

EDR Evaluation

Economic Impact Analysis: Seminole Tribe of Florida

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Presented by:



The Florida Legislature
Office of Economic and
Demographic Research
850.487.1402
<http://edr.state.fl.us>

Published Economic Impact..

- The Seminole Tribe of Florida has released an Economic Impact Analysis of the proposed gaming and resort operations.
- Efforts to replicate the model's results using the analysis' assumptions were largely successful.
- The analysis appeared to use standardized approaches and accepted techniques within the economic development profession.



Caveat...

- Analysis is crafted from the Seminole Tribe's perspective.
- This means that activity that is new to the Tribe is typically assumed to be new the state.
- From the state's perspective, more substitution for existing activity is taking place than is generally recognized, and the projected statewide benefits will fail to achieve the purported levels.
- The result is that the financial projections can be significantly overstated.



Economic Period...

- United States is undergoing its worst **economic period** in recent history.
- Economic outlooks and behavior are not following typical paths.
- The gaming industry is not immune from the distress.
- While portions of the analysis are reasonable for a normal period of business operations, conventional assumptions are too optimistic for the current environment.



Downturn Effects...

- Based on annual reports from similar businesses:
 - Expected level of patrons unlikely to materialize.
 - Expenditures on discretionary purchases will not reflect the levels experienced in the recent past.
- Consumer and business sentiment will reduce the direct spending anticipated by the analysis, as well as the indirect expenditures which are based on these levels.



Planned Capital Expansion...

- Analysis does not specify the funding source.
- Today, the **credit market** remains largely dysfunctional.
- To the extent that the expansion is debt-financed, serious delays and higher costs may arise.
- The Seminole Tribe's cash investments may have been altered by recent portfolio losses or declining revenues.
- Current situation on all of these fronts has markedly worsened since the analysis' release in October



Resort Expansion..

- It is not clear how much (if any) of the \$3 billion **resort expansion** would have taken place in the absence of Class III slots and table gaming.
- Significant expansion has clearly taken place in the absence of the conversion. For example, the Seminole Tribe opened another facility in 2006 when viable gaming was Class II electronic machines.



Key Assumptions, No Guarantees...

- **30% of all spending on goods and external services** purchased by the Seminole Tribe come from within the state of Florida.
- **Renovation and construction** (\$51.6 million) spending for in-state vendors.
- **Completion date** is not specified, but assumed to be in the near-term.
- **Multipliers** may take multiple years to achieve fruition.



Churning within the State...

- Increases are presented as though they are on top of what we already have.
 - “Employment growth”
 - “Additional income from wages”
 - “New spending,” “new expenditures,” and “new revenues”
 - “New Patrons” and “additional tourists”
 - “New Conferences and Conventions”
- To the extent that the increases are pulled from existing activities in Florida, the gain attributable to the Seminole Tribe expansion is offset.



Conferences & Conventions...

- Direct competition with other resorts and luxury hotels will cause a shift in customers from existing Florida-based resorts and convention centers to the expanded facilities contemplated by the Seminole Tribe.
- Because the Seminole Tribe's Economic Impact Analysis indicates that the Tribe will not proceed with the capital expansion in the absence of the authorization for table gaming, it is important to consider the compact's impact on competing businesses.



Convention-Related Cannibalization...

- Despite the naming conventions, both the high and low estimates can be considered conservative projections of the direct losses that can be expected by competing hotels and motels for convention-related lodging and associated expenditures. No multipliers have been used to take account of indirect losses.
- This analysis generally *excludes* the impact associated with the table game expansion, particularly as it relates to attendance by residents from the surrounding communities.
 - Low Dollar Value: **\$58.4 million**
 - High Dollar Value: **\$61.5 million**
 - Average Dollar Value: **\$59.9 million**



Leisure-Related Cannibalization...

- Once again, the high and low estimates can be considered conservative projections of the direct losses that can be expected by competing hotels and motels for convention-related lodging and associated expenditures. No multipliers have been used to take account of indirect losses, and the methodology was similar to the explanation provided above.
- A key difference is that lower rates of cannibalization are assumed for leisure travel.
 - Low Dollar Value: **\$36.9 million**
 - High Dollar Value: **\$38.9 million**
 - Average Dollar Value: **\$37.9 million**



Total Minimum Shift...

<u>Low Dollar Value</u>	<u>High Dollar Value</u>	<u>Avg Dollar Value</u>	
\$ 58,399,741	\$ 61,451,093	\$ 59,925,417	<i>Convention-Related Cannibalization</i>
\$ 36,939,250	\$ 38,869,304	\$ 37,904,277	<i>Leisure-Related Cannibalization</i>
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\$ 95,338,991	\$ 100,320,397	\$ 97,829,694	<i>Total Business Shift</i>

- The **total minimum shift of business** from competing hotels and motels for convention-related lodging and associated expenses to the expanded Seminole facilities is shown below.

- The stated losses do not include the impacts to other attractions, pari-mutuel facilities, equipment and room rental at convention centers, or any activities that would have been chosen by residents from surrounding communities in the casino's absence.



Foregone Sales Taxes...

- Although sales tax applies to spending by patrons at the non-gaming Seminole-operated facilities such as restaurants, retail, lodging and entertainment, tribal immunity prevents the enforcement of the collection and remittance of sales tax.
- This means that any business shift from Florida convention-related businesses to the expanded Seminole facilities will come at the expense of **foregone sales taxes** that the state would have otherwise collected.
 - Low Dollar Value: **\$5.7 million**
 - High Dollar Value: **\$6.0 million**
 - Average Dollar Value: **\$5.9 million**



Competitive Disadvantage...

- Florida businesses in the convention and lodging industry will also be at a competitive disadvantage to the expanded Seminole-operated facilities. The Seminole Tribe not only sells items free from sales taxation, but the Tribe and any of its solely owned entities purchase on a sales tax-exempt basis as well.



Example...

SLOTS:		2010-11	2011-12
Slot Machines -State		7081	7081
Income Per Machine		137.74	141.43
Total Income		\$ 355,997,983	\$ 365,535,028
State Income		\$ 177,998,992	\$ 182,767,514
Slots - Existing Seminole		6941	
Slots - New from Seminole Expansion		3900	
TOTAL SLOTS		10841	
Income Per Machine - State		137.74	
TOTAL INCOME		\$ 545,032,359	
A	Foregone Taxes at State Rate	\$ 272,516,180	
	All Machines	\$272.5 million	
B	Foregone Taxes at State Rate	\$ 98,036,445	
	New Machines	\$98.0 million	



Summary...

- Policy decisions should not be made solely on the basis of the numbers shown in the Impact Analysis.
- The specific benefits ascribed to the state should be treated with a degree of skepticism, since they can be one-sided.

