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CONSULTING GROUP

# A FISCAL ANALYSIS OF THE PROPOSED NORTH FORK RANCHERIA CASINO RESORT

Estimating the State and Local Fiscal Effects

**August 13, 2014**

# PROPOSED NORTH FORK CASINO FISCAL IMPACT

## Summary

Our analysis of the North Fork Casino compact indicates that, if approved by the voters, it will result in a net decrease in state General Fund revenues of approximately \$1.4 million annually as a result of the casino development and net loss of local tax revenue statewide. This conclusion is consistent with the Legislative Analyst's ballot pamphlet analysis of the compact, which states that it would result in state and local revenue losses from reductions in (1) other forms of gaming activity and (2) economic activity that is subject to state and local taxes (as opposed to gaming at tribal facilities, which are exempt from most types of state and local taxes).

## Background

Proposition 48 on this November's statewide ballot puts before voters a referendum on the gaming compact between the State of California and the North Fork Rancheria of Mono Indians, which allows the tribe to build a casino resort on a 305-acre parcel of land in unincorporated Madera County. Unlike previous tribal casinos, the North Fork Casino will not be built on the Tribe's originally restored historical reservation land, which is located in the Sierra Nevada foothills. Instead, the off-reservation site proposed to be used for gaming is approximately 38 miles away from the tribe's reservation land, just off State Route 99 north of the City of Madera and approximately 30 miles north of Fresno. Once fully operational, the North Fork Casino is projected to generate annual revenues of around \$225 million.

The North Fork Rancheria of Mono Indians is a federally recognized tribe. Federally recognized tribes are considered sovereign nations; thus, tribal members and tribal enterprises are not required to pay or collect certain state and local taxes. The specific laws are complex, but generally a tribal enterprise will neither pay corporate income tax on its profits nor collect state and local sales taxes on goods and services that are purchased and used or consumed only on tribal land. As a tribal enterprise, the North Fork Casino will also not be required to pay state and local sales taxes on the products it uses such as cleaning supplies, furniture, computers and office equipment, etc. Tribal members who work and live on tribal land are exempt from paying state income tax on their earnings, and the hotel will not collect the 9% Madera County local Transient Occupancy Tax (TOT) that other hotels in the area are required to collect. In addition, once the parcel is held in trust for the Tribe it will no longer be subject to property tax. These tax exemptions are important because, to the extent the dollars spent at the proposed casino come at the expense of other consumer spending within the state, net state and local tax revenues are almost certain to decline.

Our analysis indicates that only about 1% (\$2 million) of the projected \$225 million in annual visitor spending at the proposed North Fork Casino would have otherwise occurred outside of California. For the remaining 99% of the casino's revenues, about 52% (\$116 million) are projected to come at the expense of existing tribal casinos within the state and 47% (\$107 million) will come from dollars that would have otherwise been spent on purchases elsewhere within the California economy. The 52% of North Fork's revenues that are simply diverted from other tribal casinos will have no effect on the state General Fund, as these other casinos have the same tax exemptions. The 1% of revenues that is expected to come from "new" spending in the state could provide a slight increase in General Fund revenues of up to \$0.1 million per year, but this will be more than offset by the \$1.5 million in General Fund revenue losses associated with the \$107 million in lost sales from other California businesses, for a net decrease in state General Fund revenues of approximately \$1.4 million annually as a result of the casino development.

At the local level we estimate that about 17% of the dollars spent at the new casino will likely come at the expense of the existing Madera County tribal casino, the Chukchansi Gold Casino. Because the tax treatment for these two casinos is similar, the result will be no net local fiscal impact. An additional 3% of the casino's revenues will come from Madera County residents who would have otherwise spent some of those dollars in the local economy where sales taxes would have been collected. The remaining 80% of North Fork Casino expenditures are expected to come from spending that would have occurred outside of Madera County (i.e., these expenditures are shifted from elsewhere in the state's economy). While the North Fork Casino itself will not pay any local taxes directly, the secondary effects of local purchases made by its employees and the local vendors who supply the casino will likely result in increased local economic activity. This increased activity, however, will be directly offset by a comparable decrease in economic activity in local economies throughout the rest of the state. Indeed, the fact that Madera County's total sales tax rate (at 8.0%) is lower than the statewide average of 8.41% indicates that the local sales tax revenue losses from other California counties will exceed the local tax revenue gains within Madera County. As a result, the casino development will likely result in a net loss of local tax revenues statewide.