

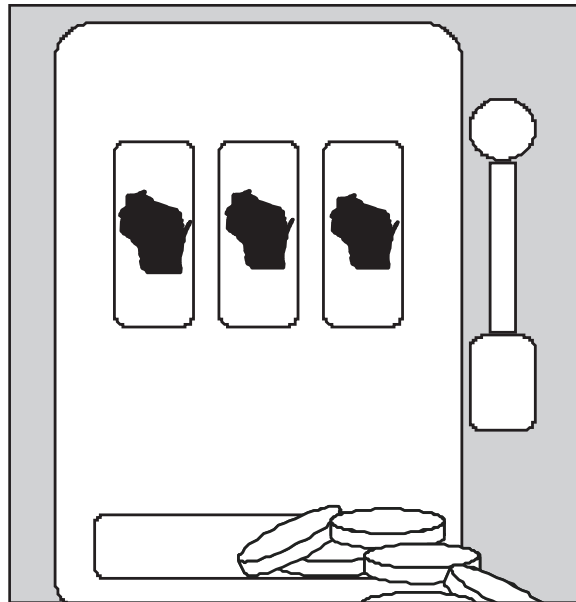
# IT'S NOT A COOKIE CUTTER THING

## NOT ALL CASINOS ARE THE SAME

WILLIAM N. THOMPSON

**D**uring these turn of the century years, Wisconsin has come to be distinguished as the state that has invited Native American tribes to establish new reservations on lands that were never traditional lands of these individual tribes. The simple purpose of the new reservations is quite singular — to enable these tribes to establish gambling casinos. The motivation for the tribes to have new casinos is also very obvious: the tribes stand to make a lot of money for tribal purposes and also for individual members.

The motivation for the state to make an almost blanket invitation for tribes to seek out new lands for casino development is less apparent. The establishment of Native American casinos gives state governments very limited opportunities for tax revenues. Indeed, taxation of the Native American casinos, as such, by states is prohibited by federal law. However, by various subterfuges, funds do come to the state. Nevertheless, as a factor in state budgeting, the funds are negligible in terms of importance, being but a very small fraction of the funds provided by other similar sources, such as the state lottery. Moreover, the



State of Wisconsin has not been unique among states in its budgetary situation. Surpluses and deficits come and go in cycles just as they do in most other states.

It is difficult to understand the implicit (or even explicit) invitation for tribes to seek new off-reservation lands for casinos considering the known position of former Governor Tommy

Thompson, now U.S. Secretary of Health and Human Services. Thompson stated many times that he was opposed to the “expansion” of gambling in Wisconsin. In the early 1990s, he staunchly opposed giving compacts to Native Americans to permit their casinos. The compacts only came after protracted litigation in federal courts.

To find an explanation why Wisconsin — and only Wisconsin — has had a statewide directed movement for off-reservation casinos, we have to look back to April 1987. In that month the voters of Wisconsin amended the state constitution to remove a ban on lotteries and authorized pari-mutuel betting on dog

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aces. It was not long before plans were in place to open five dog tracks. They opened, and they started to lose money. They never recovered. One track opened in Hudson in 1991. Within a year, the owners of the St. Croix Meadows Track began lobbying for slot machines and other forms of casino gambling in order to save their investment. Then, in 1992, the state negotiated its casino compacts with eleven tribes, after a federal court mandated compacts according to the provisions of the Indian Gaming Regulatory Act of 1988 (IGRA).

Presto! An idea began to jell. In 1993 the track owners approached three tribes and suggested that the tribes apply to have the track land taken into trust as new reservation land. The three tribes, all Lake Superior Bands of Chippewas (Mole Lake, Red Cliff, and Lac Courte Oreilles), made the appropriate application to the Bureau of Indian Affairs (B.I.A.). While under such a scenario the governor would specifically have to approve the opening of a casino on the new reservation lands, Governor Thompson made no definitive determination that he would block the project. The application process did require that local opinion regarding the project be solicited, as well as opinions concerning the impact on rival casino operations on other reservations. However, in 1995, after a B.I.A. report offered no objections, Interior Secretary Bruce Babbitt denied the application. The three tribes and the track owners cried "foul" as they pointed out that President Clinton's campaign organization had accepted donations from rival casino tribes who did not want the Hudson casino. Subsequently, the U.S. Attorney General appointed a special prosecutor to investigate Babbitt's actions. There was no finding that his decision was influenced by political money, but a 1999 settlement opened the case once again for a new decision. The application was renewed.

Other tribes around the state, especially those in rural northern Wisconsin, expressed a desire to have new reservation lands for casinos in more populated markets. Meanwhile, other dog track owners reached out to the tribes. The Fox Valley track of Outagamie

County sought out the Lac du Flambeau tribe as a sponsor. The Dairyland track in Kenosha saw their salvation by becoming a new reservation for the Menominee tribe. The Ho Chunk tribe sought a casino site in La Crosse, and the Lac du Flambeau also reached into Lafayette County for a new reservation site in Shullsburg, a rural area near Illinois and Iowa state lines. The St. Croix and Bad River Bands of Lake Superior Chippewas together sought new reservation lands near Beloit in Rock County.

While there have been a multitude of other proposals, this article will focus on these six projects as they proceeded further down the road to fruition than did others.

Under provisions of the IGRA, the application for new reservation casino lands must show that the projects have local support and that they are not detrimental to the surrounding community. The state seemed to accept as a given that the casinos will benefit the economy, while they may have some social drawbacks. In a sense, they have accepted that all casinos are the same in this regard. Yet the reality is that there can be no such "given." Casino projects are not all the same. Casinos may or may not help communities. Their economic impacts can be quite different, and so can their social impacts. While the state seems to have given attention to whether local communities approve the proposed reservations and their casino projects, the state has not paid attention to the economic and social conditions surrounding the specific proposals, and little consideration has been given to the notion that each proposal may have different impacts.

The essence of gambling is economics — gambling involves money. Money is put at risk, money is won or lost, money goes into the coffers of organizations such as race tracks, casinos, lotteries, or charities, and that money is redistributed in taxes for public programs, profits for tribes, casino owners or managers, wages, and for purchases of various supplies. The money of gambling can help grow the economies of local communities and regions, but gambling operations can also cause money

to be drawn out of communities, as the players may be from the local area while the casino revenues are distributed to outside areas.

Casinos also may attract spending on other things, such as non-gaming entertainment, hotel rooms, food and beverages, and shopping facilities. Gambling facilities that attract tourists tend to be the source for most of this spending. On the other hand, gambling can also impose costs upon societies because of problem behaviors of persons that cannot control their gambling impulses.

There have been many studies focusing upon gambling economics. However, most of these concentrate only on the positive sides of the gambling equation, and they tend to overlook a very basic fact: gambling revenues must come out of the pockets of players, it does not fall from trees.

The formula for understanding gambling economics is not a difficult one. It can be expressed in but a few words: it involves where the money comes from, and where the money goes. The words lead us to a simple input-output model. The model can be represented by the image of a bath tub.

Water comes into a bath tub, and water runs out of a bath tub. If the water comes in at a higher rate than it leaves the tub, the water level rises; if the water comes in at a slower rate than it leaves, the water level is lowered. An economy attracts money from gambling activities. An economy discards money because of gambling activity. Money comes and money goes. If, as a result of the presence of a legalized gambling activity, more money comes into an economy than leaves the economy, then there is a positive monetary effect because of the gambling activity. The level of wealth in the economy rises. However, if more

money leaves than comes in, then there is a negative impact from the presence of casino gambling. We must recognize the true source of the money that is gambled by players and lost to gambling enterprises, and we must consider how the gambling enterprise spends the money it wins from players.

Factors in the model include where the players live (their place of residence), whether they would be gambling elsewhere in the absence of the casino, the places to which profits will be distributed, the places taking supply expenses and other expenses (including wages), where taxes (or distributions to governments) go, and the costs of compulsive gambling and crime that may be generated by the casino project.

The six proposed casino projects have similarities, but they produce six different impact results for their communities. My analysis of the projects utilizes information from the sponsors, from reports made for local governments, as well as pro forma information drawn from statistical profiles of casino operations in Wisconsin and elsewhere. Revenue

projections for the projects are based upon reports when they were deemed feasible in terms of casino revenues based upon numbers of gaming positions (at machines and tables) as well as gambling space. Population statistics for areas around the casinos were also utilized, as well as figures from financial firms regarding the frequency of casino visits per adult.

There are many venues to consider when making socio-economic impact statements for casinos: the immediate community (town, city, or county), a regional economic area, a state. In this comparative article, I will present impact information for the regional area. As indicated above, the interest of a state government is

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found in budget receipts, and these must be negligible for the casino proposals examined. Moreover, economic consequences do not stop at state borders, as the U.S. Constitution precludes trade and employment barriers at state borders. On the other hand, the public interest of a city or county must extend into a general region that it serves with its shopping opportunities, its entertainment opportunities, its employment opportunities, and its schools and colleges. The comments below will focus on regional impacts of the casino on an area within 50 or 60 miles of the casino (in the case of Hudson, the Minneapolis Metropolitan area). This area is for the most part within a one hour drive of the casino.

Six proposed casinos are located in Hudson, La Crosse, Shullsburg, Beloit, Kenosha, and Outagamie County. This analysis considers projected first-year revenues and facilities at the beginning of operations.

Table I reveals that the tribes in each case are located outside of the regional area of the casino. Hence, the predominant portion of the profits of the casino will be leaving the regional area in each case. The size of each casino indicated will support the revenue projections for the initial year of operations. The range of revenues runs from just over \$42.9 million to \$228 million. A smaller casino will necessarily have smaller impacts, positive or negative. While all the projects indicated they would

**TABLE I**

<b>Casino</b>	<b>Tribes</b>	<b>Tribal Distance from Casino</b>	<b>Size of Casino</b>	<b>Revenue (Millions)</b>
<b>HUDSON</b>	Mole Lake	190 miles	80,000 sq/ft	\$228.0
	Lac Courte Oreilles	100 miles	2500 slots	
	Red Cliff	160 miles	105 tables No hotel	
<b>LA CROSSE</b>	Ho Chunk	80 miles	70,000 sq/ft 1500 slots 50 Tables No Hotel	\$87.2
<b>SHULLSBURG</b>	Lac du Flambeau	240 miles	75,000 sq/ft 2150 slots 60 tables Hotel	\$102.1
<b>BELOIT</b>	St. Croix	270 miles	50,000 sq/ft	\$108.3
	Bad River	300 miles	1500 slots 40 Tables No Hotel	
<b>KENOSHA</b>	Menominee	180 miles	75,000 sq/ft 2220 slots 75 Tables No Hotel	\$226.7
<b>OUTAGAMIE</b>	Lac du Flambeau	150 miles	40,000 sq/ft 1000 slots 25 Tables No Hotel	\$42.9

**TABLE II**

<b>Casino</b>	<b>Adult Population in Region (Capture rate %)</b>	<b>Revenue from Region (Millions)</b>	<b>Revenue from out of Region (Millions)</b>
<b>HUDSON</b>	2,139,881 (30%)	\$182.4 (80.0%)	\$45.6 (20.0%)
<b>LA CROSSE</b>	442,537 (40%)	53.1 (60.8%)	34.1 (39.2%)
<b>SHULLSBURG</b>	803,222 (15%)	25.4 (24.9%)	76.7 (75.1%)
<b>BELOIT</b>	602,248 (60%)	91.8 (84.8%)	16.5 (15.2%)
<b>KENOSHA</b>	1,853,241 (40%)	204.0 (90.0%)	22.7 (10.0%)
<b>OUTAGAMIE</b>	692,827 (20%)	22.5 (52.5%)	20.4 (47.5%)

have restaurants, only one project guaranteed that it would have a hotel at the time the casino operations began. Only this project would be positioned to actively recruit tourist players; only this casino project would have an incentive to do so.

The key factor in producing positive impacts from any enterprise is the sales of the product involved to outsiders. Moreover, the placement of a casino affects its ability to sell products to certain markets. If a casino is a monopoly (or one of a few casinos) in a heavily populated area, the casino will have no need to market its product to outsiders. If a casino, on the other hand, is in an area with few people, it must reach outside that area for players, and hence will have a need to export its products. The Hudson casino will have a 30% share of the largest population area in the study — with over 2 million adults; the Kenosha area, with 1.8 million adults, is also shared, as the Kenosha casino gets 40% of the market. Beloit, with a smaller population area, has a monopoly position and will receive 60% of the gaming visits in the area. La Crosse has a quasi-monopoly position which will yield 40% of the visits from the area. Outagamie must share its area with three other Native American casinos that are already established, hence it will

receive only 20% of the area visits. The Shullsburg casino will market extensively to outsiders with its hotel, as it must compete with riverboat casinos within its own area, and it will receive 20% of gaming visits.

The profit margins for the casinos are also affected by their marketing positions and their size. The Hudson casino's ability to concentrate marketing in one metropolitan area and to realize economies of scale permit a higher rate of profits. The small size of the Outagamie casino makes the ratio of expenses larger.

The key factor in determining direct impacts is how the expenses are distributed. Wages are invariably kept in the region. In all cases, casino equipment is given to outside companies, as is a state share of revenues, and most of the tribal share of profits. The existence of a hotel in Shullsburg serves to keep additional expenses in the region.

Social costs must be added to the impact figures. The factor of pathological gambling costs is, to a degree, illusive. Gambling is pervasive throughout the state, hence social costs already exist. However, the added capacity of the casinos and their greater proximity to homes of players than existing casinos will produce greater numbers of pathological gam-

**TABLE III**

Casino	Profits (millions)	Expenses+Profits Kept in Region (millions)	Direct Net Regional Gain (+) or Loss (-) (millions)
HUDSON	106.7 (46.8%)	85.1	-97.3
LA CROSSE	30.3 (33.6%)	41.2	-11.9
SHULLSBURG	34.8 (34.1%)	64.7	+39.3
BELOIT	38.0 (35.1%)	51.7	-40.1
KENOSHA	77.0 (34.8%)	125.2	-78.9
OUTAGAMIE	8.7 (20.3%)	24.7	+2.2

blers. In 1996 I, along with my colleagues Ricardo Gazel and Dan Rickman, made a detailed study of the costs imposed by pathological gamblers in the state of Wisconsin. In later cost studies I participated in in South Carolina, I determined a lower cost number of \$6299 per compulsive gambler and \$3339 per problem gambler. These are costs that the gambler imposes upon strangers in the region. Furthermore, study reports by the National Gambling Impact Study Commission suggested that the incidence of problem gambling doubles where gambling becomes convenient to potential players. Using added capacity and dividing the effects according to market shares of the casinos, we find that added social costs

are major in Hudson, and also considerable in Beloit, La Crosse, and Kenosha, while the factor that the Outagamie casino is small and already surrounded by other facilities negates the social costs there. The small, local (county) population around Shullsburg also makes the cost minimal there.

When the social costs are added to direct costs, we find a range of impacts from a positive \$38.7 million in Shullsburg, \$2.2 million in Outagamie, to a negative \$64.7 million in Beloit and a negative \$222.2 million in the Hudson region. The true impacts, however, are approximately double these due to the multiplier factors. Moneys that enter a community may expect to circulate around two times

**TABLE IV**

Casino	Social Cost (Millions)	Impact (Millions)	Impact w/Multipliers (Millions)
HUDSON	124.9	-222.2	-444.5
LA CROSSE	33.9	-45.3	-90.6
SHULLSBURG	.6	+38.7	+77.4
BELOIT	64.7	-104.8	-209.6
KENOSHA	32.1	-111.0	-222.0
OUTAGAMIE	—	+2.2	+4.4

before the leave the community. Likewise a dollar leaving the community also represents a double circulating dollar.

My analysis of these casino projects confirms my earlier assertion that each project is different. Some casinos are good for regional economies, some are not good. In the future, Wisconsin policy makers should make detailed studies of the potential revenues and expenditures of every project, and utilize the information in making decisions about the facility — whether to allow it, to refuse to allow it, or to require the project to make modifications.

The major factors leading to regional positive and negative impacts are marketing to local or out-of-region customers and distributions of profits to absentee tribes. An important factor in the formula is a hotel facility. If the casino can attract visitors who will stay overnight in the community housing the casino, the benefits of a casino are much more obvious. Also, if the player base is from outside the region, the social costs can be minimized.

The notion of a new reservation benefiting a single tribe (or two or three) should also be examined closely by policy makers who can approve or reject projects. In none of the six cases is a tribe (or tribes) seeking a new reservation on lands that were clearly their own tribal lands in a long-term, historical sense. The southern Wisconsin area with the Shullsburg, Beloit and Kenosha proposed projects, and the Outagamie County area with its proposal were traditionally Winnebago (or Ho Chunk) lands, yet the proposals are sponsored by Chippewa tribes. The Hudson and La Crosse region was traditionally a Sioux tribe area, yet the proposals for casinos are by

Chippewa and Ho Chunk (Winnebago) tribes. (The Ho Chunk area was originally close to the La Crosse area).

While there is no historical basis for awarding sites to specific tribes, there are plenty of historical reasons for Wisconsin, as well as federal officials, to cooperate with tribes to alleviate historical wrongs as well as to deal with current social and economic deprivations for certain groups of citizens within the state. These needs are pervasive and not bound by the boundaries of specific tribes. It is time to explore the notion of cooperative agreements among all the tribes of the state, which will permit a sharing of casino revenues among all

the Native American peoples of the state in a manner addressing the real social and economic needs of the people. The needs are real, yet too often the casino projects may be perceived as schemes to allow small groups of Native Americans to realize extraordinary benefits that exceed their true needs, while other Native Americans continue to lead lives of economic despair.

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Bands of Canadian Native peoples (First Nations) do cooperate in such shared enterprise in Ontario, Manitoba, and Saskatchewan. In 1995, a proposal for a Native casino in Detroit was predicated on a plan to share revenues with all tribes in the state. California's new compacts for Native American casinos do have a revenue sharing mechanism worth exploring by Wisconsin and other jurisdictions. Under such circumstances, the state could work with all the tribes to find locations that will have positive community impacts as well as producing needed revenues for Native American peoples.