## Southern Ute Indian Tribe, Colo. Assigned 'AAA' Issuer Credit Rating

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NEW YORK (Standard & Poor's *CreditWire*) June 28, 2001—Standard & Poor's today assigned its triple-'A' issuer credit rating to Southern Ute Indian Tribe, Colo.

The rating is based on the following credit strengths:

- Strong, sophisticated management;
- Very strong financial position supported by strong financial reserves and high levels of liquidity;
- An abundance of revenue-generating natural resource assets with significant value:
- Well thought out financial and capital plans;
- A very strong debt position -- the tribe currently has a meager \$15 million general obligation debt outstanding and can easily manage a potential \$75 million bond issue.

The security underlying the issuer credit rating is the tribe's general obligation full faith pledge.

The Southern Ute Tribe expects to issue up to \$75 million GO bonds sometime this summer. Bond proceeds will be used to finance various governmental buildings, including a community center, school, detention and judicial center, water treatment facilities, and administrative offices. Several of these buildings have already been completed and were financed with internal funds. For the purpose of the upcoming bond issue, the tribe has consented to grant bondholders a limited waiver of sovereign immunity.

The Southern Ute Indian Tribe, headquartered at Ignacio, Colo., constitutes a federally recognized Indian Tribe under the provisions of the Indian Reorganization Act of 1934 (IRA). Under the provisions of the IRA, the tribe drafted its Constitution and the Secretary of the Interior approved it in 1938 and again in 1975, following amendments. Governance has been stable, administered through a council of seven, including a chairman. Current tribal membership is approximately 1,373, with more than 70% of the members under the age of 40 years. The tribe's reservation is located on 700,000 acres in the southwestern corner of Colorado astride part of the San Juan Gas Field, one of the most prolific natural gas fields in the world.

The tribe's financial position is quite strong. Combined investment assets through May 2001 are approximately \$800 million, up significantly compared to 1998, when it stood at \$367 million. This is due in part to the strong price appreciation in oil and gas. Assets relative to the tribe's annual operating budget needs are significant. Unlike most tribes Standard & Poor's has dealt with to date, the Southern Ute Tribe relies to a minor extent on gaming activities. The tribe's revenue stream is generated primarily from certain oil

and gas operations. The tribe is actively involved in the exploration, production, gathering, and sale of natural resources in partnerships with various publicly traded and private enterprises. Revenue sources include royalties, operating interests in wells, pipelines, and other assets. In 2000, major revenue sources were as follows:

- Tribal royalties from oil and gas (46%),
- Revenue from its own oil and gas entities (34%),
- Gaming revenue (7.5%), and
- Investment income (5%).

In 1999, the Tribal Council approved a 10-year financial plan to harness its mineral assets and diversify its revenue stream in order to ensure future economic independence. Unlike other forms of government, the tribe has no tax base. Its revenue stream is derived primarily from mineral assets, which are slowly being depleted. The financial plan is intended to generate revenues from mineral assets and invest excess revenues in growth opportunities in order to provide financial resources (similar to an annuity) to meet current and future needs and ensure financial sovereignty to its members in perpetuity. The plan lays out a 10-year forecast of earnings and expenses that the council uses to design its fiscal policies.

The financial plan separates the tribe into two financial entities, the permanent fund and the growth fund. The permanent fund includes all governmental entities and provides all municipal services to tribal members. The objectives of the permanent fund include investment in marketable securities, using an asset allocation among bonds, cash and equities. If governmental spending is inflated at 5% per year, the permanent fund will be able to finance all future needs when the investment balance approaches \$650 million. The current balance in the account is \$515 million. It is projected that the permanent fund will reach fully funded status in early 2002. The growth fund includes all business entities of the tribe including real estate, venture capital, natural resources, and other activities. With a current liquid asset balance in excess of \$250 million, the growth fund is designated to reduce the tribe's future dependence on its own energy resources by finding renewable revenue sources. Imbedded within the financial plan is a prohibition of transfers from the permanent fund to the growth fund. This ensures that the tribe's annual governmental operating requirement is shielded from the more aggressive investment approach of the growth fund.

While only in the fourth year of the financial plan, results to date have been impressive. Income has exceeded the plan each year and both the permanent and growth fund, in terms of equity, are approximately five years ahead of the plan. Given the tribe's high level of resources, its management expertise, mineral wealth, stable tribal structure, and lack of future borrowing plans after the proposed \$75 million GO bond issuance, the highest quality rating is warranted.

**OUTLOOK: STABLE** 

The outlook reflects the expectation that the tribe will continue to adhere to its financial plan, and that future capital needs will remain modest relative to its strong financial position, Standard & Poor's said. -- *CreditWire*