

Graton Casino: A Big Gamble?

Summary

Graton Resort and Casino (Casino), the largest Indian casino on the West Coast, opened on November 5, 2013. For the past decade, the City of Rohnert Park (Rohnert Park) and Sonoma County, city, and public safety officials have been preparing for the Casino's opening. The debate continues about whether the Casino will be a boon or burden for the County's economy and quality of life.



The Sonoma County Civil Grand Jury (Grand Jury) initiated an investigation into the preparation for the Casino's opening, public safety issues, and the financial relationships between the Casino and local government entities. The Grand Jury's investigation is limited to activities of government entities within the County. The Federated Indians of Graton Rancheria (Tribe) as a sovereign nation is outside the Grand Jury's jurisdiction.

Millions of dollars have been promised to local governments and public safety departments under agreements signed in 2012. These funds are restricted to mitigating the Casino's effects on Rohnert Park and the County by (1) providing for improvement and maintenance of regional and local roads; (2) meeting the demand for increased law enforcement, fire and emergency services; (3) developing enhanced programs for socioeconomic effects, such as gambling or substance abuse addictions; and (4) ensuring the County's groundwater supply and air quality are protected. Eight months after the Casino opened, the long-term effects are still to be determined.

The Tribe will pay 15 percent of net wins into a state fund during the first seven years of Casino operations and 12 percent thereafter. The state distributes money from this fund to the City of Rohnert Park and the County to pay mitigation expenses. This is done in accordance with separate agreements between the Tribe and each entity to alleviate possible detrimental effects of Casino operations. The Tribe's investment prior to the November opening was estimated to be close to \$1 billion. The Casino is expected to draw six million people annually to the County.

As with any business venture, the Casino's revenues can be affected by competition from similar businesses serving the same customer base. On the plus side, the Casino is more conveniently located, and in a more robust economic area, than casinos in more remote areas. However, additional casinos have been proposed nearby. Casino revenues are also vulnerable to economic variables. Statistics show that casino industry profits declined during the 2007-2009 recession. Were the Casino to fail, the financial impact on Rohnert Park and the County could be serious. Rohnert Park and the County must be careful to allocate and expend mitigation funds in a way that does not create the likelihood of unfunded future obligations. Public safety and services generally could be adversely affected by a downturn in Casino revenues.

Background

The Grand Jury investigated the preparation for the Casino's November 5 opening. It evaluated the effects of the Casino's operations on County citizens and public safety organizations, including law enforcement, traffic management, fire, and emergency medical services. The Grand Jury also reviewed the Casino's financial arrangements with Rohnert Park and the County. The Tribe itself, as a sovereign nation, is outside the Grand Jury's jurisdiction.

Approach

The Grand Jury researched news media reports leading up to and following the Casino's opening and gathered information from pertinent local governments and websites. The Grand Jury interviewed members of the Rohnert Park City Manager's Office and studied the 2003 Memorandum of Understanding between the Tribe and Rohnert Park as amended. The Grand Jury also reviewed Sonoma County Board of Supervisors agreements related to the Casino and researched the status of Indian casinos in California and other states.

Discussion

Before its opening in November last year, the Tribe's investment neared \$1 billion, becoming the County's largest development. Tribal leaders estimate six million people annually will visit the Casino.

Casino Mitigation Efforts

Prior to the Casino's opening, Standard & Poor's estimated the Casino's net revenues would reach \$440 million annually by 2016. An agreement between the state and the Tribe projected yearly net revenues of \$418 million by 2020. Under its agreement with the Tribe, the County will receive \$9 million annually for 20 years to cover mitigation expenses, of which \$416,000 will go to law enforcement agencies in Santa Rosa, Petaluma, Sebastopol, and Cotati. County fire districts will share \$1 million over the same period. Other mitigation fund allocations by the County include \$2 million for improvements to the major roads and highways serving the Casino, \$4 million for law enforcement and public safety providers, and \$1.5 million for programs related to water use. The County has hired four new Sheriff's deputies with mitigation funds.

Rohnert Park signed its own 20-year agreement with the Tribe to receive \$250 million to pay mitigation expenses. It received a \$2.6 million payment in May 2013 and the first of four payments totaling \$500,000 in July 2013 dedicated to public safety purposes. After July 2014, Rohnert Park will receive about \$11 million annually. Examples of mitigation expenditures include \$3.7 million for a fire station on the west side of Highway 101, \$1.2 million for a ladder fire truck, and two additional public safety officers. In a separate transaction from the mitigation payments agreements, the Tribe paid \$15 million to widen Wilford Avenue at the Highway 101 off-ramp and to obtain access to the main Rohnert Park wastewater pipe carrying sewage to the local treatment facility. In May 2013, Rohnert Park's city council estimated a \$500,000 annual loss in sales tax that may occur as the Casino's food courts draw customers away from local restaurants and deter people from shopping at local stores due to traffic congestion. This lost sales tax revenue cannot be replaced with mitigation funds.

Mitigation funds can only be used for the specified purposes enumerated in agreements with the Tribe. These funds can only be paid for costs to the community directly resulting from the building and operation of the Casino, as spelled out in the agreements with the Tribe. They cannot be used for other purposes, such as to defray local government budget deficits or for discretionary spending. The County and the City of Rohnert Park agreements allow for reopening negotiations if gaming receipts drop to 50 percent of expected revenues.

Integrated Public Safety Plan

The Casino sits on a 66-acre parcel of the 254-acre reservation. As a sovereign nation, the Tribe controls the use of this land. The Sheriff's Department is responsible for public safety in the unincorporated County areas, including the Casino site. To cover contingencies during the opening months of the Casino's operation, County and local public safety departments worked together in advance of the Casino's opening to coordinate 24-hour contingency plans to meet the expected demands on these services.

Opening Day

An estimated 5,000 people attempted to be on site when the Casino opened on November 5. By 10:00 a.m., most of the Casino's 5700 parking spaces were full, and traffic on Highway 101 and nearby streets was at a standstill. Motorists abandoned cars along roadsides and in residential areas and walked the rest of the way. Within the first 24 hours, an estimated 15,000 people tried to visit the Casino.

As the evening wore on, 911 dispatchers fielded calls from Casino patrons who could not leave the parking garage due to traffic congestion. Within a few days, daily commutes were almost back to normal. Other than the steep hike in law enforcement activity during the Casino's opening days, statistics for crime, traffic incidents, fire, and emergency services through the rest of 2013 remained at near-normal levels. Within the first 30 days after the Casino opened, the Sheriff's Office responded to about 200 calls for assistance, which resulted in 16 arrests.

Economic Outlook

The National Indian Gaming Commission (Commission) ties the success or failure of casinos to their location. Currently, 63 tribes operate gaming facilities in California. The County is a favorable location for a casino. Commission studies of Indian casinos indicate that after at least four years of operation, positive changes among local Indian populations include young adults moving back to reservations, adult employment increasing by 26 percent, and a 14 percent decline in the working poor. Negative effects in the surrounding communities include increases in auto thefts, larceny, violent crime, and bankruptcies within 50 miles of a new casino. A significant threat to the success of Indian casinos across the nation is the legalization of online gambling.

The Graton Casino reported \$101 million in net revenue for the first quarter of 2014. During the same period, the Dry Creek Rancheria casino near Geyserville experienced a 30 percent drop in revenue—an estimated decrease of \$37 million—and missed a scheduled interest payment on its debt. Last year, Petaluma voters rejected a casino proposed by the Dry Creek Band of Pomo Indians. That Tribe then signed an agreement with the County not to pursue gaming on its 277-acre site south of Petaluma until 2016. In May 2014, leaders of the Cloverdale Rancheria of Pomo Indians announced that its proposed \$320 million casino project is moving forward despite objections from the Sonoma County Board of Supervisors. In Napa County, officials are awaiting the outcome of a U.S. District Court lawsuit in which the Mishewal Wappo tribe of Alexander Valley is seeking federal recognition. A verdict in the tribe's favor could lead to sovereign nation status and eventually the right to build a casino. If any one of these projects moves forward, it could affect the Graton Casino's income stream.

Findings

- F1. If the City of Rohnert Park and Sonoma County do not oversee the allocation of mitigation funds meant to offset the effects of the Casino on the County's infrastructure and public services, then unfunded future obligations may be created.
- F2. Casino revenue shortfalls may adversely affect public services.

Recommendations

The Grand Jury recommends that:

- R1. Officials of Sonoma County and the City of Rohnert Park, who oversee their separate agreements with the Federated Indians of Graton Rancheria, release to the public annual financial reports on mitigation funds, including a plan for mitigation fund allocations over the next six months and an accounting of mitigation fund expenditures for previous years.

Required Responses

Pursuant to Penal Code Section 933.05, the Grand Jury requires responses as follows:

- R1 – Sonoma County Board of Supervisors, City of Rohnert Park

The governing bodies indicated above should be aware that the comment or response of the governing body must be conducted subject to the notice, agenda, and open meeting requirements of the Brown Act.

Bibliography

City of Rohnert Park. *Resolution No. 2013-063*.

_____. *Resolution No. 2013-141*.

_____. *Review of Proposed Casino Operational Impact Mitigation Implementation Plan for FY 2013-14*.

_____. *Casino Mitigation Task Force: Graton Mitigation Program Budget-Financial Status Report*. 2013.

County of Sonoma. Agenda Item, *Intergovernmental Mitigation Agreement between the County of Sonoma and the Federated Indians of Graton Rancheria*. 2012

National Indian Gaming Commission. *Gaming Tribe Report*. 2014

Appendix

Federated Indians of Graton Rancheria History

The Tribe, Federated Indians of Graton Rancheria, traces its roots to the Coast Miwok and Southern Pomo tribes in Northern California. The federal government ended the Tribe's status in 1958. In December 2000, Congress restored its federal status as a tribe with 568 members. The Tribal chairman requested federal monies in March 2002 and received more than \$467,000 for housing. After a 2003 announcement that the Tribe would build a casino, membership doubled to 1055 in two years. In 2010, the Federal government took the Tribe land into trust. In February 2013, under the 2012 Hearsh Act, the Tribe obtained the right to use the land as it sees fit without federal approval. This placed the 254-acre reservation under tribal control and allowed development of the land.

Through June 2013, the Tribe received about \$22.5 million in grants for housing and social services, and membership had grown to about 1300. Station Casinos of Las Vegas, Nevada purchased the Casino site in 2005 for \$76 million. It also paid \$24 million for 180 acres along Stony Point Road. A local lawsuit delayed Casino construction until 2010. When the lawsuit failed to stop development, work on the Casino began in June 2013 after successful negotiations with Governor Jerry Brown and ratification by the State legislature the prior year.

The Tribe secured the largest amount of financing ever received for an Indian casino in the history of Native American gaming. When completed, the Casino became the largest casino on the West Coast. As of this report, the Casino has 2000 employees, making it one of the County's largest private employers. A 200-room hotel already approved for the site has not been scheduled for construction.

Reports issued by the Civil Grand Jury do not identify individuals interviewed. Penal Code Section 929 requires that reports of the Civil Grand Jury not contain the names of any person or facts leading to the identity of any person who provides information to the Civil Grand Jury.