

# American Indian Gaming Operations and Local Development

*Casino gambling on American Indian reservations provides revenues for many tribal governments. Tribes use those revenues to improve infrastructure, provide social services on the reservations, supplement members' incomes, and start related tourist and other businesses. The potential for tribes and nearby non-Indian communities to use casinos as the "engine" for local economic development depends on location and accessibility, local amenities, management skill, and intercommunity cooperation. Not all casino operations have been successful, however, and the future growth of American Indian gaming in an increasingly competitive market is uncertain.*

**M**ANY tribal governments entered the gambling business during the 1980's and early 1990's. Types of gaming include bingo, dice games, casino games, and parimutuel betting on horse and dog races. While the best known Indian-owned casino is probably the Mashantucket Pequot Tribe's Foxwoods Casino in Ledyard, CT, half of all American Indian casinos are concentrated in Arizona, Minnesota, New Mexico, Wisconsin, and Washington. As of June 1995, 122 tribes operated casino-type gaming, 83 (68 percent) of which are located in nonmetro areas.

The jobs that successful casinos bring to rural areas reach beyond the boundaries of American Indian reservations. The added income and influx of tourists increase retail trade in nearby areas. In some cases, the casinos attract tourist dollars to out-of-the-way places. In established recreational areas, however, the casinos may be drawing tourism revenue away from other establishments.

## How Did So Many Tribes Get Into Gambling?

Changes in legislation regarding Indian gaming began in 1979 when members of the Seminole Tribe in Florida increased their bingo jackpot to \$10,000. The State of Florida sued, arguing that the tribe did not have the authority to operate high-stakes bingo. In 1982, a Federal

appeals court ruled in favor of the tribe, arguing that the tribe was a sovereign nation and the State did not have authority over it.

As a result of that ruling, bingo operations grew; and, by 1987, there were 113 tribal bingo operations grossing \$225 million per year. Also in 1987, the Supreme Court ruled in *California v. Cabazon and Morongo Bands* that tribes could offer any type of gaming already legalized by the State. That is, for example, if the State allows charity organizations to have "Las Vegas" nights, with various card games and other games of chance, then that State cannot prohibit Indian tribes from offering those same games. Cabazon set the stage for the Indian Gaming Regulatory Act (IGRA), passed by Congress in 1988.

## The Indian Gaming Regulatory Act

The stated purposes of the IGRA are

- to provide a legal basis for Indian tribes to use gaming to promote tribal economic development, self-sufficiency, and strong tribal governments;
- to provide a legal basis to "shield" Indian tribes from organized crime and "other corrupting influences"; and
- to establish a Federal mechanism for regulating Indian gaming, including establishing legal guidelines and creating the National Indian Gaming Commission.

The IGRA stipulates three types of gaming:

- I. Traditional games;
- II. Bingo and bingo-like games; and
- III. Casino and casino-like games.

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Type I games are the games traditionally played at celebrations such as pow-wows. These games are not regulated. Type II games are controlled by the National Indian Gaming Commission. Type III games are those activities requiring a compact between States and tribes. There are certain exceptions. For example, games that are normally considered to be type II or III, such as horseracing, are considered type I gaming when they occur in conjunction with tribal celebrations.

The IGRA requires that the tribal government and the State in which the tribe's land lies must draft a compact which defines the various aspects of type III gaming, for example age limits, number of machines, and stake limits. In this way, type III gaming operates somewhat like "home rule." That is, in States with home rule, county governments can participate in any activities, such as charging for certain services, that are not specifically pro-

hibited by the State government. In the same way, Indian tribes can offer any type of gaming not specifically prohibited by the States in which they have land. The difference is that tribal governments are not subordinate to State governments. This distinction, along with the fact that States cannot refuse to negotiate a compact, has increased the friction between tribal and State governments in some regions. In some cases, States have refused to negotiate compacts with tribal governments, causing tribes to file suit against the States. At one point in 1993, 13 tribes had filed such suits.

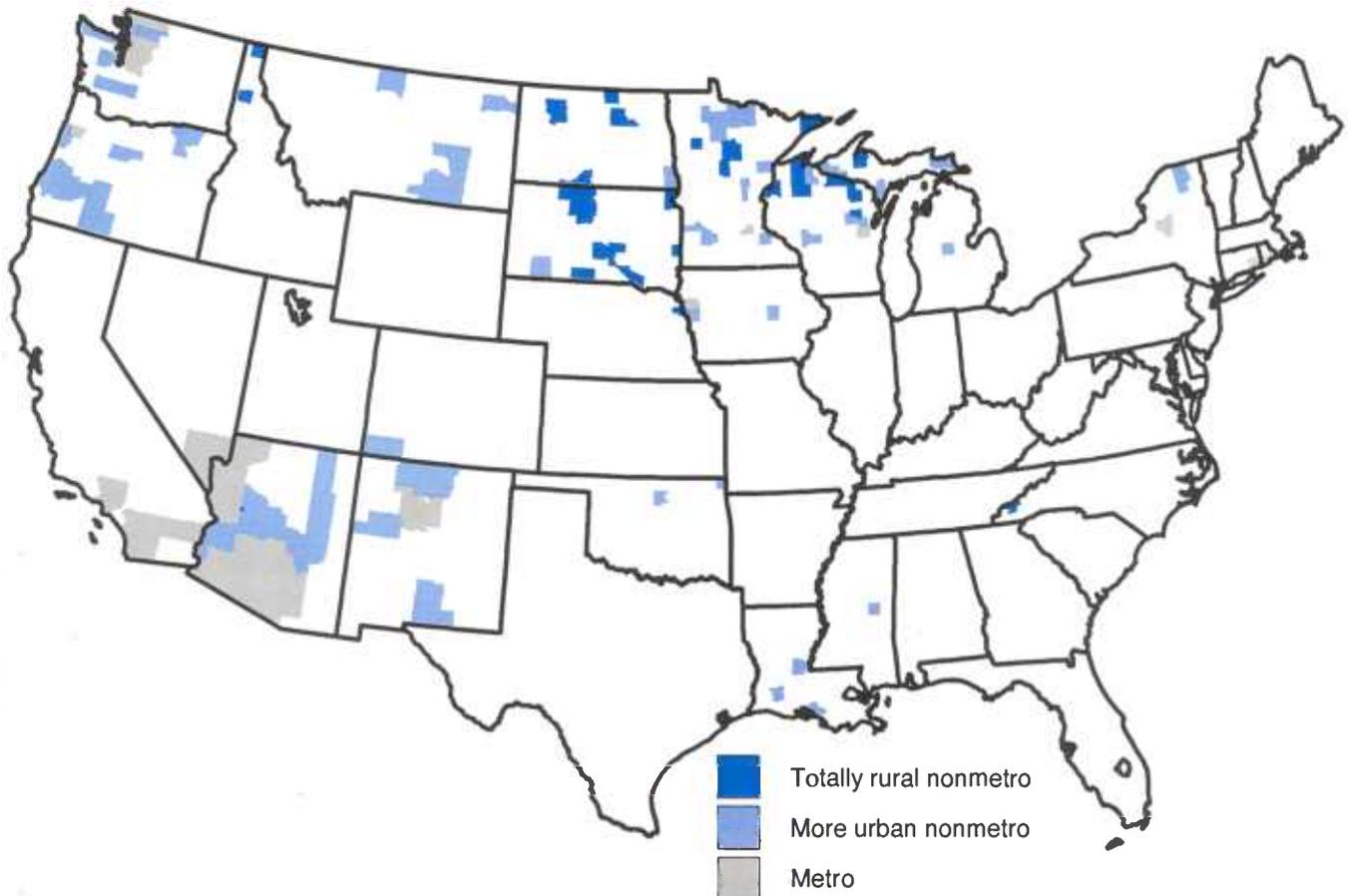
#### Geographic Distribution of Casino Operations

American Indian casinos are geographically concentrated primarily because reservations are concentrated in a few States. The compact requirement further fosters the geographic concentration of type III Indian gaming in those States demonstrating a willingness to work with Indian

Figure 1

#### Counties with one or more American Indian gaming operations authorized by Tribal-State Compacts as of June, 1995

*Most American Indian gaming operations are located in nonmetro areas, with upper Midwest operations concentrated in the most rural areas*



Note: Counties indicated contain tribal headquarters in States with which the tribe has a compact or contain tribal land and the tribe has a compact with the State, but the headquarters are in another State.

Source: Calculated by the author using data from the Indian Gaming Management Staff, Bureau of Indian Affairs, and rural-urban continuum codes from ERS.

tribes. In the first years of the gaming rush, the highest concentration of Indian casinos was in the Midwest, with 11 tribes each in Minnesota and Wisconsin operating casinos. Minnesota was the largest center of Indian gaming in the Nation in 1990. But with the settlement of legal disputes in Arizona, Arizona moved into the forefront with 13 gaming tribes by 1993; and, in the first 6 months of 1995, New Mexico signed compacts with 14 tribes. As a result of using State gaming practices as a guide, the number and variety of games offered by Indian casinos varies from State to State, from California tribes limited to parimutuel betting on horse racing to tribes in Connecticut, Rhode Island, New York, and Washington able to offer a panoply of games.

Casino-type gaming is primarily a nonmetro activity, with 68 percent of casinos in nonmetro areas (fig. 1). A third of the nonmetro casinos are in totally rural counties, those containing no town of even 2,500 population. The most rural casinos are concentrated in the Dakotas, Minnesota, and Wisconsin.

#### How Tribes Are Using Gaming Revenue

IGRA provisions require that 70 percent of gaming revenue goes to the tribal owner. Casino profits may be distributed on a per capita basis, invested in community projects, or divided between individual payments and community projects. The IGRA limits use of revenue from any gaming to

- funding tribal government,
- providing for the general welfare of the tribe and its members,
- promoting tribal economic development,
- donating to charity, and
- helping fund local government agency operations.

Within those guidelines, tribes vary widely in the distribution of their gaming profits. In a report on the Ojibwa and Dakota tribes operating casinos in Minnesota, the Minnesota Indian Gaming Commission found that the Ojibwa tribes more often use gaming proceeds to support general government and community services than distribute them as per capita payments to tribal members (see report cited in "For Further Reading"). They found that both the Dakota and Ojibwa tribes use profits for community projects. The Shakopee Mdewakanton Sioux, near Prior Lake, MN, have used revenue from Mystic Lake casino to establish a development corporation. Their goal is to diversify into light manufacturing. The Mille Lacs Ojibwa, who own Grand Casino near Onamia, MN, have used revenue for community projects such as construction of a school, a daycare center, a health clinic, a water tower, roads, and a ceremonial building. The Red Lake Band of Ojibwa, who own Lake of the Woods casino on the Minnesota-Canada border, have used casino revenue to purchase a resort. The tribe has also created an economic development committee and has used funds to enhance their timber lands. As the variety of these activities sug-

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**Gaming tribes are erecting schools, health care facilities, and libraries and creating new programs independent of Federal funds. The result is an expansion of reservation economies that has never before been experienced.**

*Gaiashkibos  
President*

*National Congress of American Indians*

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gests, tribal governments continuously face reinvestment decisions on dividing profits among more gaming, economic diversification, or investment in infrastructure and human capital.

#### Using Casino Profits to Fund Economic Development

Because of the legal status of American Indians, the economic development opportunities afforded by casino profits have dropped on both American Indian communities and adjacent non-Indian communities. However, despite the economic impact for some tribes, casinos themselves should not be equated to economic development. Casinos do provide a starting point for economic development primarily through an injection of capital into American Indian reservations. Or, as stated by Rick Hill, Chairman of the National Indian Gaming Association, "The Indian gaming industry, for many Indian nations, can be the economic engine that pulls the train." Casinos can foster economic development, but only when they foster local institution building, develop business skills, and fund local infrastructure.

**Infrastructure Development.** The lack of adequate infrastructure has long been a barrier to development on American Indian reservations. According to Steve Cadue, chairman of the Kansas Kickapoo tribe, efforts by his tribe to attract small industries had always failed due, at least in part, to poor infrastructure and inadequate water supply. To support casino activity, tribes are now finding it necessary, and now have the revenue, to fund infrastructure, such as roads, sewers, and water treatment. Some tribes have been able to use casino revenue to leverage other funds. For example, the Mille Lacs band of Ojibwa were one of the first tribal governments to issue a revenue bond backed by casino profits.

Thus, many tribes now have, for the first time, water towers, water treatment systems, and sewers. In some cases, tribes have benefited from expanded services of non-Indian communities. Normally, when expanding services such as sewer and water, a city would annex the area to be served. However, because land placed in trust for

Native Americans cannot be annexed, alternative schemes are used. For example, to expand waste water treatment from 18,000 gallons to 54,000 gallons per day and provide service to the Mille Lacs Band casino, the City of Hinckley obtained a loan from the Minnesota Public Facilities Authority for nearly \$2 million. Grand Casino, the company managing the band's casinos, together with the band, guaranteed \$1 million of the loan.

Tribes are well aware that the casino boom may not last forever. But, with infrastructure in place, tribes have greater opportunities for diversifying into other ventures. For example, when the Lac Courte Oreilles Band of Ojibwa just outside Hayward, WI, built a new casino in 1993, they brought in an architect who is an expert in designing buildings for alternative uses. As a result, the new casino was built so that it could be subdivided and used for light industries if and when it is no longer used as a casino.

As tribes invest in infrastructure, they are developing a capacity to work with local governments and to orchestrate complicated financing schemes. The institutional development and capacity building that accompanies casino management has the potential to strengthen American Indian communities and foster partnerships and linkages between tribal governments, local governments, and the private sector.

**Tourism Development.** Casinos also provide a natural foray into further tourism development. In fact, tourism development may be essential to the long-term success of

a casino. This is a lesson apparently learned by the Nevada gaming industry where casinos are buttressed with family theme parks to attract a wider variety of casino visitors.

American Indian communities are reservoirs of information on native culture that is of increasing interest to both American Indians and non-Indians. Some reservations contain or are near natural resources with high amenity value, such as scenic lakes and rivers. These resources can be combined with gaming to provide an attractive recreational package.

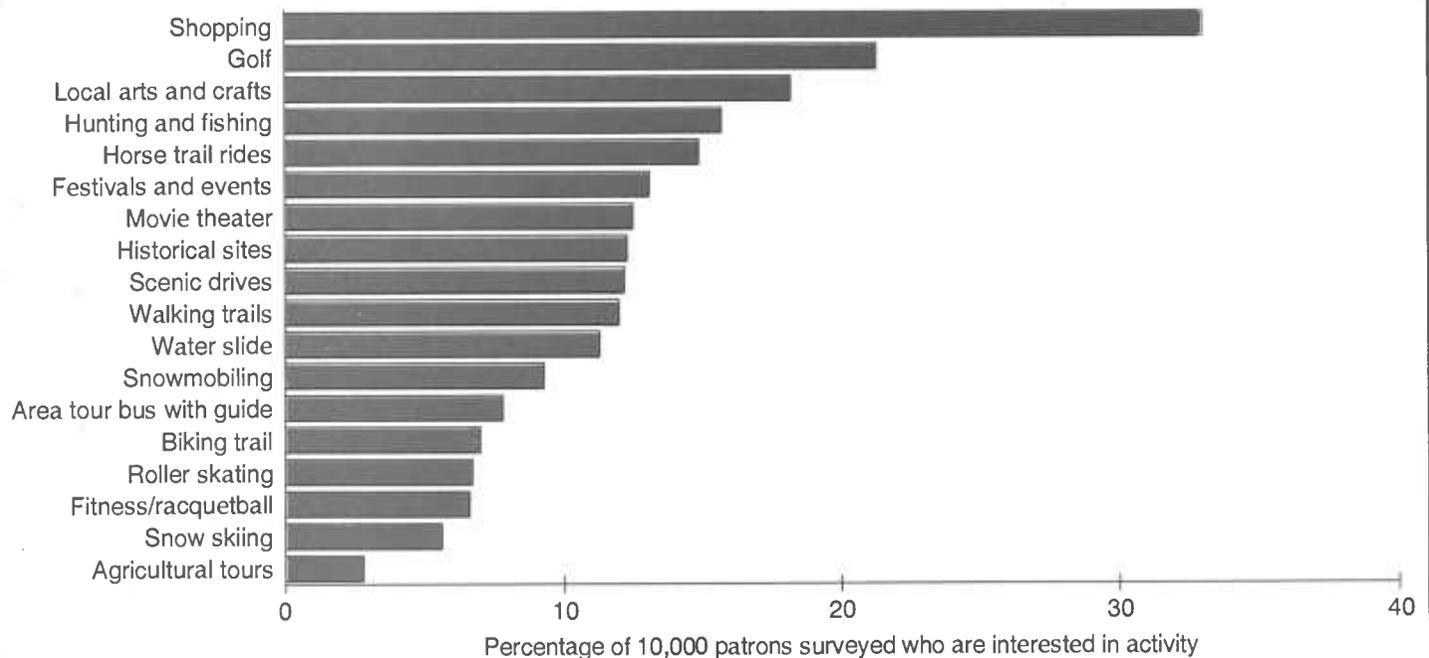
A 1991 market survey of casino patrons of Jackpot Junction in Morton, MN, found that 71 percent of the patrons questioned were staying in the area 2 or more days. The survey also found that over 80 percent of the visitors were interested in also doing something other than gambling. The survey results suggest opportunities for further tourism development using casinos as anchors (fig. 2).

According to Cornell and Kalt, there are four key requirements for successful tourism development by American Indian communities:

- people who are comfortable with interaction with outsiders;
- high recreational, cultural, or visual resources;
- low off-reservation racism allowing market opportunity; and
- supportive State and local promotional policies and programs.

Figure 2  
**Activities of interest to Jackpot Junction casino patrons, 1991**

*Tribes running casinos and other local communities may be able to profit from developing other activities that interest casino patrons*



Source: Redwood County Extension Service and the University of Minnesota, Jackpot Junction Survey, 1991.

Indian gaming can foster the development of these conditions. Casinos attract people from surrounding communities and other States to reservations. Casinos provide an opportunity for American Indians and non-Indians to interact in a recreational atmosphere. For many non-Indians, the casino visit is the first visit to a reservation and the longest contact they have had with American Indians. These interactions increase familiarity and reduce misunderstandings based on racial stereotypes for both groups.

A caution for tribes and non-Indian communities that intend to use the draw of a casino for developing other tourism is that their revenues may hinge on how casino patrons fair at the casino. While winners may spend freely at local businesses, losers may return purchases to local retail outlets and cut short their stays at local motels and campgrounds. This potential loss of revenues should be factored into plans to start any business based on spending by casino patrons.

#### **Development May Also Require Multicommunity Collaboration**

For many American Indian communities, the ability to offer tourist activities or to foster development not related to tourism is beyond their physical capacity. The reservation may be too small, too isolated, or too agricultural to provide a diverse package of activities. Thus, neighboring, non-Indian communities can capitalize on the presence of casinos by providing alternative activities that will prolong, or diversify, the stay of casino visitors in the area. Sharing the costs of infrastructure improvements may also benefit both reservations and local communities, enabling them to diversify their economies with non-tourist businesses.

Coordination between American Indian and non-Indian communities may not otherwise exist, and may not come easily. For example, Hinckley, MN, has been described as the area where cooperation between a gaming tribe and a non-Indian government is the highest in the State. As noted above, the City of Hinckley and Grand Casino share water treatment facilities. Grand Casino, Inc., the tribe's management company, is providing engineers to design a highway-widening project using funds earmarked for tribal governments. Yet, the tribal government was not included in discussions of a comprehensive plan by local government, even though the geographic area covered by the plan would include reservation land.

To promote a cooperative economic development effort between tribes and non-Indian communities, Larson suggests the following actions:

- promote tourism and tourist packages combining Indian and non-Indian attractions and facilities,
- upgrade public and private tourist facilities,
- support infrastructure development such as airports, roads, and water treatment, and

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**We share many of the same problems as rural communities and need to learn from each other and work together for a better future. The potential for mutual benefits is limitless.**

*Sherry Salway Black  
Vice President  
First Nations Development Institute*

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- provide loans and venture capital for economic diversification.

Again, adequate infrastructure is a high priority for many tribes and casino management companies. Tribes are also interested in investing in economic diversification. The tribes with the most successful casinos, such as the Shakopee Mdewakanton's Mystic Lake casino in Minnesota, are within easy reach of major metro areas and have been able to move more quickly on diversification efforts than some of the smaller, more isolated casinos. Other tribes, such as the Mille Lacs Band of Ojibwa in Minnesota, are using casino revenue to provide social services they have been unable to provide in the past, such as housing, schools, and community centers. Perhaps the demands of keeping casinos operating, together with the need to address the overwhelming social needs facing tribal governments, have kept some tribes from working with non-Indian communities and pursuing coordinated development strategies.

For small tribes in rural areas, pursuing tourism or other development strategies requires joint efforts with non-Indian communities. In particular, the communities need to identify a shared vision for their future. There is a certain inherent conflict when applying this to Indian gaming, because one of the main reasons that tribes are involved in gaming is to increase independence and self-sufficiency. If cooperation is seen as a threat to self-determination, Indian communities will find it difficult to work with surrounding non-Indian communities. Also, non-Indian communities may be threatened by Indian self-determination and self-sufficiency. Finally, different decisionmaking processes and the lack of cross-community networks can frustrate genuine efforts to collaborate. To overcome these barriers, the perceived benefits of using gaming as an anchor for other development projects must outweigh the costs in terms of time and effort. That is, the success of Indian gaming as part of broader development requires establishing trust and recognizing joint or complementary benefits between adjacent American Indian and non-Indian communities.

## Conclusions

Gaming is not the solution to the economic needs of all American Indian tribes. It is geographically concentrated, with only a small number of tribes involved. However, there has been a steady rise in the number of gaming operations since 1988. Gaming has remained dynamic since that time, and no one quite knows when equilibrium will settle in, or what it will look like when it does. Other gaming interests are pushing for legislative changes that would either open up gambling to all communities, or would take away the gaming advantage currently held by tribes. An increasing number of States are operating lotteries and offering scratch cards or pull tabs, which allow people to gamble at the neighborhood supermarket or gas station, rather than having to travel to a casino. In turn, tribes are developing alternative games. For example, the Cœur d'Alene tribe has developed an interstate lottery system that by 1996 would allow phone ticket purchases using a toll-free number.

While growing acceptance and pervasiveness of various gaming activities fuels the growth of Indian casinos, the biggest driving force for the tribal governments is economic need. In addition to reinvestment in gaming operations, tribes use gaming revenue for community and individual social services and infrastructure. Gaming is bringing some American Indian communities to full employment, and it is also providing the opportunity to develop the institutional know-how necessary to diversify tribes' economic bases.

Gaming also can provide an anchor for further tourism development, drawing more tourists to an area, or encouraging them to stay longer. Some non-Indian communities are benefiting from the spillover effect of Indian casinos. However, in small rural areas, Indian and non-Indian communities will need to work together to develop a shared vision for their communities. Working together does not seem to come naturally to communities in general and can be even more challenging when cultural differences have kept communities at a social and economic distance.

Tribal members, affected communities, and interested onlookers are all concerned about the longevity of casino gambling. And, certainly there is reason for concern. Gambling is generally seen as a cyclical activity, rising with recession and hard economic times. So, as the economy improves, there is reason to expect that interest in gambling will decline.

Meanwhile, casinos provide a magnet for outside money that has not previously existed on isolated reservations. While this revenue inflow is not, in itself, economic development, it can foster development. But, transforming gaming revenue into a broad-based economic development strategy requires policies that support tribal self-governance, increase capacity within Indian communities, and foster cooperation between Indian and non-Indian communities and among Indian communities. When the gaming window of opportunity closes, these efforts may help gaming tribes and local non-Indian communities sustain economic development, avoiding the "bust" cycle that almost inevitably follows a "boom."

### For Further Reading

S. Cornell and J. P. Kalt. "Culture and Institutions as Public Goods: American Indian Economic Development as a Problem of Collective Action," chapter 11 in T. L. Anderson (ed.), *Property Rights and Indian Economies*, Rowman & Littlefield Publishers, Inc., Lanham, MD, 1992, pp. 215-52.

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