

*A Summary of the
Economic Benefits of
ANCSA Sections 7(i) and 7(j) Revenue*

Prepared for:
ANCSA Regional Association

February 2018



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The Alaska Native Claims Settlement Act (ANCSA) Regional Association and the ANCSA Resource Managers jointly commissioned this report to better document and understand the economic contributions of ANCSA Section 7(i) and 7(j) net revenue redistribution payments between FY1982 and FY2015. Section 7(i) of ANCSA calls for Alaska Native Regional Corporations (ANC) to annually redistribute among all 12 regional corporations 70 percent of net revenues from resource development on ANCSA land.¹ Section 7(j) requires each regional ANC to distribute half of these payments to their region's respective village corporations and at-large shareholders.

The regional ANCs provided McDowell Group with confidential data on Section 7(i) payments and receipts by means of audited annual reports and a follow-up survey. Data were then compiled and aggregated to preserve confidentiality. Revenues are presented in both nominal and inflation-adjusted 2015 dollars. Brief interviews were conducted with a representative mix of 13 village corporation leaders to gather opinions and corporate experience with respect to Section 7(j) revenues.

Overview of ANCSA Section 7(i) and 7(j)

ANCSA was signed into federal law in 1971. It established legal title to land by 12 regional and more than 200 village ANCs. Because the potential for resource development differed, depending on the location of each ANC's land title, Sections 7(i) and 7(j) were included in the law to help equalize ANC revenues from activities such as oil and gas development, mineral development, and timber sales. Section 7(i) states,

...70 percent of all revenues received by each Regional Corporation from the timber resources and subsurface estates...shall be divided annually by the Regional Corporation among all twelve Regional Corporations...according to the number of Natives enrolled in each region.

Section 7(j) states,

Not less than...50 [percent] thereafter, shall be distributed among the Village Corporations in the region and the class of stockholders who are not residents of those villages [at-large shareholders] ...

Section 7(i) Revenue Received

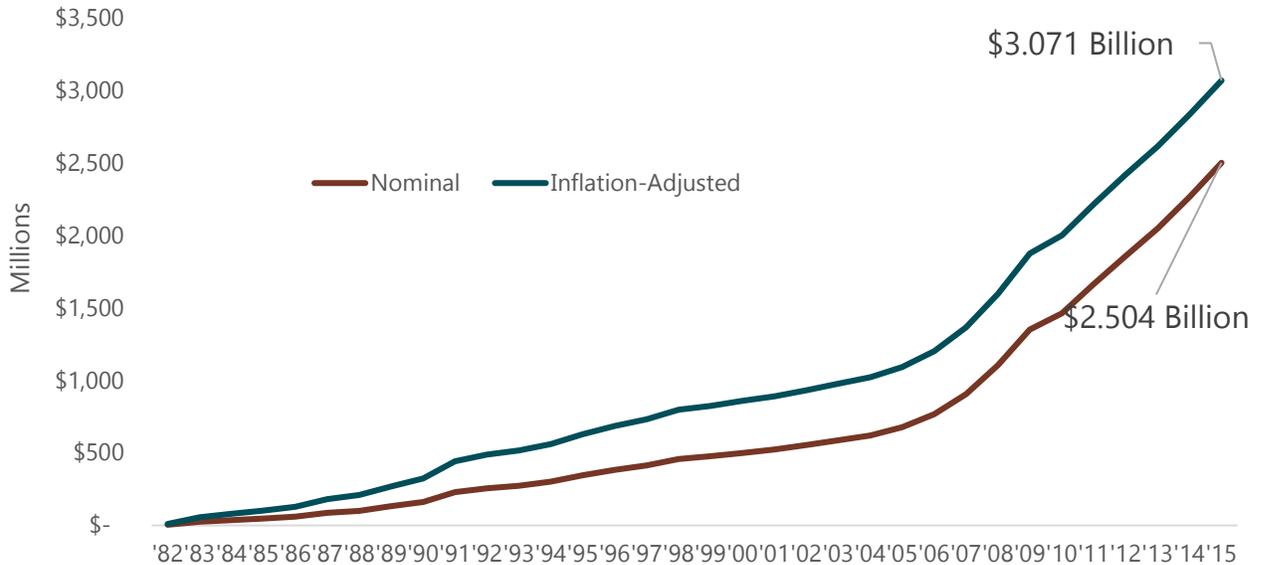
- Between FY1982 and FY2015, a cumulative total of \$2.5 billion in 7(i) revenue has been received by all ANCs combined. When adjusted for inflation, this totals \$3.1 billion in 2015 dollars (*see the figure below*).
- Between FY1982 and FY2004, total annual 7(i) revenue was generally less than \$50 million. However, over the next five years 7(i) revenue grew dramatically, largely due to rising oil and zinc prices. A fall in

¹ The 13th Regional Corporation did not receive land and was not entitled to receive payments from the natural resource sharing revenue outlined in Sections 7(i). The 13th Regional Corporation was dissolved in 2013.

oil prices and mineral commodity prices led to a significant drop in 7(i) revenues in FY2010. Since then, however, 7(i) revenue has been generally increasing.

- In FY2015, \$234.5 million in 7(i) revenue was divided among all ANCs.

Figure 1. Cumulative 7(i) Revenue Received by ANCs, Nominal and Inflation Adjusted 2015\$, FY1982 – FY2015



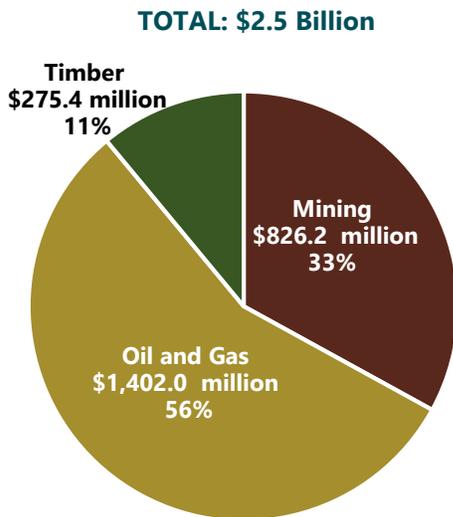
Source: Data from Alaska Native Regional Corporations, compiled by McDowell Group.

Resource Development Sources of 7(i) Revenue

- Timber harvests, mineral development, and oil & gas production have generated substantial 7(i) revenues. Between FY1982 and FY2015, total cumulative 7(i) revenue (in nominal dollars) included:
 - \$1.4 billion from oil and gas development (largely from ASRC and CIRI lands)
 - \$826.2 million from mining development (largely from NANA and Doyon lands)
 - \$275.4 million from timber sales (largely from Sealaska, Koniag, Chugach, and CIRI lands)

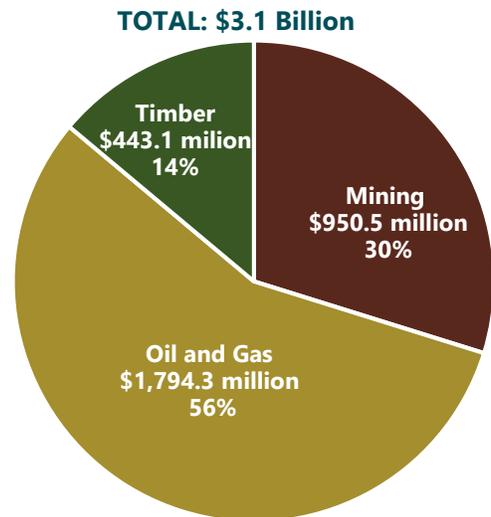
(See figures next page.)

Figure 2. Cumulative Section 7(i) Revenue Paid, by Resource Type, FY1982 – FY2015



Source: Data from Alaska Native Regional Corporations, compiled by McDowell Group.

Figure 3. Cumulative Section 7(i) Revenue Paid, By Resource Type, Inflation-Adjusted 2015\$, FY1982 – FY2015

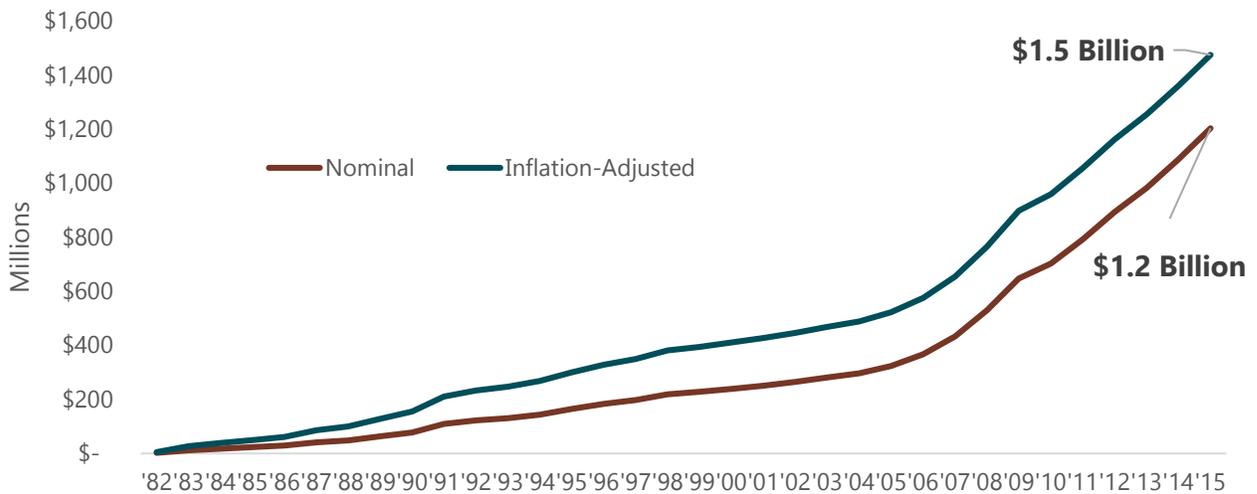


Source: Data from Alaska Native Regional Corporations, compiled by McDowell Group.

Section 7(j) Revenue

- Between FY1982 and FY2015, approximately \$1.2 billion has been distributed in Section 7(j) revenue to village corporations and at-large shareholders. When adjusted for inflation (2015 dollars (2015\$)), this cumulative amount is \$1.5 billion.

Figure 4. Cumulative Section 7(j) Revenue Received by ANCSA Village Corporations and At-Large Shareholders, Nominal and Inflation Adjusted (2015\$), FY1982 – FY2015



Source: Data from Alaska Native Regional Corporations, compiled by McDowell Group.

Benefits of 7(i) and 7(j) Revenues

- The 7(i) and 7(j) provisions of ANCSA make possible the distribution of economic benefits from ANC resource development to many more people and more communities than would have occurred otherwise. This “economic leveling” is consistent with the intent of Sections 7(i) and 7(j) to balance benefits to resource rich and resource poor regions.
- Sections 7(i) and 7(j) do not create more economic activity in Alaska than would otherwise exist, but the distributional effects are important.
- Since FY1982, every regional ANC has had periods when it received more 7(i) payments than it paid out.
- As of FY2015, no regional ANC has had fewer than nine years of net positive receipts (received more revenue than paid).
- Regional and village ANCs use their Sections 7(i) and 7(j) revenues in a wide variety of ways, including:
 - Shareholder dividends
 - Business investments
 - Scholarships
 - Programs for elders
 - Administrative overhead
 - Payment of taxes
 - Debt reduction
- The economic impacts of Section 7(i) distributions vary from year-to-year and shift over longer periods as development and production activity shifts between resources and regions of the state. However, as an example, \$100 million in annual Section 7(i) revenue distributions would produce \$150 million in total economic activity spread throughout the state. Further, though it is not possible to identify specific employment directly associated with these distributions, the economic activity associated with \$100 million in Section 7(i) revenue would include employment in the range of 1,000 to 1,200 jobs and \$50 million to \$60 million in labor income.
- In FY2015, \$234 million in 7(i) revenue received represented \$352 million in total economic activity, including 2,300-2,800 jobs paying \$115-\$140 million in wages and salaries.
- These broadly dispersed economic impacts are in addition to the direct economic impacts of mining operations, oil and gas production, and timber harvests. The direct economic impact of resource development, coupled with Sections 7(i) and 7(j) distribution effects, highlight the economic importance of responsible resource development on ANCSA lands in Alaska.

In the short term, the outlook for 7(i) and 7(j) revenues will be dependent on commodity prices (such as gold, zinc, oil, and gas). Over the longer term, the future of 7(i) and 7(j) revenues will be dependent on the interest and ability of regional ANCs to develop their timber, mineral, or oil and gas resources. These efforts will require overcoming many financial, economic, logistical, and at times, political risks that challenge resource development in Alaska. However, as this study shows, successful resource development by one regional ANC means success for all.

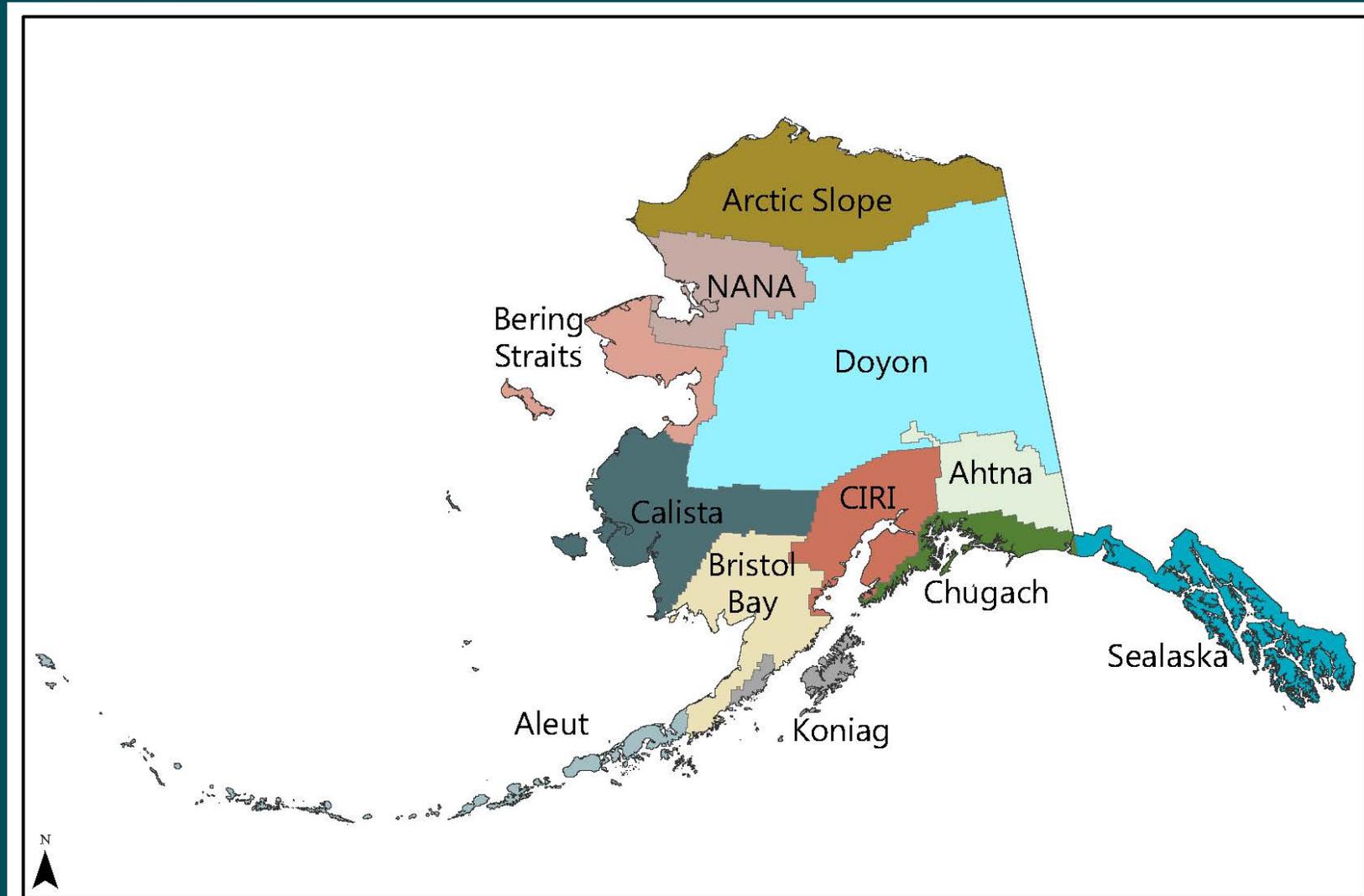
Economic Benefits of ANCSA Sections 7(i) and 7(j) Revenue – Data Summary



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Alaska Native Regional Corporation Boundaries

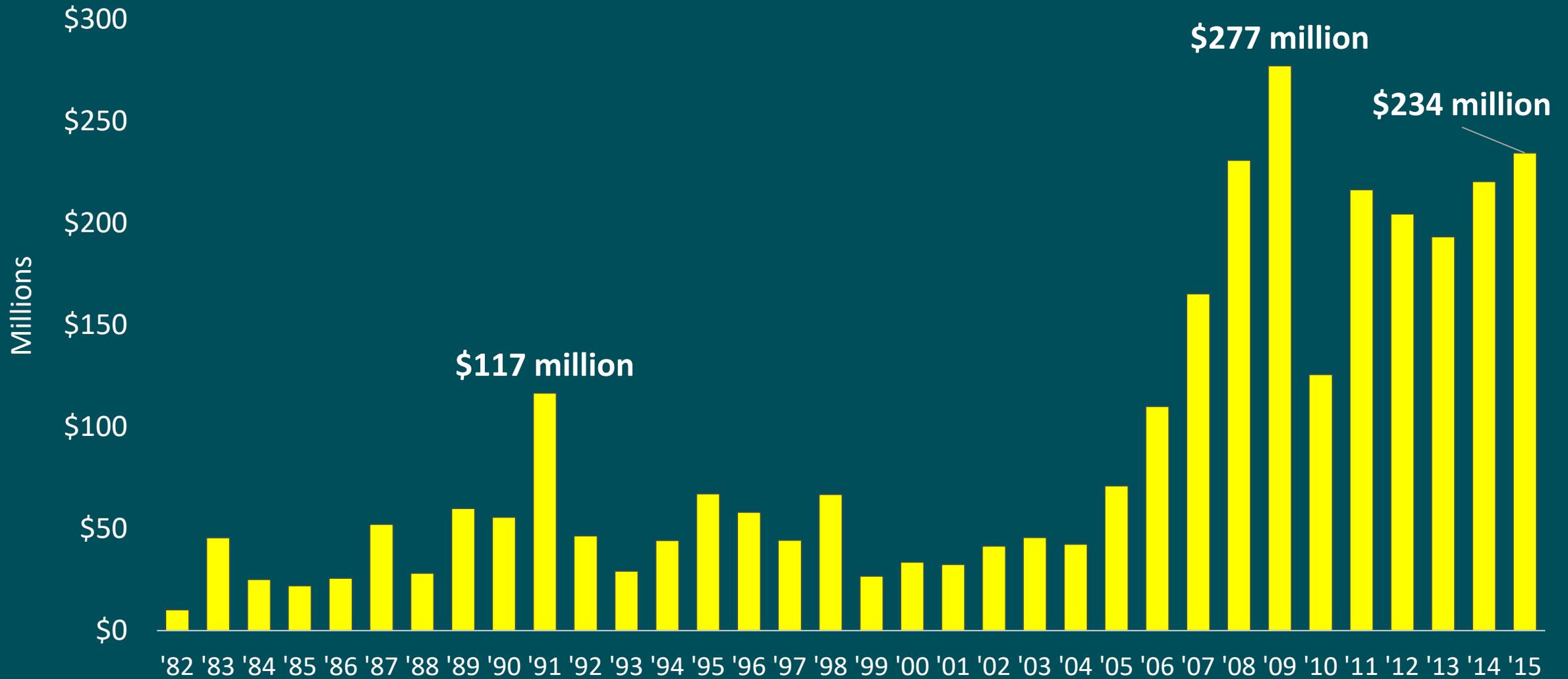


Alaska Albers 1983 North American Datum

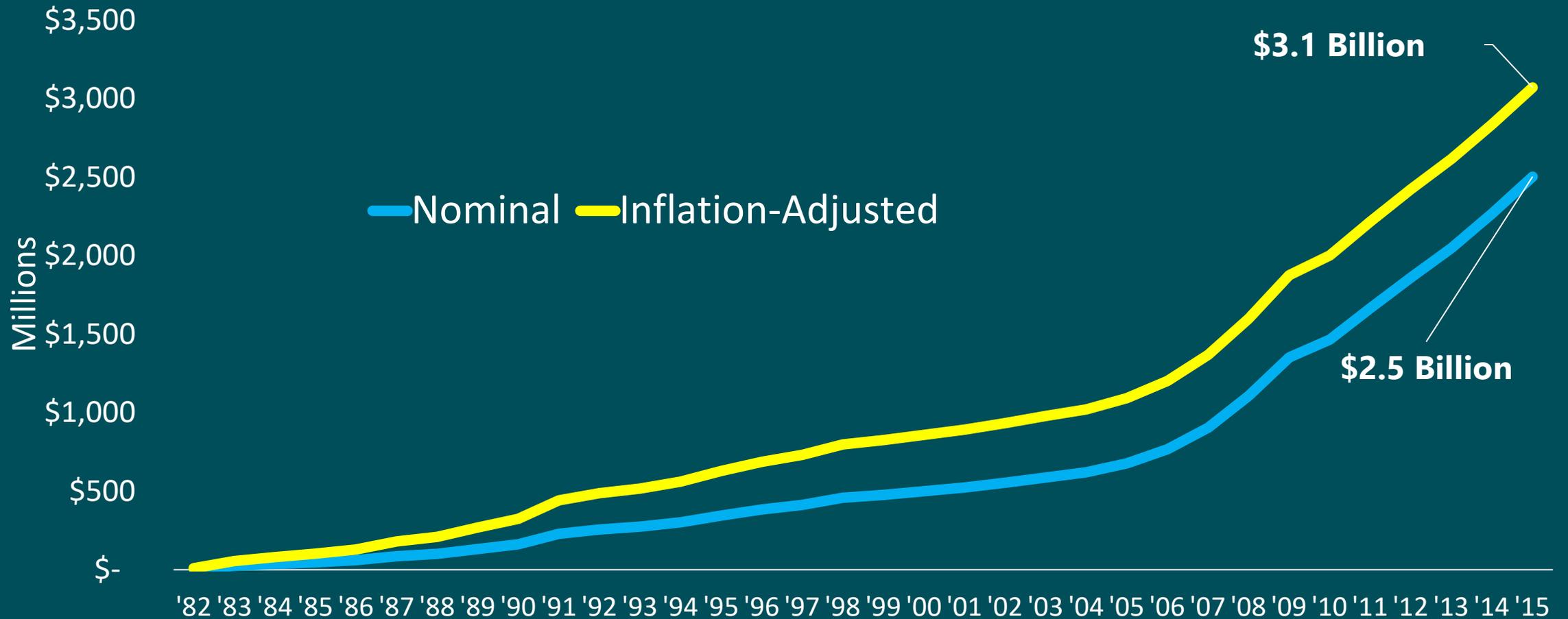
Source: US Census TIGER geographic database

Mapped by McDowell Group

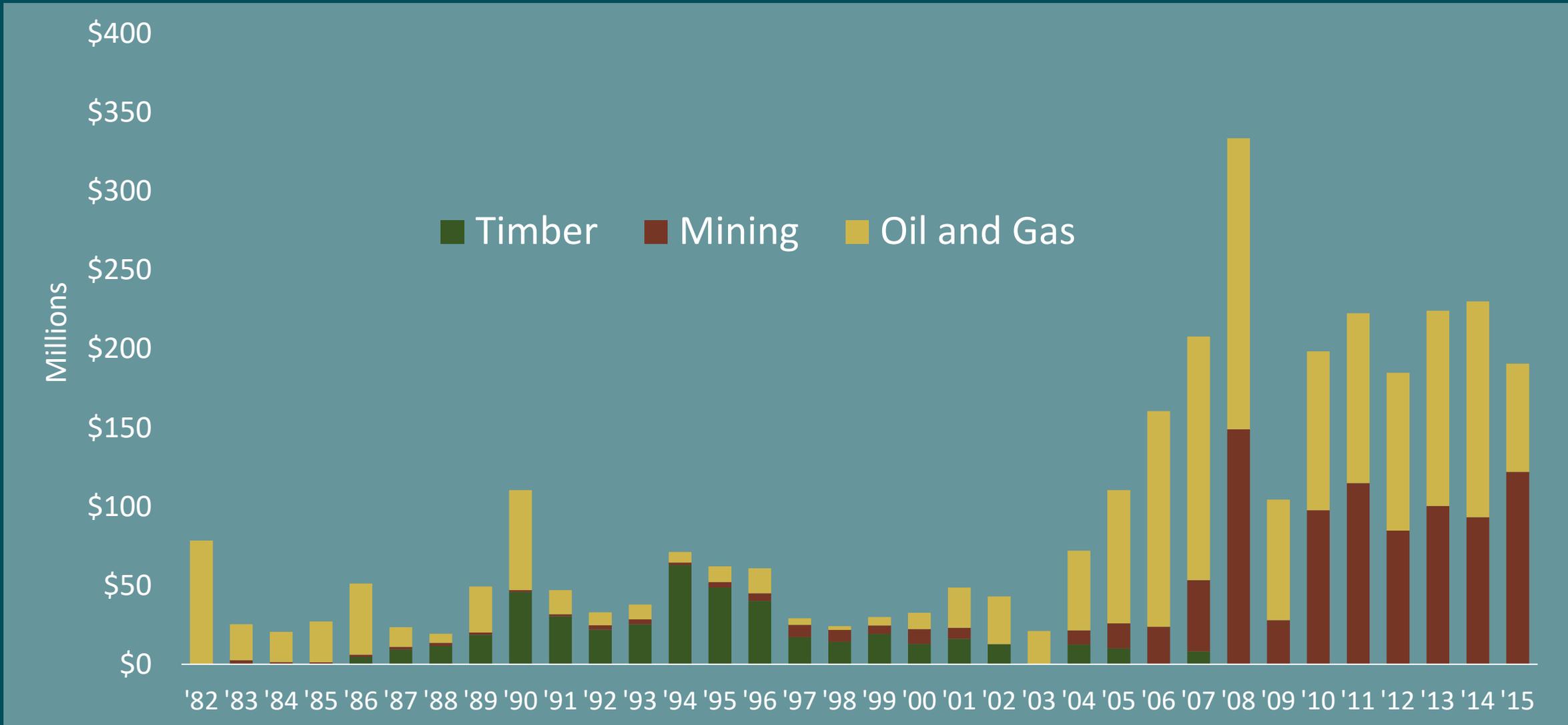
Annual 7(i) Revenue Received (FY1982-2015) (Adjusted 2015\$)



Cumulative 7(i) Revenue Received, Nominal and Adjusted (2015\$) (FY1982-2015)

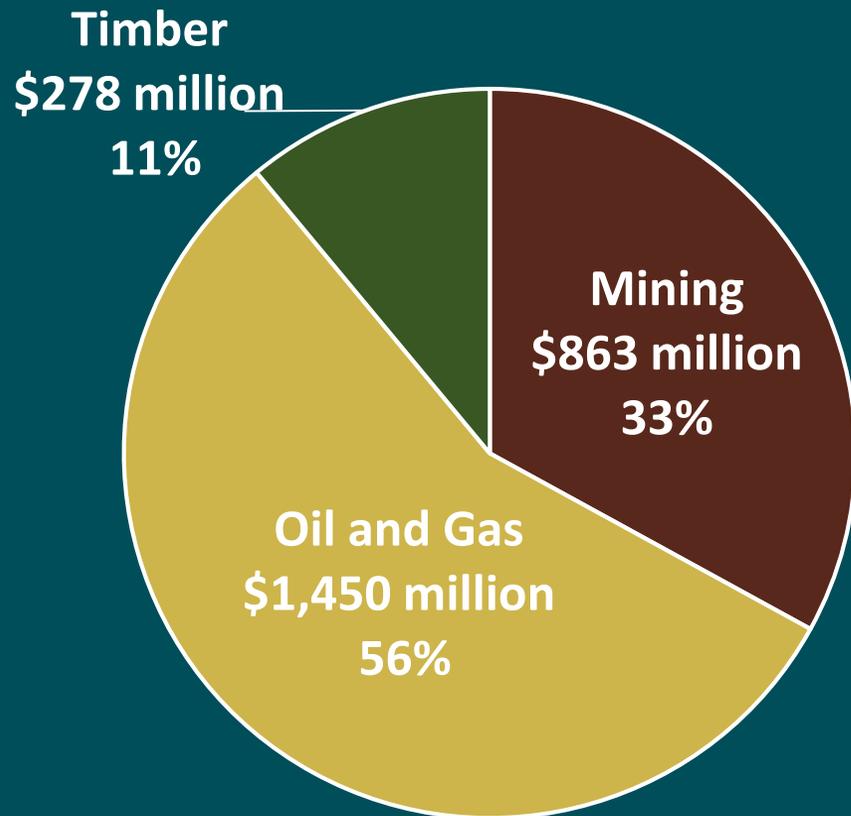


Annual (i) Revenue Paid, by Resource Type (FY1982-2015) (Adjusted 2015\$)

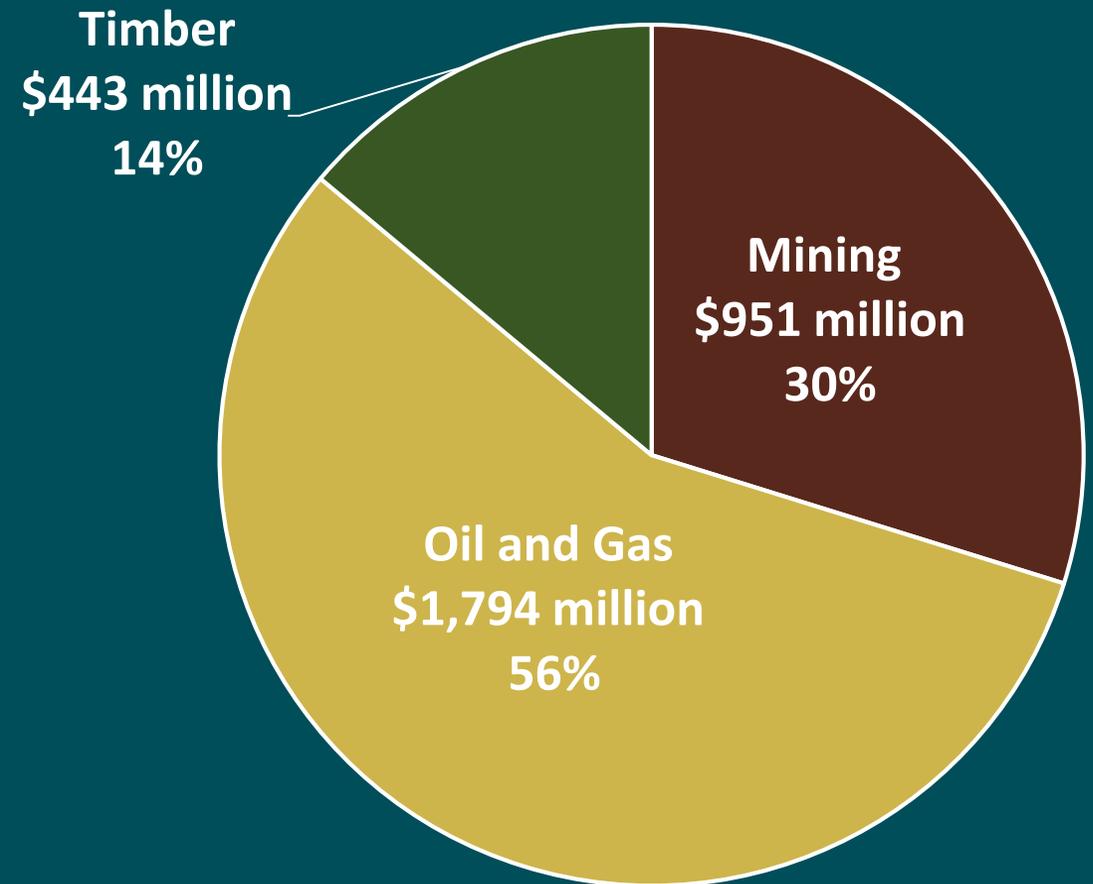


Cumulative 7(i) Revenue Paid, by Resource Type, Nominal and Adjusted (2015\$) (FY1982-2015)

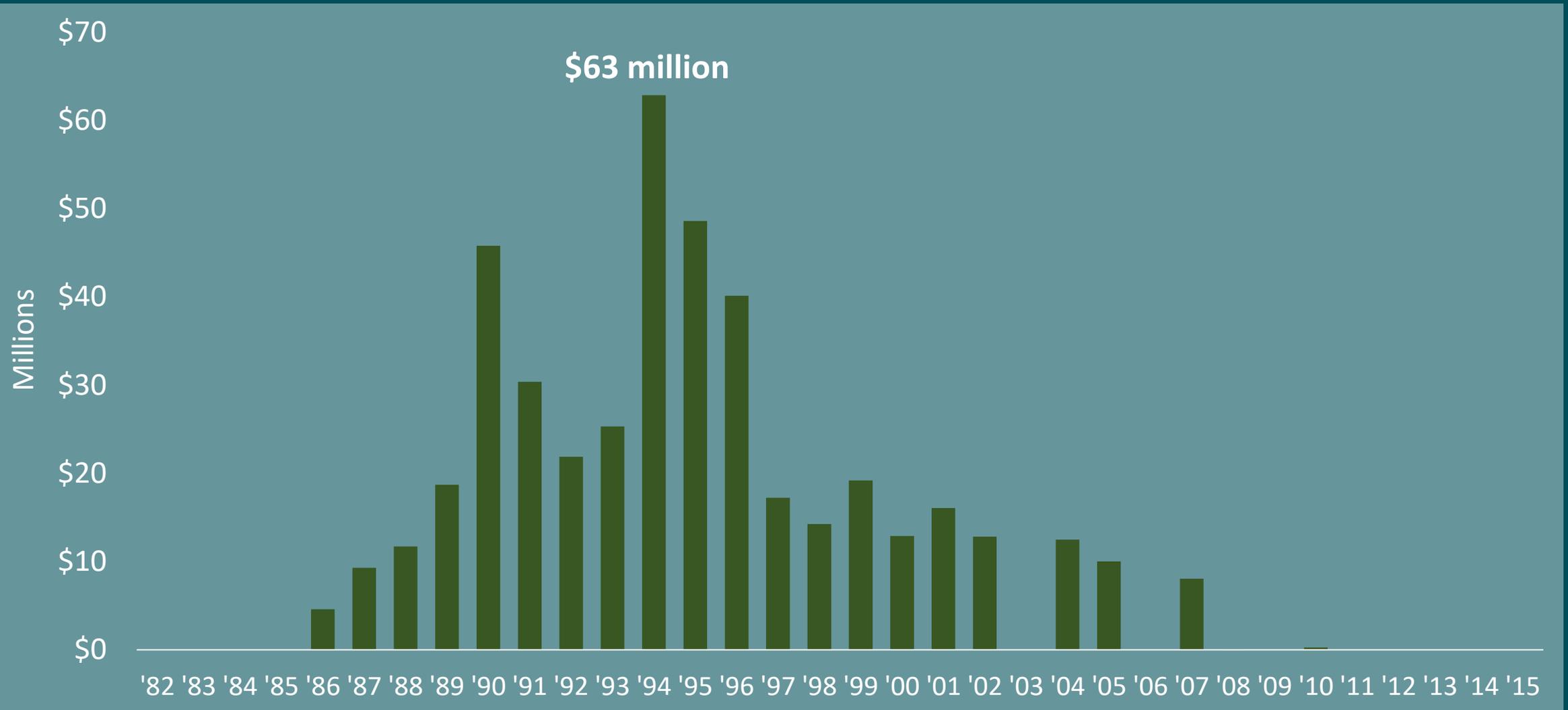
Nominal \$
TOTAL: \$2.6 Billion



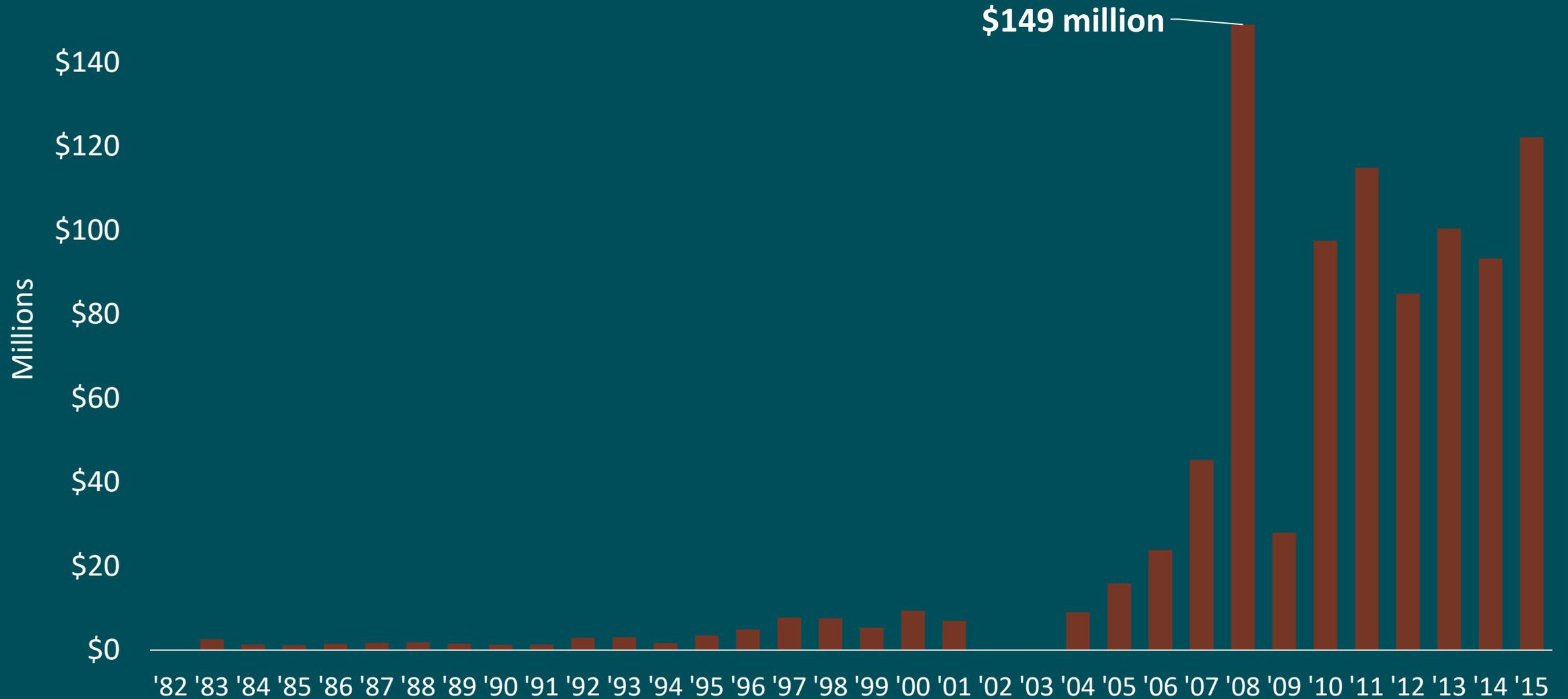
Inflation-Adjusted 2015\$
TOTAL: \$3.2 Billion



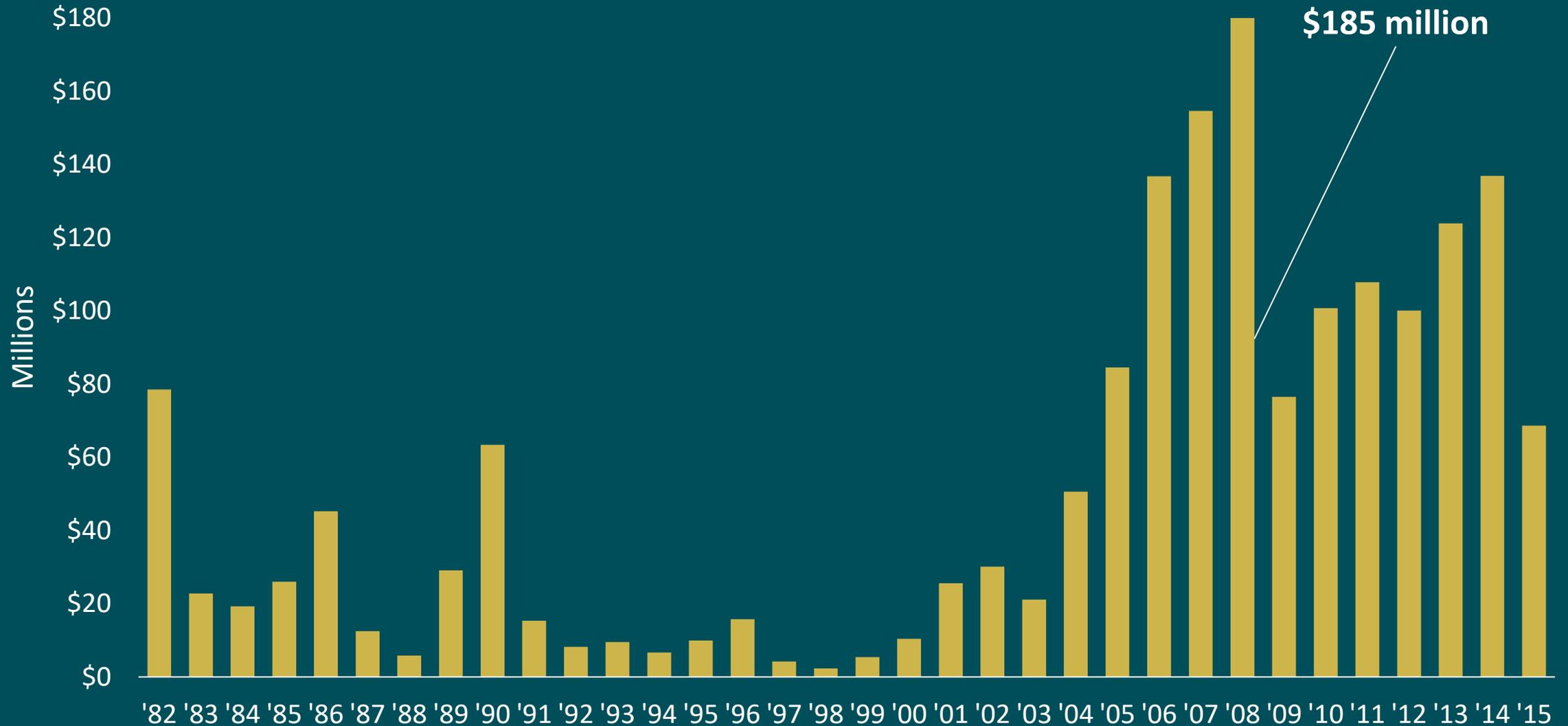
Annual 7(i) Timber Revenue Paid, by Resource Type (FY1982-2015) (Adjusted 2015 \$)



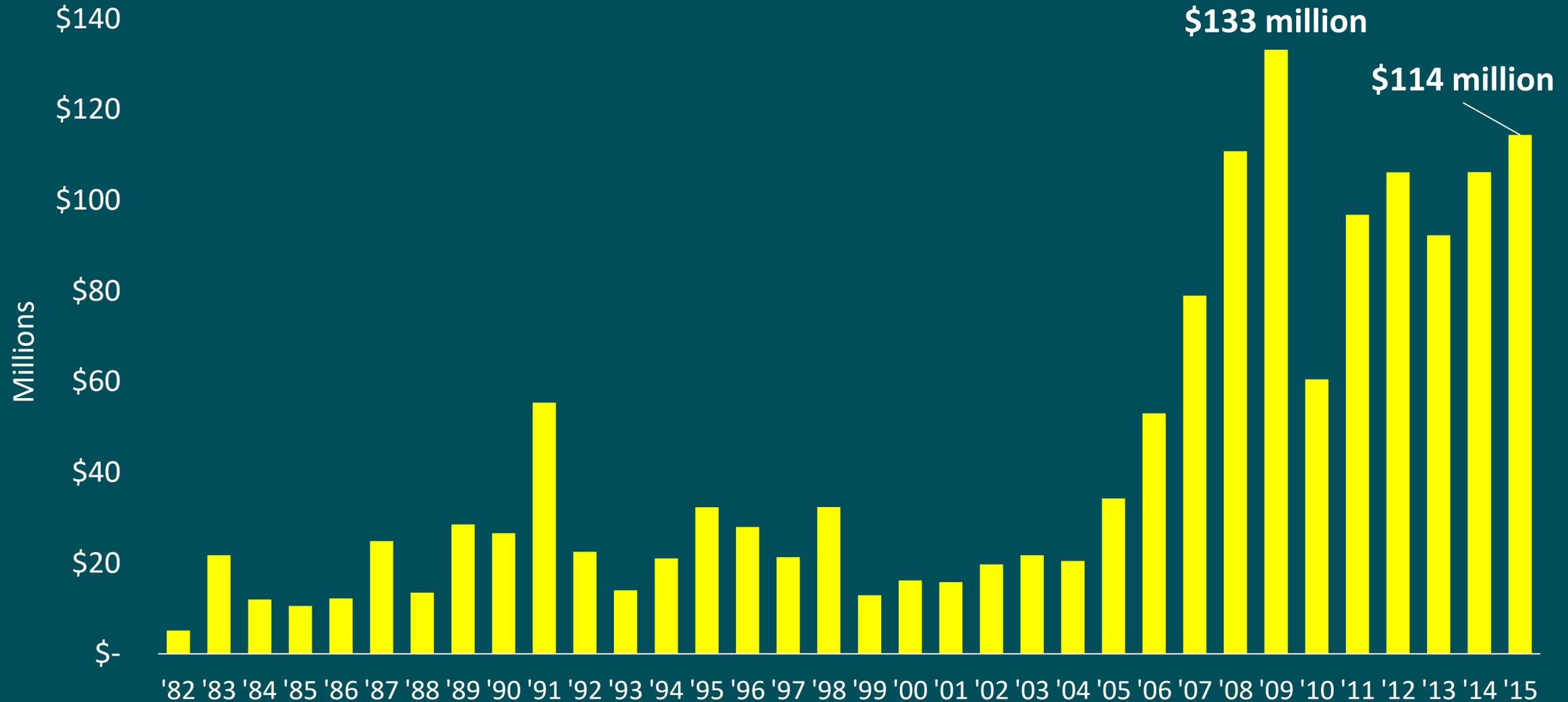
Annual 7(i) Mineral Development Revenue Paid, by Resource Type (FY1982-2015) (Adjusted 2015 \$)



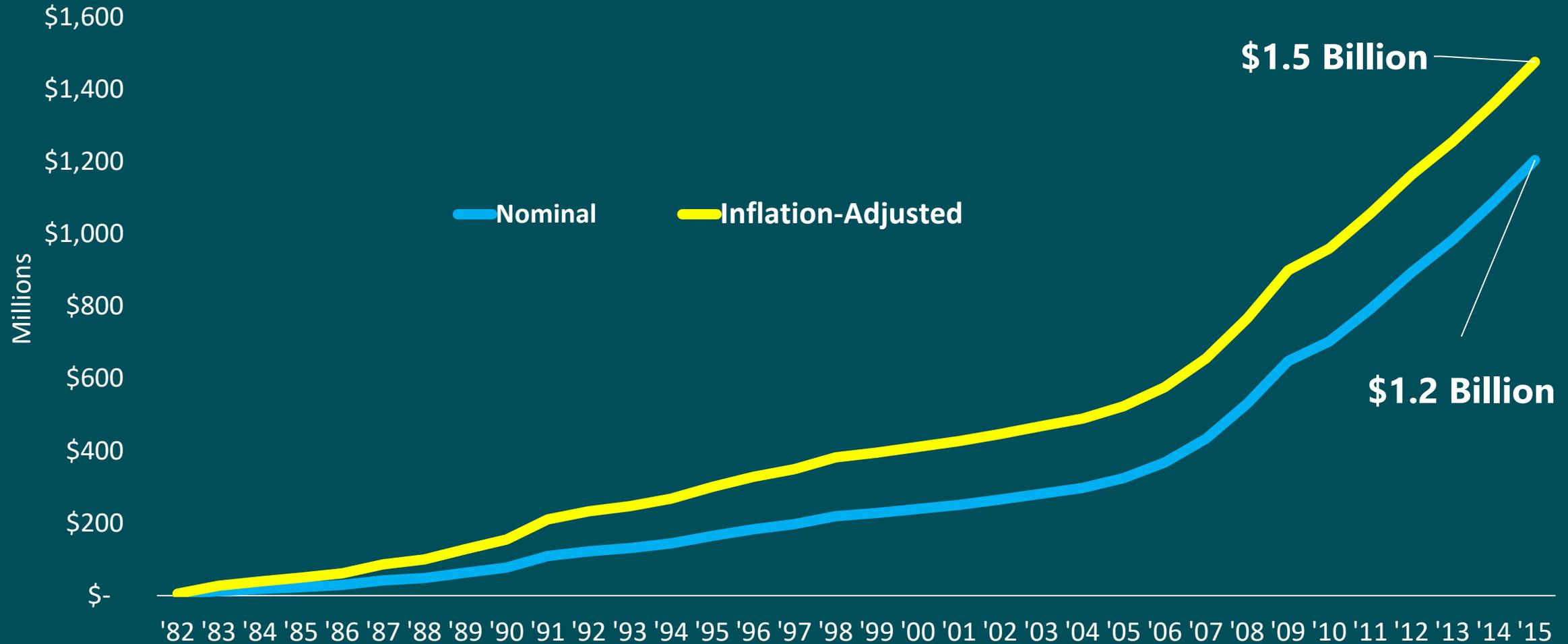
Annual 7(i) Oil and Gas Revenue Paid, by Resource Type (FY1982-2015) (Adjusted 2015\$)



Annual 7(j) Revenue Received (FY1982-2015) (Adjusted 2015\$)



Cumulative 7(j) Revenue Received, Nominal and Adjusted (2015\$) (FY1982-2015)



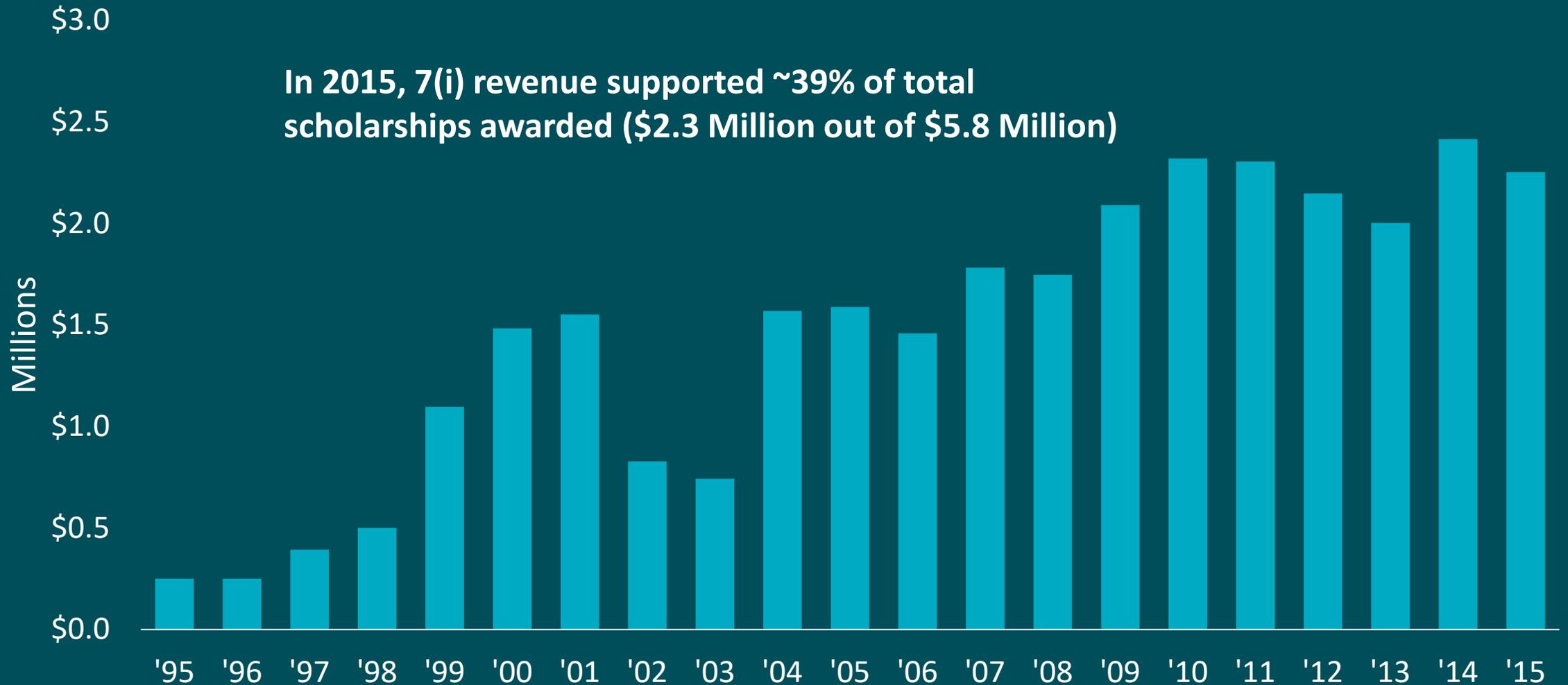
Selected Village Corporation Statements

- *“Our 7j payments are used for scholarships, investments, and administrative costs. They have been used to pay outstanding debt, which has been tremendously helpful at certain times.”*
- *“All 7(j) funds go solely towards shareholder dividends, which shareholders rely upon. Dividends from 7(j) related payments assist shareholders in maintaining their quality of life in regions of Alaska where gas costs \$8-9 a gallon. However, there are other sporadic exceptions for the use of 7(j) payments.”*
- *“7(j) payments are the lifeblood for small village corporations.”*
- *“7(j) payments are absolutely vital to the corporation. They are our only source of shareholder dividends.”*

More Selected Village Corporation Statements

- *“7(j) revenues are absolutely instrumental for seed money. Especially when the idea of selling our land is too risky. Our shareholders don’t want us to sell our land. This was the seed money for start-up costs of our 8a.”*
- *“Our corporation’s dependence on 7(j) revenue fluctuates with the economy. In a good economy supporting construction projects, our businesses thrive. In bad economies and a dearth of construction projects, like the last couple of years, we struggle. It is in these bad times that we rely heavily on 7(j) revenue.”*
- *“7(j) payments were instrumental in our ability to invest in [our village] – especially early in our corporation’s history.”*

7(i) Revenue Contract Scholarships (FY1995-2015)



Section 7(i) and 7(j) Benefits

- Economic benefit is about wealth redistribution rather than wealth creation from resource development
- The “leveling effect” of redistribution creates economic activity that otherwise would not occur in recipient regions – consistent with the intent of Sections 7(i) and 7(j)
- Benefit seen over time and over geography. Between 1982 and 2015,
 - Every regional ANC has had periods when it received more 7(i) payments than it paid out
 - No ANC has fewer than 9 years of net positive receipts (received more than paid)

More Section 7(i) and 7(j) Benefits

- Economic impact depends on how 7(i) and 7(j) revenues are used:
 - Shareholder dividends – enhancing personal income
 - Corporate operations – supporting corporate jobs, investments, and subsidiary operations
 - Shareholder services – maintaining or expanding shareholder benefits/scholarships/cultural preservation, Elder programs, etc.
- Economic impacts differ year-to-year and shift over longer periods as development and production activity shifts between resources and regions of the state.

More Section 7(i) and 7(j) Benefits

- In addition to the direct economic benefits of mining operations, oil and gas production, and timber harvests, estimated annual impacts for every \$100 million of 7(i) revenue are,
 - \$150 million generated in total economic activity
 - 1,000-1,200 jobs paying \$50-60 million in wages and salaries
- In FY2015, \$234 million in 7(i) revenue received, represents \$352 million in total economy activity, including 2,300-2,800 jobs paying \$115-\$140 million in wages and salaries