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CALIFORNIA TRIBAL
BUSINESS ALLIANCE
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March 7, 2004

Assembly Member John Laird, Chair
Assembly Budget Committee
State Capitol
Sacramento, CA 95814

Dear Assembly Member Laird:

We are writing to clarify the issues around the Budget Change Proposal for the California Gambling Control Commission, which would augment the CGCC's current year budget by \$2.246 million and the '05-06 budget by \$4.682 million. In its justification for budget base adjustments, the Commission states that it needs to double its yearly budget to implement increased responsibilities in the amended and new tribal-State gaming compacts. There is no rationale in the amended compacts for this dramatic augmentation of the Commission's staff. We are not opposed to adequate staffing for proper State regulation of card clubs and tribal gaming, and an augmentation may indeed be necessary. But it cannot be justified as needed by the nine new or amended compacts.

Of these nine compacts, five involve casinos that were already in operation under the 1999 compacts and one that was already in operation without a compact. The remaining three compacts involve tribes without a casino – tribes that will not have a casino in operation before the end of the '05-06 budget year. So this Budget Change Proposal really purports to deal with five amended compacts and one new compact.

The California Tribal Business Alliance represents the tribes with the five amended compacts. Under the terms of these amended compacts, these five tribes contribute more than \$130 million to the State each year, more than \$25 million of which will go into the General Fund, an amount that will increase over time. The CTBA was formed last year to work in partnership with federal, state and local governments, and with business, community, and civic organizations across California. Because this is a key part of our operating philosophy, we feel it is important to set the record straight about the financial impact of our amended compacts on the State.

The 45.5 proposed new positions are broken down as follows:



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13 staff for a state testing lab and field testing

The CGCC says it needs 13 additional staff positions because of new work requiring the adoption of regulations “related to licensing, approval and testing of gaming devices” and for the “approval, testing and inspection of gaming devices.” The CGCC has no responsibility to “approve” or “license” gaming devices under the amended compacts. The CGCC responsibility is merely to test devices in place in a tribal casino on, at most, a quarterly basis. The CGCC says it also needs additional staff to review tribal gaming agency regulations for technical standards applicable to gaming devices. In fact, the amended compacts identify two acceptable technical standards, which do not require review.

State Testing Lab: There is no reason for California to establish a state testing lab at State expense when the same work is being done by certified independent labs at no cost to the State.

Our amended compacts, in Section 7.5, provide that slot machines may only be offered for play after, among other conditions, the game software has been “tested, approved and certified by an independent *or* State governmental gaming test laboratory” in accordance with agreed-upon standards. Those standards are delineated in the compacts. The compacts further provide that the “Gaming Test Laboratory shall be an independent or State governmental test laboratory recognized in the gaming industry which is (i) competent and qualified to conduct scientific test and evaluations of Gaming Devices and (ii) is licensed and approved by any of the following States: Arizona, California, Colorado, Illinois, Indiana, Iowa, Michigan, Missouri, Nevada, New Jersey, or Wisconsin.”

Under the terms of the amended compacts, the tribal gaming agency selects which lab it wants to test gaming software and submits documentation to the State proving that the lab it has selected complies with the compact requirements.

These labs employ dozens of qualified and experienced personnel, a standard that California could never meet with the CGCC’s proposed operation of eight people.

Field Testing Staff: Our amended compacts are the first to allow the periodic field testing of slot machines, for which we believe the proposed new staff positions are justified. It is unclear whether the number of proposed positions – five – is justified to test the gaming devices at six casinos on a maximum of a quarterly basis, but recognize that these positions will require training and may include other duties and responsibilities.

We believe that patron confidence in the integrity of our games is in the best interest of our business and of our patrons.

Fifteen additional auditing staff

The CGCC asserts that these positions are necessary to assure that “Indian gaming contributes the proper amounts into the different funding sources, including the General Fund.”

In the more detailed descriptions of the budget adjustment, the only reference to audits is to net win calculations. Prior to the amendments, two of our five tribes with amended compacts made payments based on net win. But the amendments eliminated this basis for calculating payments to the State, and all payments made under the amended compacts are made on a flat-fee basis. So the CGCC has actually two less tribal gaming operations for which this audit activity might be required, not more. The inspection of tribal operational and facility records is already required under the 1999 compacts, and there is no expended responsibility as a result of the amendments.

Seven additional licensing staff

This is described in the BCP as necessary “to complete mandated workload associated with tribal findings of suitability for key employees and vendors.”

None of these requirements relate to the amended compacts. These requirements are already in place under the existing compacts, and the CGCC’s backlog of work in this area is well known. There is no additional burden from the amended compacts. Much of this work relates to card club regulation, not tribal gaming regulation.

Two legal staff

The CGCC says this staff addition is needed “to address growing tribal litigation workload and compact interpretation.”

There is no expanded description of this need in the description of the proposed adjustment. It is clear, however, that this need is not a function of the amended compacts. It relates to cases brought as a result of CGCC interpretations of the 1999 compacts and to lawsuits filed by card clubs and racetracks. The legal work on these cases is being handled, and should be handled, by the Department of Justice.

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Five and one half administrative support staff

This is justified as necessary to maintain a minimal level of support to the Commission. There is no expanded description of this need in the adjustment description.

Two investigative staff

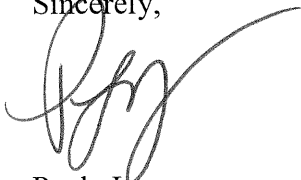
The Gambling Control Act does not provide for the Commission to have police powers. Under the Gambling Control Act, this is the role of the Department of Justice. So it is unclear why the CGCC would need sworn officers. There certainly is no provision in the amended compacts requiring them.

Other tasks

Finally, the CGCC's Budget Change Proposal lists several other tasks erroneously identified with the amended compacts. These involve procedures for the transportation of gaming devices, employee suitability determinations, the maintenance of a roster of suitable gaming resource suppliers, and annual certifications of tribal gaming facilities. None of these tasks was triggered by the compact amendments.

We appreciate your attention to these comments and the opportunity to clarify the financial impact of our five amended compact.

Sincerely,

A handwritten signature in black ink, appearing to read 'Paula Lorenzo', with a long, sweeping flourish extending to the right.

Paula Lorenzo
Chair, California Tribal Business Alliance