

# REPORT

To the Honorable City Council  
From the Mayor

September 13, 2004

## Subject

Resolution opposing Proposition 68 on the November 2, 2004 State-wide ballot

## Recommendation

Approve the resolution opposing Proposition 68, the Gaming Revenue Act, on the November 2, 2004 State-wide ballot

## Background

Proposition 68, the Gaming Revenue Act on the November 2, 2004 State-wide ballot, is a measure which, under the most likely scenario, will allow five existing race tracks and 11 existing card rooms in California to operate up to 30,000 slot machines on non-Indian lands in six counties, including San Mateo County at the Bay Meadows site in the City of San Mateo.

While providing a certain amount of local revenue, this proposition has significant social, economic, and quality of life costs that outweigh any expected benefits. The social and economic costs associated with gambling, as documented in national studies in 1999 and 2001, range from business and employment costs, bankruptcy, and suicide, to illness, social services costs, family problems, crime, and associated governmental regulatory costs. Astoundingly, economists have concluded that the cumulative costs of casinos are estimated at 1.9 times greater than the benefits. Nationwide, pathological and problem gambling costs an estimated \$5 billion annually in productivity reductions, social services costs, and creditor losses. These economists add that these dollar estimates are inadequate to fully describe the costs in family disruption, divorce, and other personal and family problems.

Locally, this issue will have a significant impact on the City of San Mateo and will likely affect other communities on the peninsula including Redwood City, and those communities in proximity to the other gaming sites in the six counties involved. On July 19, 2004 the San Mateo City Council passed a resolution opposing this proposition based on the social, economic, familial, and quality of life costs associated with gambling, along with the erosion of local control over significant local decisions, i.e., whether to permit additional gambling in their city.

If successful this proposition would also represent an erosion of local control over local land use decision-making. For example, the City of San Mateo would lose its ability to make decisions about whether to permit additional gambling within its borders, and would see a disruption of its multi-year planning process for the Bay Meadows site.

8.B.2

This loss of local land use control will set a troublesome precedent for cities, especially in light of a number of recent pieces of legislation that attempt to usurp local land use and planning decisions and instead place them at the State level.

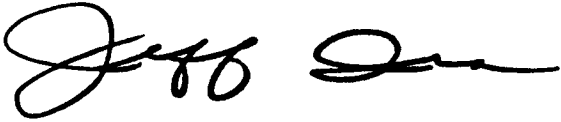
The League of California Cities has taken an "oppose" position on this proposition, joining the California Police Chiefs Association, the California Coalition of Law Enforcement Associations, the California School Boards Association, three dozen county Sheriffs, Governor Arnold Schwarzenegger, and many other individuals and associations.

**Alternative**

The Council could choose not to adopt this resolution and not go on record in opposition to Proposition 68.

**Fiscal Impact**

There is no fiscal impact associated with adoption of this resolution.



---

Jeff Ira  
Mayor

**Attachments**

Draft Resolution

Legislative Analysis of Proposition 68

City of San Mateo staff report on Proposition 68

## RESOLUTION No. \_\_\_\_\_

**RESOLUTION OPPOSING PROPOSITION 68, THE  
GAMING REVENUE ACT OF 2004 ON THE NOVEMBER 2,  
2004 STATE-WIDE BALLOT**

**WHEREAS**, horseracing and card club interests in the State have drafted and qualified an initiative measure known as the Gaming Revenue Act of 2004 (GRA), which will be put before the voters on the November 2, 2004 State-wide ballot; and

**WHEREAS**, if adopted, the GRA will require the Governor to renegotiate dozens of existing gaming compacts entered into between the State of California and various Indian tribes on terms these tribes will likely find to be highly objectionable; and

**WHEREAS**, the GRA provides that unless all of these many gaming compacts have been successfully renegotiated within 90 days of the passage of the GRA, the owners of the horseracing tracks and card clubs sponsoring the GRA will be allowed to operate 30,000 slot machines at their facilities in six counties State-wide, including at the Bay Meadows Race Track site in San Mateo; and

**WHEREAS**, Bay Meadows would be authorized to operate as many as 3,800 slot machines if the GRA is adopted and the Indian gaming compacts are not successfully renegotiated; and

**WHEREAS**, while potentially providing a certain amount of local revenue, the significant social, economic, and quality of life costs will outweigh any expected benefits of this proposition; and

**WHEREAS**, the social and economic costs associated with gambling, as documented in national studies in 1999 and 2001, range from business and

B. B-4

employment costs, bankruptcy, and suicide, to illness, social services costs, family problems, crime, and associated governmental regulatory costs; and

**WHEREAS**, economists have concluded that the cumulative costs of casinos are estimated at 1.9 times *greater* than the benefits, and that pathological and problem gambling costs an estimated \$5 billion annually in productivity reductions, social services costs, and creditor losses, nationwide; further, the studies state that these dollar estimates are inadequate to fully describe the costs in family disruption, divorce, and other personal and family problems; and

**WHEREAS**, passage of this proposition would represent an erosion of local control over local land use decision-making, setting a troublesome precedent for cities, especially in light of a number of recent pieces of legislation that attempt to usurp local land use and planning decisions and instead place them at the State level; and

**WHEREAS**, the League of California Cities has taken an "oppose" position on this proposition, joining the California Police Chiefs Association, the California Coalition of Law Enforcement Associations, the California School Boards Association, three dozen county Sheriffs, Governor Arnold Schwarzenegger, and many other individuals and associations.

**NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF REDWOOD CITY AS FOLLOWS:**

The City that we hereby express strong opposition to Proposition 68, the Gaming Revenue Act of 2004, on the November 2, 2004 State-wide ballot.

\* \* \*

8.B-5

**PROPOSITION 68**

**TRIBAL GAMING COMPACT RENEGOTIATION. NON-TRIBAL COMMERCIAL  
GAMBLING EXPANSION. REVENUES, TAX EXEMPTIONS. INITIATIVE  
CONSTITUTIONAL AMENDMENT AND STATUTE.**

**BACKGROUND**

The California Constitution and state statutes specify the types of legal gambling that can occur in California. For instance, current law allows wagering on horse races and certain games in licensed card rooms. In addition, Indian tribes with tribal-state gambling compacts can operate slot machines and certain other casino-style gambling in California.

**Card Rooms and Horse Racing**

*Card Rooms.* The state allows card rooms to conduct card games where the card room operator has no stake in the outcome of the game. The players play against each other and pay the card room a fee for the use of the facilities. Typical card games include draw poker, 7-card stud, and poker pai gow. Certain games—such as twenty-one—are prohibited. There are a total of 96 licensed card rooms in the state. Local governments approve card rooms, as well as establish the hours of operation, the number of tables, and wagering limits. Current state law limits the expansion of both the number of card rooms and the size of existing card rooms until January 2010.

*Horse Racing.* The state issues licenses to racing associations that then lease tracks for racing events. In California, there are a total of 6 privately owned racetracks, 9 racing fairs, and 20 simulcast-only facilities. (These latter facilities do not have live racing; instead, they allow betting on televised races occurring elsewhere in the world.)

**Gambling on Indian Land**

Federal law and the State Constitution govern gambling operations on Indian land. Tribes that enter into a tribal-state gambling compact may operate slot machines and engage in card games where the operator has a stake in the outcome, such as twenty-one. Currently, 64 tribes have compacts and operate 53 casinos with a total of more than 54,000 slot machines. Any new or amended compact must be approved by the Legislature, the Governor, and the federal government. As sovereign nations, tribes are largely exempt from state and local taxes and laws, including California environmental laws.

*1999 Compacts.* Most tribes signed their current compacts in 1999. Under these compacts, a tribe may operate up to two facilities and up to a total of 2,000 slot machines. In exchange, tribes make some payments to the state which can only be used for specified purposes (such as for making payments to tribes that either do not operate

**SUBJECT TO COURT  
ORDERED CHANGES**

8.B-6

slot machines or operate fewer than 350 machines). These payments total over \$100 million annually. Under these compacts, tribes are required to prepare an environmental study analyzing the impact on the surrounding area of any new or expanded gambling facility. These compacts will expire in 2020.

**2004 Compacts.** In the summer of 2004, five tribes signed amendments to their compacts, and these revised agreements were approved by the state. Under these new agreements, these tribes may operate as many slot machines as they desire. In exchange, tribes make a specified payment annually to the state, with additional payments for each slot machine added to their facilities. As additional tribes sign similar compacts, payments to the state are expected to total in the hundreds of millions of dollars annually. Unlike the payments required by the 1999 compacts, the state can use these payments for any purpose. The newer compacts also require the tribes to (1) prepare more detailed environmental studies; (2) negotiate with local governments regarding payments addressing the impacts of new gambling facilities on the local communities; and (3) follow other provisions related to patron disputes, building codes, and labor relations. These new agreements expire in 2030, ten years later than the 1999 compacts.

**PROPOSAL**

This measure, which amends the State Constitution and state statutes, sets up two possible scenarios regarding new state gambling revenues.

- The first scenario would occur only if all Indian tribes with compacts agree to specified revisions to their existing compacts.
- The second scenario would be triggered if the tribes do not agree to the revisions. In this case, 5 existing racetracks and 11 existing card rooms would be allowed to operate slot machines.

These two scenarios are discussed below.

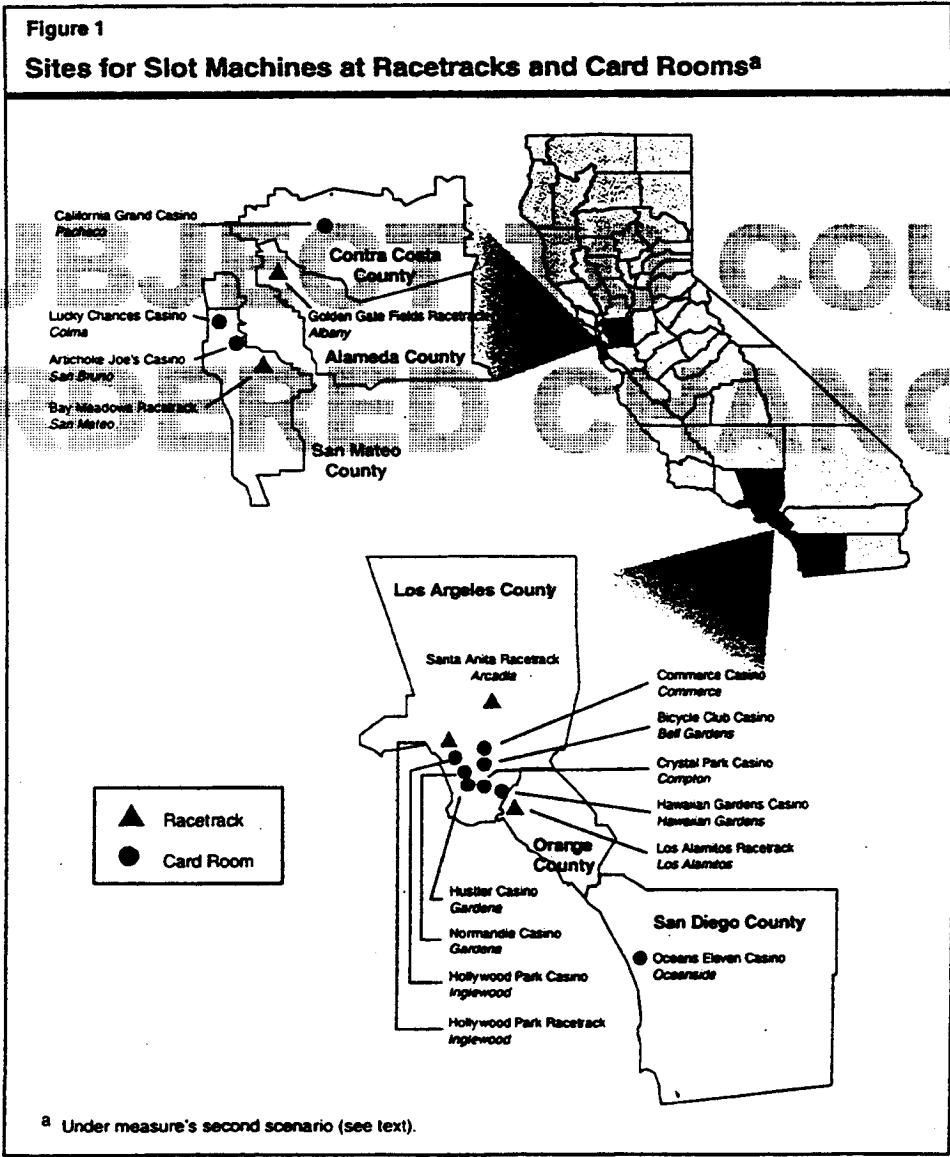
**Revision of Current Tribal-State Compacts**

Under the first scenario, all compact tribes would be required to agree with the Governor to terms required by this measure within 90 days of its passage. Specifically, the measure requires that all tribes with compacts agree to (1) pay 25 percent of their "net win" to the Gaming Revenue Trust Fund (GRTF, a state fund established by the measure) and (2) comply with certain state laws, including those governing environmental protection, gambling regulation, and political campaign contributions. Net win is defined as the wagering revenue from all slot machines operated by a tribe after prizes are paid out, but prior to the payment of operational expenses. Under federal law, the federal government would have to approve the revised agreements.

SUBJECT TO COURT  
ORDERED CHANGES

### Expansion of Gambling if Compacts Are Not Revised

As noted above, if the current compacts are not revised under the first scenario, the measure would allow slot machines on non-Indian lands. Specifically, under the second scenario, the measure allows specified racetracks and card rooms located in Alameda, Contra Costa, Los Angeles, Orange, San Diego, and San Mateo Counties to operate up to 30,000 slot machines (see Figure 1). The measure would allow the sale or sharing of slot machine licenses in certain circumstances. The measure also makes permanent the limit on the expansion of both the number of card rooms and the size of existing card rooms (due to expire in January 2010 under current law).



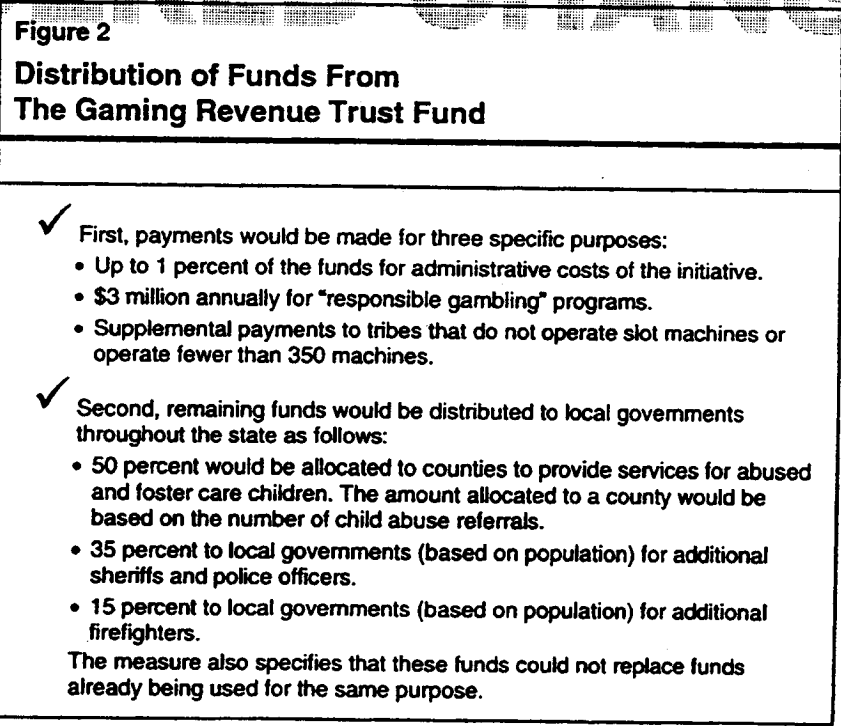
SUBJECT TO COURT ORDERED CHANGES

**Net Win Payments.** Racetracks and card rooms would pay 30 percent of the net win from their slot machines to the GRTF. They would also pay 2 percent of their net win to the city and 1 percent to the county in which the gambling facility is located. The measure specifies that the payments to the GRTF be in place of any state or local gambling-related taxes or fees enacted after September 1, 2003.

The five racetracks also would be required to pay annually an additional 20 percent of the net win on their slot machines. These funds would be administered by the California Horse Racing Board and used to benefit the horse racing industry, including the increase of race purses.

**Distribution of Gambling Revenues**

Payments based on net win would be made to the GRTF under either scenario—whether tribes revised their compacts or racetracks and card rooms operated slot machines. In either case, slot machine operators would be required to pay for annual audits of their reported net win and payments made to the GRTF. The measure establishes a five-member board appointed by the Governor to administer the GRTF. Figure 2 describes how funds in the GRTF would be distributed. The bulk of the funds would be distributed to local governments throughout the state for additional child protective, police, and firefighting services.



SUBJECT TO COURT  
ORDERED CHANGES

**Related Provisions in Proposition 70**

Proposition 70 on this ballot also contains provisions affecting the number of slot machines authorized in the state. That measure would allow tribes entering a new or amended compact to expand the types of games authorized at casinos. It would also eliminate the existing limits on the number of slot machines and facilities a tribe can operate. In exchange for the exclusive right to these types of gambling, tribes would pay the state a percentage of their net income from gambling activities. The State Constitution provides that if the provisions of two approved propositions are in conflict, only the provisions of the measure with the higher number of yes votes at the statewide election take effect.

**FISCAL EFFECT**

The fiscal effect of the measure on state and local governments would depend on whether current compacts are revised or if racetracks and card rooms operate slot machines. The fiscal effect under each scenario is discussed below.

**Revision of the Current Tribal-State Compacts**

*Net Win Payments.* While tribes do not publicly report information on their slot machine revenues, it is estimated that the machines are generating net win of over \$5 billion annually in California. If the tribes agree to this measure's provisions, tribes would pay 25 percent of their slot machines' net win to the GRIF—potentially over \$1 billion annually. These payments would be provided primarily to local governments to increase funding for child protective, police, and firefighting services.

*Existing Payments to the State.* As described above, tribes under the 1999 and 2004 compacts pay hundreds of millions of dollars annually to the state for both specific and general purposes. This measure does not specifically address whether these payments would continue or cease under the compact revision process. As a result, it appears that the continuation of the payments would be subject to negotiation between the tribes and the Governor. If the revised compacts do not include a continuation of these payments, the state would experience a reduction in payments—potentially totaling hundreds of millions of dollars annually.

**Expansion of Gambling at Card Rooms and Racetracks**

*Net Win Payments.* If the tribes do not agree to revise their compacts within the time required, specific card rooms and horse racing tracks would be authorized to operate up to 30,000 slot machines. These entities would pay 30 percent of the net win to the GRIF. The amount of these payments would depend on the number of slot machines in operation and their net win. These revenues could potentially be over \$1 billion annually. These revenues would be provided primarily to local governments to increase funding for child protective, police, and firefighting services.

SUBJECT TO COURT ORDERED CHANGES

SUBJECT TO COURT ORDERED CHANGES

8.B-10

***Additional Payments to Local Governments.*** Also under this scenario, the cities in which these establishments are located would collectively receive payments in the high tens of millions of dollars (2 percent of the net win). Counties in which these establishments are located would collectively receive payments of half of this amount (1 percent of the net win). The use of these funds is not restricted.

***Increased Taxable Economic Activity.*** If the tribes do not agree to the requirements of this measure, the expansion of gambling at card rooms and racetracks could result in an overall increase in the amount of taxable economic activity in California. This would occur if, over time, there was a large diversion of gambling activity and associated spending from other states to California. This would also be the case to the extent that the gambling authorized by this measure replaced existing tribal gambling activities (since much tribal activity is exempt from state taxation). This additional gambling-related activity would lead to an unknown increase in state and local tax revenues.

**SUBJECT TO COURT  
ORDERED CHANGES**

**SUBJECT TO COURT  
ORDERED CHANGES**

B.B-11



# ADMINISTRATIVE REPORT

AGENDA ITEM # 18

MTG. DATE July 19, 2004

TO: Honorable Mayor and City Council

APPROVED BY: *[Signature]*  
Arne Croce, City Manager

DATE: July 14, 2004

SUBMITTED BY: *[Signature]*  
Susan M. Loftus, Deputy City Manager (ext 7003)

SUBJECT: City Position on Gaming Revenue Act of 2004 (Proposition 68)

That the City Council review the attached report and consider whether to take a position on the Gaming Revenue Act of 2004.

## BACKGROUND

### Summary of the Gaming Revenue Act of 2004

The Gaming Revenue Act of 2004 (GRA) is an initiative sponsored by various card rooms and horseracing track owners in California. The GRA (Proposition 68) will be on the November ballot and will require majority approval of the voters to pass.

### Key Elements of Initiative

- ◆ Within 90 days of the effective date of the initiative, if passed, the Indian tribes must renegotiate new compacts with the Governor providing for 25% of their winnings from each gaming device to a gaming revenue trust fund and agree to comply with State laws, including laws governing environmental protection, gaming regulations, campaign contributions, and public disclosure. If all compacts are successfully renegotiated within this time period, these negotiated compacts allow the Indian tribes to have the exclusive right to operate gaming devices in the State.
- ◆ If agreement on these terms is not reached with all tribes within the 90 day period, five existing race tracks and eleven existing card rooms (gambling establishments) will have the right to operate not more than 30,000 gaming devices (slot machines). (See list, Attachment 1)
- ◆ Each authorized horseracing track would have 3,000 gaming devices. In no event may a horseracing track have more than 3,800 gaming devices. The initiative provides the ability for the owners of horseracing tracks to transfer, sell, license, or assign their rights to one or more of the other authorized tracks.
- ◆ The remaining 15,000 gaming devices would be distributed to each of the gambling establishments (card clubs) based on the number of gaming tables they are allowed to operate as of September 1, 2003.
- ◆ The initiative creates a Gaming Revenue Trust Fund which is administered by a Board of Trustees comprised of five members appointed by the Governor as follows:
  - 2 shall be engaged in public school education,
  - 1 shall be engaged in law enforcement,
  - 1 shall be engaged in fire protection,
  - 1 shall be a certified public accountant.

# 8.B12

- ◆ Payments into the Trust Fund come from a percentage of the "Net win" from the gaming devices. The "Net win" is defined as the wagering revenue from gaming devices operated pursuant to the Act retained after prizes or winnings have been paid to players and prior to the payment of operating or other expenses.
- ◆ The gambling establishments and horseracing tracks shall pay the following percentage of Net win from each machine:
  - 30% into the Gaming Revenue Trust Fund
  - 2% to the City in which each authorized facility is located
  - 1% to the County in which each authorized facility is located
- ◆ Funds paid into the Gaming Revenue Trust Fund would be allocated as follows:
  - Not more than 1% to the Division of Gambling Control and the California Gambling Control Commission for the cost of administering the Gaming Revenue Act
  - Monies sufficient to guarantee that each non-gaming tribe shall receive \$1.2 million annually from the Indian Gaming Revenue Sharing Trust Fund
  - \$3.0 million be awarded annually to responsible gambling programs

After the above distribution, the remaining money would be allocated as follows:

- Fifty percent (50%) to County Offices of Education to provide services for abused and neglected children and children in foster care
- Thirty-five percent (35%) to local governments on a per capita basis for additional neighborhood sheriffs and police officers
- Fifteen percent (15%) to local governments on a per capita basis for additional firefighters

It is intended that these monies would be additional funds for these operations and would not be used to supplant existing funds for education, law enforcement, or fire protection.

- ◆ The GRA also provides for amendments to the Business and Professions Code for additional amounts of the net win to be used for horse related activities and to support thoroughbred racing associations, racing fairs, quarter horse racing, and harness racing.

See Attachment 3 for the complete Initiative.

## **WHAT ARE THE IMPACTS OF THE GRA ON SAN MATEO?**

If successful, this initiative would allow Bay Meadows to either: 1) install up to 3,800 gaming devices (the 3,000 explicitly stated for horseracing tracks plus up to an additional 800 gaming devices which could be acquired from other sites) or 2) transfer, purchase, license, or sell their rights to the 3,000 gaming devices to one of the other authorized facilities. A myriad of development options exists to accomplish the former.

Regardless of their decision, Bay Meadows is not required to keep the horserace track in operation. The GRA establishes the allocation of gaming devices based upon "the real property on which an authorized horseracing track was located as of September 1, 2003". The GRA has been written to permit Bay

Meadows and other track owners to discontinue (or relocate) their racing meets without affecting their rights to continue to operate gaming devices.

If the GRA were approved, the actual intentions of the Bay Meadow owners are open to conjecture. The owner's options could range from selling their devices and proceeding forward on their Bay Meadows 2 Plan, keeping the racetrack and installing the 3,000 gambling devices in their current facility, or proposing the development of an entertainment facility with accompanied hotels and retail establishments.

#### Restrictions on City Review:

Although approval of the GRA would preclude the City from prohibiting gaming devices at Bay Meadows, the Act would not authorize the development of the site for other uses. As the site is currently zoned for Agricultural, a very narrow range of uses are allowed and the City Council would have discretion in approving or denying any requested changes.

If the GRA was approved and Bay Meadows decided to move forward with the installation of slot machines on their site, the city would not be able to require a use permit or deny its use for this purpose. The City could require approval of a Site Plan and Architectural Review (SPAR) for any new buildings or site improvements. This would insure the appropriateness of the site plan and building design. An amendment to the Bay Meadows Specific Plan would also be required to allow any new buildings or improvements on the site as well as any new uses (besides slot machines), such as a new hotel, retail, etc. In addition, depending upon the amount of development necessary to house the slot machines, the project could be subject to the provision of the California Environmental Quality Act (CEQA). This would include an analysis of the traffic impacts generated by the addition of slot machines. The City would have the ability to require mitigation measures for any significant impacts identified. If the project only included the addition of slot machines to existing facilities, CEQA analysis may not be conducted.

#### Comparison of Bay Meadows Land Use

The comparative impacts of the existing Bay Meadows improvements and the Proposed Bay Meadows 2 Plan are documented in the San Mateo Rail Corridor Plan and Bay Meadows Specific Plan Amendment. Without a defined project it is difficult to compare the current and proposed projects with what would be undertaken as a result of the GRA authority. The scale, scope, and associated impact of the project could vary significantly. Among the several options, the owners could potentially:

- ◆ Continue horseracing and add up to 3,800 slot machines using existing facilities. This could potentially include some building additions and the construction of more parking.
- ◆ Continue horseracing with the addition of up to 3,800 slot machines and the addition of a restaurant, and or hotel. This would entail a number of design considerations and a parking structure. Whether there is enough land for this scenario to work with continued horseracing would have to be determined.
- ◆ Terminate horseracing, add up to 3,800 slot machines, develop a hotel, restaurants, and most likely a parking structure. A variation of this scenario might include some housing and/or office development on a portion of the site.
- ◆ Terminate horseracing, sell interest to 3,000 slot machines and develop site as proposed with Bay Meadows Specific Plan Amendment.

Clearly, depending upon which of the above options was pursued, the associated planning impacts would vary.

8. B-14

**ESTIMATED REVENUE FROM GAMING REVENUE ACT ACTIVITIES**

As indicated above, the gaming establishments would be required to make payments based upon the net win to the Gaming Revenue Trust Fund and to the city and county in which the facility is located. The Gaming Revenue Trust Fund would subsequently be allocated to various gaming activities, funding for abused and neglected children and children in foster care, and allocated state wide on a per capita basis for firefighters and police officers/neighborhood sheriffs.

The estimated revenue that would be generated state wide per the Legislative Office from a renegotiated agreement with the Indians or with the new gaming devices is estimated at over \$1 billion.

**City of San Mateo Revenue Projections**

Numerous factors influence the amount of revenue that can be derived from these establishments, e.g., number of slot machines, amount of competition, other casino games offered, density of population, and novelty/quality of casino venue. There exists a great deal of variation in the average net win from slot machines throughout the country and no existing jurisdiction has a situation directly comparable to California. (See Attachment 4 for Table of range of per slot revenue for various casinos.)

A comparison of revenue derived from other jurisdictions indicates the range could run from \$50,000 to \$250,000 annually per device. See table below for estimates for both the 3,000 and 3,800 scenarios in San Mateo assuming the 30,000 maximum gaming devices statewide. A key factor affecting the amount of revenue that could be generated is competition from Artichoke Joe's in San Bruno and Lucky Chances in Colma. The GRA allocates 800 slots to each of these clubs with the potential to purchase or license additional devices not to exceed 1900 per cardroom.

**Bay Meadows Site Revenues for City of San Mateo  
for 30,000 slots statewide**

Average Slot Win/Year	Direct Revenues (3,000 slots)		Direct Revenues (3,800 slots)		San Mateo's Statewide Share (0.26%)	
	Host City (2%)	Host County (1%)	Host City (2%)	Host County (1%)	Police	Fire
\$50,000	\$3M	\$1.5M	\$3.8M	\$1.9M	\$409,500	\$175,500
\$150,000	\$9M	\$4.5M	\$11.4M	\$5.7M	\$1,228,500	\$526,500
\$250,000	\$15M	\$7.5M	\$19M	\$9.5M	\$2,047,500	\$877,500

Based on the above projections for 3,000 slots, San Mateo would be entitled to the host city revenue and our per capita share statewide for police and firefighters. Our host share could range from \$3 million (M) to \$15M, Police per capita from \$410,000 to \$2M, and Fire per capita from \$175,000 to \$900,000. The median amount for 3,000 slots would generate \$9M for the City, \$1.2 for Police, and \$.5M for Fire. The estimated costs of \$1.27 M per year for police services outlined in Captain Callagy's memo would be absorbed from the estimated Police revenue.

Note: the above numbers reflect estimated revenue associated with the slot machines. They do not include potential revenue from any ancillary development, e.g., hotels, restaurants, retail uses, nor increases in property tax from renovation of the existing facility.

8.B.15

## IMPACTS OF GAMING

A summary of the research reviewed on the subject of gaming and the social, criminal, and economic impacts is provided in Attachment 5. While the direct revenue derived can eventually be assessed, the cost/benefit in terms of the quality of life of a community is less quantifiable. Often the broader question arises as to how to measure the social and economic impacts — on the local economy, the government, the community, the family, or to the individuals? Police Captain Mike Callagy has prepared a report summarizing gambling's impacts on crime on a community. (See Attachment 1.)

### Social and Economic Impacts

In 1996 President Clinton authorized the National Gambling Impact Study Commission to conduct "a comprehensive legal and factual study of the social and economic impacts of gambling in the United States". Subsequently, the Commission hired the National Opinion Research Center (NORC) at the University of Chicago to complete an extensive study of problem and pathological gambling. In the final report that was published in 1999, NORC estimated that about 2.5 million adults are pathological gamblers, another 3 million can be considered problem gamblers, and an additional 15 million are at risk for problem gambling. The report also stated the availability of a casino within 50 miles is associated with about double the prevalence of problem and pathological gamblers according to combined patron and telephone surveys completed. The report estimates that pathological and problem gamblers in the United States cost society about "\$5 billion per year and an additional \$40 billion in lifetime costs for productivity reductions, social services, and creditor losses. However, these calculations are inadequate to capture the interfamilial costs of divorce and family disruption associated with problem and pathological gambling."

In 2001, additional research was completed by Earl L. Grinols and David B. Mustard entitled *Business Profitability versus Social Profitability: Evaluating Industries with Externalities, The Case of Casinos* assessed the social impacts of gaming. In addition to crime impacts, Grinols studied and reported on various social costs of gambling:

- **Business and Employment Costs:** These costs cover lost productivity on the job, lost time, and unemployment. A study showed between 21 and 36 percent of problem gamblers in treatment have lost a job because of their gambling addiction (Lesieur, 1998).
- **Bankruptcy:** According to a study conducted by SMR Research Corporation (1997, P. 118), 20 percent of compulsive gamblers have filed for bankruptcy as a result of gambling losses.
- **Suicide:** Lesieur (1992) concluded that problem and pathological gamblers have higher suicide rates than the general public. Phillips et al. (1997) found that Las Vegas deaths were 2.5 times more likely to be caused by suicide than in comparison to similar size cities. Studies also indicate that visitors to Atlantic City and Reno were respectively 1.75 and 1.5 times more likely to die by suicide than tourists to non-gambling areas.
- **Illness:** Sickness associated with gambling can consist of depression, stress, severe headaches, anxiety, irritability, intestinal disorders, and cardiovascular disorders. These costs can be borne by the gambler or as resource costs when seeking treatment.
- **Social Service Costs:** Unemployment, therapy/treatment, and other social service costs.
- **Governmental Direct Regulatory Cost:** Costs associated with regulating the gaming industry

8.B-16

- Family costs: Families also are forced to suffer when gambling becomes a problem for a family member. Divorce, separation, spousal abuse, and child neglect are some of the consequences suffered by family members when gambling becomes an addiction.
- Abused Dollars: This is the cost of all the money that is taken from family, friends, and employers under false pretense to help support a gambler's addiction.

Using a cost/benefit analysis of the above social costs, these economists concluded, "the costs of casinos are at least 1.9 times greater than the benefits".

#### Local Government Loss of Control and Other Impacts on San Mateo

After reviewing this subject at length, regardless of one's personal perspective of the cost/benefit of gambling and its impact on the community, the loss of local control in decision making is the fundamental concern of the passage of GRA. More and more frequently, local decision-making over local land use and planning issues has been taken away. The GRA is another significant example of this erosion.

IF the GRA were successful, San Mateo would lose its local control to decide whether to permit additional gambling in our City. In November 1995, the voters of San Mateo defeated by a 60% majority the authorization of a 50-table card room at Bay Meadows. The measure was defeated given the voters concerns about the impact of increased gaming on the quality of life of the community. Regardless of the revenue that would be derived, it was perceived the impacts did not justify the financial benefits.

The passage of the GRA might also frustrate the City's ability to achieve the vision of the extensive multi-year planning process to establish transit-oriented development at this location.

In addition, depending upon the amount of money that would eventually be generated from gambling at this location, the City could find itself in a situation where we would have an unhealthy reliance on this source of funds to provide City services. The City has long held that a well-balanced diversification of revenue promotes financial stability. Other cities have run into difficulties monitoring these establishments when recognizing that their financial livelihood (and many of the non-profits in the community) rely on the continued success of these businesses.

Another concern from a practical perspective is that the bulk of the GRA will also become part of the State Constitution necessitating that any amendments would need to occur by a statewide vote on the ballot measure. Adding this detail in the constitution will likely lead to problems in the future.

#### Proponents and Opponents: What are they saying:

Proponents argue that this initiative will require Indians to pay their "fair share" of the costs to California to operate a gambling monopoly in the State. The County Sheriffs of Los Angeles, San Mateo, and Sacramento endorse the initiative.

Opponents argue that the requirement to reach an agreement with all 61 tribes within the 90-day window is intentionally unachievable, and that the real purpose of the GRA is to allow the 16 businesses to own and operate 30,000 new gaming devices in the State.

Governor Schwarzenegger opposes both the GRA and a competing gambling proposition to require Indian gaming tribes to be assessed at the corporate business tax rate.

B.B-17

The California Police Chiefs Association opposes the measure "because of the serious and well-documented threats to public safety associated with casino gambling" and do not believe the revenue derived justifies the cost to the community/public safety. In addition, many other statewide and local groups are opposed to the measure including public safety organizations, Indian tribes, district attorneys, crime victims' organizations, local public safety leaders, and the education community (see Attachment 6).

In June both the League of California Cities' Revenue and Taxation Committee and Public Safety Committees voted to oppose the initiative. The League Board will review the initiative in late July.

Attachments

- 1 - Memo from Police Captain Mike Callagy on Crime Impacts
- 2 - GRA Authorized Gambling Establishments
- 3 - GRA Initiative
- 4 - Summary of Casino Slot Machine Revenue
- 5 - Summary of Economic and Social Impacts of Gaming
- 6 - List of Opponents of GRA

Q/citymgr/sl/gaming/ar