

Casinos and Other Legal Gambling

GLOSSARY

Class III casino

A gambling establishment that has slot machines, video-lottery terminals, poker, and other games commonly considered “casino style” games.

Gaming

Gambling.

Net win

A casino’s receipts after winnings are paid to wagers.

Simulcasting

In regard to horse racing, electronically transmitting a race from one track to others, where fans may bet on the race and watch it on a television monitor.

Video-lottery terminal (VLT)

A machine similar to a slot machine but offering an electronic version of blackjack, poker, or other game of chance.

BACKGROUND

Legalized gambling began in many states with a state-run lottery, but by the early 1990s many also had approved for-profit gambling enterprises such as casinos (some owned and operated by Indian tribes), riverboats, and video-lottery terminals (VLTs) at bars and restaurants. Legal gambling is big business—in 2000, Americans legally wagered more than \$61 billion—and a considerable revenue source for states as well.

The forms of gambling listed below are legal but limited in Michigan. According to the Michigan Public Policy Initiative (MPPI), in 1999 legal gambling comprised a \$7 billion dollar industry (most recent complete data available).

- State lottery
- Horse racing
- Charitable gaming (e.g., bingo, raffles)
- Casino gaming on Indian reservations
- Casino gaming in Detroit

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

Casino Gambling

Indian Operations

Because Indian tribes are sovereign nations, laws prohibiting casinos do not apply to them, and, under federal law and court decrees, states do not have the right to regulate activities on Indian lands. However, states and tribes may enter into agreements that give states some regulatory oversight over a tribe’s casino operations, and this has been the case in Michigan since 1993, when the governor signed the first gaming compacts with several of the state’s federally recognized tribes.

Currently, Michigan has 17 Indian casinos, operated by nine tribes, and two more—one for New Buffalo and one for Battle Creek—await approval. The compacts allow the tribes to operate “class III” casinos, i.e., establishments that offer slot machines, video poker, and all other “casino style” games. The 1993 compacts with the seven tribes stated that for as long as the tribes had the exclusive right to operate casinos in the state, the revenue from slot machines and VLTs on reservations would be taxed at 10 percent of the net win: 8 percent for the state Renaissance Fund (for economic development) and 2 percent for improvements to the local communities. These compacts also stated that if any non-Indian casinos were permitted in the state, the tribes no longer would have to pay into the Renaissance Fund.

The first compacts were signed before the three Detroit casinos were on the horizon, and by mid-1999, when the first Detroit casino gaming license was granted, all seven tribes had been released from their state tax obligation. The 1993 compacts also obligate the seven tribes to paying \$25,000 each annually to the state to offset the cost of

casino oversight, regardless of the presence in the state of non-Indian casinos, and these payments continue.

In 1998 casino compacts were signed with four additional tribes, stating that these tribes (1) have a 10 percent state tax obligation regardless of the presence in the state of non-Indian casinos (again, 8 percent goes to economic development, via the Michigan Strategic Fund, and 2 percent goes toward local improvements); (2) annually will pay the state \$50,000 (to be adjusted according to the Detroit consumer price index) to offset oversight costs; and (3) are limited to one casino each.

The total net win from VLTs and slot machines at tribal casinos in Michigan was \$677 million in 1999 and even more in 2000, although the precise figure is not available. The MPPI reports that Michigan's Indian casinos provide about 4,000 jobs statewide. According to the National Indian Gaming Association, tribal gaming revenue nationwide in 2000 was \$10.6 billion (less than 10 percent of the total gaming industry), and Indian casinos generated 250,000 jobs.

Detroit Casinos

Passage of a statewide ballot question in 1996 gave the go-ahead for three casinos in Detroit. Public Act 69 of 1997—the Michigan Gaming Control and Revenue Act, as amended—provides for state licensing and oversight. Among its other provisions, the act

- vests the Michigan Gaming Control Board with exclusive authority to license, regulate, and control the Detroit casinos;
- creates funds (1) to enable the control board to carry out its duties and (2) for compulsive-gambling prevention and other casino-related state programs;
- establishes a code of ethics for (1) control board members, employees, and agents, (2) casino and supplier license applicants, (3) casino and supplier licensees, and (4) others involved in gaming;
- provides for the distribution of Detroit casino tax revenue to K–12 public education in Michigan and to capital improvement, youth programs, and tax relief in the City of Detroit;
- prohibits political contributions to state/local political candidates/committees from people with a casino interest as well as from supplier license applicants and licensees;
- imposes the state wagering tax, which is 8.1 percent of each Detroit casino's net win, or adjusted gross receipts (receipts minus winnings paid to wagerers); and

- imposes an annual services fee to be paid to the state (\$25 million the first year, split by the three casinos, then annually adjusted for inflation thereafter).

In 1997 Detroit officials identified the three companies with which the city would negotiate agreements to operate the casinos: Detroit Entertainment, Greektown Casino, and MGM Grand Detroit. The agreements stipulate that among other requirements, casino developers must purchase 30 percent of goods and services from Detroit-based businesses, small businesses, and minority- or women-owned businesses, and staff must be composed of at least 51 percent Detroit residents.

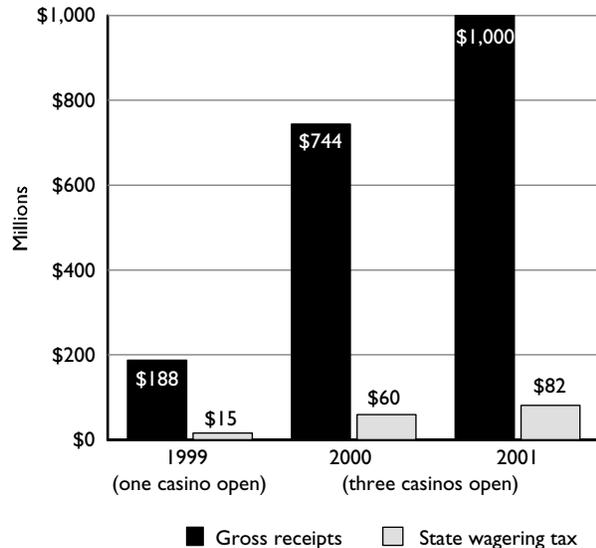
Several of the original investors had to be replaced because requirements pertaining to investor history caused them to be disqualified. Greektown Casino ended up becoming predominantly an enterprise of the Sault Ste. Marie Tribe of Chippewa Indians, owner of five casinos and the largest employer in northern Michigan.

All three developers quickly opened temporary facilities (two in 1999 and the third in 2000) and began operations while the permanent sites were being negotiated.

The former Detroit mayor tried to acquire enough land, using \$150 million from the casinos, to cluster the three permanent casinos, each with an 800-room hotel, on the riverfront; he was unsuccessful, however, in part because of city council opposition. In March 2002 the current mayor announced a plan, agreed to by the casinos and supported by civic leaders, whereby (1) the casinos would be permitted to build smaller, 400-room hotels (Motor City and Greektown on their temporary sites and MGM at an as yet unidentified location), which would be ready for occupancy by January 2006, in time for the Super Bowl in Detroit, and (2) in exchange, the casinos would forgive the \$150 million advanced to the city to buy the riverfront property. At this writing, the city council has not agreed to the plan, which it must for the plan to move forward. The cancellation of the full riverfront project may leave the city open to lawsuits by landowners who have options with the city or have closed their business in the project area.

The Detroit casinos together generated about \$1 billion in revenue in 2001, up from \$744 million in 2000 (see Exhibit 1). According to the American Gaming Association, the Detroit-Windsor venue was the fourth largest U.S. casino market (gross revenue) in 2000. Estimates are that when all three permanent facilities are up and running, their annual take will range from \$1.2 billion to \$2 billion.

EXHIBIT 1. Gross Receipts and State Wagering Tax Payments, Detroit Casinos, 1999–2001 (\$ millions)



SOURCE: Michigan Gaming Control Board.

The state’s share of Detroit casino revenue derives from the annual services fee (\$25 million in 1999 and adjusted for inflation thereafter) paid by the three casinos and the state wagering tax (8.1 percent of net win). The latter is paid daily by each casino, through electronic transfer, and deposited into the School Aid Fund; as Exhibit 1 shows, this amounted to \$60 million in 2000 and nearly \$82 million in 2001.

Lottery

Established by P.A. 239 of 1972, the Michigan Lottery is governed by the Bureau of State Lottery, which makes the rules governing the games and oversees the issuance of lottery, bingo, and charitable gaming licenses. The bureau is housed in the Michigan Department of Treasury. Half of lottery revenue (\$1.6 billion in FY 2001) is used for prizes and about 35 percent goes to the state School Aid Fund. About 6 percent of the fund’s FY 2001 revenue came from the 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 has increased advertising, added new instant lottery and other games, and in 1996 joined “The Big Game”—now a seven-state mega-lottery.

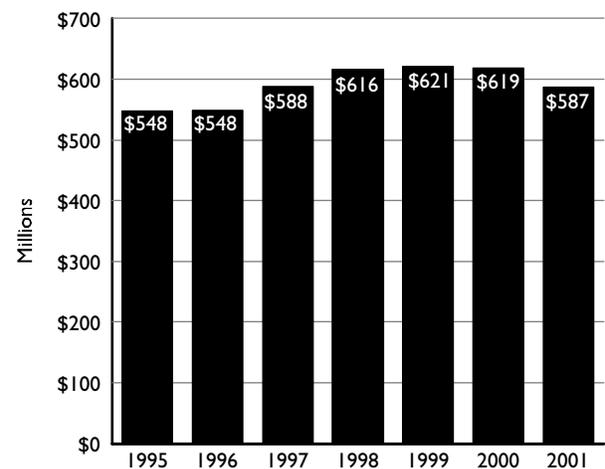
Lottery revenue climbed steadily throughout the late 1990s, but there has been a slight decrease in sales since the Detroit casinos opened, and thus the contributions to the School Aid Fund also have dropped (see Exhibit 2). The lottery has revamped its games lineup and expects sales to increase.

Charitable Gaming

The Charitable Gaming Division of the lottery was created by the Bingo Act of 1972 and licenses nonprofit organizations to sponsor bingo, Las Vegas nights, raffles, and millionaire parties as fundraisers. The division issues over 10,000 licenses annually to such qualified organizations as religious, veterans’, fraternal, education, senior citizen, service groups, and political committees. In FY 2001 Michiganders spent \$188 million on charitable gaming.

About 40 bingo operations raise money for candidates and political party organizations. From July 2000 to June 2001, more than \$1.5 million charitable gaming dollars went to candidates. The Michigan state and local Democratic Party organizations use these events extensively, and in 1998 lottery officials investigated allegations that contribution checks were being improperly written at some of them. Although the investigation did not turn up enough evidence to put an end to political-bingo events, in 1999 the Republican Party was successful in having legislation enacted to tighten reporting rules for political-bingo fundraisers.

EXHIBIT 2. Lottery Contributions to Michigan School Aid Fund, FYs 1995–2001 (\$ millions)



SOURCE: Bureau of State Lottery.

Charitable gaming lost market share when casinos opened in Detroit and elsewhere in the state. Beginning in 1994, the first full year that the Indian casinos were in operation, wagering at charitable gaming events declined steadily after rising an average of 6.5 percent in the previous few years. Then, in 2000, charitable gaming was given a boost by legislation (1) increasing the number of bingo events a licensee is permitted to hold weekly and (2) introducing a new bingo game that allows for progressive jackpots, i.e., is exempt from the \$2,000 prize cap applied to other bingo games. The next year (2001), revenue was \$188 million, an increase of \$55 million over the prior year.

Horse Racing

Horse racing is Michigan's oldest form of legal gambling, established in 1933. In 2000 Michigan's seven tracks (the two largest are in the Detroit area and the other five are scattered around southern Michigan) had more than 2,300 days of live and simulcast racing, total attendance of over 1.5 million people, and almost \$400 million in wagering that generated more than \$13 million in state revenue. The industry suffers from competition for the gaming dollar from the lottery, casinos, and charitable gaming: In May 2001 the *Detroit News* reported that live racing took in nearly \$98 million in 1998, the year before the first of the three Detroit casinos opened; when all three were open, the live-racing take went down to \$44 million. All horse race wagering (both live and simulcast) dropped 6 percent, to \$375 million, from 2000 to 2001.

In 1994 horse racing was roughly a \$1.2 billion industry annually responsible for 42,300 jobs, \$233 million in personal income, and total economic output of \$439 million; these are the most recent figures available, and it may be assumed that they have dropped considerably in recent years.

DISCUSSION

Most of the current policy debate in Michigan related to gambling has to do with the Detroit casinos. The state-wide ballot question on the casinos was only narrowly approved, and there was an immediate movement, which failed, to collect enough signatures to put a subsequent question on the ballot to repeal the first. Many Michiganders object to casinos for various reasons. Some feel that gambling is immoral because it encourages a "something for nothing" mentality. Many argue that gaming brings criminal activity such as drugs and prostitution to host and surrounding communities, which degrades the area; they further assert that such activity strains local resources, and local units of government do not receive sufficient compensation to enable them to deal with it.

Gambling addiction is a persistent concern for many. A United Way survey (2001) in the metropolitan Detroit area shows that 85 percent of area residents have gambled at some point: 76 percent in state-run games and 61 percent at casinos. The survey also shows that about 5 percent of gamblers, many aged 18–25 years, become addicted. Some believe that addiction is less of a problem than the survey suggests, because they do not believe that gambling is a problem until the gambler is spending more than s/he can afford, and others contend that people should be permitted to spend their money as they wish. Many, however, see gambling as leading to serious community and mental health problems that will continue to grow, even if people are informed of its dangers and offered help for their addiction.

Many Detroiters believe that the economic benefits for Detroit far outweigh the problems. Advocates for Detroit casinos used Indian-casino data to argue that casino gambling can bring minority jobs and economic stimulus to economically troubled areas. Since 1993 Indian casinos in Michigan have increased tribal employment, provided revenue for community support/improvement, stimulated other community economic development, including tourism, and helped to support tribal infrastructure. According to the Michigan Public Policy Initiative, the Indian casinos employ more than 4,000 people, often in high-paying entry-level jobs, and generate approximately \$13.5 million in annual payroll, usually in low-income communities; they also result in as much as \$41 million worth of local services purchased each year. Though only three years old, the Detroit casinos also appear to have become crucial to city finances; they employ 7,500 people and will provide an estimated \$95 million this fiscal year in wagering taxes to the city—\$22 million more than last year.

In addition to the benefit to Detroit, supporters point out that the state wagering tax—\$82 million in 2001—that the Detroit casinos pay directly (and daily, via electronic deposit) to the School Aid Fund is a significant boost for schools. Others believe that while the gaming tax revenue may help to fund education, some of the people who are paying the tax, by gambling (and losing, since the taxes are based on the casinos' winnings), are those who can least afford it. Moreover, gaming opponents say, if gambling operations were to begin in a nearby city—Toledo or South Bend, for example—or if Internet gambling were to become a sizeable market, Detroit's casino profits and their beneficial effects could be diminished in the same way that Windsor's gambling profits fell when the Detroit establishments opened.

There also is criticism about the relationship of the Detroit casinos to minority communities. There is dissatis-

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faction with the fact that there is no African-American representation in the casinos' ownership. Critics point to the irony of large, elegant casinos being located in blighted neighborhoods, and they question whether the self-contained casinos will affect their surroundings positively. Auditors report that the casinos are complying with the rule that 51 percent of their employees are to be Detroit residents, and two of the three casinos are unionized, but many entry-level workers are earning less than the community had hoped, because tips in the Detroit casinos have been considerably lower than in other casino cities. In March 2002 the National Action Network called for a boycott of all MGM Mirage Inc., hotel-casinos in response to alleged racism by the gambling giant.

Finally, in October 1999 the Lac Vieux Band of Lake Superior Chippewa Indians filed a motion seeking to halt the casino process for Detroit Entertainment and Greektown Casino. The tribe challenged the preference granted to these two groups in the city's casino-developer selection process. The tribe and other parties in the lawsuit question the constitutionality of the Detroit casino-licensing process. They want the licenses of the casinos revoked and a conservator appointed to run the facilities until Detroit creates a new licensing law and reissues the operator licenses. In January 2002 a federal judge ruled that the casino licenses are "illegitimate," leaving future operations of the casinos in question.

These issues, plus some fraud cases that have arisen and the number of prospective investors and employees that have been rejected due to their background, suggest that controversy will continue to surround the Detroit casinos.

FOR ADDITIONAL INFORMATION

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