



**To: Ed Beasley**  
**From: Elliott Pollack**  
**Date: February 13, 2009**  
**Re: Economic Implications of the Proposed Tohono O'odham  
West Valley Resort and Casino**

---

Elliott D. Pollack & Company was retained by the City of Glendale to provide a brief and professional review of materials and research regarding the proposed Tohono O'odham West Valley Resort and Casino to be built within the City's entertainment district. Our company was also retained to provide insight on the economic and fiscal implications to the City.

In conducting this limited analysis, Elliott D. Pollack & Company relied on the results and assumptions provided in a number of existing studies conducted by other firms on the impact of the project. Information was also obtained regarding the legal, financial, and planning costs associated with providing services to the proposed resort and casino project. No surveys were conducted by this firm. In addition, Elliott D. Pollack & Company has not conducted any research on the feasibility of its operations. The analysis was designed to estimate the net impact that this project would have on the City.

*To summarize, based on our review, we believe that the added costs and potential reduction in revenues to the City of Glendale and its citizens is greater than the potential benefits.*

**Qualifying Conditions**

The accompanying analysis prepared by Elliott D. Pollack & Company is subject to the following considerations and limiting conditions:

- It is our understanding that this study is for the client's due diligence and other planning purposes. Neither our report, nor its contents, nor any of our work is intended to be referred to or quoted, in whole or in part, in any registration statement, prospectus, public filing, private offering memorandum, or loan agreement without our prior written approval.
- The reported results represent the considered judgment of Elliott D. Pollack & Company based on the facts, analyses, and methodologies described in the report.



- Except as specifically stated to the contrary, this study does not give consideration to the following matters to the extent they exist: (i) matters of a legal nature, including issues of legal title and compliance with federal, state and local laws and ordinances; and (ii) environmental and engineering issues, and the costs associated with their correction. The user of this study will be responsible for making his/her own determination about the impact, if any, of these matters.
- All dollar amounts are stated in constant 2009 dollars and, unless indicated, do not take into account the effects of inflation.
- We do not represent our results as results that will be achieved. Some assumptions inevitably will not materialize and unanticipated events and circumstances may occur; therefore, the actual results achieved may vary materially from the forecasted results.

### **Reviewed Data Sources**

Some of the assumptions used in the evaluation of the impact on the City of Glendale from the development of the proposed resort and casino were obtained from secondary sources. Elliott D. Pollack & Company relied on the results and assumptions provided in a number of existing studies that were conducted by other firms. No surveys were conducted by this firm.

The proposed development was described to our firm by the City of Glendale, along with the associated costs that will be incurred in providing services to the proposed casino. Tourism estimates were provided in the feasibility analysis titled “The Potential Economic and Fiscal Impact of the Proposed West Valley Resort at Northern Avenue.” This report was conducted by The Analysis Group, Inc. and Spectrum Gaming Group, LLC.

### **Issue Background**

The Tohono O’odham Nation is proposing a resort and casino on 134 acres located at the southwest corner of Northern and 91<sup>st</sup> avenues. The site is located in Glendale’s Municipal Planning Area (MPA) in the heart of its defined Sports & Entertainment District. The site is located within the City’s strip annex area. The property is proposed to host a 1.2 million square foot complex that is estimated to cost more than \$550 million. It will include 150,000 square feet of gaming space, a 600-room spa hotel, a 180,000 square foot convention center, and a 40,000 square foot event center. Additional amenities will include 30,000 square feet of retail space, 5 restaurants, a food court, 2 buffets, a coffee shop, 2 bars, and one nightclub.

Proponents of the project argue that the casino will generate 1.2 million visitors each year, will create 6,000 construction jobs during the development phase, and will create 3,000 ongoing jobs once construction is complete. However, this site would be considered a sovereign nation and, thus, would be exempt from City of Glendale taxes. Furthermore, in our opinion, and based on previous research conducted by this firm, most casino visitors will only be passing through Glendale on their way to the site, not stopping nor spending money in Glendale. In addition, of the estimated 6,000 construction jobs, only an estimated 650 employees would be City of



Glendale residents. Of the 3,000 ongoing jobs, only 1,300 are likely to be filled by City residents. Furthermore, many of the jobs pay minimum wage or slightly above.

Proponents also state that outside visitors will travel into the City and spend money on taxable items and that the inclusion of this proposed amenity will reduce retail leakage from current residents to outside communities. As a result, the report produced by The Analysis Group, Inc. and Spectrum Gaming Group, LLC concludes that the introduction of the West Valley Resort and Casino would have significant positive impacts for the City of Glendale, Maricopa County, and the State of Arizona.

While it may be true that there will be new visitors to the area attending the resort and casino, if a large number of the visitors do not venture out of the site and into the City as some studies suggest, the positive benefits would be significantly diminished. It is also possible that a portion of these future resort and casino guests that spend additional money within the City would have come to Glendale anyway (whether or not the casino hotel was built) and stayed at a different lodging site. Therefore, these guests would not represent net new revenue and economic activity to the City of Glendale, but should be considered as revenue lost to the proposed project net of visitor spending that occurs within the City.

The City is concerned that the proposed development would become a destination that would serve as competition for businesses located within the Sports & Entertainment District and from the Glendale Conference Center, essentially reducing revenues that otherwise would have occurred if not for the development of the proposed resort and casino. Indeed, studies have shown that casinos, and specifically gambling, produce a spending substitution effect where casino patrons decrease their spending on goods and services to reserve their discretionary income for gambling. This substitution effect, as reported in multiple studies, has been estimated to be as low as 35% and as high as 75%. Any substitution effect would negatively impact City revenues.

#### **Cost of Services and Potential Benefits**

A further impact on the City's revenues would be the cost of providing services to the site. Indeed, the proposed development raises transportation, water, sewer, fire protection and public safety issues for the City. Consideration must also be taken into account regarding the lost revenues caused by the inability to collect taxes on the site. That is, if this 134 acre site were, as originally expected, developed with taxable activities, the City would collect tax revenues and also be able to charge development fees to pay for municipal services.

Upon review of all provided information and based on the opinion of this firm, there are both positive and negative factors for City policymakers to consider.

- **Estimated Costs (No alternative development)** – This compares the scenario of building the resort and casino versus building nothing on the site. The costs include the infrastructure and public safety services that would be required with the development of the casino. These costs would be considered net new if nothing else was developed. The cost estimates were provided by each department within the City. Elliott D. Pollack &



Company has not conducted any analysis as to their reasonableness. In total, there would be a reported \$14.6 million cost for the construction of a new fire station as well as additional infrastructure that has yet to be fiscally scored. During the ongoing operations, additional police officers would cost a reported \$950,903 each year while fire fighters and O&M would cost a reported \$2.8 million annually. Additional water, wastewater, and traffic issues would create added costs that are estimated to be substantial.

- **Estimated Costs (Property is developed within the City and is taxable)** – This compares the scenario of building the resort and casino versus the property developing as currently zoned within the City limits. If the site is instead developed as originally zoned and within the City of Glendale, the City would be able to collect tax revenue and charge development fees to offset the considerable costs that are anticipated with such a development.

Under a scenario where a mixed use development is built and is under the purview of the City, one time revenues would total approximately \$5.3 million from permit fees and construction sales taxes. Ongoing sales/bed tax revenues would total \$2 million to \$4 million each year and City primary and secondary property taxes would likely total an estimated \$600,000 to \$1.1 million. The exact dollar amount would depend on the specific configuration of the mixed use development. These figures also represent revenues based on development occurring in the near future, and should be discounted proportional to the amount of time it would take to reach a stabilized level of operations.

- **Lost Revenues: Entertainment and Commercial Development** - A substitution effect will occur if the resort and casino is constructed. Individuals have limited dollars to spend (in this case on entertainment), so every dollar spent at the casino could come at the expense of some reduction in economic activity within the City's entertainment district.
- **Positive Revenues from New Employment Opportunities** – The City of Glendale may collect some tax revenues created by the development of the West Valley Resort and Casino. These revenues may occur from the spending of employees that work at the site and also live in Glendale. Unfortunately, not all of the employment opportunities are expected to be filled by Glendale residents. Revenues from construction employees' spending would total an estimated \$300,000 during the entire construction period, while ongoing revenues to the City from employees supporting annual operations would total an estimated \$200,000 per year. These revenues appear to be far less than the estimated cost of providing services to the site or to the estimated lost revenue from a taxable development.
- **Benefits from Additional Hotel Space** – The City of Glendale has developed a respected entertainment district that compares favorably to anywhere in the State. However, hotel space is limited within the City. This has restricted its ability to retain visitors during premier sports events. The additional hotel space would assist in retaining some of these sports fans by keeping them from reserving hotel rooms in other cities.



However, since premier sports events other than the Fiesta Bowl are not a regular occurrence, the benefits would also likely be less than the cost of providing services or lost taxable revenue.

The following table illustrates the cost/benefit comparison for the two scenarios just described. Cost estimates and estimated permit and impact fees were provided by each department within the City. Elliott D. Pollack & Company has not conducted any analysis as to their reasonableness. Projected lost revenue are estimated ranges calculated both by the City of Glendale and by this firm based on a range of potential uses within a mixed use zoning.

<b>West Valley Resort &amp; Casino Revenues v. Costs City of Glendale</b>					
<i>Costs <sup>1/</sup></i>		<i>Lost Revenues</i>		<i>Positive Revenues</i>	
<b>One-time impacts (during construction phase)</b>					
Fire Station	(\$14.6 million)	Permit and Impact Fees	(\$299,500)	Annual secondary revenues from construction employees that live in Glendale	\$300,000
Infrastructure (roads, water, sewer)	Cost not available	Construction Sales Taxes (if City purview and built mixed use)	(\$5,000,000)		
<b>Ongoing impacts (during operations)</b>					
Water Usage	600,000 gpd cost unknown, but substantial	Substitution Effect (Entertainment district patrons that now spend \$ in casino and conference center)	N/A	Secondary revenues from employees that live in Glendale	\$200,000
Wastewater Flow	400,000 gpd cost unknown, but substantial	Average Annual Sales/Bed Taxes (if City purview and built mixed use)	(\$2,000,000 - \$4,000,000) each year	Taxable revenue from casino patrons that venture off site and spend money in City	N/A
Traffic Issues	8.34 million in & out trips per year - cost unknown, but substantial	Average Annual Property Taxes (if City purview and built mixed use)	(\$600,000 - \$1,100,000) each year		
Public Safety	+8,500 calls 11 officers = (\$950,903)				
Fire Fighters and O&M	(\$2.8 million)				

<sup>1/</sup> The costs provided by the City of Glendale only illustrate the costs of providing services to the proposed development and do not provide the difference in costs between the proposed project and an alternative mixed use development. Therefore, the costs should only be taken into consideration under the "No Alternative Development" scenario.

Source: City of Glendale; The Analysis Group, Inc. & Spectrum Gaming Group, LLC; Elliott D. Pollack & Company



### **Development Paying for Itself**

One of the principles of successful economic development that has been embraced by the State is the concept that new development should pay for itself. In other words, existing residents and businesses should not bear the burden of providing infrastructure and services to new development. Impact fees serve as the method of having new development pay for capital costs associated with the expansion of infrastructure and services, while other ongoing fees and taxes essentially pay for the operations and maintenance of the infrastructure and services.

With infill areas, impact fees often act as a “paying in” system in which new development pays for its share of infrastructure that was already built in anticipation of the new development occurring. No type of development should categorically be exempt from paying its fair share of the infrastructure, operations, and maintenance costs. The specifics of the proposed resort and casino project are counter to this very basic planning and development premise.

### **Additional Considerations**

The financial and social impact of a resort and casino located in the center of a town is unknown. Most other gaming facilities are located on the periphery of Arizona’s cities and towns. The combination of high-profile sports entertainment venues with virtually adjacent casinos may be potentially volatile. There is also a certain stigma associated with gambling which may be especially worrisome to Glendale residents given the proximity of the proposed casino to the local high school (within 200 feet). Such stigma includes a perceived increase in crime, a decrease in the standard of living, traffic congestion, and other socially undesirable behavior.

### **Summary**

It is our understanding that the City of Glendale will not collect any impact fees, nor will it receive property, lease, or sales taxes from the operations of the resort and casino. The City reports that it will supply additional police and fire services due to the proposed development in addition to providing utilities and maintaining local transportation access. ***Based on this review, it appears that even under the best case scenario, the cost and lost revenue to the City of Glendale and its citizens would be significantly higher than the fiscal benefit associated with the proposed resort and casino.***

