

Between Worlds - Investment Strategy Pays Off

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Cook Inlet Region Inc. invested in oil and gas, mining, real estate and communications technology.

by TIM BRADNER
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Mountaintops and glaciers. That's the majestic - yet economically worthless - land Cook Inlet Region Inc. gained title to in 1971 when the Alaska Native Claims Settlement Act became law.

CIRI at a glance

ANCSA land entitlement*:
2.4 million acres

ANCSA land conveyed so far:
.56 million acres

Money from ANCSA:
\$34.4 million

Businesses, partnerships, investments:
Alaska Interstate Construction, BellSouth Carolinas PCS, Construction Machinery Inc., Cook Inlet Western Wireless, Kenai Fjords Tours, Peak Oilfield Service Co., Stan Stephens Cruises, investment portfolio.

Net Corporate Profits/Losses
per fiscal year

1974**
\$(626,000)

1975
\$259,000

1976
\$(502,000)

1977
\$519,000

1978
\$561,000

1979
\$1,430,000

1980
\$7,042,000

1981
\$12,717,000

1982
\$15,649,000

1983
\$16,597,000

1984
\$18,610,000

1985
\$24,503,000

1986

\$24,538,000

1987
\$31,048,000

1988
\$33,379,000

1989
\$35,173,000

1990
\$35,697,000

1991
\$17,008,000

1992
\$23,448,000

1993
\$25,355,000

1994
\$29,869,000

1995
\$32,726,000

1996
\$39,778,000

1997
\$44,938,000

Shareholder Dividends
per 100 shares

1974
\$0

1975
\$0

1976
\$0

1977
\$0

1978
\$0

1979
\$0

1980
\$115

1981
\$150

1982
\$406

1983

\$632

1984
\$530

1985
\$943

1986
\$1,232

1987
\$1,242

1988
\$1,440

1989
\$1,676

1990
\$1,762

1991
\$1,778

1992
\$1,793

1993
\$1,800

1994
\$1,800

1995
\$10,112

1996
\$1,800

1997
\$1,884

Dollar amounts not adjusted for inflation.

Number of jobs provided by corporation and its subsidiaries:
About 1,370

Number of corporation jobs held by shareholders:
Not available

Total shareholders:
6,280

* These figures include land to which the corporation has partial title.

** Includes 1972, 1973 and 1974.

ALL NUMBERS COMPILED IN LATE 1998.

The holdings were an inauspicious beginning for a company, but a successful business strategy has spun gold out of these lumps of coal.

The Anchorage-based Native corporation is now a profitable enterprise worth almost three quarters of a billion dollars in shareholder equity. In fact, CIRI is poised to become a billion-dollar company in just a few years, said Chief Executive Officer and President Carl Marrs.

\ "CIRI was able to trade its mountains and glaciers for lands of greater

value,\" said Tom Williams, an Anchorage attorney and former state Department of Revenue commissioner who is familiar with the corporation. \"It took a lot of vision and foresight to pull that off.\"

Williams gives credit for the corporation's success to Roy Huhndorf, CIRI's president and CEO for many years, and others on the corporation's board during the early years.

Anchorage RV park attendant Matthew Ost makes his rounds. The park, owned and operated by CIRI, is one of the largest in the state.

PHOTO BY BRIAN WALLACE

\"CIRI had the benefit of people giving some good advice, and they had the wisdom to take that advice,\" Williams said.

Success, however, came from a plan born in desperation. CIRI received \$37 million in cash in the 1971 settlement, and not much else. The best lands in Southcentral Alaska had long been in private and military hands, or had already been granted to the state of Alaska and municipalities. The only vacant, federally owned land from which CIRI could make its selections were remote, high-altitude lands no one else wanted.

Unhappy with its settlement, CIRI sued in the mid-1970s when it saw the federal government transfer valuable lands near Mount McKinley (now Denali) National Park to the state of Alaska.

The corporation won in court and was given rights to select lands elsewhere in the state, if the regional corporation from that area agreed.

None did. Stung by this, CIRI renegotiated the deal to allow it to bid on surplus federal property in Alaska.

The corporation was given a pool of \"chits\" assigned a monetary value in exchange for rights to select lands. Later, the corporation was allowed to bid for surplus federal property elsewhere in the United States.

All this took three rounds of congressional legislation, from 1975 to 1988, and

approval of a complex land exchange with the state in 1976. Although the land exchanges were contested in court, they were ultimately approved.

But part of the land CIRI gained title to included federal lands in Southcentral Alaska that came with oil and gas leases. Petroleum revenues gave the corporation needed cash.

"It was the engine that got us started," Marrs said. The other regional corporations that had denied CIRI rights to select lands in their regions later welcomed their share of CIRI's oil and gas revenues, which totaled \$140 million over the years.

The Native settlement act requires distribution of 70 percent of natural resource revenues among all regional and village corporations.

Meanwhile, CIRI gradually acquired surplus federal property in Alaska. It owns Fire Island in Cook Inlet near Anchorage's airport. The corporation also acquired land in Hawaii, Southern California, Florida, Alabama and Maryland.

Today, CIRI is involved in businesses ranging from real estate to communications, tourism, support services to the oil and mining industries, and sales of construction equipment. Most of its earnings come from outside Alaska.

CIRI also built an office building in Anchorage for its corporate office and leases out space, an investment that has proved profitable. But the real launch into real estate came when CIRI was allowed to use its remaining chits to bid on real estate properties owned by Federal Deposit Insurance Corp. and Resolution Trust Corp. after nationwide failures of savings and loan institutions in 1980.

Most of CIRI's real estate holdings are now concentrated in apartment complexes and multi-tenant office/warehouse and business parks in the Lower 48. One that has been particularly successful is Westpointe Business Park, a 75-acre development in Miami.

CIRI's broadcast venture began when its attorneys, searching for ways to use the corporation's remaining land chits, stumbled on a federal communications law requiring the government to give minority enterprises preferences assigning broadcasting rights.

That led to the acquisition of television and radio broadcast stations in several states.

Still, the venture had its risks and the deal almost went sour when the broadcast industry hit a recession in the late 1980s. Cook Inlet Communication, CIRI's broadcast subsidiary, was highly leveraged, carrying \$300 million in debt

at one point.

Ed Herndon, branch manager for Construction Machinery Inc., in Fairbanks, points to an Ingersoll Rand drill used to put zinc anodes along the trans-Alaska pipeline to prevent rusting. Cook Inlet Region Inc. owns the company.

PHOTO BY BRIAN WALLACE

The stations have since been sold and CIRI is now concentrating on the more profitable personal communications field, with business partners Western Wireless Corp. in three western and one Midwest state, and BellSouth, in two states in the Southeastern United States.

CIRI's newest investment is the \$130 million Hyatt Regency golf resort in Nevada, where a 496-room hotel will front a 320-acre lake. The corporation sees itself essentially as an investment holding company specializing in a handful of industries where it has established partnerships, said Marrs.

The overall portfolio includes ventures that are relatively low-risk but generate cash, such as commercial and residential real estate, or ventures that have potential to grow substantially in value, even if they don't bring in immediate income, such as in communications.

One of the corporation's businesses that is on a fast-growth track is Construction Machinery Inc., an Alaska-based supplier of industrial equipment. Construction Machinery's revenues more than tripled last year, from \$48 million to \$150 million, Marrs said.

CIRI's new tourism subsidiary, Alaska Heritage Tours, has the potential to grow in value and to generate cash, he said.

While it is still a royalty owner of oil and gas and mineral lands, the corporation phased out its ventures in oil and gas after several exploration wells were unsuccessful. Although it was a profitable deal, CIRI also sold off the small percentage it owned of the Endicott oil field on the North Slope.

CIRI is also the state's largest holder of mining claims on mineral prospects acquired from Anaconda Minerals in the early 1980s. One gold project has been

developed in CIRI-owned mining claims - the Illinois Creek Mine in western Interior Alaska. Mining is temporarily suspended due to low gold prices, however.

"ANCSA was the engine that got us started," says CIRI CEO Carl Marrs.

PHOTO BY BRIAN WALLACE

CIRI is the only corporation that has taken a serious look at a 1990 change in federal law allowing Native corporation shares to be sold if a majority of shareholders agree.

In a complex series of votes in 1997, CIRI's shareholders by a substantial majority rejected allowing shares to be sold to the general public. It was a relief to the other Native corporations, who worried that if CIRI opted to allow sales of stock, their shareholders would follow suit.

CIRI's 6,900 shareholders have a variety of ethnic backgrounds that include Athabascan and Tlingit Indians, Yup'ik and Inupiat Eskimos, and Aleuts. The settlement act allowed Natives the choice to enroll in corporations in the region in which they lived rather than where they were from, and many Natives living in Southcentral Alaska enrolled in CIRI rather than their home region.

There was also a worry among the other corporations that CIRI's largely urbanized shareholders would have fewer ties to land or Native heritage. That turned out to be not the case, however.

"We didn't think of it at the time, but this turned out to be a historic vote," said Carl Marrs. "By an overwhelming majority, our shareholders voted to retain Native control."

In a second round of voting, a provision allowing shareholders to sell shares back to the corporation got substantial support, losing only by a thin margin.

The vote showed CIRI management its shareholders wanted more from the corporation, Marrs acknowledged.

Some shareholders want to be able to cash out their stock, but given the

corporation's growth in equity and profits, they're far better off retaining their shares and their dividends, he said. The corporation's 10-year plan is to become a billion-dollar company by 2005, and two years into the plan CIRI is ahead of schedule in achieving its goal.

In 1997 the corporation's total assets were \$688.5 million and with little debt. Net income for 1997 was \$44.9 million, a 13 percent increase over 1996. 1995 net income was \$32.7 million, up 9.6 percent from the year before.

Betty Miller, a CIRI shareholder and longtime Anchorage resident, said she's satisfied with the way the corporation has performed.

"CIRI has always been profitable. It has had its share of problems, but at the end of the day we've seen wise investments and good timing," she said. "A lot of this is due to strong and steady leadership, and a lot of continuity in the board over the years."

CIRI is also a federally funded tribal authority

While it is a business entity, Cook Inlet Region Inc. is also the federally designated tribal authority for Southcentral Alaska.

Under this authority, CIRI provides housing, health care, employment and a variety of other services through nonprofit affiliated organizations.

They include Cook Inlet Housing Authority, which provides housing; Cook Inlet Tribal Council, which runs employment training and placement services as well as substance abuse counseling; and the Southcentral Foundation, which operates health-care programs.

Alaska's People, an employment and training service created by CIRI in 1996, also placed

1,500 Alaska Natives in jobs in 1997 with Alaska employers in a variety of industries.

The CIRI Foundation was established in 1982 to assist CIRI shareholders pursuing postsecondary education. The foundation has \$10 million in endowments and plans to increase that to \$20 million over the next 10 years.

Through 1997, the foundation gave out more than \$3 million in scholarships and grant assistance to 1,400 students.

