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**Casinos in the Upper Midwest:
A Discussion of the Impacts**

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ABSTRACT

The recent expansion and proliferation of legalized casino gaming has spurred debate at all levels of government. As a result, a number of studies have attempted to quantify many of the economic, social, and fiscal impacts of legalized casino gaming. This study reviewed existing literature on the effects of casino gaming in the Upper Midwest and discussed some of the issues associated with casino activities.

The impacts of casino gaming have generally been evaluated at either the local and/or state or regional level. Positive economic impacts have been quantified more often than negative economic impacts. Few studies have attempted to quantify the social costs of casino gaming.

The economic impacts of casino activities on local economies have generally been positive, with some debate over the magnitude or importance of those impacts. Other impacts at the local level have been mixed. The economic impacts on state economies are generally measured using gross economic indicators, such as primary and secondary employment and overall economic activity. Many issues remain regarding the real or true economic impacts to state economies, as many studies have not adequately addressed the issue of whether or not gaming revenues represent new wealth to the state.

The debate over the impacts of casino gaming is likely to continue. The gambling industry has grown dramatically in many regions of the United States, and so have concerns over the long-term implications of expanded gambling activities.

Key words: gambling, tribal gaming, casino gaming, economic impacts, social impacts, fiscal impacts, Upper Midwest

HIGHLIGHTS

The gambling industry, comprised of lotteries, parimutuel wagers, slot machines, table games, bookmaking, card rooms, charitable gambling, and other games of chance, has grown dramatically in recent years. The largest segment of the gambling industry, casino gaming, has also shown remarkable growth, both in gross revenues and in the number of facilities.

The economic impacts of casino gambling reported in recent studies have generally consisted of aggregate economic measures of industry contribution, such as economy-wide employment and gross business volume. Most studies have failed to quantitatively address the question of the source of gaming revenues and issues relating to shifts in discretionary spending.

Many studies have discussed the social costs associated with casino gambling; however, few have attempted to quantitatively assess those costs. Other impacts, such as governmental revenues, are mostly based on the taxation and regulation of gaming operations. The benefits of these revenues often do not account for losses of tax revenues in other economic sectors or the increased social costs associated with casino activities.

The economic impacts of casinos on local economies have generally been viewed as positive. However, most examples (study areas) in the Upper Midwest have been drawn from traditionally poor economic environments, which accentuate the economic significance of these facilities. Casinos are considered major employers at local levels. The amount of economic benefits to local economies from casinos is a function of the amount and composition of the local economic infrastructure and the level of gaming activity. Much less consensus exists regarding the type and degree of non-economic effects of casinos on local communities and economies.

The real effects of casinos on state economies can largely be answered by the spending patterns of casino patrons. A primarily in-state customer base likely means casino revenues represent a redistribution of money. Alternatively, a high percentage of out-of-state customers can represent new wealth for the state, assuming casino expenditures and profits remain within the state's economy. To the extent that states are able to prevent gambling dollars from leaving their jurisdictions, those revenues could be considered a benefit (gain) to the state. The long-term social costs (state-level impacts) associated with the proliferation of casinos in the Upper Midwest continue to be discussed.

In the case where gambling revenues predominately come from in-state sources, casinos may still represent an economic benefit to some sectors of the economy. Particularly, some portions of the labor force can benefit, especially those who were previously unemployed or those facing dim prospects of finding adequate employment (e.g., Native Americans on tribal lands). Gaming operations, given those conditions, might be viewed as a more efficient redistribution of money than existing state or federal programs (i.e., employment and paychecks vs welfare and social assistance).

Economic development strategies employing gambling activities will require careful evaluation of current market forces. The Upper Midwest is saturated with tribal casinos, which will force communities looking to promote gambling as an economic development tool to focus on non-gaming activities to distinguish themselves from existing operations. Future regulation and public sentiment towards gaming proliferation remain uncertain as evidenced by recent congressional discussions and growing public resistance to further gambling expansions.

The continued expansion of gaming activities and the long-term concerns over gaming regulation by policy makers suggest the debate over the pros and cons of casino gaming will continue.

Casinos in the Upper Midwest: A Discussion of the Impacts

Dean A. Bangsund and F. Larry Leistritz*

INTRODUCTION

The gaming¹ industry currently is one of, if not the fastest, growth industry in the United States (Gazel et al. 1996; Scott et al. 1996; Cabot 1996). The gaming industry is comprised of legal gambling activities, including, but not limited to, lotteries, parimutuel wagers (dog and horse racing and Jai Alai games), slot machines, table games, bookmaking, card rooms, charitable gambling, and other games of chance. Industry revenues and the number of gaming facilities have increased substantially since the late 1980s. Total legal gross wagers in the United States have risen from \$159 billion in 1985 to \$550 billion in 1995 (*The Economist* 1997; Vogel 1994). Likewise, gross revenues for the industry over the same period rose from \$15.3 billion to \$44.4 billion. Casinos are now the single largest component of the gaming industry, responsible for about 70 percent of all legal wagers. Of the estimated \$44.4 billion in gross revenues in 1995, about 50 percent of that occurred in casinos.

The proliferation of gaming activity in the United States can also be demonstrated by examining the number of states that currently allow legal casino gaming. In 1976, New Jersey passed legislation allowing the legalization of gambling in Atlantic City and the first casino in that state opened in 1978. Prior to 1978, casino gambling was only allowed in Nevada. The amount of involvement with legalized casinos remained limited to the state of Nevada and Atlantic City, New Jersey until the mid 1980s. High-stakes bingo facilities began to appear on some Native American reservations in the late 1980s. About the same time as the arrival of bingo operations on reservation lands, efforts were underway to legalize limited stakes casino gaming in South Dakota and Colorado. In addition, several Midwestern states began to examine the possibility of legalizing riverboat gambling. By the end of the 1980s, efforts were underway in several states to legalize a host of casino gaming and other gambling activities (Vallen 1993).

The increase in casino gaming facilities has been dramatic. In 1988, casino gaming was primarily limited to Atlantic City, New Jersey, and to the State of Nevada. In 1989, casino gambling was legalized in South Dakota. Since then, casino gaming has spread to 22 additional states. Currently, 48 out of 50 states have some form of legal gaming activity. In 1995, 10 states

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¹The term 'gaming' is accepted in the United States when referring to gambling, and the term is preferred by those in the industry as it implies entertainment values associated with gambling activities.

had non-tribal casino gaming, 12 had legal card rooms, 44 had horse and dog racing, 46 offered charitable bingo and other charitable games, 21 had slot machines and video slot machines, 19 had tribal casino gaming, 6 had riverboat gaming, and another 14 were considering legalizing casino operations (Long 1995; Harrah's Casinos 1995). In addition to the above forms of gaming, numerous states currently have some form of lottery games.

The proliferation of casino gaming has also occurred in the Upper Midwest. Minnesota had no casinos prior to the passage of the Indian Gaming Regulation Act of 1988; however, by 1992, the state had 16 tribal casinos (Minnesota Planning 1993). Likewise, Wisconsin also had opened 16 tribal casinos during the same period. By June 1993, an estimated 125 gambling establishments were operated by Native American tribes in the United States (Snipp 1995). By 1996, the number of casinos operated by Native American tribes grew to 281 (U.S. General Accounting Office 1997). The expansion of tribal casinos in the Upper Midwest has included North Dakota and South Dakota. By the end of 1996, the tri-state area of Minnesota, North Dakota, and South Dakota had 30 tribal casinos and 9 additional tribal gaming facilities (i.e., bingo and related activities) (Figure 1).

The rapid expansion of gaming activities throughout the United States is partially a result of (1) positive public opinion towards the value of gambling as an entertainment option, (2) governments' viewing gaming activities as mechanisms that create jobs and generate welcome revenues, and (3) Native American tribes capitalizing on opportunities for economic self sufficiency through gaming. Gaming expansion in the United States has attracted the attention of many communities attempting to improve their economic climate through expanded tourism. The current legal environment for gambling, the lure of gaming dollars, and the success of Native American gaming facilities have enticed many states and communities to evaluate legalizing gaming activities.

Gaming as a tourist attraction and economic development tool has become accepted as viable option in many rural communities (Long 1995, 1996; Rephann et al. 1996). However, increases in tourism in areas that previously have not dealt with tourism often have resulted in unexpected problems and unanticipated impacts (Long 1996). Aside from the economic questions (i.e., amount of economic benefit) raised by the presence of casinos, other socio-economic questions have surfaced. In addition, the rapid expansion of tribal gaming facilities in most states has prompted many gaming interests to reevaluate the market. As the gambling industry, particularly the casino sector, has matured and expanded into most regions of the country, work has begun to assess the impacts of gaming activities.

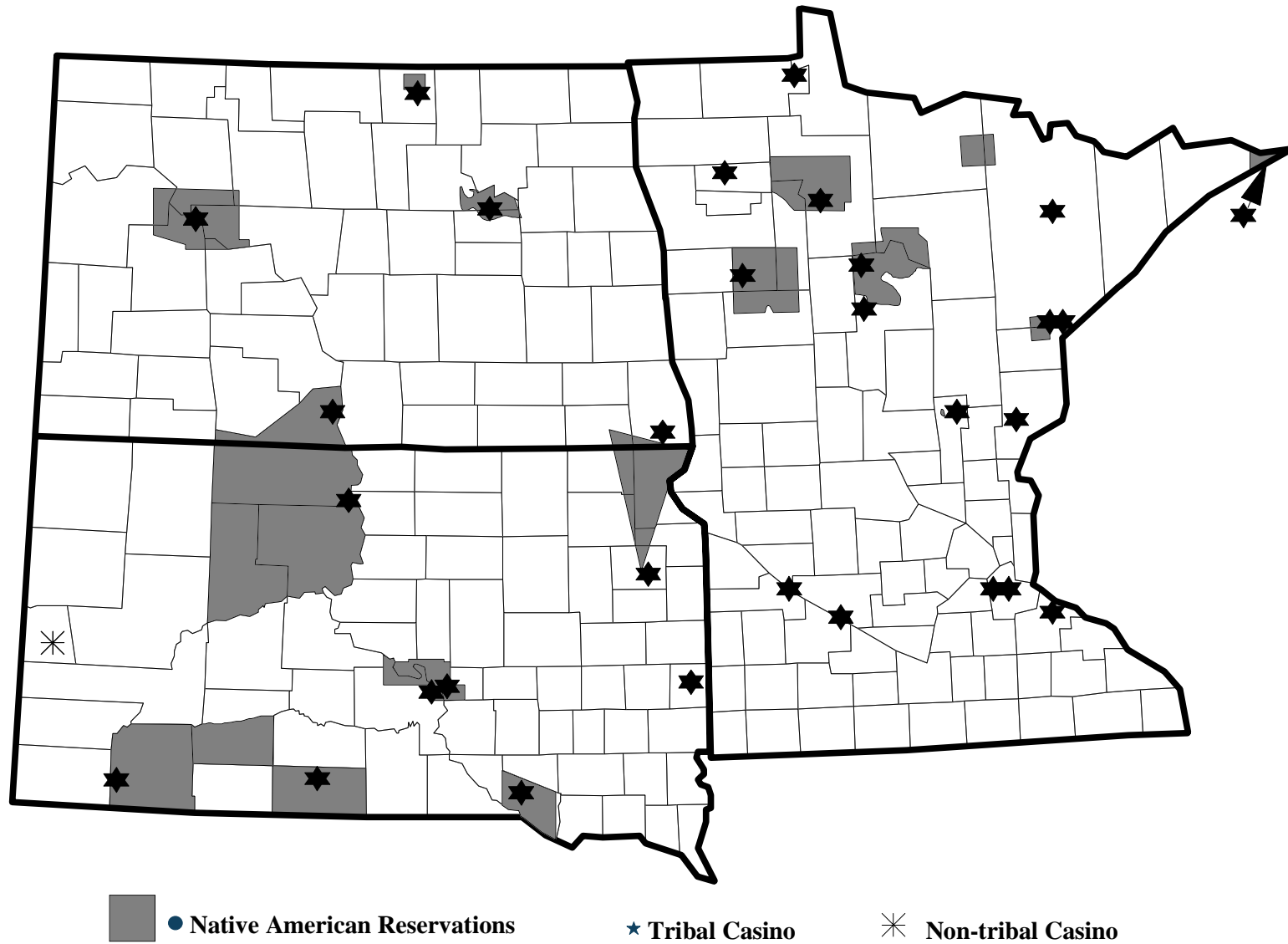


Figure 1. Casinos in Minnesota, North Dakota, and South Dakota, 1996.

The rapid expansion of the gaming industry has raised a number of questions regarding the impacts of gambling facilities. Since most of the tribal casinos are in rural parts of the Upper Midwest, concern over the nature and magnitude of the impacts of these facilities on rural communities has intensified as the popularity of these facilities has increased. Likewise, the initial success of riverboat casinos spurred a rush by several states to capitalize on their growing popularity. The rapid expansion and the unique characteristics of riverboat operations have spurred debate as to their impact. The effects of traditional, tribal, and riverboat casino operations are being examined as gaming proponents and adversaries seek to answer questions regarding the economic consequences of the proliferation of casinos. The purpose of this study is to discuss the socio-economic effects of casinos in the Upper Midwest.

OBJECTIVES

The overall objective of this report is to discuss available information on the impacts of casinos in the Upper Midwest. Specific goals include

- 1) assess the extent of casino activities in the Upper Midwest,
- 2) review literature on casino activities in the Upper Midwest, and
- 3) discuss the impacts of casino operations.

IMPACTS OF CASINOS

Analyses of the economic impacts of gambling and casinos have been ongoing since the start of the gaming industry's expansion in the late 1980s and early 1990s. Studies have quantified the economic impacts, positive and negative, of gambling on state and regional economies. Due to the rapid expansion of casinos, some studies have focused on identifying and measuring the economic impacts of these facilities on local communities. Other studies have attempted to measure the social consequences of expanded gambling and casino operations.

Casino operations in the Upper Midwest are often categorized by ownership. In the region, non-tribal casino operations have been limited to a few locations in South Dakota and Colorado, while tribal casinos are located throughout the Upper Midwest.

Non-Tribal Gaming

One of the first small communities in the Midwest to embrace gambling as an economic development strategy was Deadwood, South Dakota. The small tourist town, located in the Black Hills, began legal casino gambling on November 1, 1989. Since that time, several studies have evaluated the impacts of gambling activities on the town and the surrounding region.

Stubbles (1990) studied the impacts of casino gambling on the Deadwood community shortly after its legalization. The substantial success of legalized gambling was beyond initial expectations and predictions. Through the first eight months of gambling, \$145 million was wagered, 1,183 people were employed in the industry, local taxable sales increased 200 percent, and \$4 million in government revenues was collected. The sudden and strong economic growth spurred by legalized gambling had other effects on the community. Overall, property values in the community increased rapidly, with the greatest effects felt by downtown businesses. Many property values increased from four to ten-fold as people began speculating on the gambling boom.

Stubbles (1990) contends that the rapid and strong success in Deadwood prompted many organizations and governments at that time to examine the possibilities of using legalized gambling as a mechanism for economic development and revenue generation. Some of the negative aspects of the gambling boom in Deadwood included a loss of community-related retail businesses; increased traffic, congestion, and noise; exodus of families in Deadwood to neighboring communities; decreased enrollment/membership in school, church, and civic organizations; accelerated deterioration of local roads by commuters and tourists; and increased social service needs through support for gambling, alcohol, and drug-related problems.

Madden (1991) examined the economic effects of expanded gambling in South Dakota. At the time the study was conducted, casino gaming was limited primarily to Deadwood, as the three tribal casinos open at the time had just begun operations. Attention to instant lottery, video lottery, and Lotto America was the primary focus of the study; however, some impacts from casino gaming were included. Based on customer surveys conducted in 1991, about 15 percent of those gambling in Deadwood were in-state residents. Per capita spending (based on state population of individuals of legal gambling age) for gambling in Deadwood was estimated at \$10.20. South Dakotans spent an estimated \$115 to \$125 million on all forms of in-state gaming in 1991.

Madden (1991) attempted to determine if the money wagered on in-state video gaming by residents had any substitution effects on other sectors of the state's economy. Reported economy-wide taxable sales for various service and retail sectors were plotted on graphs. The influence of gaming in the state on sales in each sector was derived from visual observations of sales levels before and after the introduction of video gaming. Taxable sales in some retail sectors, such as apparel, recreation services, and furniture, declined from their trends after the introduction of video gaming. Other sectors appear to have not been affected since the introduction of gaming. Trends in state-wide retail and service sales, adjusted for inflation, showed slowing effects since the introduction of video gaming in the state. The author concedes that visual references alone provide little foundation for concluding cause and effect relationships between sector sales and the introduction of video gaming in the state. Nonetheless, Madden (1991) concluded that some economic sectors appeared to benefit from video gaming, while others were negatively affected.

Madden (1991) examined a number of broad economic effects of gaming in South Dakota; however, most of those effects were limited to the influences of lottery activities. Some fiscal

impacts of gaming in Deadwood were discussed. Basically, gaming revenues to the City of Deadwood accrue from licensing gaming devices, receiving a percentage of gaming revenues, and collections of sales taxes on expenditures of gaming visitors.

Social impacts associated with the introduction of gambling in South Dakota were examined by measuring the number of recipients of various governmental assistance programs. The number of households receiving assistance from the Aid to Dependent Children (ADC) program decreased in counties most influenced by gaming activities. Statewide, the percentage increase (1.9 percent) in the number of households receiving ADC assistance decreased compared to increases (2.9 percent) in years prior to the introduction of gambling. The number of recipients in the Food Stamp program decreased in five counties heavily influenced by gambling activities. However, gaming appeared to have little effect of the number of the recipients statewide. Other social phenomena were evaluated, such as divorce filings, child support enforcement, child abuse and neglect, uncollected property taxes, bankruptcy filings, small claims filings, and property foreclosures. Little, if any, influences of gaming could be attributed to changes in the above social activities, even though some incident rates appeared to correlate with the introduction of gaming in the state. Gaming activities were discussed as just one of the many factors in a complex array of factors affecting social behavior.

Jensen and Blevins (1995) examined the differences between the gambling structures in Deadwood, South Dakota and those in Central City, Black Hawk, and Cripple Creek, Colorado. Summaries were provided on each town's history and the connections each city had to the tourism industry. Comparisons were drawn between the regulatory policies for gambling in the two states. Revenues from gambling in Deadwood were predominately reserved for historic preservation, while in Colorado use of those revenues was more diverse. The authors stated that gambling revenues (i.e., both private and public sector) greatly exceeded expectations.

Jensen and Blevins (1995) highlighted some of the most noticeable effects of gambling on these small communities. Job creation by gambling activities (4,700 jobs in the three Colorado towns and 1,800 jobs in Deadwood) was so large that housing needs for the additional work force had to be met by neighboring cities and towns in the region, which led to a number of workers commuting. As property values skyrocketed, retail businesses were converted into gaming-related businesses, eventually leading to a lack of consumer-related goods and services for local residents. High property values benefited those willing to sell their property; however, for those not willing to sell, new property assessments increased their tax burdens. General traffic congestion and parking became a problem in the communities, as well as a loss of a sense of community. Other impacts of gambling on the communities included increased demands on law enforcement and the court system.

Long (1996) discussed the socio-economic impacts of gambling on the cities of Deadwood, South Dakota and Black Hawk, Central City, and Cripple Creek, Colorado. The author also surveyed residents to determine the perceptions and attitudes toward the effects of legalized gambling in their towns. Initial effects of gambling on the communities were felt by local

governments, who became burdened with parking, traffic, law enforcement, and construction problems. Property values skyrocketed, along with property taxes, for many establishments and residents. Most retail stores and social gathering places were displaced by casinos.

Gambling was also affecting the traditional tourism activities in the small towns. Traditional visitors to the region were no longer coming, due to the gambling atmosphere and the loss of traditional tourist activities. Despite all the social changes thrust upon the small communities, economic activity increased dramatically. Most commercial buildings were being rebuilt, tax revenues were increasing, and employment in the gaming industry was readily available.

Long (1996) surveyed the residents of Deadwood, South Dakota, and Black Hawk, Central City, and Cripple Creek, Colorado and surveyed individuals in a control town (i.e., one with similar social and economic characteristics). The survey was designed to assess residents' attitudes about (1) their community, (2) gambling in general, (3) gambling in their community, (4) perceived changes in the community since gambling was introduced, (5) political empowerment of residents and gambling interests, (6) interaction with gamblers, (7) professional and recreational relationships with the gambling industry, and (8) general demographic information. Resident responses were compared to available information to confirm or refute residents' perceptions. Overall response rate to the survey was 65 percent.

When responding to statements that gambling had made their town a better place to live, Deadwood residents were neutral, while Colorado residents were less positive. Crowding and congestion were a concern to residents of both states. Nearly all respondents believed that gambling was responsible for increased noise, traffic congestion, and public crowding. Independent statistics from the Colorado Department of Transportation revealed that traffic levels on highways going to Central City and Black Hawk averaged 3,000 vehicles per day prior to the introduction of gambling. Nine months after gambling was introduced, traffic levels rose to 12,500 vehicles per day. Similar increases in highway traffic were noted for Cripple Creek. The South Dakota Department of Transportation reported that traffic entering Deadwood doubled from 1988 to 1992.

Long (1996) reported that residents of communities in both states felt their communities were safe places to live after the introduction of gambling; however, they also felt that serious crime had increased since gambling was introduced, and that gambling was responsible for the increase. The amount of criminal activity, as reported by the Deadwood Police Department, increased since gambling was introduced. The effect on law enforcement in the Colorado towns has been dramatic. Black Hawk went from having a nonexistent police department to one with a \$1 million budget and 22-person staff. Similar changes have occurred in Cripple Creek, whose police department increased from 3 to 24 individuals. Total reported crimes, one year after gambling was introduced, increased in Cripple Creek from 72 to 586.

Long (1996) reported survey respondents felt that they had less ability to influence local government decisions after the introduction of gambling. Residents in communities in both states

were in strong favor of historic preservation; however, only residents of Deadwood felt positive change had occurred in the preservation of historic buildings and activities since the introduction of gambling. Residents of the Colorado towns could perceive no change in the rate of historic preservation since gambling was introduced. Difference in gambling regulations was credited with influencing the perceptions of residents; gambling revenues returned to Deadwood must be spent on historic preservation, whereas, the use of revenues for historic preservation in the Colorado cities is limited.

Residents of communities in both states perceived that economic activity had increased in their communities as a result of legalizing gambling. They also felt the cost of living had increased. Residents also commented on the skyrocketing of property values and the disappearance of most retail stores. The effects of increased property values on property taxes paid by residents varied by county, as the formulas for property tax assessment differed by county. Information from the Colorado Department of Labor confirmed residents' opinions that employment opportunities in the communities had increased since gambling was introduced. Overall, the labor force in the Colorado counties containing the gambling communities increased, while maintaining relatively low unemployment rates.

Long (1996) reported that residents of the Colorado communities indicated no change in the quality or variety of recreation opportunities. Deadwood residents expressed that an increase in recreation opportunities had resulted since gambling was introduced. When asked about the general quality of life in their community, residents of Black Hawk and Deadwood expressed the greatest satisfaction, 50 and 51 percent, respectively, while residents in Cripple Creek and Central City expressed dissatisfaction, 53 and 65 percent, respectively. Residents in Central City and Cripple Creek did not agree with statements suggesting their city was an ideal place to live. Only 5 percent of the residents in the Colorado communities and 10 percent of the Deadwood residents would recommend that other towns legalize gambling. Some indicated they would recommend legalized gambling if the community could be made fully aware of the consequences of such an action.

Long (1996) reports that, in general, residents of Deadwood expressed greater satisfaction with their community than did their counterparts in Colorado. However, residents in the control city indicated a greater sense of safety and security, community involvement, and felt that they would not benefit socially or economically from gambling. Long (1996) suggested that rural communities will likely undergo a variety of transformations and alterations upon the adoption of legalized gambling. The author expressed the need for planning at the community, state, and industry levels before implementing legalized gambling. Long (1996) stressed the importance of addressing questions of scale and identifying resident needs and expectations before legalizing gambling in any community.

Nickerson (1995) reviewed 712 newspaper articles about gambling in Deadwood from three regional newspapers published from January, 1987 to October, 1991. About one-third of all articles dealt with economics, followed by regulatory issues (21 percent), initial questions (19

percent), logistics and planning (15 percent), and negatives (13 percent). Positive benefits of gaming were discussed almost three to one in the newspapers. The benefits included an expanded tourism industry, increased local government revenues, and infrastructure improvements within the community. Most of the negative aspects of gambling were limited to discussions of problem gambling and crime. Nickerson (1995) concluded that many aspects of the Deadwood experience could be used by other communities in evaluating issues of adopting legal gambling.

Tribal Gaming

Expansion and development of tribal casinos in the Upper Midwest has been rapid. This rapid expansion of casinos has sparked debate and discussion over their impacts.

Background

The special legal and political status of tribal governments (i.e., tribal sovereignty) has been used by Native Americans to develop economic opportunities for tribal members (Wilkins and Ritter 1994; Snipp 1995; Brosnan 1996). Tribal sovereignty, established early in U.S. history, allows tribes the right of self-rule subject only to the authority of the Federal government (National Indian Gaming Association 1995; Snipp 1995). Tribal sovereignty has provided Native American tribes with the ability to provide goods and services that are normally restricted by local and state laws (McCulloch 1994). One of the early examples of tribes providing market opportunities for restricted goods and services took place in the mid 1970s as reservations set up tobacco stores, also known as “smoke shops” (Snipp 1995). The success of these shops was exemplified in Florida. Since these shops charged no state or local taxes, they became quite successful. State and local governments complained about lost tax revenues and local non-Indian merchants complained about unfair competition. These complaints culminated in a court decision ruling that the Seminole Tribe in Florida was exempt from state regulation.

Shortly after the court victory, the Seminole Tribe in Florida established a high-stakes bingo operation on their reservation. The establishment of the bingo operation landed the tribe in court against the State of Florida. The State of Florida contended they had the right to regulate bingo activities within their boundaries. In 1980, a federal district court ruled that the doctrine of tribal sovereignty exempted the tribe from state regulation. This landmark decision set the legal precedent for other Native American tribes to set up and operate bingo operations (Kelly 1994). Bingo operations began to appear on other Native American reservations throughout the mid 1980s. Bingo operations, however, only opened the door for tribal governments to experiment with other forms of high-stakes gambling.

Tribes in California were the first to test the legality of high-stakes gaming operations on reservation lands. The Cabazon Tribe was challenged in court by the State of California. In 1987, the U.S. Supreme Court ruled in favor of the Cabazon Tribe and established the tribe’s right to develop gambling operations on their lands (Kelly 1994). The implications of the Supreme Court

decision were profound. Essentially, tribal governments across the nation could legally operate large-scale, high-stakes gambling operations on their reservations without local or state government regulation. As a result of the 1987 Supreme Court decision, state officials and other gambling industry groups began lobbying Congress for control and limitations on Native American gaming. Native American organizations also lobbied Congress in defense of and for preservation of tribal sovereignty. Congress responded to the emerging conflict by passing the Indian Gaming Regulatory Act (IGRA) of 1988.

The IGRA contained two major provisions. First, the act required tribes and state governments to negotiate formal agreements (termed by the legislation as “compacts”) on how reservation gambling would be conducted. Second, the act stipulated that tribal governments could operate the same type of gambling activities that were legal “by any means” elsewhere in the state. The IGRA has remained the primary legislation governing Native American gambling activities.

Impacts

The proliferation of gambling operations on Native American reservations began in the mid 1980s in the form of high-stakes bingo operations. The success of these operations drew attention from state governments and other gambling interests who became concerned over regulation of those activities. Despite opposition from state and local governments and private gaming interests, Native American tribes won a series of court battles that established the legality of tribal-operated gaming facilities and confirmed the right of Native American tribes to operate free of state regulation. In 1988, the Federal Government passed the IGRA, outlining the legal environment for the establishment and regulation of Native American gaming activities. Currently, tribal gaming is prevalent in many Midwestern states, and the economic impacts of those operations continue to be debated.

Although revenues and profits from casino gaming are often reported nationally, specific economic impacts from casino operations usually are reserved to smaller regions (Harrah’s Casinos 1994, 1995; Cabot 1996). Several studies have attempted to measure the economic impacts of tribal gaming facilities in the Upper Midwest.

In 1992, the Minnesota Indian Gaming Association (MIGA) authorized a study of the economic impacts of tribal gaming in Minnesota (Minnesota Indian Gaming Association 1992). Six tribes (members of the MIGA) contributed information for the study. Based on 1991 information, tribal gaming employed 4,700 individuals statewide and realized \$143 million in revenues. Casino gaming expenditures totaled \$89 million, leaving \$54 million to be used for capital expenditures, tribal government, human services, management fees, and proceeds to tribal members.

The Minnesota Indian Gaming Association (1992) also reported on the effects of tribal gaming on public assistance in counties that had casinos. The study limited the assessment to

counting the number of recipients in the Aid to Families with Dependent Children (AFDC) program. AFDC recipients decreased 16 percent from 1987 to 1991 within the counties where tribal casinos opened, while the number of AFDC recipients statewide increased 15 percent over the same period. Wage rates for individuals employed in the tribal casinos were reported to be between \$5 to \$10 an hour. The number of full-time equivalent jobs created by the tribal casinos was not reported. The economic impact of out-of-state visitors to the Minnesota economy was estimated at \$12.5 million (direct expenditures outside of casino impacts). The study did not reveal the percentage of casino visitors who were considered to be out-of-state or the spending per out-of-state visitor. Nor was any explanation given as to the purpose of the out-of-state visits (i.e., if the visit to Minnesota was for gambling or for some other purpose).

Midwest Hospitality Advisors (MHA) (1992) conducted a study of the economic impact of tribal casinos in Minnesota. Information was collected on activities of 13 tribal casinos in 1991. Employment in the tribal casinos was reported at 5,700 individuals, with 24 percent of employment held by Native Americans. Total wages paid during the period was estimated at \$78.2 million. Average individual wage rates were estimated at \$13,800 per year; however, average wage rates for full-time positions were estimated to be over \$17,000 per year. Payroll taxes generated by tribal casinos in Minnesota were estimated at \$11.8 million for Social Security and Medicare and \$2.1 million for unemployment compensation. Combined annual federal and state individual income tax withholdings were estimated at \$6.5 million. Other annual payments, negotiated between tribal governments and local governments and the State of Minnesota, were estimated at \$700,000.

MHA (1992) used the number of recipients in the AFDC program as a proxy to estimate the effect of tribal gaming on government public assistance. The number of Indian AFDC recipients in counties with tribal casinos decreased 3.2 percent from 1990 to 1992. Conversely, the number of Indian AFDC recipients in counties that did not have a tribal casino increased 14.6 percent during the same period. The number of non-Indian recipients in counties with tribal casinos increased 1.2 percent, whereas, the number of non-Indian recipients in counties without a tribal casino increased 14.3 percent during the same period. Participation in General Assistance and Work Readiness programs showed that the number of individuals enrolled in those programs in the casino counties decreased from 1990 to 1992, while enrollment in counties without casinos increased during the same period. Also, unemployment claims in counties with tribal casinos increased less (28 percent) than the increase for the entire state (38 percent). MHA (1992) estimated that tribal casinos purchased about \$40 million in casino inputs from in-state sources in 1991. Expenditures to out-of-state entities were not included in the study.

Minnesota Planning (1992) examined the economic effects of tribal gaming in the state. The study estimated that about \$2.5 billion was wagered in gambling activities in Minnesota in 1991. Of the total, charitable gambling and tribal gaming accounted for 49 and 36 percent, respectively, with the remaining split between horse racing and lotteries. About 5,750 individuals were employed in casinos in Minnesota in 1991. Native Americans held about 28 percent of those jobs. The study estimated that about 15 percent of all casino visitors were non-Minnesotans.

Contrary to other states, only three of the 13 casinos operating in 1991 were managed by non-tribal firms located outside the state. The estimated gross economic impact of tribal gaming in Minnesota in 1991 was \$550 million, including total (direct and secondary) employment of 13,700 jobs. The overall economic impact was estimated by deriving gross revenues after prizes (\$180 million) for the 13 casinos in 1991 and using a regional economic model to measure the subsequent indirect and induced business volumes resulting from gaming revenues.

Minnesota Planning (1992) also discussed the social consequences, future issues, and policy concerns of tribal gaming in the state. The study reported that the estimated addiction rate to gambling in Minnesota in 1991 was already at or above national rates. The study indicated that future trends for the gambling industry are pointing toward overall growth in the industry due to an aging population (more leisure time), shortfalls of government revenue (local and tribal governments likely to use gaming as revenue sources), and likely widespread adoption of gaming into new areas, pushing states to keep gambling dollars in-state. The study also discussed policy choices likely to face citizens, law makers, and tribal governments. Issues raised include confining tribal casinos to few high-quality locations and limiting new expansions, and limiting the most addictive forms of gambling (e.g., electronic video gaming). To contain social impacts in the future, the study suggested limiting the use of casino advertising, restricting easy credit and cash access at casinos, and developing programs to catch problem gamblers (e.g., dramshop laws). Other broad issues for future consideration in Minnesota included developing cooperative Indian and non-Indian economic development strategies that could make use of the state's existing tourism industry and setting up alternative revenue sources for governments to lessen the dependence on gaming revenues.

In 1993, the Minnesota Indian Gaming Association (MIGA) conducted another study (one was previously conducted in 1992) of the economic impacts of tribal gaming in Minnesota (Minnesota Indian Gaming Association 1993). Nine tribes (members of the MIGA) contributed information for the study. Based on 1992 information, tribal gaming employed 9,975 individuals and took in \$390 million in revenues. Employment in 1992 by tribal casinos increased by about 4,000 individuals over estimates of employment in 1991. In 1992, about 52 percent (\$117 million) of the \$223 million in expenditures was payroll related. In 1991, payroll-related expenditures (\$32 million) represented 36 percent of all expenditures. Casino gaming expenditures totaled \$223 million, with \$167 million used for capital expenditures, human services, charitable contributions, tribal government, human services, infrastructure improvements, housing projects, miscellaneous investments, and proceeds to tribal members.

The Minnesota Indian Gaming Association (1993) also reported on the effects of tribal gaming on public assistance in counties that had casinos. AFDC was chosen to represent a proxy of the benefits of tribal casinos in the reduction in public assistance, since AFDC serves over 60 percent of all Indians and represents 45 percent of all recipients of public assistance in the state. AFDC recipients decreased 14 percent from 1987 to 1992 within the counties where tribal casinos opened, while the number of AFDC recipients statewide increased 17 percent. Wage rates for tribal casino employees were reported to be between \$5 to \$10 an hour. The percentage of Native

American employment in tribal casinos increased from 20 percent of all employment in 1991 to 27 percent in 1992.

The Minnesota Indian Gaming Association (1993) discussed the importance of tribal gaming employment. Since most casinos are located in rural areas and are dispersed throughout the state, the employment created is of greater relative economic benefit than if they were located in urban areas. Also, tribal casinos employ many individuals that typically have had difficulty obtaining long-term employment and are generally dependent upon government assistance for their livelihood.

The economic impact of out-of-state visitors to the Minnesota economy was estimated to add \$245 million to the state's gross product. The study reported that 20 percent of casino visitors were from out-of-state.

Minnesota Planning (1993) compared changes in economic activity in counties with tribal casinos to counties without tribal casinos to evaluate the effect of tribal casinos on county-level economies. When compared to counties without casinos, counties with casinos had greater increases (i.e., in percentage terms) in gross business sales from 1989 to 1991. Likewise, revenues from bars and restaurants in casino counties increased, in percentage terms, more than increases in non-casino counties. The study reported that estimates of out-of-state visitors to tribal casinos increased from 15 percent of all visits to 20 percent in 1992. Total visitor days for out-of-state individuals increased from 6 million in 1991 to 12.9 million in 1992 and out-of-state visitors to tribal casinos were responsible for generating \$245 million to the state's gross product.

Minnesota Planning (1993) reported that tribal casinos in Minnesota employed about 10,350 individuals at the start of 1993, of whom 8,400 worked full time. Native Americans comprised 29 percent of all tribal casino employees. Total payroll expenses for tribal casinos in Minnesota increased from \$78 million in March, 1992 to \$127 million in January, 1993.

Tribal gaming led all Minnesota gaming activities in 1992 with 45 percent of the state's gaming revenues (Minnesota Planning 1993). Charitable gambling and state lotteries followed tribal gaming with 35 percent and 19 percent of gaming revenues in the state, respectively. Gross revenues (i.e., revenues after payouts for prizes) for gambling activities in Minnesota totaled \$666 million in 1992. Casino revenues were estimated at \$300 million.

Minnesota Planning (1993) commented on the problems of pathological gamblers. The amount of young adults, age 15 to 20, considered to be pathological problem gamblers increased slightly from 1990 to 1992. It was estimated that 2 percent of Minnesota's adult gamblers accounted for over 60 percent of all wagers. Overall crime in counties with tribal casinos did not increase during the study period. However, the study pointed to links between those seeking help for problem gambling and tendencies for criminal activity. Of those seeking help for problem gambling in Minnesota, 93 percent resorted to criminal activity to support their gambling

addiction. National estimates on the link between gambling addiction and criminal behavior fall somewhere in the 50 to 66 percentile (Minnesota Planning 1993).

Minnesota Planning (1993) identified taxes and revenue distribution from tribal casino operations in Minnesota. In Minnesota, taxes on casino salaries and wages for all individuals include federal income and social security and unemployment. State income taxes are paid for all employees, except tribal members living on reservations. Casino management companies and companies leasing equipment to casinos pay state and federal corporate income taxes on company profits from casino activities. Tribal members pay federal income taxes on dividends from casino operations; however, only tribal members living off reservations pay state income tax on dividends. Purchases of goods and services on reservations by non-tribal members are subject to state sales and use taxes. Federal excise taxes are collected on goods (e.g., liquor, wine) sold on reservations. State excise taxes are paid by all individuals, with tribal members receiving rebates for taxes paid. Property taxes are paid on privately held land on reservations and on tribal land held off reservations. Federal trust lands are exempt from property taxes. Minnesota Planning (1993) did not provide an estimate of all government revenues related to tribal gaming in Minnesota, although an estimated \$3.2 million was collected in state income tax withholdings in 1992.

Minnesota Planning (1993) reported tribal governments donated over \$2 million (based on a multi-year period) to community and government programs throughout the state. One tribe had spent \$5.5 million on health care and another \$175,000 on housing projects since 1989. Another tribe donated over \$300,000 to charities in 1992. County expenditures for AFDC decreased in counties with tribal casinos from 1990 to 1992, whereas, payments for the program increased in counties without tribal casinos during the same period. Based on the number of recipients for AFDC, tribal gaming was estimated to remove 574 people from welfare in casino counties from 1990 to 1992.

Murray (1993a) conducted a study of the economic benefits of tribal gaming in Wisconsin. Eleven tribes were surveyed for information on casino operations. Tribal casinos were estimated to employ 4,500 individuals in 1992. Native American employment represented nearly 56 percent of all employment. Survey results suggested that one-half of the 4,500 individuals were employed prior to working at tribal gaming facilities. However, many of those held part-time and seasonal jobs. Thirty-one percent of casino employees were unemployed, and 18 percent were unemployed and on some form of welfare before being employed at a casino. The wage rate for over 70 percent of gaming employees ranged between \$10,000 to \$20,000 per year, while the average wage rate for all employees was \$15,000 per year. Gaming income represented 100 percent of family income for two-thirds of all casino employees. For another 22 percent of employees, casino employment income accounted for over 50 percent of family income.

Murray (1993a) estimated that 1,400 individuals were removed from unemployment lists and 820 individuals were taken off welfare as a result of recent employment by tribal casinos in Wisconsin. The benefits of removing individuals from unemployment compensation and welfare

programs were illustrated in the study, although economy-wide estimates of the value of reduced public assistance resulting from tribal casino employment were not provided.

Murray (1993a) estimated that tribal casino employee expenditures in the Wisconsin economy totaled \$68.4 million in 1992. Purchases by casinos were estimated at \$62 million in 1992. About 62 percent (\$38.4 million) of casino purchases was made within 30 miles of the casino, while another 29 percent (\$18 million) was made to other in-state entities. Tribal gaming revenues were estimated at \$275 million in 1992, with net proceeds of \$135 million used for management fees, land purchases, education, economic development, gaming support, human services, and payments to tribal members.

Murray (1993b) attempted to estimate the positive and negative fiscal impacts of tribal gaming on the state government of Wisconsin. Positive benefits were identified as added state income tax revenues, added sales tax revenues, and reductions in transfer payments. Negative impacts mentioned in the study included reduction in lottery revenue, cost of increased crime, additional highway maintenance, cost of gaming regulation, and costs of problem gambling. Wisconsin state income tax collections from gaming were estimated at \$18 million in 1992. Income tax collections were calculated from gaming employees, construction employees, employees of suppliers for visitor non-gaming spending, suppliers (profits and employees) of gaming operations, tribal government employees, suppliers (profits and employees) of goods and services to tribal governments, and gaming winnings. Additional income tax collections were estimated from the added indirect income created from tribal gaming activity.

Murray (1993b) estimated that the added sales and gas tax collections attributable to tribal gaming in Wisconsin in 1992 were \$31.4 million. The additional collections were based on taxable spending by gaming employees, employees and proprietors serving as suppliers to gaming operations and tribal governments, and from spending by out-of-state visitors. Reductions in welfare costs to the state were estimated at \$2.2 million, based on the AFDC and Relief of Needy Indian Persons programs. Total economic benefits to the state of Wisconsin were estimated at \$51.7 million.

Murray (1993b) discussed the costs of tribal gaming on the state of Wisconsin. The costs of tribal gaming to the state government of Wisconsin included lost lottery revenue, higher crime rates, accelerated highway damage, burden of gaming regulation, and effects of problem gamblers. When estimating the loss of lottery revenue, Murray (1993b) argued that casino gaming and lottery wagers were not substitutes for the gaming dollar, and that tribal gaming operations should not be blamed for the slowing of state lottery revenues in Wisconsin. The author further suggested that current markets for lottery revenues are becoming increasingly limited to an individual state's population and income, since most states now have some form of state-sponsored lottery.

Murray (1993b) discussed the issues surrounding arguments that tribal gaming facilities increase costs to governments resulting from higher crime rates, accelerated highway damage, the burden of gaming regulation, and increased compulsive and problem gambling. Crime rates were examined in counties with and without tribal casinos. Also, the number of law enforcement

personnel in counties with and without tribal casinos was examined. In both cases, the increases found in counties with tribal casinos were less than increases in the rest of the state. Accelerated road and highway infrastructure damage was only briefly discussed. Arguments were forwarded that the increase in gasoline taxes collected from the presence of tribal casinos offset any additional highway costs borne by the state. Gaming regulation expenses were covered by charges specified in the tribal gaming compacts. Finally, the costs to state government of compulsive and problem gambling were discussed, but dollar estimates of the impacts were not provided.

Moore (1993) discussed the effects of gaming operations on the Mille Lacs Band of Chippewa in Minnesota. In addition to drawing attention to a particular tribe in Minnesota, Moore (1993) discussed the role tribal gaming has played as an economic development tool for Native Americans and the debates over tribal sovereignty that followed expansion of tribal gaming. Of the 800 tribal members employed at the Grand Casino Mille Lacs, 80 percent had been unemployed for a least one year prior to working at the casino, and about 40 percent of the 800 members had been unemployed for nearly 5 years. The working status of tribal members went from about 60 percent unemployment to nearly full employment since the casino opened. Moore (1993) also reported that the Mille Lacs tribe is building new roads, a water tower, a ceremonial building, and an elementary school with revenues from gaming operations.

Cozzetto (1995) discussed the major economic and social factors surrounding tribal gaming in Minnesota. The factors affecting tribal gaming in Minnesota center around market saturation for gaming establishments, adoption of video lottery terminals (VLTs) in non-tribal facilities, and contracts with venture capital entities. The future level of gaming revenues and what effect the eventual supply and demand forces will have on casino operations in Minnesota were discussed. The adoption of VLTs could prove to be a damaging scenario for tribal casinos. Twelve states now have passed legislation allowing VLTs in public restaurants, bars, and liquor stores. The proliferation of VLTs means instant access to gambling opportunities without much, if any, travel. Other economic problems or concerns for tribal gaming center around the inability or reluctance of commercial banks to finance casino-related infrastructure. The sovereign nature of Native American tribes prevents commercial banks from foreclosure or using other mechanisms to protect their investments, an arrangement that frustrates banks and forces Native American tribes to seek capital from other entities. Information on outside investors is largely unknown, since current regulatory structure does not allow identification of casino investors.

Cozzetto (1995) discussed some social concerns regarding tribal casinos in Minnesota. Much of the author's discussion pertained to compulsive gambling. By most accounts, the number of compulsive or pathological gamblers in Minnesota is growing faster than the national average; however, the role tribal casinos have in the growing problem is unclear. Greater questions remain on who should assume financial responsibility for treatment programs in the state. Despite the current problems with tribal gaming, Cozzetto (1995) identified several examples of tribal governments using gambling revenues for the benefit of their members. Examples included member payments, employment opportunities, education and job training programs, social programs, and diversification of tribal assets into additional land acquisitions and non-gaming businesses.

Koth (1993) discussed the results of a survey conducted by the Tourism Center at the University of Minnesota. Information on gambling behavior was collected from adult Minnesota residents. About 50 percent of Minnesotans visited a casino in a two-year period from fall 1990 to fall 1992. About 45 percent of respondents visited a tribal casino in Minnesota in the last year. Based on social and demographic information, no statistical difference could be found between gamblers and non-gamblers. The average number of visits to casinos by Minnesotans (i.e., those who visited a tribal casino) within the last year was three. The most common number of reported visits was one. The results suggested that most gamblers in the state were casual or recreational gamblers, with a small percentage of gamblers having high participation rates (i.e., defined as 10 or more visits in one year).

Koth (1993) reported on spending and behavior activities of Minnesota gamblers. Only 14 percent of Minnesota gamblers stayed overnight when visiting in-state casinos. Changes in discretionary spending among gamblers in Minnesota were examined. The level of gambling was not linked (i.e., not statistically significant) to changes in discretionary spending for recreation. The author tested the hypothesis that increased casino gambling in the state has negatively impacted spending in other discretionary categories. A linkage between casino spending and expenditures for other leisure items was not found. Several study shortcomings and unique characteristics of the casino industry in Minnesota at time of the study (e.g., recently completed casinos, lack of time-series industry data, future effects of new marketing efforts of casinos) were discussed as reasons for further research.

Lane (1994) reported that state revenues in Michigan were well above projections for the first year of tribal gaming operations in the state. In an agreement between the tribes and the state, tribal casinos have to share 8 percent of revenues from electronic gaming devices with the state and 2 percent with local governments. First year revenues for the state were expected to reach \$15 million, nearly double initial predictions. Issues raised by Lane (1994) center around recent proposals to expand non-tribal gaming in the state. The proposals promise large revenues to the state, but, if approved, would nullify agreements between the state and the tribes over the tribes' requirement to pay a percentage of their revenues to the state. Other concerns about expanding non-tribal gaming center around jeopardizing the economic benefits provided by tribal gaming, which were listed as employment, tribal services, and tourism activity in the state.

Gabe et al. (1996) examined the effect of tribal casinos on rural counties in Minnesota. The study focused on per capita income in casino counties and income earned in related industries (e.g., lodging industry, eating and drinking enterprises). Based on information from 1990 and 1991, no relationship was found between the presence of a tribal casino and an increase in per capita personal income in rural areas. However, the presence of a casino did increase earnings in related industries.

Due to the conflicting information on reported earnings by the gambling industry and results of the study, Gabe et al. (1996) listed three possible explanations for the economic inconsistencies. First, the authors hypothesized that too few sectors exist in a rural economy that

are positively affected by casinos to increase per capita income across an entire county. Also, the sectors affected (by casinos) likely comprise only a small percentage of the economy in a typical rural Minnesota county. A second possible reason forwarded for the economic inconsistencies was a lag in the multiplier effect. It was suggested that there could be a lag from when casino employees earn income and when their spending reaches levels substantial enough to affect local businesses. Also, data for the study were from the first years of casino activity, which would not include subsequent casino expansions and increased gambling activity. The effect of visitor spending may become more noticeable in the future. A third reason forwarded for the economic inconsistencies was that income from casino operations (i.e., income going to the tribal governments) was not being spent locally. Also, operating inputs and requirements were not being met by local sources; as a result, a high percentage of gross revenues was leaving the local economy.

Gabe et al. (1996) further suggested that if tribal casinos add lodging facilities and expand eating and drinking services at casinos, those expansions are likely to be substitutes, not complements, for existing services provided locally. Those impacts are likely to have a negative influence on employment in local service sectors. As additional casinos are added in the state, the overall impact is expected to be less than that created by the initial facilities.

Based on estimated 1994 casino activity (i.e., nationwide per capita expenditures at casinos and estimated market draw for North Dakota's casinos), the annual take for tribal casinos in North Dakota was estimated at \$36 million (Goodman 1996). Goodman (1996) concluded that tribal casinos were primarily pulling revenues (70 percent) from state residents. The result of this in-state revenue redistribution would be felt by businesses affected by the shift in discretionary spending. The author suggested that tribal gaming has positive results for the Native American tribes, but created a net loss for the state, suggesting much of the casino revenues (up to 25 percent of gross take) leave the state in the form of management fees and investment pay backs. Goodman (1996) did not examine the value of out-of-state revenues or examine the benefits of retaining gaming revenues that would have left the state in the absence of tribal gaming facilities.

North Dakota Indian Gaming Association (1997) discussed the economic benefits of tribal casinos in North Dakota. Wage scales and employment rates for Native American reservations in the state were used to illustrate the need for tribal governments to pursue economic development opportunities. The five tribal casinos in North Dakota were estimated to employ 1,800 people. No estimate of the number of full-time jobs was given. About 82 percent of those employed were Native Americans. Information from two of the state's five casinos suggested that about 25 percent of those employed in casinos were previously unemployed. A higher percentage, 33 percent, were welfare recipients at the time of initial employment by the casinos. No information was given as to the percentage of employees remaining on welfare after employment at the casinos.

Wage and operating expenditures related to tribal casinos in North Dakota were estimated at \$87 million per year. About 60 percent, or \$52.8 million, was listed as annual operating

expenditures. Annual payroll for the five casinos was estimated at \$34 million (North Dakota Indian Gaming Association 1997). The amount of non-payroll expenditures made within North Dakota was not provided. Information on the source of gaming revenues was not addressed (i.e., wagers by in-state vs. out-of-state gamblers). The study suggested that employment, which prior to tribal gaming was virtually non-existent on Native American reservations in the state, was a major benefit to the state and tribal governments.

DISCUSSION

The expansion of casinos and other forms of gaming in the 1990s has produced debate over the impacts of gambling (Goodman 1994; Kindt 1994; Cozic and Winters 1995; U.S. Congress 1995). Recent debates continue to address the impacts and policy concerns of casino gaming (*The Economist* 1997; U.S. General Accounting Office 1997; *The Forum* 1997).

Most debates have encompassed the economic impacts, social issues, and policy concerns regarding gambling in the United States. The rapid development of gambling activities in many states forced state and local governments to deal with policy issues as they arose; however, some policies are now being reevaluated and rewritten to deal with gambling issues in a coherent and comprehensive manner (Minnesota Advisory Council on Gaming 1995; Perlman 1996).

Much of the concern generated over the expansion of legalized gambling has dealt with casinos and their related impacts. Although a number of studies has been reviewed in previous sections of this report, a number of issues remains subject to debate. This section discusses some of those issues pertaining to casino impacts in the Upper Midwest. The following section is divided into three topics: (1) impact of casinos on local economies, (2) effects of casinos on state economies, and (3) casinos as an economic development strategy.

Impacts of Casinos on Local Economies

With the exception of Deadwood, South Dakota and the metropolitan areas in Minnesota, nearly all of the casinos in the Upper Midwest are owned by Native American tribes and located in economically depressed economies. These local economies, often on or near Native American reservations, can be characterized as having high unemployment, low earnings, and poor infrastructure (e.g., schools, housing). The poor economic conditions found on reservations in the Upper Midwest have persisted for many decades. These traditionally poor local economies tend to highlight the economic importance of gaming facilities. The economic impact of casinos to local economies is generally positive, while other impacts may be less positive.

The degree and nature of other economic impacts are largely determined by the amount of gaming activity and the characteristics of the local community and economy. Most tribal casinos in the region are on reservations that have few trade centers or business establishments (e.g., retail outlets, professional services, supply stores, financial agencies). The local spillover effects to other

sectors of the economy from casinos in environments containing little economic infrastructure are likely to be minor (Deller and Chen 1994). Some exceptions to the above situations exist where some tribal casinos are located near large trade centers (e.g., Fond du Luth Casino in Duluth and Mystic Lake Casino in the Twin Cities metro area). The absence of economic infrastructure (i.e., the ability of local businesses to supply inputs for casino operations) does not necessarily preclude local impacts as income from employment may be spent locally. Also, revenues used by tribal governments for the general welfare of the tribe can have positive local impacts.

The casino situation in North Dakota, in some ways, differs from other states. The tribal gaming facilities in North Dakota are generally smaller than operations in neighboring states (especially Minnesota). These smaller operations have little attraction as a tourist destination per se, but instead, are more likely to represent opportunities for convenience gaming. Most rely upon the state and neighboring populations for their visitors, although some border populations in neighboring states and Canada are a component of the casinos' customer base. Generally, the tribal casinos operate away from major trade centers, thereby, avoiding many community infrastructure problems associated with gaming developments. However, the same rural environment that prevents many of the negative impacts also lessens the positive impacts from casinos. Most of the rural areas with casinos lack sufficient economic infrastructure to capture local spending and provide inputs to casino operations. Little economic infrastructure, combined with most customers making short trips (i.e., drive to and from casino in one day) from population centers within the state, act to minimize local effects.

Social impacts from gaming facilities can be varied. Casinos can, as in the case of Deadwood, South Dakota, change the entire composition or social fabric of a community. However, in most other cases, the effects are much less pronounced. Critics of casino facilities often cite traffic congestion and crime as evidence of negative impacts. Certainly, in some locations, traffic congestion has been associated with casinos; however, most of those cases are characterized by either (1) city-wide adoption of gaming activity or (2) casinos in large population bases. Most of the casinos in the Upper Midwest are in rural areas with adequate highway access. Increased crime and demand on law enforcement resources related to casinos have been documented for Deadwood, South Dakota and some cities in Colorado. Those situations differ from other casino locations in the Upper Midwest. Information to assess crime rates before and after the advent of casinos on Native American reservations is generally not available. Thus, it is difficult to quantify changes in criminal activity without baseline data. Traffic problems and crime activity are likely to persist in some locations; however, the degree of the problem will likely be one of perception.

Effects of Casinos on State Economies

The economic importance of casinos to a state's economy can be measured by several means. The contribution, impact, or role of casinos in a state economy can be expressed in terms of employment, tax revenues, in-state expenditures, gross business volume, and economic base. If

an economy is viewed from an economic base perspective, industries would be evaluated based on the amount of “new” money they bring into a state. The role casinos play in contributing to the economic base of a state or regional economy is largely determined by whether gaming revenues are generated from in-state or out-of-state sources. To the extent that the presence of in-state casinos are able to retain gambling dollars that would leave the state in the absence of gaming facilities, the money wagered would be considered a benefit (gain) to the state. However, gaming revenues from in-state sources, that would not otherwise leave the state, are simply a shifting of discretionary spending. This spending shift is not new wealth.

A clear picture of the role casinos play in a state’s economic base would require determining expenditure patterns of casinos, sources of gaming revenues, and the alternative use of those revenues (i.e., individual discretionary spending patterns) in the absence of casinos. First, the revenues from gaming activities must be spent within the state in order to create new wealth. If most of those revenues are used to purchase inputs from out-of-state sources, then little economic value has been added to the state’s economy. Second, the amount of revenues from out-of-state visitors would have to be determined. Third, a better understanding of in-state resident spending patterns would be required to determine how those dollars might be spent in the absence of in-state casino activity.

Other economic benefits of casinos in the Upper Midwest have included reduced welfare roles and increased tax revenues. Studies of casino impacts in Minnesota have suggested that counties with tribal casinos have experienced reduced numbers of welfare recipients when the number of recipients statewide has increased. An argument could be made that casinos in the Upper Midwest have relieved some of the social welfare burden from state governments. Even if most tribal gaming revenues are from in-state sources, the process could be considered an effective redistribution of wealth. Basically, participation in gaming is largely voluntary, whereas, paying taxes to support welfare programs is not voluntary--this concept is sometimes called a “voluntary tax” (Truitt 1996). Policy makers are likely to favor reducing welfare dependency through employment rather than assisting the unemployed with governmental assistance.

State governments do benefit from the collection of state income taxes in some circumstances--those largely determined by the classification (i.e., ethnic origin and home residence) of casino employees. Other tax collections include sales and use taxes paid by related industries. However, a holistic approach to evaluating state revenues resulting from casino gaming would be required to determine the net returns to the state. Such an analysis would require identifying and quantifying the change in tax revenue that would be realized from other sectors of the economy as the result of changes in in-state resident expenditures (i.e., what would gaming revenues be spent on in the absence of casino gaming). Also, the increased costs of treatment programs for problem gamblers should be included.

Casino Gambling as an Economic Development Tool

Economic development is generally regarded as the process of creating wealth and employment. Economic development efforts are generally directed towards increasing economic activity in a region by increasing the amount of “new” money in the economy. These efforts can take many forms, such as development of natural resources, manufacturing and processing industries, and export based activities. Activities considered to be economic development can also vary by geographic size of an economy. What constitutes economic development in a small community can differ from economic development at a state level. Gambling has, in the past years, been viewed as an economic development strategy at both local and state levels.

The gambling industry in Nevada has been very successful in creating new wealth in that state. Little doubt exists that gambling in Nevada can be considered an industry that brings in “new” money to the state. However, the expansion of gambling, specifically tribal casinos, to most states has raised questions as to how much new wealth is created for state economies. Questions are often raised as to the degree of spending at casinos that represents a recirculation of funds and the degree of casino spending that represents new money from outside a given economy (Cabot 1996; Gazel et al. 1996; U.S. Congress 1995; Sylvester 1992).

The concerns and issues surrounding the use of gambling as an economic development strategy, option, or tool are broad and complex. The success of gambling as an economic development strategy for states has varied, but success usually has been linked to activities that bring visitors into the state, such as casinos, which can serve as tourist destinations by offering a variety of entertainment options and can have the potential to capture non-gaming expenditures. However, the use of gambling to raise government revenues has been more prevalent, and most forms have little to do with economic development (e.g., lotteries, charitable gaming).

Hoenack and Renz (1995) conducted a study of the impacts of tribal casinos on rural communities in Minnesota that centered around estimating the effects of tribal casinos on business development in surrounding cities. Data for the study were based on the number of business establishments (consumer and service, manufacturing, and retail/discount stores) in 1990 and 1994 in 904 outstate Minnesota cities by selected categories, the distance of those cities to a tribal casino, government funding for economic development received in each city, and property tax collections for each city in 1988 and 1991. Only information on cities with populations less than 10,000 people was included in the study. The study found that tribal casinos in rural areas of Minnesota had positive effects on the number of new business establishments (i.e., primarily consumer and service establishments) in towns and cities within 30 miles of a casino. The effects of tribal casinos on business development were directly related to the proximity of cities to casinos. Positive effects were noticed on communities as far as 30 miles from a casino. The authors felt that the creation of new businesses and the expansion of existing businesses were appropriate measures of local economic development associated with casinos.

Many concerns have arisen in recent years over implementing casino gaming operations as economic development strategies. Those concerns include competition from existing tribal and riverboat casinos (market forces), public attitude towards expansion of an already prolific industry,

additional regulatory or administrative burdens for state governments, long-term effects of gambling activities on the development of problem gambling and its accompanying social costs, and impacts of casino operations on local communities (Goodman 1994).

The sheer numbers of casinos in the Midwest suggest competition for the gambling dollar will intensify (Rephann et al. 1996). Some perceptions of the benefits of pursuing casino development stem from a desire to retain money that would otherwise leave the state to be wagered in neighboring states or jurisdictions. As the proximity and ease of gambling increases, gambling will become more commonplace and become an activity of convenience (some states are examining the feasibility of placing video gaming machines in liquor stores and other facilities). With the prevalence of tribal casinos in the Upper Midwest, new casino developments will have difficulty qualifying as tourist destinations. New facilities wishing to compete with existing facilities will have to evaluate destination or entertainment stimuli (e.g., special geographic significance, other unique entertainment options in addition to gaming) to differentiate their entertainment value and gaming experience. Also, the sources of tourists must be examined (i.e., in-state vs out-of-state visitors).

Future decisions to enter into the gaming industry in the Upper Midwest are likely to center around the desire to retain or diminish the exodus of gaming dollars to other destinations. Few locations will have the flavor or appeal that appeared before the proliferation of casinos (e.g., the initial boom experienced in Deadwood, SD). Public sentiment, market forces, and government involvement will be major factors influencing future casino expansions.

SUMMARY

The adoption of legalized gambling in the United States has steadily increased during the 1990s. Casino activity, one component of the gambling industry, has experienced rapid growth throughout the United States and in the Upper Midwest. The primary source of casino growth has been tribal gaming facilities. Following a series of court victories by Native American tribes and subsequent Federal legislation outlining the rules for tribal gaming, Native American gaming operations have expanded dramatically. In the three-state area of Minnesota, North Dakota, and South Dakota, 30 tribal casinos opened in the 1990s. Other activities added to this proliferation, including the legalization of casino gaming in Deadwood, South Dakota, the expansion of charitable gaming, and the operation of bingo operations in the three states.

The purpose of this study was to review literature on the economic impacts of casino activities in the Upper Midwest and discuss the economic effects of gaming activities. Most studies of the impacts of casino gaming have measured the impacts of those operations in terms of employment and overall economic activity. Few arguments exist that casino gaming supports high levels of employment and handles large volumes of revenue. However, the consensus on a number of other impacts resulting from casino gaming is much less clear. Some of the less quantified impacts include social costs (e.g., problem gambling, traffic congestion), fiscal impacts (e.g., tax

revenues, welfare reductions), and negative economic impacts (e.g., shifting discretionary spending).

Determining the impacts of casino gaming is further complicated by the differing nature of those impacts at the local and state levels. Many of the initial efforts to legalize gaming activities were focused on the theme of economic development. However, the appropriateness of legalizing gaming (non-tribal) as an economic development strategy is increasingly being questioned. Additional pressures on economic development strategies involving casino activities now include the wide distribution and availability of tribal casinos. Much of the difference in local and state impacts can be answered by addressing the issue of whether or not the gaming activity creates/retains new wealth. Often, at the local level, gaming activities can create new wealth to a community or area; however, what might be considered new wealth at the local level may represent a redistribution of wealth at the state level.

Several factors suggest that the debate about the impacts of gaming in the Upper Midwest will continue. First, Native American operations operate with tribal sovereignty and are unlikely to voluntarily restrict or reduce their current gaming activities. Second, governments have benefited (or appear to believe so) from revenues associated with legalized gambling activities. Many states are considering expanding some forms of gambling (e.g., electronic video gaming), and some feel that collecting revenues from in-state gaming is better than losing gaming dollars to another state. Finally, public opinion on legalized gambling generally remains favorable, regardless of the true economic and social outcomes. Many questions remain regarding the overall impact--positive and negative economic, social, and fiscal impacts--of casino activities in the Upper Midwest.

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