

Casinos and Other Legal Gambling

GLOSSARY

Class III casinos

Casinos that have slot machines, video lottery terminals, poker, and all other games commonly perceived as “casino style” games.

Gaming

Gambling.

Handle

Total amount of money wagered at a casino or racetrack.

Indian casinos

Gambling establishments owned by Indian tribes under the Indian tribal gaming compacts; all others are categorized as non-Indian casinos. The two types typically are analyzed separately because they are taxed differently, information on their revenue and expenditures are reported separately, and they are regulated by different laws.

Live racing

Seeing a race at the track where it occurs.

Pari-mutuel wagering

A type of gambling in which the player bets against other players (as in horse racing), not against the house (as at a casino).

Race days

Number of days on which a race is run at a track; the total number of race days, at all tracks, is used as a measure of the volume of horse racing.

Simulcasting

In regard to horse racing, pertains to electronically transmitting a race from one racetrack to others, where it is viewed on a television monitor.

Video lottery terminal (VLT)

VLTs are similar to slot machines, but offer electronic versions of blackjack, poker, and other games of chance.

BACKGROUND

Legal gambling is enormously popular as entertainment and as a revenue source for states. Legalized gambling began in many states with state-run lotteries, but by the early 1990s many also had approved for-profit gambling enterprises such as Indian owned-and-operated casinos, non-Indian casinos, riverboats, and video-lottery terminals (VLTs) at bars and restaurants. In 1998 Americans legally will wager more than \$500 billion—more than they will spend on groceries and 30 times what they spent on gambling in 1976.

The gambling bug has not skipped Michigan. The following forms of gambling are legal in the state:

- State lottery
- Horse racing
- Charitable gaming (e.g., bingo and raffles)
- Casino gaming on Indian reservations
- Non-Indian casino gaming (limited to three at the current time, and none has opened yet)

Michigan does not allow dog racing or jai alai, and it does not permit slot machines, video poker, or similar forms of gambling in any place other than a casino.

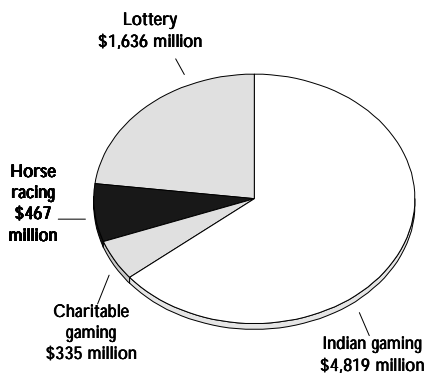
Legal gambling in Michigan is big business: In 1997 Michigan gamblers wagered more than \$76 billion; Exhibit 1 shows the amount, by type of gambling. As may be seen, Indian gaming accounts for the largest amount of wagering by far, followed by the lottery, horse racing, and charitable gaming.

Indian Gaming

Michigan currently has 16 Indian casinos operated by seven tribes. They have been operating legally in Michigan since 1993, when the governor signed gaming compacts (treaties) with seven of the state’s federally recognized tribes. The compacts allow the tribes to operate “class III” casinos, in which they are permitted to offer slot machines, video poker, and all other “casino style” games. Under federal law, states do not have the right to regulate activities on Indian lands, but states and Indian tribes may enter into compacts or agreements that give states some regulatory power over the tribes’ casino operations.

The Michigan compacts specify that as long as Indian tribes have the *exclusive* right to operate casinos in the state, the revenue from slot machines and VLTs on reservations will be taxed 10 percent of the net win (casino revenue after payout to win-

EXHIBIT 1. Michigan Wagering, by Type, 1997



SOURCES: Michigan Bureau of State Lottery; Michigan Gaming Control Board; Office of Racing Commissioner.

ners): 8 percent goes into the state Renaissance Fund (formerly the Strategic Fund), to be used for economic development, and the tribes must use 2 percent for improvements in their local communities (the tribes decide how to spend the local money). In FY 1996–97, the tribes contributed \$39 million to the Renaissance Fund and \$4 million to their local communities.

The compacts say that if any non-Indian casinos are permitted in the state, the tribes no longer must pay into the Renaissance Fund or contribute to their localities. This clause was negotiated by the tribes and the governor long before voters gave their approval in 1996 for three casinos in Detroit. The state takes the position that until the permanent Detroit establishments open, in about 2000, tribes that are operating casinos must continue to pay the 10 percent levy. However, five Michigan tribes are withholding payment on the ground that they are no longer the only entities in the state with the right to operate casinos—the Detroit casino operators now *have* that right, even if they have not yet opened their businesses. The issue is in federal court.

In addition to the seven tribes already operating casinos, four more have signed compacts with Governor Engler that permit them each to open one casino. Like the existing seven compacts, the new com-

pacts require the tribes to pay 8 percent and 2 percent levies. Unlike the earlier compacts, however, they do not contain the “exclusivity” clause, meaning that the tribes must meet the state and local obligations regardless of whether non-Indian casinos are permitted to operate.

The legislature is reviewing the four new compacts, which it must approve before they are valid. If the legislature does not approve, the tribes may ask the federal government for permission to operate, and if granted, the tribes may not be limited to one casino nor obligated to pay state or local government any of their revenue. It is unclear whether the U.S. Department of Interior will grant the four tribes’ requests or, absent state approval, deny them. If the department does grant permission, it could take until January 1999.

Detroit Casinos

In November 1996, Michigan voters approved Proposal E, allowing up to three casinos to operate in Detroit. (Non-Indian casinos still are illegal elsewhere in the state.) The proposal also requires an 18-percent tax to be levied on the casinos’ net revenue, of which 55 percent will go to Detroit, to help pay for additional police protection and other costs, and 45 percent to the state School Aid Fund. The casinos are expected to open in temporary facilities as early as 1998.

In late 1997 Detroit Mayor Archer selected the three companies that will be permitted to operate casinos.

- Atwater/Circus Circus plans to open a \$66-million complex that includes a 26-story, 801-room hotel and several restaurants; the owners estimate that the operation will create 3,800 jobs.
- Greektown/Sault Ste. Marie Tribe of Chippewa Indians intends to open a \$519 million complex in Detroit’s Greektown, comprising two 40-story towers, 1,000 rooms, a kids’ center, theater, restaurants, and retail businesses; the owners estimate that the operation will create 4,000 jobs.
- MGM Grand plans to open a 800-room hotel complex with 11 restaurants and a 1,200-seat showroom; the owners estimate that the operation will create 3,400 jobs.

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Before opening their doors, the three companies must apply to the Michigan Gaming Control Board for a casino license, a process that could take up to four months. The board will scrutinize company finances, run criminal background checks on owners and some employees, and ensure that the operation will comply with the state's gaming laws. Until the new complexes are constructed, the operators may open temporary casinos, and observers believe this may happen by the end of 1998. (Mayor Archer has ruled out riverboat casinos, which in other states often have been used as temporary facilities.) The first permanent casino is unlikely to open before 2000.

Unlike many states, where casinos have been legalized to increase state revenue, in Michigan the driving force primarily was local, in Detroit. Much of the impetus stemmed from the presence of a large casino in Windsor, Ontario, just across the river from Detroit. The casino opened there in 1994 and is drawing customers from Detroit and beyond. Detroit-casino supporters feel that Detroit should be able to compete for the share of the Michigan gambling dollar that has been going to Windsor: \$720 million (estimated) in FY 1995–96.

Although *Detroit* voters had shown their support for casinos in an earlier referendum, Governor Engler opposed the idea of off-reservation casinos in Detroit or anywhere in Michigan, which made it unlikely that gaming would become legal unless approved by a majority of Michigan voters. The legislature put the question (Proposal E) on the statewide ballot in 1996, and voters narrowly approved.

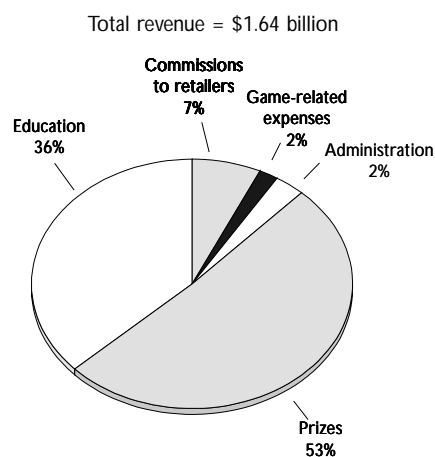
Passage of Proposal E did not end the casino controversy, however. A coalition of casino opponents claims that the voters did not fully understand the ramifications of voting yes on the proposal, and they have initiated a petition drive to put repeal of the proposal on the 1998 ballot. They must gather 247,000 signatures by June.

State Lottery

Established by Public Act 239 of 1972, the Michigan Lottery is the largest single source of state gambling revenue. In FY 1996–97, consumers spent about

\$1.6 billion on lottery tickets. By statute, lottery proceeds go into the state School Aid Fund. Exhibit 2 shows the distribution of lottery revenue in FY 1996–97. Of the \$1.64 billion in revenue, about half was paid to winners; 11 percent was used for administration, game expenses, and commissions to retailers; and the remainder—approximately \$588 million—went into the School Aid Fund, to support K–12 education.

EXHIBIT 2. Distribution of Lottery Revenue, FY 1996–1997



SOURCE: Michigan Bureau of State Lottery.

Lottery sales were relatively weak from the mid-1980s through the early 1990s, and sales actually declined in some years. To boost sales, the state increased advertising, added new instant lottery and other games, and in 1996 joined the Big Game, a multistate lottery, which has sold more than \$21 million in tickets during the first quarter of 1998 alone. The efforts seem to have paid off. Lottery revenue increased 47 percent between FY 1990–91 (the last year in which sales declined) and FY 1996–97. In FY 1996–97 it shot up almost 15 percent over the previous year, the biggest increase in almost 10 years.

Horse Racing

There currently are six race tracks operating in Michigan, down from eight in 1996. There also is some horse racing at county fairs (but gambling is not permitted at most of these races). Horse racing is Michigan's oldest

form of legal gambling, established in 1933; during that first year, there were 31 total racing days, attendance of just over 100,000, wagering of \$3.5 million, and revenue to the state of about \$124,000. Horse racing grew rapidly, particularly in the years after World War II. Track attendance peaked in 1971, when racing days totaled 563 and attendance reached its all-time high of nearly four million.

Michigan horse racing has fallen on hard times in recent years. Although the number of race days increased 40 percent from 1975 to 1995, attendance dropped by more than half; from 1990 to 1995 alone, attendance fell about 35 percent. Wagering also fell dramatically: From just 1990 to 1995, total wagering dropped 30 percent in actual dollars and 40 percent in inflation-adjusted dollars (see Exhibit 3). This decline was due, in large part, to increased competition for entertainment and gaming dollars. The lottery, expansion of Indian casino gaming, and the Windsor casino cut sharply into horse racing's market. Horse-racing supporters warn that if the sport fades away, many horse-farm operations will close or move out of state, which will cause economic losses and quite possibly the conversion of that prime land to nonagricultural use.

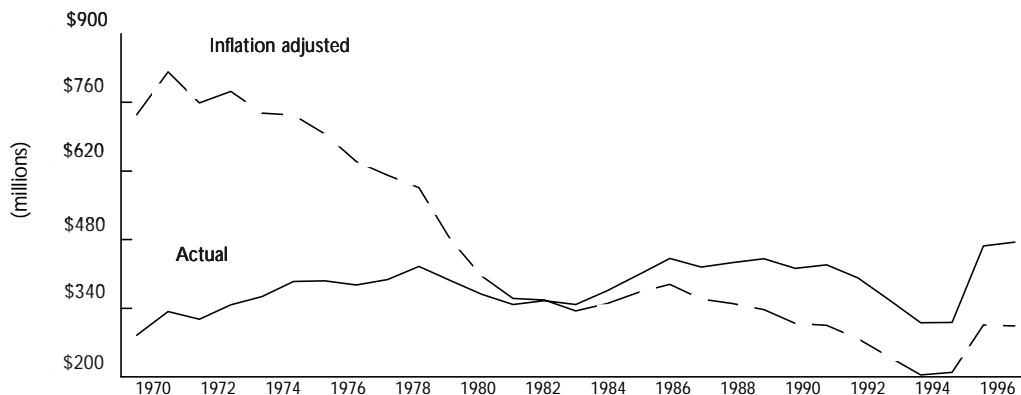
In 1996, however, the industry's decline halted, at least temporarily: Passage the year before of P.A. 279

of 1995 authorizes year-round simulcasting—races from tracks around the state and nation now may be televised and wagered on at Michigan tracks. As a result, in 1996 the total handle (amount wagered) increased nearly 51 percent, despite the fact that the handle from live racing (bets made only on site, at the track where the race occurs) suffered almost a 50 percent drop. The good news may be only temporary, however; experience in other states shows that expanded casino gaming works to the detriment of horse racing, and handle increased only 1.6 percent from 1996 to 1997. Also, one of the state's largest tracks, Ladbroke, recently closed. To enable the industry to compete with the expanding casino industry, horse-racing interests are seeking legislation (HBs 4409–11) that will allow gaming devices such as video lottery terminals at horse race tracks, as is allowed in four other states; there is no indication that the bills will pass in the current session.

Charitable Gaming

Bingo, Las Vegas nights, raffles, and break-open tickets (tabs on the tickets are pulled to reveal any winnings) may be sponsored in Michigan only by non-profit organizations. Religious, veterans', fraternal, education, senior citizen, and service groups, as well as political committees may qualify to run fund-raising events using these games. Such activities are supervised by the Charitable Gaming Division of the

EXHIBIT 3. Total Wagering on Horse Racing, 1970–1997



SOURCE: State of Michigan, Office of the Racing Commissioner.

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Bureau of State Lottery, which issues licenses to qualified organizations. In 1997 Michiganians spent \$335 million on charitable gambling.

There has been controversy over the use of charitable bingo to raise money for political parties. The Michigan Democratic Party often uses this means of fund-raising, stating that it gives them access to the grass-roots population. Republicans have tried to ban such “political bingo,” claiming that there is too much potential for abuse, since the money changes hands in cash; Democrats counter that the GOP was simply trying to weaken Democrats’ ability to raise money. The issue was placed on the statewide ballot in 1996 by the legislature, and the electorate voted to allow the practice to continue. This apparently was not the end of the matter, however: The Michigan Democratic Party sued the Lottery Bureau on the ground that despite voter approval, the bureau refused to issue political bingo licenses to the party. A judge has ordered the lottery commissioner to issue the licenses, and he is doing so.

Like horse racing, charitable gaming functions face increased competition from casinos. In 1994, the first full year that Indian casinos operated in the state, wagering at charitable gambling events rose only 0.5 percent, after rising more than 4 percent the year before and nearly 9 percent the year before that. The Detroit casinos likely will cut further into nonprofit organizations’ ability to raise money with gaming.

DISCUSSION

While there are five types of legal gambling in Michigan, casinos—both Indian and non-Indian—are the center of current public policy debate.

Gambling proponents claim that casinos can provide substantial economic gains to depressed areas. They argue that casinos create

- a large number of jobs that pay wages and salaries well above the average in the recreation/entertainment industry;
- temporary construction jobs;

- revenue for local and state governments; and
- spin-off economic benefits arising from the purchase by casinos of local goods and services.

Casino supporters point out that the Windsor operations, which began in 1994, draw a great many Detroiters and out-state customers. As mentioned, in FY 1995–96, the temporary Windsor casino made an estimated \$720 million from Michigan residents; the permanent casino, which opened in 1997, is expected to make as much or more. Many supporters of the Detroit casinos believe that the Motor City should have a chance to compete for a share of those gambling dollars.

Casino opponents argue that the economic benefits of gaming are exaggerated and that the social costs may outweigh any economic benefit. They point out that a good deal of the money made by casinos may leave the area, going, for example, to the out-of-state corporate headquarters of a casino chain. Moreover, they point out that some large casinos have failed, such as the newly built Flamingo riverboat casino and the half-built Harrah’s Jazz casino in New Orleans, both of which were terminated in 1997, leaving the city with failed expectations, squandered financial and land resources, and an eyesore.

They also argue that casinos can have negative economic effects on a local economy, including,

- increased crime, which can make the area unattractive to other businesses;
- loss of market share for local bars, restaurants, and hotels; and
- loss of revenue for other gaming activities, such as horse racing and charitable bingo.

Casino opponents point out that a number of studies find a correlation between the expansion of legal gambling and the crime rate. A study by Central Michigan University of the expansion of the Soaring Eagle Casino and Hotel in Mt. Pleasant suggests that Isabella County can expect, from 1994 to 1998, a 15 percent increase in violent crime, a 20 percent increase in prop-

erty crime, and a 70 percent increase in non-index crime (offenses such as vandalism and fraud).

Casino supporters counter that measures are being taken to address some of the potential social ills associated with casinos. To address crime and other issues, the Detroit establishments must pay 9.9 percent of their revenue to the city, to pay for increased police and other services in the area. The city plans to add more than 200 officers (including 70 for each casino complex) who will be paid for by revenue from the casinos. Casino representatives report that in addition, the casinos will engage in constant surveillance of their facilities and grounds and will employ a private security staff.

In response to fears that casinos may increase the activity of organized crime in Detroit, casino supporters point out that Michigan's casino regulations (which regulate non-Indian casinos only) will be among the strictest in the nation. The Michigan Gaming Control Board will investigate the finances and some employees of each applicant for a license. For those concerned about campaign funding improprieties related to casino gaming in Detroit, state law will limit campaign contributions from key casino employees or anyone having a one percent interest in a casino.

Gambling opponents also cite increased gambling addiction as a social cost associated with casinos. An estimated 10 million Americans have a gambling habit that is out of control. A recent surge in the number of problem and pathological gamblers is strongly correlated with the explosion of legalized gambling opportunities. In Iowa, for example, a 1989 survey—before riverboat casinos and casinos on Indian lands were permitted—indicated that fewer than 2 percent of Iowa residents were problem or pathological gamblers; a 1996 survey shows that the percentage has jumped to more than 5 percent, an addition of 78,000 persons.

Evidence shows that addiction can lead to serious financial and family problems, among them bankruptcy, divorce, and suicide. A 1997 study shows that the suicide rate in U.S. cities in which gambling is legal is as much as four times higher than in comparably sized cities where it is not.

Although casino backers assert that only a minority of people who gamble do so compulsively, casino operators plan to take measures to address compulsive gambling. For example, the law requires the casinos to give part of their revenue to local programs for preventing and treating gambling disorders.

FOR ADDITIONAL INFORMATION

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[For a copy of *A Final Report to the Stakeholder of the Saginaw Chippewa Tribe Expansion Evaluation Project* (July 27, 1996)]

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[For a copy of *Economic Impacts of Casino Gaming on the State of Michigan* (April 1995), prepared for the Governor's Blue Ribbon Commission on Michigan Gaming]

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