

Evaluation of Economic Impact Analysis: Seminole Tribe of FL Issues & Concerns

Summary

In general, the model underlying the analysis¹ appeared to use standardized approaches and accepted techniques within the economic development profession. Efforts to replicate the model's results using the analysis' assumptions were largely successful.

Overall the analysis is more reasonable than many that have been developed for similar purposes; however, there is a strong caveat. Most of these analyses are crafted from the perspective of the entity under study. This means that activity that is new to the entity is typically assumed to be new to 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. For these and other reasons detailed below, the specific benefits ascribed to the state should be treated with skepticism. In this regard, policy decisions should not be made solely on the basis of the numbers shown in the analysis.

General

By virtually any measure, the United States is undergoing its worst **economic period** in recent history – and in some instances, since the Great Depression. Economic outlooks and behavior are not following typical paths. Business plans predicated on normal consumer responses are being significantly scaled back and revised. Of no great surprise, the gaming industry is not immune from the distress. In Atlantic City, six of eleven existing casino hotels are reportedly in bankruptcy or close to it. While portions of the analysis are reasonable for a normal period of business operations, conventional assumptions are too optimistic for the current environment.

- According to an assessment of the *Nevada Gaming Revenue Report* for 2008 authored by Dave Schwartzton, “Basically, both visitation (37.5 million) and total gaming revenue (\$11.6 billion) have returned to 2004/2005 levels.”
- In a recent article in the *Pittsburgh Post Gazette*, a reporter noted: “Las Vegas had its worst-ever decline in December, with revenues down 23 percent. For 2008, Las Vegas revenues were down 10 percent.”
- In a recent article in *Global Gaming Business* by Matt Sodl of Innovation Capital, “As of December 1, 2008, stock indices for such discretionary segments as gaming and hospitality were down 78.72 percent and 65.28 percent, respectively. The resulting

¹ The term “analysis” is used throughout this evaluation to refer to the Economic Impact Analysis prepared for the Seminole Tribe of Florida by the Innovation Group (released October 2008).

economic strain is unlike any seen in recent history, and with no immediate signs of improvement on the horizon (and capital for M&A transactions non-existent), talk of restructuring and bankruptcy is front and center in nearly every major consumer-related sector...We are indeed in a recession, and for industries like gaming, the impact begins and ends with the consumer and what they are willing and able to spend. And today, quite simply, they are spending less.”

Given the current economic reality, it is improbable that the expected level of patrons will materialize in the near-term. For the patrons that do show up, their expenditures on discretionary purchases will not reflect the levels experienced in the recent past. Consumer and business sentiment, which are both persisting at or near historic lows, will reduce the direct spending anticipated by the analysis, as well as the indirect expenditures which are based on these levels. Because the sharply weakened economy is expected to continue for an extended period of time, the timing of planned expansions is also questionable.

The analysis does not specify the funding source for the planned capital expansion. To the extent that the expansion is debt-financed, serious delays may arise. Today, the **credit market** remains largely dysfunctional. Commercial loans are difficult to get, and large-scale projects are costly to finance when debt capital is available. If debt-financing is part of the underlying plan, the analysis will need to be reworked to take account of the higher costs and timing difficulties in the illiquid credit environment. Similarly, the Seminole Tribe’s cash investments may have been altered by recent portfolio losses or declining revenues. Many casino operators are reducing prices for hotel rooms, shows, and food and beverages in an effort to fill their properties. The current situation on all of these fronts has markedly worsened since the analysis’ release in October.

In any event, 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. Attributing 100% of anticipated future activity to the compact’s approval likely overstates the reality. 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. In addition, all Indian gaming facilities in Florida had 7,700 machines in 2004 (a 69% increase over the prior year), and 8,641 machines in 2006.² During this period, the Seminole Tribe also acquired the Hard Rock business, including the licensing agreements related to Hard Rock Casinos.³

The analysis has several other assumptions which are conceptual in nature, but integral to the projections of direct and indirect spending. To the extent that the stated goals are not met, the state’s benefit is reduced commensurately:

- It is unclear that **30% of all spending on goods and external services** purchased by the Seminole Tribe would actually come from within the state of Florida. The percentage is based on one year of current activity. To the extent that multi-state vendors are used, there will be leakages out of the state.

² Casino City’s Indian Gaming Industry Reports (2005-06 Edition and 2007-08 Edition).

³ Ibid.

- Similarly, it is unclear that all of the expenditures for **renovation and construction** (\$51.6 million) anticipated for in-state vendors would actually materialize. If multi-state contractors are used, there will be leakages to other areas.
- All numbers for **leased operations** (Paradise) are estimated without any underlying data. To the extent the estimates are inaccurate, the benefit to the state will be reduced.
- The analysis presents results as though full implementation has taken place, but a **completion date** is not specified. In input-output analyses, multipliers frequently take years – as long as 7 to 10 years – to achieve fruition. If the completion date for all activities is too far into the future, an adjustment should be made for the net present value of future benefits.

Churning within the State

The analysis makes reference to the state experiencing “**employment growth**” as a result of the compact. If the intent is to indicate the number of additionally employed individuals, a statewide increase only exists to the extent that the individuals are otherwise unemployable or they are moving in from outside the state for these jobs. Otherwise, they are just being pulled from other jobs already existing within the state of Florida. While new to the Seminole Tribe of Florida, the jobs / hires would not be new to the state, and the positive impact would be mitigated by the Florida losses elsewhere. An example would be if existing pari-mutuel based facilities or other Florida attractions lost jobs as the Seminole facilities gained them.

The above discussion also applies to the creation of **additional income** through wages, **new spending, new expenditures, and new revenues**. To the extent that income, expenditures and revenues are pulled from existing activities in Florida, the gain attributable to the Seminole Tribe expansion is offset. Through the state’s Revenue Estimating Conference, adjustments are regularly made to account for this shifting. An example is the evaluation of the benefit accruing to state revenues from the implementation of the constitutional amendment authorizing slots. Only 25% of the expenditures were deemed “new” to the state’s tax collections (from tourists and non-taxable spending). For the remaining dollars spent on slots, specific downward adjustments were made to account for the source of the “new” funding: the expenditures pulled from pari-mutuel facilities, the state-run Lottery, and other spending already subject to the sales tax. A similar analysis was used for the recent implementation of Powerball. These downward adjustments can be significant. The analysis made a minor adjustment to sales tax revenues to account for the substitution effect, but made no adjustment in the other areas.⁴

Other specific examples of churning include:

- **Patrons**...To the extent the patrons are state residents, expenditures at the Seminole-owned facilities will largely come at the expense of reduced expenditures elsewhere in the state. While there may be some instances of in-state residents forgoing out-of-state

⁴ The sales tax revenues are associated with the Paradise venues. They are leased businesses (restaurants, night clubs, retail and entertainment) at the Hard Rock Hollywood facility.

gambling excursions to patronize the Seminole-owned facilities, this would not be the predominant case. The analysis includes no offsetting loss in economic benefit or sales tax to address this issue. Moreover, the analysis includes a substantial toke rate (table dealer tips) as part of the projected economic benefits. When these are paid by in-state residents without offsetting wins, other in-state purchases will likely be forgone.

- **Conferences & Conventions...** The new and expanded casino-based resorts will be in direct competition with existing convention and conference centers, with a tax advantage.⁵ To the extent the Tribe is successful in garnering conferences and conventions, some measure of them will come at the expense of the other in-state facilities. Not only will this lead to churning of business among the various in-state conference destinations, but sales tax will be lost as meetings shift from the taxable facilities to the Seminole-owned and operated facilities.
- **Tourists...** To the extent that tourists redirect a portion of their vacation dollars from taxable attractions and leisure-based activities to the Seminole-owned and operated facilities, the shifting will be experienced as a loss by the attractions and leisure-based operators. Sales tax revenues will also be lost in the shift from taxable activities to the tax-free operations.
- **Pari-mutuels...** To the extent that Floridians redirect a portion of their discretionary income from the pari-mutuel facilities to the Seminole-owned and operated facilities, the shifting will be experienced as a loss by the pari-mutuel facilities. Tax revenue will also be lost in the move from taxable activities to the tax-free operations.

Table Games – Technical Issues

The analysis breaks out the Hard Rock Hollywood facility's incremental increase in activity due to the recent addition of table games, but does not address any additional economic activity related to the Class III slots. The implication is that the switch between Class II and Class III is essentially immaterial.

For the purpose of projecting the benefit, the calculated average salary for each new Table Game FTE is approximately \$81,752 (purportedly excluding toke rates and benefits). The average employee salary in current operation (and the 1 month of July for Hollywood Table Games) ranges from a low of \$21,111 to a high of \$29,249. In August 2008, Hollywood averaged \$27,888 for each Table Game FTE. At the very least, the assumed salary is at the very high end of possible salaries and the average hourly wage has no direct comparison in the national data categories. According to the National Occupational Wage survey from the Bureau of Labor Statistics:

⁵ The Seminole-owned and operated facilities will be tax-free.

National Employment estimate and mean wage estimates for Gaming Dealers

Employment	Employment RSE	Mean hourly wage	Mean annual wage	Wage RSE
86,210	2.5 %	\$8.71	\$18,120	1.3 %

Percentile wage estimates for this occupation:

Percentile	10%	25%	50% (Median)	75%	90%
Hourly Wage	\$5.96	\$6.76	\$7.51	\$8.90	\$13.49
Annual Wage	\$12,400	\$14,060	\$15,610	\$18,510	\$28,070

Similar information is provided on a popular website: average gaming dealers make \$7.50 per hour and the average toke rate is \$18.36 per hour for a combined average wage of \$25 per hour (http://blogs.payscale.com/ask_dr_salary/2006/12/wages_tips_bart.html).

Including a salary rate that is unrealistic would inflate the projected direct and indirect benefits developed by the analysis. If the stated salary rate actually includes toke rates or benefits, then other adjustments need to be made. Either way, the portion of the analysis dependent on this information needs to be addressed.

Finally, the analysis only looks at the month immediately prior and the month immediately after the Hollywood expansion to table games to project the future benefit. A more complete analysis would have included a comparison to the same months in the prior year.