

In Chukchansi turmoil, financiers have a bottom line: Will casino reopen?

By Marc Benjamin



The front facade of Chukchansi Gold Resort & Casino seen on Friday, Oct. 10, 2014 near Coarsegold, Calif.

ERIC PAUL ZAMORA — The Fresno Bee [Buy Photo](#)

Chukchansi Gold Resort & Casino's financiers have been meeting with the tribe's separate political factions in hopes of getting them to iron out an agreement that will generate enough peace and allow the Coarsegold facility to reopen.

Without casino revenues, the tribe will be unable to meet its financial obligations, thus raising the specter — for the second time in three years — of default. Investors who have put more than \$250 million into the hotel and casino are growing more nervous with each week the casino remains closed and the tribal infighting continues.

The longer the casino remains closed, the less likely that the development authority will pay its two annual payments on time. The next one is due at the end of March.

Three years ago, Chukchansi Economic Development Authority was in danger of defaulting on bonds that paid for Chukchansi Gold Resort & Casino.

It was about the same time that tribal leaders were facing factional splits — the same problems that led to the closure of the Coarsegold facility last month. But despite the infighting at the time, tribal officials were able to rescue the financial notes in a complex restructuring deal that took months. But the restructuring put the casino and hotel at a

financing rate of 9.75% because of previous financial issues that were in large measure due to the recession.

Under the 2012 deal, bondholders with about \$303.1 million of debt agreed to the new payment plan. The tribe paid off nearly \$40 million in notes with \$30 million in cash. The tribe then exchanged \$270 million in old notes for \$250.4 million in new financing, Standard & Poor's reported at the time.

Reggie Lewis, who represents the Lewis/Ayala tribal council that was managing the casino when the Tex McDonald group's security forces took over the gaming office, said the tribe's bondholders are increasingly concerned about the closure.

"Nobody cares what's going on as long as they got their money, but they are concerned now, they realize until we get this all settled they will not be having their payments and their interest paid back," he said.

The tribe's payments to vendors and bondholders are monitored by a New York state judge, who is ensuring the bondholders' investment is secure.

Lewis said time is money in this case; the bondholders may have to eventually weigh the risks of demanding a permanent closure and claiming pieces of the hotel and casino, such as slot machines, which would provide only "pennies on the dollar" for their investment.

TIMELINE: Creation, controversy, closure of Chukchansi Gold

The hotel and casino bring in about \$100 million annually, its payroll taking up about \$32 million for its nearly 1,100 employees and bond payments of about \$24 million annually. The remainder pays operating costs and trickles down to the tribe in monthly stipends, utility payments, housing allowances and other tribal programs, all of which equal about \$1 million per month under normal conditions.

So, do the financiers have options other than waiting? Probably not, said Jeff Heiman, managing director for Tribal Financial Advisors in Southern California.

"Existing bondholders have nowhere to go but to wait for the eventual reopening of the casino, wait for a return to profitability," Heiman said. "The tribe's reputation will gradually improve with continued stability ... along with payment of interest and repayment of debt."

But the financiers "won't just walk away," he said. "The security they have claim to (slot machines and other equipment) is only a fraction of the value of their bonds, and to try to remove anything is simply cutting off the nose to spite the face. Rather, current bondholders will likely work with the tribe until internal issues are resolved and the casino reopens."

He said the failure of Proposition 48, which rejected the gaming compact that the North Fork Mono Rancheria Indians made with the state of California, will buy additional time for the Chukchansi and their financiers. One financier, Brigade Capital Management, gave \$3.67 million to groups opposing the compact.

Alex Bumazhny, director of gaming, lodging and leisure for Fitch Ratings in Chicago, said his firm has worked with other casinos in the Valley. He views Fresno as a "pretty competitive" market that in recent years was in a dismal situation because of the recession. Today, he said, the market is improving.

"There are special risks in Native American finance because the political issues can spill over into casino operations," he said.

Bumazhny said he is observing from the sidelines.

"We have interest in Chukchansi because they are an interesting case study," he said. "It shows how political situations can go awry and cause disruption to cash flow."

Chukchansi's previous financial issues were troubling even before the internal strife began at the end of 2011. "Restructuring puts you in a penalty box," Bumazhny said, referring to the 9.75% interest rate the tribe is paying.

"No question, the first priority is to get the casino open," he said. "They need to reopen and ensure that the cash waterfall goes to pay interest and principal payments."

The tribal issues already were spotted by Moody's Investors Service, which in January withdrew its rating for the Chukchansi Economic Development Authority because of insufficient or inadequate information.

The rating agency said because Chukchansi was unable to file audited financial statements for 2012 and because of the ongoing tribal dispute, it would no longer rate it.

It was those late audits for 2012 and 2013 that caused the National Indian Gaming Commission to issue a temporary closure order on Oct. 7, which prompted the McDonald faction's armed police to force their way into a casino gaming office to recover financial records related to the audits two days later.

That incident made the NIGC and state Attorney General's Office close the casino on Oct. 10 because of patron and employees' safety. It has remained closed since.

Contact Marc Benjamin: mbenjamin@fresnobee.com, (559) 441-6166 or [@beebebenjamin](https://twitter.com/beebebenjamin) on Twitter.

Copyright

© 2014 www.fresnobee.com and wire service sources. All Rights Reserved. <http://www.fresnobee.com>