



OFFICE OF THE GOVERNOR

March 3, 2006

Mr. John Peebles, Esq.
Monteau & Peebles LLP
1001 Second Street
Sacramento, CA 95814

Re: Alturas Rancheria: Shasta Mountain Casino

Dear Mr. Peebles:

As you know, on December 19, 2005, I wrote to Alturas Rancheria Chairman Phillip Del Rosa requesting the commencement of a "meet and confer" process under the dispute resolution provisions of the Tribe's class III gaming compact with the State ("Compact"). This letter also served as notice of the Tribe's 60-day right to cure its breach of the Compact, caused by the Tribe's construction of a class III gaming facility on non-Indian lands located near Yreka, California and prior to the preparation of the environmental documentation and analysis required under the Compact. This 60-day cure period expired on February 17, 2006. We understand that construction activities on the site have halted as a result of discussions with the Bureau of Indian Affairs and the Office of the United States Attorney concerning matters unrelated to the Tribe's obligations under the Compact.

By letter dated January 9, 2006, you informed the State that the Tribe "intends to proceed with the development of a Class II Gaming Facility on the Benter Allotment," "at this time." Because the Indian Gaming Regulatory Act of 1988 ("IGRA") limits the State's ability to regulate by compact a Tribe's class II gaming operations, and because this commitment to class II gaming is of limited duration, this response appears calculated to forestall the State's efforts to resolve the Indian lands dispute until after construction of the gaming facility is complete.

The Tribe's conduct over the past year gives the State reason to believe that the Tribe intends to operate the Shasta Mountain Casino as a class III facility. Beginning in February 2005, and for the next ten months, the Tribe repeatedly assured the State that construction activities on the Benter Allotment were related to a planned pharmaceutical compounding plant

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and tribal offices, and did not include construction of the Shasta Mountain Casino Gaming Facility. On December 8, 2005, the Tribe conceded for the first time that what it had repeatedly told the State over the preceding months was false. Specifically, the Tribe informed the State that the construction activities on the Benter Allotment had included the preparation of the casino's foundation and that the casino and pharmaceutical compounding plant would be co-located within the same structure. Moreover, your representation that the Tribe now intends to operate the Shasta Mountain Casino as a class II facility is at odds with the Tribe's actions over the past year, and with the fact the Tribe retains class III gaming device licenses that are presently unused at the Tribe's existing gaming facility and were presumably acquired for use in the Shasta Mountain Casino. Based on the Tribe's plans to operate a class II facility, it appears that these unused licenses are no longer needed and that the Tribe can voluntarily relinquish them to the California Gambling Control Commission so that they may be returned to the pool of licenses available to other tribes. If the Tribe does not wish to relinquish the licenses, those licenses that are not in commercial operation within twelve months of their issuance shall be canceled once those twelve months have expired. We understand that a number of the Tribe's licenses may be subject to immediate cancellation.

Please be advised that should the Tribe commence class III gaming on the Benter Allotment, without secretarial and gubernatorial approval pursuant to Section 20 of IGRA, the State will immediately take all necessary steps to terminate the Tribe's Compact for material breach. In addition, it remains our view that while the operation of a class II facility on the Benter Allotment would not directly implicate the Tribe's obligations under the Compact, it would nevertheless violate IGRA and the state's gambling laws.

Sincerely,



ANDREA LYNN HOCH
Legal Affairs Secretary

cc: Edmund Brennan, Assistant U.S. Attorney
Daniel Shillito, Regional Solicitor, U.S. Department of the Interior
John Hay, Staff Attorney, National Indian Gaming Commission
Frank DeMarco, Siskiyou County Counsel