consisted mostly of securities income of $44 million.* Net resource revenues contributed less than $15 million. Revenues from the Red Dog zinc mine will add to NANA's future income.

• *Bering Straits, Calista, and Koniag all produced cumulative net losses through 1990, but NOL sales prevented those losses from being even bigger.* Bering Straits' real cumulative income losses amounted to more than $50 million—but that was after $33.5 million from NOL sales had reduced the losses by a third. Calista had real losses of nearly $117 million, after NOL sales brought in close to $18 million. Koniag had real income losses of $13 million—but those losses would have been twice as big were it not for NOL sale proceeds of $16 million.

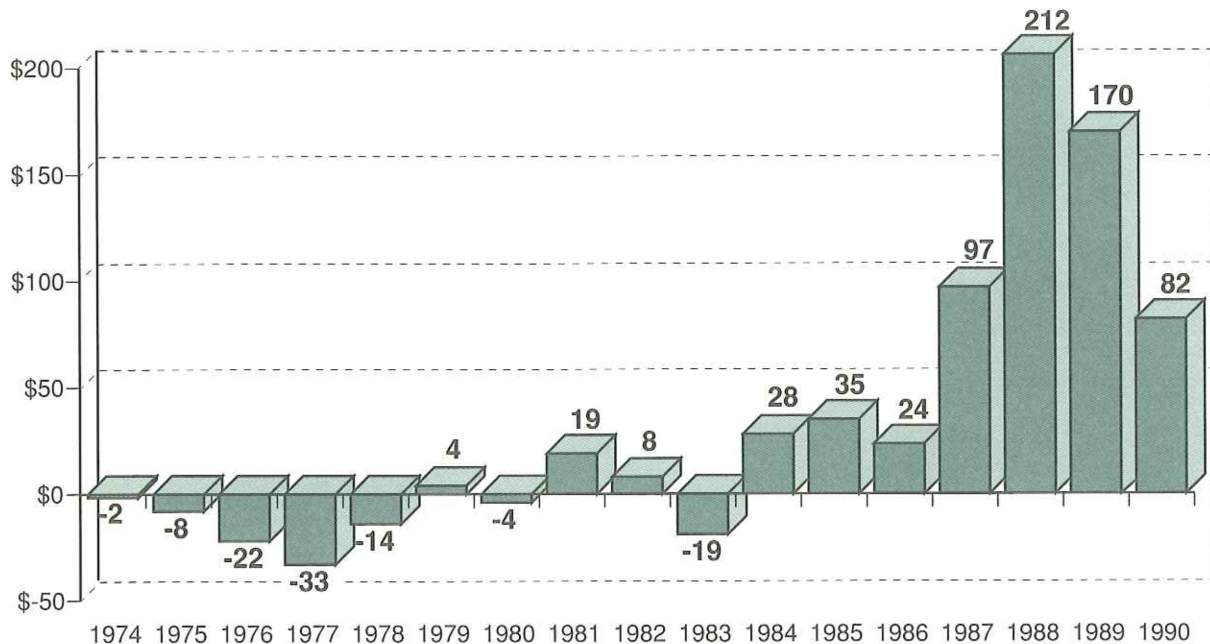
Figure 7. Components of Net Income Produced, 1974-1990

(In millions of 1990 dollars)



	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
NOL Sales	0	0	0	0	0	0	0	0	0	0	0	0	19	107	195	88	36
Net Resources	0	0	5	0	0	23	2	4	19	51	28	23	17	44	23	65	59
Securities	7	12	9	9	7	11	16	38	42	34	25	28	26	24	41	55	54
Business Ops.	2	(5)	(18)	(23)	(1)	(11)	(2)	(3)	(33)	(85)	(5)	3	(20)	(58)	(28)	(18)	(48)
Overhead	(11)	(16)	(18)	(20)	(20)	(19)	(20)	(20)	(20)	(19)	(20)	(19)	(20)	(19)	(20)	(20)	(20)
Total	(2)	(8)	(22)	(33)	(14)	4	(4)	19	8	(19)	28	35	24	97	212	171	82

Note: Negative numbers in parentheses. Net income produced is measured before taxes and resource revenue sharing.

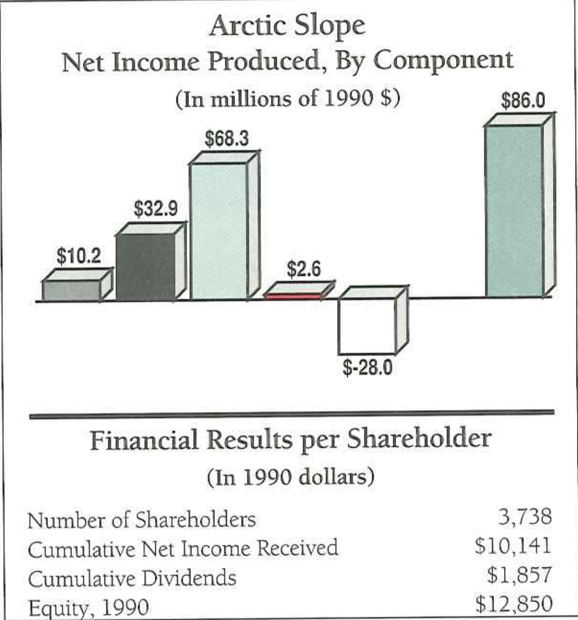


Notes to Figures 7 and 8

Source: Estimated by ISER based on annual report data and estimated net 7(i) revenues.
Net Income Produced is net income before revenues sharing and taxes. The total net income produced in all twelve regions is closely related to the pre-tax net income reported in annual reports. It is equal to the statewide sum of reported pre-tax net income plus the statewide sum of all resource revenue transfers from regional corporations to villages.
Components of Net Income Produced are calculated to sum to Total Net Income Produced: Business Operations plus Securities plus Net Resource Revenue plus NOL Sale Proceeds minus Unavoidable Overhead equals Total Net Income Produced.
Business Operations income represents net income from active business ventures not subject to 7(i) sharing requirements. We calculate it by starting with total net income produced, then subtracting all other forms of income (defined below), then adding back estimated Unavoidable Overhead, which cannot be charged against any one revenue source.
Securities income is reported income from interest, dividends, and capital gains from sale of stocks and bonds, less a 2 percent deduction for estimated management oversight and fees not already deduced.
Net Resource Revenue is estimated net revenue generated within each region and subject to ANCSA section 7(i) sharing requirements. Receipts of 7(i) revenues from other regions are not included in this item or in Total Net Income Generated. Since the 1982 settlement agreement governing section 7(i) sharing allows for liberal deductions of related expenses, including expense carry forwards, we make no further deduction to the reported net revenues.
NOL Sales Proceeds are calculated as reported NOL income (whether or not it is being held in escrow pending IRS approval), less a deduction for estimated NOL-related expenses. This deduction varies from 2 percent to 5 percent, depending on whether the corporation has already deducted some expenses before reporting the income.
Unavoidable Overhead is an estimate of the minimum expenses necessary to carry out the legal requirements of ANCSA, if no active business operations other than 7(i)-type resource development were pursued. These expenses include maintenance of shareholder records, minimal board of directors functions, and general oversight of the land base. We calculate this as the smaller of actual reported general and administrative expense and an estimate ranging between $1 million and $3 million per year (in 1990 dollars), depending on the size of the regional land base and the number of shareholders.

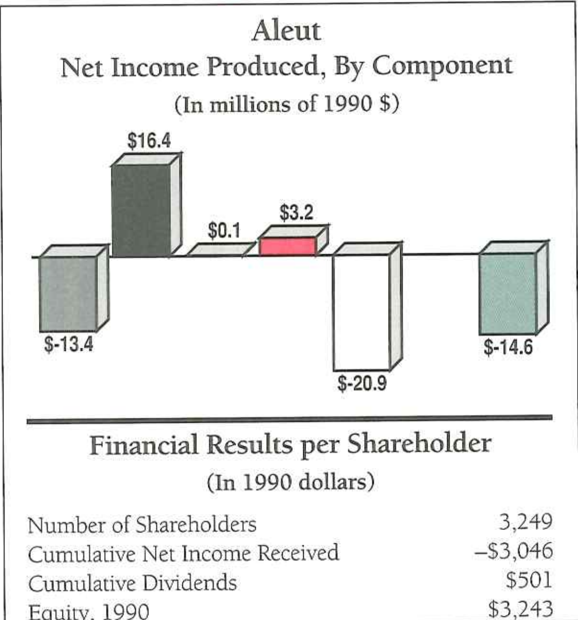
Figure 9. Financial Performance of Regional Corporations, 1974-1990

Business Operations | Securities | Net Resource Revenue | NOL Sales Proceeds | Unavoidable Overhead | Total Net Income Produced



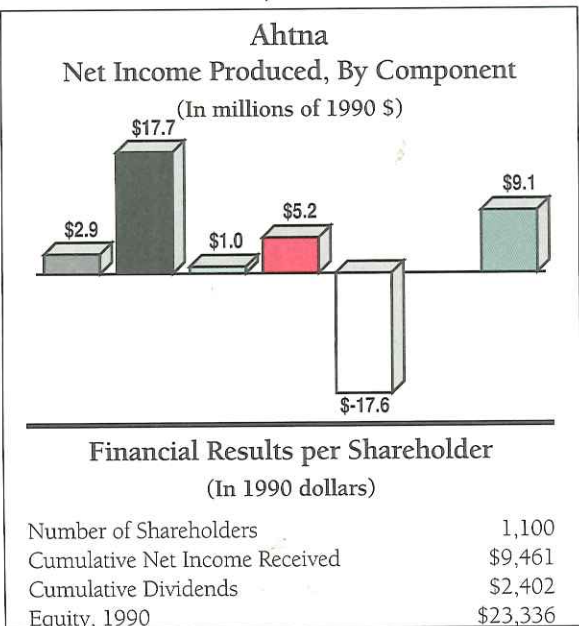
Financial Results per Shareholder (In 1990 dollars)

Number of Shareholders	1,100
Cumulative Net Income Received	$9,461
Cumulative Dividends	$2,402
Equity, 1990	$23,336



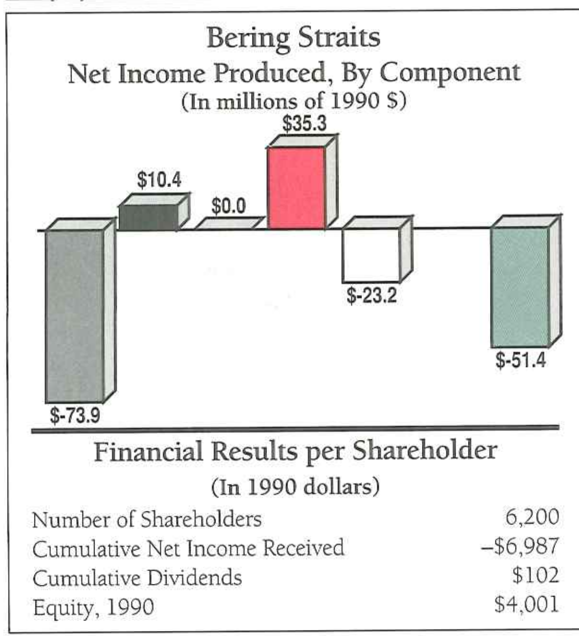
Financial Results per Shareholder (In 1990 dollars)

Number of Shareholders	3,249
Cumulative Net Income Received	–$3,046
Cumulative Dividends	$501
Equity, 1990	$3,243



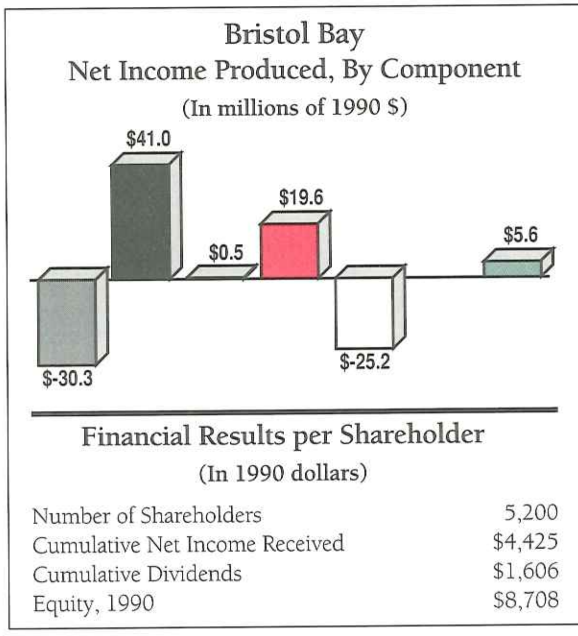
Financial Results per Shareholder (In 1990 dollars)

Number of Shareholders	3,738
Cumulative Net Income Received	$10,141
Cumulative Dividends	$1,857
Equity, 1990	$12,850



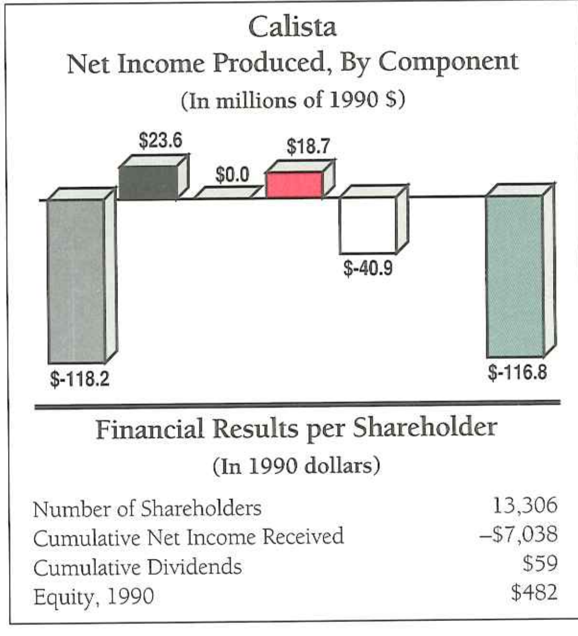
Financial Results per Shareholder (In 1990 dollars)

Number of Shareholders	6,200
Cumulative Net Income Received	–$6,987
Cumulative Dividends	$102
Equity, 1990	$4,001



Financial Results per Shareholder (In 1990 dollars)

Number of Shareholders	5,200
Cumulative Net Income Received	$4,425
Cumulative Dividends	$1,606
Equity, 1990	$8,708



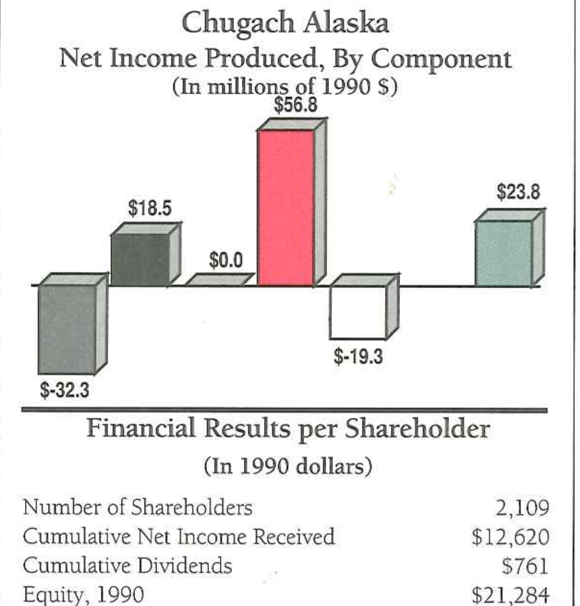
Financial Results per Shareholder (In 1990 dollars)

Number of Shareholders	13,306
Cumulative Net Income Received	–$7,038
Cumulative Dividends	$59
Equity, 1990	$482

Figure 9. Financial Performance of Regional Corporations, 1974-1990 (continued)

Business Operations · Securities · Net Resource Revenue · NOL Sales Proceeds · Unavoidable Overhead · Total Net Income Produced

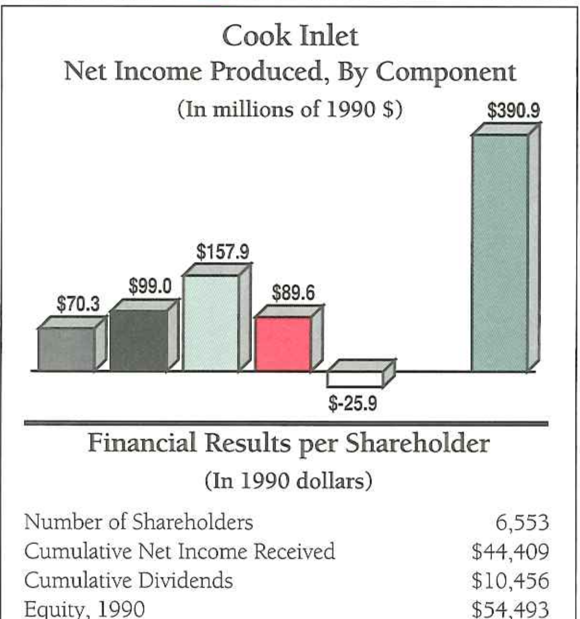
Chugach Alaska



Financial Results per Shareholder
(In 1990 dollars)

Number of Shareholders	2,109
Cumulative Net Income Received	$12,620
Cumulative Dividends	$761
Equity, 1990	$21,284

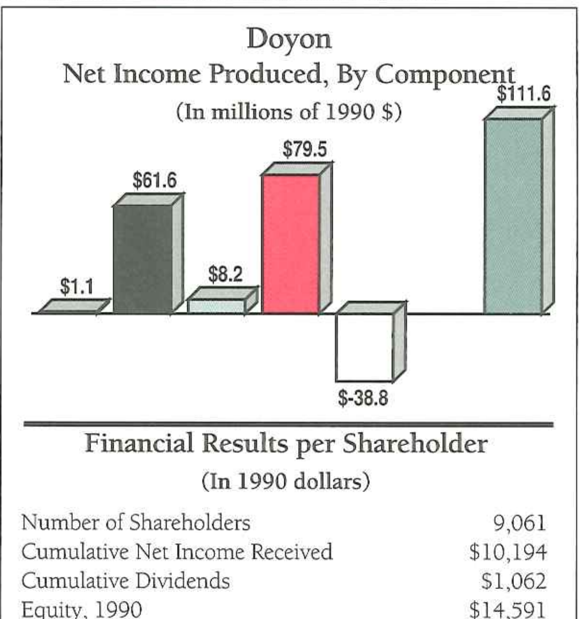
Cook Inlet



Financial Results per Shareholder
(In 1990 dollars)

Number of Shareholders	6,553
Cumulative Net Income Received	$44,409
Cumulative Dividends	$10,456
Equity, 1990	$54,493

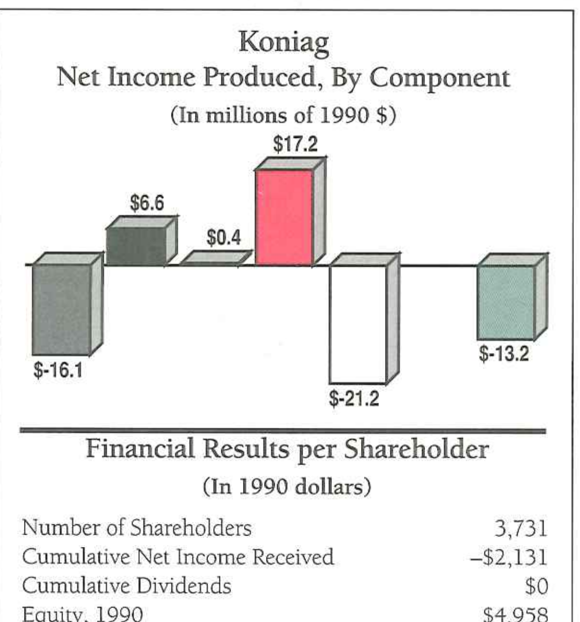
Doyon



Financial Results per Shareholder
(In 1990 dollars)

Number of Shareholders	9,061
Cumulative Net Income Received	$10,194
Cumulative Dividends	$1,062
Equity, 1990	$14,591

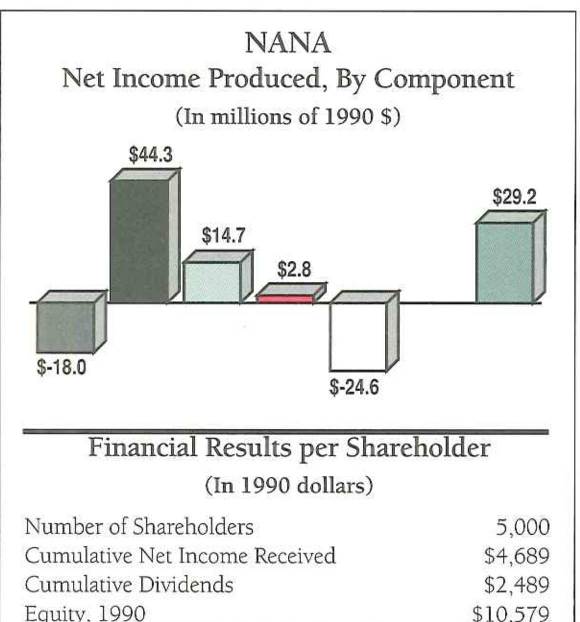
Koniag



Financial Results per Shareholder
(In 1990 dollars)

Number of Shareholders	3,731
Cumulative Net Income Received	–$2,131
Cumulative Dividends	$0
Equity, 1990	$4,958

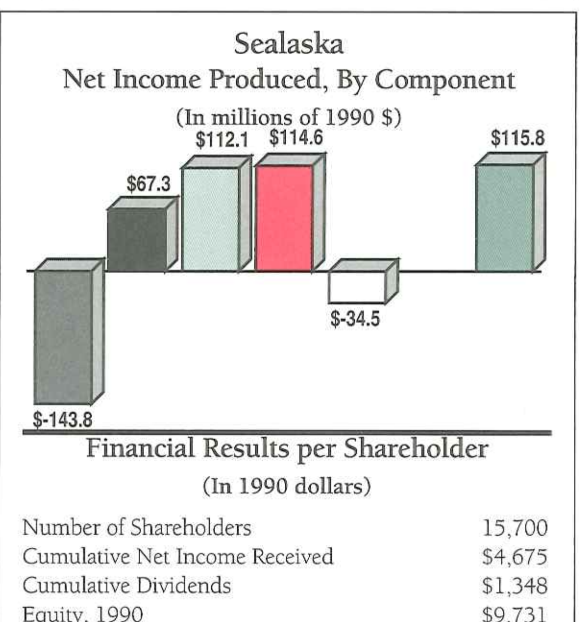
NANA



Financial Results per Shareholder
(In 1990 dollars)

Number of Shareholders	5,000
Cumulative Net Income Received	$4,689
Cumulative Dividends	$2,489
Equity, 1990	$10,579

Sealaska



Financial Results per Shareholder
(In 1990 dollars)

Number of Shareholders	15,700
Cumulative Net Income Received	$4,675
Cumulative Dividends	$1,348
Equity, 1990	$9,731

Notes to Figure 9

See also notes to Figures 7 and 8.
Net Income Received Per Shareholder is the cumulative (1974-1990) total net income reported in corporation annual reports (excluding cumulative net income of merged villages at time of merger), adjusted for inflation by the Anchorage consumer price index and divided by the number of shareholders. Net income produced measures economic production of corporations; net income received better represents economic benefits to shareholders.
Cumulative Dividends Per Shareholder is cumulative dividends paid out from 1974 through 1990, adjusted for inflation and divided by the number of shareholders. Shareholder count for Arctic Slope represents shareholders of record during the period 1974-1990. ASRC has recently enrolled about 1,800 additional shareholders.
Equity Per Shareholder is reported total shareholder equity at the end of fiscal 1990, divided by the number of shareholders.

• *Ahtna, ASRC, CIRI, and Doyon are the only corporations that produced positive cumulative net income on business ventures from 1974 through 1990.* [18]

• *Real net income received per shareholder varied from $44,400 for CIRI to a negative $7,000 for Calista and Bering Straits.* The other corporations had per shareholder income received that ranged from $12,000 to negative $2,000.

• *Cumulative real dividends per shareholder ranged from zero (Koniag) to nearly $10,500 (CIRI).* Shareholders of other corporations received real dividends ranging from $60 to $2,500 each.

Shareholder Employment

Some Native shareholders have gained the most economic and social benefits from their corporations by going to work for them, and at least one corporation counts shareholder employment as its primary goal. Jobs created by Native corporations are also important to the state economy. Table 2 shows available information on total and shareholder employment by the corporations as of 1991, including their joint ventures and subsidiaries. Our information is incomplete and would benefit from several important adjustments which we are currently unable to make.[19] Nonetheless, it provides a reasonably accurate view of the employment picture.

• *ASRC and NANA employ by far the biggest percentage of their shareholders.* As of 1991, ASRC employed 22 percent of its total 3,700 shareholders, and NANA employed 20 percent of its 5,000 shareholders. Ahtna was next, employing about 5 percent of its 1,100 shareholders. Other corporations for which we have information employed roughly 1 to 2 percent of their shareholders.

• *In corporate operations, joint ventures, and subsidiaries, the Native regional corporations in 1991 employed almost 7,500 people.* That represents about 5 percent of Alaska's private workforce.

Table 2. Regional Corporation Employment

	Corporate	Joint Venture	Subsidiaries	Total	Shareholder Employment
Ahtna	25	250	100	375	55
Aleut	9	13	176	198	5
ASRC	53	247	2,162	2,462	827
Bering St.	12	0	3	15	9
Bristol Bay	11	0	300	311	7
Calista	NA	NA	NA	NA	NA
Chugach	20	75	60	155	39
CIRI	66	434	722	1,222	120
Doyon	24	156	0	180	69
Koniag	7	0	0	7	4
NANA	33	1408	609	2,050	978
Sealaska	46	0	395	441	332
Total	**306**	**2,583**	**4,527**	**7,409**	**2,445**

Source: Native Regional Corporations, October 1991, (Sealaska: December 1988)

Conclusions

All the regional corporations survived their first 20 years, but several just barely did. A big part of their relative financial success or failure can be traced to their different resource endowments: some corporations got more natural resources to begin with, and a few were able to win rich resource lands through negotiations and trades.

Most— not all—were held back by business losses. CIRI was the clear exception, bringing in hundreds of millions of dollars for its shareholders. A number of the other corporations lost by putting too much of their money into single big, risky business ventures.

But they certainly weren't alone in 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 involved themselves in marginal ventures—partly to sustain jobs.

The tenacity and political skills of their leaders also helped the corporations. With strong backing from Alaska's congressional delegation, leaders of several corporations negotiated for lands with more development potential than the ones originally opened to them. And later they won the right to sell the net operating losses (NOLs) they said were the result of the federal government's long delays in conveying ANCSA lands. In both cases, their successes meant big financial gains.

A few corporations—NANA being the outstanding example—chose to create jobs for their shareholders even though they knew that could mean foregoing profits. What most consistently paid off for the corporations over time were investments in stocks and other securities and natural resource development. So it seems to make sense for them to concentrate on that basic strategy.

But for the next 20 years and beyond, the corporations face not only questions about how to make profits for their shareholders but about the much broader issue of how best to serve the Alaska Native people. And in recent years, Natives have become increasingly split over how to benefit from and at the same time protect the assets they won after the long settlement battle.

Under the original terms of ANCSA, the ability of the Native people to hold onto and benefit from their settlement was in many ways linked to the financial success of the corporations. They were given 20 years of partial protection. By prohibiting stock sales until 1991, ANCSA guaranteed that the corporations would stay in Native hands at least that long. After that, the corporations were to have become more or less like other U.S. corporations, with stock automatically becoming transferable.

Land was actually less well protected than stock in the early years of the corporations. Under the original terms of ANCSA, management could sell land but shareholders could not sell stock.

As time went on Native leaders became increasingly concerned about losing control of the corporations after 1991. They persuaded Congress to enact major amendments to ANCSA in 1987. Those amendments keep stock off the market unless a majority of shareholders vote to sell. (In late 1991 Congress precluded stock sales until at least 1993, in a move designed to prevent hostile takeovers of the corporations.) They automatically protect all undeveloped Native lands from taxation or from loss through corporate failure. And shareholders can vote to put surface lands and money in settlement trusts to insulate them from corporate operations. The trusts can not develop lands or undertake business activities, but they can create investment funds and pay dividends to shareholders. However, once assets are in a trust, they can't be removed.

So as it stands now, Alaska Natives have more choice about keeping and using their settlement assets. But the 75,000 shareholders of the corporations are a diverse group. They share a Native heritage, but differ in many other ways. Some live in tiny remote villages and others live in cities. Some rely on the land for subsistence and some on the sea. A significant share live outside the regions to which they are enrolled and some don't live in Alaska at all.

Some shareholders want their corporations to concentrate less on profits and more on jobs, education, and training. Others want them to be even more aggressive in going after profits and distributing dividends.

And there is the issue of whether to emphasize benefits for current or future generations of Natives. Originally, only Natives alive on December 18, 1971 could enroll as shareholders. The 1987 amendments gave corporations the option of issuing new stock—to young Natives, to elders, or to others who may have somehow missed the original enrollment. So far only Arctic Slope (ASRC) has issued new stock. NANA plans to enroll new stockholders. It remains to be seen to what extent current shareholders in other corporations will be willing to share the value of their corporations with the new generation.

At the other end of the generational spectrum, many Native elders may not live to reap the financial benefits of

their stake in their corporations. That's because more profits re-invested for the future mean less money for dividends today. Sealaska and ASRC have addressed that issue by establishing special trust funds to pay distributions to elders.

For most U.S. business corporations, these profound questions about who should benefit and when are not relevant because shareholders can sell stock. Those anxious for current benefits can sell their stock for cash, and those unhappy with a company's business strategy can shop around for stock in another with a management philosophy they like.

Native shareholders have had no such choice for the past 20 years: they had to stick with their corporations and receive direct financial benefits mainly in the form of dividends. Within a few years they will have the choice of selling their stock. But even if shareholders are able to sell, many who want cash still wouldn't want to give up their stake in their land by selling stock.

From the shareholders' perspective, therefore, Congress may have gotten things backwards when it allowed the corporations to sell ANCSA *lands* but prohibited the shareholders from selling stock.

The 1987 amendments to ANCSA include provisions that allow shareholders to approve stock sales, and provisions which allow protection of undeveloped land in permanent settlement trusts. Many of the divisive issues facing the corporations might be resolved if there were a way, short of locking it up permanently, for shareholders to insure that they don't lose their land. It remains to be seen whether they will seek such a solution, and if so whether they can succeed under current law.

Endnotes

1. There is a small thirteenth regional corporation, formed by some Alaska Natives living outside the state. It did not share in the land settlement, and it does not operate in Alaska.

2. Throughout this publication figures are by fiscal year. Although the corporations were mandated by ANCSA in 1971, their operations were slight until 1974.

3. See: Karpoff, J.M., and E.M. Rice, 1989. "Organizational Form, Share Transferability, and Firm Performance: Evidence from the ANCSA Corporations," *Journal of Financial Economics* 24:1 pp. 69-105; United States Department of the Interior, 1984. "ANCSA 1985 Study." Prepared by ESG, Falls Church, VA.; Wuttunee, W. 1988. "Competing Goals and Policies of Alaska's Native Regional Corporations." Master's Thesis, Faculty of Management, University of Calgary.

4. We do not attempt to assess the cultural value of ANCSA lands, or to evaluate how well the corporations have achieved social goals. We do not assess their political strength, or their overall impacts on the Alaska economy.

5. Many corporations were able to earn money from their ANCSA lands long before they were selected or conveyed by selling future development rights. These agreements often required the potential developer to explore lands open for corporate selection and to recommend selections based on resource values.

6. The value of all the timber at the time of conveyance, before any deductions for trees cut.

7. In addition to this $270 million, Sealaska has an additional $45 million in NOL sale proceeds, but will not recognize it as income until the IRS approves the sale.

8. This total includes the $45 million not on Sealaska's books, as mentioned in note 7.

9. These figures are estimated from receipts data provided by one corporation, and cross-checked against limited information in annual reports. We are confident these estimates are within 10 percent of the actual values.

10. The determination of net revenues is far from simple and provoked disputes over which expenses could be subtracted to determine net revenues. Economic theory suggests that the 7(i) provisions create incentives to "shelter" gross 7(i) revenues by employing shareholders or paying property taxes to local governments. This strategy keeps more money in the generating region.

11. A small amount—about $8 million—of NOL-related proceeds has been recorded as deferred income tax rather than income.

12. Some sales may preclude the corporations from earning future income, however. To the extent that these sales were made specifically to produce NOLs , they may come back to haunt corporations if resource prices rise dramatically.

13. The issue of the validity and extent of the losses claimed raises many questions we can't address here. Did some corporations essentially sell timber to themselves to maximize their tax losses while minimizing their real losses? Did the impending abolition of the NOL exemption in 1988 cause a fire sale of resources? How did section 7(i) interact with the incentives to generate NOLs?

14 .Chugach is currently in Chapter 11 bankruptcy proceedings. As part of those proceedings they have agreed to give up about $15 million of their claimed $52 million of NOL sale proceeds to the IRS. It is likely that Chugach will emerge from bankruptcy court with low equity per shareholder, due to creditors' claims against the corporation's assets.

15. In determining contributions to total Net Income Produced we deduct 2 percent of securities income and between 2 and 5 percent of NOL income from reported totals to allow for general and administrative costs attributable to these income sources. Most NOL proceeds, however, are reported net of associated expenses. We make no further deductions from net 7(i) revenues.

16. Examples include: (1) Corporate interest charges are not allocated to operations; (2) Discontinued operations and asset write-downs are treated as extraordinary items; (3) Corporate general and administrative expense is often lumped together with selling expense.

17. We recognize that much of the amounts reported as net resource revenues are actually a liquidation of resource wealth for which no depletion expenses have been recorded. Further treatment of this issue is beyond the scope of this paper, except to note that this problem is not unique to Native corporations: the State of Alaska also reports its liquidation of oil wealth as a "revenue."

18. ASRC made $30.5 million selling oil and gas rights in the Arctic National Wildlife Refuge, which it acquired in a 1984 land trade. This income is not subject to section 7(i) sharing requirements. Our estimation procedure measures net resource revenues solely from 7(i) data, and therefore classifies these resource payments as part of business income. If they were reclassified as resource revenues, ASRC would show cumulative business losses.

19. These include (1) adjusting for part-time employment and partial ownership of joint ventures so the numbers of annual average jobs are more accurately tied to the corporations' involvement ; (2) adjusting for contracted operations such as timber cutting, which may generate substantial employment attributable to the regional corporation that owns the land; (3) adjusting for out-of-state workers.

Special Features of Native Regional Corporations

Origins and Purposes: On December 18, 1971, the Alaska Native Claims Settlement Act (ANCSA) became law, awarding Alaska Natives $962.5 million and 44 million acres in settlement of their aboriginal claims. The law called for creation of 12 regional and more than 200 village corporations to manage the settlement lands and money. The corporations were given the broad and elusive task of using the land and the money to produce economic and social benefits for Alaska Natives.

Shareholders: Persons of at least one-quarter Alaska Eskimo, Indian, or Aleut blood who were alive on December 18, 1971 were to benefit from the settlement by virtue of owning the corporations. About 75,000 enrolled as shareholders of the corporations and received stock.

Restrictions on Stock Sales: For the first 20 years after ANCSA was passed, shareholders were prohibited from selling their stock. This provision was to insure that the corporations stayed in Native ownership at least that long. The original ANCSA called for stock to automatically become transferable after 1991. But in 1987 ANCSA was amended so that a majority of shareholders would have to approve in order for stock to come on the market after 1991. Then, in late 1991, Congress made yet another change: as of now, stock sales are prohibited at least until 1993. That move came at the request of the Alaska Federation of Natives, which was worried about the prospect of hostile takeovers of corporations if the stock came on the market.

Shareholder Voting Rights: The original ANCSA allowed shareholders to will their shares to whomever they chose, but only Natives or descendents of Natives were to have shareholder voting rights until after 1991, when stock was to automatically come on the market. In 1987 amendments to ANCSA, Congress gave shareholders the option of keeping their stock off the market after 1991—and to prohibit non-Native shareholders from voting as long as the stock remained non- transferable.

Net Resource Revenue Sharing : ANCSA requires the regional corporations to share 70 percent of net revenues (revenues minus expenses) from timber and subsurface resources among themselves and with the village corporations.

Issuing New Stock: Under the original ANCSA, only Natives alive on December 18, 1971 could enroll as shareholders, and all shareholders were issued an equal number of shares. In 1987 Congress approved amendments that allow current shareholders to approve issuing new stock to Natives born since 1971, to elders, and to any eligible Native who missed the original enrollment. This amendment provides a way for young Natives to benefit more directly from ANCSA, and for older Natives to get more benefits now. ASRC has already issued new stock to young Natives, and NANA is planning to do so.

Land Protections: The original ANCSA protected undeveloped Native lands from taxation and loss for debt just until 1991. After 1980, corporations got the option of extending that protection by putting undeveloped lands in a land bank. Then, in 1987, amendments to ANCSA made all undeveloped lands automatically safe from taxation and loss through corporate debt or bankruptcy for as long as they remain undeveloped. Developed lands are subject to the same taxation or loss as any other private land, but developed lands can revert to undeveloped status once there is no more development activity .

Corporations have, from the beginning, had the authority to sell land if they chose.

Settlement Trusts: A provision in the 1987 amendments allows shareholders to put money and surface land (but not subsurface rights) in settlement trusts that are shielded from corporate operations. Establishing such trusts is complicated, and once assets are in they can't be taken out. Trust assets are protected even if the corporation goes bankrupt, and they can't be seized for corporate debt. Settlement trusts can invest money to create dividends for shareholders, but it can not develop or sell lands.

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