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Broomhall, David, "Is Riverboat Gambling an Effective Economic Development Strategy for Indiana Communities" (1994). *Historical Documents of the Purdue Cooperative Extension Service*. Paper 817.
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Agricultural ECONOMICS

Economic Development

Is Riverboat Gambling an Effective Economic Development Strategy for Indiana Communities?

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Introduction

In recent years, legalized gambling has become more and more common. In 1993, the Indiana General Assembly allowed counties on Lake Patoka and along the Ohio River, and counties and some cities on Lake Michigan, to vote by referendum to compete for one of eleven licenses to operate a riverboat casino in their county or city. Since that time 12 counties and two cities have held referendums on riverboat gambling, with nine approving them. The city of Gary was not required to vote on a referendum because a prior referendum passed in 1989.

Riverboat gambling has been marketed as both a revenue source for cash-starved local governments and as a tool for local economic development. Opponents argue that riverboat gambling will create more problems than it solves. This publication examines the issues surrounding riverboat gambling so that decision-makers and citizens can determine if riverboat gambling is appropriate for their community. (A related publication, *Gamblers, Gambling, and Government*, EC-689, to be published in February, 1995, discusses types of gamblers and games, and some of the arguments surrounding government sponsorship of gambling.)

Governments sponsor gambling activities for several reasons. Illegal gambling became so rampant earlier this century in some cities that it was argued that not only would government gain additional revenues by taxing legal lotteries, but that law enforcement costs would be reduced. New York state legalized off-track betting in 1970 in part to reduce illegal pari-mutuel wagering. In recent years, the rapid growth of lotteries

has been viewed as an attractive and palatable way to raise revenues without raising income or sales tax rates.

Casino gambling has also been viewed as an economic development strategy. Gambling was legalized in the state of Nevada as an economic development strategy. Casino gambling in Atlantic City was legalized in 1976 to bolster the economy of a city that was deteriorating and had very high levels of poverty. Riverboat gambling has been growing rapidly because it is viewed by some as both a revenue source for local government and as a tool for local economic growth and development.

Riverboat Gambling and Tax Revenues

The action by the legislature to allow riverboat gambling came at a time when the state was having difficulty meeting current obligations of expenditures with existing revenue and was reluctant to raise income or sales taxes to close the budget gap. The Indiana Legislative Services Agency has developed some preliminary estimates of the revenues to be earned from riverboat gambling when it becomes established (Powers, 1994). The estimates are based on two sizes of boats: small, which could serve 2,000 players per day, and large, which could serve 5,000 players per day.

Direct revenues from riverboat gambling will come from two sources: the wagering tax and admission fees. The wagering tax is a tax amounting to 20 percent of the hold, which is the total amount wagered minus the total payout. Twenty-five percent of the wagering tax is earmarked for local government. The average hold is

estimated to be \$55 per player for each size of boat. In addition to the wagering tax there is a \$3.00 admission fee for each gambler, to be paid by the casino, \$2.10 of which is returned to the local government.

With a casino operating 365 days a year, a small boat would generate \$9.5 million in tax revenues, with \$3.1 million going to local government. A large boat would generate \$23.8 million, with \$7.7 million going to local government. If the maximum number of 11 riverboats are approved, the wagering tax would raise from \$104.5 million to \$261.8 million in tax revenues. These estimates assume that all boats operate at 100 percent of capacity.

Gambling as a Community Economic Development Strategy

Since the expansion of casino gambling is a relatively new phenomenon there are very few studies that have examined its impact on a local economy. A recent study by Deller and Chen (1994) examined the impact of gambling on Indian reservations in Wisconsin by comparing a variety of socioeconomic variables at the county level for the period 1980 to 1992. Although incomes on the reservation appear to have increased, there was no apparent income spillover effects to residents living outside the reservation.

A report by Madden, Volberg, and Stuefen (1991) estimated the impact of gambling activities on non-gambling industries in South Dakota, including estimates of the diversion of consumer expenditures into the gambling industry. The analysis showed that spending statewide declined in apparel and accessory stores, recreation services, automobile dealers and service stations, furniture stores, and business services. The report argues that sales in many of those sectors are dependent on discretionary income and concludes that gambling is drawing spending away from these sectors.

Spending at eating and drinking places, and on liquor and beer were estimated to increase, reflecting the complementary nature of these industries to gambling. The report states that, except for the city of Deadwood and Lawrence County, which is developing into a gambling resort, "... no significant amounts of local expenditure has occurred in connection with gambling" (Madden, et al., p. 55).

For legalized gambling to create economic development it must do two things: provide a positive economic contribution to the economy and draw clientele from outside the local economy. The measure of a positive economic contribution to the economy is somewhat subjective, but generally it means the expansion

and diversification of the economic base, the generation of jobs that pay reasonable wages, and improvements in public and private services such as infrastructure, cultural amenities, restaurants, and shopping. Generally speaking, the jobs created, both directly by the gambling operation and indirectly, should be of at least similar quality and average wage as the existing employment base.

Riverboat gambling in Indiana will probably not have the same economic development potential as major gambling resort destinations such as Las Vegas and Atlantic City. Visitors to these locations have a large investment in travel time and/or money, and therefore are more likely to stay for a longer period of time. The current strategy in Las Vegas appears to be to expand offerings of alternative types of entertainment to attract more visitors and to extend the length of visits. This strategy implies greater amounts of spending in sectors other than gambling, such as restaurants, lodging, and golf courses, which contribute to economic development.

Given the shorter travel distances of the expected clientele and the proximity of competing gambling operations in nearby states, it is unlikely that riverboat gambling in Indiana will generate a great deal of direct economic development. However, if the population rises due to an increase in casino jobs, then economic development will likely occur to support the increase in the population base.

Implications of Riverboat Gambling in Indiana

Riverboat gambling provides an additional source of entertainment and in that regard is considered to contribute to an increase in local amenities. And there is little argument that riverboat gambling has the potential to make a major contribution to local tax revenues. Taxes such as a gaming tax are a palatable way to raise revenues because they are voluntary—only those who choose to play pay the tax. But riverboat gambling can be considered an economic development tool only so long as it attracts players from outside the local community or retains local players who would, in the absence of riverboat gambling locally, gamble elsewhere.

There are a number of concerns about relying on riverboat gambling as an economic development strategy. As time passes more states may legalize casino gambling, which could draw clientele away from Indiana's riverboats. Riverboats are also mobile. If economic conditions change they are free to move to some other

location. When riverboat gambling was legalized in Mississippi in 1993, two of five riverboats operating in Iowa relocated to Mississippi because their gambling laws were less restrictive. The same thing could occur in Indiana.

If local governments are unable to control riverboat-related activities, it could lead to increased social problems such as crime and uncontrolled development near the gambling site. If the wages paid to casino workers are too low, it may detract from the local economy, because local taxes received from the workers may be insufficient to cover the increased cost of providing services, such as public education, to that segment of the population. In addition, the workers may be forced to live in low-cost housing such as apartments and mobile homes, which may not be compatible with the existing character of the community.

Local governments may become dependent on riverboat revenues. If the casino fails or relocates, local governments may be forced to raise tax rates to make up for the lost revenue, or cut public services. Further, support industries such as lodging facilities and eating and drinking places will be reluctant to make long-term investments in an area if the casino has the option of moving away.

These issues are among the many that decision-makers must consider before adopting riverboat gambling as an economic development strategy for their community.

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NEW 12/94

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