

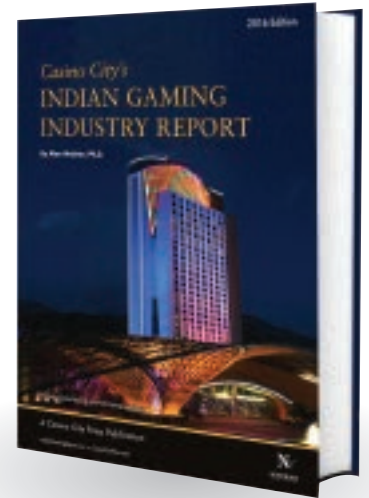


Alan P. Meister, Ph.D.

The Economic Evolution of Indian Gaming

Results from the New Edition of the *Indian Gaming Industry Report**

BY ALAN P. MEISTER, PH.D.



Indian gaming has come a long ways since its humble beginnings, overcoming a myriad of legislative, legal, regulatory, political, and economic challenges. In 1988, the year the Indian Gaming Regulatory Act (IGRA) was enacted, there were approximately 80 tribes across the U.S. operating relatively small bingo halls and card rooms, generating a total of approximately \$121 million in gaming revenue. In 2014, the most recent calendar year for which there is data, there were 243 tribes operating 489 gaming facilities in 28 states, including many resort casinos that rival the top commercial casinos in the country, altogether generating gaming revenue of approximately \$28.9 billion, along with non-gaming revenue of \$3.8 billion.

Number of Tribes	243
Number of Facilities	489
Number of States	28
Number of Gaming Machines	351,719
Number of Tables Games	7,786
Gaming Revenue	\$28.9 Billion
Non-Gaming Revenue	\$3.8 Billion

Source: Indian Gaming Industry Report, 2016 Edition.

In 2014 alone, Indian gaming on a nationwide basis experienced modest growth of approximately 2%, outpacing its 2013 performance (0.6%). This improvement paralleled those of U.S. and state economies. U.S. gross domestic product (GDP) and per capita disposable personal income increased in 2014 (2.2% and 3.4%, respectively), and at a faster pace than 2013 (1.3% and -0.8%, respectively). Also, state level GDP and per capita disposable personal income increased in most states in 2014 (GDP grew in 47 states and per capita disposable personal income grew in all 50 states), and largely did so at a faster pace than in 2013 (faster growth of GDP in 40 states and per capita disposable personal income in all 50 states).

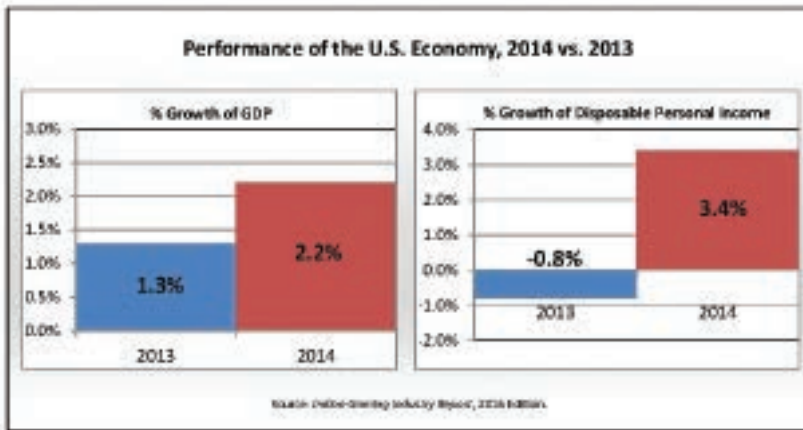
Indian gaming experienced its fifth consecutive year of growth in 2014, pushing gaming revenue to a new all-time high. Meanwhile, non-gaming revenue grew 5% in 2014, more than double the growth rate of gaming revenue. The faster growth of non-gaming revenue was an ongoing trend as many Indian gaming facilities continued to develop non-gaming amenities to complement their gaming offerings and expand their operations.

On the whole, the success of Indian gaming has led to significant positive economic and fiscal impacts. First and foremost, Indian gaming serves as a means of promoting tribal economic development, self-



This reflects nearly a 300-fold increase in gaming revenue in 26 years. Even over just the latter half of those years, from 2001 to 2014, gaming revenue more than doubled.

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Performance of State Economies, 2014 vs. 2013

States with	Gross State Product	Disposable Personal Income
Growth in 2014	47	50
Decline in 2014	3	0
All	50	50
Faster Growth in 2014 than 2013	40	50
Slower Growth in 2014 than 2013	10	0
All	50	50

Source: Indian Gaming Industry Report, 2016 Edition.

sufficiency, and strong tribal governments. Gaming profits are used to:

- Fund tribal government operations;
- Develop tribal infrastructure;
- Support tribal programs and services; and
- Finance economic development efforts, such as the development of other tribal enterprises.

Indian gaming also generates substantial economic and fiscal impacts on surrounding communities. Indian gaming facilities, including their non-gaming operations, directly generate economic activity, provide jobs and wages, assist charities, and made direct payments to federal, state, and local governments (i.e., revenue sharing). Indian gaming also leads to secondary impacts including and resulting from the iteration of purchases of goods and services by Indian gaming facilities, tribal governments, other governments that received revenue sharing payments from tribes, casino vendors and other businesses down the supply chain, and employees at all of these entities.

In 2014, these direct and secondary impacts on the U.S. economy totaled approximately:

- \$95.0 billion in output (i.e., value of sales);
- 738,000 jobs;
- \$32.6 billion in wages;
- \$1.7 billion in direct payments to federal, state, and local governments; and
- \$8.0 billion in federal, state, and local taxes.

567) operate gaming facilities under IGRA. The other 57% of tribes are ineligible to engage in gaming, do not have a location that would sustain a viable gaming operation, or choose not to have gaming. Second, market conditions (e.g., location, patron demographics, demand for gaming, competition, and types of gaming allowed) are much more favorable for some tribes than others. This variability is quite evident geographically across states. Gaming revenue varied from approximately \$7.3 billion in California to less than \$25 million in Montana (the smallest state for which gaming revenue figures could be revealed). And gaming revenue in California was 85% greater than the next closest state, Oklahoma, with \$4.0 billion. This means that California alone accounted for about 25% of all gaming revenue at Indian gaming facilities nationwide.

Gaming revenue growth varied significantly across states, from approximately +13% in Wyoming to -9% in Idaho. Overall, 20 of the 28 states with Indian gaming experienced gaming revenue growth in 2014. The top 10 fastest growing Indian gaming states were (from high to low): Wyoming, Alabama, South Dakota, Iowa, Alaska, North Carolina, Oklahoma, California, Texas, and North Dakota. The fastest declining states after Idaho were Connecticut, New York, Mississippi, and New Mexico.

Gaming revenue also continued to be highly concentrated among a small percentage of Indian gaming facilities. In 2014, the top 6% of all Indian gaming facilities, which each generated \$250 million or more, accounted for approximately 40% of total gaming revenue nationwide. The top 28% of gaming facilities, which each generated \$50 million or more, accounted for 84% of gaming revenue. Meanwhile, the bottom 36% of gaming facilities, which each generated \$10 million or less, accounted for only 2% of gaming revenue.

There was also a wide disparity in performance across the classes of Indian gaming in 2014. 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 generated only 2%. Although states with only Class II gaming were a small portion of gaming revenue, they grew much faster than states with at least some Class III gaming. Gaming revenue in Class

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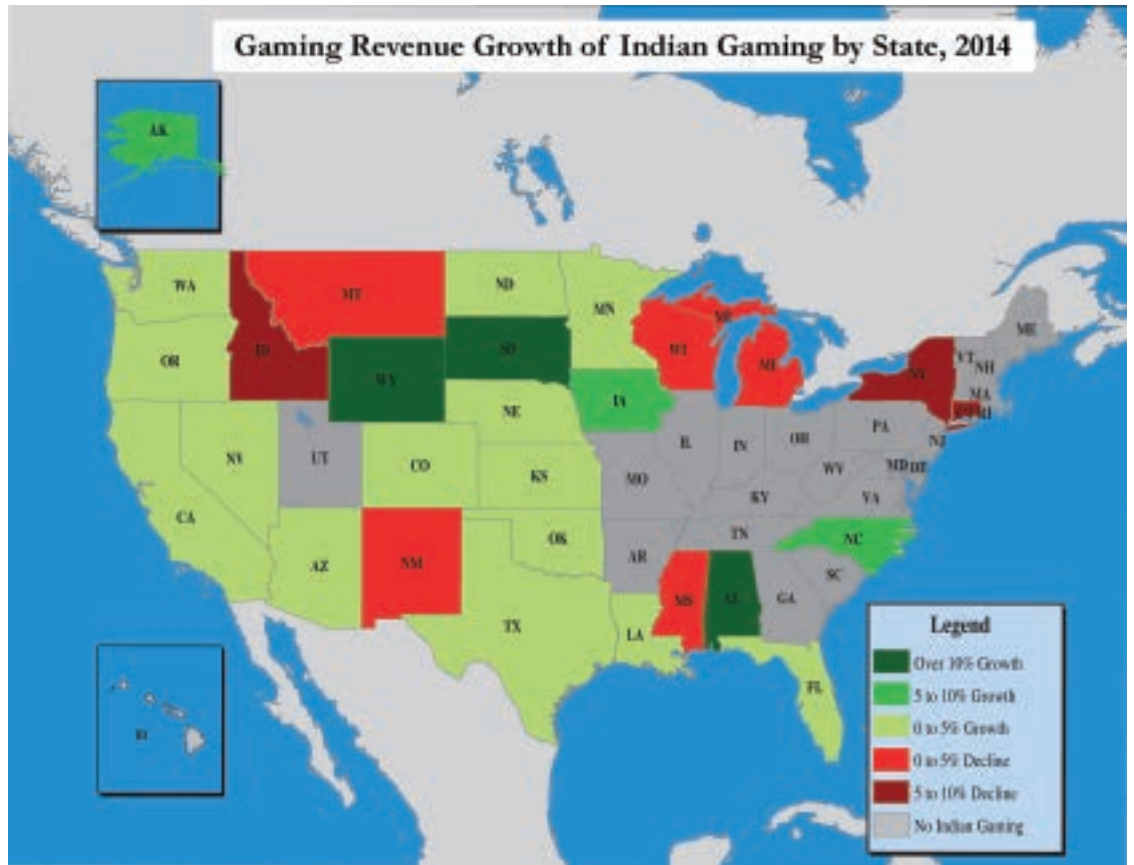


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II only states, which included Alabama, Alaska, Nebraska, and Texas, grew approximately 11% in 2014. This was roughly six times the growth rate of states with at least some Class III gaming, which was a little under 2%. It is also noted that some tribes in states with Class III gaming operated Class II machines alongside or in place of Class III machines. Class II machines have served as a viable option where there is a cap on the number of Class III machines allowed, limitations on the types of Class III machines allowed, or revenue sharing required with the operation of Class III machines.

Looking forward, Indian gaming will continue to face many significant challenges that potentially impact its future success and evolution, including:

- ▶ Increased competition;
- ▶ Maturation of gaming markets;
- ▶ New types of gaming (e.g., internet gaming);
- ▶ Integration of non-gaming amenities;
- ▶ Attracting the next generations of gamers; and
- ▶ Legislation, regulations, legal challenges, and public policies that restrict Indian gaming and limit its expansion.

* Data contained in this article come from the 2016 Edition of the *Indian Gaming Industry Report*. For more information on the report, please visit: www.indiangamingreport.com.

Alan P. Meister, Ph.D. is a Principal Economist at Nathan Associates Inc. Dr. Meister specializes in the application of economic analysis to litigation, regulatory, public policy, and business planning and operations matters. He has extensive experience analyzing economic issues related to the gaming industry, including Indian gaming, commercial casinos, racinos, card rooms, and online gaming. He leads the Gaming Industry and Indian Gaming practices at Nathan Associates, which provide consulting to tribes, federal, state, and local governments, gaming operators, gaming suppliers, and investors. His consulting work has included economic research, analysis, and expert testimony in litigation and regulatory matters, damage analyses, economic and fiscal impact studies, industry and market analyses, feasibility studies, evaluations of regulatory policies, economic assessments of land-into-trust gaming applications, and analyses of tribal-state gaming compacts and revenue sharing. In addition to his consulting work, Dr. Meister has also conducted years of independent, scholarly research on the gaming industry and authored a number of publications, most notably his annual study, the Indian Gaming Industry Report. Dr. Meister can be reached at (949) 474-4955 or ameister@nathaninc.com. For more information on Nathan Associates, please visit: www.nathaninc.com.