

CONFERENCE ROOM

LANCE MORGAN on

Ho-Chunk, Inc.

25-YEAR HISTORY OF GROWTH

PHOTO BY AP PHOTO/NAI HARNIK

PHOTO COURTESY HO-CHUNK, INC.

Lance at the groundbreaking ceremony for the new mix-use commercial and residential buildings at Ho-Chunk, Inc.'s Flatwater Crossing master-planned community in South Sioux City, Nebraska, Dec. 5, 2018.

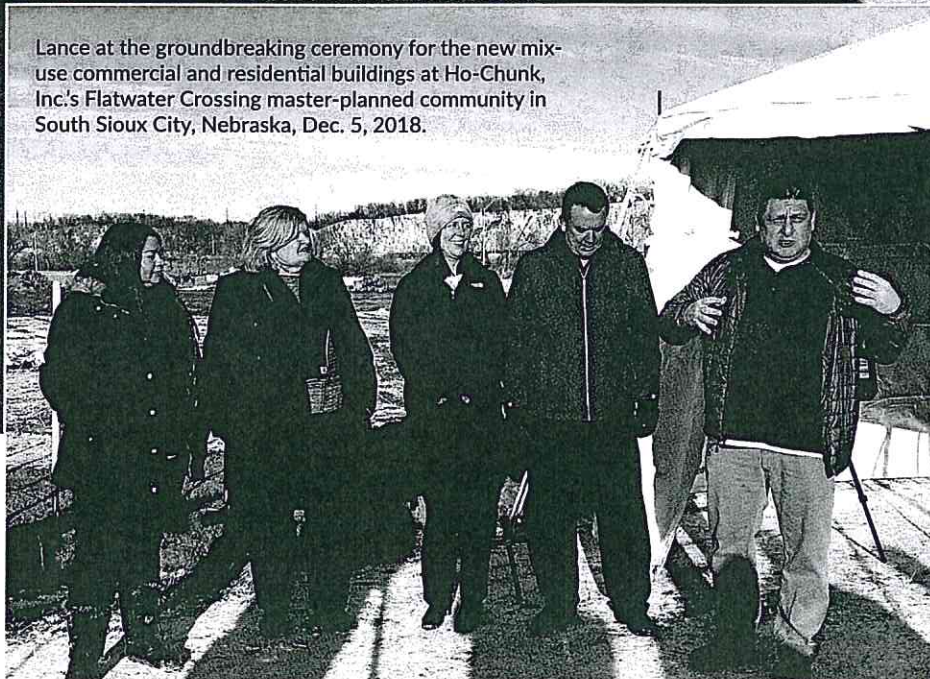
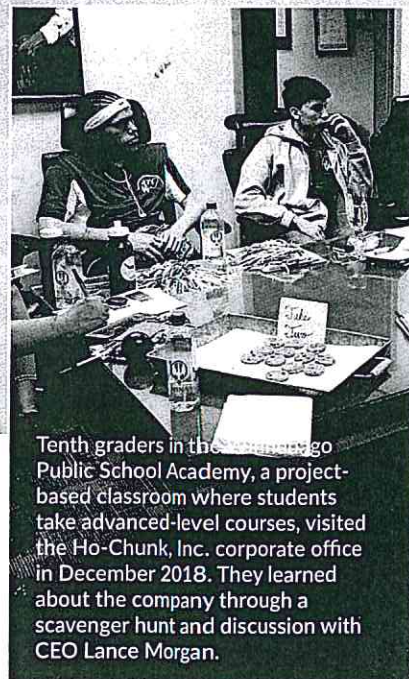


PHOTO COURTESY HO-CHUNK, INC.



Tenth graders in the Chicago Public School Academy, a project-based classroom where students take advanced-level courses, visited the Ho-Chunk, Inc. corporate office in December 2018. They learned about the company through a scavenger hunt and discussion with CEO Lance Morgan.



An aerial overview of Ho-Chunk Village

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From Building a Company to Building a Village

By Andrew Ricci

Lance Morgan was 25 years old when he was tasked with taking \$9 million and figuring out how to diversify the Winnebago Tribe of Nebraska's economy away from gaming.

Now, two and a half decades later, the company that Morgan started with one employee and \$9 million in seed capital is Ho-Chunk, Inc., a Tribal success story that currently boasts annual revenues of roughly \$250 million, more than a thousand employees, and multiple subsidiaries across four major division areas.

Morgan didn't spend his entire life on the reservation. His father was a non-Indian farmer and his mother was a Tribal member, but when they got married in the 1960s, it was a little bit controversial, he told *Native Business Magazine*. So, they left. His father went to Vietnam, and when he returned, they settled in Omaha, where

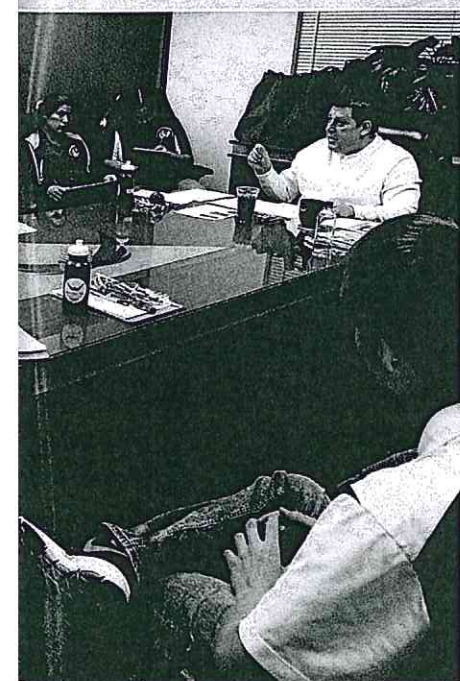
Morgan's grandparents eventually moved as well.

"We had a little Tribal thing going on in the city, like a lot of people did," Morgan said in an interview. "But gradually, my entire family moved back to the reservation, including myself."

Morgan joined the Army Reserves in order to pay for college at the University of Nebraska, where he did well enough to get a full scholarship to Harvard Law School. After graduation, he started a successful legal career at Dorsey and Whitney, a prominent law firm in Minneapolis.

At that time, back on the reservation, the Winnebago Tribe was going through a dispute with its casino's management company.

"We were paying our management company 40 percent," Morgan said. "We put up most of the money for the casino, and they



had put up money for a little trailer, and they said 'well that's why you owe us 40 percent.' So, I was hired just to renegotiate the deal with them."

Ultimately, after they couldn't come to an agreement, the Tribe had to sever its ties with the management company. This all occurred at the same time that Iowa was expanding gaming in the Tribe's primary markets, so they knew that gaming revenues would be unsustainable as the sole source of economic prosperity over the long-term.

After the Tribe won roughly \$25 million in a casino-related lawsuit, they put \$15 million into an investment account – where it remains today – and dedicated the remaining \$9 million to starting Ho-Chunk, Inc., conceived as an entrepreneurial company that would be able to recognize and develop various economic activities.

"The Tribe wanted to diversify the economy, and I had worked on setting up Tribal corporations in my lawyer job," Morgan said. "I had done research on it both in college and in law school, and it sort of coalesced into what became Ho-Chunk, Inc."

"One day, I just decided to quit my legal job and move to the reservation, and that's

how Ho-Chunk, Inc. started," Morgan continued.

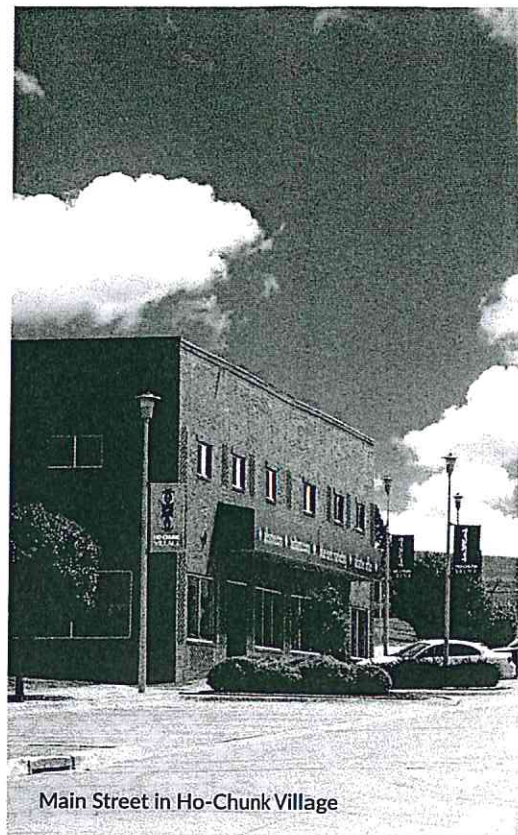
Today, 25 years later, Morgan says Ho-Chunk, Inc.'s mission is exactly the same as it was on day one.

"Literally, nothing about the mission has changed," Morgan said. "Our mission statement is on the wall in the receptionist area. It's to use the Tribe's economic and legal advantages to create job opportunities – not jobs, but job opportunities for people."

These economic and legal advantages – including sovereign immunity, tax immunity, and civil regulatory powers – are key to Ho-Chunk, Inc.'s success in creating an income stream for the Tribe over the long-term.

"Tribes have a set of advantages that are unparalleled in business," Morgan said. "So, for example, we can't be sued. We don't pay federal income tax. We don't pay capital gains tax. We pass our own laws. We have access to federal grants and government contracting programs and federal loans. And we don't pay state tax for on-reservation activity."

"That is a killer set of advantages, but Tribes were never really organized to take advantage of them," Morgan continued.



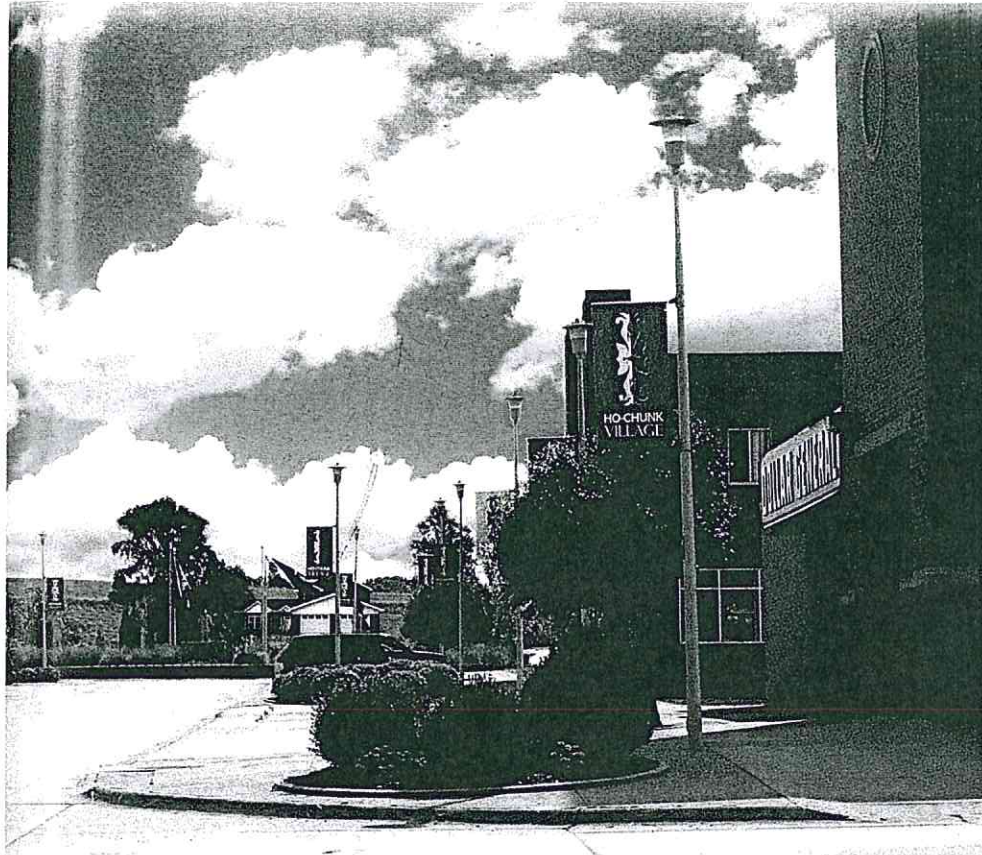
Main Street in Ho-Chunk Village

"We've always had them, we just didn't have the capital or the organization to do it."

In order to maximize income-generating opportunities, Ho-Chunk, Inc. has developed a formula in which everything they do utilizes at least one of these ad-

A sign welcomes visitors to Ho-Chunk Village





vantages. As one example, Morgan cites Ho-Chunk, Inc.'s purchase of a modular homebuilding company 400 miles from the reservation.

"The day we bought it, in 2000, the company no longer paid federal income tax, and we used that savings to pay the debt to buy the company," he said. "Then we were a minority contractor, but we also had total control over our housing at that point, too. We've made our money back six times over from that investment."

Decisions like this – which Morgan calls Ho-Chunk, Inc.'s "outside-in strategy" – have not been without controversy.

"We decided that if you only have one bullet, where do you shoot it?" he said. "Most Tribes shoot their bullet onto the reservation. Well, our reservation was a high unemployment, high poverty, low skill place with a small population. If we stuck our money into that environment, we would not do well. We would be stuck. So, what we did is we took the money we had and we invested in businesses in the surrounding cities."

"That was very profitable, and we took the profits and invested back onto the reservation in incremental steps," he continued. "The money flowed onto the reservation and that allowed us to build from a position of strength. We were able to build up the economy, build up the infrastructure of the community, build up the knowledge base, and build up the people themselves. If we had just invested pure-

ly on the reservation, we probably would have fizzled out after 18 months."

Morgan took some criticism for pursuing that strategy, but he sees the benefits that it's brought to the reservation over the past 25 years as a validation of his strategy.

Even though the bulk of Ho-Chunk, Inc.'s income comes from off-reservation activity, the things that they've been able to do on the reservation are impressive. Part of that comes from a goal that the company added in the early 2000s, which was to add a socioeconomic component to their business dealings.

In other words, during the first several years of its existence, Ho-Chunk, Inc.'s focus was purely economic – if they could create a job and generate a profit, the outcome was deemed a success. But Morgan says he began to realize that creating jobs alone wasn't enough, and community development needed to become one of the company's priorities.

"I realized that the people weren't necessarily ready," he said. "Maybe they didn't have the skill sets, or maybe their home life was bad, or they had credit problems, so we started figuring out ways to change our community socially and that allowed the growth to really take off."

"Then people came more prepared, they weren't worried about paying the rent or they weren't worried about living on the streets," he continued. "We saw that if they could have a good home, and they could

have a bank account, or if they had a job, they were able to stabilize, and from there they were able to grow. So, Ho-Chunk, Inc. spent a lot of time and money not just developing a company, but also developing the entire community from a socioeconomic standpoint."

One area that has gained Ho-Chunk, Inc. significant notoriety is their focus on master planning, and there may be no better example of how they've used master planning to their strategic benefit than Ho-Chunk Village.

According to Ho-Chunk, Inc.'s website, the company knew that additional housing was needed to create more jobs. As a result, Ho-Chunk, Inc. purchased Dynamic Homes, an established homes manufacturer, and then created HCI Construction to set the homes.

"We bought 40 acres near our community and we were going to put a strip mall with some houses behind it until somebody conked me on the head and told me to get smart," Morgan said. "So instead, we master planned a whole community."

Ho-Chunk Village's master plan included a business-oriented Main Street, light industrial buildings, apartments above the businesses on Main street, multifamily housing, and single-family housing. It deliberately integrated cultural elements to the community's design. And by building it in a new urbanism style, Morgan says that it came together more like a traditional small town – different from what reservations are used to.

"If you go to reservations, we're all hodgepodge," Morgan said. "We get a grant for something and then figure out where to put it. That's why you'll see a big building on a reservation, and then nothing, and then a row of houses that look exactly the same, and then a big building again. That's not really community planning; that's grant planning."

"All we did was decide that everything has a place," he continued. "We got grants just as randomly as everyone else, but when we put it all together it looked like a cohesive whole and it really was only one more step backwards in the planning. All we did was zoom out one or two steps and we overlaid the whole 40 acres with a plan."

The concept was so unique, the Tribe received 17 grants in a row to help develop it. Morgan says that it took about 10 years to implement the entire plan, but it's finally about full – which is why the Tribe recently purchased 40 more acres, which they've

master planned as Ho-Chunk Village 2.0.

Morgan also credits having a master plan with helping to develop the infrastructure needed to make Ho-Chunk Village a reality.

"When we would go to a funding source for Ho-Chunk Village, we saw that the grant was for culture, and we would have a cultural statue garden that we wanted to build, so we'd apply for it," Morgan said. "Another grant would be for health, and we'd have a trail system and sidewalks and a playground that we wanted to build. Another one would be for entrepreneurship, and we had spaces for businesses available."

"It allowed us to tell a bigger story," he said. "We would ask for small grants but we asked for them in the context of the whole community, and it made people much more willing to give us the dollars for infrastructure. We weren't just getting money for one house, we were helping to build up a whole community."

Now, Morgan says that they've become more sophisticated, with a whole system that's evolved to mix and match funding sources, maximizing opportunities provided by new market tax credits, IHS funding, grant funding, and foundation support.

"You have to plan it out big, or else it's all just going to be piecemeal stuff," he said. "You'd be surprised how few people actually do it."

One other area of infrastructure that Morgan has prioritized is solar energy, which harkens back to his point about maximizing advantages. The problem with windmills, he says, is that they're funded with tax credits and aren't easily monetized. They also cost money to maintain.



A statue in the Ho-Chunk Village's sculpture garden honors the Tribe's history

With solar power, though, Morgan says, there are better opportunities.

"You don't need to fix them; you just stick them on the roof," he says. "They offset power at retail cost, and we've been able to combine that with some grant funds which are actually slightly more lucrative than tax credits, and that has allowed us to put around 2,500 solar panels in our community."

All of this – the solar panels, Ho-Chunk Village, and everything that Ho-Chunk, Inc. does – is part of Morgan's vision to create opportunity and prosperity not just in the near-term, but long after he's gone. By his math, the Winnebago Tribe is currently in the middle of its seventh generation in Nebraska after ending up there in the 1860s, and they've come a long way from when he remembers his grandparents not even having running water.

"When I was a kid, we had an outhouse, we had a hose going into our fridge and

into our sink from a pump outside," he said. "Now, we're an international company with hundreds of millions of dollars in revenue, and if you take that sequence and extrapolate it a few more generations, it causes you to think about it differently."

In other words, 25 years in, Ho-Chunk, Inc. is already planning for the next seven generations, which means making long-term asset-oriented investments that will continue to bear fruit.

"In some ways, it's a miracle that Ho-Chunk, Inc. evolved in the middle of a prairie into a big company," he said. "We're in the seventh generation of the people who moved here, and when they came, they had nothing. We were starving and naked and we took refuge with the neighboring Omaha Tribe."

"We were starving and naked but now, you know, we're the largest local company in the Sioux City area," he said. "So we're back."

PHOTOS COURTESY HO-CHUNK, INC.



Construction underway on the site of the future Ho-Chunk Village Farmer's Market