

STARTING WAGES AND HEALTHCARE BENEFITS  
AT AGUA CALIENTE CASINO,  
2002-2007

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## Executive Summary

Between 2002 and 2007, the Agua Caliente Band of Cahuilla Indians is estimated to have earned a tax-free profit of more than one-half billion dollars. Over the same period, the Tribe squeezed employees earning minimum starting pay by letting the pay for these jobs fall (relative to the rate of inflation) and by significantly increasing the premiums employees had to pay for casino-provided healthcare. As a result, many casino employees had even greater difficulty achieving a modest standard of living. Many have turned to taxpayer-funded welfare programs to make ends meet.

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## Introduction

Between 2002 and 2007, the tribal casino operations of the Agua Caliente Band of Cahuilla Indians earned a tax-free profit of over \$600 million.<sup>1</sup> This makes the Tribe one of the wealthiest business owners in California. For instance, in 2004 a total of 616,805 corporations and banks filed income tax forms in California; the Tribe earned more than 616,500 (or 99.9%) of these businesses.<sup>2</sup>

This report analyzes changes in the minimum starting pay and healthcare insurance benefits for workers at the Agua Caliente Casino over 2002 to 2007. That is, it analyses

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<sup>1</sup> This estimate is based on the Tribe's self-reported casino operating profit from fiscal year 2002 and on the assumption that the Tribe earned approximately the same amount in each year between 2003 and 2007. The 420-member Tribe reported a cash deposit into its General Fund from casino operations of \$105,149,799 in 2002. See Agua Caliente Band of Cahuilla Indians, *Confidential Offering Memorandum*, July 31, 2003, page 50. See Appendix A. The Tribe has not released data on casino profitability for later years. But on August 16, 2006, the Tribe testified in a legislative hearing that \$23.4 million was approximately 9% of its net win, which translates to \$356 per machine, per day. The 2006 net win figure is thus 58% greater than the amount reported in 2002. Since Tribal reports show that slots comprise approximately 75% of its casino revenues and only 8% of costs, it is reasonable to assume that the Tribe's net income had grown between 2002 and 2006. The assumption that Tribal casino net income had remained constant at approximately \$100,000,000 per year between 2002 and 2007 is likely conservative. This conservative assumption leads to a \$600,000,000 estimate for Tribal net income between 2002 and 2007.

<sup>2</sup> This estimate is based on an assumed \$100,000,000 profit in 2004 for the casino. See Table D-13, California Department of Finance, *2006 California Statistical Abstract*, January 2007. See [http://www.dof.ca.gov/HTML/FS\\_DATA/STAT-ABS/2006\\_statisticalabstract.pdf](http://www.dof.ca.gov/HTML/FS_DATA/STAT-ABS/2006_statisticalabstract.pdf).

changes in employee pay and benefits over the same period that the Tribe earned over \$600 million.

This report finds that increases in the minimum starting pay for workers lagged behind inflation and, so, these workers' purchasing power declined. It also finds that the Tribe increased employee premiums for healthcare insurance faster than the rate of inflation. The combination of declining purchasing power of earnings and significant increases in the cost of healthcare benefits squeezed the living standard of many casino employees.

## The Data

The data used in this report came from three different sources. The data for minimum starting wages in 2002 came from a survey of 470 workers at Agua Caliente Casino classified as "eligible employees." This survey was carried out between October 2002 and January 2003. The survey was performed under the oversight of the Institute of Industrial Relations at UCLA. Nilsson, Jamison, and Fairris (2003) discuss this survey in detail.<sup>3</sup>

The data for minimum starting wages in 2007 came from the job listings posted by Agua Caliente Casino on their website. This data was accessed in December 2007.<sup>4</sup>

Data on casino-provided healthcare insurance benefits came from handouts given to casino employees by casino management in 2002 and 2007. Appendix A presents the 2007 Tribal document.

One goal of this report is to determine the change in starting minimum wage rates for Tribal casino employees between 2002 and 2007. Pay rates differ by job classification and, so, the only minimum starting pay rates considered here are those for jobs for which wage data exists for both 2002 and 2007.

Wage information for four job classifications exists in both sources of data. These jobs are busser, barback, valet, and cocktail server. Bussers help maintain buffet areas and clear, clean, and reset restaurant tables. Barbacks keep bars stocked with beverages and food, clean bar equipment, wash dishes, and assist bartenders in miscellaneous ways. Valets

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<sup>3</sup> Eric Nilsson, Angela Jamison, David Fairris, *Wages and Healthcare Benefits of Workers at Agua Caliente Casino*, March 2003. This report can be found at <http://economics.csusb.edu/faculty/nilsson/personal/Professional/Aqua%20Caliente%20Casino%20Study.pdf>.

<sup>4</sup> Job listings for the Tribe can be accessed at: <http://www.aguacaliente.org/TribalEnterprises/tabid/60/Default.aspx>.

park and retrieve guest cars. Cocktail servers serve beverages and act as mobile cashiers for beverage services.

We do not know whether changes in the minimum starting wage data for these jobs serves as a perfect proxy for minimum starting wages for all jobs at the casino. On the one hand, this is a limitation of the study: we are not using a random sample and do not have access to Tribal pay records. On the other hand, these jobs are typical casino jobs and it is reasonable to expect that the pay for these four jobs moves in parallel with that of other jobs.

### Analysis of Nominal Wage Change

Table 1 shows the minimum starting hourly wages for various casino jobs at Agua Caliente Casino in 2002 and in 2007.<sup>5</sup> As seen, the minimum starting wages for these jobs have increased over the past five years. For instance, bussers in 2002 were paid \$7.25 per hour while in 2007 they were paid \$7.50. Each of the other minimum starting wages experienced increases.

**Table 1**  
**Minimum Starting Pay Grew between 2002 and 2007**

Job Classification	November 2002	December 2007
Busser	\$ 7.25	\$ 7.50
Barback	\$ 6.90	\$ 7.50
Valet*	\$ 6.75	\$ 7.50
Cocktail Server*	\$ 6.75	\$ 7.50

\*= worker receives tips according to current Tribal information.

The minimum starting wage is the wage that the least qualified newly-hired employee is likely paid. The values for minimum starting wage in 2002 are taken from the 2002 survey of casino employees and was determined as the lowest hourly pay received by those in each job classification. The values for the minimum starting wage in 2007 came from the job website for the Tribal casino.

The data for 2002 and 2007 also suggests that Agua Caliente Casino simplified its wage structure over the past five years. In 2002 the starting wages varied by job: the four jobs

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<sup>5</sup> The minimum starting wage for any job classification in 2002 was assumed to be equal to the lowest wage paid to employees in that job classification in 2002.

considered in this report had three different minimum starting wages. But by 2007 the minimum starting wages for all four jobs had converged to the same level.<sup>6</sup>

Table 2 shows the relationship of the minimum starting wage to the then-existing California minimum wage (\$6.75 in 2002 and \$7.50 in 2007). The convergence of starting pay to the minimum wage is clearly seen.

**Table 2**  
**Starting Pay Converged to California Minimum Wages**

Job Classification	November 2002	December 2007
Busser	Above Minimum	At Minimum
Barback	Above Minimum	At Minimum
Valet*	At Minimum	At Minimum
Cocktail Server*	At Minimum	At Minimum

### Analysis of Purchasing Power Change

If your pay increases by 10%, but the price of what you buy increases by more (say, by 20%), you are able to buy less than before. Economists say that, in this case, the “purchasing power” of your wage has declined.

Between 2002 and 2007 consumer prices increased by 16.1%.<sup>7</sup> To maintain its purchasing power a wage must increase by the same amount—by 16.1%—over this same period.

Table 3 shows the required 16.1% increase in minimum starting wages for the four jobs considered in this report and the actual increase in this pay. In each job the actual increase in wages failed to keep pace with inflation. For instance, bussers required an increase of \$1.16 per hour to maintain the purchasing power of their wages but minimum starting pay increased by only 25¢.

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<sup>6</sup> It is possible that no new casino employee in 2007 was actually paid the starting wage rate in 2007 but, instead, was paid more than the advertised starting pay. We cannot say for certain whether this is the case or not.

<sup>7</sup> This is the increase in the Bureau of Labor Statistic’s consumer price index for urban wage earners and clerical workers (CWUR0000SA0) between November 2002 and November 2007.

**Table 3**  
**Starting Pay Failed to Keep Up with Inflation**

Job Classification	Increase Necessary to Maintain Buying Power	Actual Increase
Busser	\$ 1.16	25¢
Barback	\$ 1.11	60¢
Valet*	\$ 1.08	75¢
Cocktail Server*	\$ 1.08	75¢

The prices for goods and services grew faster than did minimum starting pay and, so, workers earning this minimum pay could buy *less in 2007 than they could in 2002*. The purchasing power of minimum starting wages fell.

Only a more detailed survey of casino employee wages would permit us to determine if the wages for all casino jobs experienced the same decline in purchasing power as shown in the minimum starting wages for these four casino jobs. As noted above, this report does not use a random sample or actual Tribal pay records and, so, any conclusions drawn from the report about wage trends within the casino as a whole are merely suggestive. The decline in the purchasing power of the minimum starting wages of these four jobs might indicate patterns in the casino as a whole, but only future research would confirm or reject this.

By letting starting wage growth lag behind inflation, the Agua Caliente Tribe boosted its profit above what it would have been: money that otherwise would have gone to employees was kept, instead, by the Tribe.

Table 4 presents estimates of the increase in Casino profits per worker earning the starting wage in 2007 due to the decline in the real wages of Casino employees.<sup>8</sup>

**Table 4**  
**Estimated Shift from Wages to Casino Profit**  
**Per Full-Time Worker**  
**Earning the Minimum Starting Pay in 2007**

Job Classification	Increased Profit Per Worker
Busser	\$ 1,893
Barback	\$ 1,061
Valet	\$ 686
Cocktail Server	\$ 686

That is, because the Tribe failed to increase pay by the rate of inflation it was able to boost its profit above what it otherwise would have been. For instance, for a full-time busser the casino’s policy of failing to maintain the purchasing power of its starting wages boosted casino profit by \$1,893 in 2007. If the average amount of the shift from wages to profit (per worker) was \$1,100 and 1,000 workers were employed at the casino, then the boost in profits gained by underpaying workers totaled \$1.1 million dollars in 2007 alone.<sup>9</sup>

In summary, minimum starting pay increased between 2002 and 2007. However, the increase fell short of the rate of inflation and, so, the purchasing power of minimum starting wages actually fell over the past five years. By failing to boost employee pay by the rate of inflation, Agua Caliente Tribe possibly reaped increased profits of \$1.1 million in 2007 alone.

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<sup>8</sup> This assumes an employee works 40 hours per week for 52 weeks per year.

<sup>9</sup> This assumes that all casino jobs received pay raises falling short of the rate of inflation between 2002 and 2007. Although this is possibly the case, we cannot say for sure given the lack of public data on the wages paid by Agua Caliente Casino.

## Casino-Provided Healthcare Benefit

Table 5 shows the increase in the cost (to employees) of casino-provided healthcare benefits.<sup>10</sup> For comparison, the annual income of a barback (earning the minimum starting wage) is also included.

**Table 5**  
**Employee Annual Healthcare Premium Costs Increased**

Healthcare Coverage	2002	2007	Percent Change
Employee	\$ 0	\$ 650	na
Employee + Spouse	\$ 1,920	\$ 2,730	42%
Family	\$ 2,880	\$ 3,770	31%
Annual Earnings at Minimum Starting Wage (Barback)	\$ 14,352	\$ 15,600	9%

As can be seen, the minimum increase in annual healthcare premiums shown was 31%. This compares to the 9% increase in earnings for barbacks paid the minimum starting wage over the same period. Employees earning the minimum starting pay (and likely other employees also) were increasingly squeezed by the cost of casino-provided healthcare over the period studied.

Table 6 indicates the increase in the premium paid by a full-time barback earning the minimum starting wage if he/she bought the employee + spouse coverage. Whereas this healthcare coverage cost the employee 13% of his/her wages in 2002, it cost 18% in 2007.

**Table 6**  
**Increase in Healthcare Premium  
as Percent of Barback Earnings**

	2002	2007
Annual Earnings at Minimum Starting Wage	\$ 14,352	\$ 15,600
Employee + Spouse Healthcare Insurance Premium	\$ 1,920	\$ 2,730
Employee + Spouse Premium as Percent of Annual Earnings	13%	18%

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<sup>10</sup> This data comes from handouts provided to casino employees by casino management in 2002 and 2007.

Earlier research revealed that high healthcare premiums for employees in the Agua Caliente Casino in 2002 induced many employees to turn to taxpayer-funded state healthcare insurance programs. For instance, in 2002 an estimated 36% of the children of casino employees were enrolled in the taxpayer-funded Healthy Families while an estimated 10% of casino employees' children were enrolled in taxpayer-funded Medi-Cal.<sup>11</sup> (Additionally, another 10% of children were without healthcare).

We have no direct evidence as to the proportion of casino employees' children who are currently enrolled in the Healthy Families and Medi-Cal programs. But as casino-provided insurance became even more expensive to employees between 2002 and 2007, it is reasonable to expect that an even larger proportion of the children of casino employees would be enrolled in state healthcare insurance programs. That is, while 46% of casino employees' children were enrolled in taxpayer-funded healthcare programs in 2002 we can only presume that proportion now exceeds this 46%.

This earlier research also showed that, by inducing employees to enroll in taxpayer-funded healthcare programs, the Agua Caliente Tribe possibly boosted its profits by approximately \$1 million. If an even higher proportion of children of casino employees are now enrolled in taxpayer-funded healthcare programs the annual boost to Tribe profits would exceed \$1 million.

### Analysis of Adequacy of Change in Minimum Starting Wage for Living Standards

Additional insight into the minimum starting pay paid by Agua Caliente Casino can be gained by comparing changes in this starting wage to changes in “modest standard of living without assistance from public programs.”<sup>12</sup>

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<sup>11</sup> Eric Nilsson, Angela Jamison, David Fairris, *Wages and Healthcare Benefits of Workers at Agua Caliente Casino*, March 2003, pages 16-20.

<sup>12</sup> California Budget Project, *Making Ends Meet: How Much Does It Cost to Raise a Family in California?*, October 2007, page 3.

Table 7 compares the earnings necessary to achieve a modest standard of living with the earnings of a full-time barback receiving the minimum starting pay.<sup>13</sup>

**Table 7**  
**Minimum Starting Wage for Single Adult**  
**Less Adequate than Before**

Expense Category	Monthly Expense	
	2002	2007
Housing/Utilities	\$ 537	\$ 765
Child Care	0	0
Transportation	281	446
Food	187	211
Healthcare	50	110
Miscellaneous and Taxes	536	709
<b>Required Monthly Earnings</b>	<b>\$ 1,591</b>	<b>\$ 2,241</b>
Hourly Wage	\$ 6.90	\$7.50
<b>Actual Monthly Earnings</b>	<b>\$ 1,196</b>	<b>\$1,300</b>
<b>Ratio Actual/Required</b>	<b>75%</b>	<b>58%</b>

As can be seen, the “adequacy level” of the minimum starting wage for a barback fell from 75% to 58% over the period under analysis. That is, in 2002 a single adult full-time barback earning the minimum starting wage earned 75% of what he/she needed to achieve a modest standard of living. But by 2007 such a worker only earned 58% of what was needed. The minimum starting wages became less adequate over the past five years.

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<sup>13</sup> The approach taken here is the same taken in Nilsson et al (2003). The basic underlying data for 2007 came from the California Budget Project, op. cit., while 2007 rent information came from: [http://www.huduser.org/datasets/fmr/fmr2007f/fy2007f\\_SCHEDULEB\\_rev2.pdf](http://www.huduser.org/datasets/fmr/fmr2007f/fy2007f_SCHEDULEB_rev2.pdf). I assumed employees worked 40 hours per week and 52 weeks per year.

Table 8 indicates the dollar monthly increase in what was needed to achieve a modest standard of living (\$650) wage greater than the actual monthly increase in the minimum starting pay for a barback (\$104). Such a worker got a \$104 pay raise when he/she needed a \$650 increase to keep pace with the previous (75%) modest standard of living. Such workers fell further behind.

**Table 8**  
**Increase in Minimum Starting Wage**  
**for Single Adult**  
**Falls Short of Increase in Expenses**

Expense Category	Increase in Monthly Expenses
Housing/Utilities	\$ 228
Child Care	0
Transportation	165
Food	24
Healthcare	60
Miscellaneous and Taxes	173
<b>Increase in Required Monthly Earnings</b>	<b>\$ 650</b>
<b>Increase in Actual Monthly Earnings</b>	<b>\$ 104</b>

### Conclusion

Between 2002 and 2007, the Agua Caliente Band of Cahuilla Indians is estimated to have earned a tax-free profit of more than one-half billion dollars. Over the same period, the Tribe squeezed employees earning minimum starting pay by letting the pay for these jobs fall (relative to the rate of inflation) and by significantly increasing the premiums employees had to pay for casino-provided healthcare. As a result, many casino employees had even greater difficulty achieving a modest standard of living. Many have turned to taxpayer-funded welfare programs to make ends meet.

Appendix A  
 Agua Caliente Band of Cahuilla Indians, *Confidential Offering*  
 Memorandum, July 31, 2003, page 50.

**Casino Operations**  
**Selected Historical Combined Financial and Pro Forma Data**

	Fiscal Years Ended September 30,			Six Month Period Ended March 31,	
	2000	2001	2002	2002	2003
<b>Operating Revenues:</b>					
Slots	\$70,906,029	\$108,477,075	\$154,326,017	\$76,386,102	\$82,241,689
Table games	9,908,437	19,195,063	37,681,610	18,924,199	18,139,320
Food and beverage	588,519	6,290,535	12,924,566	6,483,387	7,036,291
Bingo	--	(39,836)	396,610	109,362	462,732
Other	946,683	2,632,424	5,150,280	2,633,476	2,531,984
Total operating revenues	<u>\$82,349,668</u>	<u>\$136,555,261</u>	<u>\$210,479,083</u>	<u>\$104,536,526</u>	<u>\$110,412,016</u>
Less promotional allowances	--	(1,155,880)	(4,918,031)	(2,413,755)	(2,644,533)
Net operating revenues	<u>\$82,349,668</u>	<u>\$135,399,381</u>	<u>\$205,561,052</u>	<u>\$102,122,771</u>	<u>\$107,767,483</u>
<b>Operating Expenses:</b>					
Slots	\$3,716,659	\$5,773,926	\$7,947,114	\$3,884,330	\$4,512,120
Table games	3,251,309	5,965,337	10,510,983	4,993,300	6,347,600
Food and beverage	757,990	7,642,429	15,070,222	7,375,720	8,238,810
Bingo	--	183,237	716,624	334,914	485,596
Other	279,914	1,665,891	3,592,201	1,779,930	1,674,390
General and Administrative	18,142,682	28,428,483	45,598,820	21,639,900	24,796,913
Gaming Commission fees	1,605,765	2,443,730	2,687,974	1,444,606	1,697,218
Rental Expense	802,134	904,890	108,419	57,500	29,857
State revenue sharing and other regulatory fees	58,677	377,127	2,490,235	315,592	4,275,567
Preopening expenses	--	6,022,826	--	--	--
Depreciation	<u>1,659,163</u>	<u>6,300,277</u>	<u>11,532,532</u>	<u>5,530,201</u>	<u>5,958,373</u>
Total operating expenses	<u>\$30,274,293</u>	<u>\$65,708,153</u>	<u>\$100,255,124</u>	<u>\$47,355,993</u>	<u>\$58,016,444</u>
<b>Operating income</b>	<u>\$52,075,375</u>	<u>\$69,691,228</u>	<u>\$105,305,928</u>	<u>\$54,766,778</u>	<u>\$49,751,039</u>
<b>Nonoperating revenues (expense):</b>					
Interest income	162,232	25,078	19,985	12,783	7,097
Gain (Loss) on sale of assets	--	<u>236,322</u>	<u>(176,114)</u>	<u>45,202</u>	<u>(1,906,592)</u>
Net income before capital contributions and operating transfers to Tribal Government	<u>\$52,237,607</u>	<u>\$69,952,628</u>	<u>\$105,149,799</u>	<u>\$54,824,763</u>	<u>\$47,851,544</u>
EBITDA <sup>1</sup>	<u>\$53,896,770</u>	<u>\$76,016,583</u>	<u>\$116,858,445</u>	<u>\$60,309,762</u>	<u>\$55,716,509</u>
EBITDA Margin <sup>2</sup>	65.4%	56.1%	56.8%	59.0%	51.7%

1. EBITDA represents earnings before interest, taxes, depreciation and amortization and gain or loss on disposal of fixed assets. EBITDA is presented because the Tribal Government believes it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in the casino industry. However, other companies in the casino industry may calculate EBITDA differently than the Tribal Government. EBITDA is not a measurement of financial performance under generally accepted accounting principles and should not be considered as an alternative to cash flows from operating activities, as a measure of liquidity or an alternative to net income or any other measures of performance as determined in accordance with generally accepted accounting principles as indicators of the Casinos' operating performance.

2. EBITDA Margin represents EBITDA divided by net operating revenues.

(Shaded box added above)

Appendix  
Healthcare Benefit Premiums Paid by Employees, 2007

Team Member Benefits Deductions



**PPO Medical Plan (Includes Vision)**

Employee only	\$25.00	per pay check
Employee + Spouse	\$105.00	per pay check
Employee + Child(ren)	\$65.00	per pay check
Family	\$145.00	per pay check

**PPO Dental Plan**

Employee only	\$5.00	per pay check
Employee + Spouse	\$35.00	per pay check
Employee + Child(ren)	\$25.00	per pay check
Family	\$50.00	per pay check

**Total Monthly Deductions for both Coverages**

Employee	\$30.00 bi-weekly/\$65.00 a month
Employee & Spouse	\$140.00 bi-weekly/\$303.33 a month
Employee and Child/ren	\$90.00 bi-weekly/\$195.00 a month
Family	\$195.00 bi-weekly/\$442.50 a month