Presentation to the Indian Gaming Forum

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THE PAST, PRESENT, & FUTURE DEVELOPMENTS OF CALIFORNIA’S TRIBAL GAMING INDUSTRY

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IMPORTANT PRINCIPLES REGARDING TRIBES IN USA

• Tribes are defeated sovereign nations, subject to Federal authority, but autonomous from, and with similar legal rights as, state, and local governments

• Policy toward tribes and tribal members in the 1950s
  – Assimilate or disperse
  – Tribal schools: Paternalism and abuse

• Economic and social conditions on the Reservation => Largely dysfunctional
  – Very high unemployment and poverty rates
  – High rates of suicide, alcoholism, divorce
  – High drop-out rates from school
IMPORTANT DEVELOPMENTS IN INDIAN GAMING LAW

• Seminole v. Butterworth (1982), established distinction between civil law and criminal law re: State v. tribal authority
  – Permitted unregulated bingo on tribal lands in Florida

• California v. Cabazon Band of Mission Indians (1987) => civil v. criminal law
  – 20th anniversary celebrated October 2nd

• IGRA (Public Law 480, 1988)
  – Class I, Class II, and Class III Gaming
  – Establishment of a National Indian Gaming Commission
UNDERLYING POLITICAL ISSUES WITH TRIBAL CASINOS

• Tribes are governments
  – Sovereignty is often the most important principle
  – Tribal Councils; internal politics can be dramatic => much variation from tribe to tribe
  – Pressure for distributions from tribal members

• Labor, Legal Issues
  – Consumer and worker rights determined by tribal law; labor unions controversial

• Management contracts v. key employees
  – Harrah’s, Station, Lakes Gaming v. management teams as employees
  – Partnerships very important for negotiation, construction, start-up, but less important after expiration of first contract

• Relationship with local communities
  – Job creation, economic stimulation, capital investment
  – Property not on tax roles
  – Casinos increase demand for public services, infrastructure
  – Memoranda of Understanding (MOUs)
FUNDAMENTALS

• Tribal gaming in each state has evolved on its own, based on:
  – Permitted gaming within the State
  – Willingness of the State to negotiate
  – Outcomes of court cases
  – Outcome of an initiative or referendum

• Federal court cases have often surprised states
  – Connecticut (Ruling favoring the Pequots, 1990)
  – Wisconsin (Judge Crabb’s decision, 1990)
MORE FUNDAMENTALS

• Tribal councils do not have to reveal their results or their distributions of profits to outsiders (but they do to NIGC)
  – Full distribution, re-investment, trust funds, etc.

• Tribal membership is a function of political decisions by the tribe and tribal council
  – Some tribes are stable and “corporate”
  – Some reward friends and punish enemies => tribal politics can be contentious and brutal

• Rights of the National Indian Gaming Commission (NIGC) to oversee has been challenged, i.e. MICS standards
ONGOING LEGAL DISTINCTIONS

• Class II v. Class III gaming
  – IGRA permits bingo as a Class II game, and it also authorizes electronic enhancements of Class II games
  – NIGC and Class II; Oklahoma, Florida, and San Pablo

• Contributions to the State v. taxation
  – States cannot tax tribal casinos
  – Tribes can contribute to the State in exchange for something of “substantial economic value”

• The role of non-tribal interests
  – Seven years max contract, 30% share of profits
  – Grand Casinos, Harrah’s, Station Casinos
  – Financing by Trading Cove, Genting, others => Trading Cove received $1 billion from Mohegan Sun; Genting receives 9.9% of GGRs until 2016
CURRENT POLICY CHALLENGES AND CONTROVERSIES

• Legal rulings: Are tribes totally immune from labor laws and campaign laws?

• Political challenges: Labor unions in California still fighting the current round of amended compacts

• “Reservation Shopping:” Finding a willing (landless) tribe, a willing jurisdiction, and an opportunistic company
  – San Pablo; Richmond; West Sacramento; West Oakland; Rohnert Park; Los Angeles; Orange County
STAGES OF DEVELOPMENT FOR INDIAN GAMING

• **First Stage**: Primitive and pragmatic: slot machine warehouses, converted bingo halls

• **Second Stage**: Nice gaming facilities with landscaping, some restaurants, light entertainment, occasionally retail and other ancillary offerings

• **Third Stage**: Multi-dimensional destination resort facilities with broad range of restaurants, substantial hotels, golf courses, convention facilities, high quality entertainment, interesting architectural features
EXAMPLE OF FIRST GENERATION TRIBAL CASINOS
ROBINSON RANCHERIA (Clear Lake)
EXAMPLES OF SECOND GENERATION TRIBAL CASINOS
CASINO MORONGO (original facility)
EXAMPLES OF THIRD GENERATION TRIBAL CASINOS
FOXWOOD’S, LEDYARD, CONNECTICUT
MOHEGAN SUN, UNCASVILLE, CONNECTICUT
US Casino Competition 1963 to 2006

Total $61.5 Billion

- **Nevada Total**: $248 million (100%)
- **Nevada**: $12.6 (20.5%)
- **Other Coml Casinos in 10 States**: $19.6 (31.9%)
- **Other Tribal Casinos in 27 States**: $18.0 (29.3%)
- **CA Tribal Casinos**: $7.7 (12.5%)
- **Racinos**: $3.6
DIMENSIONS OF INDIAN GAMING:
NATIONAL PERSPECTIVE

• 2006 revenues: $25.7 billion in 423 locations (v. about $31.7 billion for commercial casinos in 11 states, and $3.7 billion at racinos in 11 other states);

• 90% of total resort revenues from gaming

• 2005 comparisons: $22.6 billion revenues at 422 tribal casinos; largest 21 casinos (at $250m+) brought in $9.7 billion

• Some tribes very well off (i.e. Connecticut, some Minnesota, some California) whereas others benefit hardly at all (i.e. Cherokee in Oklahoma, Navajo in Arizona, Oglala Sioux in the Dakotas) => small proportion of “wealthy” tribes from Indian gaming
USA Consumer Spending 2006 in $Billions

- Home Remodeling: $294.5
- Quick-Service Meals: $142.9
- Soft Drinks: $70.1
- Cable TV: $68.2
- Sports Equip: $66.4
- Casino Gaming: $61.5
- Bookstores: $16.1
- Specialty Coffees: $12.3
- US Movie Box Office: $9.5

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California Indian Tribes

106 Federally Recognized- 36 Non-Recognized

- 1988 - NIGRA Approved
- 1990 - Class II/III casinos opened
- 1999 - 39 Tribal casinos, 18,149 slots, 701 tables, $1.2 B rev
- 1999 - September - Gov. signed compacts w/ 57 Tribes
- 2000 - March - Proposition 1-A approved
- 2001 - 48 Tribal casinos $2.9 B revenue
- 2002 - 51 Tribal casinos $3.7 B revenue
- 2003 - 54 Tribal casinos, $4.7 B revenue
- 2006 - 57 Tribal casinos 62,039 slots, 1,509 tables, $7.7 B revenue
DIMENSIONS OF INDIAN GAMING: STATE OF CALIFORNIA

- In 2006, 57 tribal gaming operations offered by 54 tribes
- There were 62,732 gaming devices and 1,998 table games
- 2006 gaming revenues were approx $7.7 billion or 30% of all tribal gaming revenues nationally, and nearly 12.5% of all gaming revenues generated by all legal casino gambling in the United States
- Considerable potential for further growth indicated by:
  - High existing profit margins, reflecting supply/demand imbalances
  - Newly negotiated and ratified compacts between tribes and the State of California will permit expansions of existing casinos and the addition of some new tribal casinos
  - Some geographic areas are still under-serviced, but there are indications that new or expanded tribal casinos will fill in the gaps
SIGNIFICANT PERIODS FOR CALIFORNIA TRIBAL CASINOS

- **1988-1998**: Post-Cabazon era dominated by refusal of State of California to enter into a compact with tribes

- **1998-2000**: Proposition 5 and Proposition 1A => Legitimizes and legalizes tribal casinos
  - About 20,000 gaming devices and $1.4 billion in GGRs

- **2003**: The recall election and Governor Schwarzenegger => “Fair share”

- **2004-2007**: Compact renegotiations => expand number of slot machines (or casino sites) for payment to the State
DISTRIBUTION OF TRIBES AND TRIBAL LANDS IN CALIFORNIA
SIGNIFICANT CALIFORNIA TRIBAL CASINOS

• Thunder Valley
• Cache Creek
• Rolling Rock
• San Pablo (Class II)
• Jackson Rancheria
• Chumash
• San Manuel
• Morongo
• Agua Caliente
• Spa Resort

• Spotlight 29
• Fantasy Springs
• Pechanga
• Pala
• Harrah’s Rincon
• Viejas
• Sycuan
• Barona Valley
• (Shingle Springs)
• (Caliente #3)
<table>
<thead>
<tr>
<th>October-2007</th>
<th>North</th>
<th>No Central</th>
<th>So Central</th>
<th>South</th>
<th>Total</th>
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<tr>
<td>Casinos</td>
<td>11</td>
<td>16</td>
<td>6</td>
<td>24</td>
<td>57</td>
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<tr>
<td>Gaming Positions x Bingo</td>
<td>5,015</td>
<td>18,949</td>
<td>9,337</td>
<td>46,093</td>
<td>79,394</td>
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<td>Population</td>
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<td>11,123,725</td>
<td>2,292,795</td>
<td>22,044,255</td>
<td>35,979,311</td>
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<td>Pop per Gaming Pos</td>
<td>103</td>
<td>587</td>
<td>246</td>
<td>478</td>
<td>453</td>
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</table>
MEASURING SUPPLY/DEMAND IMBALANCES: WIN/UNIT/DAY and POPULATION PER SLOT MACHINE

- Chicago Market: $375/695
- Connecticut: $352/825
- Louisville: $325/529
- Windsor/Detroit: $320/415
- Atlantic City*: $283
- St. Louis: $260/306
- Kansas City: $210/240
- Las Vegas Strip*: $182
- Reno*: $114
- Carson City/Carson Valley: $67/22
- California: $337/576

*Tourist market
Impact of California Casinos on Northern Nevada

Washoe County Gaming Revenues
All Non-Restricted Locations ($000) 1980 - 2006

Source: NVGCB & Wells Gaming Research

Trend growth at 3% per ye:
show gap of $295 mil by 200

Gaming revenue bottomed in 200,
down $115 mil from 2000 peak

$1,361,778
Competitive Impacts on Non-Resort Casinos
Illustrated by Washoe County & Reno Gaming Revenue Growth Rates
All Non-Restricted Locations 1980 - 2006

-3%  -2%  -1%  0%  1%  2%  3%  4%  5%  6%  7%  8%


5.82% annual growth rate during 1980s
3.43% annual growth rate during 1990s

67 Tribal Casinos Open in CA(38), WA(21), & OR(8)
First Wave of Tribal Casinos
Silver Legacy Opened July 1995
CA Prop 5 March 2000

98 Tribal Casinos CA,WA,OR
Second Wave

Economic Slowdown Jan 2001
57 CA Casinos 12/06 with 62,000 slots

911 Thunder Valley Opened Jun 2003

Source: Wells Gaming Research
38% Decline in number of table games
Washoe County # of Units

<table>
<thead>
<tr>
<th>Month</th>
<th># of Units</th>
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<tbody>
<tr>
<td>Jan-92</td>
<td>21,000</td>
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<td>Jul-92</td>
<td>22,000</td>
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<td>Jan-93</td>
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<td>Jul-06</td>
<td>46,000</td>
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<tr>
<td>Jan-07</td>
<td>47,000</td>
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Source: Nevada GCB and Wells Gaming Research

44% Decline in Number of Slot Machines
RECENT DEVELOPMENTS IN CALIFORNIA TRIBAL GAMING AND THEIR IMPLICATIONS

- Revised 2004-2007 Compacts: Potentially expand the number of gaming devices from 62,000 to about 85,000 (for revenue share) Recall Petition

- Strategic positioning among the tribes on both gaming and non-gaming amenities
  - Decisions to expand size of casinos, tempered by cost obligations to the State
  - Expand non-gaming amenities for product differentiation and positioning

- Class II v. Class III gaming
  - Class II.9 vs. “electronic recreations of bingo”
## Potential Expansion at Existing Casinos

<table>
<thead>
<tr>
<th>Existing 57 Casinos</th>
<th>North</th>
<th>No Central</th>
<th>So Central</th>
<th>South</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Est New Gaming Positions</td>
<td>0</td>
<td>2,036</td>
<td>0</td>
<td>21,598</td>
<td>23,634</td>
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<tr>
<td>New Total Gaming Pos</td>
<td>5,015</td>
<td>20,985</td>
<td>9,337</td>
<td>67,691</td>
<td>103,028</td>
</tr>
<tr>
<td>Pop per Gaming Pos</td>
<td>103</td>
<td>530</td>
<td>246</td>
<td>326</td>
<td>349</td>
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<tr>
<td>% Increase</td>
<td>0%</td>
<td>11%</td>
<td>0%</td>
<td>47%</td>
<td>30%</td>
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### Potential Expansion from New Casinos

<table>
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<th>Proposed New Casinos</th>
<th>North</th>
<th>No Central</th>
<th>So Central</th>
<th>South</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposed Casinos</td>
<td>4</td>
<td>11</td>
<td>4</td>
<td>12</td>
<td>31</td>
</tr>
<tr>
<td>Proposed Gaming Positions</td>
<td>420</td>
<td>22,462</td>
<td>8,095</td>
<td>17,644</td>
<td>48,621</td>
</tr>
<tr>
<td>Total if All Get Built</td>
<td>15</td>
<td>27</td>
<td>10</td>
<td>36</td>
<td>88</td>
</tr>
<tr>
<td>Total gaming positions</td>
<td>5,435</td>
<td>43,447</td>
<td>17,432</td>
<td>85,335</td>
<td>151,649</td>
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<tr>
<td>Pop per Gaming Pos</td>
<td>95</td>
<td>256</td>
<td>132</td>
<td>258</td>
<td>237</td>
</tr>
<tr>
<td>% Increase</td>
<td>8%</td>
<td>129%</td>
<td>87%</td>
<td>85%</td>
<td>91%</td>
</tr>
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</table>
PREDICTIONS FOR THE FUTURE

- Few new tribal casinos in near term (Shingle Springs, Caliente #3, Rohnert Park)
- Capacity at existing casinos set to expand by as much as 30% with 2004-2007 compacts
- Longer term, some of the 30 plus proposed new casinos will get approved and built
- Revenue growth for tribal casinos will moderate (less than proportionate to physical expansions)
- Profit margins will be disproportionately squeezed
- Location advantages and disadvantages will remain and perhaps strengthen some casinos
PREDICTIONS FOR THE FUTURE

• Greater attention will be paid to non-gaming amenities, but it will be hard to get significant contributions from those areas
• Increased competition will increase the importance of scientific management and customer relations
• Competitive impacts will continue for border states that have relied on customers from California
• Competitive impacts will be felt at California Tribal Casinos as well