

Tribe: Red Hawk Casino may close because of looming debt

By Dale Kasler, Sacramento Bee

The owners of Red Hawk Casino say they may have to close the 3-year-old gambling palace following a devastating \$30 million jury verdict.

With its financial pressures intensifying, the Shingle Springs Band of Miwok Indians warned in court papers of a “doomsday scenario” if the cash-poor tribe is forced to pay the December judgment. Under that scenario, the tribe said lenders would take steps to seize the casino’s cash, forcing Red Hawk out of business.

“Any efforts to presently execute on the judgment would likely have catastrophic consequences for the tribe and all who depend on the casino for their livelihood,” tribal attorney Sanford Kingsley wrote in a recent filing in El Dorado Superior Court.

The Shingle Springs casino employs 1,350 workers.

A jury in December awarded \$30 million to Sharp Image Gaming Inc., the tribe’s former business partner, over a breach-of-contract dispute. Sharp said the tribe reneged on an agreement for the company to supply slot machines.

Sharp Image lawyer Matthew Jacobs called the tribe’s shutdown warning nonsense. He said in court papers that the tribe’s creditors would do everything they could to keep the Highway 50 facility going.

For now, Sharp Image won’t collect on the judgment. A judge issued a tentative ruling this week preserving the status quo, the tribe said Friday. A final ruling on the issue is expected

in a couple of weeks.

Nevertheless, the tribe's warning provides fresh evidence of the dire financial circumstances that have enveloped the Shingle Springs band, which owes its casino creditors a combined \$598 million.

Because of its financial troubles, the tribe said it's having trouble pursuing an appeal of the December verdict. If the verdict stands, the tribe could default on its debts.

The tribe's warning also makes it increasingly likely that the casino's future will be the subject of a lengthy and convoluted legal battle, with bondholders and other creditors fighting the tribe and each other over assets.

This fight will surely be complicated by the doctrine of sovereign immunity, which generally protects tribes against legal claims and puts the Shingle Springs tribe's most important assets – including the casino – out of creditors' reach.

"You can't take their land, you can't take the building," said Nelson Rose, an Indian gambling law expert at Whittier College. "I guess you could take the slot machines."

Gregory Guedel, an Indian gambling lawyer in Seattle who is not connected to the case, said bondholders and other creditors will probably have to negotiate a settlement with the tribe to stretch out debt payments while keeping the casino open.

That's what happened at tribal-owned Foxwoods Casino in Connecticut – the world's largest – which defaulted on \$2 billion in debts two years ago.

Aside from the hurdles presented by the tribe's sovereign status, it simply makes more sense for creditors to work out a deal with the tribe.

“It’s still better to have a trickle of money coming in” than to have the casino fold, Guedel said.

As it is, the tribe has temporarily halted principal payments on a \$66 million startup loan from Red Hawk’s outside management firm, Lakes Entertainment Inc., because of the casino’s weak cash flow.

Red Hawk pays millions of dollars each year to the state and El Dorado County under a compact that the Shingle Springs band signed with former Gov. Arnold Schwarzenegger.

Read the whole story