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### **The Tough Questions**

*If casinos are so popular, why aren't there more of them?*

Pluck and patriotism abound these days, as U.S. businesses brave the post-Sept. 11 economy with flags flying and PR strategists spinning. The casino industry's trade group is no exception.

In May the American Gaming Association brought tidings of joy to -- and about -- the casino industry in its fourth annual "State of the States" survey of casino entertainment. The entire document is available at [www.americangaming.org](http://www.americangaming.org).

In press releases for the survey, the AGA boasts two findings: First, that commercial casino revenue grew by nearly 5 percent in 2001 despite the slow economy and post-Sept. 11 slump in tourism and travel. Second, that casino customers are at least as affluent, informed and patriotic as the average American.

Tell us something we don't already know.

The stated goal of the survey is to document the gambling's contributions the economy, provide state-by-state commercial casino profiles, investigate perceptions about gambling, and allay misconceptions. In other words, to spread good news about casinos.

The 2002 edition fills that bill. We learn which states made the greatest gains in revenue (Michigan led the pack) and which took a hit (Nevada). The AGA tallied 433 commercial casinos in 11 states, reporting \$11.5 billion in revenue and employing 364,000 people in 2001. Tax revenue grew 4.2 percent last year, to \$3.6 billion. Sounds good, doesn't it?

According to the survey, public behavior and attitudes have changed little in the past three years. Overall, gambling seems to be more acceptable to younger and more affluent individuals. Americans generally accept gambling for themselves and/or for others (79 percent), agree that it can be a fun night out (82 percent), and recognize widespread economic benefits in gambling regions (62 percent). Forty-nine percent of respondents strongly agree or somewhat agree that they would support casino gambling in their own communities because of its economic benefits. More good news.

Making a debut appearance in the 2002 survey is a section called "Casino Customers: A Reflection of America," which claims to show that "casino

customers not only reflect the average American, but, in some cases, are more likely to be involved in civic or patriotic activities.”

According to the survey (which carries a 3.3 %  $\pm$  margin of error) casino customers are slightly more likely to exercise, read a newspaper, fly an American flag, vote, contribute to charity, and attend baseball games than their non-gambling counterparts. They are marginally less likely to eat dinner with their families.

Except for that last item, these responses offer a nice bit of jingoism for the press releases... But they're not news. It's no revelation that folks with disposable income are more likely to engage in gambling and all of those entertainment type activities. The industry and the public at large have known for a while that today's gamblers are relatives and neighbors; not thugs and moral degenerates. Even casino opponents have shifted their objections from the immorality of gambling to its sociological and economic effects.

In expansion efforts, casinos gambling is less threatened by public attitudes than competition from other forms of gambling and battles with lawmakers that have more to do with greed and grudges than moral opposition.

Quite appropriate for its mass audience and focused scope, the AGA's survey offers rich economic information and conveys a sure sense of optimism about the casino industry.

But it offers little insight about the future health of commercial casino gambling. It doesn't address the fact that the industry's 5 percent growth rate in 2001 was the lowest in more than a decade, and no new markets have opened in six years.

To get a clearer snapshot of the state of business, we need to see it in the context of the rest of the gambling universe and delve deeper into public attitudes. For example:

### **If acceptance is so high, why aren't there more casinos?**

The AGA reports that commercial casinos exist in only 11 states; 15 if you count racetrack casinos. The last state to authorize commercial casinos was Michigan in 1996.

The obvious explanation is that gambling demand is being satisfied in many states by other forms of gambling, primarily lotteries (39 states) and tribal casinos (23 states). Lotteries are widespread because they're owned and favored by state governments. Tribal casinos have proliferated through the National Indian Gaming Regulatory Act -- which spares them the arduous legalization process -- and their willingness to confront and defy regulators.

Private casinos are the toughest form of gambling to pass.

But there's more to the story...

### **Why own, when you can manage?**

The pressure on commercial casino companies to expand into new markets has been greatly alleviated by their ability to partner with Indian casinos. The minute that tribal gaming is approved in a state (take California, for example) private companies line up for lucrative management contracts. They get many of the financial rewards of the business without the risk, expense and wait of a legalization campaign.

Thus, hooking up with Indian tribes has become the de facto expansion strategy for private casino corporations. If we are to assess the reach and revenue of commercial gambling, we should include commercial-tribal partnerships.

In the future, however, there could be a price to pay. As gambling tribes grow more experienced and independent, there's nothing to stop them from dropping their private partners and taking management in-house. That might never happen -- but if it does, the casino companies would face an uphill battle for legalization.

Casino corporations could offer tempting tax payments, better amenities and closer proximity to urban areas -- but they'd face opposition from established tribal casinos, lawmakers, and perhaps even voters who believe that one group of casinos in a state is quite enough.

Suddenly, the distinctions between private and tribal gaming would become vitally important.

### **Do consumers know the difference?**

The AGA survey picked up one interesting tidbit about gambling perceptions: Despite awareness efforts, many people still don't know where the money goes. When asked about tax revenue distribution, 26 percent of respondents landed in the "don't know/refused" category.

There are a lot of other things people don't understand about gambling. Many are probably unaware of the differences between tribal and commercial gambling, and that Indian casinos are subject to minimal taxation and oversight. Many probably wouldn't be able to list the types of gambling that are legal in their own states, or the processes by which they were introduced.

It would be immensely revealing to find out how people perceive the social and economic risks and rewards -- as well as the entertainment values -- of various forms of gambling. Do they know enough to care?

The AGA's "State of the States" survey was a feel-good report, and we could all use a little boost in that department. It's nice to remind ourselves -- and

the public -- that casinos survived a rocky year and that gamblers are patriotic citizens.

But it's becoming clear that success in this business is a complex zero-sum game, in which each sector must measure itself against the others -- in terms of revenue, market reach, and yes, public perception.

It's time to start asking the tough questions.

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