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SPECIAL REPORT: ONE HERITAGE, TWO WORLDS
FOURTH OF FIVE PARTS

Is casino a cash cow for the favored few

By JERRY ZREMSKI,
MICHAEL BEEBE and DAN HERBECK
News Staff Reporters
5/19/2004

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ROBERT KIRKHAM/Buffalo News
G. Michael "Mickey" Brown has more than a million reasons to smile at the new Seneca Niagara Casino.



ROBERT KIRKHAM/Buffalo News
Electrician Kelly Nephew, owner of an electrical supply company, says Seneca contractors have had a hard time getting work at the new Seneca casinos. His wife, Shawn, is at right.

If you lost some quarters in the slot machines at the Seneca Niagara Casino, more of your money went to the Malaysian billionaire who financed the project than to the people on the Seneca reservations.

If you bought drinks, played cards or shot craps amid the flashing lights and manic bells and blips sounding on the gambling floor, the odds are less than one in 20 that the worker you dealt with was a Seneca.

But if you managed to meet the guy who runs the tribe's casinos - who's not a Seneca - you met a millionaire.

Those facts explain why some rank-and-file Senecas remain skeptical over what, on the face of it, looks like a spectacularly successful start to the tribe's gambling ventures.

The Seneca Gaming Corp. earned \$92.76 million as of March 31, which is nothing compared with the billions the tribe expects in the future from casinos in Niagara Falls, Salamanca and Cheektowaga.

Yet financial documents show that only about \$13 million of that profit went to the tribe's general fund. The Malaysian investor who loaned the tribe \$80 million to build the casino - at about 30 percent interest - earned roughly \$20 million.

Why did the tribe earn comparatively little?

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The Seneca Niagara Casino Limited: 20 years

Year 1: 1999-2000

Year	Revenue	Profit	Assets
Year 1	\$4.2	\$0.1	\$0.1
Year 2	\$5.5	\$0.2	\$0.2
Year 3	\$7.0	\$0.3	\$0.3
Year 4	\$8.5	\$0.4	\$0.4
Year 5	\$10.0	\$0.5	\$0.5
Year 6	\$11.5	\$0.6	\$0.6
Year 7	\$13.0	\$0.7	\$0.7
Year 8	\$14.5	\$0.8	\$0.8
Year 9	\$16.0	\$0.9	\$0.9
Year 10	\$17.5	\$1.0	\$1.0
Year 11	\$19.0	\$1.1	\$1.1
Year 12	\$20.5	\$1.2	\$1.2
Year 13	\$22.0	\$1.3	\$1.3
Year 14	\$23.5	\$1.4	\$1.4
Year 15	\$25.0	\$1.5	\$1.5
Year 16	\$26.5	\$1.6	\$1.6
Year 17	\$28.0	\$1.7	\$1.7
Year 18	\$29.5	\$1.8	\$1.8
Year 19	\$31.0	\$1.9	\$1.9
Year 20	\$32.5	\$2.0	\$2.0

Year 21: 2001-2002

Year 22: 2003-2004

Year 23: 2005-2006

Year 24: 2007-2008

Year 25: 2009-2010

Year 26: 2011-2012

Year 27: 2013-2014

Year 28: 2015-2016

Year 29: 2017-2018

Year 30: 2019-2020

Because it agreed to delay its own riches as part of a high-stakes gamble: a rush to beat the growing competition and dominate casino gambling in Western New York as fast as possible, and forever.

"You can't just spend the money as fast as it comes in," explained Cyrus M. Schindler Jr., chairman of the Seneca Gaming Corp.,

which the tribal council set up to run the tribe's casinos. "Right now, we're reinvesting a lot of our money (in the Salamanca project) with the idea of making a lot more for our nation in the future."

That's not a good answer to tribe members who fear that, so far, gambling looks like the Seneca gasoline and cigarette businesses that preceded it: a cash cow for the favored few.

"I don't see any of the money coming back to the common Indian," said Kelly Nephew, a Seneca electrician who worked on the Niagara casino.

The big goal

The common Indian will have to wait, for one reason.

The Seneca leadership has a big goal, spelled out in the recent bond offering that raises funds to expand its casinos: to become "the premier gaming operator in the region, including New York, Pennsylvania and Ohio."

To get there fast, the Senecas teamed with two old friends: G. Michael "Mickey" Brown and Lim Kok Thay.

Brown is a legend in the casino business, the mastermind behind Connecticut's Mashantucket Pequot Foxwoods Casino, the world's largest.

And Thay, son of the founder of an exotic mountaintop casino resort in Malaysia, came to Brown's aid a decade ago when no one else would finance Foxwoods.

Just like at Foxwoods, Lim put together an unusual high-interest loan to open the Seneca Niagara Casino in a rush in late 2002.

To Brown, president of the Seneca Gaming Corp., there was a reason for the rush.

"A lot of it came down to: Once you're open, nobody's going to close you down," Brown said.

But that meant getting a construction loan before the tribe owned the casino site, before it won all the necessary government approvals and before a state court ruled on whether the tribe could open a Las Vegas-style casino off reservation in a state whose constitution bans gambling.

Given those factors, Lim demanded an extraordinarily high interest rate that starts at about 30 percent and can go higher. The \$80 million loan will earn Lim's company \$96 million in interest, financial documents show.

To some experts, the Lim loan is an abomination.

"I've been doing finance for a long time, and this is the worst deal I've ever seen," said John Tarras, who teaches a casino finance course at Michigan State University.

But Seneca Nation President Rickey L. Armstrong Sr. said: "It was the only option we had."

In the end, tribal officials said, the Lim loan served its purpose. The tribe got all the approvals

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it needed, and the Seneca Niagara Casino opened Dec. 31, 2002.

Brown said that without the loan, the casino would have opened months later - thereby losing tens of millions in profits, exceeding the interest on the Lim loan.

Bond investors don't seem concerned about the Lim loan, either. Earlier this month, the Seneca Gaming Corp. sold \$300 million in bonds at a 7.25 percent interest rate - and Brown said the demand was there to sell \$1.4 billion. The money will be used to expand its Niagara Falls casino into a resort, replete with two hotels.

There's one drawback to the tribe's casino strategy: nearly \$400 million in debt. All that borrowing will "require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness," the bond offering states.

So while the loans and the bonds are being paid off, most of the tribe's casino riches won't go to the Seneca people. That makes some Senecas wonder if Brown and Lim had the tribe's best interests at heart.

"We are what I call bait fish," said Tyler Heron, a former tribal councillor. "And the predator fish are out there."

No shared profits

Heron also finds it odd that the tribe took \$25 million out of its recent bond offering for a mortgage program and other tribal programs, rather than using casino profits.

"The state got its \$39 million from the casino," Heron said of the state agreement with the tribe.

"But we have to borrow our \$25 million?" he asked.

Armstrong said the tribe took that money from the bond proceeds to address immediate needs, knowing that much of the cash flow from the casinos would be devoted to improving them.

In other words, casino profits aren't being divided among the tribe's 7,300 members.

And that irks Senecas like Jimmy Jones, a retired construction worker in New Town, on the Cattaraugus Reservation.

"I'm 57. By the time we start seeing some real benefits from the casinos, I probably won't be here," Jones said. "They should distribute more money directly to the Seneca people. We could use it."

Meanwhile, tribal councillors find themselves under pressure over the casino.

"Our members are yelling at us," said Michael John, a tribal councillor, who has led a fight for more accountability from casino management.

The \$13 million in casino profit that went back to the tribe is only about \$1 million more than what the Seneca Nation's bingo hall on the Cattaraugus Reservation earned last year.

Most of the rest of the profits went to expand the tribe's casinos and to a set-aside account that will pay off Lim at the end of his five-year loan.

To Armstrong, that's sound business management.

"There is not a smart business owner alive that takes all the profits from their business at the time of start-up and runs out and splurges on a foolish purchase," he said in a letter to the tribe. "That is what dividing up the casino profits (among Senecas) would be similar to at this

point."

No casino contracts

That argument doesn't placate Senecas who say they have been left out of the casino venture in other ways.

Native American contractors are supposed to get a preference when they bid for casino work. But when The News surveyed 21 subcontractors who helped build the Niagara Falls casino, none turned out to be owned by Native Americans.

"They were never given a shot at anything, basically," said Kelly Nephew's wife, Shawn, who runs Nephew Electric and Wholesale from her home on the Cattaraugus Reservation.

Seneca supply companies have had trouble getting casino business, too. Nephew's company won a bid in Niagara Falls but struggled before winning a contract to sell electrical supplies at the Salamanca casino.

"We never had the opportunity to bid until we complained," Nephew said.

The casinos haven't hired hordes of Seneca workers, either. Brown said about 100 Senecas work at the Niagara casino, which employs 2,145. The new Seneca Allegany Casino in Salamanca employs about 200 Senecas. That's about 22 percent of its work force.

"I guess a lot of people have other things to do," Brown said.

Only time will tell if the Salamanca workers are any happier than the employees at the Niagara casino.

Casino employees said that low pay - jobs start at less than \$5 an hour plus tips - and stressful conditions led to a high turnover rate.

And in a note to The News, one worker complained about the amount of money Mickey Brown is making.

Power is the issue

Brown got a \$574,615 salary last year, along with a \$650,000 bonus, the Seneca bond offering shows. And his base salary is scheduled to increase to \$1.2 million by 2007, with a \$400,000 bonus also possible that year.

Yet it's not Brown's pay that concerns a handful of Seneca leaders. It's his power.

Brown handles the casinos' day-to-day operations as head of the Seneca Gaming Corp. That corporation's board, and the boards of the subsidiary corporations that oversee each of the three casinos, make major policy decisions. That leaves only the biggest decisions and oversight to the tribal council.

"All the decisions are based on business judgment," Brown said. "You remove politics from the operation of the business."

That's a different set-up than at Foxwoods, where the tribal council ran the casino. There, Brown got fired after five years when a rival faction took control of the tribe.

In Western New York, Brown faces criticism from the likes of Ross L. John Sr., an influential Seneca business leader.

"I don't know what to say about Mickey Brown," John said. "I can't tell you what kind of job he is doing. There's not much of a system of checks and balances."

Resentments started flaring in January, after Armstrong wired New York's \$39 million share of Niagara casino proceeds to Albany despite a Seneca court order halting the payment. The Seneca court later fined Brown for contempt for his role in forwarding the payment.

Brown said the nation had no choice but to make the payment, given that it's mandated in the compact that it agreed to with the state.

In addition, some Senecas have charged that Brown is involved in MAC Gaming, a consulting firm run by Charles Klewin, the casino contractor who built the Niagara Falls and Salamanca casinos, and Al Luciani, development director of the Seneca Niagara Casino.

Brown said his New Jersey law firm does work for MAC, which solicits casino development business nationwide, but that he's not personally involved.

That's not a good enough explanation for people like Michael John, who has heard that MAC stands for "Mickey, Al and Charlie."

"It's a big conflict of interest," said John, the tribal councillor.

Despite those issues, most Seneca leaders interviewed for this story praised Brown, saying he made the Niagara casino far more profitable than they imagined.

"Mickey Brown has done an excellent job," said Schindler, chairman of the Seneca Gaming Corp., which recently extended Brown's contract.

Other sources who have known Brown for more than 10 years - including opponents of the Foxwoods casino - called him a straight shooter who couldn't be better to do business with.

But Michael John has doubts about how the casinos are run, and he has acted on them. In the past few months, the tribal councillor has won approval for several resolutions aimed at improving the casino's accountability to the council.

Marilyn Bennett, a Seneca from the Cattaraugus Reservation, has doubts, too.

"If they can afford to pay Mickey Brown a \$650,000 bonus, why can't they give more to individual Senecas?" Bennett asked. "Apparently, they don't trust us to handle the money wisely."

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report.

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