

Southern Ute bonds get first Indian 'AAA'

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NEW YORK -- For the first time ever, bonds issued by an American Indian tribe have earned a triple A -- the highest possible rating an issue can get.

FitchIBCA, Duff & Phelps here has given the coveted AAA rating to \$69 million of adjustable-rate bonds issued by the Southern Ute Indian Tribe of southwestern Colorado.

The bonds, due to mature in 2031, will raise money to reimburse the tribe for capital it has spent on a civic center and school renovations and retire a \$15 million loan for water and sewer repairs.

The tax exempt municipal bonds were issued and sold the week of Dec. 10. They priced at 1.95 percent until their first adjustment next August.

Fitch and competing ratings service Standard & Poor's Corp. each issued the tribe itself an AAA rating on its general obligations over the summer, paving the way for issuance of the bonds at a more favorable rate to the tribe.

Banc One Capital Markets was the underwriter for the bonds, while Kutak Rock acted as bond attorney on the deal.

Tom Whitman, director of public finance for Banc One, said the bonds were sold as a private placement to institutional investors. He said the bonds were "well received," with "a lot more demand than bonds available."

Whitman noted that Banc One had worked with the tribe for four years to get the bonds issued.

Other tribes have issued bonds, but many have been given unrated, "junk bond" status, meaning the issuer has to pay a high rate of interest for the money. Others have bought insurance from agents like American Capital Access here to bring their ratings up to a single A, the lowest "investment grade" rating.

According to Fitch, the tribe earned its triple A by having "extraordinary financial resources, governmental operating flexibility, and strong financial management."

The tribe's "cash, money market accounts, and marketable securities exceed its outstanding debt by a vast margin, and this is expected to continue," the ratings agency said.

Fitch research on the tribe (Jessalynn K. Moro was lead analyst) shows assets of

\$867 million and a very high operating margin of 82 percent (meaning the tribe takes in much more than it spends).

The agency also praised the tribe's strong and stable government, as well as its geographic location atop oil and gas deposits.

The only risk it can quantify is the tribe's limited track record. This \$69 million will be the only debt it is carrying, comprising a very low 8 percent debt-to-assets ratio.

Neal McCaleb, head of the Bureau of Indian Affairs, pointed to the tribe as a "model of economic success" in Congressional testimony last summer.

McCaleb said "using knowledge gained from managing and operating its own reservation companies, the tribe has acquired production properties in Texas that produce 20M cubic feet of gas per day.

"It has invested in an offshore well in the Gulf of Mexico, and has entered into a partnership with the Ute Indian Tribe of the Uintah and Ouray Indian Reservation and the Dominion Oil Company to develop oil and gas from the former Naval Oil Shale Reserve #2. The tribe is also evaluating the purchase of shopping malls and a drug store chain in Texas and Arizona."

The official estimated the tribe's income as in excess of \$250 million per year.

Fitch noted the tribe's "permanent fund" has a current balance of \$636.2 million, while its "growth fund" generated revenues in excess of \$250 million for 2001.

The permanent fund is for governmental operations, while the growth fund is for business management. Businesses include Red Willow and Red Cedar, which are the oil and gas interests, the Sky Ute Casino, the Tierra Group (real estate) and Sky Ute Sand and Gravel, said the Fitch report.

Red Willow, it notes, is wholly owned by the tribe and runs 200 wells. It has interests in 300 other wells. In fiscal 2000 it earned \$35 million on \$58 million in revenue. Red Cedar, a joint venture, earned \$33 million on \$110 million in revenue during FY 2000.