

Indian Gaming Looking Up

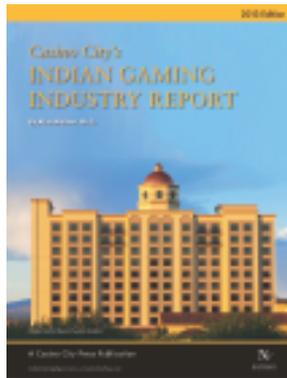
Both gaming and non-gaming revenue sees second straight year of growth

By Alan P. Meister, Ph.D.

Despite a sluggish economy in 2011, Indian gaming experienced its second straight year of growth following its first and only decline in 2009, which came as a result of the Great Recession. So where does Indian gaming stand then in terms of its recovery? How

is Indian gaming performing relative to other gaming segments? And where does Indian gaming go from here?

This article looks to data and findings from the recently released edition of the *Indian Gaming Industry Report* (2013 Edition) to answer these questions.



Non-gaming revenue at Indian gaming facilities also grew in 2011. After two consecutive years of decline, non-gaming revenue grew 4.7% to approximately \$3.3 billion. Interestingly enough, non-gaming revenue actually outgrew gaming revenue in 2011.

This reflects the continuing trend of adding, expanding, remodeling, and upgrading non-gaming amenities at Indian gaming facilities, and the movement continues to improve quality and increase the breadth and depth of Indian gaming facilities.

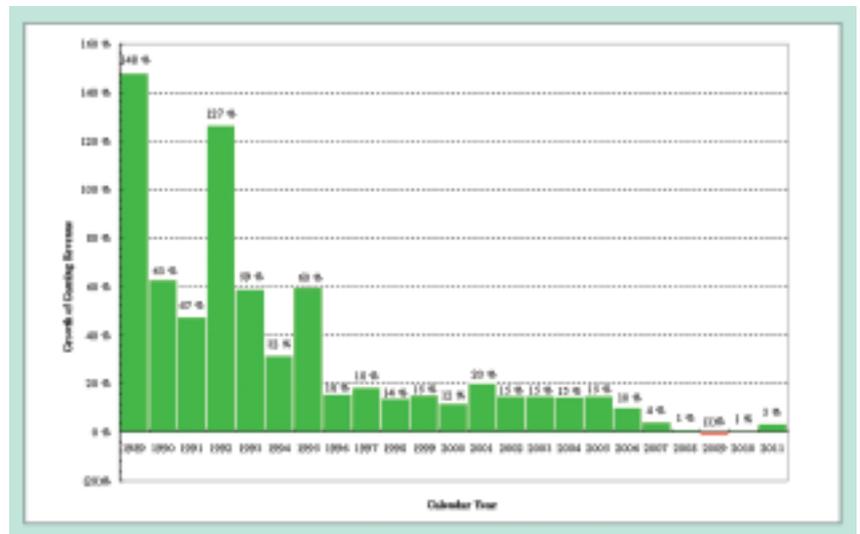
Other segments of the gaming industry also continued to show signs of recovery in 2011 as well. At the nationwide level, the commercial casino, racino, and card room segments all grew at faster rates than they did in 2010. While Indian gaming grew at approximately twice the rate of the commercial casino segment, which grew at 1.7%, Indian gaming was outgrown by both the racino and card room segments, which grew approximately 8.1% and 3.7%, respectively.

Amidst their relative performances, Indian gaming continued to gain ground on the commercial casino segment in 2011. Indian gaming generated approximately 43.5% of all U.S. casino gaming revenue (i.e., gaming revenue generated at Indian gaming facilities, commercial

THE NATIONAL PERSPECTIVE

Indian gaming sustained modest growth in 2011. With some gains in gross domestic product (GDP), per capita disposable personal income, and employment nationwide and in every state, gaming revenue grew 3.4% to approximately \$27.4 billion.

While the 2011 gaming revenue growth rate was still below pre-recession growth rates – approximately 15% from 2002 through 2005, 10.1% in 2006, and 4.1% in 2007 – gaming revenue rose above its pre-recession level. In fact, gaming revenue was at an all-time high in 2011, eclipsing the former peak of approximately \$26.6 billion from 2008.



casinos, and racinos). This was only a slightly smaller share than the commercial casino segment, which led the way with approximately 45% of casino gaming revenue. Racinos generated the other 11.5% of casino gaming revenue.

In addition to having a positive impact on Native American tribes, Indian gaming continued to make significant contributions to the U.S. economy. Indian gaming facilities, including their non-gaming operations, directly generated approximately \$29.6 billion in output, supported about 339,000 jobs and \$12.3 billion in wages, and made over \$1.4 billion in payments to non-tribal governments in calendar year 2011. Indian gaming also led to secondary impacts consisting of purchases by Native American tribes, their casinos, and employees' households, as well as the iteration of purchases by suppliers and their employees' households. In 2011, it is estimated that direct and secondary impacts of Indian gaming totaled approximately:

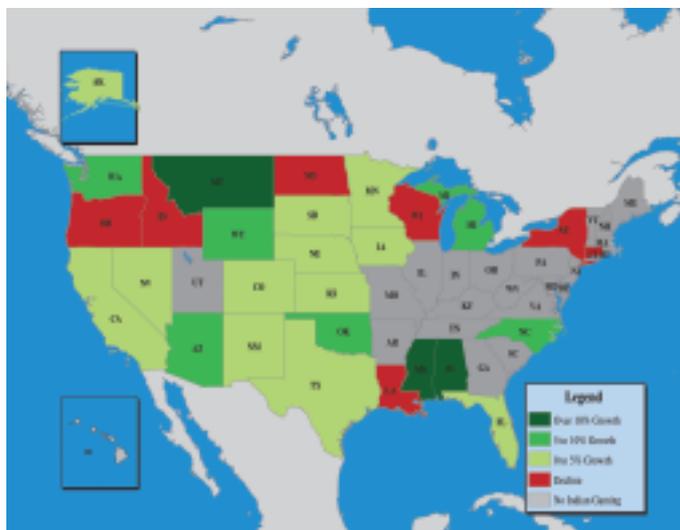
- \$81.8 billion in output;
- 686,000 jobs;
- \$26.8 billion in wages;
- \$11.0 billion in federal, state, and local tax revenue; and
- \$1.4 billion in direct payments by tribes to federal, state, and local governments.

STATE, FACILITY BREAKDOWNS

While Indian gaming on a nationwide basis grew in 2011, it did not grow everywhere or grow uniformly across the country. The performance of Indian gaming varied widely across gaming facilities, states, and classes of gaming. At the gaming facility level, approximately 65% of Indian gaming facilities experienced growth in gaming revenue in 2011, while about 35 percent experienced declines. On the positive side, about 23% of all gaming facilities grew 10% or more.

At the state level, gaming revenue growth var-

ied from +26% in Alabama to -3% in New York, with 75% of the states (21 of 28) experiencing growth over 2010. The fastest-growing states after Alabama were Mississippi, Montana, North Carolina, and Oklahoma. The fastest-declining states after New York were Oregon, North Dakota, Connecticut, and Idaho.

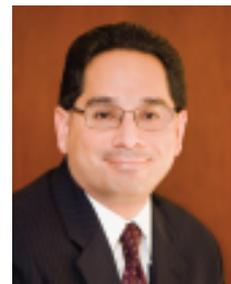


The states that made the largest positive contribution to nationwide gaming revenue growth in 2011 were large Indian gaming states with healthy growth rates: Oklahoma, Arizona, Washington, and California. One relatively smaller state, Alabama, also made a strong contribution toward the overall nationwide growth of Indian gaming with its continuing growth. The states that made the largest negative contribution to nationwide Indian gaming growth in 2011 were: Connecticut, New York, Oregon, Wisconsin, and North Dakota.

While the nationwide supply of Indian gaming was substantial on the whole, it continued to be very fragmented across the U.S. There were 242 Native American tribes operating over 341,000 gaming machines and 7,700 table games in 460 gaming facilities across 28 states.

Nonetheless, gaming revenue at Indian gaming facilities continued to be highly concentrated within certain states. In 2011, the largest state in terms of gaming revenue at Indian gaming facili-

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NEW DEVELOPMENTS IN NATIVE AMERICAN GAMING

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ties continued to be California, generating \$6.9 billion based upon approximately 1.6% growth over 2010. It alone accounted for just over 25% of gaming revenue at Indian gaming facilities nationwide. The top two states, California and Oklahoma, generated a combined 38% of gaming revenue. Meanwhile, the top five states, which included Washington, Florida, and Connecticut with California and Oklahoma, accounted for approximately 61% of total gaming revenue. The level of concentration for the top 10 states, which added Arizona, Michigan, Minnesota, Wisconsin, and New York to the top five states, was 86% of total gaming revenue.

Gaming revenue also continued to be highly concentrated among a small percentage of Indian gaming facilities. In 2011, the top 6% of all Indian gaming facilities, which each generated \$250 million or more, accounted for approximately 38% of total gaming revenue at all Indian gaming facilities. And while the top 31% of gaming facilities, which each generated \$50 million or more, accounted for about 85% of nationwide gaming revenue, the bottom 33% of gaming facilities, which each generated \$10 million or less, accounted for only 2% of nationwide gaming revenue.

There was also a wide disparity in performance across the classes of Indian gaming in 2011. The 24 Indian gaming states with at least some Class III gaming (i.e., Las Vegas style gaming) generated 98% of total gaming revenue for Indian gaming, while the four states with only Class II gaming, which include bingo and games similar to bingo, including electronic bingo machines, generated only 2% of total gaming revenue. However, while Class II gaming was a small portion of nationwide Indian gaming, it grew much faster than Class III gaming. Class II only states as a group grew 22% in 2011. This was 7 times that of the states with at least some Class III, which only grew 3 percent.

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THE FUTURE OUTLOOK

In terms of the future outlook for Indian gaming, its performance in 2010 and 2011 is encouraging, especially considering that the U.S. economy is still in recovery mode. The question is how much further can Indian gaming grow? As noted in past reports, Indian gaming on a nationwide basis was already experiencing an overall slowdown prior to the beginning of the Great Recession in late 2007 due to supply constraints. Many public policies, such as proposed and enacted legislation and regulations, judicial decisions, and tribal-state gaming compacts, had the effect of restricting the supply of Indian gaming.

Based upon its cumulative post-recession performance and anecdotal evidence from 2012, things are looking up for Indian gaming in the short-term to mid-term future. There are several contributing factors to this outlook:

- 1) The economy will continue to improve over time, bringing back disposable income, consumer confidence, and spending on casino gambling;
- 2) Many Native American tribes are investing in their gaming opera-

tions by remodeling, upgrading, expanding, and replacing facilities in order to maintain and grow their markets;

- 3) In some Indian gaming states, there is unmet demand and/or limited competition;
- 4) In some states where restrictions on the supply of gaming have been eased, tribes will be able to expand when demand is sufficient;
- 5) There are opportunities for further conversions from Class II to Class III gaming;
- 6) Class II gaming machines continue to perform well as an alternative to Class III machines; and
- 7) Some smaller, less mature Indian gaming states have room for growth.

However, as has been the case historically, performance will likely vary widely across Indian gaming facilities, tribes, and states.

On the other hand, the long-term outlook for Indian gaming is uncertain. Any number of things could negatively impact Indian gaming. These potential threats include both non-market and market factors. Potential non-market factors include continuing legal challenges, legislation, and regulations that restrict Indian gaming and limit its expansion.

Potential market factors include:

- The maturation of gaming markets;
- Increasing competition; and
- The evolution of Internet gaming and its interaction with brick-and-mortar casinos. ♣