

THE WALL STREET JOURNAL

Business Empire Transforms

Life for Colorado Ute Tribe

By IANTHE JEANNE DUGAN

Staff Reporter of THE WALL STREET JOURNAL

IGNACIO, Colo. -- On a cool Tuesday morning last fall, hundreds of Southern Ute Indians headed for the bank. The Wells Fargo drive-through in this speck of a city was swamped by tribal members cashing checks for over \$10,000, prompting a teller to rush outside and tape up a sign: "No cash transactions over \$3,000 through the drive-up." Customers parked their new Cadillacs and pickup trucks and strutted inside.

It's become an annual ritual for a tribe that couldn't afford indoor toilets and electricity until the 1950s and had few jobs until the mid-'90s. Each year, the Southern Utes, whose reservation rings this tiny town, get a cut of the profits from a series of unique business ventures run by the tribe. The enterprise has made each of its 1,384 members a millionaire on paper and transformed the tribe into a powerful force shaping the future of the "Four Corners" junction of Colorado, Utah, New Mexico and Arizona.

A decade ago, the tribe, which sits on one of the biggest supplies of natural gas in the U.S., fought energy companies to open one of the first Native American gas-production operations. Then it fought its own members to reinvest most of the profits into real estate and energy ventures as far away as Hawaii and Canada.

Now the tribe is a conglomerate with \$1.45 billion in assets, making it one of the richest tribes in history and one of the few whose wealth doesn't hinge on gambling. It has new sewers, an elementary school, a lavish college-scholarship plan and the only triple-A bond rating among tribes. When the local phone carrier buckled under the rapid expansion, the tribe built its own fiber-optic network.

"Everyone wants to keep up with the Joneses," says the 54-year-old tribal chairman, Howard Richards Sr., whose childhood home had dirt floors. "Well, now we are the Joneses."

But the road to riches has taken some dark twists. The tribe's business plans and newfound wealth have led to environmental controversies, racial tensions, even a murder. And many Southern Utes are uneasy and resentful about how the tribe's wealth is distributed, a topic that inspires shouting matches at tribal meetings and requests for orders of protection. Once a year, the tribe splits 10% of its profits among the 600 members between 26 and 60 years old; elders get \$54,500 apiece annually. The remaining profits go into businesses mainly chosen by white executives, who dominate the tribe's top business posts.



Annabelle Eagle

Many tribal members say they aren't getting a fair share of the profits. Some gripe that they learn about business deals after the fact, in the local newspaper. "We've found out that the old saying is true -- money is the root of all evil," says 79-year-old Annabelle Eagle, her diamond tennis bracelet resting on a hand-made skirt. Her son, Sage Douglas Eagle Remington, 60, fears tribal leaders and white executives are gaining too much power, creating a "nouveau riche banana republic." Tribal leaders argue that the investments will ensure riches for generations to come. "One day, we might wake up and say there's no income from oil and gas," says Leonard Burch, who retired as tribal

chairman in November, after serving most of 30 years. "People say, 'We need more money.' We say, 'No, you don't. You need to invest.' "

For all the controversy, the Southern Utes' success is unfolding as a model in Indian country. Leaders of other tribes are trekking here to learn how to duplicate the Southern Utes' achievements. And the larger Ute tribe in eponymous Utah, which also has natural gas reserves, has hired away one of the Southern Utes' financial advisers. "They see their cousins coming to powwows in nice cars," says the adviser, John Jurrius, "and they want to know how they can work that magic."

The Southern Ute model could prove as lucrative as gambling to some tribes. Native lands contain 10% of the known onshore supply of natural gas, but most of it is mined by non-Native entities that typically pay royalties of 12.5% of sales. Tribes' royalties totaled \$200 million last year. The Southern Utes, meanwhile, pulled in \$100 million on profits from their gas-production company. They also collected half of all the natural-gas royalties paid to Indian tribes.

In the late 19th century, the Utes were driven out of the gold-rich San Juan Mountains and into the territory that now bears their name. A chunk of the tribe, now the Southern Utes, was relegated to the high desert in Colorado. Half the land was opened to non-Indian settlers, who grabbed choice tracts, creating a checkerboard of a reservation the size of Rhode Island. Now there are 1,000 Southern Utes and 15,000 others within the bounds of the reservation, including U.S. Sen. Ben Nighthorse Campbell, a Northern Cheyenne.

The Southern Ute land was too arid for farming. But "the government didn't know there was gold in them thar hills," says Mr. Burch, 69. "We had no idea what was sitting right under us."

The first glimmer came in the 1950s, when energy companies found natural gas in the area. The companies cut deals with the Bureau of Indian Affairs, which handled leases for tribes, to mine the gas from sandstone. But the royalties were so meager that in the mid-'60s the tribe suspended its \$100-a-month stipend to members for two years. It tried to boost revenue with a restaurant, a hotel and a marina on Navajo Lake, Southeast of Ignacio, but they all flopped. Its casino survived, and takes in \$9 million in profits annually, but is too remote to draw hordes of high rollers.

Then, in the late 1980s, energy companies came up with new technology to extract natural gas from coal. The Southern Utes had coal in abundance. But this time the tribe didn't want outside companies to extract the fuel. Mr. Burch, who had worked for the Bureau of Indian Affairs' realty office, came to a simple conclusion. If the tribe controlled natural-gas production, it would keep all the profits.

The tribe began buying back leases and existing wells. In 1991, it sued Amoco Co., two dozen other energy companies and 5,000 non-Ute landowners who lived on tribal land. The companies had signed leases with the landowners to extract gas from the coal on their



property -- 200,000 acres that homesteaders took a century earlier. The tribe owns the coal on that land, and argued in its suit that it also owned the gas in that coal.

The Southern Utes also hired engineers to assess how much fuel companies were drawing from existing leases and making sure the tribe was being paid in full. With the help of one of those engineers, they started building their own production company.

Robert Zahradnik, formerly of Exxon, helped draw up a business plan for Red Willow Production Co., calling for \$8 million in start-up capital, the tribe's annual revenue at the time. Given the tribe's history of failed businesses, it was a tough sell. But proponents won out, and in 1993 Red Willow was launched.



Bob Zahradnik

Still, the tribe struggled for respect. Mr. Zahradnik recalls a well owner, based on Manhattan's Park Avenue, rejecting him "with amused condescension" when he proposed buying the wells. "We could buy their building now if we wanted to," he adds.

In the late 1990s, the tribe got a huge boost when Amoco, now part of British Petroleum, agreed to turn over a 32% working interest in 400 wells on the reservation to settle the lawsuit. That move, along with acquisitions, helped the tribe leap from the reservation's 62nd biggest production company to the second, behind only BP. It now has stakes in pipelines controlling 1% of America's natural gas. (The U.S. Supreme Court ultimately ruled against the Southern Utes in the suit.)

As the tribe's coffers swelled, the battles began, first with the tribe's youths. Like most tribes, the Southern Utes set aside a portion of their wealth in a trust that children begin to get when they turn 18. But they saw the dangers of that arrangement in 1995, when a Southern Ute girl was shot dead, and her friend wounded, by robbers seeking the friend's "18 money," which she had received that day. The friend started the night with \$6,000, and was down to \$2,700 by the time the criminals caught up with her.

The tribe decided to distribute the 18 money in eight annual installments, instead of four, so the teenagers wouldn't get so much at once. Teenagers protested to the tribal council, to no avail.

Another alarm went off in 1997, during a retreat at the Rolling Thunder Hall, a conference room at the casino. The tribe's Department of Energy presented charts projecting that natural-gas profits would begin to decline in 2002, and that the tribe would eventually slide back into poverty. They needed a financial adviser.

Enter Mr. Jurrius, a self-described "tough-talking Texan in a suit," whom the tribe plucked from a Houston energy company. Mr. Jurrius was paid a retainer, plus a bonus if he exceeded projected profits. Neither he nor the tribe will disclose his salary.

Mr. Jurrius set up an office in a basement that had been the tribe's morgue. Working with Andersen Consulting, he came up with a plan. The tribe would establish two funds to underwrite investments and support tribal members.

The Permanent Fund would take 75% of energy royalties, and the profits from the Sky Ute Casino, and invest the money in securities. This would fund the tribal government and pay monthly allotments of \$520 to tribal members. The rest of the royalties, and all of the profits from the tribe's energy and real-estate holdings, would go into the Growth Fund. This would

distribute 10% of profits to adults under 60 and underwrite the annual elder pension. The rest of the money would be earmarked for investments, with a goal of a 15% return or better.

Tribal leaders pushed through the plan over strong opposition. Some members were still leery of big business ventures. Others questioned the fairness of the income distribution. Indian tribes consider property communal, and profits are shared equally. "I'm a capitalist working for a bunch of socialists," says Mr. Zahradnik, the Growth Fund's operating director.

The Growth Fund, which has averaged a 30% return annually, poured the tribe's natural-gas profits into far-flung real-estate and energy ventures. Recent deals include a \$123.4 million cash purchase of a Hawaiian oil and gas company and \$85 million in real-estate deals that made the Southern Utes the landlord of the Federal Aviation Administration in Kansas City and TRW in Denver.

But since big business moves were made without the input of tribal members, they began to suspect they weren't getting their fair share of the profits. The fact that outsiders served as presidents of each of the tribe's seven businesses added to the alienation. "There's a communication problem," say Tara Vigil, a 33-year-old mother of four who works for the Growth Fund. "People are saying, 'We have money, why don't we see it?'"

Members drive nice cars but park them in front of modest homes and double-wide trailers. On the big payday last fall, many members headed straight from the bank to a pawnbroker, where they retrieved \$20,000 of saddles, blankets, tools, chainsaws, jewelry and even cars.

At council meetings, tribal members accused council members of lining their pockets. (Council members won't disclose their salaries.) Occasionally, screaming matches broke out and fistfights were threatened. By far the biggest critic has been Mr. Remington, who has a shock of white hair and is summed up by the bumper sticker on his 1999 Chevy Cavalier: "Tribal Elder Who Kicks Butt." At one meeting, he demanded of Pearl Casias, the tribe's vice chairman: "Did John Jurrius buy you that car?" Ms. Casias recalls telling him she bought her convertible BMW with her own money.

"It seems like the more money we have, the less people get along," says Ms. Vigil. During the last election, candidates opposed to the business plan appeared on the ballots in droves. But members voted in Mr. Richards, a proponent.

The grumbling goes beyond tribal members. The taxes paid on gas that comes out of the reservation account for a quarter of the taxes in La Plata County, where the tribe is now the biggest employer. But the tribe doesn't pay property taxes on land within the bounds of the reservation, and area residents fear the tribe will pull land off the tax rolls as it snaps up real estate.

Another fight centers on the tribe's plans for 1,400 acres near Durango. Area residents say that building 2,000 residential units and a half-million square feet of medical offices, stores and a new hospital will choke roads. Mr. Zahradnik expects people to both live and work in the development, thereby lessening traffic.



Pearl Casias

That is just one of several environmental battles that the tribe faces. Area residents are complaining about the environmental damage the natural-gas wells cause, which Mr. Zahradnik says the tribe has corrected.

The money has also attracted hordes of gold-diggers. Every week, the tribe shoos away people falsely claiming to be Southern Ute to get a cut of the cash, outside entrepreneurs looking for investors and romantic suitors. Hal Koenig, the tribe's criminal investigator, says that suspects frequently tell him they moved to the reservation to find a rich spouse. One such suspect landed in custody for beating his Southern Ute wife. Another stabbed someone in the street.

Some Southern Utes worry that the money will erode their culture. "Before the money, everything was easier, simpler," says Everett Burch, brother of the former chairman. People have lost their hunting skills, he says, and wouldn't know how to survive without "luxuries" such as electricity.

Tribal leaders argue that the money will help preserve the culture: With profits from its funds, the tribe has built an elementary school to teach the Southern Ute language and traditions. Meanwhile, Ms. Casias says a new apprenticeship program will elevate more members to leadership spots in the tribe's businesses. And the investment funds have begun circulating a newsletter to communicate their plans better.

Write to Ianthe Jeanne Dugan at ianthe.dugan@wsj.com

Updated June 13, 2003