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Tribe's financial plan works - and gets noticed

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JERRY McBRIDE / Herald

Construction is under way at the site of the future Southern Ute Growth Fund office building, across Colorado Highway 172 from the Sky Ute Casino. By moving from Durango, the Growth Fund will place all of the tribe's major operations in Ignacio. It will be the latest of several new tribal buildings sprucing up the north entrance to the town.

IGNACIO - When the Southern Ute tribe's profits soared in the 1990s, the Tribal Council could have divvied up the cash among tribal members and stopped there. People who hand out money are always popular.

But tribal leaders saw services that needed improvement and an uncertain future with the federal government. Braving criticism from some tribal members, the council in 1999 approved a financial plan intended to ensure the tribe's future.

To be sure, the plan pays out millions each year to its members. But those benefits equal only a small percentage of the tribe's net worth. Most of the rest is spent on tribal programs or invested to make the tribe even richer.

Nearly five years after the plan's adoption, tribal officials say revenues have increased dramatically. The tribe has earned the highest rating possible from two national credit-rating agencies. The tribe is the first and only American Indian tribe to receive such ratings. "They're the best of the best," said Jessalyn Moro, director of Fitch Ratings.

The Financial Plan established two primary funds to meet the tribe's goals:

- The Growth Fund, based in Durango but preparing to relocate to Ignacio, is designed to make money and diversify the tribe's finances to weather economic downturns. It earns money from business ventures and investments.
- The Permanent Fund, based in Ignacio, pays for tribal operations and supplies most of the members' benefits. Its main revenue source is the Sky Ute Casino and natural-gas royalties.

Details of both funds' revenues, expenses and management are secret. The tribe does not release financial reports. But officials have disclosed some information.

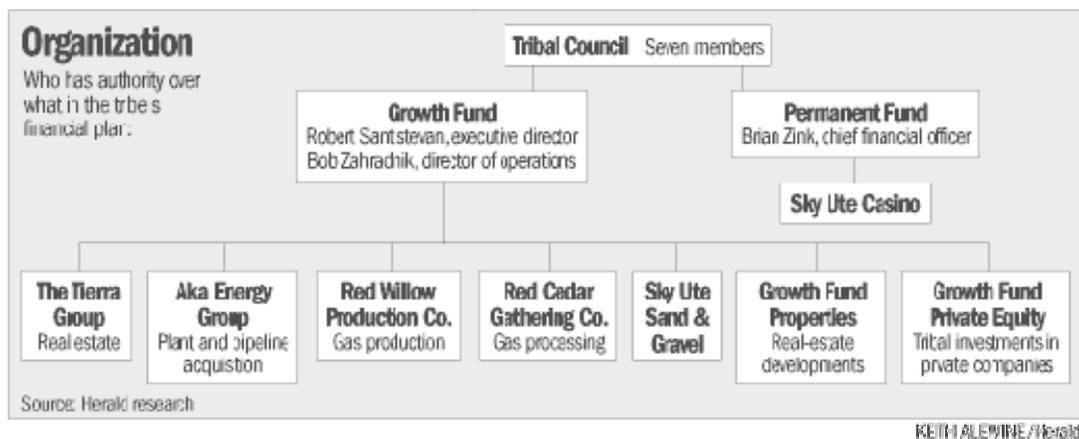
The Growth Fund. Robert Santistevan and Bob Zahradnik, who moved from the tribe's Energy Department to the Growth Fund when it was formed in 2000, said turning energy

revenue into seed money for investments was a logical step. Through this strategy, the Growth Fund has acquired assets across North America.

In the last two years, the Growth Fund has been diversifying its assets to prepare for the eventual depletion of its gas reserves and to cushion fluctuating gas prices. When gas prices rise - in 2001 they soared from \$1.50 per thousand cubic feet to \$9 - the tribe receives a revenue windfall, Santistevan said. But prices also fall; they fell to about \$4.50 in September, but have since climbed to about \$7.

Diversification led the Growth Fund to establish the Tierra Group, a real-estate arm. Since its business plan was approved by the Tribal Council in August 2000, the Tierra Group has spent \$82 million to buy seven commercial buildings in several U.S. cities, including Las Vegas and Denver. The buildings were selected from about 1,000 properties through a rigorous evaluation process, officials said. The Growth Fund paid cash and expects to earn about a 10 percent return from rent paid by long-term tenants. Eventually, the Growth Fund may sell the buildings.

Most recently, the Tierra Group has been working on development plans for Grandview, east of Durango. Two years ago, the company paid \$4.5 million for almost 1,000 acres formerly known as Artesian Valley Ranch. A few months later the company traded some acreage for property fronting on U.S. Highway 160. The tribe's plans include a new Mercy Medical Center, businesses, schools and thousands of homes.



A second real-estate company, Growth Fund Properties, was formed this year from the Tierra Group to manage Grandview and seek new development opportunities.

As state-registered corporations, the Tierra Group and Growth Fund Properties are removed from any sovereignty-related legal issues. The Tierra Group cannot, for example, be held immune from lawsuits, place properties in the trust of the federal government, or exercise any powers that might be reserved for the tribe as a government, said Thomas H. Shipps, a Durango lawyer for the tribe.

Also in 2000, the Growth Fund started Sky Ute Sand & Gravel, a gravel pit company. The business originally sold materials almost exclusively to tribal construction projects, according to a 2001 annual report from the tribe. It gave the tribal government a low price on materials and gave the business a steady customer, though all money stayed within the tribe's bank accounts.

The gravel company now supplies materials to other buyers, including the Animas-La Plata Project and BP, the area's largest gas producer.

The Growth Fund has gone international, too. In 2002, the Growth Fund struck a \$9.4 million deal - its first international venture - with Trident Exploration Corp., a Canadian gas company, to develop natural-gas leases in Alberta. The tribe bought 4 million shares in the company and serves as an adviser. Zahradnik sits on the company's board.

The Permanent Fund. This fund receives gas royalties paid by energy companies. It does not invest in new businesses. Brian Zink, the tribe's chief financial officer and the fund's manager, said money is invested in stocks, bonds and other investments. The fund is valued at more than \$600 million.

Zink said the stock market's downturn from 2000 until early in 2003 hurt the Permanent Fund, but he declined to say how much. Diversified investments, he said, softened the blow. The market has been rising in recent months.

Tribal income that doesn't come from Growth Fund businesses first goes into a central account. From there, 75 percent is distributed to the Permanent Fund and 24 percent to the Growth Fund. One percent goes to a third fund, the Restricted Fund, which manages trust funds for minors, employees' pensions, and similar benefits required by the tribal constitution.

Zink, who became the tribe's chief financial officer three years ago after helping design the Financial Plan, said the Permanent Fund's purpose is to create an endowment that perpetually will pay for tribal government.

"You're going to have some place to park the endowment, so investment is a big part," he said. "It's not the end, it's the means to get to the end."

Moro, of Fitch Ratings, said the plan was a key reason for the tribe's AAA credit rating. The tribe has also earned a AAA rating from Standard & Poors.

Though Moro specializes in government ratings, she said the tribe's finances would also rank high in the private business sector. She is confident of the tribe's future prosperity. It would be hard, she said, for any person or group to undo the plan.