

Greektown Casino financing questioned

State gaming board says infusion of \$100M will not meet debt-to-earnings ratio.

Nathan Hurst / The Detroit News

DETROIT -- Just days after announcing a \$100 million cash infusion from a new Metro Detroit investment group, Greektown Casino was told it has until June 10 to come up with a convincing argument why the Michigan Gaming Control Board should not force casino owners to sell the gaming hall.

The board's demands could threaten the deal announced last week by Entertainment Interests Group to invest some much-needed cash into Greektown, which has taken on at least \$500 million in debt to build its permanent casino and hotel resort complex at Lafayette and Beaubien and is months behind its competitors in opening its new facility.

The investment group has agreed to buy a 40 percent stake in the casino for \$79 million, and invest another \$21 million to pay off former minority investors. Sault Tribe of Chippewa would have a 60 percent stake.

At the monthly meeting of the board Tuesday, Greektown officials requested that the board waive enforcement of requirements that the casino maintain a certain debt-to-earnings ratio. The casino hasn't met the requirement since the end of 2007, according to Charles Jaskolski, a consulting accountant for the board. That failure allows the gaming board to force the casino's sale.

The board denied the waiver request, with Chairman Damian Kassab suggesting that Greektown revisit its deal with Entertainment Interests Group. He noted the \$100 million stake would satisfy the debt-to-earnings requirements only through part of 2008.

Richard Zussman, a lawyer for Entertainment Interests Group, told the board that a denial of the waiver could jeopardize EIG's investment in Greektown. The group is headed by Jerry D. Campbell, former chairman of Republic Bancorp and developer of Pinnacle Race Course in Huron Township, which is expected to open July 18.

"We are hesitant to continue spending time and money to close this deal," Zussman said. "We'd have to think seriously about moving forward."

Lagging behind competition

The infusion of equity is viewed as essential to reviving Greektown at a time when it's fallen behind the progress of Detroit's other two gambling halls. MGM Grand Detroit opened its permanent facility in October and MotorCity is putting the final touches on its permanent building. Greektown was the only casino to post a year-over-year decline in revenue for April.

Greektown's troubles also come at a time when the nation's casinos are suffering under a sagging economy that has consumers pulling back on discretionary spending. William Thompson, a gaming expert and professor at the University of Nevada-Las Vegas, said the industry is experiencing a 5 percent decline this year over last, and said Greektown's troubles have been exacerbated by being last to the Detroit market with new facilities.

The gaming board requires Greektown to maintain a debt-to-earnings ratio of 6.25 to 1 - meaning that for every \$6.25 in debt the casino must show \$1 in earnings. The agreement was a condition set forth by the board when it approved Greektown's taking on at least \$500 million in debt to finance its permanent facilities. The casino had until April 30 to meet the requirement.

The other Detroit casinos aren't subject to such restrictions; something analysts said puts Greektown at a competitive disadvantage.

Jaskolski, the gaming board's accounting consultant, said even with the \$100 million investment by EIG, Greektown would still be \$43 million short of meeting the required ratio in the second half of this year, and would face smaller shortfalls in 2009 and 2010.

After the board meeting, Sault Tribe Chairman Aaron [Payment](#) said Entertainment Interests Group's investment would give Greektown the financial leverage it needs to refinance its debt and comply with the state's requirements for the long-term. He also said Zussman's comments to the board caught him off guard and shouldn't be taken as an indication that Campbell and his partners intend to pull their offer from the table.

"I am very confident that this deal will move forward," Payment said.

Is casino undervalued?

A handful of Sault Tribe members told the board they were upset by the recent proposed transaction with Campbell, one they say undervalues the casino. They pointed to an earlier offer made to the tribe to sell the casino outright for \$1 billion made by a group of investors based in Clinton Township.

Diana Knowles told the gaming board that the tribe's membership has been unfairly saddled with the burden of carrying Greektown's debt at a time when services on the Upper Peninsula reservation have been cut due to declining revenues.

"We're being asked to bet on the future of Greektown, which seems increasingly uncertain," Knowles said. "Many of us would've rather taken a sure out instead."

You can reach Nathan Hurst at (313) 222-2293 or nhurst@detnews.com.