

Appendix A
Comments on Klas Robinson^{QED} December 2004 Report
Entitled “Scotts Valley Band of Pomo Indians
Economic and Fiscal Impact
of Proposed Scotts Valley Casino
Richmond, California”
May 22, 2006

As part of the EIS review process, Meridian Business Advisors (MBA) of Reno, Nevada reviewed a December 2004 report by Klas Robinson^{QED} entitled “Scotts Valley Band of Pomo Indians Economic and Fiscal Impact of Proposed Scotts Valley Casino, Richmond, California”. MBA’s scope of work was to render opinions on the reasonableness of the findings regarding the gaming development’s estimated revenue, employment, wages, tax generation and other financial/economic estimates.

It should be noted that the Klas Robinson report documented few assumptions on which its findings were based. Thus, MBA constructed its own financial/economic assumptions, leading to estimates on casino revenue, employment, salaries and other pertinent data. MBA’s estimates were then compared to Klas Robinson’s.

1. Gaming Revenue

The estimates of gross gaming revenue from MBA and Klas Robinson are shown in Table 1. As can be seen, MBA’s estimates are higher than Klas Robinson’s in the Preferred Casino, Alt. A and lower in the Reduced Casino, Alt. B.

Table 1
Comparison of Gaming Revenue-Year 1

	MBA	Klas Robinson	Difference
Alt. A-Preferred Casino	\$387,356,000	\$355,601,000	\$31,755,000
Alt. B-Reduced Casino	\$215,960,000	\$278,063,000 ¹	(\$62,103,000)

MBA’s assumptions in deriving the gaming revenue estimates are as follows:

¹ Gaming revenue is estimated at 90% of total revenue, the same breakdown as in Alternative A. Klas Robinson shows only total revenue for Alternative B.

Table 2
MBA Casino Revenue Assumptions

	Alt. A-Preferred	Alt. B-Reduced
Casino Square Footage ²	79,320	41,440
# of Slot Machines ³	2,100	1,100
Win/Slot Unit/Day	\$425	\$450
# of Table Games ³	75	39
Win/Table Unit/Day	\$2,250	\$2,500
Estimated Gaming Revenue	\$387,356,000	\$215,960,000

2. Other Revenue

Klas Robinson’s estimates of food/beverage and other revenue (retail sales) in Alt. A is estimated at 10% of gaming revenue. This is a reasonable assumption. Applying the 10% factor to gaming revenue results in the following comparison of total revenue. Again, MBA’s estimate is higher than Klas Robinson’s for Alt. A and lower for Alt. B

Table 3
Comparison of Total Revenue-Year 1

	MBA	Klas Robinson	Difference
Alt. A-Preferred Casino	\$430,396,000	\$396,449,000	\$33,947,000
Alt. B-Reduced Casino	\$239,955,000	\$308,959,000	(\$69,004,000)

3. Operating Net Income:

For both Alt. A and Alt B, Klas Robinson shows a “cash flow before debt service” (operating net income) that represents more than 60% of total revenue. Expenses, then, represent close to 40% of total revenue.

Table 4
Klas Robinson Operating Net Income Projections-Year 1

	Total Revenue	Total Expenses ⁴	Net Opr. Income	% Income of Ttl. Revenue
Alt. A	\$396,449,000	\$153,978,000	\$242,471,000	61.2
Alt. B	\$308,959,000	\$115,664,000	\$193,295,000	62.6

² Square footage taken from Draft EIS, February 2006, pages 2-6 and 2-9.

³ 80% of casino floor dedicated to slot machines; each machine requires 30 sq. ft. Ratio of slot machines to table games is 28:1.

⁴ Total expenses before debt service payments and management fees.

Admittedly, tribal casinos enjoy a healthier operating profit margin than non-tribal facilities but 60% appears unreasonable. The table below presents examples of the percentage of net income to total revenue from other casinos or groups of casinos. The data presented for Tribal casinos show operating net income ranging from 24.5% to 38.1% of total revenue. For non-Tribal casinos, it ranges from 9.1% to 21.1%.

Table 5
Operating Profit Margin of Other Casinos

<u>Tribal Casinos</u>	Net Opr. Income as % of Ttl. Revenue
River Rock Casino, Ca. ⁵	27%
Report by Joseph Eve, CPAs ⁶	
All Casinos in Study	35.0%
Under \$20 m. of Revenue	24.5%
\$20 m to \$50 m of Revenue	31.9%
Over \$50 m of Revenue	38.1%

<u>Non-Tribal Casinos</u> ⁷	Net Opr. Income as % of Ttl. Revenue
Las Vegas Strip Area (\$72+ m Rev.)	16.5%
Boulder City Strip Area (\$1+ m Rev.)	21.1%
Laughlin (\$1+ m Rev.)	9.1%

The table below applies a 40% profit margin to Klas Robinson’s estimated total revenue and then compares that to Klas Robinson’s operating net income in its report. The difference ranges from \$69 million to \$84 million for Alt. B and Alt. A respectively.

Table 6
Revised Klas Robinson Operating Net Income Projections-Year 1
Using 40% Profit Margin

	Net Oper. Income-Original	Net Oper. Income @ 40%	Difference
Alt. A	\$242,471,000	\$158,580,000	\$83,891,000
Alt. B	\$193,295,000	\$123,584,000	\$69,711,000

The substantial profit margin estimated by Klas Robinson leads naturally to a question of the reasonableness of projected expenses.

⁵ River Rock Entertainment Authority, SEC Filing 10-K, 3/30/06.

⁶ Joseph Eve, CPA, Great Falls, Montana, “The 2003 Indian Gaming Cost of Doing Business Report”. A summary of financial information collected in 2002 from audits of “over 50 Native American Organizations in 21 states.”

⁷ Information taken from Nevada Gaming Control Board, “Nevada Gaming Abstract 2005.” Excludes interest expense.

4. Employment

The estimates of employment from MBA and Klas Robinson are shown in Table 7. As can be seen, MBA's estimates are lower than Klas Robinson's in Alt. A and Alt. B by over 395 and 345 full time equivalent positions respectively.

Table 7
Comparison of FTE⁸ Employment -Year 1

	MBA	Klas Robinson	Difference
Alt. A-Preferred Casino	1,713	2,108	(395)
Alt. B-Reduced Casino	895	1,241	(346)

Klas Robinson estimates employees using data from 10 Indian casinos in California and calculates employees per gaming position (combination of slot machines and gaming table positions). These calculations result in an average for the 10 casinos of 0.8619 employees per gaming position.

Klas Robinson's choice of casinos, however, includes seven that have hotels, and the hotel employees are included in the total employee count that is used. Therefore, there is a high probability that Klas Robinson's employment estimate is overstated.

Further, the January 2005 Fee to Trust application (FTT) indicates the Alt. A casino will have 2,000 slot machines and 50 table games. Assuming 6 positions to a gaming table and one position per slot machine, a total of 2,300 gaming positions is estimated. However, the Klas Robinson report shows 2,644 positions. There is no explanation as to how the 2,644 positions were calculated.

MBA's methodology uses employees per square foot of the casino facility. Eight Indian casinos with no hotels were selected, and the number of employees was divided by the casino facility square footage. The average was .0233 with a range of .017 to .031 for the eight casinos.

5. Salaries

The estimates of salaries from MBA and Klas Robinson are shown in Table 8. As can be seen, MBA's estimates are lower than Klas Robinson's because MBA is estimating fewer employees as shown in # 4 above. MBA's estimates are \$16 million and \$12.9 million lower for Alt. A and Alt. B respectively or 31% and 47% less in salaries than estimated by Klas Robinson.

⁸ Full time equivalent (FTE)

Table 8
Comparison of FTE Salaries -Year 1

	MBA	Klas Robinson	Difference
Alt. A-Preferred Casino	\$52,257,000	\$68,229,000	(\$15,972,000)
Alt. B-Reduced Casino	\$27,288,000	\$40,170,000	(\$12,882,000)

MBA uses an average annual salary of \$25,350 compared to \$24,950 for Klas Robinson. Included in both consultant’s estimates is accommodation for tips, estimated at 20% of total salaries.

6. Distribution to Members and Tribe

The Fee to Trust (FTT) application, dated January 2005, indicated that tribal members will receive up to twenty percent (20%) of the Tribe’s annual gaming revenue (approximately \$16M to \$21M); up to 23% will be allocated to tribal governmental operations, including tribal services such as education, health care, family services, housing and cultural programs; and 55% will be deposited into an economic development fund for land acquisition and creation of additional businesses for the benefit of the Tribe and its members. (page 7). It further states that “the Facility will generate between \$72M and \$94M in tribal revenue annually during its first five years of operations...” (Taken from a Klas Robinson report of May 2004.) The Tribe has 181 members according to the DEIS. Contra Costa County did not have a copy of the May 2004 report and thus MBA is unaware of the assumptions on which the numbers were calculated.

MBA attempted to validate the Tribal distribution using the information in the December 2004 report and making assumptions on a management fee expense. The table below presents the distribution given these assumptions.

Table 9
Estimated Tribal Distribution – Year 1
Using Klas Robinson Financial Projections

	Alt A.	Alt. B
Revenue	\$396,449,000	\$308,959,000
Expenses	<u>153,978,000</u>	<u>115,664,000</u>
Cash Flow	242,471,000	193,295,000
Mgmt. Agreement @ 25% of Net Revenue	(60,618,000)	(48,324,000)
Net Income	\$181,853,000	\$144,971,000
Member Distribution @ 20%	\$ 36,371,000	\$ 28,944,000
Tribal Operations @ 23%	41,826,000	33,343,000
Economic Dev. Fund @ 55%	100,019,000	79,734,000

The table above does not consider revenue sharing with the State. At 25% of gross slot revenue, state revenue sharing would be \$75,821,000 to \$59,088,000 for Alt. A and Alt.

B respectively. At 10%, state revenue sharing would be \$30,328,400 to \$23,635,200 for Alt. A and B, respectively. This would reduce net income.

MBA also calculates the Tribal distribution using our assumptions on operating net income (40% of operating net income) and the same assumptions on a management fee expense as was used in Table 9.

Table 10
Estimated Tribal Distribution – Year 1
Using MBA Financial Projections

	Alt A.	Alt. B
Revenue	\$430,396,000	\$239,955,000
Expenses	<u>258,237,000</u>	<u>143,973,000</u>
Cash Flow	172,158,000	95,982,000
Mgmt. Agreement @ 25% of Net Revenue	(43,040,000)	(23,996,000)
Net Income	\$129,118,000	\$ 71,986,000
Member Distribution @ 20%	25,824,000	14,397,000
Tribal Operations @ 23%	29,697,000	16,557,000
Economic Dev. Fund @ 55%	71,015,000	39,593,000

The table above does not consider revenue sharing with the State. At 25% of gross slot revenue, state revenue sharing would be \$81,441,000 to \$45,169,000 for Alt. A and Alt. B respectively. At 10%, state revenue sharing would be \$32,576,400 to \$18,067,600 for Alt. A and B, respectively. This would reduce net income.

7. Cost of Government Services

The Klas Robinson report calculates the cost of public services for Alt. A at \$0.21 per casino patron or approximately \$2.0 million per year based on 9.5 million visitors per year or 26,000 per day. For Alt. B, the report estimates a cost of \$1.17 million based on a cost of \$0.18 per patron. Alt. B’s cost is based on 6.5 million visitors per year or 17,800 per day. Klas Robinson bases its estimates on “our experience in analyzing casino operations in a variety of markets throughout the U.S....” (page 52)

A more thorough and credible analysis would be based on interviews with the direct service providers to ascertain their estimates on the cost of providing services. These providers would include at a minimum law enforcement, fire protection/EMS and road maintenance, three of the major users of local governments funds. As Klas Robinson notes in its report, “the cost of additional services can still vary significantly for the same number of patrons depending upon a variety of other factors including the size of the community in which the casino is located, differences in service costs per event, differences in regulatory requirements, differences in road maintenance costs and differences in the amount of gaming present in the area.” Given these differences, a more thorough analysis of the costs is required.

The analysis should include estimates not only for additional personnel to service the casino, but additional substations/fire stations/offices; additional light and heavy equipment, such as patrol cars, fire apparatus, street sweepers; and additional office equipment and supplies, such as computers, desks, radio equipment. Finally, there is an overhead cost that should be analyzed as additional direct services expenditures increases the cost to administrative offices such as the Auditor-Controller, Human Resources, County Counsel, County Administrator, Building and Grounds, etc.

The need to interview the direct service providers is evidenced by the analysis below that takes only information from law enforcement as noted in the comments in the DEIS and applies direct staffing costs to those comments. Staffing costs are specific to Contra Costa County. As can be seen \$1.1 million in increased County costs is estimated to staff direct law enforcement services only. This does not include associated costs, such as vehicle acquisition and maintenance, substation construction and operating costs, services and supplies, communications, computer equipment, dispatch, detention facilities or other justice system services. Law enforcement is just one of many County provided services that will be required due to the presence of the proposed casino.

Table 11
Estimated Direct Staffing Cost of Law Enforcement
for Proposed Richmond Casino

Law Enforcement:		
		<u>Est. Cost</u>
Deputies*	5	\$700,000
Sgts	2	360,000
Clerk	1	65,000
Total		1,125,000

*staffing level equivalent to coverage by 1 Deputy Sheriff 24 hours/per day, 360 days/year.