

# Red Hawk Casino rewrites deal with state to stay afloat

By Dale Kasler, Sacramento Bee

The Indian tribe that owns struggling Red Hawk Casino in Shingle Springs struck a new deal with the state Friday that could bring the tribe some desperately needed financial relief.

Gov. Jerry Brown announced a new gambling compact that significantly reduces the amount of money the state gets from Red Hawk's owners, the Shingle Springs Band of Miwok Indians.

The deal acknowledges how badly the casino has performed – and what a financial disappointment it's been to the tribe, which was counting on Red Hawk to lift it out of poverty.

"The compact is designed to address fiscal challenges the tribe has faced and to meet the requirements of federal law that the tribe be the primary beneficiary of its gaming operation," said an announcement from the governor's office.

Nick Fonseca, the tribe's chairman, said in a press release that the compact "ensures the long-term financial prosperity of the tribe and its casino."

The agreement is far from a done deal. It must be ratified by the Legislature – and it requires the tribe to restructure its debts with bondholders and Lakes Entertainment Inc., the Minnesota company that manages Red Hawk.

The governor will have final say on whether the restructurings go far enough to ease the tribe's debt burden, which is around \$500 million.

As part of the deal, the maximum number of slot machines allowed at Red Hawk is cut from 5,000 to 3,000. Red Hawk now

has 2,200 slots.

The new deal suggests that without help, the casino is headed toward disaster.

Red Hawk "cannot currently or in the coming years generate enough revenue for the tribe to cover its financial obligations," the compact says.

The biggest change involves the state's takeaway. The tribe now pays the state up to 25 percent of its slot-machine winnings – believed to be the highest percentage of any tribal casino in California. Under the new deal, that would fall to 15 percent.

The new compact may be unprecedented. I. Nelson Rose, a gambling-law expert at Whittier College, said he's never heard of a state rewriting a tribal compact to ease the financial terms.

"It's innovative," Rose said. "It's better to get ... a lesser amount, 15 percent, than to get zero."

The casino is doing so poorly that when an El Dorado Superior Court jury ordered the tribe last winter to pay its former casino partner \$30 million in a contract dispute, the tribe said it didn't have the money and warned Red Hawk might close.

The case is on appeal.

AmyAnn Taylor, the tribe's general counsel, said the Shingle Springs band hasn't yet spoken to bondholders or Lakes Entertainment about restructuring the debts. The tribe has two years to complete the restructurings, according to the new compact.

Lakes executives couldn't be reached for comment. The company already agreed a year ago to let the tribe defer principal payments on a \$66 million start-up loan.

Taylor said the tribe recently amended the deal under which it pays \$5.2 million a year to El Dorado County – another requirement of the new compact. She said the tribe will pay the county the same amount, but will get reimbursed \$2.6 million a year to help run its medical clinic, which serves the community at large.

“The county saw an opportunity to help them out,” said county Supervisor Ron Briggs. “They’re here, they’re our partner.” Red Hawk employs 1,350 workers.

Federal law says Indian casinos are mainly supposed to benefit their tribal owners. Yet Taylor said the casino has been generating far more income for the state than for tribal members.

The tribe has earned just \$6 million a year from Red Hawk – the bare minimum guaranteed under the management contract with Lakes. Fonseca, in an interview last year, said individual tribal members were getting just \$800 a month from the casino.

By contrast, Taylor said the tribe has been paying the state \$30 million a year.

The casino opened in December 2008, during the worst of the recession, and has never performed up to the tribe’s expectations. In 2010, its gambling revenue fell \$100 million short of projections, according to testimony in the Superior Court case.