

Agreement covers deductions to scholarships

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The most important aspect of the 7i document is that it exists.

Whatever the provisions and whoever is happy or unhappy with it, the paper exists now to give the regional corporations the guidelines for operation.

"I don't know of anyone who didn't do something because 7i wasn't signed but there were a lot of uncertainties because of it," said John Shively, one of the NANA Regional Corp. negotiators.

Whenever a business is unable to say with certainty how future business expenses will be treated, it is in a weaker position to conduct transactions. It is no different with the 12 Native regional corporations.

"We certainly would have done things differently with the Red Dog mining project if the settlement hadn't been near," says Shively.

Corporation managers are saying that the opportunities for going into business deals with other corporations have opened up greatly with the approval of 7i.

The 7i section of the Alaska Native Claims Settlement Act states that 70 percent of revenues must be shared with all the Native people. Thus, the resource-rich Arctic Slope Regional Corp., which has made millions of dollars in the past 10 years, must share 70 percent of its wealth with resource-poor regions.

And, if another region makes a profit of \$100,000 after deductions, 70 percent of that — \$70,000 — must be divided among the other corporations.

The matter under discussion for the past 10 years was what those deductions would be. If a corporation is allowed to subtract business expenses of \$100,000 from its operation instead of only \$10,000 a great difference in shareable

revenues is the end result.

The final document, which must be approved by the boards of directors of each of the regional corporations by October, includes rules for almost every business possibility that exists and some that aren't usually considered in normal business dealings.

The document defines what types of revenues can be considered "7i-able" and therefore subject to sharing with the other regions. It defines the types of deductions that can be subtracted from consideration and how to treat shareholder hire and education programs.

According to CIRI's Roy Huhndorf, four main concerns were debated in addition to numerous lesser concerns.

The main concerns, those that brought the most debate, were deductions of expenses, definition of revenues, land trades and how they are treated, and costs of operation, said Huhndorf.

Although the negotiators tried to structure the agreement to follow accepted business practices, several deviations were made in the name of working out the settlement.

According to Huhndorf, the formula for considering general and administrative expenses was one deviation. Businesses generally subtract all administrative expenses before calculating profits.

General and administrative expenses which can be deducted are treated differently for revenue-producing corporations than for non-producing corporations.

CIRI is a 7i revenue-producing corporation. At this point, Aleut is not.

CIRI can therefore subtract all direct costs from, for example, oil exploration from 7i resources. If the CIRI oil and gas department has five people working only on oil and gas development, their

wages and the cost of their department can be subtracted. A CIRI general receptionist's wages can't be deducted.

Even Huhndorf, who uses a portion of his time on such development, would not have his total salary subtracted as a general and administrative expense for resource development because he also conducts other duties for CIRI.

But, said Huhndorf, corporations that are not yet making 7i distributions will be allowed a flat rate of deductions for the costs of running their corporation's businesses.

In land trades, if a corporation trades a piece of land which has underground mineral rights on it for a piece of land without such rights, the difference in land values is equated. If both pieces of land being swapped have underground minerals, it is treated differently.

Timber resources are treated differently.

Under terms of the agreement the value of timber is determined as the value in place instead of on the basis of comparable market values. Thusly, Sealaska will decide the value of the timber land it owns and distribute 7i dividends on that basis.

Another section treats how corporations handle the financial arrangements if they develop resources on corporate lands. The difference is in how the expenses of development are "recovered" by the corporations.

Huhndorf says that usually expenses incurred in developing resources are paid back as soon as possible. Under terms

of 7i, the expenses will be paid back to the developing corporation over a longer period of time so that revenues can be paid to other corporations.

Shareholder hire and education for shareholders also was considered.

The agreement allows regional corporations to grant a reasonable number of scholarships and to have a reasonable number of shareholders hired by corporations doing business with the regional corporations. But, an unreasonable number of scholarships or employment arrangements is not allowed.

The final settlement put the past in the past, according to the participants.

"We made a decision that everyone did his best job of

guessing what they made without the (final 7i) rules and with the court guidelines," said Huhndorf.

"We said 'you (corporations) did a decent job and all that's left is to resolve the numbers,'" he said.

The past was a bone of contention for corporations which argued that Arctic Slope had to share money it earned from leasing land to other corporations to develop.

That matter was settled with ASRC's agreement to pay \$10 million over the next 10 years to the other corporations. ASRC will pay 14 percent annually on the money owed.

The document also sets up a method for handling disputes revenue totals.