

# Between Worlds - School of Hard Knocks

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by DOUG LOSHBAUGH

Chugach Alaska Corp. bought businesses on the downturn and fought its way back from bankruptcy. Government contracts may be its salvation.

Managers of Chugach Alaska Corp. would like to pay dividends and provide more jobs for shareholders. But that will be difficult until the regional Native corporation for Prince William Sound and the outer Kenai Peninsula recovers from bankruptcy.

Chugach at a glance

ANCSA land entitlement\*:  
.93 million acres

ANCSA land conveyed so far:  
.79 million acres

Money from ANCSA:  
\$11.5 million

Businesses, partnerships, investments:  
Chugach Development Corp., Chugach Telecommunications and Computers Inc., Chugach Management Services, Chugach Diversified Investments, Advanced Concepts in Education; partnership with Kansas Telecom Inc., investment portfolio.

Net Corporate Profits/Losses  
per fiscal year  
1974 \$(206,328) 1975 \$60,554 1976 \$(422,989) 1977 \$(444,287) 1978

\$327,646 1979\*\* \$(618,541) 1980 \$(1,520,000) 1981 \$(1,560,000) 1982 \$(83,000)  
1983 \$(1,520,000) 1984 \$(697,000) 1985\*\*\* \$(6,260,000) 1986 \$3,800,000 1987  
\$18,310,000 1988 \$39,330,000 1989 \$3,400,000 1990 \$(25,350,000) 1991  
\$(64,200,000) 1992 \$15,260,000 1993 \$579,311

1994 \$1,410,000 1995 \$1,050,000 1996 \$1,180,000 1997 \$1,450,000

#### Shareholder Dividends

per 100 shares

1974 \$0 1975 \$0 1976 \$0 1977 \$0 1978 \$0 1979 \$0 1980 \$0 1981 \$0 1982 \$0  
1983 \$0 1984 \$0 1985 \$0 1986 \$0 1987 \$0 1988 \$450 1989 \$330 1990 \$0 1991 \$0 1992  
\$0 1993 \$0

1994 \$0 1995 \$0 1996 \$0 1997 \$0 Dollar amounts not adjusted for inflation.

Number of jobs provided by corporation and its subsidiaries:

About 1,100

Number of corporation jobs held by shareholders:

About 70

Total shareholders:

2,007

\* These figures include land to which the corporation has partial title.

\*\* 9-month FY change.

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ALL NUMBERS COMPILED IN LATE 1998.

The corporation has paid dividends just twice in 26 years - a total of roughly \$780 to each of its 1,900 shareholders. Federal court has forbidden further dividends until the company repays \$3 million in remaining bankruptcy debts, something CEO Michael Brown hopes to achieve by 2001 with an aggressive recovery plan based on government contracts.

The bankruptcy reorganization plan required the corporation to repay \$5 million to creditors and nearly \$600,000 to the Internal Revenue Service.

But while the failed businesses of the past, mainly in fisheries and timber, employed numerous shareholders, the government contracts Brown is pursuing do not. Just 80 of the corporation's present employees are shareholders.

Shareholders voice mixed feelings about the company's new direction.

"The management they hired is doing a fantastic job," said Pete Kompkoff, 56, of Chenega Bay. "They brought Chugach from bankruptcy to a \$100 million corporation."

Chenega Bay residents work with spill response laborers to deploy an oil spill containment boom during a village drill. Chugach Alaska, in partnership with the Chenega and Tatitlek village corporations, has contracts with the oil industry to provide cleanup contingencies and support.

PHOTO BY M. SCOTT MOON Others disagree.

"I don't think the regional corporation has extended anything positive or good down to my level in the village," said Elenore McMullen, 59, chief of the Port Graham Village Council.

"I make more money investing in the stock market than the corporation is making," said Fanny Kocher, 65, who lives in New Jersey.

Chugach incorporated in 1972 as Chugach Natives Inc. Because the Chugach National Forest and state land selections already claimed much of the region, the corporation fought for 10 years to get its Alaska Native Claims Settlement Act land.

Meanwhile, it dabbled in construction and oil industry services, reporting profits in 1975 and 1978. Then it invested in fisheries and timber, and sank in bad luck and red ink.

"The people in the region grew up around timber," said former board member James LaBelle, 51, of Anchorage. "We were fishers and cannery workers. We thought getting into timber and fisheries was natural."

Chugach bought Cordova's Orca cannery in 1979. A botulism scare forced a recall of much of the 1981 salmon pack. Interest rates soared, boosting costs of financing cans and fish.

A 1982 settlement gave Chugach its ANCSA land, plus \$12 million cash. Two years later, the company bought a second cannery, and agreed to run a third. A salmon

glut stalled sale of the 1984 pack and by 1986, Chugach was \$11 million in debt.

Congress briefly allowed Native corporations to sell net operating losses to other companies for tax write-offs. Chugach sold timber and coal reserves at losses, and earned \$54 million selling losses for tax writeoffs. In 1987 and 1988, its canneries earned their first profits.

Flush with cash, Chugach paid nearly \$1.5 million in dividends in 1988 and 1989. It bought another cannery, built a cold storage and canning line, bought a logging company and started building a sawmill in Seward.

Then came the 1989 Exxon Valdez oil spill.

"If you look at the map of the spill, that pretty much defined Chugach Alaska's operations," said spokeswoman JoAnn Carr. "At the time, we had only two operations - canneries and timber. The timber market fell out. The oil spill destroyed the canneries."

The spill closed fishing in the area, devastating the canneries. Then, a fire gutted much of the Orca cannery. The sawmill, which Chugach had expected to build for \$13 million, opened at a cost of \$29 million and ran at a loss. Chugach debts reached \$85.3 million.

Anchorage and Japan were the main markets for Chugach lumber, said University of Alaska Anchorage economist Matt Berman. A recession killed Anchorage demand and high manufacturing costs in Alaska meant the mill's products couldn't compete in Japan.

"Chugach wound up having to export most of their logs in the round because they couldn't afford to run them through the mill," he said.

Anecdotal evidence suggests Native corporations were lured into buying declining businesses, said Steve Colt, an economist with the university's Institute of Social and Economic Research.

"We call it the white elephant theory of Native business," he said.

For example Chugach bought canneries as everyone else switched to specialty cuts and fresh-frozen products.

A logging truck is loaded with logs for transport from a mountainside near Port Graham. The trees are being harvested by the Port Graham Corporation on the southwest tip of the Kenai Peninsula.

PHOTO BY M. SCOTT MOON "The sawmill was doomed from the start," he said. "It's never been profitable to process timber in Alaska, as opposed to shipping it Outside."

Board member John Christensen, 54, of Chenega Bay, agreed the best use of spruce was to ship round logs to Japan. But much of Chugach's timber was hemlock, which had no real market. The plant was to mill hemlock for Alaska, and except for an economic recession, it might have succeeded. Board member Edgar Blatchford, 47, of Seward, said ANCSA was meant to create local jobs and development, and the investments in fisheries and timber were good. Even during the recession, demand exceeded the mill's capacity.

"We'll never know how those industries could have developed, because the Exxon spill gutted the opportunities," he said.

The bankruptcy brought Chugach to the brink of liquidation. It reported nearly \$90 million in losses in 1990 and 1991 and filed for Chapter 11 protection. Then,

the IRS challenged the corporation's reporting of net operating loss sales, and claimed another \$69 million in taxes.

Chugach CEO Michael Brown: "While those markets are somewhat dynamic, they're less risky than betting your entire portfolio on fish and timber."

PHOTO BY M. SCOTT MOON Creditors considered forcing Chugach into Chapter 7 bankruptcy proceedings, and the board feared Chugach could lose its land. The corporation hired Brown in 1992 to put the company back on its feet, and managed to save its land.

Brown went after government, oil, timber and tourism.

"While those markets are somewhat dynamic, they're less risky than betting your entire portfolio on fish and timber," he said.

Chugach sought minority-preference government contracts, and in 1995, won the contract to operate the U.S. Air Force facilities at King Salmon. It now holds similar contracts at bases across Alaska and from the South Pacific to Washington state. Its military contracts - largely minority set-asides - total \$65 million a year.

It also holds the \$7.5 million federal contract to operate Job Corps in Palmer. In joint ventures with other companies, it provides nearly \$11 million a year in oil spill contingency services for Alyeska Pipeline Service Co., and holds an

\$11 million contract to provide manpower for Alyeska.

The corporation owns a quarter of Kanas Telecom Inc., which just built an \$84 million fiber optic line from Prudhoe Bay to Valdez. Alyeska will use part of the line to control the trans-Alaska pipeline. Kanas plans to lease out surplus capacity.

Chugach ventured into tourism with a new cultural center and gift shop in Seward. Meanwhile, it's preparing to log 8,000 acres near Cordova. It also stands to receive 2.2 percent of the \$5 billion punitive judgment against Exxon after the oil spill. Exxon has appealed the judgment to the U.S. 9th Circuit Court of Appeals.

A commercial fishing boat makes its way through a flock of gulls feeding at a processing plant outfall in Cordova. Smaller villages like Tatitlek and Chenega Bay often lack the jobs that larger communities like Cordova offer.

PHOTO BY M. SCOTT MOON Last year, Chugach earned profits of \$1.45 million. The corporation has grown from 12 employees in 1992 to 1,200 today; 80 jobs are held by shareholders.

The tradeoff between jobs for shareholders and corporate profitability hasn't gone unnoticed.

"We went from a lot of employment in fisheries and some in timber to federal contracts,

where we have hardly any shareholder involvement," said former board member John Borodkin, 73, of Wasilla. "I'd still like to see projects that would put more of the shareholders to work."

Brown said he's doing the best he can with limited resources.

"Seventy-six shareholders have jobs now that didn't when we started," he said.

Four shareholders are management interns, he said.

"That's where the future management of the corporation is going to be drawn from," he said.

Board member Derenty Tabios said Chugach should be able to do more for its shareholders once it achieves financial success. Christensen said he'd like to make Chugach a \$500 million corporation.

\nWhen you gross \$500 million, you can afford to pay a meaningful dividend to 2,000 shareholders,\n he said.