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Report paints riches-to-rags peril for tribe

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Spivak & Bice

In gambling, the house never loses - unless the house happens to be owned by the **Ho-Chunk Nation**, operators of one of the most profitable Indian casinos in the country.



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Despite estimated annual casino profits of more than \$100 million and cash flow of nearly \$200 million, the tribe is heading toward bankruptcy unless it makes dramatic changes, warns a confidential financial review by the accounting firm of **Virchow, Krause & Co.**

"The consequence of not making immediate and sweeping system changes is certain financial ruin," the 20-page report states. "The Nation has worked too hard and has too much of its culture and people's future at stake to allow this to happen."

The 6,600-member tribe, which owns a popular casino near Wisconsin Dells, two smaller casinos and a large Madison bingo hall, got into this mess because of sloppy bookkeeping and by spending more than it brought in. Just last year, the Ho-Chunk, whose administrative offices are in Black River Falls, dropped more than \$20 million on Chicagoland property in a long-shot bid to build a casino and paid out about \$83 million in 2004 in per-capita payments to tribal members.

Tribal President **George Lewis** said he hired Virchow Krause last year after he realized the financial problems that were threatening the Ho-Chunk's enormous success.

"The Nation would like to announce that the areas deemed problematic have been and continue to be assessed in regards to sustainability and determining which recommendations are the most feasible," Lewis said in a written statement released late Friday. "Some changes have been made, some are under way, and others will be addressed later."

Just how bad is it?

Already, the tribe has taken on its biggest political sacred cow - the per-capitas.

In April, the payments were slashed by nearly one-third, reducing the quarterly checks from \$3,250 to about \$2,300. Talk on the reservation suggests more cuts might be coming.

"Per-caps are the third rail of tribal politics," said one Indian country insider.

Like many other tribes, the Ho-Chunk Indians were an impoverished lot back in the early '90s. The idea of each member pocketing \$13,000 from the government couldn't have been imagined.

But legalized gambling changed all that. The tribe was especially lucky that it could place a casino near the Dells, the state's hottest tourist spot.

In 2003, Gov. **Jim Doyle** sought to tap that pot of gold by agreeing to let the Ho-Chunk expand its menu of casino games in exchange for increasing its payment to the state from \$8 million a year to \$30 million.

But the state Supreme Court nixed that compact, and the Ho-Chunk refused to make its payment last year and has said it won't do so in June unless a new deal is signed.

Despite the Ho-Chunk's money problems, the tribe won't have problems making those payments when a deal is struck because it has put \$60 million in an escrow account separate from the tribe's other funds, according to tribal and state officials.

Still, the tribe's financial picture is bleak.

Virchow Krause found that without taking steps to generate revenue or to cut expenses - or both - one of the state's richest tribes may very well be headed to the poor house.

"If there are no other reductions in expenses or significant increases in revenues, the per-capita payment to Nation members will have to be reduced substantially in order for the Nation to have a balanced budget," the report says. "The alternative could be bankruptcy of the Nation."

The financial review was given to a small circle of tribal officials on Oct. 8 and has been discussed behind closed doors. A tribal spokeswoman acknowledged that the document that we obtained was the final version of the report from the Milwaukee accounting firm.

The consultants blamed some of the financial woes on the frequent recalls of Ho-Chunk leaders. Throw in some deficit spending, poor budget planning and a negative cash flow, and you're headed for a mess of trouble.

"Historically, the Nation's budget has not included all revenues and expenditures, which has resulted in dramatically underestimating certain annual costs," the report says.

The tribe, for instance, blew its call on health care, one of the most important services provided by any government, underestimating costs by about \$13 million last year. That would be about 10% of its overall budget.

What's more, the Ho-Chunk's cash flow - the difference between the dollars brought in and the dollars paid out - went from \$23.8 million in the black in 2001 to \$104 million in the red three years later, according to preliminary numbers cited by the accountants.

The effect: The Ho-Chunk last year squandered almost everything in its reserve fund, which had as much as \$60 million in it a mere two years ago.

Here's the report's bottom line - and it ain't good:

"We have reviewed the financial trends and operations of significant aspects of the Nation and have discovered alarming trends that if continued may lead the Nation to the brink of a financial crisis as a result of deficit spending."

Sounds like a true house of cards.

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