

TRIBAL CASINOS

and their impacts on a California community

A focus on the Palm
Springs area in the
Coachella Valley and
the casino operations of
the Agua Caliente Band
of Cahuilla Indians

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*Prepared by the Research Department of the
Hotel Employees & Restaurant Employees International Union, AFL-CIO
for the Coachella Valley Coalition for Responsible Sovereignty*

This report has been prepared by the Research Department of the Hotel Employees and Restaurant Employees International Union, AFL-CIO for the Coachella Valley Coalition for Responsible Sovereignty.

The Coachella Valley Coalition for Responsible Sovereignty (CVCRS) is composed of local residents, business owners and community representatives who are deeply concerned about the future of their community. CVCRS supports Tribal Nation status, tribal sovereignty and tribal economic development. The future of California and its communities rests on the responsiveness of the State, local governments and Tribal Nations to each other's needs. CVCRS believes the impacts and costs of tribal casinos on local communities should be the responsibility of the gaming operations, not local governments and their residents.

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Summary

The research in this report identifies the impacts of tribal gaming and its potential growth on local communities with a focus on the Palm Springs area in the Coachella Valley and the gaming operations of the Agua Caliente Band of Cahuilla Indians.

The Coachella Valley, a community with a booming population of more than 330,000, is comprised of nine incorporated cities and seven unincorporated communities. The Agua Calientes are the only tribe in the state with two casinos. The tribe has proposed to build what may be the largest casino in the state, a \$400 million resort complex that would replace their existing tent casino in downtown Palm Springs.

Palm Springs lies within the Coachella Valley in east Riverside County and is a two-hour drive from both Los Angeles and San Diego. Nearly 16 million people live within 130 miles of Palm Springs.¹ The area is home to six tribal casinos, including the Agua Caliente operations. These casinos are among the most successful and sizable in the state. The Coachella Valley is considered one of the strongest Indian gaming markets in California given its proximity to significant population density and easy accessibility via Interstate 10.

The tribal casinos in the area have undergone dramatic growth, which will only accelerate if the current state-mandated cap on slot machines—2,000 per tribe—is lifted. The slot cap is open to renegotiation in March 2003. Investment analysts have predicted that the area could accommodate one to two Foxwoods-scale casinos. Foxwoods is the Ledyard, Connecticut Indian casino that is billed as the world's largest casino.

California itself has become the largest tribal gaming market in the country, and is the second largest gaming market overall after Nevada. Industry experts expect California's gaming industry to surpass Nevada's within 10 years.

As the tribal gaming industry continues to expand it will increasingly impact and reshape the Palm Springs area in both positive and negative ways. Tribal casinos are providing unprecedented financial security to numerous Indian communities throughout the state. The casinos are creating thousands of jobs. In many areas, these casinos are both the largest and fastest growing employers and in some cases, are providing both good wages and affordable family health care for employees. The number of jobs in Indian casinos expanded 12.1% in California last year, while statewide employment grew by only 0.7%.²

However, tribal casinos do not transfer funds to state and local government agencies like other businesses and local governments have no legal way to compel these enterprises to pay for the public infrastructure, goods and services that they may utilize. Tribal casinos are not subject to state and local taxes, yet they have impacts on state and local public services. Possibly one of the largest negative impacts on state and local government is that many of the casinos provide relatively low wage jobs and employer-provided, affordable family health care is out of reach for a large number of the casino employees. This impacts state and federal financed programs that provide healthcare for

the working poor and their families. In some areas around the state, tribes are signing revenue sharing agreements with local governments to offset impact costs and adopting procedures providing a fair process for casino employees to decide whether or not to unionize.

Tribal Nation status must be respected and preserved. Developing a just method to ensure that adequate financial resources get to the places impacted by the arrival of high-intensity developments will enable tribal casinos to continue to fairly benefit both tribal governments and the communities in which the casinos are situated.

With a particular focus on the Palm Springs area, this report examines the following:

- The growth of California's tribal gaming industry;
- How other gaming jurisdictions attend to the impact costs of casinos;
- What is a fair-share contribution to the local community;
- What gaming tribes contribute in California;
- Model tribal and local government agreements; and
- The impacts of tribal casinos in terms of traffic, crime, public safety spending, education, poverty, healthcare, and housing.

Report Highlights

Size and Potential Growth of the California Tribal Gaming Industry

- California has become the largest tribal gaming market in the country, and is the second largest gaming market overall after Nevada. Industry experts expect California to surpass Nevada within 10 years.
- Tribal casinos in California are generating about \$5 billion a year in revenues up from \$2.5 billion in 2000 and \$1.4 billion in 1998. Las Vegas casinos brought in \$6 billion in 2002 when Nevada's total casino revenues hit \$9.5 billion. It took Las Vegas over 70 years to hit the \$6 billion mark.
- Industry analysts predict "the Palm Springs area will ultimately possess at least one, and perhaps, two Foxwoods-style casinos," referring to the tribal casino in Ledyard, Conn., which is billed as the world's largest casino with over 6,500 slot machines, almost 13,000 employees, 1,400 hotel rooms and 41,000 average daily visitors. According to industry analysts, casino growth will occur in the Palm Springs area if the state-imposed limit of 2,000 slot machines per tribe is lifted. The slot cap is open to renegotiation in March 2003.
- The Agua Caliente Band of Cahuilla Indians is the only tribe in the state with two casinos. The tribe has proposed to build what may be the largest casino in the state, a \$400 million casino resort complex in downtown Palm Springs. Palm Springs lies within the Coachella Valley in east Riverside County and is a two-hour drive from both Los Angeles and San Diego. It sits within 130 miles of almost 16 million people. The area is home to six tribal casinos, including the two Agua Caliente operations, and is considered one of the strongest Indian gaming markets in the state given its proximity to significant population density and easy access via Interstate 10.

Tribal Gaming Industry Revenue and Public Contribution

- According to industry sources, the statewide average per machine is about \$180 per machine/per day. In the large, successful and heavily used casinos, we estimate each slot machine is generating about \$254 per machine/per day, which means each machine is generating just under \$93,000 a year and a casino with 2,000 slot machines may generate more than \$185 million a year from their slot machines.
- While California's casino industry reaps revenues second only to Nevada, it ranks 14th among gaming states in the amount of revenue it returns to the state. Thirteen states receive more revenue from gaming than does California. Nevada, Illinois, and Indiana each collect over \$500 million from casino industries, while California collects less than \$100 million.
- Connecticut's tribal casinos pay 25% of their slot revenue to the state, which last year amounted to \$400 million. In contrast, California is expected to receive between \$96 million to \$100 million over this fiscal year, which is roughly 2% of the industry's revenue.
- The amount of revenue received by the state will remain around \$100 million irrespective of the growth in the industry. This money is collected into

a Special Distribution Fund (SDF) and is a relatively fixed amount of return to the state.

- After some \$25 million is allocated for regulation and oversight from the SDF, \$5 million for gambling addiction and \$30 million to fill shortfalls for tribal revenue sharing, something in the range of \$40 million would be available for local communities impacted by tribal casino development and operation. If every remaining dollar is allocated to local communities it will amount to about \$770,000 for each jurisdiction that hosts a tribal casino. However, it may result in far less because casinos may impact multiple communities. Also, the tribal contributions do not grow as the industry grows, which means the number of impacted communities seeking to draw from the fund will expand, while the fund itself will not.

Local Impacts and Fair-Share Financial Transfers

- Any business that operates around the clock, generates significant foot and vehicle traffic, and employs large numbers of individuals creates impacts both positive and negative. Tribal casinos that create quality jobs with good wages and affordable benefits and have a positive approach to local communities create positive impacts that outweigh the negative.
- Positive impacts include tribal economic development and self-sufficiency, contributions to state and local tax receipts, reductions in welfare dependency for tribal members and previously unemployed workers, revenue for local businesses, job creation and tribal charitable contributions.
- Negative impacts in the Palm Springs area may include increased costs for law enforcement and fire protection, traffic mitigation and road maintenance, water and sewage extension and maintenance, augmented social services (including family health care and affordable housing), open space conservation, and other infrastructure and public service expansion.
- A number of tribes have negotiated and signed comprehensive fair-share financial transfer agreements with local governments that approximate the costs of local impacts. The average of these local impact transfer agreements is \$2.69 million annually with an additional average one-time contribution of \$1.81 million.
- Through these agreements, local governments are assured that anticipated detrimental impacts to the communities surrounding the tribal casino will be mitigated in accordance with a binding and enforceable agreement between the local government and the tribe. The rationale for such agreements is that it is in the interest of both parties to insure a regular and sufficient revenue stream from the tribe to the local government. In turn the local government guarantees the provision of high quality public services.
- Despite the fact that casinos are lauded as an economic development success, creating jobs and moving people off of public subsidies and welfare, the record of success in the Palm Springs area is unremarkable. In the region, the percentage of the population that qualifies for Medi-Cal assistance has followed the same patterns as Riverside County and the state of California. Poverty has increased and a smaller percentage of people can afford to own their own homes.

The Growth of Tribal Casinos

"The Coachella Valley is fast becoming the gambling mecca of Southern California."
— Wheeler's Desert Letter, 2001

California has become the largest tribal gaming market in the country, and is the second largest gaming market overall after Nevada. Industry experts expect California to surpass Nevada within 10 years.

Since the 2000 statewide passage of Proposition 1A, tribal gaming in California has grown at a phenomenal rate, and there is no indication it will slow down anytime soon. Currently, there are 109 federally recognized tribes in California (20% of the nation's total) and 52 tribal casinos. Another 10 tribes have agreements with the state, known as compacts, to open and operate casinos. There are additional tribes seeking casino compacts and another 54 tribes seeking federal recognition.

Tribal casinos in California are generating about \$5 billion a year in revenues up from \$2.5 billion in 2000 and \$1.4 billion in 1998.³ Las Vegas casinos brought in \$6 billion in 2002 when Nevada's total casino revenues hit \$9.5 billion.⁴ It took Las Vegas over 70 years to hit the \$6 billion mark.⁵ California tribal casinos are reaching that number in about ten.

Nationally, tribal casinos brought in an estimated \$12.7 billion in 2001.⁶ California accounts for almost half of those revenues.

The Palm Springs area is home to some of the most successful casinos in California. The tribes in the area are running incredibly smart and sophisticated operations. Additionally, the population density of Southern California, the worldwide reputation of the area as a resort destination, combined with casino locations along Interstate 10 have made the Palm Springs area one of the strongest gaming markets in the state. We estimate the six casinos in the Palm Springs area are generating approximately \$700 million from their slot machines.⁷

Industry analysts predict: "The Palm Springs area will ultimately possess at least one, and perhaps, two Foxwoods-style casinos."⁸ Foxwoods, a tribal casino in Ledyard, Conn., is billed as the world's largest casino with over 6,500 slot machines, almost 13,000 employees, 1,400 hotel rooms and 41,000 average daily visitors.⁹ According to industry analysts, casino growth will occur in the Coachella Valley when the state-imposed limit of 2,000 slot machines per tribe is lifted.

Chairman Richard Milanovich, of the Agua Caliente Band of Cahuilla Indians, told *The Desert Sun* in February 2001: "We have said all along we

Growth Potential

The reason they [tribal casinos in the Palm Springs area] are doing so well is because of the location and outrageous demographics of an underserved market," said David O. Ehlers, chairman of Las Vegas Investment Advisors.

—*The Desert Sun*, 2/27/01

"A surge in Coachella Valley gambling was expected when California Indian tribes struck a deal with the state to offer Las Vegas-style slot machines and house-banked card games in tribal casinos in March 2000. But few predicted the action to be so fast that tribes who had expanded or built new casinos in the wake of Proposition 1A would be preparing for another round of growth before the dawn of 2002."

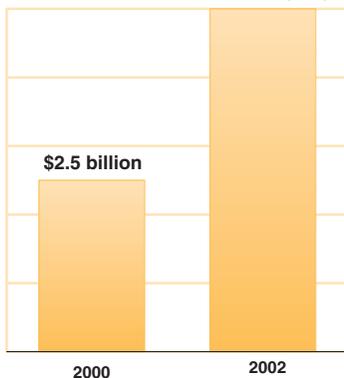
—*The Desert Sun*, 12/2/01

"Tribes and investors already have indicated a desire to expand from basic casinos to full-scale destination resorts."

—*The Desert Sun*, 12/2/01

Annual Tribal Gaming Revenues in California

\$5 billion (est.)



Nationally, tribal casinos bring in almost \$13 billion. California accounts for almost half of those revenues. Source: National Indian Gaming Association, *Los Angeles Times*, 11/5/02, *Arizona Republic*, 10/2/02.

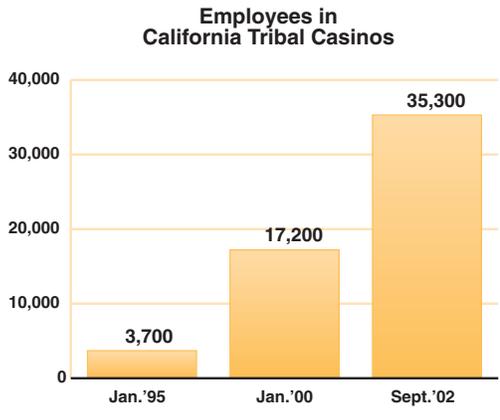
feel there should not be an artificial limit [on slot machines]. The market forces should decide.”

The 338-member Agua Caliente Band of Cahuilla Indians is the only tribe in the state with two casinos; a temporary tent casino located in downtown Palm Springs and a large, permanent facility adjacent to Rancho Mirage off Interstate 10.¹⁰ A 2001 gaming investment report called the tribe’s downtown location a “gold mine.”¹¹ The tribe has proposed to replace their existing downtown Palm Springs facility with a \$400 million casino resort.¹² Once built, the casino will likely be the most expensive—and expansive—gaming operation in the state.

Tribal Casino Revenues

Under a deal struck with the state in 1999, California tribes are permitted to operate up to two casinos per reservation with a cap of 2,000 slot machines per tribe. Slot machines are the profit-making backbone of many casinos.

Slots are estimated to generate about 70% to 85% of a tribal casino's total revenues. Tribal gaming operations are not required to reveal revenue data to the public. As a result, actual earnings data are unknown.



Source: California Employment Development Department and the *Sacramento Bee*.

Each slot machine is estimated to generate a net win of \$175 to over \$300 a day for the casino. (The low figure is from some tribes. The high figure is from gaming analysts and other tribes. The net win is what the casino keeps at the end of the day.) If correct, that means each slot machine is generating \$64,000 to \$110,000 a year. According to an industry insider, the statewide average is about \$180 a day per machine. Large, successful and heavily used casinos with 2,000 slot machines are generating upwards of \$100 million to more than \$200 million a year in revenues from their slot machines. We believe a good benchmark figure is \$254 per

machine/per day for a large, heavily used and successful casino like those in the Palm Springs area, which means each machine is generating just under \$93,000 a year and a casino with 2,000 slot machines is earning about \$185 million a year from its slot machines.¹³

It is estimated that 46% of tribal casino revenues are net profit.¹⁴ The profit margin is higher than for commercial casino, largely because tribal casinos are not subject to most local, state and federal taxes. Indian casinos are owned and operated by tribal governments and, as a result, are not subject to federal taxes.¹⁵ They are also exempt from state and local property taxes, corporate taxes and wagering taxes. Tribes generally pay federal excise taxes, such as the federal gas tax.¹⁶ As an employer, tribes pay state and federal employment taxes, such as social security, on wages paid to employees. Tribal members are subject to federal and state income taxes, unless they live and work on reservations.¹⁷ California tribal casinos do contribute a portion of their revenues to non-gaming tribes and to the state for a variety of uses, including paying for the impacts of casinos on local communities.

Tribal Casinos and Fair-Share Transfers

Currently the Tribal-State compact stipulates the amount of money tribes must contribute to the state, which may or may not disburse a portion of these funds to local communities to attend to various costs incurred because of tribal casinos.

The following section compares the size of California’s gaming industry to those of other states and then reviews what portion of gaming revenues return to the state. It also looks at the existing financial arrangement through which the tribal casinos contribute to state coffers. A portion of the return to the state may be available to local governments to offset the impacts of tribal casinos. A number of local governments have negotiated comprehensive local ‘fair-share’ financial transfer agreements directly with tribes to deal with local casino impacts.

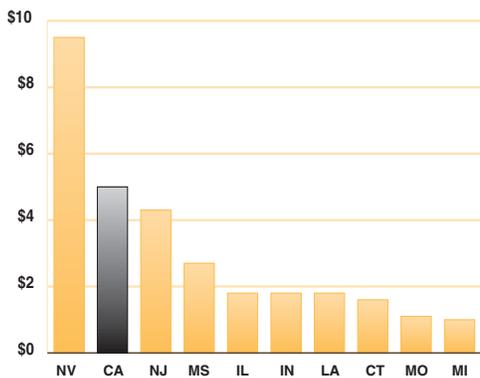
The City of Palm Springs has a financial agreement with the Agua Caliente tribe for the tribe’s new casino, but payments won’t start until after the first year of operation and will generate only a fraction of the revenue of other local financial arrangements. A close look at the taxes the Agua Caliente tribe would contribute if it were any other business is important in determining a fair value dollar amount for any future financial arrangement between the city and the Agua Caliente. We also consider what similar gambling businesses in California compensate the cities that they reside within.

Contributions to Local Communities

While California’s casino industry reaps revenues second only to Nevada, it ranks 14th among gaming states in the amount of casino revenues it returns to the state.

Thirteen states receive more casino revenue than does California. Nevada, Illinois, and Indiana each collect over \$500 million from their casino industries, while California collects less than \$100 million. Casino revenues in California are two and half times what they are in Louisiana (\$1.8 billion) and Indiana (\$1.8 billion). However, California gets less than a third back from its casino industry than does Louisiana and less than a fourth back than Indiana.¹⁸

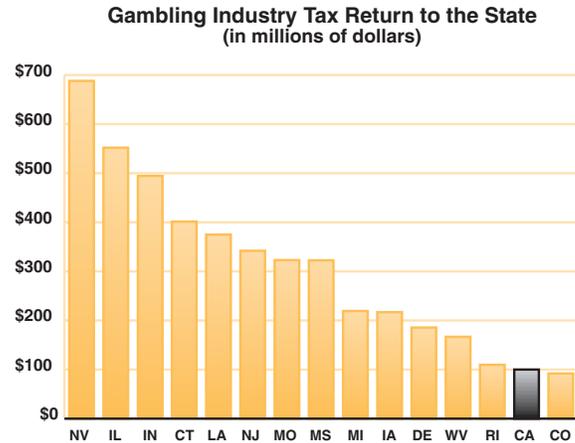
Gambling Industry Revenue
(in billions of dollars)



Connecticut’s \$1.6 billion in gaming revenue is modest in comparison to California’s roughly \$5 billion in revenue. Indian casinos have monopolies on slot machines in both states. Connecticut’s gaming industry revenue comes from the state’s two large-scale tribal casinos. In California’s case, the revenue is derived from 28 of the 51 tribes that currently operate casinos.¹⁹

Connecticut’s tribal casinos pay 25% of their slot revenue to the state, which last year amounted to \$400 million, and this sum, over time, will grow with the industry. In contrast, under California’s system, the state receives a portion of rev-

enue from some, but not all of the slot machines that were in operation in 1999. The fee system is expected to generate between \$96 million to \$100 million over this fiscal year, which is roughly 2% of the industry's revenue. The amount of revenue received by the state will remain around \$100 million irrespective of the growth in the industry, shrinking relative to revenue, becoming an ever smaller percentage of the state's growing gaming revenues.



Special Distribution Fund Monies for Impacts in the Palm Springs Area

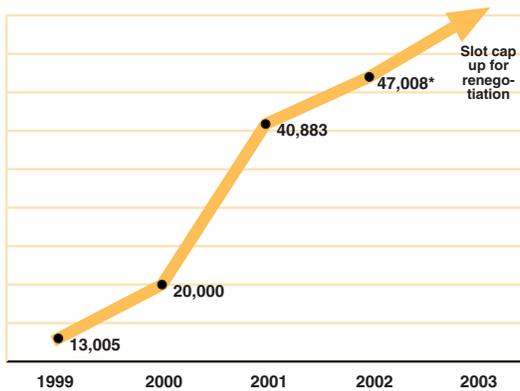
In order to have casinos with Las Vegas-style games, tribes must negotiate a compact with the state. The California Tribal-State compact established two funds that gaming tribes pay into: the Revenue Sharing Trust Fund (RSTF) and the Special Distribution Fund (SDF).²⁰ The RSTF was specifically created to distribute casino-generated revenue to non-gaming tribes. In contrast, the SDF constitutes the bulk of revenue generated by California tribal casinos for public use. According to the Tribal-State compact, the state Legislature can spend the SDF in four specified areas and for whatever other purpose it chooses. Additionally, there is no mandate that any of the specified purposes receive any funding from the SDF. As such, California's ever widening \$30 billion budget deficit and bleak fiscal outlook for next year puts the SDF money in jeopardy of being depleted before reaching any of the four designated purposes. However, even if the Legislature decides to fund the specified areas, the fund may not be adequate.

The five areas that the Legislature can choose to appropriate the SDF into, according the Tribal-State compact are:

1. Compensation for regulatory costs incurred by the State Gaming Agency and the State Department of Justice in connection with the implementation and administration of the Compact;
2. Programs designed to address gambling addiction;
3. Payment of shortfalls that may occur in the Revenue Sharing Trust Fund;
4. Support of state and local government agencies impacted by tribal government gaming; and
5. Any other purposes specified by the Legislature.

The California Gambling Control Commission estimates that the fund will result in between \$96 and \$100 million dollars annually with little growth over time. The only appropriation of these funds thus far has been for regulatory and oversight spending. In the 2002-03 fiscal year, the commission was allocated \$2.94 million and the Department of Justice's Division of Gambling Control received \$9.81 million.²¹ The combined \$12.75 million represents over half of the total regulatory and enforcement budget of \$25 million.

Number of Slot Machines in Calif. Tribal Casinos



*According to the California Gambling Control Commission, a maximum of 61,957 slot machines is permitted under the current Tribal-State compact.

It should be noted that tribal governments fund the self-regulation of their operations, which is in addition to the state regulation of the tribal casinos.

Another spending area for the SDF is gambling addiction programs. According to a Gambling Control Commission official, \$5 million annually is a rough estimate of what may be allocated to address gambling addiction.²²

The SDF can also fill any payment shortfalls to non-gaming tribes that receive monies from the RSTF. Gaming tribes pay a varying fee for slot machines that came on line after the current Tribal-State compact was negotiated in 1999. Since the compact was signed, the number of slot machines in California has increased from roughly 19,000 in 1999 to about 47,000 currently.²³ In 2002, the state determined that a maximum of 61,957 slot machines is permitted under the current compact.²⁴

Unlike the SDF, the RSTF grows as the industry expands and the number of slot machines in California's tribal casinos increases.

Non-gaming tribes (which includes tribes without casinos and tribes with a casino, but operating fewer than 350 slot machines) are each designated to receive up to \$1.1 million annually from the RSTF established by the Tribal-State compact. Over the last two quarters, non-gaming tribes have received just less than \$347,800 each. Based on this figure, it appears every eligible tribe will receive approximately \$700,000 annually. Since the 75 non-gaming tribes are eligible to receive up to \$1.1 million a year, the RSTF appears to be short about \$30 million. As more slot machines come on line, this fund shortfall may narrow.

The SDF is also supposed to help local governmental agencies that must attend to the impacts of tribal casinos. The California Legislature has the defined ability to allocate SDF monies to any agency or project it deems necessary. Local governments cannot directly collect taxes, but can ask for state SDF monies, or, if the local tribe agrees to pay, and a number have, they can enter into local financial transfer agreements. Therefore, unless the state grants sufficient funds to local government or the tribes voluntarily enter into a financial transfer agreement, local governments have no established way of

recovering costs associated with the local impacts that accompany tribal casino development and continuing operation.

After some \$25 million is allocated for regulation and oversight, \$5 million for gambling addiction and \$30 million to fill shortfalls in the RSTF, approximately \$40 million would be available in the SDF for local communities impacted by tribal casinos. If the entire \$40 million were allocated to local communities, it would amount to about \$770,000 for every jurisdiction that hosts a tribal casino. However,

Tribal Gaming Money to State: Short of Meeting the Needs	
Total Special Distribution Fund	\$100 million
Regulation & Oversight	- \$25 million
Gambling Addiction	- \$5 million
Revenue Sharing Trust Fund Shortfall	- \$30 million
All Other Uses including Impacted Communities	\$40 million
Total Remaining Funds Potentially Available for 52 directly affected communities	\$769,230

casinos may impact multiple communities and jurisdictions, in addition to their immediate hosts. For example, the jurisdictions of Rancho Mirage, Cathedral City, Palm Springs and the County of Riverside are all arguably impacted the two casinos of the Agua Caliente tribe.

A number of local governments have made relatively comprehensive calculations of the cost of local impacts generated by casinos. The average of these casino costs is \$2.69 million with an additional average one-time contribution of \$1.81 million. [See chart in next section.] This is in addition to any funding that these communities might receive from the SDF. Tribes that have negotiated these comprehensive financial transfer agreements include the Rumsey Band of Wintun Indians (Yolo County), the Lytton Band of Pomo Indians (City of San Pablo), the United Auburn Indian Community (Placer County), the Tuolumne Band of Me-Wuk Indians (Tuolumne County), the Picayune Rancheria of Chuckchansi Indians (Madera County), and the Enterprise Rancheria of Maidu Indians (Yuba County).

To date, local communities have not received any money under the current compact. At the earliest, impacted local communities will receive SDF funds in 2003. Moreover, only three jurisdictions, Yolo County, Madera County, and the City of San Pablo, have included any mitigation in their agreements with gaming tribes regarding the economic costs associated with the workforce of the casinos. Additionally, individual tribes have signed agreements with provisions establishing a fair process for casino employees to decide whether or not to unionize.

Tribes Assist Local Governments Impacted by Casinos

A number of Tribal Nations and local governments have negotiated 'fair-share' financial transfer agreements to cover the additional cost of greater law enforcement and fire protection needs, traffic mitigation and road maintenance, water and sewage extension and maintenance, augmented social services (including family health care), open space conservation and the added cost to infrastructure extension.

These partnerships are drafted as a government-to-government Memorandum of Understanding (MOU) between the local government and the tribal government.

By negotiating MOUs, local governments are assured that many, if not all, anticipated detrimental impacts to the communities surrounding the tribal casino will be mitigated in accordance with a binding and enforceable agreement between the Tribal Nation and the local government. The rationale for such agreements is that it is in the interest of both parties to insure a regular and sufficient revenue stream from the tribe to the local government to mitigate casino impacts. In turn, the local government guarantees the provision of high quality public services. According to the MOU signed between the Rumsey Band of Wintun Indians and the County of Yolo, it is important for the county to be able to meet the increased fiscal needs resulting from the operation of a casino and related amenities (e.g., hotels and golf courses). The agreement states: "The Tribe is willing to enter into this Agreement as a responsible exercise of its sovereignty and in recognition of the fact that the

Tribe’s long-term governmental and business interests are best served by accommodating the legitimate need of neighboring governments.”²⁵

A number of these agreements include a one-time contribution that serves as a sort of in lieu payment of development and mitigation fees. The smallest

one-time contribution is just over \$500,000 (Madera County & Chukchansi) and the largest is \$4.9 million (Yolo County & Rumsey). The United Auburn Indian Community (Placer County) and the Lytton Band of Pomo Indians (City of San Pablo) agreements establish that these two tribes will pay all casino development fees and mitigation costs in their entirety.

The two most recently negotiated MOUs in Yolo and Yuba counties have arranged the ‘fair-share’ financial transfer as a fixed sum that increases annual-

ly for a set number of years, caps off at a specified value and then begins to move upward in line with the rate of inflation. While the Yolo agreement begins at \$3 million and the Yuba agreement begins at \$800,000 both cap off at \$5 million after five and six years respectively. The Yolo agreement is said to be valued at \$80 million to \$190 million over the next 18 years depending on potential costs associated with the casino and resort expansion.²⁶ The Yuba-Enterprise MOU is estimated at \$73 million over 16 years.²⁷

Government-to-Government: Sharing the Benefits and the Costs				
Government	Tribe	Annual Transfers	One-time Transfers	Casino Facility
Madera County	Chukchansi	\$1,482,886	\$517,200	180,000sf
Placer County	United Auburn	\$1,108,089	development fees	200,000sf
Tuolumne County	Tuolumne Me-Wuk	\$835,000	\$1,155,000	128,500sf
Yolo County	Rumsey	\$5,053,000	\$4,900,000	265,000sf
Yuba County	Enterprise Rancheria	\$5,000,000	\$697,120	152,000sf
Average Annual Transfer		\$2,695,795	\$1,817,330	

The Agua Caliente Tribe and Contributions to Local Government

The Agua Caliente Band of Cahuilla Indians do not pay taxes to the cities of Palm Springs and Rancho Mirage nor the County of Riverside, except for a portion of the City of Palm Springs hotel bed tax, otherwise known as the Transient Occupancy Tax.²⁸ Meanwhile, the Agua Caliente own and operate two tribal casinos that generate estimated annual slot machine revenue of \$185 million.²⁹ The tribe plans to ultimately replace their downtown casino with a far larger, \$400 million casino and hotel complex. The local government, whether or not it receives contributions from the tribe, has the ultimate burden of attending to the impacts of such a large development and business enterprise. Impacts not mitigated by the tribe will have to be picked up by other Palm Springs area residents and businesses.

Below is a list of tax categories and rates for private sector businesses in the Palm Springs area and the potential financial contributions from the Agua Calientes’ new downtown Palm Springs casino if it was subject to local taxes. The property tax is based on the proposed \$400 million casino resort project. The sales and business utility tax is based on the first phase of development (\$90 million, 119,000sf). The hotel bed tax is based on the existing 240 hotel rooms at the Spa Hotel. The new resort will presumably have more.

- **Property Tax:** the Property Tax rate of just over 1% multiplied by the value of the proposed Agua Caliente downtown property would generate

over \$4.5 million for the city and county;

- **Sales Tax:** the city estimates that the first phase of the casino development will generate \$5 million in sales. If taxed at the 7.75% rate that applies in Palm Springs (6% for the state government, 1% for the local government, .75% for county transportation) it would result in \$300,000 for the state, \$50,000 for the local government and \$37,500 for county transportation;
- **Transient Occupancy Tax:** the Agua Caliente pays a hotel bed tax rate of 12.5% to the city, but the city rebates 47% of that back to the tribe.³⁰ What the Agua Caliente does not pay amounts to over \$230,000; and
- **Business and Utility Tax:** the unpaid business and utility taxes amount to an additional \$37,000 in foregone revenue.

Therefore, the potential cost shifting by the Agua Caliente Casino in downtown Palm Springs onto local residents is about \$4.8 million annually. This sum is roughly equivalent to 10% of the Palm Springs city budget.

Cost Shifting onto Area Residents		
Tax Category	Tax Rate	Revenue Generated
Property Tax (City/County)	1.13%	\$4,520,000
Sales Tax		
Local Component (City/County)	1.75%	\$87,500
Transient Occupancy Tax (City)	6.60%	\$231,415
Business License Tax (City)	—	\$7,182
Utility Users Tax (City)	5%	\$30,000
TOTAL COST SHIFTING		\$4,876,097

It is important to note, the casinos, like any other business, create jobs for local residents and those employees pay state and federal employment taxes.

In 1994, the Agua Calientes and the City of Palm Springs entered into an agreement for revenue sharing at a proposed downtown casino. The stated rationale for the revenue sharing was “to pay for city services required as a result of project construction and operation,” essentially in lieu of taxation.³¹ The agreement was to make sure that the large enterprise paid its fair-

share, and the money to be paid was a percentage of revenue, which means it would keep pace with the growth of the tribal casino and other amenities. However, the facility proposed in 1994 was not built and the revenue-sharing agreement never materialized. A new agreement has since been negotiated between the tribe and the city.

For their newly proposed facility, the tribe is now planning to give the city a fixed-rate transfer that starts at \$100,000 in addition to a promise of making an average annual police and fire department donation of \$238,000. The \$100,000 sum is to be transferred to the City of Palm Springs, beginning after the first year anniversary of the permanent downtown facility and increases annually until it reaches \$300,000 in the sixth year where it remains until the termination of the 10-year agreement. The direct contribution to the city is far short of the estimated annual shortfall of \$4.8 million had this been a non-tribal, commercial operation.

The Agua Caliente agreement compares rather poorly to financial ‘fair-share’ arrangements that have been developed elsewhere in California. Those financial agreements have been far more directly generous to local governments with an average annual contribution of \$2.69 million and an average one-time financial transfer of \$1.81 million. This is compared to the Agua Calientes’ maximum financial offer of \$538,000 annual assistance (by the sixth year of the agreement) and a one-time transfer of \$477,139.

A shorthand method of comparing these financial arrangements is to divide the annual dollar value of the agreement by the size of the casino enterprise.

Using this method, the Agua Calientes are paying the City of Palm Springs

Not Exactly a Fair-Share Financial Transfer		
	Average MOU Statewide	Palm Springs and Agua MOU
Annual Transfers	\$2,695,795	\$538,000
One-time Transfers	\$1,817,330	\$477,139
Annual \$ per sf	\$14.56	\$4.52
10-year Value	\$28,775,280	\$5,857,139

about \$4.52 per square foot, well below what other tribes are contributing (an average of \$14.56 per square foot) to local communities elsewhere in the state.³² And this is just for phase one of the project, which is the 119,000sf casino. When the overall expansion is completed the comparison will be even worse.

California Cardroom Contributions to Local Communities

Cities that host cardrooms in California tax the revenue of those operations. We believe it is insightful to look at the revenue these other local communities have received in order to assess how these other communities attend to the impacts of gambling operations in their jurisdictions. A review of three of California’s larger cardrooms, which generate significantly less revenue than do the larger tribal casinos like those in the Palm Springs area, found that they contribute an average 12.72% of gross revenues to their respective local governments.

In fiscal year 1999/2000 Gardena’s cardroom contributed \$2.95 million toward valuable public services. The contribution made up over 11% of the entire city’s budget. In the City of Bell Gardens, the cardroom pays fees according to a graduated scale that averages slightly more than 13%. Over the last ten years, the cardroom has on average contributed over \$8.5 million annually or over one-third of the city’s total expenditures. In the City of San Jose, the two local cardrooms contributed over \$8.6 million last year (2001-02) to the public coffers. The revenue generated for these local governments is substantial, guaranteeing these cities the needed resources to mitigate impacts from gambling.

The chart shows the cardroom revenue tax rate for the cities of Gardena, Bell Gardens and San Jose. The “Estimated Annual Tribal Casino Slot Revenue” is the revenue estimate for a large, heavily used casino that has

If Palm Springs Area Casinos Paid Cardroom Taxes			
Cardroom Tax Rates in Calif. Cities		Est. Annual Tribal Casino Slot Revenue ³³	Potential Local Receipts if Casinos Made Contributions Similar to Cardrooms
Gardena	12%	\$185,237,050	\$22,232,766
Bell Gardens	13.16% ³⁴	\$185,237,050	\$24,381,933
San Jose	13%	\$185,237,050	\$24,085,496
Average	12.72%	\$185,237,050	\$23,566,731

2,000 slot machines, like the two Agua Caliente casinos combined. The “Potential Tax Revenue Generated” represents the amount of money casinos would generate for the cities or counties they reside within, were they to contribute under the same taxing regime as cardrooms.

If the Agua Caliente casinos paid the average cardroom tax rate on their estimated annual earnings, the tribe would possibly contribute over \$23.7 million to local government.³⁵

It should be noted that the Agua Calientes, like other tribes with slot machines in operation prior to the 1999 compact agreement, do contribute to the SDF. However, the tribe contributes roughly \$8.4 million or close to 4.5% of the estimated \$185 million in revenue the Agua Calientes generate from their slot machines.³⁶ Deducting the various likely uses from the total contribution to the SDF and assuming other impacted communities receives SDF

monies from the Legislature to offset local impacts, we estimate that 2.5% of the Aguas total slot machine revenues may be available from the SDF for local impact mitigation. Still it is important to note that there are no guarantees that any of the SDF money will return to the Palm Springs area.

Assessing Casino Impacts in the Palm Springs Area

For every claim that casinos in the Palm Springs area generate a positive impact, there is a counter claim of a negative impact. The only certainty is that any business that operates around the clock, generates significant foot and vehicle traffic, and employs large numbers of individuals creates impacts both positive and negative.

Tribal representatives and tribal-sponsored impact studies claim the positive impacts of their casino operations include:

- Contributions to state and local tax receipts;
- Reductions in welfare dependency for tribal members and previously unemployed workers;
- Tribal economic development and self-sufficiency;
- Resources to fund education, cultural preservation, housing and healthcare for tribal members;
- Financial support for non-gaming tribes;
- Revenue for local, non-casino businesses;
- Employment for tribal members and non-Indians (Non-Indians comprise 90-95% of employees in most California casinos);
- Business for vendors, construction firms and other casino goods and servicing operations; and
- Tribal charitable contributions for local governments, community groups and non-profit organizations.³⁷

In response, the Coachella Valley Association of Governments, representing local governments, claims that negative impacts from casinos include:

- Increased costs for fire protection services;
- Increased costs for public safety;
- Additional traffic enforcement needs as a result of accidents and congested roads;
- Additional crime enforcement needs;
- Increased levels of criminal activity such as theft and burglary;
- Increased noise and lighting levels to surrounding areas;
- Increased air quality pollution due to traffic and travel to casinos;
- Inadequate provisions for appropriately sized and priced housing for casino employees, as well as supportive infrastructure such as parks, schools, recreational opportunities and child care programs;
- Construction of interchanges and other roadway enhancements, which must be funded in some part by local monies;
- The need for utility providers (water, waste water, electricity and natural gas) to upgrade surrounding systems without undertaking longer term capacity planning; and
- A decline and closure of local restaurants and bar businesses.³⁸

The next section of our report evaluates seven general impact areas of particular concern to local communities: traffic, crime, public safety spending, education, poverty, healthcare, and housing.

Traffic Impacts in Palm Springs

Substantial increases in traffic as a result of casino development and expan-

sion generate the need for costly road improvements. In the case of San Diego County, for example, with their proliferating gaming facilities, traffic to and from the tribal casinos was identified as one of the major adverse impacts. San Diego County appears to be the only region in the state to have conducted such a comprehensive regional analysis of casino impacts on local roadways.

In comparison, the Agua Caliente tribe’s traffic analysis for the first phase of their new downtown Palm Springs’ casino appears inadequate. The Agua Caliente’s new casino, slated to open in November 2003, will replace the tribe’s current, much smaller gaming operation. The existing Spa Resort Hotel and Casino, which opened in April 1995, consists of a 240-room hotel, a restaurant, and gaming space in portions of the hotel and under a “tent” or sprung structure. The tribe’s current gaming floor area is 30,000sf. There are 860 slot machines and 21 gaming tables in the casino.

The new casino project is the first phase of what will ultimately be a \$400-million complex stretching across several blocks of downtown Palm Springs. Phase one involves the construction of a new 119,000sf casino on a lot adjacent to the current hotel/casino. It will include three restaurants, a 150-seat entertainment complex and, according to the tribe, house roughly the same number of slot machines as the old casino. It is not clear how many table games or lottery-style gaming machines the new facility will include.

Agua Caliente Expansion Plans in Palm Springs	
Current Spa Resort Casino	New Spa Casino, Phase 1
30,000sf	119,000sf
860 slot machines	860 slot machines
21 Table games	no estimate provided
1 restaurant	3 restaurants (27,650sf)
240-room hotel	240-room hotel, 150-seat entertainment complex

The tribe issued a report in September 2002 that found “the proposed casino is substantially the same as analyzed in the original [1994] Environmental Assessment.”³⁹ Tribal officials claim that the new casino “will have negligible additional impact on public services” and does not require any “further environmental analysis.”⁴⁰ It is hard to believe a new study is not warranted given that over the last nine years, several major casinos have come on line locally and conditions in downtown Palm Springs have changed significantly through redevelopment and revitalization efforts.

We believe the new casino will likely create a significant increase in visitors and traffic. However, according to the tribe, “the traffic volumes associated with the relocated gaming activities will remain the same” (7,500 average daily trips) as estimated in 1994.⁴¹ The basis for this estimate is that the number of slot machines is reported to remain roughly the same. The tribe estimates the new casino will only generate a 10% increase in the total number of daily trips (750). The new restaurants (totaling 27,650sf) will add another 1,680 daily trips. Thus the grand total for the new facility is projected at 9,930 daily trips—an increase of 2,430 average daily trips over current traffic flows.

. One of the problems with this projection is that the tribe uses the current number of slots as the basis for claiming a negligible traffic impact.⁴² This is problematic because the Agua Calientes are calling for a lifting of the current cap of 2,000 slot machines per tribe. The slot cap is open for renegotiation in the March 2003. Some increase is likely. Thus the new, larger structure may eventually house considerably more slot machines.

An additional problem with relying on the nine-year-old traffic study is that

the existing casino is currently generating most of the 7,500 daily trips attributed to the 119,000sf gaming facility described in the 1994 ‘Agua Caliente Gaming Facility Traffic Study’.⁴³ If a facility a quarter the size of the proposed project is already generating the same traffic volumes predicted for the 119,000sf facility, it would seem that a substantial increase in traffic is likely, warranting an updated road impact analysis.

Reassessing the Potential Traffic Impact of the New Spa Casino

Here we assess the potential traffic impact of the new casino using the standard industry method, which is based on the square footage of the gaming facility not the number of slot machines. We calculated both average a.m. and p.m. peak hour rates as well as the average daily total trips likely to be generated by a facility of this size. For a determination of peak hour traffic impacts, we relied upon trip generation rates for local hotel/casinos currently used as the standard in Las Vegas, Nevada.⁴⁴ Applying this method to the specifications for the new casino, results in a projected a.m. peak hour estimation of 1,675 trips and a p.m. peak hour estimation of 2,658 trips. As the chart shows below, such forecasts are dramatically higher than those put forward by the Agua Caliente tribe’s updated traffic study.

Peak Traffic: A Comparison of the Agua Model and the Vegas Model

	Agua Caliente Projections	Vegas Model
AM	340 trips	1,675 trips
PM	725 trips	2,658 trips

square feet of gaming facility area and eight trips per hotel room.⁴⁵ Using the SANDAG method, the estimated daily trip generation for the New Spa Casino would be approximately 15,500, or what amounts to 5,570 more average daily trips than projected by the Agua Caliente.

Average Daily Trips: The Agua Model v. the SANDAG Model

	Agua Caliente estimates	SANDAG estimates
New Gaming Facility	8,250	11,900 (100 trips/1000sf)
Restaurant	1,680	1,680 (applying AC figure)
Hotel	Not included in estimate	1,920 (8 trips/hotel room)
Total ADT	9,930	15,500

The San Diego Association of Governments (SANDAG), using data collected from a number of California gaming facilities, has come up with an estimated average daily trip generation rate for an Indian gaming facility of 100 trips per 1,000

The Agua Caliente tribe itself used the standard method for generating traffic rates based on square footage when they built their \$90 million casino near Rancho Mirage. Applying the Aguas’ own calculation for the Rancho Mirage casino, which opened in 2001, to the proposed new Spa Casino would result in a p.m. peak hour trip generation of 1,598, or more than double that of the Agua Caliente’s current projection of 725, and an average daily trip generation of 15,981.⁴⁶

The Agua Model 2002 v. The Agua Model 2000

	2002 Projections for New Spa Casino	Projections for New Spa Casino using 2000 method
PM Peak	725	1,598
ADT	9,930	15,981

By any conventional measure, including their own, the current projections put forward by the Agua Caliente tribe for their new Spa Casino appear grossly underestimated.

Traffic Impact Costs

The County of San Diego recently determined that their area Tribes’ ‘fair-share’ traffic contribution is approximately \$24.6 million of the county’s esti-

mated \$144 million in overall traffic impacts.⁴⁷ In December of 2002, the Rincon Band of Mission Indians made a first payment to San Diego County on a \$6.34 million agreement to help pay for road improvements near the band’s casino.⁴⁸ Two other San Diego County tribes, the San Pascual and Pauma, have agreed to pay \$6.1 and \$1.5 million respectively for road improvements in their areas.⁴⁹

In contrast, the Agua Calientes rejected the recommendation from the City of Palm Springs for an updated traffic study, claiming “the project as proposed will not generate enough additional traffic to warrant significant improvements to surrounding streets.”⁵⁰

The tribe did recently fund street and interstate highway improvements near the Agua Caliente’s Rancho Mirage casino. However, the City of Rancho Mirage will eventually refund the tribe’s \$3.1 million contribution.⁵¹

Public Safety Expenditures

Any major business operation that runs 24 hours a day, seven days a week, employs a large number of workers, and attracts thousands of visitors a day has an impact on public safety and public safety spending. Visitor-dependent industries like casinos, hotels, theme parks and other entertainment attractions lead to increased public safety spending to care not only for locals but the influx of visitors. Both the impacts and the costs grow as the number of visitors climb. In this section we look at public safety cost trends in the Palm Springs area associated with these high-intensity, visitor-driven operations. In particular, we look at trends before and after 1995, when the area

saw substantial casino expansion. What is most relevant is not whether casinos in and of themselves cause crime, but more simply that there are public safety impacts that come along with any major visitor-business and that responsible business stewardship entails trying to determine and mitigate those public costs.

“There is an impact. We see an impact. More people coming in, more potential crimes.”
 –Gary Jeandron, Palm Springs Police Chief, March 2001

Crime in the Palm Springs Area

Good economic times in the mid-to-late 1990s led to a reduction in crime in most U.S. cities, including those in California. Statewide the crime rate fell 27.9% from 1996 to 2000, while in the City of Los Angeles, the decline was 34.3%. However, while crime rates were falling throughout California, Palm Springs actually experienced an increase in crime.⁵² This was at the same time the Agua Caliente casino opened in downtown Palm Springs and the city put significant resources into the redevelopment and revitalization of the downtown area. Indeed, by the end of the decade, Palm Springs had a crime rate a full 50% higher than the statewide average and 35% higher than the City of Los Angeles.

Crime Rate Change, 1996-2000	
Los Angeles	-34.3%
California	-27.9%
Palm Springs	+0.8%
Source: FBI Crime Index, RAND California	

Even more suggestive of a particular “visitor factor” on crime rates is the fact that the three Coachella Valley cities most directly impacted by daily casino visitors (Indio, Coachella and Palm Springs)⁵³ experienced post-1995 crime rate trends at odds with other cities in the valley. Between 1990 and

Percent Change in Crime Rate Since 1996, Coachella Valley Cities	
Coachella	+31.9%
Palm Springs	+0.8%
Indio	+0.1%
Rancho Mirage	-0.5%
Desert Hot Springs	-11.1%
Cathedral City	-16.7%
La Quinta	-18.2%
Indian Wells	-28.6%
Palm Desert	-41.5%

Casino cities are highlighted

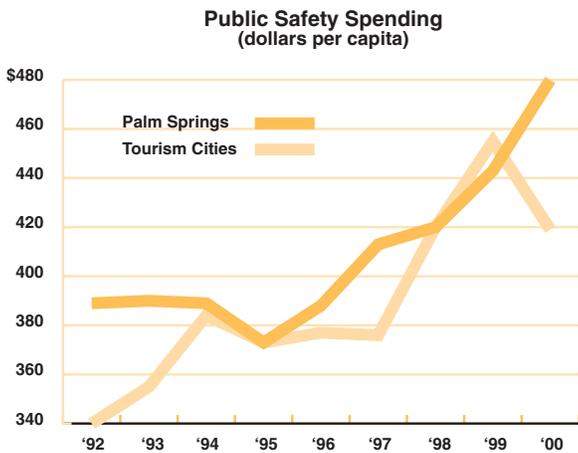
1995 crime rates in the three cities declined dramatically: Indio -43.2%, Coachella -33.3%, and Palm Springs -16.9%.⁵⁴ However, after significant casino development in the area, each of these cities reversed course and experienced increases in crime rates from 1996 to 2000. The rest of the Coachella Valley cities saw their crime rates drop during this same period.

Palm Springs Public Safety Spending

The inability of Palm Springs to benefit from declining crime rates was not due to a decline in funding for public safety. From 1995 to 2000, the rate of public safety spending per capita for the City of Palm Springs increased more than 29% (from \$388 to \$480), as public safety spending came to constitute nearly half of the city's budget.⁵⁵ In contrast, similar-sized California cities were able to provide community security with far less substantial increases in per capita public spending over the same period, from \$206 to \$224, or an increase of 7%.⁵⁶

The City of Palm Springs significantly increased public safety expenditures in the post-1995 revitalization era. Even compared to other tourism cities, public safety spending in Palm Springs is not typical. Palm Springs' public safety spending deviates substantially from tourism cities in that from 1991 to 1995 it experienced a reduction of -0.22% in per capita public safety spending, but from 1995, when the downtown underwent significant economic

redevelopment, to 2000, it experienced an increase of 23.63% in per capita spending on public safety. Overall, tourism cities experienced a moderate growth rate in both periods—10% from 1991 to 1995 and 12% from 1995 to 2000.



Nearly three-quarters of Palm Springs' public safety spending is dedicated to police. In its redevelopment period, 1995-2000, police spending per capita rose at a faster rate than other forms of public safety, pulling public safety spending up with it. Police spending per capita in the revitalization period of Palm Springs increased by 30% or \$63 per resident compared to the tourist cities increase of 16%, or \$36 per resident.⁵⁷

Certainly it cannot be concluded that every additional dollar spent on public safety or police since the arrival of a casino in Palm Springs is attributable to the casino. Palm Springs is a tourist destination that hosts several major annual events and has experienced a revitalization of its downtown. Still, the trend toward higher spending, both on police and public safety spending more broadly, is undeniable. Also, while other entertainment, tourist and visitor-based businesses pay a whole host of state and local taxes, the Palm Springs area casinos do not make comparable contributions directly to local government.

Paying the Costs of Public Safety

Among the existing local fair-share agreements between tribes and local governments elsewhere in the state, an average of 72% of all monies transferred are dedicated to offsetting public safety impacts. Annual fair-share transfer agreements from tribal casinos to local governments for public safety impacts range from \$700,000 (Tuolumne County) to an estimated \$3.6 million (Yolo and Yuba Counties). The high-end figure is for casino establishments that are comparable in size to the proposed new casino in downtown Palm Springs.

In the absence of local fair-share agreements, determining the impact costs on public safety has been difficult. For example, the Palm Springs Police Department claims that it receives 1.43 calls per day directly from the current Spa casino, for a total of 522 calls per year. Additionally, the department currently handles 18.56 calls for service per day in the downtown area, for a total of 6,773 calls per year. The department “estimates that the new [119,000sf] casino will result in a 15% increase in the number of daily calls for service at the casino and in the downtown.”⁵⁸ According to the Palm Springs Police Department, this will cost the city \$435,433 in the first year. The city asked the tribe to pay this amount for police services.⁵⁹

The tribe claims its records only show an average of 12.9 calls per month from the casino, or a total of 155 calls per year—30% of the police department’s claim. Furthermore, the tribe claims that ‘casino-related’ calls “are calls that most any business operating in the city would generate.”⁶⁰ As a result, the total number of calls for which the tribe is willing to accept responsibility are the 155 calls, or “2.3% of the 6,773 calls for service in the downtown area.”⁶¹ As a result, the tribe said it “may be willing to pay 2.3%, or \$9,936.59, of the \$435,433 cost” estimated by the city.⁶²

In the case of public safety spending more generally, the Agua Caliente tribe considers their annual donations adequate. In 2002, the tribe donated a total of \$238,000 to the Palm Springs police and fire departments and associations. In contrast to the Aguas’ contribution, the average annual public safety financial transfer of the five MOU agreements is \$1.9 million per tribal casino.

The Agua Caliente tribe has made a proposal to the city that transfers \$100,000 to \$300,000 annually over a ten-year period. However, even at its highest point (years six through ten), the agreement coupled with the annual public safety contributions of \$238,000 would provide an annual total of only \$538,000. This amount does not begin to approach what other tribes have agreed to (an average of \$2.69 million annually directly to local government), and even if it were used entirely to help offset a portion of the public safety costs, it would leave other impacts unattended.

Impacts on Local Schools

In addition to direct negative impacts on city and county services, like transportation and public safety, tribal casinos may have negative impacts on local school systems in the Palm Springs area.⁶³ As the largest and fastest growing employers in the region, the tribal casinos employ thousands locally.

Public School Enrollment, Coachella Valley 1990-2001

	(1990)	(2001)
Coachella Valley USD	9,293	13,152
Desert Sands USD	16,031	24,582
Palm Springs USD	14,447	21,532
Total	39,771	59,266

These primarily low-wage employees and their families depend upon a vast range of social institutions, including local schools. Our analysis of the performance of the three local school districts—Palm Springs, Desert Sands and Coachella Valley Unified—attempts to identify some of the problems currently facing area schools.

Annual Per Pupil Spending, 1990-2001

	(1990)	(2001)
Coachella Valley USD	\$4,474	\$6,104
Desert Sands USD	3,806	6,013
Palm Springs USD	4,082	6,003
Average	4,120	6,040

Between 1990 and 2001 total public school enrollment in the three Coachella Valley unified school districts increased from 39,771 to 59,266 students. During this period Coachella Valley schools' annual per pupil spending increased from a valley-wide average of \$4,120 per pupil in 1990 to \$6,040 in 2001.

Children Enrolled in Free or Reduced School Meal Programs, total and % of students, 1990-2001

	(1990)	(2001)
Coachella Valley USD	6,727 (71%)	11,888 (90%)
Desert Sands USD	5,739 (36%)	12,492 (49%)
Palm Springs USD	4,505 (31%)	12,887 (60%)

Despite the commitment by the school districts and taxpayers to keep pace with the growing population of children in the region, levels of need for the valley's children are increasing. As the chart shows, the percentage of children requiring subsidies in order to eat at school has grown significantly over the past decade. In the Coachella Valley Unified School District, nine out of ten children enrolled in school meal programs in 2001. The largest percentage increase falls to Palm Springs Unified, which has nearly doubled its percentage of children requiring food assistance (from 31% to 60%). In absolute numbers, this is an increase from 4,505 children in Palm Springs Unified in 1990 to 12,887 in 2001.⁶⁴ Current performance statistics among area schools show the districts scoring consistently below the statewide average in math, reading, spelling and science

Current Average Test Scores for Coachella Valley Schools

	Math	Reading	Spelling	Science
California Average	659.8	658.9	634.0	678.4
Coachella Valley USD Average	638.2	629.2	604.4	658.8
Desert Sands USD Average	653.3	650.4	623.0	674.4
Palm Springs USD Average	649.6	649.2	621.0	672.1

The numbers are by no means bleak, owing to the efforts of educators, administrators, students and parents. However, as the school districts grow in size it will take extraordinary levels of commitment from the entire community to improve area schools. By all accounts the valley's population will continue to grow, becoming younger and younger with each passing year. Without a reliable yearly fair-share contribution from the tribes directly to local government, the warning signs of today may become the intractable crisis of tomorrow.

Poverty and Healthcare Access

Despite the substantial growth in employment brought by casino expansion in the Palm Springs area, the problem of poverty has only grown. Between 1989 and 1999 the numbers and percentages of children living in poverty has increased in seven of the nine Coachella Valley municipalities.

The impoverishment of children is of course an extension of adult poverty in contexts where wage earners frequently subsist below the federal poverty

Percentage of Children Living in Poverty, Coachella Valley, 1999 and Increase Since 1989 ⁶⁵		
	1999	% increase
Desert Hot Springs	37.6%	+6.5
Coachella	35.4%	+5.2
Palm Springs	28.7%	+5.6
Indio	28.5%	+1.5
Palm Desert	12.5%	+1.7
La Quinta	11.5%	+1.5
Indian Wells	3.4%	+3.4

thresholds. These trends are not encouraging. Employment and poverty are growing simultaneously. This indicates that the jobs being created are not compensating workers enough to move them out of poverty.

Additionally, the prevalence of low-wage workers leads to a greater reliance on publicly funded healthcare programs. The State of California provides healthcare for low-income individuals and families through two programs, Medi-Cal and Healthy Families. Medi-Cal is intended for the poor and Healthy Families provides healthcare for the children of the working poor who are

not eligible for Medi-Cal and cannot access health insurance through their employer. These state and federally funded programs are not free. The costs are borne by tax-paying individuals and businesses throughout the state.

The tribal casinos are commonly lauded as an economic development success, creating jobs and moving people off of public subsidies and welfare. However, the record of success locally is unremarkable. In the region, the percentage of the population that qualifies for Medi-Cal assistance has pretty much followed the same pattern as found throughout Riverside County and the state of California. This illustrates that the appearance of the casino industry has had little material impact on broader indicators of social and economic health.

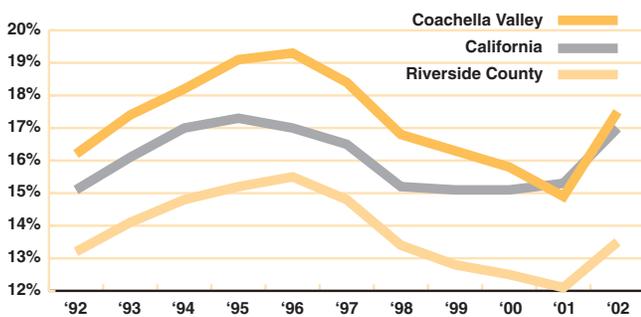
Indeed, over the last decade the percentage of the population eligible for Medi-Cal locally has consistently been 3.5% higher than what we find throughout Riverside County. However, in 2002, for the first time, this difference exceeded 4% as Medi-Cal eligibility rose at a significantly greater rate locally than in Riverside County as a whole. This differential is significant for at least two reasons: first, because even slight increases in eligibility result in

substantial public charges at a time when the state of California faces a massive budget deficit, and second, because it reveals yet again that significant growth in casino employment has not had a dramatic effect on the need for public assistance.

According to state figures, the Healthy Families program costs an estimated average of over \$1,000 per enrolled child annually. The current enrollment in the program in the Coachella Valley is 8,255 equaling a cost of over \$8.4 million dollars annually.⁶⁶ When wage earners remain in need of public healthcare subsidies, these workers, along with other taxpayers,

are left to pick up the bill, essentially subsidizing the healthcare costs of employers through tax dollars. We do not in fact know how many employees of the tribal casinos in the area are enrolled in either the Healthy Families or Medi-Cal programs. As the tribes and the state begin Compact renegotiations in March, this is one area in need of further examination and study to determine whether the casinos create jobs that leave workers and their families

Percentage of Population Eligible for Medi-Cal Public Assistance



self-sufficient without the need for taxpayer-subsidized health insurance like Medi-Cal and Healthy Families.

A Growing Lack of Affordable Housing

Soaring housing prices and the overall lack of affordable rental units locally is creating a potential housing crisis. “The problem with the growth of the tourism and hospitality industry in the Coachella Valley,” according to John Mealey, Executive Director of the Coachella Valley Housing Coalition, “is the growth of low paying jobs without a corresponding rise in housing the workers can afford.”⁶⁷ The dramatic rise of average sales prices for homes in the region since 1995 suggests why fewer and fewer people in the Coachella Valley can afford to purchase a home.

Average Sales Price, All Homes/Dollars		
	1995	2001
Cathedral City	\$95,826	\$144,873
Coachella	\$76,234	\$103,038
Desert Hot Springs	\$73,557	\$97,250
Indian Wells	\$488,298	\$629,885
Indio	\$112,961	\$158,340
La Quinta	\$198,277	\$301,072
Palm Desert	\$199,318	\$268,898
Palm Springs	\$139,855	\$212,653

According to the July 2002 affordability index published by the California Association of Realtors, only 24% of local households earn enough to buy a median priced home in the Coachella Valley. This figure is a full eight percentage points lower than in July 2001 when 32% of households could afford a median home.⁶⁸ A median priced home in the Coachella Valley is \$221,360, up from \$172,060 just one year earlier. The rising housing costs will increasingly price working families out of the local housing market.

And with a current (2001) Coachella Valley population of 330,102 and a forecasted (2020) population of 522,465, the need for solutions to the crisis in affordable housing is urgent.⁷⁰

Source: RAND California, Housing Prices and Transaction Statistics

In the midst of this rapidly developing crisis, the City of Palm Springs recently recommended to the Agua Caliente Tribe that “the City and Tribe should develop a cooperative program...to develop new affordable

Affordability Index, July 2001-July 2002, Percent of local households that can afford to purchase a median-priced home by region) ⁶⁹		
	2001	2002
United States	55	55
California	32	28
San Bernardino Co.	47	43
Riverside Co.	43	38
Coachella Valley	32	24

housing.”⁷¹ The City, responding to the Tribe’s projection that their New Spa Casino would employ 975 people, made the following observations: “The City has identified a considerable need for family rental housing in the City, which is the most expensive and most difficult to develop. The largest source of funds available to the City is the low

and moderate income housing set-aside from redevelopment tax increment. Since the Tribe will probably not pay property taxes on the casino, it will not generate tax increment or housing funds to the Agency or City.”⁷²

The Tribe’s response: “The Tribe sees the availability of affordable housing as a regional issue affecting all businesses and not an issue generated by individual businesses such as the Spa Casino. As such, the Tribe is wary of any proposals that require a business to construct affordable housing for its workers as a remedy for this regional problem.”⁷³ No mention was made of the fact that other “individual businesses” are subject to a whole range of taxes including the property taxes that help fund affordable housing programs.

Conclusion

The Palm Springs area is being reshaped by the explosive growth of Indian gaming. This report takes a close look at the local region and one tribe in particular, the Agua Caliente Band of Cahuilla Indians—the only tribe in the state with two casinos, one of which lies in the center of downtown Palm Springs. Tribal gaming locally is generating incredible profits and has grown at a staggering pace. There is no indication the growth will slow down anytime soon. Additionally, that growth will only accelerate if the state allows more than 2,000 slot machines per tribe in the March 2003 compact renegotiations. The slot machines are the cash engines of tribal casinos accounting for approximately 70% to 85% of an operation's revenues. California is already close to surpassing Las Vegas casino revenues and is expected to generate more gaming industry revenues than Nevada as a whole within the next 10 years.

Tribal Nation status must be honored and protected along with the local communities near and around casinos. Tribal gaming is lifting many Native American communities out of poverty and creating thousands of jobs mostly for non-Indians. However, many of the casinos provide relatively low-wage jobs and employer-provided, affordable family health care is out of reach for a large number of the employees.

Under the current gaming compact between tribes and the state, California receives about 2% of the casino industry's revenues. Those monies may be available for a range of purposes including to help pay for the impacts of the casinos on local communities. Yet, while California's casino industry reaps revenues second only to Nevada, it ranks 14th among gaming states in the amount of revenue it returns to the state.

Tribal casinos impact state and local public services—increasing the costs and potentially lowering the quality of service. Negative impacts include greater law enforcement and fire protection needs, traffic mitigation and road maintenance, water and sewage extension and maintenance, augmented social services (including family health care and affordable housing), open space conservation and the added cost to infrastructure extension.

Tribal casinos in the Palm Springs area do not transfer funds to state and local government like other businesses. Yet, local government and local taxpayers must attend to the impacts of the casinos for the overall future, health and safety of the community.

A number of gaming tribes in California have signed comprehensive agreements with local government to pay for municipal services, infrastructure and other local impacts. The state should do whatever possible to encourage more fair-share agreements between tribes and local communities while preserving and respecting Tribal Nation status. Developing a just method to ensure that adequate financial resources get to the communities impacted by these casinos, which are high-intensity developments that operate 24 hours a day, seven days a week, will enable tribal casinos in the Palm Springs area to continue to fairly benefit both tribal governments and the communities where they are located. There are models elsewhere in the state for these types of

government-to-government financial transfer agreements to mitigate the impacts of tribal casinos on local communities that we can look to as the industry continues to expand.

Notes

1 According to the 2000 Census county population numbers, Los Angeles, San Diego, Riverside and San Bernardino Counties add up to 15,587,992 people.

2 Cited in press release from California Nations Indian Gaming Association, "Tribal Government Employment Continues to Soar," December 18, 2002, Sacramento, CA.

3 National Indian Gaming Association, , February 5, 2003, *Los Angeles Times*, November 5, 2002, and *The Arizona Republic*, October 2, 2002.

4 American Gaming Association, "State of the States: The AGA Survey of Casino Entertainment," 2002.

5 Las Vegas News Bureau.

6 National Indian Gaming Association.

7 The tribes are not compelled to make their revenue figures public, so a Coachella Valley aggregate annual revenue estimate was made based upon an estimate of an average \$254 per day per slot machine revenue. There are 7,649 slot machines in Coachella Valley tribal casinos (Casino Morongo has 2,000, the Agua Caliente casinos have a combined 2,000, Trump 29 has 2,000, Fantasy Springs has 1,300 and the Augustine casino has 349). The \$254 estimate is consistent with the recent reports that the Special Distribution Fund would take in about \$100 million. The California Gambling Control Commission (CGCC) expects to collect \$96 million to \$100 million annually. We derived our \$254 per device per day average by working backward from this estimate. We have found that the average per day slot machine revenue is between \$248.50 and \$259 for the 29,837 machines operated by the 28 tribes that pay into the SDF. Of these machines, 17,641 are subject to a variable rate to establish the annual collection. The first 200 slots in each of the 28 tribes the levy is 0%, the next 300 are subject to a 7% fee, the next 500 are subject to a 10% levy and any remaining machines (above 1,000) are subject to a 13% fee. The formula used to establish the average per device per day estimate is below.

FORMULA

{Formula for tribes that have more than 1,000 slot machines} $(((300*7\%) N^{*365}) + ((500*10\%) N^{*365}) + (((total \# \text{ of slot machines} - 1000)*13\%)* N^{*365})) +$ {Formula for tribes that have between 500 and 1,000 slot machines} $(((300*7\%) N^{*365}) + (((total \# \text{ of slot machines} - 500)*10\%)* N^{*365})) +$ {Formula for tribes that have less than 500 slot machines} $((total \# \text{ of slot machines} - 200)*7\%) N^{*365} = \$96,000,000 \text{ to } \$100,000,000.$

N = \$259 per day per slot machine (\$100 million SDF)

N = \$253.75 per day per slot machine (\$98 million SDF)

N = \$248.5 per day per slot machine (\$96 million SDF)

8 "Investment Advisors Grade Valley Casinos," *The Desert Sun*, February 27, 2001.

9 "The Economic Impact of the Mashantucket Pequot Tribal Nation Operations on Connecticut," prepared by the Connecticut Center for Economic Analysis, the

University of Connecticut, November 28, 2000.

10 Tribal population figure from the "1999 Tribal Information and Directory," prepared by the Bureau of Indian Affairs Sacramento Area Office.

11 "Investment Advisors Grade Valley Casinos," *The Desert Sun*, February 27, 2001.

12 "Indian casinos on a Roll," *Los Angeles Times*, November 22, 2002.

13 See endnote 7.

14 "The Economic and Fiscal Benefits of Indian Gaming in California," prepared by Analysis Group/Economics, Inc. for Californians for Indian Self-Reliance, July 6, 1998, pp. 7 & 10. Direct expenditures or net revenues at California tribal casinos in 1997 were \$1.365 billion and the net profit was \$632 million according to the report.

15 National Gambling Impact Study Commission Final Report, June 1999, p. 6-20.

16 Draft Update on Impacts of Tribal Economic Development Projects in San Diego County, July 2002, prepared by San Diego County, p. 127. If tribal members live and work on their reservation, they are exempt from paying state income, excise and sales taxes. They are exempt from state excise and sales taxes when the goods are purchased on the reservation for use on the reservation.

17 "Draft Update on Impacts of Tribal Economic Development Projects in San Diego County," July 2002, p. 128.

18 Figures for commercial gaming states come from the American Gaming Association report, "State of the States: The AGA Survey of Casino Entertainment" (2002). Figure for Connecticut cited in the Wisconsin Policy Research Institute report, "Not Exactly 'A Fair Share': Revenue Sharing and Native American Casinos in Wisconsin," February 2002.

19 As discussed in the next section, only 28 California tribes pay into the Special Distribution Fund established under the Tribal-State Compact. These 28 tribes pay a percentage of the net win from the number of slot machines in operation at the time the current compact was negotiated in 1999. California tribes do not pay revenue into the SDF from slot machines added after the 1999 compact was finalized.

20 The Revenue Sharing Trust Fund distributes up to \$1.1 million to every non-compact tribe-which includes all tribes with fewer than 350 slot machines or no gaming operation whatsoever. In the case of the Agua Caliente, which operates the maximum 2,000 slots in their two casinos, the contribution to the Revenue Sharing fund is \$549,150 annual. This sum represents about 1/11th of what they would pay in under the cardroom fee structure.

21 Interview with Deputy Director of Licensing and Compliance Gary Qualset, December 17, 2002.

22 Ibid.

23 "Stakes high as tribes, state renegotiate gambling compacts," *Sacramento Bee*, January 20, 2003.

24 "A Game of Casino Hardball," *Los Angeles Times*, November 5, 2002 and the California Gambling Control Commission.

25 "Draft Intergovernmental Agreement Between the County of Yolo and the Rumsey Band of Wintun Indians Concerning the Mitigation for Off-Reservation Impacts Resulting from the Tribe's Casino Expansion and Hotel Project," October 2, 2002.

26 "County gives nod to casino pact," *The Press Enterprise*, October 23, 2002.

27 “Yuba County officials weigh deal for casino: Critics say the plan is being rushed despite its lucrative terms,” *Sacramento Bee*, December 12, 2002.

28 The hotel guest pays the transient occupancy tax otherwise known as the bed tax.

29 The estimate for the Agua Caliente revenue is based on our \$254 per device per day average net revenue. (See endnote 7 to see how this average is derived.)

30 The bed tax arrangement is based on conversations with City finance staff over 2002. The City would not make the text of the actual agreement public.

31 December 5, 2002 letter from the Palm Springs City Manager to the Palm Springs City Council.

32 This figure is derived by dividing the average annual transfer from the five California tribes who have comprehensive local fair share agreements with their local communities by the average size of the casino facility. The average annual transfer is \$2,695,795 and the average casino facility size is 185,100sf. The five California tribes are the Picayune Rancheria of Chuckchansi Indians, the United Auburn Indian Community, the Tuolumne Band of Me-Wuk Indians, the Rumsey Indian Rancheria of Wintun Indians and the Enterprise Rancheria of Maidu Indians. The respective counties to receive fair share annual transfer payments are Madera, Placer, Tuolumne, Yolo and Yuba.

33 This figure uses the moderate assumption of \$254 per device per day for 2,000 slot machines. (See endnote 8 to see how this average is derived.)

34 Attributing the conservative estimate of \$112 million dollars across the graduated tax structure generates the Bell Gardens “Tax Rate”. Calculated at the top of the taxing structure, the computation of the fee is \$163,200 + 13.2% of the amount of revenue over \$1.6 million (or \$14.7 million). Then working back the fee is found to be 13.16% of the “Casino Total Annual Revenue”.

35 Based on our estimate of \$185 million in revenues on the slot machines.

36 This figure uses the assumption of \$254 per device per day for 2,000 slot machines. The Agua Caliente tribe pays a varying percentage on the net win of 1,153 of their 2,000 slot machines. (See endnote 7 to see how this average is derived). According to the California Gambling Control Commission, the Agua Caliente tribe pays a varying percentage on the net win of 953 of their 2,000 slot machines. The tribe had 1,153 slot machines at the time the current compact was negotiated and does not pay on the first 200 machines.

37 “The Economic and Fiscal Benefits of Indian Gaming In California,” Analysis Group/Economics, Inc., July 6, 1998; “Gambling Pays Off, tribes say,” *Spokane Spokesman-Review*, July 17, 2002; and “Economic Studies of Indian casinos Show Dramatic benefits for Many Regions,” *Indian Country Today*, December 16, 2002.

38 Coachella Valley Association of Governments, Letter to State Senator Jim Battin, 1/29/01.

39 “Spa Resort Casino: Project Report,” prepared by Agua Caliente Band of Cahuilla Indians, September 16, 2002, p. 1.

40 Ibid.

41 “Traffic Study Update,” October 21, 2002, p. 4-1.

42 The 10% figure is deduced from the claim that the current gaming facility operates at an activity level of 90%, see “Traffic Study Update,” p.4-1.

43 “Traffic Study Update,” October 21, 2002, p. 1-1.

44 See Rowe, Mohamed, and Ackeret, "Trip Generation Rates for Las Vegas Area Hotel-Casinos," (*ITE Journal*, May 1992).

45 "Draft Update on Impacts of Tribal Economic Development Projects in San Diego County," July 2002, p. 88-9.

46 "Environmental Assessment of the Agua Caliente New Casino Project," prepared for the Agua Caliente Band of Cahuilla Indians by KEA Environmental, Inc., April 2000, pp. 25-26.

47 "Update on Impacts of Tribal Economic Development Projects in San Diego County," July 2002, p. 88.

48 Harrah's Rincon Casino and Resort consists of a 45,000sf gaming facility and a 201-room hotel.

49 "Rincon Band makes first payment" North County Times, December 5, 2002. The San Pascual Band's Valley View casino is a 195,000sf facility. The Pauma Band's casino is an 80,000sf facility.

50 Memorandum, November 5, 2002, from Thomas Davis, Agua Caliente Band of Cahuilla Indians Chief Tribal Planning Officer to Doug Evans, City of Palm Springs Director of Planning and Zoning, p. 1A54.

51 "Road Improvements Planned," *The Desert Sun*, April 11, 2001.

52 CA 5196.0 (96)/3741.9(00); LA 7435.1(96)/4881.6(00); Palm Springs 6988.0(96)/7557.9(00). FBI Crime Index, RAND California.

53 For comparative purposes we designate these cities as "casino cities," while other Coachella Valley municipalities (Cathedral City, Desert Hot Springs, La Quinta, Palm Desert and Rancho Mirage, unless otherwise noted) are hereafter referred to as "non-casino cities."

54 Indio 8387.0(90)/4763.3(95); Coachella 5939.8(90)/3960.4(95); Palm Springs 10640.5(90)/8842.6(95). FBI crime index, RAND California.

55 Public safety spending constituted 46% of Palm Springs budget in 2000-01.

56 The category of similar sized cities (or comparably sized) includes all California cities with populations between 41,450 and 45,450 in 2000. As such, we believe it provides a useful comparative measure as applied to public safety expenditures. All public safety expenditure figures from RAND California.

57 RAND California.

58 Conformity Report, from the Palm Springs City Manager to the Palm Springs City Council, December 5, 2002, p. 7. The estimated increases would bring casino calls to 1.65 daily, 600 annually and downtown calls to 21.34 daily, 7,788 calls annually.

59 Conformity Report, p. 7.

60 Memorandum, November 5, 2002, from Thomas Davis, Agua Caliente Band of Cahuilla Indians Chief Tribal Planning Officer to Doug Evans, City of Palm Springs Director of Planning and Zoning, p. 6.

61 Ibid, p. 6.

62 Ibid, p. 10.

63 For a superb study on this type of area impact, see "Schools, Taxes and Jobs," published by The Connecticut Center For A New Economy, on the poor performance of New Haven schools in relation to the tax-exempt status of Yale University.

64 Source for all education statistics: RAND California.

65 U.S. Census Bureau statistics, 1990 and 2000.

66 This estimate is based on an average cost for Health Family enrollees of \$85 per month times the 8,255 enrollment count provided by the Managed Risk Medical Insurance Board Home Page, www.mrmib.ca.gov, "Current Enrollment By Zip Code: Riverside County."

67 "Weathering the Recession," *Desert Post Weekly*, January 10, 2002.

68 All figures on the findings of the California Association of realtors are cited from "Affordability of Valley Housing Declines Again," *The Desert Sun*, September 6, 2002.

69 California Association of Realtors.

70 Southern California Association of Governments Forecast cited in "Affordable Living Needed in the Desert," *The Press Enterprise*, November 22, 2002.

71 Conformity Report, p. 7.

72 Ibid., p. 7

73 Memorandum Davis to Evans, November 5, 2002, 1A57.

