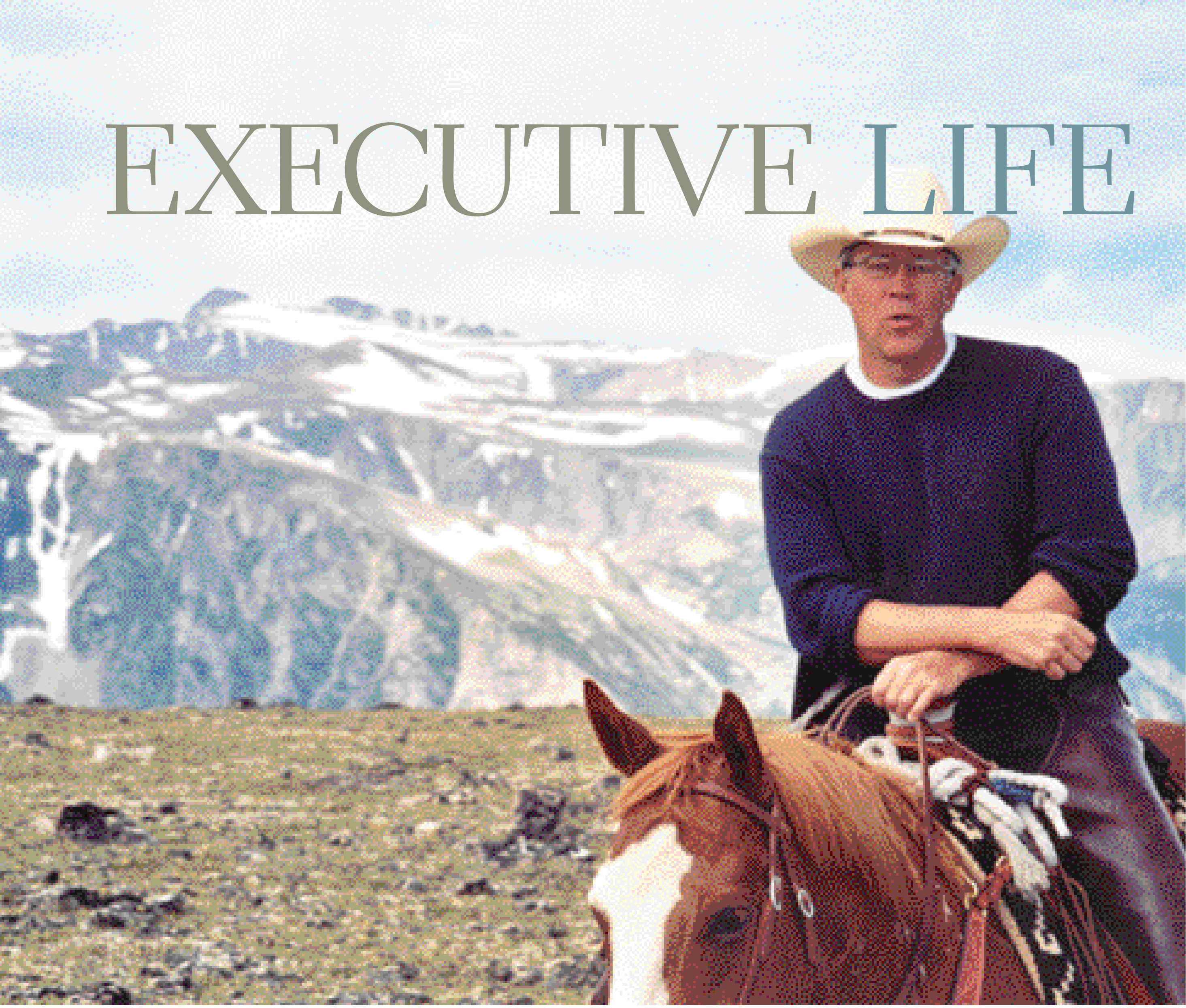


# Romancing the West

## Beach house? They'll take a Big Sky ranch.

BY REBECCA FANNIN

When David Leuschen describes his Montana ranch, it sounds as if he's exaggerating. He owns 20,000 acres of snow-covered peaks and gaping canyons outside Yellowstone National Park and runs 2,000 head of cattle on one of the larger operations in the state. He accesses the high-altitude portion of his ranch by all-terrain vehicle over 23 switchbacks, along a trail with 2,000-foot-high cliffs where the occasional mountain goat, wolf and grizzly bear is the only company. "This is arguably the most remote ranch in the Lower 48," he says.

The views from Leuschen's Switchback Ranch, straddling the Beartooth and Absaroka Mountains, are nearly as stunning as the panorama from his New York office on Fifth Avenue, high above Central Park. A take-

**HEAD HONCHO** Private equity executive David Leuschen on his Montana ranch.

charge sort, Leuschen feels as at home in the muscular land of cowboys as he does in the fast-paced city of execs. When not overseeing operations at his ranch, he runs Riverstone Holdings, a private equity firm that invests in the energy and power industries.

While most CEOs might have a second home in the Hamptons, Nantucket or Palm Beach, Leuschen is part of a circle of top executives, including Ted Turner and Paul Allen, who are drawn to the ranches of the high-mountain West. They got into ranching not for ego but for love. For them, the image of the rugged cowboy is irresistible, as is the desire to keep the spirit of the Big Sky alive.

Leuschen, a Montana native, thinks nothing of flying from New York in a small plane to one of his two landing strips near Cody, Wyo., home of Buffalo Bill. He spends weekends, a summer month and holidays on the ranch. He frequently invites business guests, a great tool for building relationships. In season, he hunts elk, mountain goats and bighorn sheep on his land. He also raises, trains and sells cutting horses, used for the cowboy sport of "cutting," or separating, a cow from the herd. "I'm doing this because I believe in ranching," says Leuschen. "It is my passion."

Ranch ownership also has its practical side. Many owners outsource the day-to-day operations to an on-site manager who oversees a self-contained community, with a staff of people, ranging from a cook and a housekeeper to ranch hands who herd the cattle and maintenance workers who plow the roads and keep the fences upright. Common, too, is an amenities staffer, who helps with the special needs of guests, such as the day's *New York Times* or warmer clothing for a snowmobile ride.

From a financial standpoint, ranches require an investment of time to figure out the best strategy. Most ranch owners run cattle on their property and thus can pay a lower tax rate reserved for agricultural land. Some opt for the additional step of putting their ranches under a conservation easement, which, because it restricts development, lowers the land's value and thus the tax rate. While some owners choose to subdivide their vast tracts into mini ranches to recoup some of the operating costs, most ranches are not income generators. In fact, wealthy owners can use the losses from them as a way to offset income from other businesses they control.

Buying a ranch is not as easy as it may appear. Most are purchased from families who have been on the land for generations but can no longer afford to operate them. These families are not eager to leave, yet they don't want to face selling to a developer. Prospective owners who can promise the family that they will preserve the ranch, rather than develop it, can often win out during typically long and sensitive negotiations. In many cases, the original family stays on, helping the new owner to manage the ranch while also keeping their Western way of life.

Charlie Gallagher, who runs the Denver-based private equity firm Gallagher Associates, has conservation in mind, too. He owns the 19,000-acre Grand River Ranch in northern Colorado, of which he has set aside 11,000 acres overlooking Rocky Mountain National Park for his own weekend escape. He has subdivided the remaining land into several smaller ranches, which he has put up for sale. The parcels that have sold so far have been purchased mainly by CEOs, he says, including a 2,752-acre plot bought by Jack McDonnell, chairman of the Denver high-tech group McData Corp.

In southern Utah, just east of the salmon-colored outcroppings of Zion National Park, David Neeleman, CEO of JetBlue, owns and operates the 4,000-acre Zion Ponderosa Ranch. "This is my piece of heaven," he says of the ranch, which he and his siblings inherited from their grandfather. Most of the land is still raw, but to keep the ranch in family hands and away from developers, he added a modest resort that offers cabins, horseback riding, nature hikes, rock climbing and fishing. Two of Neeleman's sisters help run the resort, which doubles as an executive retreat. A nearby real-estate project, with about a dozen rustic-looking but luxurious homes for sale, is also

ADVICE

## Owning a Ranch

Here are some tips on operating a cost-effective Western ranch:

- Raise cattle to qualify for a lower tax rate on agricultural land.
- Put your ranch under a conservation easement, which restricts development of the land and lowers its taxable value.
- Subdivide a portion of your land into mini ranches for rental or sale. Rental cabins can help recoup operating costs.
- Use financial losses from your ranch to offset other sources of income.

part of the property.

To be sure, it's not a profit motive that's attracting CEOs to ranching. "I will never make back the money put into the ranch unless I sell it, and I expect the ranch to outlive me," says Leuschen, 53, who intends to someday pass it on within the family. He is in the process of putting the ranch under a conservation easement, which would restrict development on the land.

Gallagher shares that vision. He says his ranch is not a money maker. Rather, he says it is set up to attract "like-minded people who share my view of it as multigenerational." He designed the subdivision so that the land will never be home to more than 20 families. With 13 grandchildren, Gallagher has future generations in mind.

**BIG SKY** A view of Muddy Creek from a cabin at Peter Gallagher's Grand River Ranch in northern Colorado.

Gallagher, a turnaround specialist for troubled industrial manufacturing companies, does plan to recoup some of his investment, though, through sales of his "mini ranches." The prices range from $1.7 million for a 336-acre plot to $4.5 million for 680 acres. So far, he has sold 65 percent of the property, bringing in a total of $24 million—the same price he paid for the ranch in 1999. But he is nowhere near breaking even, having invested $20 million in improvements, including 20 miles of gravel roads, utilities and fencing in addition to recreational facilities and a 7,000-square-foot communal lodge.

Although Grand River Ranch has 28 horses and 300 head of cattle, Gallagher calls it a "recreation ranch" because of the many sports options there. The property includes an indoor ice hockey rink, two stagecoaches, a fleet of snowmobiles and ATVs, a fly-fishing stream and a lake, an equestrian center, fishing cabins, a boat house and white-water rafting on the nearby Colorado River. The facilities are shared by the property owners, who pay maintenance fees toward the ranch's $1 million in annual operating expenses.

Part of the appeal is that CEOs who buy one of the mini ranches can become, in effect, gentleman ranchers. "I call this a no-brainer ranch," says Gallagher. "Here, you can own your own big ranch and just lock up and leave when you go," he says. "Everything is maintained" for you.

At Switchback Ranch in Montana, Leuschen employs a staff of 15, including nine ranch hands, an accountant, a horse trainer, two outfitters who run hunting expeditions and a cook for those outings. Ranch owners like Leuschen often use recruiting services to find couples interested in being ranch caretakers. Seven families live on the ranch, help to maintain it and take care of guests’ needs.

Leuschen, who spent 22 years at Goldman Sachs before cofounding his private equity firm in 2000 as a joint venture with the Carlyle Group, sounds every bit the sharp executive as he ticks off the five businesses that his ranch operates. The largest is the cattle business, which brings in annual revenues of about $1 million. Each year, some 1,700 yearlings are raised for market, selling at a price of about $1 per pound, or nearly $1,000 per head. Factoring in the costs of veterinarians and feeding and trucking the cows, he says, “we have almost as much in as we get out.” His beef is sold to top-quality steakhouses. He also owns a 40 percent interest in an organic beef company called Montana Legend, which fetches up to $1.50 per pound.

A second business, Switchback Outfitters, leads hunting expeditions on horseback into a camp five miles from the eastern boundary of Yellowstone. Executives from Goldman Sachs and The Carlyle Group, as well as others from the oil and gas industry, have participated in the trips.

The cutting horses are another business Leuschen has started on the ranch. The cost of these horses is about $50,000, and with travel and training, the operation costs him several hundred thousand a year. These costs can’t be offset by the prize money from this sport, or from breeding and selling the horses. Nonetheless, he has just finished construction on an indoor arena and horse barn for cutting-horse shows.

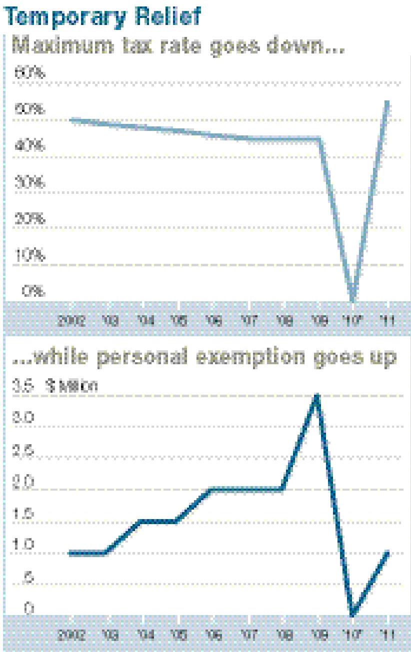
Finally, Leuschen offers a charitable program for underprivileged children. Each summer, he hosts 10 to 15 kids who are selected from urban schools and gives them an opportunity to experience Western ranch life as it was meant to be. All part and parcel of life under the Big Sky. ▲

NET WORTH

# The Estate Tax Lives

## Here’s how to minimize its impact on your heirs. BY JENNIFER PELLET

Think the Republican sweep at the polls spells a swift demise for the so-called death tax? Think again. While President Bush is pushing for a permanent repeal of the estate tax, financial gurus fully expect the resulting tug of war only to complicate an already convoluted tax-planning picture. “The more the budget deficit increases, the harder it will be to get away with cutting revenues,” argues John Goldsbury, director of executive advisory services at Bank of America. Even a defunct tax could be resurrected. “The estate tax has already been repealed three times and brought back to life three times,” says Goldsbury, “so you have to wonder how long a repeal would last.”




* Estate tax repealed for one year

The good news? Thanks to the election results, even if an outright repeal proves impossible, the estate-tax rate reductions and personal exemption hikes ushered in by Bush’s 2001 Economic Growth Tax Relief Reconciliation Act are likely to remain in place during his second term. That law whittles the estate-tax rate down to 45 percent by 2007 while simultaneously ratcheting up personal exemptions—the amount taxpayers can pass to heirs free of estate tax—over the next four years. The tax law currently bumps the exemption ceiling to $3.5 million in 2009, then eliminates estate taxes altogether in 2010 only to return them in 2011 to the 2001 levels—a 55 percent tax rate and $1 million exemption.

“If you’re ‘lucky’ enough to die in 2010, there’s no tax, but you can’t exactly plan on that,” says Joseph W. Spada, co-founder of the Parsippany, N.J.-based Family Wealth Institute. He cautions taxpayers against hoping for permanent repeal. “Most people are pretty confident that there will be some sort of estate tax. So estate tax planning is still the prudent thing to do.”

The idea behind the current Byzantine structure is to enable Congress to balance the budget in 2010, or to reform the tax law prior to then. But the bottom line is that taxpayers must now revise their estate plans to adapt to an ever-morphing tax picture, or risk having their assets be misdirected. "In effect," says Goldsbury, "if you haven't rewritten your will, Congress has rewritten it for you."

Because spouses inherit tax-free, the typical estate plans call for leaving to heirs the maximum amount that can be shielded and the remainder to a spouse, he explains. "For someone with a $4 million estate, for example, that means a will that originally intended to leave the 2001 maximum of $675,000 to heirs and the remaining $3,325,000 to the spouse would, in 2009, give $3.5 million to the heirs and just $500,000 to the spouse."

Fortunately, there are several approaches to guard against that unintended outcome. Designating a specific dollar amount is the most direct, but if you want to retain the flexibility of linking the inheritance amounts to the exemption level, setting an inheritance cap is a better bet. You can, for example, leave the most one can shield, but no more than $2 million, to a family trust or to your heirs. Known as the disclaimer will, a third option allows for even greater flexibility to adapt to both estate-tax law or fluctuations in the size of your estate.

"This approach involves leaving everything to your spouse, with the provision that any amount he or she disclaims is put in a trust for your heirs," explains Goldsbury, who points out that this option may not always be appropriate. "It lets the surviving spouse make the call with 20-20 hindsight, but you need a certain kind of marriage for that to work."

The will's wording should also address the possibility, however remote, of no estate tax. "I don't think anyone believes it will go away altogether," notes Goldsbury. "But in the case of a very large estate of, say, $50 million, given the possibility of even a temporary one-year reprieve, the will should include a statement that says, 'If there is no estate tax when I die, then leave my kids $25 million and the other $25 million to my spouse.'"

Altering the wording of your will alone, however, is only half the battle. If all assets are held jointly, the instructions of a will are overruled, and everything goes to the surviving spouse; the opportunity to use the personal exemption to pass a portion of assets to heirs tax-free is lost. The same is true if one spouse holds the bulk of assets and the less affluent spouse is the first to pass away.

Estate balancing, whereby assets are divided so that each spouse has holdings in his or her own name, guards against wasting an exclusion. "In 2005, for example, when the personal exemption amount is $1.5 million, my wife and I can shield $3 million in assets if assets are held properly," explains Goldsbury. "Whereas if we hold everything jointly and I die first, I don't shield anything with my exemption."

To ensure that your heirs—rather than Uncle Sam—are the primary beneficiaries of your life's work, you and your spouse should ratchet up these individual holdings in tandem with the rising personal exemption. "By 2009, you should each have $3.5 million in your own name so that together you're shielding a total of $7 million," explains Goldsbury, who asserts that estate-tax planning is all about adaptation. "Ultimately, you want to plan for every possible outcome." ▲

**"I don't think anyone believes estate tax will go away altogether."** —JOHN GOLDSBURY, BANK OF AMERICA