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Casino Journal
May, 2000

Gold Rush

Who Will Cash In On California's New Tribal Casinos?

The California ballot question known as Proposition 1A was really no question at all. By March 7, everybody knew which way the vote would go.

- A bitter twelve-year stalemate between the state and its tribes had proved Indian gaming would never be uprooted from California's economy.
- In a previous election, Californians had enthusiastically approved a similar measure, Proposition 5 -- which would have already taken effect except for wording struck down in the state's high court.
- In the days before the election, newspaper polls showed 2-1 favor for Proposition 1A.
- By March, nearly 60 tribal casino compacts were waiting in the wings, already signed by Governor Gray Davis and approved the state legislature.
- Even the Nevada casino interests that fought tooth and nail against Proposition 5 two years ago sat back in total resignation.
- And the tribes themselves were so confident of victory, they spent about one third the amount to back Proposition 1A as Proposition 5.

Sure enough, the measure breezed through the polls 65% to 35% on Election Day. Victory was so certain it was almost anti-climactic.

But the fact that we all knew Proposition 1A would pass does not make it a non-event. The vote was probably the most important event in California's gaming history -- and could significantly unbalance the economies of surrounding gaming markets for years to come.

What Proposition 1A does, specifically, is allow the state's governor and tribes to make compacts for Las Vegas-style casino gambling. Though dozens of tribes have been running illegal casinos for years, they can now legitimately host slots, lotteries and banked and percentage card games. Only roulette and craps are still illegal.

This new legitimacy heralds an explosion of Vegas-style casinos across California, as the existing compacts take effect and new deals are arranged with the state's remaining 50 tribes. The new and expanded casinos will probably start opening their doors in 2001, operating up to 100,000 slot machines in all.

Predictions at times like these are always optimistic, but even half of the \$5 billion in revenue projected for California's tribal gaming industry would be staggering. Many say the Golden State will quickly become one of the nation's top gaming markets, rivaling Atlantic City, Mississippi, Las Vegas and Reno.

The obvious problem is that the latter two markets are a little too close for comfort. There's a good reason why Nevada casino interests shelled out \$25 million fighting Proposition 1A's

predecessor: one of three Nevada casino patrons come from California. As the state's tribal casinos begin to offer the amenities and conveniences of full-scale gaming resorts, there's no question that Vegas' bottom line will feel the pinch.

Analysts say the Vegas strip will probably withstand the competition and will remain secure in its position as the nation's top gaming and entertainment destination.

That might not hold true for smaller, less concentrated markets like Lake Tahoe and Reno, as well as the less attractive attractions in downtown Las Vegas. Some say Reno alone stands to lose \$230 million to the California tribal casinos in the next four years.

And so, for many of the Nevada developers who've given up on the idea of beating the tribes, joining them has become a very popular backup plan.

Immediately after the measure was passed, several big industry players like Station Casinos, Harrah's and Trump Casinos announced management contracts with California tribes. With their connections and investments, these experts can help build their tribal partners into top-notch gaming destinations with all the amenities and appeal of their own facilities. Perhaps profits will even compensate -- if not surpass -- losses related to competition and market pressure.

The same windfall could also benefit associated businesses like slot machine makers, with the opportunity to supply tens of thousands of new machines.

The catch, it seems, will be building facilities that rival Las Vegas and Reno, without actually *looking* like either one. For economic and political reasons California casinos will definitely need to have a distinctive look and identity, equal to but separate from traditional gambling Meccas.

Take, for example, Palm Springs -- predicted to be the jewel of California's golden crown. With its famous climate and already flourishing tourism industry, it's a top target for developers.

Just one day after Proposition 1A passed, Trump Hotels and Casinos announced a deal with the Twenty-Nine Palms Band of Mission Indians for a \$60 million expansion of their existing Spotlight 29 casino near Palm Springs.

Not long afterward, the Agua Caliente tribe announced plans to spend at least \$150 million on renovating its casino in downtown Palm Springs, and to build an additional \$80 million facility just outside of town.

But Palm Springs' newest neighbors shouldn't hold their breath waiting for the Welcome Wagon. Residents of the area have battled casino development for years, specifically shunning the prospect of becoming another Las Vegas. They've had little say in the matter since Proposition 1A was a statewide vote, and local officials are already grumbling about their lack of control, oversight or profit. Legally, they have no choice.

We've certainly seen instances where community resentment and mistrust can quickly freeze a fertile market. Without the cooperation of municipal officials and the blessing of Palm Springs residents, this promising experiment could die on the vine. Very seldom has a casino thrived without the support of its neighbors.

It's critically important, then, that the tribes and companies moving into town keep the fragile goodwill of their neighbors in mind. So far the Agua Caliente have recognized the community's concerns, planning for facilities that blend into the community rather than sticking out like a glitzy sore thumb.

The other advantage of distinguishing these new casinos from those in Vegas, Reno or Tahoe, is the opportunity to cultivate a unique gaming environment that pulls new patrons into the market rather than tapping all its dollars from Nevada.

With new opportunities and partnerships bursting forth across the state, it seems the fierce fights of the past twelve years might be forgotten... almost. While many tribes have been eager to make management deals with their private counterparts, they have suggested they will not be so chummy with the companies that attempted to crush their earlier efforts. Those companies must deal with a double loss -- the \$25 million wasted fighting Proposition 5, and also the lost opportunities in the new market.

That California's tribal casinos would finally be legalized and regulated was inevitable. The form of the Golden State's new gaming industry -- whether it rivals or compliments Nevada, makes friends or enemies of its neighbors -- is for the tribes and their partners to decide. It was a predictable gold rush, but historic nonetheless.

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