

Regulators trail Yung's casinos

Northern Kentucky hotelier William Yung III may be gambling on Gov. Steve Beshear and Covington to save his crumbling casino empire.

Yung's Crestview Hills-based Columbia Sussex owns 83 hotels and about a dozen casinos in five states and the Cayman Islands.

He wants to add another casino to the list, in Covington, where three weeks ago he purchased several parcels of prime real estate for USD 7 million.

All he needs is a license. And for casino gambling to be legalized in Kentucky this fall.

This week, Beshear is to unveil his plan to expand gambling at racetracks and a select few cities.

Yung, 66, declined repeated requests to be interviewed for this article or to comment on it.

Since the '70s, Yung has amassed a USD 5 billion chain of hotels, mostly Marriotts, with 2007 revenue of USD 970 million and more than 15,000 employees. According to the company's Web site, it has 32,791 rooms.

His only interest, Yung has said, is „making money.“

Previously a Republican supporter, Yung last fall poured USD 1,038,500 into Democratic political funds that helped get Beshear elected. Then he gave USD 10,000 to Beshear's inauguration fund.

By that time, three states were investigating complaints about massive layoffs, extreme cost-cutting, and in some cases bad

conditions at his casinos.

The day after Beshear was inaugurated in Frankfort, New Jersey stripped Yung of his license to operate the Tropicana Casinos and Resorts in Atlantic City, fined him USD 750,000 and issued a scathing report denouncing his credibility and his business acumen.

„In a word, Tropicana’s regulatory performance since the ... acquisition has been abysmal,“ said commission chairwoman Linda M. Kassekert. The commission said it did not believe Yung could operate the Tropicana as a first-class facility.

Now forced to sell that casino at a loss, Yung staved off bankruptcy only to be sued for USD 960 million last month by some of his lenders. They want to keep him from selling other casinos to pay off the huge debt incurred in buying the Tropicanas and the rest of the Aztar chain a year earlier.

But it may not matter much because New Jersey’s revocation could trigger similar actions in other states.

Yung immediately announced plans to sell Casino Aztar in Evansville, Ind., much to the city’s delight.

Mayor Jonathan Weinzapfel, who had requested an Indiana Gaming Commission investigation in March, called the announcement „great news for Evansville.“

Downturn in Indiana

Since Yung’s purchase of the riverboat, 20 percent of the work force has been laid off, revenues have fallen drastically, and payments to the city have dried up.

Indiana regulators, who had expanded their investigation beyond hiring practices, said they might drop the probe without filing a report.

„We’re not sure if it’s a good use of our resources to

continue investigating a company that could be out from under our jurisdiction," gaming commission spokeswoman Jenny Arnold said.

Regulators might be hoping the Indiana legislature will act before they are forced to take action. The state does not have provisions to set up a trustee to run the boat if Columbia Sussex is kicked out before another operator comes on board.

In Las Vegas, the Nevada Gaming Control Board revealed on Jan. 31 that it has been investigating the Tropicana there for months, even sending agents in undercover.

Tropicana employees are working without a contract because negotiations with Columbia Sussex have broken down. Their union, Unite Here, which is the same union Yung has blamed for problems in New Jersey, allegedly sent the Nevada board in December a report and video purportedly showing prostitution at the Tropicana.

When Columbia Sussex won the Tropicanas and the rest of Aztar for USD 2.8 billion in a 2006 bidding war, Yung announced a USD 2 billion renovation of the 50-year-old Strip property, with plans to add a 10,000-room hotel. And plans to cut cleaning staff.

The rebuilding is on hold for lack of financing, but the job cuts have taken place.

Trouble in Atlantic City

Financing and job cuts were part of the problem in Atlantic City.

New Jersey investigators discovered that even before Yung closed on the Aztar properties he took his executives on a „road show,“ telling potential investors that he planned to cut payroll by USD 30 million to USD 40 million.

He neglected to tell New Jersey officials. But one of his

executives, whom Yung later fired, did. The cuts and serious issues concerning the Tropicana's auditing process figured heavily in New Jersey's finding.

The commission denied the license because of „a lack of business ability, a lack of financial responsibility and a lack of good character, honesty and integrity.“

Among other problems, Yung's „massive layoffs“ of hundreds of employees resulted in „a cleanliness crisis“ in March. Patrons reported cockroaches, bedbugs and filthy rooms. Yung and Tropicana's executives blamed the union, saying it sabotaged the place.

But the New Jersey commission said that wasn't credible. Neither were the company's assertions that the „precipitous decline“ in casino revenue was because of new competition in Pennsylvania. The Tropicana's monthly numbers „consistently have trailed those of its competitors“ in Atlantic City, regulators said.

They attributed Columbia Sussex's problems to the size and complexity of the Atlantic City market, which is second only to Las Vegas'.

But the company has had trouble in small-scale markets as well.

In 2005, Yung attempted to buy a St. Louis casino out of bankruptcy. After Missouri's background check, he abruptly withdrew.

„There were things turned up in the (Missouri) investigation that did not comport with law-abiding behavior,“ gaming commission director Gene McNary told the Kansas City Star in December. „We gave them a chance to withdraw, and they did.“

When Yung bought Aztar in 2006, it came with a riverboat in Caruthersville, Mo. Regulators seized the boat before Columbia

Sussex could take possession and forced it to sell out.

First casino in 2005

Columbia Sussex first got into casinos with a riverboat in New Orleans in the summer of 2005. Yung promptly laid off 105 employees.

Then came Hurricane Katrina. The boat was severely damaged and had to be towed away for repairs. Columbia Sussex defaulted on USD 1.3 million in leases it was contracted to pay to the Orleans Levee Board whether the casino was operating or not. Last summer Columbia Sussex moved the boat to Amelia, La., and reopened under a new name.

Yung also owns a riverboat in Baton Rouge, bought in October 2005. Louisiana regulators expressed concerns about the previous layoffs in New Orleans but approved the purchase by a 5-3 vote. By June 2006, payroll had been cut from more than 1,000 jobs to 800, the minimum required by the state.

Last year, Yung announced a USD 60 million renovation and expansion. Those plans have been put on hold after another company moved to open a new, third casino in Baton Rouge, which would severely affect Columbia Sussex revenues.

Sale of Yung's Vicksburg, Miss., riverboat to help pay off the company's debt is under way. Regulators are in the process of approving the buyer, said Larry Gregory, executive director of the Mississippi Gaming Commission.

Gregory said that since New Jersey's action, Mississippi, too, is taking a look at the company, which has two small properties in Greenville.

Mississippi has never had any problems with Columbia Sussex, Gregory said, but what happened in New Jersey „is very serious. There is concern.“

Covington officials wary

As for Kentucky, although Yung has made his plan clear, Covington city officials aren't necessarily on board.

Covington Mayor Butch Callery said last week that Yung is „making a huge bet“ in buying the 5.5-acre site at 12th Street and Interstate 71/75. Yung is likely to get permission soon to raze most of the complex, once a brewery and more recently a Jillian's franchise.

But Callery said Covington and five adjacent river communities have long had a „gentlemen's agreement“ to develop any casino together, if they had the chance.

And they were thinking more along the lines of something on the riverfront, to entice across from Cincinnati all those Ohioans who don't yet have casino gambling in their state.

„The city would have to be the party selecting the site,“ Callery said.