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Indian Tribe Becomes Force in West's Energy Boom

By SUSAN MORAN

IGNACIO, Colo. — Many American Indian tribes count on money-losing casino gamblers to generate most of the income for their members. The Southern Ute tribe, whose 700,000-acre reservation here in the San Juan Basin sits on one of the world's richest deposits of methane found in coal seams, is a lot luckier.

After many years of struggling to gain control of its natural resources from big energy companies, the Southern Utes now control the distribution of roughly 1 percent of the nation's natural gas supply. Thanks to high gas prices in recent years and lucrative investments in and beyond the energy sectors, this once-impooverished tribe is now worth about \$4 billion. Each of its 1,400 members is a millionaire many times over, on paper anyway.

The Southern Utes are not just sitting on their wealth. They have become a model for other resource-based tribes and an energy powerhouse in [Colorado](#). And as gas prices have softened, the tribe has recently sought to diversify by becoming a real estate investor, too, buying up swaths of valuable land and buildings in La Plata County and throughout the West.

The local area has benefited from the tribe's largess as the biggest, and, many say, its most generous employer. But some residents are wary and even suspicious of the tribe's newfound clout.

"The point is, no one knows what the tribe's plans are," said Josh Joshwick, a former county commissioner who currently works for an environmental organization in Durango on oil and gas issues. "I guarantee, it'll have a bigger impact than any organization on this community and on the whole La Plata County."

The tribe, which runs its various businesses through an arm known as the Growth Fund, is extending its reach. It recently donated 25 acres on the eastern edge of Durango, the largest town in southern Colorado, so that an old hospital the county had outgrown could be rebuilt and expanded. The giveaway also made good business sense; the hospital, which opened a year ago, is attracting ancillary businesses and employees to a sprawling residential and commercial development called Three Springs that the tribe is building on 1,400 acres it owns.

"You'll hear some people say they liked the tribe better when it was poor," said a local resident who declined to be identified for fear of jeopardizing relations between the tribe and the county.

Clement Frost, the Southern Ute chairman, hears that kind of talk often.

"I don't think people outside can accept how quickly the tribe has progressed to where we've become a political and economic force," he said in a recent interview in his spacious office in the tribal capital here in Ignacio.

As a modern tribal leader, Mr. Frost wears many hats. One morning, he attended a retreat to make decisions about investing millions more of the tribe's funds in new ventures aimed at preserving wealth for future

generations long after the last well is pumped dry. As evening approached he delivered the welcoming talk at a powwow. The next day he branded calves and bulls on his 158-acre ranch.

From his office window he used to look at double-wide trailers. Now he sees a plush \$9.4 million recreation and community center built in 2000; a new elementary school; and a three-story, curved-glass building erected in 2005 that houses the tribe's business umbrella. Just up the road is a large construction site where a 150-room casino and conference center is going up to replace the existing 35-room gambling hall.

If some neighbors have been reluctant to accept the Southern Utes' newfound financial prowess, Wall Street has not. In 2001, Standard & Poor's and [Fitch Ratings](#) issued the tribe its first bond rating: a triple-A. Earlier this year both firms reaffirmed their ratings.

"A big factor was the Southern Ute tribe's tremendous amount of reserves relative to the amount of need," said Karl Jacob, an analyst at Standard & Poor's who covers Native American tribes. "In a normal world, if you have reserves 50 percent of operations you're looking pretty strong. The tribe's reserves in its general fund in 2006 were 21.6 times expenditures."

He attributed the tribe's sustained financial strength in part to business executives like Bob Zahradnik, who is a not a Native American. Formerly with [Exxon](#), he went to work for the tribe in 1988 to help monitor energy companies' compliance with leases and to evaluate its mineral assets to bolster its negotiating clout.

In 1991 Mr. Zahradnik drafted a business plan for the first tribe-owned energy business. Within a year he convinced the tribal council to begin the start-up, called the Red Willow Production Company, with \$8 million in seed capital.

When the tribe started buying back existing wells and leases, few lenders would shake Mr. Zahradnik's hand, much less extend their wallets.

"We couldn't get any financing," Mr. Zahradnik said during a break from a two-day tribal leaders retreat at a golfing resort north of Durango. "Before we closed our first deal with Conoco and got in trade publications nobody believed we were credible. Now, with substantial assets and a triple-A credit rating, everybody wants to be our friend."

Mr. Zahradnik has been the Growth Fund's operating director since its inception in 2000. The fund's executive director is Bruce Valdez, a Southern Ute who was raised on the reservation and worked for Arco before joining the tribal business two years ago.

"We've come a long way from the tribe I grew up with to the tribe we are today," the soft-spoken Mr. Valdez said in an interview while drinking tea with Mr. Zahradnik.

Wealth did not come suddenly to the Southern Utes, nor without struggle. Originally they were one of seven bands of the Ute tribe, which occupied nearly one-third of Colorado. In the 1870s the state's governor, Frederick Pitkin, in his drive to open up the Rocky Mountain's western slope to non-Indian settlers, ripped apart a major treaty.

What became the Southern Ute tribe ended up with a fraction of the original land, and the reservation became a checkerboard of Southern Utes and non-Indians. Some 9,500 non-Indians live on the reservation today, far

outnumbering the 1,000 Southern Utes (another 400 members live off the reservation) and 433 Native Americans of other tribes.

After cutting deals with the [Bureau of Indian Affairs](#), energy companies began drilling in the 1950s for natural gas. The tribe had little say, and received only paltry royalties. By the late 1980s, the energy boom was in full swing. As late as 1990 the Southern Ute tribe was still dirt poor, even though 63 oil and gas companies operated on its land.

A major turning point came in 1991, when under the leadership of then-chairman, Leonard Burch, the tribe started buying back drilling rights and hiring its own oilmen to run the wells. Red Willow became the vehicle to manage energy production.

“What tribes have been all about in modern history is taking back their reservations,” said Charles Wilkinson, a law professor at the [University of Colorado](#) specializing in Native American law. “When the Southern Utes put a hold on oil and gas leasing, that was as powerful a statement as any tribe had made. It has been a signature of economic development for successful tribes, and this tribe has been as successful as they come.”

Red Willow now has interests in more than 1,000 wells and operates more than 450 on the reservation, making it the second largest here behind only [BP](#). It is the 13th largest privately held energy producer in the United States, according to *The Oil & Gas Financial Journal*.

The tribe employs more than 600 people in several states and is adding 10 jobs each month. It manages several subsidiaries, most started since 2000. The energy division owns 3,000 miles of pipelines, and it processes natural gas and delivers it to transmission pipelines and elsewhere. The energy businesses account for 93 percent of the Growth Fund's net income, according to Mr. Zahradnik, who would not disclose absolute figures.

With natural gas production now dwindling from its peak in 2004 by 10 percent a year, the Fund's managers are aggressively expanding nonenergy investments, building commercial and residential complexes in Colorado, New Mexico, Texas, Missouri and other states. Rent and other income from the properties is growing rapidly but it still generates only about 4 percent of net income.

Some Southern Ute members have complained that the tribe relies too heavily on whites to run its businesses. Despite a policy to give preference to tribal members, only 61 of the fund's 631 employees are Southern Utes and another 40 are Native Americans of other tribes.

Mr. Valdez, the only Southern Ute in a major business executive position, said he and others are actively trying to train and hire tribal members. One problem, he said, is that individual tribe members already receive a healthy income from the tribal coffers, diminishing, for some, the motivation to work.

Years ago, teenagers received a lump sum when they turned 18. Some binged on alcohol and drugs. Some bought fancy race cars. In 1995 a teenage Southern Ute girl, who was Mr. Frost's niece, was killed by robbers after she cashed an “18 money” check worth thousands of dollars.

After that tragedy the tribal council tightened the purse strings. It now distributes trust money in smaller installments to members under 25 and it holds off doling out cash until young members finish high school or get a G.E.D. As adults, tribal members receive a monthly check — roughly \$1,400 at today's prices — that remains constant in real terms until at age 60 they become eligible for an elder's pension of about \$65,000 a

year.

The tribe now offers full scholarships and living stipends for college. Dewayne Evensen is one of the more mature recipients. He entered a community college in New Mexico at age 47 before attending Northeastern State University in Oklahoma, where he earned both an undergraduate and a master's degree in business. He now works for a tribal subsidiary in Tulsa.

Mr. Dewayne, 52, said he was grateful, but he is exploring other opportunities, including law school.

"The tribe has also given me the ability to seek other avenues," he said. "On the other hand, the Growth Fund is so huge right now that it'd be hard to get around it."

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