CALIFORNIA STATE AUDITOR
Elaine M. Howle, State Auditor

FACT SHEET

Date: **July 12, 2007** **Report:** **2006-036**

The California State Auditor released the following report today:

Indian Gaming Special Distribution Fund

Local Governments Do Not Always Use It to Mitigate the Impacts of Casinos, and Its Viability Will Be Adversely Affected by Compact Amendments

BACKGROUND

Since the passage of Proposition 1A in March 2000, the governor is authorized to negotiate and enter into tribal-state gaming compacts, subject to ratification by the Legislature and federal approval, and give federally recognized Indian tribes the authority to operate slot machines, lottery games, and certain types of card games on Indian lands in California. In anticipation of the passage of this proposition, the State entered into 61 compacts (1999 compacts) with California Indian Tribes and has since entered into six more. The 1999 compacts require some tribes to deposit a percentage of their average net wins into a distribution fund. Each year, moneys from the distribution fund are granted (through local community benefit committees) to local governments for projects intended to mitigate the adverse effects of casinos. State law requires our office to conduct an audit of the fund every three years.

KEY FINDINGS

In our first audit report regarding the allocation and uses of moneys from the distribution fund by recipients of the grants, we identified the following key findings:

- Of the 30 grants we reviewed in six counties, 10 were used for projects that only partially related to the effects of casinos and five were unrelated to casinos' impacts.
- Although two tribes negotiated directly with local governments to pay for mitigation projects and did not pay into the distribution fund, the two counties in which the two tribes were located, still received nearly $850,000 from the distribution fund in one year.
- Some local governments had not spent their grants for several years after receiving the money, thus earning interest on the unspent funds, yet did not always use the interest for projects related to casinos' impacts.
- Counties and benefit committees need to better administer their distribution fund grants. For example, some grantees were not eligible for funding; 11 of 13 tribal members did not file required statements of economic interests; and many counties did not submit their annual reports on time to all the required entities or failed to submit them at all.
- Recent new and amended compacts may significantly affect the viability of the distribution fund and programs that rely on it. We estimate that annual revenues will decrease by $92 million. However, the decline in the distribution fund could be reduced by an anticipated annual increase of more than $174 million in the State's General Fund.

KEY RECOMMENDATIONS

We recommended that the California Gambling Commission seek several amendments to the Government Code to ensure that local governments receive maximum benefits from the distribution fund and comply with applicable provisions of state law. Additionally, we made several recommendations to the local community benefit committees in how to administer and oversee the distribution fund.