

Before the
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Committee on Natural Resources

Oversight Hearing on Diversifying Native Economies

Statement of

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Thank you, Chairman Rahall and Ranking Member Young, for the invitation to appear before you. My name is Jonathan Taylor and I am a Research Associate of The Harvard Project on American Indian Economic Development and a Senior Policy Associate with the Native Nations Institute for Leadership, Management and Policy, part of the Morris K. Udall Center for Studies in Public Policy at the University of Arizona.

THE CHALLENGE

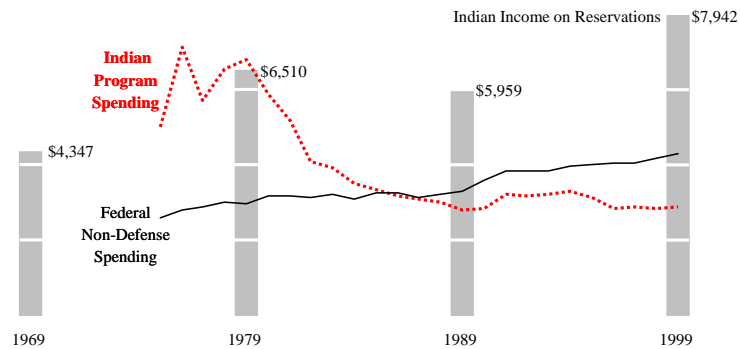
As you are aware, American Indian and Alaska Native economic fortunes have lagged substantially behind those of other Americans. On reservations and in remote rural Alaska, especially, unemployment is high, poverty is high and incomes are low. Declining federal funding, remote markets, challenges attracting educated members, barriers to capital investment, and a host of other problems frustrate Native economic growth.

Nonetheless, bright spots are visible in and around Indian Country. There are places where natural resource companies support education programs. There are places where tourism attracts customers to on- and off-reservation businesses. There are places where tribes manage, regulate, and adjudicate commerce on-reservation better than other governments do. Such was the case before the advent of widespread casino development at the Colorado River Indian Tribes' Farms, at White Mountain Apache's Sunrise Ski Resort, at NANA's Red Dog Mine, and at Mississippi Choctaw's Chahta Enterprise. Such has also been the case after casinos gave tribes additional sources of funds and lowered their costs of capital.

By tribal design, these economic endeavors aim to loose the bonds of federal spending on reservation economies. In the 1970s federal Indian spending rose with the Great Society and other programs, and in the 1980s it fell with the Reagan budget cuts (dotted red line in Figure 1). At the time, much of reservation economic life depended

upon federal grants and contracts, and in synch, Indian incomes rose by 49% in the 1970s, but then dropped by 8% as federal funds retreated in the 1980s (shaded bars in Figure 1). In the 1990s, by contrast, federal Indian spending stagnated and fell behind US spending per capita (solid line in Figure 1), yet Indian incomes grew by a third—three times faster than the US income growth rate. Interestingly, Indian incomes grew on reservations that did *and* did not witness the development of casino gambling.

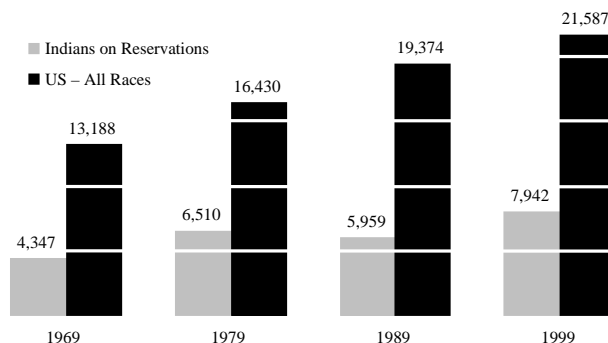
Figure 1
Federal Expenditure Per Capita and Indian Reservation Income
 thousands of 1999 dollars per capita



(Walke, 2000; Taylor & Kalt, 2005)

As welcome as these gains were for Indian Country, Indians on reservations still faced a very large income gap. The gray bars of Figure 1 juxtaposed in Figure 2 against US averages show Indian incomes barely reached past one-third the national average in 1999. Even at the hopeful pace of growth witnessed in the 1990s, it would take fifty-five years for the gap to close, and sustaining that relatively rapid rate of growth for the next half century will be a challenge.

Figure 2
Indian Reservation and National Income
 thousands of 1999 dollars per capita

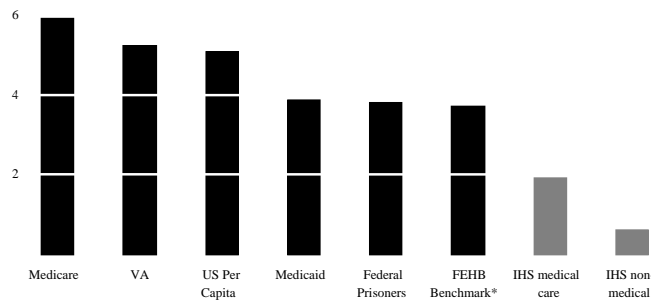


[taylor kalt 2005]

Indians confront these income gaps with weak federal support. Notwithstanding federal treaty obligations and trust responsibilities to advance tribal wellbeing, the US Commission on Civil Rights finds federal funding to be inadequate and below what is

available to non-Indians.¹ The Commission examines a range of domains of Indian life including education, crime, and health, among other things, and finds funding gaps across the range. A particularly stark comparison of health care expenditures is reproduced in Figure 3 and shows Indian Health Service medical funding to be about half of what federal prisoners receive. Given that in Indian Country many social and economic problems have accumulated over time and reinforced each other, one might reasonably expect that reaching social and economic parity with the rest of the US would require greater than average federal funding, not less.

Figure 3
Health Care Spending: Indian vs. Other US
 thousands of FY03 dollars per person



(US Commission on Civil Rights, 2003, Figure 3.2)

Thus, the steep challenge ahead for reservation economies entails accelerating the pace of growth so that the income gap closes in fewer than fifty-five years, all while contending with lower-than-average federal support. The task will require spreading the nascent economic success in Indian Country across industries and across geography. To drive growth, Native economies have relied upon natural resource endowments, upon powers of regulation and taxation, and recently, upon procurement advantages. There is still some room for growth under each of these strategies, but in many reservations, there is not enough to accommodate the number of high-school age workers entering the work force each year. Further growth will have to come from competing head-to-head in value-adding industries and from freeing private sector initiative, especially on large reservations. Success will need to spread geographically, too. Just as mineral resource wealth is concentrated at Crow or in the NANA region of Alaska, so too is success in gaming, gasoline retailing, and cigarette manufacturing concentrated at Ft. McDowell, Winnebago, and Seneca. Economic growth needs to spread over the map as well as through industry sectors.

So how do we deepen and extend the economic success that has been achieved? My colleagues and I at the Harvard Project on American Indian Economic Development and the Native Nations Institute have been learning from Indian Country that there are three essential keys that distinguish tribes in takeoff from tribes that struggle with economic development. First, successful tribes assert, defend, and use their sovereignty. If tribes make the key decisions about development, those decisions tend to better reflect local conditions, preferences, and opportunities; consequently, those decisions yield better tangible results. Second, successful tribes have strong institutions that: a) resolve

disputes fairly; b) manage the boundary between business and politics effectively, and c) administer the day-to-day life of the tribal government efficiently. Without working institutions, economic development can only last a cycle or two of investment, at which point the costs of doing business on the reservation exceed the value and capital flees elsewhere. Third, these institutions of governance must match local norms of what is and is not appropriate government. Without a match between indigenous culture and institutions, the life of government becomes riven with questions of legitimacy and progress halts. Successful Indian nations have in common that they turned away from federally sanctioned, project-based, and grant-funded approaches and instead built governing systems that foster development. I will not belabor the full spectrum of these points because my colleagues have covered them in detail before Congress.² Instead, I want to narrow the focus to one issue in particular: managing the boundary between business and politics.

MANAGING BUSINESS & POLITICS¹

Imagine the government owns a business that provides politically popular services that don't make money. Or imagine the government owns a business where a powerful constituency uses the levers of political representation to strengthen its hand against management in a labor dispute. Or imagine the government owns a business that makes money, but a dispute erupts about whether the profits should be reinvested in the business, used to subsidize popular services, turned over to the government treasury, or issued as dividends to citizens. Such questions pitting corporate success against community values are not idle speculation to the owners and managers of AMTRAK, I'm sure. Likewise, these questions feature prominently in the daily lives of myriad tribally owned corporations. Worse, the political bouts that arise from these questions degrade corporate performance if they are not properly addressed.³

Why not privatize? Countries around the world are driving down the government-owned proportion of GDP to around 5%. When they do so, they reap higher profits, lower prices, better service, and better returns on investment. As appealing as these gains might be, tribal governments nonetheless cannot nor, in many instances, should not privatize their tribal enterprises. US tax, procurement, and regulatory policy encourage and even mandate tribal ownership of enterprise. Section 17 of the Indian Reorganization Act of 1934 encourages economic development via federal charters for nation-owned enterprises.⁴ IRS rules shield nation-owned enterprise profits from federal corporate income tax.⁵ Section 8(a) of the Small Business Act offers advantages to tribally owned corporations.⁶ The Indian Gaming Regulatory Act mandates tribal ownership in all but the rarest cases.⁷

Even in the absence of these federal inducements and requirements, government ownership of enterprises would be a sound choice for Native nations to make. Tribal enterprises often depend upon an Indian nation's patrimony—a forest, lake, river, or plain—whose development must take place within tribal cultural and environmental constraints. Private development of such resources often fails utterly, if only because of

¹ This section draws heavily from work that Kenneth Grant and I wrote in (Grant & Taylor, 2007).

the outcry against inappropriate development institutions. In addition, trust land title, Native concerns about property alienation, geographic isolation, relative economies of scale, and a host of other market idiosyncrasies may favor tribal over individual ownership. And finally, it is often the case that the economic unit is and ought to be the whole community. This is particularly evident in shareholder tribes such as under the Osage headright system (or analogously the Alaska Native corporations), but it can also hold true for whole tribes owning all of a fishery, irrigation system, or hotel. Thus, while private enterprise takes hold on many Indian reservations and deserves more support and encouragement, especially considering the large income gap that remains to be closed,⁸ government ownership of enterprise is properly a feature of Indian economic development and will be for some time. The question is: How can tribes create value as efficiently as the private sector while operating within the constraints of government ownership.

The answer hinges on getting corporate governance right. Enron and the Sarbanes-Oxley response illustrate the challenges of corporate governance *without* government ownership. Corporate governance under Indian nation ownership requires another level of care entirely. The problem arises because two competing sets of relationships become mixed and generate role confusion. On the one hand, we generally like our constituents and representatives to be closely connected through elections, correspondence, constituent service, and the like. On the other hand, we like it when the people we put in charge of our hard-earned assets tighten the ship if standards of customer service are slipping or margins are lagging the industry.

When constituents are employees and representatives are directors, all in the same institution—the tribal corporation—roles and relationships become unclear. Say I'm fired from the tribal company and I have a powerful uncle on the tribal council. Should I play "employee" and go through the due process of the corporate personnel grievance system or should I play "constituent" and go through my uncle? Or say I'm a council representative with many constituents on the tribal housing waiting list and the corporation announces a new investment initiative. Should I to play "representative" and expand the housing budget at the expense of the investment or act as "director," focusing on the long-term prospects of the business? Tribal leaders around Indian Country have encountered problems like these in tribal enterprises repeatedly. The questions do not get resolved easily, and if they fester, profitability decays and even collapses.²

Successful tribal governments formally divide business affairs from elected leadership, usually via a chartered board of directors, but it does not simply serve to adopt a charter. I have seen one tribe copy the charter of a very successful company for its own company only to witness utter collapse. Tribal corporate governance requires: a) a firm governing foundation in the constitution of the tribe and related practice; b) a charter and corporate purpose that represent the Indian nation's priorities and

² While the trappings of the foregoing questions are those of tribal councils and tribal housing programs, the underlying dynamic is not Indian *per se*. The imaginings that opened this section apply equally well to tribal enterprises as to AMTRAK, or British Airways before Margaret Thatcher privatized it.

commitments; and c) ongoing reinforcement of a new organizational culture supporting the elements of corporate governance.

STABLE CIVIC GOVERNANCE

Without robust tribal governing institutions, a tribal charter may be a moot point. If, for example, corporate contracts are adjudicated by the tribal council, the enterprise may never attract investors. Or if the tribal council turns over every couple years, the corporate governance system will be perennially at risk of manipulation, if not dismantlement. Corporate governance systems benefit from a civic governance system that provides:

- Staggered council terms or other mechanisms of stability that permit the system of corporate governance to become enshrined in political institutional memory;
- Independent dispute resolution mechanisms that operate fairly and expeditiously to adjudicate contracts, personnel disputes, property rights, and disputes over the corporate charter;
- Well-defined checks and balances so that policy debates come to an end, reflecting accommodation across the branches of government;
- Clear and predictable rules that do not change with the whims of newly elected leaders or narrow majorities; and
- Civil service professionalism that helps create supportive economic policies such as uniform commercial codes or zoning codes and helps guide infrastructure development.

CORPORATE CHARTER AND PURPOSE

To have worth beyond the paper on which it is printed, a corporate charter must make clear the overarching purpose of the corporation and faithfully represent community compromises regarding the distribution of authority between the corporation and the government. All organizations benefit from clear purposes, of course, but tribal experience demonstrates that when tribal corporations exist to advance a deeply held or widely held community aim (aside from profitability, which is understood), their chances of success improve because constituents, representatives, directors, and employees do not choose roles as opportunistically. The charter must also pre-allocate decision-making authorities in a manner supportable by the citizens of the nation. Generally speaking, the more powers that can be allocated to the board of directors, the better; however, the allocation of authority also entails political questions whose answers are shades of gray rather than black and white. At a minimum, the charter must specify who will perform the following tasks:

- Recruit, nominate, hire, pay, and remove directors of the board;

- Set dividends and retained earnings;
- Set, apply, and adjudicate corporate personnel policy;
- Approve limited corporate waivers of sovereign immunity;
- Develop and use trust lands;
- Approve or reject investment decisions; and
- Reports corporate performance data.

THE PRACTICE OF CORPORATE GOVERNANCE

And of course, paper documents do not necessarily govern behavior. For it to work, the charter must become a new way of ordering relationships. That takes leadership, behavioral change, and organizational culture. Once the charter is written, tribal political and corporate leaders need to alter the incentives actors face within the corporate governance system. If not, the centripetal forces confounding government ownership will work to drag performance down. Among other things, successful tribal enterprises:

- Maintain the engagement of their directors;
- Provide regular reporting from the corporation to the owners;
- Enforce conflict of interest rules;
- Limit the day-to-day interference of elected leaders in corporate decisions;
- Train newly elected leaders and newly appointed directors in the system of corporate governance; and
- Evaluate performance throughout the corporate governance system regularly.

CONCLUSION

Closing the income gap in Indian Country and diversifying Native economies will entail tribes working on a variety of strategies simultaneously, including private sector development, individual financial literacy, social program support for workers, and more. Troubleshooting existing systems of corporate governance and developing new ones for tribally owned enterprises will be critical to the portfolio of strategies. Tribal ownership of business shows no signs of waning, yet it poses inherent challenges that must be faced.

The characteristics listed above are shared by the Winnebago Tribe's Ho Chunk, Inc., the Loudon Tribal Council's Yukaana Development Corporation, and other successful tribal companies around Indian Country. Adopting these characteristics does not guarantee the success these companies have had. Business is risky. One does not automatically arrive at good corporate governance via a lock-step process, nor is

balancing political prerogatives against corporate requirements orderly. Nonetheless the challenges of tribally-owned corporate governance should not lead to despair. Tribes have succeeded precisely because they faced the challenges posed by government ownership directly. They took steps to reduce uncertainty and ambiguity in tribal business by managing the boundaries between government and business well. Continuing to diversify and expand Native economies will hinge on more tribes doing so.

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NOTES

Native American Contracting Under Section
8(a) of the Small Business Act
Economic, Social and Cultural Impacts

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Findings in Brief

- Tribally owned corporations and Alaska Native corporations certified under Section 8(a) of the Small Business Act (hereinafter Tribal & ANC 8(a) corporations) display unique ownership structures. The companies are owned by whole communities of American Indians and Alaska Natives.
- Tribal & Alaska Native corporations face unique burdens because they are owned by some of the poorest Americans in some of the poorest regions of the country. Furthermore, their corporate structures, as established under federal Indian policy, cause them to bear performance burdens that no other companies in the 8(a) program have to bear.
- Congress saw fit to exempt Tribal & ANC 8(a) corporations uniquely from regulatory provisions which constrain sole-source contract amounts and affiliation rules.
- While some have expressed concern that Native contracting nearly quadrupled from FY2000 to FY 2005, Tribal & ANC 8(a) procurement (\$1.9 billion) remained in 2005:
 - 0.5% of all procurement (\$378 billion);
 - 1.3% of all sole-source contracting (\$145 billion);

- 2.9% of all small business contracting (\$65 billion);
and
- 17% of all Section 8(a) contracting (\$11 billion).
- Despite the modest share of the US procurement pie, Tribal & ANC 8(a) contracting is having a marked effect on American Indian and Alaska Native communities and the economies they are connected to:
 - Ten regional ANCs and two Alaska Native village corporations paid \$32 million in dividends across 87,000 shareholders in 2005. Additional but unknown profits flowed from tribal corporations to their owner governments.
 - Respondents to a Native American Contractors Association Survey report 32,000 employees in operations spanning forty-nine states, two territories, and the District of Columbia.
 - Payroll of \$413 million paid in 2005 by twelve ANCs in Alaska went to about one-third Native employees and two-thirds non-Native.
- Tribal & ANC 8(a) procurement coming from non-advantaged contracts (i.e., outside sole-sourcing and the 8(a) program) has grown to keep pace with advantaged contracting. Proportionately, tribes and ANCs as a whole are not more dependent upon advantaged Section 8(a) contracting.
- Tribal & ANC 8(a) contracting supports social and economic investment, ranging from language revitalization and school programs to elder care and support for the subsistence economy.
- ANC 8(a) regional contracting intensity is associated with higher than average college attainment and strong reductions in unemployment over the period 1990-2000.
- The federal government purchased more than \$448 million worth of goods and services in Alaska from Native companies and generated more than half-a-billion in state GDP as a consequence.
- Federal purchasing from a single company, S&K Technologies—owned by the Confederated Salish and

Kootenai Tribes in Montana—generated \$46 million in labor income, property income and indirect business taxes for the Montana economy.

I. Introduction

Indian tribal corporations and Alaska Native Corporations (ANCs) certified under Section 8(a) of the Small Business Act may contract with the federal government under special terms that allow: a) sole-source contracts at any dollar amount, and b) affiliates to contract with the federal government, too. Other Section 8(a)-certified companies—owned by minority and disadvantaged individuals, including Indians—can only offer sole-source contracts below certain dollar thresholds (e.g., \$5 million in manufacturing), and cannot own more than 20 percent of one additional Section 8(a)-certified affiliate in their lifetime. Congress specifically created this distinction between Tribal & ANC 8(a) corporations and other Section 8(a) corporations to address American Indian and Alaska Native poverty in a direct, comprehensive fashion and to address relatively low levels of tribal and Alaska Native corporate participation in US procurement.

Partly because public attention on sole-source contracting arose from Iraq war procurement, recent press coverage and investigations have cast Tribal & ANC 8(a) sole-source contracting in a harsh light. Now Congress faces several proposals to diminish or eliminate the distinction between Tribal & ANC 8(a) and other Section 8(a) contracting. This report makes the case for staying the course. It shows that Congress' original purpose to remain a priority. Economic growth continues to elude many Indian reservations and Alaska Native communities, especially in remote rural regions. Until growth reaches further, Tribal & ANC 8(a) contracting exemptions should remain a part of Congress' arsenal of policies supporting American Indian and Alaska Native economic development. If anything, Congress could examine how the uptake of Section 8(a) advantages may be expanded to tribes and Alaska Native corporations that do not participate or participate on a limited basis.

The report also shows that the Tribal & ANC 8(a) exemptions align with other Congressional policies advancing Indian self-determination and Alaska Native corporate development. It shows that the policy brings revenue growth, employment, profits, socioeconomic investment, and rising business sophistication to Indian Country and Native Alaska. And the report shows that those substantial benefits continue after Tribal & ANC 8(a) corporations graduate from the program and are no longer eligible for the exemptions.

Though it does not address the issue directly, this report should not diminish reasonable concerns about waste, fraud, and abuse in contracting. Government procurement perennially confronts challenges in obtaining good value for taxpayers' dollars. The Government Accountability Office has investigated ANC 8(a) contracting and has found weakness in federal record-keeping and oversight. It did not identify issues relating to quality or performance in ANC 8(a) contracting.⁹ Deficiencies in the systems that deter, detect, and rectify waste, fraud, and abuse should be corrected. Weak systems of procurement oversight will ultimately deprive Tribes and ANCs—and more importantly, their shareowners—of substantial benefits by weakening support for Tribal & ANC 8(a) contracting arrangements.

II. The Contexts of Section 8(a) Contracting

Tribal & ANC 8(a) contracting takes place in institutional, social, and geographic contexts that make it unique. Tribal & ANC 8(a) contracting is not like private Section 8(a) contracting. Federal law and policy, especially federal Indian policy, match unique ownership structures with unique 8(a) regulation. Federal policy establishes this arrangement because American Indians and Alaska Natives have a particular position in the federal system, unlike the position of any ethnic group. Moreover Tribal & ANC 8(a) policy results in significant procurement business concentrating in some of the poorest regions of the United States. Thus, while quantitatively a small share of the national procurement pie, Tribal & ANC 8(a) contracting has a pronounced and important effect on poor Americans.

A. Law & Policy

Since World War II, the federal government has directed its purchasing power toward small, minority, and disadvantaged businesses. This element of procurement policy aims to dilute the concentration of suppliers to the federal government and to help businesses that face unusual barriers to capital formation and job creation by means of directing the taxpayer's purchasing power toward them. The Small Business Act of 1958¹⁰ as amended, particularly Section 8(a), directs the federal government to purchase from small businesses, including from tribal corporations and from Alaska Native corporations.

For the most part, the various types of small, disadvantaged, and minority-owned businesses face identical regulatory requirements under Section 8(a), be they owned by individual Indians, women, African-Americans, other minorities, or service-disabled veterans (rightmost column in Figure 4). Legislation altered the framework, however, for corporations owned by tribal governments and for Alaska Native corporations created under the Alaska Native Claims Settlement Act. In the late 1980s, a Reagan Commission on Indian Reservation Economies observed that federal procurement policy actually obstructed reservation economic development, and a congressional inquiry found that few Indian enterprises participated in the Section 8(a) program. As a result, changes to federal law subsequently exempted tribal corporations and ANCs from the "once in a lifetime" affiliation rules and from the caps on sole-source contracts (middle column of Figure 4).

Figure 4
Principal Terms of Contracting Under Section 8(a)

	Applicability to:	
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(US GAO, 2006, 3; 13 CFR 125.6)

Ownership by a Native *community* distinguishes tribal corporations and ANCs from other types of minority-owned businesses—including from other types of Indian-owned business. Tribal & ANC 8(a) contracting is not the same as private 8(a) contracting. In the case of tribal corporations, a government owns the business, and the citizens constituting that government vote for representatives to govern the tribal corporation. That is to say, Indians do not vote corporate policy in tribally owned business as “shareholders” in the typical sense, but rather express their opinions through the usual means of electing and influencing elected representatives, who in turn appoint officers of the corporation and set policy. Increasingly, tribal councils enact charters of corporate governance that delegate all but the most strategic decisions to an expert board of

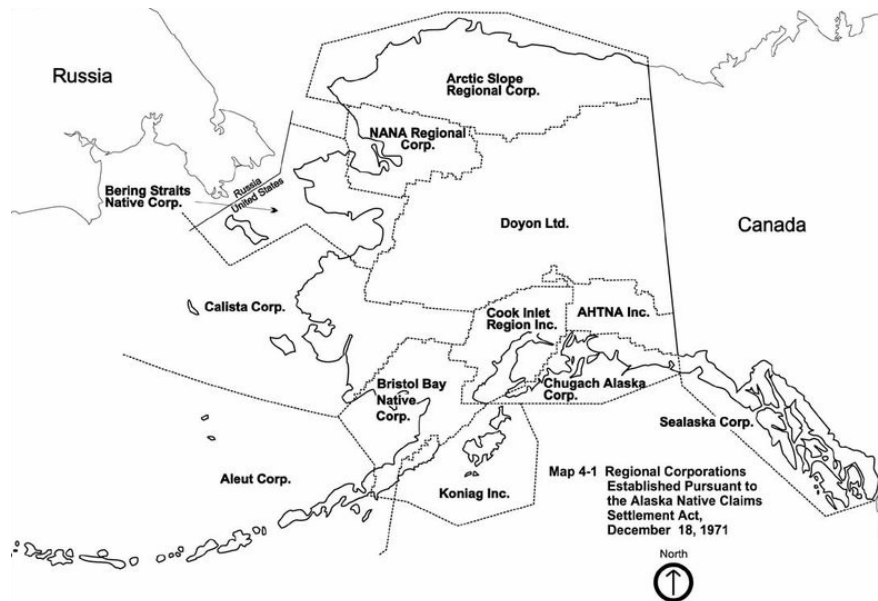
directors for the corporation. Yet regardless of the degree of delegation, tribal elected leaders retain the ultimate powers to acquire or disburse assets, reinvest or distribute profits, appoint board members, or otherwise control the tribal corporation.

Long-established U.S. policies recognize, encourage, and protect the central place of nation-owned corporations in the portfolio of Native economic development strategies. Treaties, law, and policy define the legal rights to Native self-government, and ample evidence demonstrates the practical efficacy of Indian self-determination.¹¹ Section 17 of the Indian Reorganization Act of 1934 allows tribes to request the federal government to charter nation-owned enterprises.¹² IRS rules implement the principle of intergovernmental tax immunity by shielding nation-owned enterprise profits from federal corporate income tax.¹³ Specialized legislation such as the Indian Gaming Regulatory Act of 1988 *requires* government ownership of tribal enterprise—i.e., casinos.¹⁴ These and other policies—including many promulgated by tribes themselves—help ensure that tribal enterprises align their activities with local priorities, employ American Indians, and fund tribal government programs to educate children, build roads, protect wildlife, plan land use, respond to emergencies and the like. Tribally owned enterprises advance a core priority tribes have today: to address the backlog of social and economic problems associated with poverty.

In the case of ANCs, Indian governments do not own the corporations, but rather Alaska Natives own them as individual shareholders. This feature of ownership might seem to imply equivalence between ANCs and other minority-owned businesses, but ANCs are distinctive. The federal government created ANCs to receive, develop, and share the proceeds of lands retained and compensation received in a comprehensive settlement of a statewide aboriginal land claim—the Alaska Native Claims Settlement Act of 1971 (ANCSA).¹⁵ In recognition of “the real economic and social needs of [Alaska] Natives,” ANCSA extended ownership in ANCs universally to all persons of more than one-quarter Alaska Native blood born before December 18, 1971. Every such Native received one hundred shares in an Alaska Native regional corporation (ANRC). Alaska Native village residents could also participate in an Alaska Native village corporation (ANVC). And Native Alaskans living in urban areas and other Native groups not associated with a village or urban community could create Alaska Native urban or group corporations.

Consistent with the Alaska corporate laws governing ANCs, management must undertake good faith efforts to earn financial returns for Alaska Native shareholders. However, unlike run-of-the mill, non-Native corporations chartered in Alaska, ANC shares are protected from alienation of ownership. ANCSA amendments restrict the sale of ANC shares to non-Natives. Also unlike other Alaskan companies and minority-owned companies, ANCs’ regional territories extend comprehensively across Alaska, covering the entire landmass of Alaska (see Figure 5).¹⁶ The 169 ANVCs operating in 2005 were also scattered throughout the state.¹⁷ In essence, ANCs exist to comprehensively and permanently address the land claims and socioeconomic status of a single class of Americans across the entirety of a state.

Figure 5
Regions of the Alaska Native Regional Corporations



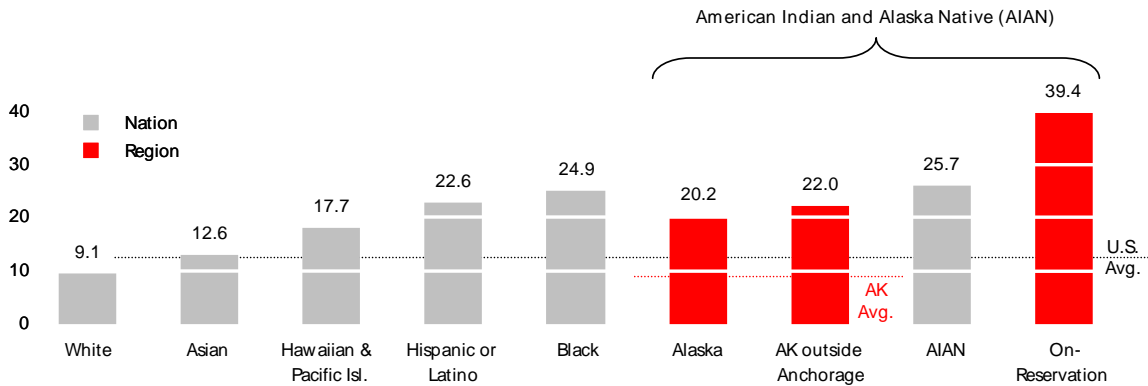
The 13th Regional Corporation is not associated with an Alaska region.
 (US Park Service, 2003)

The special provisions of Tribal & ANC 8(a) contracting highlighted in the bottom three rows of Figure 4 apply to a special class of companies. Thousands of American Indians and Alaska Natives own the tribal corporations that benefit from those exemptions. And when they collectively choose to embrace the exemptions—either by forming a Section 8(a)-certified tribal corporation or embarking on a 8(a) contracting strategy as an ANC—the profits (or losses) apply to all the members of the tribe or the Alaska Native shareholders of the corporation. Other minority-owned and disadvantaged business—including those owned by individual Indians—cannot claim to represent such a comprehensive category of Americans.

B. Socioeconomic Status

Native poverty remains a serious challenge. American Indians and Alaska Natives are among the poorest citizens of the United States. Nationwide, the American Indian and Alaska Native poverty rate (25.7%) exceeded that of all other race categories in the 2000 census and exceeded twice the national average of 12.4 percent (Figure 6).¹⁸ In Alaska, the statewide Native poverty rate is slightly lower in absolute terms (20.2%) than for American Indians nationally. However, because the single national poverty standard does not account for the high cost of living in Alaska, this Alaska “poverty rate” understates the proportion of individuals living with limited purchasing power.¹⁹ Indeed, in relative terms, Alaska Native poverty is just as bad as in the national figures: the statewide Alaska Native poverty exceeded the state rate of 9.4 percent by more than a factor of two. Most significantly, Indians living on reservations face poverty rates more than three times the national average.

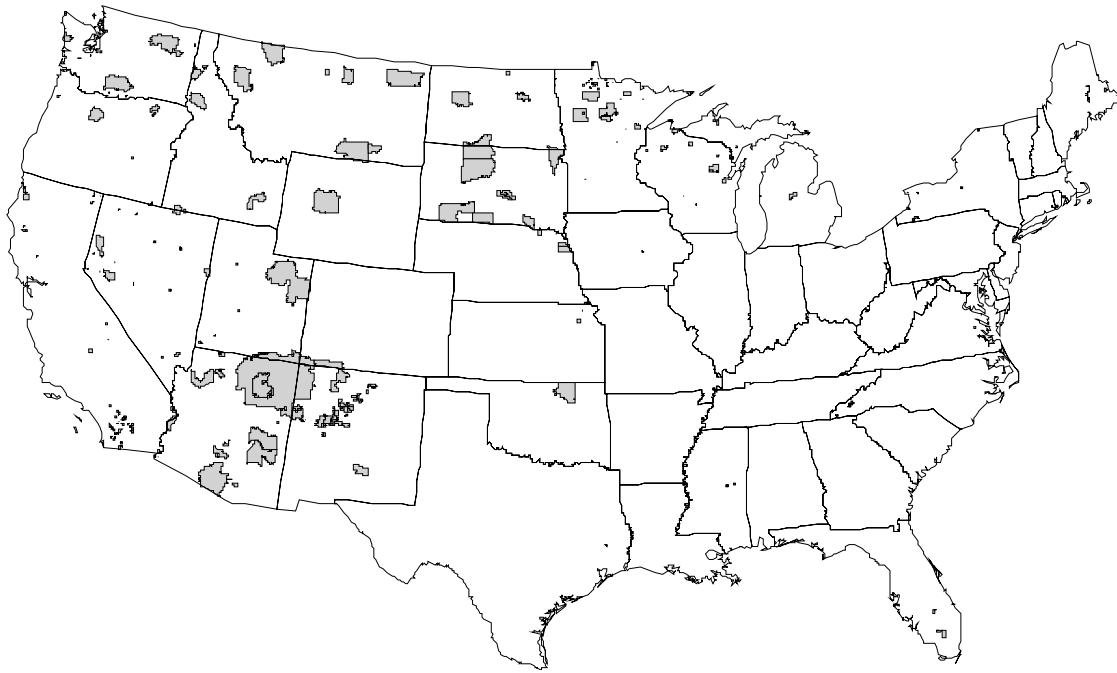
Figure 6
Percent of Persons in Poverty, 1999



(Bishaw & Iceland, 2003; US Census Bureau, 2000; Goldsmith, Angvick, Howe, Hill, & Leask, 2004)

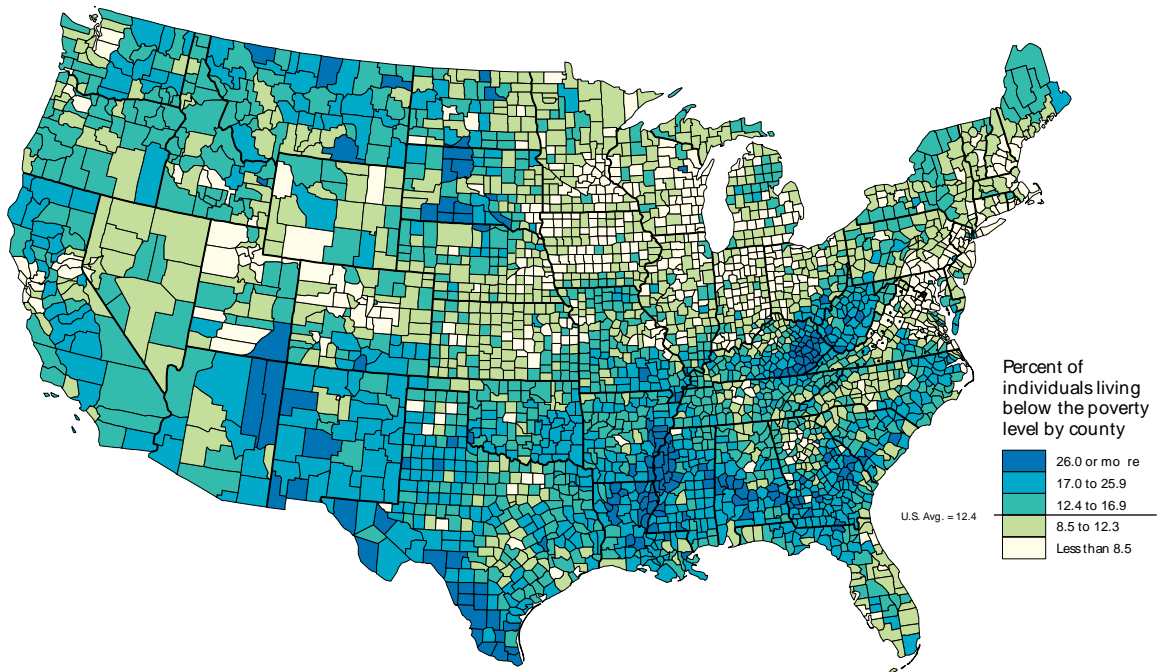
Reservation poverty is so pronounced it can be seen in national maps of poverty. For example, compare the outlines of U.S. Indian reservations in Figure 7 with the contours of county poverty rates in Figure 8. Hot spots of poverty in the northern Great Plains, eastern Arizona, southeastern Utah, and western New Mexico overlap directly with Indian reservations. Those zones display rates of poverty similar to Appalachia, the Mississippi Delta, the Rio Grande Valley, and the Deep South. Even in states such as Minnesota or Washington where county poverty rates did not reach the extremes experienced elsewhere, the counties with the worst poverty contained or abutted Indian reservations.

Figure 7
Indian Reservations in the Lower 48 States



(US Census Bureau)

Figure 8
US Poverty Rates by County
1999

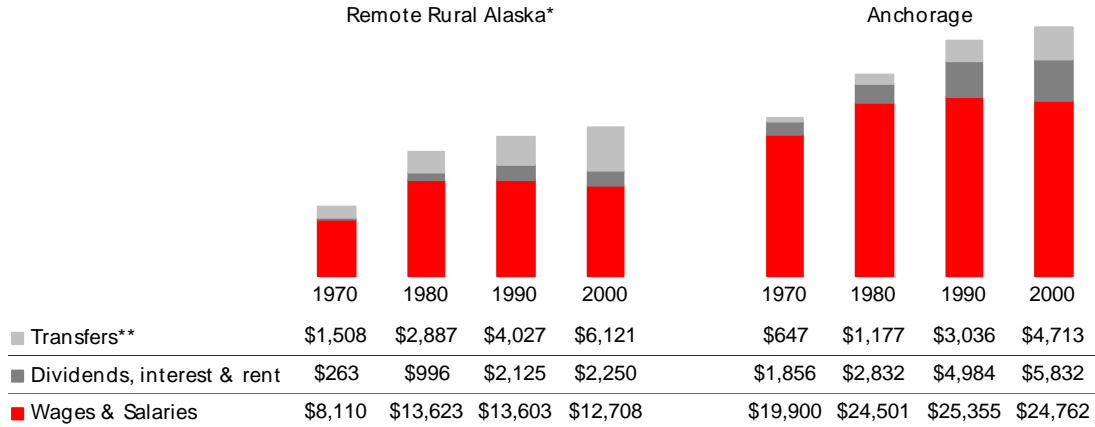


While the level of Native poverty remains high, the trend in the 1990s gives reason for tempered optimism. For one, American Indians living on reservations experienced income gains of about one-third between the 1990 and 2000 censuses. This growth rate exceeded the US income growth rate by a factor of three and took place on reservations with casinos and without. Moreover, this growth came when relative federal funding to Indian tribes declined per capita. Welcome as this trend was, however, the income gap remained large. The Census 2000 Indian income average on reservations (\$7,942) reached little more than a third of the US average.²⁰

In Alaska the statewide average Native income per capita of \$12,800 is virtually the same as the US average for all American Indians and Alaska Natives. The Alaska Native average also grew faster in the 1990s than the non-Native average in Alaska, closing the income gap slightly from 51 percent to 49 percent.²¹ Given the high cost of living in Alaska, this data means that actual Alaska Native consumption of goods and services probably lagged somewhat below nationwide Indian levels but that the relative position of Alaska Natives within the state was better than elsewhere in the US.

In rural areas in Alaska income change over the 1990s is less encouraging: income growth virtually halted or even reversed, depending on how one counts. Across all residents of Alaska, average *earned* income declined in the 1990s—substantially so in rural areas (-7%). In rural Alaska, income from dividends, interest, and rent increased slightly, but this rise could not counter the fall in earned income. Without a fifty-two percent increase in transfers (including distributions from the Alaska Permanent Fund), total incomes would have shrunk over the decade in rural Alaska (Figure 9). The University of Alaska's Institute for Social and Economic Research estimates that twice as many Anchorage residents would have fallen below the poverty line in 2000, were it not for the Alaska Permanent Fund.²² This feature of Alaskan incomes is liable to be even more pronounced in the remote rural areas.

Figure 9
Sources of Income in Anchorage and Remote Rural Alaska, 1970-2000
income of all persons in 2000 dollars

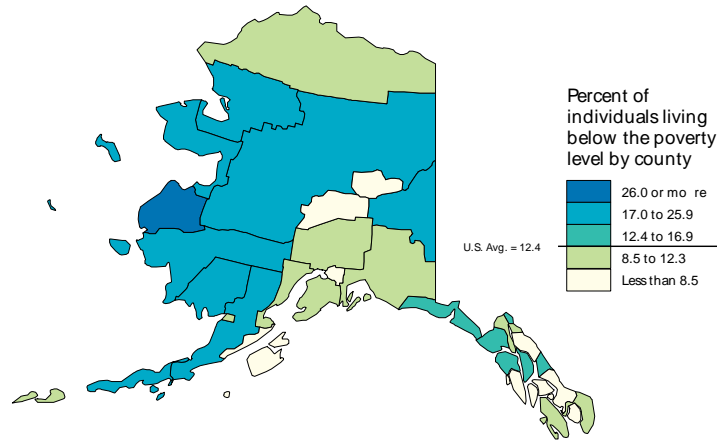


* Defined to be Wade Hampton, Bethel, Nome, Dillingham, and Yukon-Koyukuk census areas and the North Slope, Northwest Arctic, and Lake and Peninsula boroughs.

** Transfers include distributions from Alaska's Permanent Distribution Fund.
 (Goldsmith et al., 2004, 4-64)

Thus, while Alaska Native per capita income may be similar to national averages for Indians, in remote rural Alaska—where forty-one percent of Alaska-resident Natives live and comprise eighty-two percent of the regional population—economic development remains a challenge.²³ Figure 10—which also understates the proportion of persons with limited purchasing power for the same reason Figure 9 did—shows the geographic distribution of that poverty. Subsistence hunting, fishing, and gathering add a degree of food security and barter income to the cash incomes displayed in Figure 9, yet commercial and ecological pressures on fish and game stocks have put downward pressure in the last decade on this source of household provision, too.²⁴

Figure 10
Poverty Rates in Alaska
1999

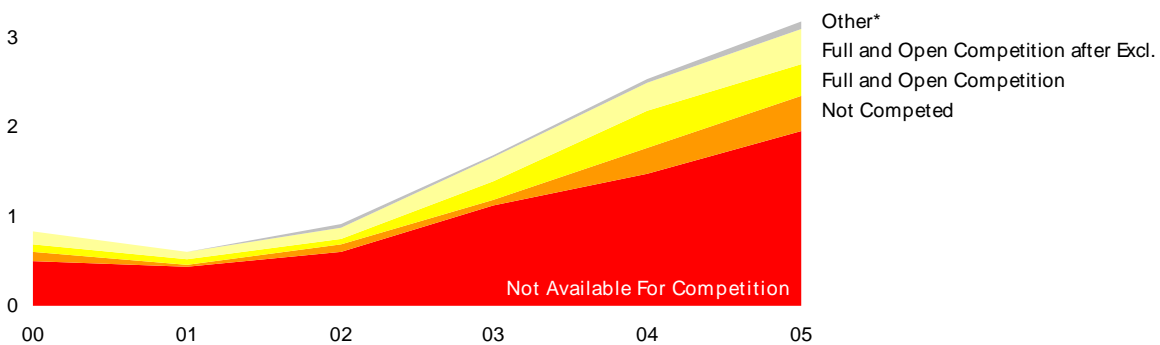


(Bishaw & Iceland, 2003)

C. Native Contracting Trends

Native contracting nearly quadrupled in nominal terms from FY 2000 to FY 2005 (Figure 11). Contracting growth was roughly even across forms of competition, such that the proportions at the end of the period looked very similar to the start. Competitive contracting grew in proportion to uncompetitive contracting. Much of this growth arises from Native efforts to establish, certify, and develop companies that serve federal needs, but the growth in Native contracting parallels a broader trend.

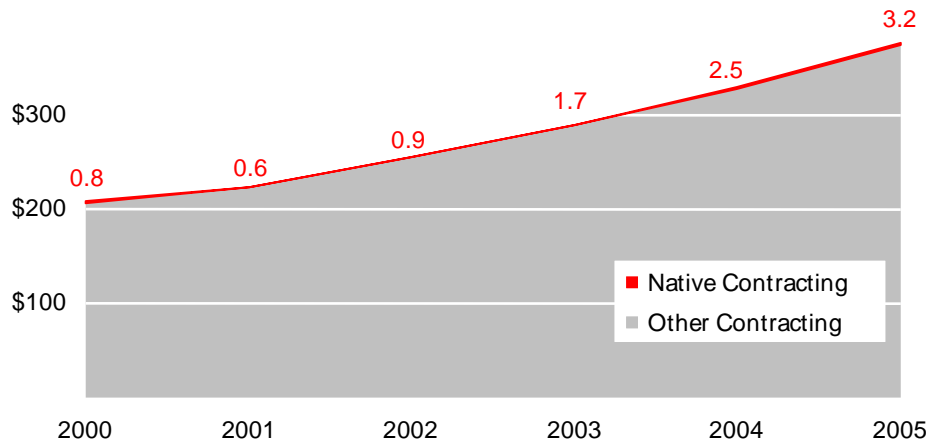
Figure 11
All American Indian and Alaska Native Contracts by Competitive Type
billions of nominal dollars



* Consisting of the categories: non-competitive delivery order; follow-on to competed action; competed under simplified acquisition threshold; not competed under simplified acquisition threshold; and unknown.
 (Eagle Eye, Inc., Inc.)

Federal procurement nearly doubled from \$208 billion in FY 2000 to \$378 billion in FY 2005. And while Native contracting (competitive and otherwise) nearly quadrupled, it never exceeded one percent of federal procurement (Figure 12). Meanwhile, noncompetitive federal procurement doubled during the same period to \$145 billion (or 35% of all contracting).²⁵

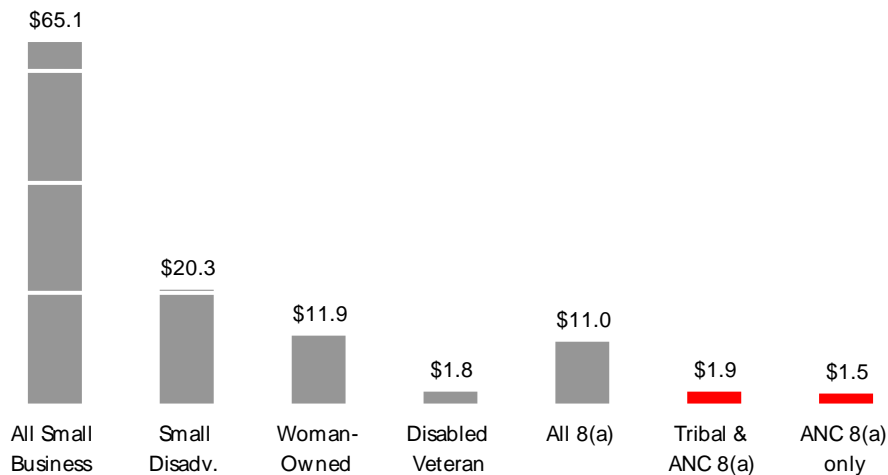
Figure 12
All American Indian and Alaska Native Government Contracts are Less Than 1% of US
Procurement
billions of nominal dollars



Note: the red shaded area here is equivalent to *all* of Figure 11, above.
 (Eagle Eye, Inc.)

Native contracting also constitutes a small proportion of all small business contracting. Native contracting (\$3.2 billion) was less than 5% of the total amount of small business procurement in FY 2005 (\$65.1 billion per Figure 13). Tribal & ANC 8(a) contracting (\$1.9 billion) was 17% of all Section 8(a) contracting and 2.9% of all small business contracting. As a proportion of all non-competitive FY 2005 procurement (\$145 billion), Tribal & ANC 8(a) procurement stood at \$1.9 billion, or 1.3% of the US total.

Figure 13
Selected Categories of Small and Disadvantaged Procurement Spending
billions of FY 2005 dollars

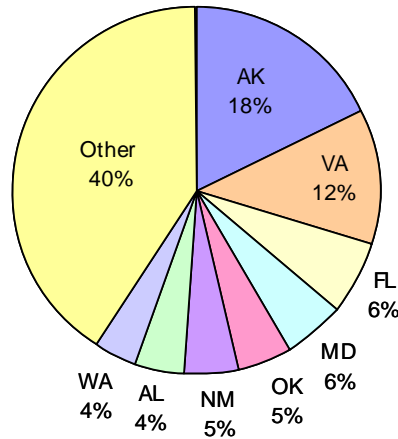


(Eagle Eye, Inc., Inc., special tabulation)

Given that ANC 8(a) contracting constitutes nearly half of all Native contracting (\$1.5 out of \$3.2 billion) it is not surprising that Alaska has the greatest share of all Native contracting (Figure 14). Virginia and Maryland also figure prominently because so many federal agencies are headquartered in those states, of course. But note also that

states with relatively large proportions of Indians (Oklahoma) or large numbers of reservations (New Mexico and Washington) figure prominently in the top states where Native contractors perform their work for the federal government.

Figure 14
All American Indian and Alaska Native Government Contracting by State
FY 2000 through 2005 total nominal dollars



Note: Categorized by place of performance not by location of corporate headquarters.
(Eagle Eye, Inc., Inc.)

III. The Effects of Native Contracting

Tribal & ANC 8(a) contracting operates through a number of different mechanisms to improve social and economic conditions in Indian and Alaska Native communities and the surrounding economies. This section examines first the effect on Native communities of employment, income, dividends, and social investment arising from Section 8(a) contracting. It then turns to the economic impacts on Alaska’s economy by Alaska Native contracting and on Montana’s economy by S&K Technologies’ contracting.

A. Native Economic and Social Change²⁶

As noted above, Tribal & ANC 8(a) companies distinctly represent whole communities of Americans. This characteristic means that the social and economic effects of Section 8(a) contracting tend to concentrate in the community of tribal members or ANC shareholders. In some cases, the effect proceeds directly to every individual Indian in the community, say, as a dividend check. Other benefits may be universally available (e.g., college scholarships or burial assistance), but not universally embraced. In other cases, the effect spreads across a community, such as would occur when the 8(a) company improves the community business climate or supports a Native cultural ceremony. Regardless of where in the communities these benefits arrive, they are nearly always needed, and in many cases they were unavailable prior to Section 8(a) contracting.

Cash flows to tribal governments and Alaska Native communities have been inadequate to meet needs historically. And notwithstanding the advent of casino gambling in the lower forty-eight states and of resource extraction in Alaska, many Native communities struggle to provide basic infrastructure and improve the quality of life. To make matters worse, levels of federal Indian spending fall far short of non-Indian averages,²⁷ and the trend in federal Indian spending has lagged US averages for more than a decade.²⁸ While tribes possess some taxing authority, they often find it difficult to raise revenues from their membership because Indian poverty constrains household budgets. Alaska Native Villages find it nearly impossible to tax for economic and legal reasons. Corporate profits, therefore, play a central role in funding Native quality of life beyond what declining federal funds permit.

Notwithstanding the centrality of corporate profits to Native financial strength, until recently most tribal corporations and ANC's did not achieve much success. Tribal and Alaska Native corporations have relied on natural resource sales, regulatory advantages (e.g., selling net operating losses in the past and setting gambling regulations now), and tax differentials (e.g., in cigarettes and gasoline). Even so, tribally owned businesses regularly struggle to survive, fail, drain treasuries, or otherwise under-perform their peers. Some Alaska Regional Native Corporations have earned negative returns for years on end and even entered bankruptcy. 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.²⁹

Poor corporate performance in Indian Country arises in large measure from the characteristic that distinguishes Tribal & ANC 8(a) corporations from other 8(a) companies: community-wide ownership. Community ownership compounds the performance challenges arising from remoteness, inexperience, and difficult access to capital.

Enron and Worldcom teach us the perils of corporate governance generally. Tribal ownership of enterprise in the lower forty-eight states adds a complicating layer: government participation. How will elected officials discipline failing business managers, especially if they are tribal members? What if an elected leader's nephew gets fired for absenteeism, and the legislature wants him reinstated? Where does the community draw the line between reinvesting corporate profits and paying dividends to advance social purposes?

Managing the boundary between politics and business presents many challenges for tribal governments and more often than not drags down tribal corporate performance.³⁰ This is not an Indian problem *per se*, but one inherent in government ownership. Yet as burdensome as government ownership may be, privatization cannot be the remedy in Indian Country. Federal law, sound tribal policy, and the history of Indian property alienation encourage, prescribe, and even require tribal business ownership.

In Alaska, Native corporate structures take on the cast of the private sector more than of government, but still, Native shareholders do not quite behave like private-sector shareholders. Among other things, the higher than average poverty of Native shareholders may render them impatient and undiversified, especially when compared to entrepreneurs and equity investors in the larger economy. The much-lamented quarterly

focus of Wall Street vastly exceeds in patience the anticipation of hundreds of families seeking to put food on the table with a dividend check.

In addition, Alaska Native shareholders lack the clout of the large investors who oversee so much in US capital markets. Having a single shareholder with a large stake in the company typically improves corporate performance, yet the Settlement Act widely distributed shares to spread benefits in an egalitarian manner. There can be neither a TIAA-CREF nor a founding majority shareholder to knock heads in Alaska Native corporate management. For good and for ill, every shareholder is about equal, and many of them must mobilize and coordinate to carry the day on corporate policy if they need to.

The fact that shares of Alaska Native corporations cannot be alienated forecloses another of the key disciplining tools of US corporate governance: the market for corporate control. Alaska Natives saw fit to prevent Native assets from escaping Native control; the history of Indian property losses justifies their concern. Nonetheless, the ban on ANC stock transfers comes at a cost. No threat of takeover can exist to focus the attention of management on maximizing returns.

Finally, Alaska Native stock ownership does not represent a mechanism for raising capital. The Alaska Native shareholder does not participate in the same way that an investor who purchases shares does. Neither does the corporation raise its equity from the people who vote on its policy. This absence of the capital portion of the shareholder relationship attenuates the incentives for accountability and oversight, all else equal. Thus, while Alaska Native corporations begin with a certain number of structural advantages over tribally owned companies, they also face structural liabilities that other Section 8(a) corporations do not. And as noted above, poor corporate performance is not just a theoretical risk arising out of community ownership—millions in Native assets are gone.

Dividends from Section 8(a) contracting, then, form a valued benefit. As one Alaska Native shareholder observed, the dividends are personally valuable:

I can trace...the influence of my village corporation...to my early years growing up. The dividends we got as a family from our Native corporation...helped provide food for our table."³¹

Dividends are also valuable in aggregate. The GAO reports that in 2004, the thirteen regional corporations and seventeen village corporations paid \$121.6 million in dividends. Eleven of these thirty paid no dividends, and dividends in the other nineteen ranged from \$1.71 to \$171.00 per share.³² A Native American Contractors Association (NACA) survey of members reports that \$32 million in dividends distributed in 2005 by ten regional ANCs and two Village corporations (Alutiiq and Chenega) were attributable to federal contracts. These twelve corporations had 86,516 shareholders between them. While this large number of shareholders implies a low average dividend per capita, it is important to acknowledge that some companies have little or no dividend income attributable to federal contracting and others very high dividends. In 2005, Afognak Native (Village) Corporation, for example, paid a record \$10.8 million dividend to its nearly 700 Native shareholders, or more than \$15,000 per person. The same year, a regional corporation just beginning Section 8(a) contracting was unable to pay a dividend to its 6,300 shareholders.

It is also important to note, however, that not all corporate profits pass to individuals for current consumption. A number of ANCs have developed programs to invest profits for the long term. Afognak, for example, instituted an investment portfolio—the Shareholder Permanent Fund—so that current gains remain a source of economic strength into the future. The GAO reports that one third of the thirty ANCs it studied created permanent funds to build reserves for future dividends. A NACA survey of twelve ANCs reports that \$88.2 million was contributed to Native corporation permanent fund programs in 2005. In the case of tribally owned enterprises, profits flow to tribal government treasuries from which tribes fund programs and services.

Employment

In 2000, Indian unemployment stood at twice the US average nationwide and was more than three-times as high on Indian reservations and in Alaska.³³ Accordingly, Native employment is a central objective of tribal governments and Alaska Native corporations. Tribes and ANCs are allowed under federal law to exercise a preference for American Indian and Alaska Native applicants. Tribal and Alaska Native corporations also face strong political pressure to hire their own people. As a result, Indian companies dedicate a substantial amount of time and expense to recruiting, training, developing, and retaining Indian employees. Using everything from internships and scholarships to on-the-job coaching and subcontractor agreements, Native companies grow their own talent.

This process can be arduous when companies have to contend with multi-generational poverty and its toll on worker preparedness, but success tends to be irreversible when it is achieved. Once a tribal member or Native shareholder becomes adept at welding, accounting, or circuit design they generally do not relapse. Take for example, Derik Fredericksen, General Manager of Sealaska Environmental Services and a Tsimshian shareholder of Sealaska Regional Corporation. He 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 serving the US Navy. As the GAO reports, almost a third of the ANCs it studied have manager training programs oriented to developing managers like Fredericksen.³⁴

The NACA survey data reports 31,717 employees nationwide, many of whom are American Indian or Alaska Native. In Alaska, for example, Section 8(a) contracts held by twelve ANCs generated 9,750 jobs, 3,170 of which were filled by Native Alaskans. The 2005 total payroll for these 9,750 Section 8(a) workers was \$413 million. By rough comparison, in 1991 2,113 Native shareholders worked in the original twelve regional corporations across all lines of work.³⁵ As welcome as the job growth is, much remains to be achieved; many thousands of American Indians and Alaska Natives still need steady employment.

Regularly, tribal and Alaska Native corporations hire non-Indians as well, and on occasion such hires attract controversy from within the Indian communities themselves and from outside. Internal attention focuses on the scarcity of job opportunities for Indians, and the implication that no qualified Native candidates exist does not sit easily. External attention—especially in the context of Section 8(a) contracting—focuses on contract dollars “leaking” to non-Indians. In the case of Section 8(a) contracting, skeptics ask: Why should the benefits of sole-source contracting go to executive compensation of non-Indians?

Hiring non-Indians (or not) requires balancing competing objectives. On the one hand, few can argue with the need to hire American Indians and Alaska Natives. Not only are the jobs needed, but a growing body of evidence demonstrates that Native control over and participation in economic activity improves prices, volumes, and hence, profits.³⁶ Native participation also helps fold the community's important cultural and environmental objectives into business strategy and thereby contributes to long-term commercial success.³⁷

On the other hand, Native businesses ought to and do participate in challenging markets that require sophisticated, specialized, and experienced employees. The size and time requirements for graduation from Section 8(a) certification ensure that they do so, but even before then, Indian companies must surmount various barriers to entry in contracting and compete in non-procurement markets. Success in businesses implies answering to the forces of supply and demand in the market for specialized talent—that is, paying salaries the market requires—or paying the costs of not doing so. Chugach Alaska Corporation, for example, marks the turning point in its recovery from bankruptcy to the hiring of executives with prior government contracting expertise. What would Chugach performance have been without those hires?

The challenge of balancing competing objectives rests with the owners of Native companies. Boards of Native corporations universally contain members of the owning tribe or Alaska Native shareholders, as the case may be. Only rarely do boards contain non-Indian directors. On both sides of the question of non-Indian hiring, these Native boards face the costs and benefits of their decisions directly. If they hire the non-Indian executive who turns out not to be worth his rich compensation, they will face the ire of shareholders. If they hire the untested Indian executive and gain the benefit of local knowledge and cultural understanding but forgo the customer service experience necessary for repeat business, it is their risk to take. The federal government—and any other outsider, for that matter—ought to tread very carefully when second-guessing the choice of hiring a non-Native. No one faces the incentives as directly or as consequentially as the Native directors that have to make the tough call.

Corporate Success

The commercial impact of Tribal & ANC 8(a) contracting does not begin and end with the procurement business itself. As the law intends, Section 8(a) contracting creates lasting capability that extends beyond Section 8(a) graduation and to other businesses. A few examples make this clear.

Chugach Management Services (a joint venture between Alutiiq, LLC and Chugach Alaska Corporation) consistently receives ninety-seven percent award fees for its work on an operations and maintenance contract with Kirtland Air Force Base (NM). According to Col. H. L. Andrews, USAF Commander, the high award fees were based on the venture's

unwavering support to team Kirtland customers [which] was continuous and consistent... [Y]ou and your employees will take us to a higher level of excellence.

Chugach Management Services has built a reputation for quality service that will benefit shareholders into the future.

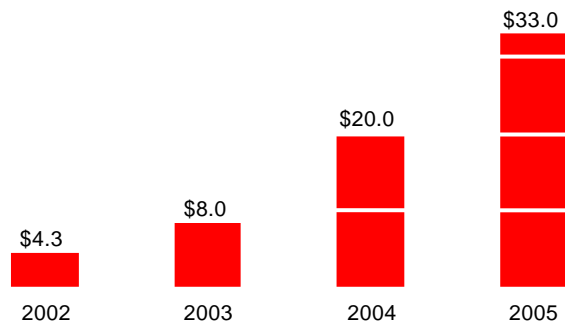
The Confederated Salish and Kootenai Tribes in western Montana own S&K Electronics, a manufacturer of cable assemblies, wire harnesses, electronics, and electro-mechanical products. The company started in 1984, received Section 8(a) certification in 1990 and graduated from the 8(a) program in 1999. The current client base is about half government contracting and half private sector. SKE has moved up the value chain. Once solely a value-priced producer, the company provides engineering support in design and development. S&K Electronics also assists engineering and electronics researchers in the Montana university system and regularly hires interns and work-study students from Montana State University's School of Engineering. The company is the second largest source of tribal revenue, and more importantly, the company has permanently altered the Flathead Reservation business climate. The experience of federal contracting gave the company the administrative efficiency and staff capability to compete aggressively in the corporate world.³⁸

In 1991, Chugach Alaska Corporation (on Prince William Sound) 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.

SpecPro, Inc., a Section 8(a)-certified subsidiary of Bristol Bay Native Corporation (western Alaska), received the DoD's Nunn-Perry Award for excellence in the Mentor-Protégé Program, specifically for reducing costs and developing technical capability. It won this award for its partnership with TerraHealth, Inc., a small disadvantaged, veteran, and minority-owned business and their joint work providing medical staffing, consulting, IT, mental health and vocational resource services. The partnership employs 250 San Antonio, Texas residents and exceeded all its three-year goals for growth in the first nine months.

Mandaree Enterprise Corporation faced bankruptcy in 1994. The board of directors of this enterprise owned by the Mandan, Hidatsa, and Arikara Nations of the Ft. Berthold Reservation (ND) hired a turnaround CEO to develop a strategy for recovery. Three years later, Mandaree became 8(a)-certified and has grown very rapidly in recent years (Figure 14). Worldwide, the company has ninety employees (sixty percent Indian), ten offices, and four divisions providing information services and manufacturing cables, wire harnesses, circuit boards, and panel assemblies. Mandaree twice won the Nunn-Perry award.

Figure 15
Mandaree Enterprise Corporation Gross Revenue Growth
millions of nominal dollars



(NACA)

Integrated Concepts and Research Corporation (a subsidiary of Koniag Development Corporation—Alaska Peninsula and Kodiak Island) partnered with woman-owned Qualis Corporation of Huntsville, Alabama to bid a contract to provide NASA’s Marshall Space Flight Center with materials testing services. In performing the five-year, \$12.3 million contract the partnership consistently received 100 percent of its performance and cost incentive fees. The partnership regularly saves NASA about ten percent of the target budgets and saved NASA nearly \$1 million in contract costs.

Of course, the foregoing examples do not represent the entirety of Tribal & ANC 8(a) experience. Some tribes and Alaska Native corporations find the process of 8(a) certification onerous. They 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 Tribal & ANC 8(a) advantages. Some have received contracts, but struggled nonetheless to stay in business, essentially departing 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.³⁹ Among such tribes and ANCs there exists an opportunity for the Small Business Administration to expand the benefits of Section 8(a) contracting at minimal taxpayer cost: SBA should study and address impediments to Tribal & ANC 8(a) certification, contracting, and sustainability.

That point aside, however, the foregoing examples demonstrate that the Section 8(a) program creates solid and long-lasting companies benefiting some of the poorest regions of the country. Most importantly, these stories (and others like them) stand in stark contrast to the federal government’s prior record of failure in sustaining Indian economic activity via aid and grant programs administered by the Bureau of Indian Affairs, the Department of Commerce, and others.

Moreover, Tribal & ANC 8(a) contracting is built to prevent growing dependence. The graduation criteria and the regulation that requires government business to taper in the last years of an 8(a) company’s life help spur Tribal & ANC 8(a) companies to move into other lines of procurement and private business. For example, the SBA precluded Bering Straits Corporation from bidding on more contracts because it had exceeded its required business mix threshold for government contracting.⁴⁰ The GAO’s data on Section 8(a) participation from 2000 to 2004 indicate that ANCs became more competitive in federal procurement without changing the proportion of their business

coming from 8(a) or sole-source contracts (Figure 16). As a group, ANCs quintupled their non-8(a) and more than trebled their non-sole source business in this period to match their growth in 8(a) and sole-sourced business. While it fluctuated over time, the proportion of ANC business derived from Section 8(a) advantages was about the same at the end of the period as when it started.

Figure 16
ANC Non-Advantaged Procurement, 2000 & 2004
dollars in millions

	2000	2004	Change
Non-8(a)*	\$114	\$594	5.2X
Share	30%	35%	+5 pts.
Non-sole source 8(a)**	\$65	\$227	3.5X
Share	27%	21%	-6 pts

Note: does not include business outside federal procurement.

* Government-wide; ** Defense, Energy, Interior, State, Transportation, & NASA
(US GAO, 2006Figs. 2, 4)

Social Investment

In addition to profits, jobs, and business experience, 8(a) contracting directly supports efforts underway to address and reverse the social consequences of poverty. Decades on end of below-average income combined with property expropriation, assimilation policy, and paternalistic federal approaches to social problems leave deficits in Indian social indicators ranging from life expectancy and educational attainment to overcrowded housing and criminal victimization.⁴¹ As noted above, federal resources available to address these deficits fall short of what is required and are in decline. To rebuild schools, to prevent late-onset diabetes, to reduce juvenile delinquency, to protect Indian graves, and to maintain Native water quality (among other things), tribes and Alaska Native communities need fiscal resources. Tribal & ANC 8(a) contracts help provide them.

Some of these efforts help revitalize cultures and languages. In the mid-1990s, Afognak Native Corporation initiated a series of Alutiiq culture camps (now run by the Village government) to teach Alutiiq children traditional dance, language, history, and subsistence. Alaska Native corporations also support Alutiiq language immersion programs where some of the thirty-four remaining fluent speakers teach adults “what it means in our language to be Alutiiq.”⁴² Afognak also supports the Alutiiq Museum & Archeological Repository which travels to each of the communities of the region to teach Alutiiq history and tradition and to protect artifacts from vandalism and decay. Far from being an indulgence in quaint nostalgia for a by-gone era, systematic research shows that investments like these in cultural and linguistic vitality improve the measurable performance of Indian governments and corporations.⁴³ The President of Koniag, Inc. is entirely believable when he attributes a portion of the dramatic reduction of school dropout rates (4.2% down to 0.9% in two years) to the Alutiiq Museum and language immersion program.⁴⁴

Other direct efforts support schools. In addition to providing revenue to the tribal government which funds schools, forest management, police, and the like, S&K Technologies sponsors a photography project for middle- and high-school students at the Two Eagle River School in Pablo, Montana. The program, called Our Community Record, encourages students at the tribally run school to document their community culture and history through photography. S&K Technologies' grants purchase supplies, underwrite travel, and pay for critically acclaimed instructors.

In addition, tribal governments and Alaska Native corporations spend corporate profits on 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. One built a barge service to replace the only village transportation link to the outside world. Another had a policy to grant five acres of land to any shareholder that requested it. And yet another ANC built a "washateria" so that villagers—none of whom had running water—could shower and launder clothing.⁴⁵

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.

Systematic Socioeconomic Evidence

During the 1990s improvements appeared in social and economic indicators for American Indians and Alaska Natives residing in the Alaska Native regions. Interestingly, the strength of some of these improvements correlates with the regions most active in the 8(a) program. Correlation, of course, does not imply causation and a host of complicating factors as diverse as urbanization, natural resource endowment, and Alaska state education policy may explain the variation too. Urban areas, for example, provide more opportunity for economic advancement, and American Indians and Alaska Natives living in urban areas across the US display better than average income, employment, and educational success.⁴⁶ Thus, research must account for urbanization before attributing Alaska Native socioeconomic change to Section 8(a) contracting. Unfortunately, an analysis that could systematically control for complicating influences like urbanization, natural resource wealth and Alaskan education policy exceeds the scope of this work. Nonetheless, some preliminary analysis associates higher volumes of Section 8(a) contracting with educational and economic improvement.

As shown in Figure 17, all ANCSA regions in the 1990s demonstrated growth in Native high school and college attainment; declines in Native unemployment; gains in Native per capita income; and declines in Native poverty. Notably, the growth in Native adults possessing college degrees has been most pronounced in the four ANCSA regions containing the five most active participants in the 8(a) program. The number of

individuals with bachelor's degrees or higher increased 529% between 1990 and 2000 in those four ANSCA regions—one-third higher than elsewhere. Such growth could be the result of more Native residents obtaining degrees from within the regions or the result of migration to the region of degree-holding American Indians and Alaska Natives. The latter may be more likely since college diplomas take years to produce. In either case, the statistic indicates growing opportunities for college graduates in these regions.

Figure 17
Selected American Indian and Alaska Native Socioeconomic Changes in ANC Regions, 1990 – 2000
percentage change

ANCSA Region	High School Only	College	Unemployment	Per Capita Income	Population Below Poverty
<i>Regions with the top five Alaskan Section 8(a) contractors:</i> *					
Arctic Slope	42	530	-36	69	-17
Chugach	35	947	-44	52	-16
Koniag	35	307	-64	81	-39
NANA	30	477	-43	111	-16
Pop. Weighted Avg.	35	529	-43	85	-19
<i>Regions with major cities:</i>					
Cook Inlet (Anchorage)	20	303	-62	125	-59
Doyon (Fairbanks)	41	507	-66	173	-68
Sealaska (Juneau)	28	489	-57	109	-41
Pop. Weighted Avg.	27	395	-62	132	-57
<i>All other regions:</i>					
Ahtna	60	756	-69	81	-51
Aleut	42	237	107	56	26
Bering Straits	42	568	-33	143	-40
Bristol Bay	34	318	-34	80	-30
Calista	34	344	-24	104	-35
Pop. Weighted Avg.	37	385	-20	105	-32

* Arctic Slope Regional Corporation, Chugach Alaska Corporation, Chenega (Chugach region), Alutiiq (Koniag region), and NANA Corporation. Averages weighted by American Indian and Alaska Native population in 2000. (US Census Bureau, 1990; US Census Bureau, 2000)

The top four regions experienced declines in unemployment that were two-thirds the strength of those in regions containing major cities (middle block in Figure 17), but twice those of other regions (bottom block). Urbanization seems to influence unemployment, as one would expect, yet Section 8(a) contracting correlates with employment, too.

Other statistics present a more complicated picture, but are suggestive of (though not probative of) the beneficial influence of Section 8(a) contracting. The number of Alaska Natives with only high school degrees grew in those top four regions, though slightly below the pace of the ANCSA regions without major cities (bottom of Figure 17). The fact that there is growth in this statistic accompanying the growth in college education means that high school dropouts declined. In the top four regions, the large increase in college graduates may explain the lower rate of growth in high school (only) attainment; some of the adults who had only high school degrees left that pool and joined the ranks of college degree holders.

The top four regions did not experience greater-than-average improvements in per capita income or greater-than-average reductions in the number of people below the poverty level. This may be due, in part, to the regions' high starting point in 1990. Both the top four regions and the regions containing major cities had average incomes about fifty percent higher than the bottom group in 1990. Under certain conditions, as Native incomes approach the prevailing statewide level, they grow more slowly, and if this is in fact the underlying dynamic, then one could see declining unemployment *and* slower growth in income in a region experiencing growth.

Clearly more needs to be done to distinguish and quantify the influences on social and economic outcomes in Alaska—not to mention in the lower forty-eight states where Section 8(a) contracting is more dispersed and more recent. Yet even the preliminary data in Figure 17 shows Section 8(a) contracting to be correlated with greater employment and with greater college attainment. Especially given the low levels of income demonstrated in Figure 6 and the declining levels of *earned* income in remote rural regions of Alaska (Figure 9), the benefits of Section 8(a) contracting should be extended not curtailed. Any changes to a federal economic development as successful as the 8(a) program should be approached with caution, lest the gains that have been achieved be lost before its positive socioeconomic effects can be felt throughout American Indian and Alaska Native communities. As noted above, the Small Business Administration needs to examine how to extend the Section 8(a) program more aggressively in the regions, villages, and tribes where corporations have not yet embraced it.

B. Multiplier effects: The Cases of Alaska and S&K Technologies

With the possible exception of some subsistence activities, virtually every economic activity in an economy attaches to some other economic activity. Home construction requires insulation, plumbing services, and shingles. Drilling for oil demands geological prospecting services, steel pipe, and rig workers. Hauling frozen salmon to an airport necessitates gasoline purchases, tire purchases, and ultimately the truckdriver's paycheck supports grocery provision, propane delivery, and clothing manufacture, among other things.

On occasion it can be useful to document how these interconnections extend from a given economic activity. Does a new auto plant generate enough ancillary economic activity to justify tax abatement? Will a new stadium attract enough fans from outside a city to justify public support for construction? What fraction of regional GDP arises from a local factory? To answer these and similar questions, economists have developed models of economy-wide interrelationship which estimate what proportion of a regional economy attaches to a particular activity or policy.

Wassily Leontief pioneered the development of Input-Output (or I-O) models and received the 1973 Nobel Prize in Economics for doing so. At their core, I-O models relate government-collected data on production, consumption and trade in a matrix of economic relationships, such that adding an economic perturbation yields an estimate of economic impact. The perturbation might entail a policy change (e.g., a tax rate reduction) or the appearance or migration of economic activity (e.g., the hypothetical opening or actual closing of a factory). The effects that these models estimate can range from overall gross

domestic product (GDP) changes at the broadest level down to sales tax collection changes or revenue changes in the oil seed sector at the narrowest level.

Governments throughout the federal system develop and use I-O models such as RIMS, IMPLAN, and REMI to predict tax revenue, plan transportation networks, and understand development options. Economists at the US Forest Service, for example, created the IMPact PLANning (IMPLAN) model in the 1970s to better understand the effects of forestry alternatives. The Service privatized the development and support of IMPLAN in the early 1990s to the Minnesota IMPLAN Group, and the model has grown to be a widely used and accepted general application I-O model. Analyzing impacts of Section 8(a) contracting in Alaska fits appropriately within IMPLAN's common usage.

IMPLAN reports three economic effects: direct, indirect, and induced. Upon registering a change in demand—perhaps the addition of an Alaskan airplane servicing company with \$85 million in revenue—the model immediately divides locally sourced goods and services from imports. Regionally satisfied demand—“domestic supply” in the jargon of trade economics—constitutes the *direct effects*. For example, suppose that companies outside Alaska typically provide avionics parts, but companies inside the state supply the cleaning fluids, electricity, and toolkits necessary for airplane servicing. In this example, the \$85 million in revenues would be separated into imports (avionics parts) and the direct effects (dollars spent on fluids, electricity, and toolkits). The imports do not count in the state impact because they create an economic impact outside Alaska where they originate.

The *indirect effects* arise from the iterated purchasing emanating from the direct effects. Continuing the example, the airplane services company purchases electricity (registered as a direct effect). In turn, that electricity requires so many gallons of oil fuel and man-hours of engineer time for production. The total dollar amount of these input purchases of labor, goods and services arising out of the direct effects constitute the indirect effects.

Finally, *induced effects* result from the final purchases of households whose incomes derive from the direct and indirect effects. Thus as oil company shareholders and electrical engineers receive income from the sale of electricity, their households, in turn, purchase groceries, dishwashers and movie tickets. The sum total of this associated spending can be considered “induced” by the direct and indirect demand. Altogether, the direct, indirect and induced effects constitute the full impact. When expressed in value-added terms (rather than in total output terms) IMPLAN estimates the fraction of gross regional product associated with the policy or company under study.

Each of these effects can be studied in total output terms or in value-added terms. Total output calculations sum values across the stages of the production, distribution, and sales chains. For example, total output would record the value of a car radio, the value of the whole car which receives it, and the value of the dealer markup at final sale. Here the car radio is counted three times. Value-added analysis eliminates the multiple counting, measuring the only additional increments of value contributed. For the whole nation, total value added amounts to the gross domestic product (GDP) and for states and regions, the GSP and GRP. Total value-added can be divided into three broad categories:

- i. *Labor Income*: employee compensation and self-employment income;

- ii. *Property Income:* interest, rents, royalties, dividends and profits; and
- iii. *Indirect Business Taxes:* Taxes other than taxes on profit or income; mostly sales and excise taxes.

Tabulations from the Federal Procurement Data System (FPDS) by Eagle Eye, Inc., Inc. identify procurement contract volume by “place of performance.” A corporation may have headquarters in one location and various operations around the US. The place of performance indicates where the contract activity takes place not the place where the contract is administered. To be sure, some of the contract revenue may immediately “depart” the place of performance, say, if employees typically live in a different county or if inputs come from another state. Nonetheless, the place of performance in Eagle Eye, Inc.’s data provides a good starting point for geographic analysis of impacts. It is the “landing place” for the federal contract funds from which the direct, indirect, and induced effects emerge in the region.

This report will use the place-of-performance data to examine the impact of: a) all Native contracting in Alaska; and b) the contracts of one firm—S&K Technologies, Inc.—on Montana. Recall from Figure 13 that Alaska received the largest state share of federal procurement from Native companies (18% over FY 2000-2005). In FY 2005, the federal government procured \$448 million dollars’ worth of goods and services from Native businesses in Alaska, two-thirds of which was concentrated in the construction and support services sectors (Figure 18). The remaining third ranged from oil and gas extraction and food services to forestry and utilities.

Figure 18
Government Procurement from Native Companies in Alaska by Sector
FY 2005

Two-digit NAICS	Description	Proportion
23	Construction	39%
56	Administrative, Support , Waste Management, & Remediation Svcs.	26%
54	Professional, Scientific, and Technical Services	12%
51	Information	9%
	Other	14%

(Eagle Eye, Inc.)

According to IMPLAN’s internal statistics on regional purchasing, of that \$448 million in federal purchasing from Native companies in Alaska, \$246 (55%) remained in Alaska as a direct impact on the state economy (Figure 19). IMPLAN estimates an additional \$64 million in indirect and \$252 million in induced impact arising from that indirect impact, yielding a total gross impact of more than half a billion dollars in 2005. The vast bulk of that accrues to workers in labor income, as is typical.

Figure 19
Economic Impacts of Native Contracting in Alaska
 millions of 2005 dollars

	Direct	Indirect	Induced	Total
Labor Income*	200	42	176	418
Other Property Income†	37	17	59	114
Indirect Business Taxes‡	8	5	17	30
Total Value Added	246	64	252	562

* Employee compensation and self-employment income. † Interest, rents, royalties, dividends and profits. ‡ Taxes other than taxes on profit or income; mostly sales and excise taxes. Sums may not correspond with indicated totals due to rounding.
 (Eagle Eye, Inc.; IMPLAN)

As noted in detail above, the Confederated Salish and Kootenai Tribes of the Flathead Indian Reservation own a company that has graduated from the 8(a) program: S&K Technologies, Inc. According to the Eagle Eye, Inc. data, S&K Technologies contracted for \$92 million in federal procurement in 2005. Of this amount, Eagle Eye, Inc. identifies 47 percent, or \$43 million in contract work, to have a Montana places of performance. S&K Technologies performed more than four-fifths of this Montana work under a facilities support services contract with the US Air Force. The places of performance are listed as St. Ignatius and Ronan, Montana on the Flathead Indian Reservation and Libby, Montana, closer to the Idaho border.

Again, as S&K Technologies spends the contract revenues performing the work, some of goods and services are imported from outside the region and some are provided in-state. IMPLAN estimates that of the \$43 million in contract volume, \$19 million in goods and services are directly provided by Montana companies, rather than imported from out of state (Figure 20). This, in turn yields \$8 million in indirect and \$20 million in induced impacts for a total gross effect on gross state product (GSP) of \$46 million.

Figure 20
Economic Impacts in Montana of S&K Technologies' Contracting
 millions of 2005 dollars

	Direct	Indirect	Induced	Total
Labor Income*	15	5	13	33
Other Property Income†	3	2	5	11
Indirect Business Taxes‡	0	1	1	2
Total Value Added	19	8	20	46

* Employee compensation and self-employment income. † Interest, rents, royalties, dividends and profits. ‡ Taxes other than taxes on profit or income; mostly sales and excise taxes. Sums may not correspond with indicated totals due to rounding.
 (Eagle Eye, Inc.; IMPLAN)

These two figures (Figure 19 & Figure 20) point to some additional observations about the effects of contracting. Among other things, contracting in these two cases helps support *state* economies that need it. The total GSP that IMPLAN estimates arises out of federal purchasing in Alaska amounts to 125% of the purchasing amount. For every federal dollar that goes to Native contracts in that state, the state economy benefits by \$1.25. In more diversified and urban economies, this multiplier benefit might be as high as \$2.00, but the Alaskan economy depends substantially upon imports. S&K Technologies' proportionate effect on the Montana economy is more modest still, \$1.07 for every dollar of procurement spending, indicating that Montana is substantially reliant

on outside providers in the relevant industries, too. These modest multipliers, as they are called, confirm the need for economic development in these states.

Second, the estimates in Figure 19 & Figure 20 represent the gross impacts of federal purchasing. They show how much of the state economies in each case can be attributed to or associated with federal contracting, but the figures in themselves cannot answer the question: How does this effect on the economy compare with what would have transpired without the contracts? The figures alone cannot speak to *net* benefits of the policy.

A central feature of Tribal & ANC 8(a) contracting suggests that the net benefits in Alaska, Montana, and many other places would be a substantial fraction of the gross: Tribal & ANC 8(a) contract dollars flow to regions where they would not otherwise go. Regardless of whether one assumes the contracts would otherwise go to non-Indian minorities (of which there are relatively few in most of Indian Country), to women and veterans (who are dispersed around the nation), to individual Indians (most of whom do not live on reservation lands), or to McDonnell Douglas and Halliburton, the contract dollars would probably not find their way to the Flathead Indian Reservation or the Ahtna Region of Alaska at all. Yes, the places of performance do not automatically correspond to the locations of the owner tribes or the Alaska Native regions of the ANCs, but this is because a construction site is not on the reservation or the Air Force Base that needs maintenance is across a state line, not because of a weakness of policy design. Tribal governments and ANCs face strong incentives to “bring the jobs home” to their community members when market forces allow.

The Eagle Eye, Inc. data indicate that 20% of the Section 8(a) and 26% of all Native contract dollars in FY 2005 have a state of performance identical to the home state of the corporation. Could the proportion be higher? Perhaps some additional economic activity at the margin could be moved toward the reservations, but supply and demand forces, logistics costs, and geographic synergies create strong incentives for the federal government and the Tribal & ANC 8(a) contractors to operate where it is efficient to do so, not solely where it is socioeconomically beneficial to do so.

But could the fraction be lower? Absolutely. The actual experience of Indian tribes prior to Congress’ creating the Tribal & ANC 8(a) provisions showed that fraction to be near zero. It is also important to note that in the absence of the special Tribal & ANC 8(a) provisions, no profits would flow back to Indian and Alaska Native communities in the form of dividends to individuals, government revenues, scholarship funds, and the like. Recall also from Section II, profits are “owned” across the entirety of the relevant Alaska Native or tribal population base, not just by an entrepreneurial subset of the home community.

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Notes

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- ¹ (US Commission on Civil Rights, 2003; US Commission on Civil Rights, 2004)
- ² (Kalt, 2007; Jorgensen, 2006; Lee, 2001; Kalt, 1996)
- ³ (Jorgensen & Taylor, 2000; Cornell & Kalt, 1992)
- ⁴ 25 U.S.C. §477.
- ⁵ US Internal Revenue Service, Revenue Rule 94-16.
- ⁶ See, e.g., (US GAO, 2006, 3).
- ⁷ 25 U.S.C. §2701 *et seq.*
- ⁸ See, e.g., (Cornell, Jorgensen, Record, & Timeche, 2007)
- ⁹ (US GAO, 2006)
- ¹⁰ 15 U.S.C. 631 *et seq.*
- ¹¹ A wide body of research links Indian self-determination with economic growth and improvements in social outcomes (Harvard Project on American Indian Economic Development, 2007see, e.g., “).
- ¹² 25 U.S.C. §477.
- ¹³ US Internal Revenue Service, Revenue Rule 94-16.
- ¹⁴ 25 U.S.C. §2701 *et seq.*
- ¹⁵ 43 U.S.C. § 1601 *et seq.*
- ¹⁶ A thirteenth regional corporation comprises Alaska Native shareholders from the lower forty-eight states.
- ¹⁷ (Morgan, 2005, 56)
- ¹⁸ (Bishaw & Iceland, 2003)
- ¹⁹ Note that the Alaskan all-races poverty rate shown by the red dotted line in Figure 6 is below the US equivalent, as one would expect (all else equal) under high costs of living.
- ²⁰ (Taylor & Kalt, 2005)
- ²¹ (Goldsmith et al., 2004, 12)
- ²² (Institute for Social and Economic Research, 2006)
- ²³ (Goldsmith et al., 2004, 2-31, 5-2)
- ²⁴ For example, subsistence salmon harvesting declined by a third from 1994 to 2003 (Alaska Department of Fish and Game, 2005).
- ²⁵ (US House Committee on Government Reform - Minority Staff, 2006, i-ii)
- ²⁶ Unless otherwise indicated, specific corporate information for this subsection was gathered by NACA from NACA members.
- ²⁷ (See, e.g., US Commission on Civil Rights, 2003)
- ²⁸ (Walke, 2000)
- ²⁹ (Colt, 2001, 3)
- ³⁰ (Jorgensen & Taylor, 2000; Grant & Taylor, in press; Cornell & Kalt, 1992)
- ³¹ Hegna, Shauna, Deputy Director, Rural Cap, as quoted by the Native American Contractors Association in undated interview notes.
- ³² (US GAO, 2006,81)
- ³³ (Harvard Project on American Indian Economic Development, 2007, 116, 328, 353)
- ³⁴ (US GAO, 2006, 82)
- ³⁵ (Colt, 2001, 8) Note that these numbers are not strictly comparable. The 1991 data are for all twelve regional ANCs. The 2005 data are for ten regional ANCs, Alutiiq, and Chenega.
- ³⁶ (See, e.g., Krepps & Caves, 1994)
- ³⁷ (Jorgensen, 2000; See, e.g., Grant & Taylor, in press)
- ³⁸ (DuMontier, Greg, President, S&K Technologies, personal communication)
- ³⁹ (Garber, Bart, President, Tyonek Manufacturing Group, personal communication)
- ⁴⁰ (Powers, Wally, Chief Financial Officer, Berring Straits Native Corporation, personal communication.)
- ⁴¹ (See, e.g., Harvard Project on American Indian Economic Development, 2007)
- ⁴² Hegna, Shauna, Deputy Director, Rural Cap, as quoted in Native American Contractors Association, Preserving our Traditions: Language Preservation Programs for the Alutiiq people, undated monograph.
- ⁴³ (Jorgensen, 2000)
- ⁴⁴ (Metrokin, Dennis, President, Koniag, Inc., personal communication)
- ⁴⁵ (US GAO, 2006, 80-1)

⁴⁶ (Harvard Project on American Indian Economic Development, 2007, chapter 21)