

## THE 2006 COMPACTS ARE BAD NEWS FOR NEIGHBORING TRIBES

The 2006 ratified compacts for slot expansions at the Agua Caliente, Morongo, Pechanga, and Sycuan casinos means reduced patronage for neighboring tribes without amended compacts. The compacts would authorize an additional 17,000 new slot machines for a total of 25,000, a more than 300% increase.

- ❖ Increased competition leads to declines in traditional patronage.
  - Three Native American casinos opening in New York led to a 28% decline in New York patronage at the world's two largest destination resort casinos, Foxwoods and Mohegan Sun. Mohegan Sun and Foxwoods have responded to increased competition with \$1.4 billion expansions of their own.<sup>1</sup>
  - New slot machines in Pennsylvania and New York had an immediate impact on the well-established gambling center of Atlantic City. Atlantic City responded through planned improvements to its own casinos, but has still experienced a decline in slot revenues.<sup>2</sup>
- ❖ Additional slot machines will decrease the net win of neighboring tribes' machines as the market moves closer to saturation.
  - Four tribes will be able to put 17,000 slots in play, a 54.2% increase in the number of slots in operation in the surrounding Southern California market. We estimate that this increase will lead to a 17.5% decrease in net win per machine.
  - It is estimated that patrons in the Los Angeles, San Diego, Ventura, San Bernardino and Riverside Metropolitan Areas are already spending 0.6% of personal disposable income at Indian Casinos. This is above the national average of 0.5%. This indicates that the market is trending toward saturation even before the expansions due to the new compacts.
  - Planned installations of additional slots in 2008 – which are 65% of the new machines allowed by the compacts – will put regional disposable income spending at .65%. Throw in the additional slots available to San Manuel and the market will be at or near saturation unless a large percentage of gaming growth comes from out of state. Market saturation will result in even greater declines in the net win per machine in neighboring casinos.
- ❖ The construction of bigger resort destinations with more slot machines closer to population centers will necessarily reduce the draw of smaller casinos in the surrounding area.
  - In casinos, consumers “prefer larger to smaller, but to an even greater extent prefer closer to farther...the mantra for real estate is ‘location, location, location’ – for casinos, it is ‘location, location, and size.’”<sup>3</sup> Thus, the 2006 compacts will force neighboring tribes to pursue expansions in order to compete, at least in terms of size.

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<sup>1</sup> Barrow, Clyde W. *New England Casino Gaming Update, 2007*. Center for Policy Analysis. March 2007.

<sup>2</sup> Ibid.

<sup>3</sup> Cummings Associates. *Casinos' “Gravity” According to Reilly – Amended*. May 25, 2006.