

The Contributions of Indian Gaming to Oregon's Economy in 2005

A Market and Economic Impact
Analysis for the Oregon Tribal
Gaming Alliance

ECONorthwest

ECONOMICS • FINANCE • PLANNING

888 SW Fifth Avenue
Suite 1460
Portland, Oregon 97204
503-222-6060
www.econw.com

February 14, 2007

Executive Summary

Assignment

The Oregon Tribal Gaming Alliance (“OTGA”) is a coalition of nine Indian tribes in Oregon. Each owns and operates a casino in the state. The OTGA retained ECONorthwest to conduct a market and economic impact analysis of the tribal casino gaming industry in Oregon for the year 2005. OTGA member tribes provided audited operating data on their casinos and related activities such as hotels and restaurants. This information was tallied and used to produce this report.

This report is a follow-up to similar studies conducted for 2003 and 2004. As in that earlier research, the 2005 analysis examines two key topics:

- **Economic impacts of tribal gaming:** What was the total economic impact of tribal gaming on the Oregon economy in 2005 and how does it compare with previous years?
- **The size of the gaming market in Oregon:** How much gambling was conducted in Oregon in 2005 and how much money did Oregonians spend? What share of the total gaming in Oregon was attributable to the nine tribes and the Oregon Lottery? How has the market changed?

Major Findings

This analysis of the gaming market in Oregon and the ultimate impacts of tribal gaming on the state economy in 2005 concluded the following:

- Nearly \$675 million in economic output in Oregon is directly attributable to the success of the nine tribal casinos in the state.
- Those gaming operations employed 5,036 Oregonians who received nearly \$185 million in wages and benefits.
- Much as the Oregon Lottery is a critical source of revenue for state government, the nine tribal casinos in Oregon provide much of the financial support necessary for tribal government employment, healthcare, education, and other social programs. In 2005, the casinos financed nearly \$129 million worth of tribal government services and, in doing so, employed 903 workers with \$42 million in wages and benefits.

- Collectively, the direct output and employment of the casinos and related government services had a powerful impact on the rest of Oregon as money was spent and re-spent inside the state. When tallied, this analysis finds that a total approaching \$1.5 billion in economic output statewide was attributable to the nine gaming operations. This supported 15,221 jobs and over \$509 million in wages and benefits for Oregon workers and their families.
- Other governments benefited from the economic activity stimulated by tribal gaming. In 2005, over \$140 million in federal, state, and local tax and other government revenues were traceable back to the success of the nine tribal casinos.
- Furthermore, these impacts are growing. In just three years, the total economic output in Oregon linked to tribal gaming has risen 39 percent.
- The amount of gaming done in Oregon from all sources grew 12 percent in 2005 to over \$1.3 billion. In excess of \$98 million came from out-of-state tourists who spent nearly 82 percent of their gaming dollars at the tribal casinos. Oregon's tribes have invested heavily to stimulate tourism to the state. By the end of 2005 the tribes had 1,007 hotel rooms at their casinos—an increase of 18 percent from just a year earlier.
- In spite of this growth, the share of the gaming market in Oregon held by the nine tribal casinos actually fell slightly in 2005 due to the growing dominance of the Oregon Lottery, which now accounts for 58.1 percent of all the gaming in the state.

Caveats

As with any economic research, ECONorthwest used the best data available. However, data are subject to revisions and estimation processes. Therefore, there are certain important caveats to any economic analysis, including this report:

- Eight OTGA members provided full revenue and expenditure data. The Burns Paiute Tribe, which has the smallest casino in Oregon, provided partial data for 2005. ECONorthwest conducted checks to ensure that the data provided by tribes was complete and consistent with other publicly- or privately-collected data.
- This analysis also relies on data from public sources. Among the sources are the Oregon Lottery, the Oregon Racing Commission, the Washington Lottery, the Washington Gambling Commission, the Washington Racing Commission, the Oregon Employment Department, the Reno-Sparks Convention and Visitors Authority, the U.S. Bureau of Economic Analysis, the U.S. Department of Transportation, the Las Vegas Visitors & Convention Authority, Population Research Center at Portland State University, the Office of Financial Management at the State of Washington, and the Charitable Activities Section of the Oregon Department of Justice.
- Due to lags in reporting from government sources, population and personal income data used in this analysis are subject to revisions.

Oregon Casinos and Tribes

There are nine federally recognized tribal governments based in Oregon. Each one operated a casino in 2005. Six also had hotels as part of their gaming operations and seven offered RV sites to patrons.

Although the tribes are sovereign nations, the State of Oregon exercises considerable control over the size and location, types of games, regulations, and other important features of the nine tribal casinos. To build and run a casino, a tribe and the Governor must first negotiate an agreement or compact (currently, in Oregon, these are called “Class III Gaming Compacts”) that determines the key features of the casino. For instance, Oregon gaming compacts limit tribes to one casino each.

This section begins with an overview of the casinos in Oregon and a description of their facilities at year-end 2005. It is followed by a synopsis of the history and location of each tribe.

Casinos

Table 1 lists the names, locations, tribal ownerships, opening dates, and the numbers of hotel rooms and RV hook-up sites of the nine casinos in Oregon, as of December 31, 2005.¹

Table 1: A Summary of Oregon Casinos

Casino	City	Tribe	First Opened	At Year-End 2005	
				Hotel Rooms	RV Sites
Chinook Winds	Lincoln City	Confederated Tribes of Siletz Indians	May 1995	227	50
Kah-Nee-Ta	Warm Springs	Confederated Tribes of Warm Springs	May 1995	168	50
Kla-Mo-Ya	Chiloquin	The Klamath Tribes	July 1997	-	-
Old Camp	Burns	Burns Paiute Tribe	August 1998	-	17
Seven Feathers	Canyonville	Cow Creek Band of Umpqua Tribe of Indians	April 1992*	147	31
Spirit Mountain	Grand Ronde	Confederated Tribes of Grand Ronde	October 1995	254	94
The Mill	North Bend	Coquille Indian Tribe	May 1995	112	-
Three Rivers	Florence	Confederated Tribes of the Coos, Lower Umpqua & Siuslaw Indians	June 2004	-	34
Wildhorse	Pendleton	Confederated Tribes of the Umatilla Indian Reservation	Nov. 1994	99	100
Total Lodging at Tribal Casinos				1,007	376

* Opened as a bingo hall in 1992 and expanded into a casino in April 1994.

The first Indian gaming facility in Oregon was the Cow Creek Bingo Hall. It opened in April 1992 in Canyonville, south of Roseburg. The bingo hall was replaced on April 29, 1994 with a casino that included slot machine-like devices called video lottery terminals (“VLTs”), keno, and blackjack tables. By the end of 1995, five other tribes followed suit with their own casinos. Since then three others opened—the last being the Three Rivers Casino in June 2004.

¹ Two casinos opened in temporary buildings and were later replaced with permanent structures (Chinook Winds and Wildhorse). Opening dates on the table refer to the first time casino gaming was conducted whether in the permanent or temporary facility.

The initial gaming compacts limited tribes to only one type of casino table game—blackjack. In January 1997, the Grand Ronde negotiated a change that allowed them to install roulette, craps, and other casino table games in exchange for funding a charitable foundation with a share of the casino’s profits. Since then, the Siletz, Cow Creek, Coquille, and Umatilla have amended their compacts similarly. The Coos, Lower Umpqua, and Siuslaw will expand the variety of their table games when their larger, new casino facility opens in the fall of 2007. So far the other tribes in Oregon have not chosen to expand into other forms of table games.

The tribes reported that they had catered to over 8.9 million visitors in 2005. The tribes sold nearly 242,000 room nights at their hotels and 50,000 nights at their RV parks.

Lodging at Oregon Tribal Casinos

Oregon tribes operated six hotels with 1,007 rooms at the end of 2005 and RV parks with 376 sites on them. Expansions are continuing. The Mill Casino recently opened a 102-space waterfront RV park. Three Rivers is constructing a 90-room hotel.

Casino Capacity

As shown in Table 2, in 2005 the nine Indian casinos in Oregon had 6,030 VLTs and 131 gaming tables on December 31, 2005. In contrast, Oregon Lottery retailers had 10,721 VLTs and 2,790 keno outlets scattered throughout Oregon.

Table 2: Indian Casino Gaming & Non-Tribal Gaming Capacity, Year-End 2005

Gaming Venue	VLTs	Table Games	Poker Tables	Bingo Seats	Keno Wagering Outlets	Restaurant & Lounge Seating
<u>Indian Casinos:</u>						
Chinook Winds	1,235	24	5	1,200	1	1,051
Kah-Nee-Ta	317	6	2	-	-	356
Kla-Mo-Ya	323	6	-	-	-	119
Old Camp	120	-	-	60	-	60
Seven Feathers	984	22	7	400	1	536
Spirit Mountain	1,500	41	17	822	1	586
The Mill	566	14	2	-	-	430
Three Rivers	325	6	-	-	-	68
Wildhorse	660	12	4	500	1	178
Indian Casino Total	6,030	131	37	2,982	4	3,384
<u>Non-Tribal Gaming:*</u>						
At lottery retailers	10,721	-	-	-	2,790	154,725
At charity bingo halls				28,130		

Sources: Tribal reports, Oregon Department of Justice, Oregon Lottery, 2002 Economic Census, and ECONorthwest, January 2007.

* Approximate year-end numbers.

Between 2004 and 2005 Indian casinos in Oregon expanded modestly. The number of VLTs went up 66; there was no change in the number of table games; one additional poker table; and a reduction of 128 seats in bingo halls. At one point, the Grand Ronde and Burns Piute had 124 bingo VLTs between them, but these were removed before year-end. The Oregon Lottery, meanwhile, grew faster. They added 53 video lottery locations and 431 VLTs statewide. They also expanded the availability of keno by adding 75 retailers.

Table 3: Change in Gaming Capacity, 2004 - 2005

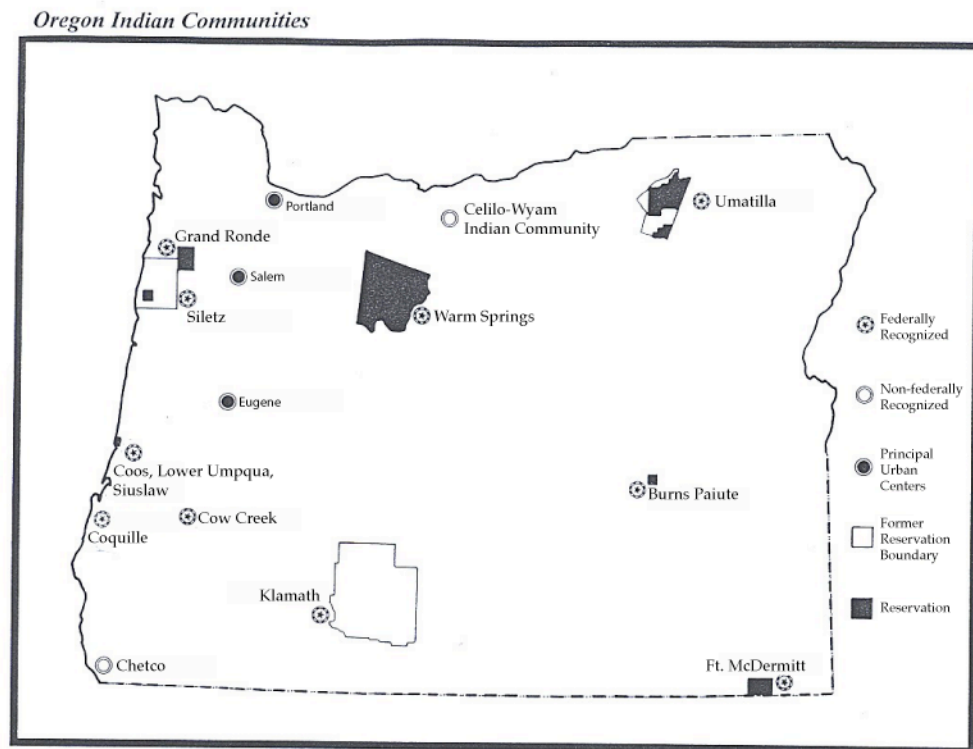
Gaming Location/Type	2004	2005	Change
<u>Indian Casinos:</u>			
VLTs	5,964	6,030	66
Table games	131	131	0
Poker tables	36	37	1
Bingo seats	3,110	2,982	(128)
<u>Oregon Lottery:</u>			
VLTs	10,290	10,721	431
Video lottery retail sites	2,010	2,063	53
Keno game retail sites	2,715	2,790	75

Sources: Tribal reports, Oregon Department of Justice, Oregon Lottery, and ECONorthwest, January 2007.

Tribes in Oregon

Figure 1 is a map showing the principal locations of the nine federally recognized tribes based in Oregon. They are all in rural communities or in mid-sized cities such as North Bend. Beside the areas noted on this map, most tribes have land parcels that are not contiguous to these principal locations.

Figure 1: Tribes in Oregon



Source: Oregon Legislative Commission on Indian Services. 2005-07 Oregon Directory of American Indian Resources, page 24.

In addition to the nine tribes, a portion of the Fort McDermitt Paiute-Shoshone Indian Reservation extends into the southeastern corner of Oregon. That tribe, however, is based in Nevada. According to the Oregon Legislative Commission on Indian Services, there are also two non-federally recognized tribes in the state, which are shown in Figure 1.

The Burns Paiute Tribe

The Burns Paiute Tribe descends from the Wadatika band of Paiute. They lived and seasonally migrated over a vast 5,200 square mile territory that extended from the Cascade Mountain Range in central Oregon and the Payette Valley north of Boise, Idaho; and from southern parts of the Blue Mountains near the headwaters of the Powder River north of John Day, to the desert south of Steens Mountain.

In 1873, a 1.8 million acre Malheur Reservation was formed in southeastern Oregon for the tribes of the region. This land was taken from the tribes. In the winter of 1879 over 500 Paiute were marched to Washington and forced to relocate on the Yakama Reservation and Fort Vancouver. Many of those at Fort Vancouver subsequently were relocated to the Warm Springs Reservation.

Many of the members of the Wadatika band on the Yakama Reservation moved back to Burns. In 1928, a local land company gave the Burns Paiute 10 acres of land just outside the city.

In 1969, after a 35-year court case, the tribe was awarded a small sum of money for the lands taken from the Malheur Reservation. In 1972, the Burns Paiute were recognized as an independent Indian Tribe. Today the Burns Paiute Tribe has about 300 members and their reservation covers just 770 acres north of the city of Burns in Harney County. The tribe's Old Camp Casino is located there.²

The Old Camp Casino serves a somewhat isolated market. Located in Harney County, which has a population of only 7,650, the Old Camp is Oregon's smallest casino.

The Confederated Tribes of the Coos, Lower Umpqua, and Siuslaw Indians

The Coos, Lower Umpqua, and Siuslaw Indians are three tribes organized into a confederation. They occupied southwest Oregon coastal areas along the three major rivers in Coos, Douglas, and Lane Counties that were named after the tribes.

In 1855, coastal tribes signed a treaty with the U.S. Government, but a year later the Rogue River War broke out south of Coos Bay and the U.S. Army, in a preemptive strike, rounded up the Coos Indians and forced them to live in an encampment. The Lower Umpqua Indians were soon forced in as well. Both tribes later refused to relocate to the Siletz Reservation and, instead, joined the Siuslaw Indians. In 1918, the three tribes formed a confederation and pursued land claims they were entitled to under the 1855 treaty.

² <http://www.harneycounty.com/Paiute.htm>

Under a program by the Eisenhower administration in the 1950's, the U.S. Congress terminated the Confederated Tribes of Coos, Lower Umpqua, and Siuslaw Indians along with all other tribes of western Oregon. In 1984, after a long battle, the status of the Confederated Tribes of Coos, Lower Umpqua, and Siuslaw Indians was restored.³ The Tribes currently have 834 members.

In June 2004 the Coos, Lower Umpqua, and Siuslaw opened the Three Rivers Casino in a temporary structure. Located about a mile east of Florence on the main highway linking Eugene to the coast, the casino is small for its market.

The Tribes have broken ground for a new expanded Three Rivers Casino and Hotel, which is expected to open in the fall of 2007. The new casino will have 650 VLTs, eleven table games including craps and roulette, and a five-table poker room. In addition, a 90-room hotel is being constructed along with a 250-seat buffet, coffee shop, deli, high-end steak house and seafood restaurant, a sports bar and lounge, and a multipurpose room for bingo, meetings, banquets, and entertainment.

Coquille Indian Tribe

The Coquille Indian Tribe descended from people who inhabited the watershed of the Coquille River system, which covers approximately the region around the present day cities of Bandon, Coos Bay, and North Bend on the southern Oregon coast.

The tribe signed treaties with the U.S. Government in 1851 and 1855, which ceded 700,000 acres of ancestral territory, however, the treaties were never ratified by Congress, so the Coquille were denied a permanent homeland. The tribe was terminated by the Eisenhower administration in 1954, but then subsequently restored by Congress in June 1989. The Coquille Indians were then able to acquire several land parcels.⁴

The Coquille Indian Tribe owns the Mill Casino-Hotel in North Bend, Oregon. It overlooks the waterfront off highway US-101. The casino has prospered because it offers highly competitive accommodations on the southern Oregon coast and is a much needed entertainment venue for locals. The Coquille Indians are developing retail property near its casino and are expanding their hotel.

³ http://www.ctclusi.org/cultural_historical.asp

⁴ http://www.npaihb.org/profiles/tribal_profiles/Oregon/Coquille.htm

Cow Creek Band of Umpqua Tribe of Indians

For well over a thousand years, the Cow Creek Umpqua Indians occupied the inland areas of what is today Douglas County, Oregon.

In 1853, soon after the discovery of gold in southwest Oregon, the tribe entered into a treaty which ceded their land to the Federal Government for 2.3 cents an acre—a tiny fraction of the true market value at that time. Three years later, the Cow Creek Umpqua Indians, along with the other tribes in western Oregon and parts of California, were rounded up and forced onto a reservation created in Grand Ronde.

In 1954, Congress terminated the Cow Creek Band. After a long battle, the Federal Government reversed its position and disavowed termination. In 1982, the Cow Creek Band was restored.⁵ The tribe fought the Federal Government over the 1853 land claims and received about \$1.3 million.

The Cow Creek Band borrowed \$825,000 from the U.S. Bureau of Indian Affairs in 1991 to help pay for the construction of a bingo hall which later became a casino.

The Seven Feathers Hotel & Casino Resort is right off exit 99 on Interstate-5, which makes it very accessible to residents of Roseburg, Medford, Ashland, and Grants Pass, as well as travelers driving through the area on busy Interstate-5

Confederated Tribes of Grand Ronde

The Confederated Tribes of the Grand Ronde Community of Oregon is comprised of over 20 tribes and bands whose traditional homelands extend from northern California to the north shore of the Columbia River.

The antecedent tribes and bands of Grand Ronde ceded these lands to the United States through a number of treaties. Among these treaties is the Willamette Valley Treaty of January 22, 1855, which ceded the entire Willamette Valley Basin from Cascade Falls on the Columbia River in the east to Oak Point in the west.

With the treaties came the forced removal of the Willamette Valley tribes to the Grand Ronde Reservation that was created by treaty and an executive order given on June 30, 1857. The reservation covered over 60,000 acres of land on the eastern side of the Coast Range, on the headwaters of the South Yamhill River, about 60 miles southwest of Portland and about 25 miles from the ocean. Over time, much of the original reservation land was stripped from the Tribe by ill-conceived federal policies.

⁵ <http://www.cowcreek.com/story/x01history/index.html>

In 1954, Congress terminated the federal status of the Grand Ronde tribes. The Tribal members were left with little more than a ten-acre cemetery and maintenance shed. Their federally recognized status was gone, but the people of Grand Ronde continued as a community and Tribal leaders worked tirelessly to restore the Confederated Tribes of Grand Ronde's status as a federally recognized tribe.

Their efforts led to the signing of the Grand Ronde Restoration Act on November 22, 1983. Five years later, President Ronald Reagan restored 9,811 acres of the original Reservation to the Grand Ronde Tribes.⁶

The Grand Ronde Tribe owns and operates Spirit Mountain Casino, which is on the main east-west route between Portland and Lincoln City. It is the largest casino in Oregon. Each year the Tribe dedicates six percent of the casino profits to The Spirit Mountain Community Fund. The fund supports non-profit organizations in Western Oregon. Since the fund was established in 1995, the Tribe has given over \$40 million to assist Oregon non-profit groups and civic institutions.

Spirit Mountain is the closest full-service casino to Salem and Portland metropolitan area residents; over 750,000 households live within 90 minutes of its doors. Spirit Mountain converted their bingo hall into an expanded casino floor. They have increased the number of VLTs they have from 1,500 to 2,000. Spirit Mountain is one of the largest employers in the Polk-Yamhill County area. The Casino also supports numerous local vendors from food suppliers to linen services and printers, spending over \$1.5 million with local vendors each year.

The Klamath Tribes

The Klamath Basin of southern Oregon was the traditional homeland for the Klamath tribes: the Modoc and the Yahooskin band of Snake Indians for thousands of years.

After decades of hostilities with newcomers, the tribes ceded 23 million acres in 1864 and moved to a 1.8 million acre reservation. The Klamath tribes were very resourceful and built highly successful cattle and lumber operations on their lands.

By the 1950's, the Klamath were one of the wealthiest tribes in the country. That came to an abrupt end when the U.S. Congress passed the Klamath Termination Act. The Klamath Tribes were restored in 1986, but their land was not returned.

⁶ <http://www.grandronde.org/misc/ourstory.html>

Gradually the Klamath Tribes are rebuilding their economy. In 1997, they opened their first business since termination—the Kla-Mo-Ya Casino, named for an acronym of the three tribes.⁷ Kla-Mo-Ya is off US-97, the main north-south route of central Oregon, in the town of Chiloquin. The casino is a popular gaming destination for residents in the Klamath Falls area but has also become an attraction for tourists traveling on the highway.

Confederated Tribes of Siletz Indians

The Siletz are a federally recognized confederation of many bands originating from northern California, western Oregon, and southwest Washington, who ceded 19 million acres to the U.S. and agreed to confederate on the Coast, or Siletz, Reservation on the central Oregon Coast in 1856.

In 1865 and 1875, 900,000 acres of the “permanent reservation” were opened to settlement by presidential and congressional actions. Additional lands were lost through allotment and forced fee policies. By 1912, over half of the Siletz Indian allotments were no longer Indian owned.

The Confederated Tribes of Siletz Indians were terminated in 1954-56, but in 1977, the Siletz became the first tribe in Oregon and second in the U.S. to gain restoration. The Siletz have a 5,000-acre reservation in Lincoln County.⁸

The Confederated Tribes of Siletz Indians operate the Chinook Winds Casino in Lincoln City—a major coastal tourist community. They recently acquired and renovated a large oceanfront hotel next to the casino and have added a golf course and RV park to their repertoire of visitor amenities.

Confederated Tribes of the Umatilla Indian Reservation

The Confederated Tribes of Umatilla Indian Reservation was established in 1855 by a treaty signed by the U.S. Government with the Cayuse, Umatilla, and Walla Walla tribes. Those three tribes occupied the Columbia River Plateau of southeastern Washington and northeastern Oregon. Of the 510,000 acres that were originally reserved in 1855, only 178,882 remain as part of the Umatilla Reservation and non-Indians own 48 percent of that.⁹

The Tribes own the Wildhorse Resort & Casino, which is located off Interstate-84 a few miles east of Pendleton—the largest city in Umatilla County. Wildhorse benefits from its proximity to the comparatively much more populous and affluent Tri-Cities area of nearby Washington and the steady stream of tourists and truck drivers who travel on I-84. The casino is in the midst of a 17,500 square foot expansion and renovation, which will provide space for a new cabaret, buffet restaurant, sports bar, a fine dining restaurant, and more VLTs.

⁷ <http://www.klamathtribes.org/history.html>

⁸ http://ctsi.nsn.us/WhoWeAre/history_culture.html

⁹ <http://www.umatilla.nsn.us/>

The Confederated Tribes of Warm Springs

The Confederated Tribes of Warm Springs consist of three distinct tribes. The Wasco and Walla Walla (later called the Warm Springs) bands lived along the Columbia River and its tributaries; they often would trade with one another, but had separate cultures and languages. The Paiute occupied the high deserts of southeastern Oregon and rarely had contact with the Wasco or Warm Springs.

In 1855, the U.S. government and the Wasco and Warm Springs tribes signed a treaty, which created the Warm Springs Reservation. It is located south of the Columbia River between the Cascade Mountains and the Deschutes River in north central Oregon. In 1879, the U.S. government began settling Paiute Indians from Fort Vancouver onto the Warm Springs Reservation. The three tribes, in 1937, organized themselves as The Confederated Tribes of Warm Springs Reservation of Oregon.¹⁰

The Warm Springs built forest products and tourism businesses on their reservation. In 1964 they opened Kah-Nee-Ta Village near a natural hot springs deep in Indian Head Canyon about 11 miles from the main road, Highway-26. In 1972, a lodge was built there.

The Indian Head Casino was added to Kah-Nee-Ta in 1995. In 2001, the casino was merged into the lodge and the name was changed to the Kah-Nee-Ta High Desert Resort & Casino. Although halfway between the large and comparatively affluent cities of Portland and Bend, its long distance from both cities and location well off the main highway constrain its customer base largely to locals and regular hotel guests.

Gaming Regulation

There are three layers of regulatory oversight at Oregon casinos—tribal gaming commissions, the Oregon State Police, and the Federal government. In 2005, about \$12.9 million was spent in Oregon to regulate casino gaming. The nine tribes paid for all but a small amount of that. As can be seen on Table 4, tribes paid for over 70 percent of the identifiable amounts spent on gaming oversight in Oregon during 2005.

¹⁰ http://www.warmsprings.com/Warmsprings/Tribal_Community/History_Culture/

Table 4: Federal, State & Tribal Government Gaming Regulatory and Enforcement Spending in Oregon, Estimates for 2005 and Changes from 2004

Type of Gaming in Oregon	2005	Change from 2004
<u>Regulation Costs Paid by Oregon Tribes:</u>		
Oregon State Police - tribal gaming section	\$1,728,685	\$411,768
Nine tribal gaming commissions	10,680,726	1,525,272
National Indian Gaming Commission	235,420	(19,580)
Paid by Oregon Tribes	\$12,644,831	\$1,917,460
Oregon State Police, paid by gaming vendors	274,575	988
Total casino regulatory costs	\$12,919,406	\$1,918,448
<u>Oregon Lottery:</u>		
OR State Police contract	\$1,931,022	\$56,556
OR lottery security staff	553,643	93,028
Other OR Lottery security expenses	250,759	154,785
Total OR lottery regulatory costs	\$2,735,424	\$304,369
Charitable bingo, raffles & fundraisers	\$749,000	(\$37,000)
Horse racing	2,026,555	100,294
Total Gaming Regulation	18,430,385	2,286,111

Sources: The Oregon Lottery, Charitable Activities Section of the Oregon Dept. of Justice, Oregon Racing Commission budget, Lynn Hillman (Grand Ronde Tribe), National Indian Gaming Commission, and the nine Tribes based in Oregon.

The nine tribal casinos paid nearly \$10.7 million to gaming commissions that oversee and regulate casino gaming. Gaming commissions are independent of casino management. They license employees, monitor games to ensure legal compliance and fairness, establish control standards, and conduct audits.

In addition, the Oregon State Police have a special tribal gaming section. They monitor casinos, run background checks on casino employees and suppliers, and ensure the integrity and fairness of games. Funding for this section comes entirely from the tribes and gaming vendors. In 2005, tribal casinos paid \$1,728,685 to the Oregon State Police's tribal gaming section.

The National Indian Gaming Commission ("NIGC") is an independent agency of the federal government that also regulates gaming at tribal casinos. The NIGC's mission is to see that Indian tribes are the fair beneficiaries of gaming revenue, assure that gaming is conducted honestly, and to shield tribes from corrupting influences. They do this by conducting audits, private investigations, and background checks. The NIGC is funded entirely by Indian casinos. Tribes in Oregon paid about \$235,000 in fees to support the NIGC's work in 2005.

The Oregon Lottery spent over \$2.7 million on direct security and regulation in 2005. Additional, but unquantifiable amounts of work by the Lottery's information technology and retail contract staffs also attended to regulatory and security matters. Lottery retailers also spend money on security measures.

The cost of regulating and overseeing charitable gaming by the Oregon Department of Justice was nearly \$750,000 in 2005 whereas the Oregon Racing Commission's work exceeded two million dollars.

In total, spending on gaming regulation and enforcement by the nine tribes in Oregon rose over \$1.9 million in 2005. Identifiable regulatory spending by the Oregon Lottery increased about \$304,000.

Oregon Economic Impacts

Casinos have grown to become crucial tools for meeting needs of Indian tribes in Oregon and in benefiting the state as a whole in many ways:

- Tribal gaming has created stable employment for thousands of workers.
- Returns from casinos are underwriting essential tribal government jobs and services, paying for improvements to local infrastructure, and supporting healthcare, housing, and education programs.
- For member of tribes, casinos have meant less poverty, more employment, better standards of living, and less reliance on state and federal assistance.
- For Oregon, tribal gaming has emerged as a catalyst for tourism.
- Casinos are a major source of jobs that pay good wages that often include health insurance, retirement plans, and other benefits—which go mostly to tribal and non-tribal members living in rural Oregon.

This section begins with a brief description of the methodology used. It is followed by an analysis of 2005 tribal gaming revenues, expenditures, and employment—basic data that drives downstream impacts. This section then concludes with a summary of the economic impacts of casinos in 2005 and of their fiscal impacts on state and local governments.

Economic Impact Analysis

Economic impact analysis is a way of measuring how an industry, such as tribal gaming, affects a state economy. It is done through the use of computer models that are designed to trace the flow of dollars through an economy between businesses, consumers, and employees.

Methodology

Spending and employment by an industry will often cause effects to arise elsewhere in the economy. These downstream impacts are measured in terms of output, wages, business incomes, and jobs.¹¹ A method called “input-output” modeling was developed by economists to measure them.¹²

An input-output model is a mathematical representation of an economy. It shows how different parts (or sectors) of an economy are linked to one another. Information about linkages comes from various sources including U.S. Census reports on population and businesses.

The most widely used input-output tool is IMPLAN, which is an acronym for “IMPact analysis for PLANning.”¹³ In simple terms, IMPLAN models work by tracing how money made in one sector of an economy is spent and re-spent downstream throughout the rest of the economy.

For this analysis, an IMPLAN model was built to measure the nine tribal casinos in Oregon and their impact of the state economy in 2005.

Stages of Impacts

Impacts are felt at various stages or steps away from the sector being studied. There are three of these. Input-output models report the direct impacts of the initial sector (tribal gaming), those the sector indirectly affects through spending on goods and services on other parts of the economy, and, finally, impacts that are induced by changes in the number of jobs, wages, and other income that could be traced back to tribal gaming.

A **direct impact** is something that generally happens at the location of the business being studied. In this case, direct impacts include the output and employment of the nine tribal casinos and their related businesses, such as hotels and restaurants. However, because gaming revenues are part of tribal governments, the direct impacts also include the output, jobs, and wages for those tribal activities that are financed by the casinos.

¹¹ *Output* is the broadest measure of economic activity. It is the total value of production. For hotel-casinos output is mostly gaming revenues, hotel room, and restaurant sales. However, for retail items, output is the difference between sales and the cost of goods sold. *Wages* are total payments to workers including benefits such as health insurance, life insurance, and retirement accounts. *Jobs* include both part and full time.

¹² Wassily Leontief first put input-output analysis to practical use in the late 1930's. While at Harvard, Leontief used his input-output system to construct an empirical model of the United States economy. This research gave rise to his 1941 classic, “Structure of American Industry, 1919-1929.” For his research, Leontief was awarded the Nobel Prize in Economics in 1973.

¹³ IMPLAN was initially developed by the U.S. Department of Agriculture in cooperation with the FEMA and the Bureau of Land Management to assist federal agencies in their land and resource management planning. Since 1993, the Minnesota Implan Group, Inc. has been maintaining IMPLAN and updating the data used in the models.

The second stage covers **indirect impacts**, which are all the effects on other sectors that in any way supply tribal casino operations with goods and services. For example, when an Oregon casino hires a local contractor to install carpeting, the amount paid is an indirect output. Furthermore, when that contractor, in turn, buys carpet from a store in Salem, that purchase also contributes to the total indirect output, as does the extra work done by the contractor and store clerk. Indirect impacts can go back many steps from the originating direct source, albeit their size diminishes considerably as it does.

The third stage counts the **induced impacts** from higher incomes of workers and businesses that result from tribal gaming operations. In the previous example of a casino hiring a carpet installer, the extra wages of the installer and store clerk along with the additional profits of their employers cause incomes in Oregon to rise. When this money is spent in Oregon, it stimulates downstream impacts on the economy. These are income-induced impacts and they are often quite large, especially in high payroll industries like gaming.

Adapting IMPLAN to fit the True Spending Pattern of Oregon Casinos

This analysis used the IMPLAN software to develop a model of the Oregon economy. IMPLAN contains within it a mathematical description of the spending pattern (or “production function”) of a typical commercial hotel-casino in the United States. Tribal casinos in Oregon, however, have markedly different expenditure patterns. Unlike commercial casinos, tribal casinos in Oregon reinvest heavily in local communities, spend significantly more on employee benefits, donate much more of their revenues to local charities, and return their profits to support local tribal government programs.

In order to more accurately model the economic impacts of tribal gaming; this analysis used actual data from the nine tribes to develop a true spending pattern of casinos in Oregon. Furthermore, the additional spending on tribal governments that was underwritten by gaming was incorporated into the model. This was done so that the model would accurately measure the impacts of tribal government expenditures on social and economic development programs, healthcare, education, public works, and other similar local needs. This differs from a standard commercial casino assumed in IMPLAN, which would divert much of its cash flow to out of the state investors.

Basic Assumptions of the Impact Analysis

The scope, definitions, and other basic assumptions of the impact analysis done for the OTGA are:

- The analysis measures the economic impacts for the 2005 calendar year.
- The definition of tribal gaming sector includes the hotels, restaurants, and other ancillary activities and amenities directly associated with the casinos and offered to casino customers.

- Since gaming revenues are used to finance additional tribal government activities, the direct impacts also include those portions of tribal government and other tribal needs that are underwritten by casinos.
- The analysis reveals the gross impacts of the casinos. These are all of the impacts that can be traced back to the original output in 2005 at the casinos regardless of what spending would have occurred had the casinos not existed. In other words, all impacts linked to tribal gaming are reported without netting out substitution effects, such as the loss of an overnight stay at a non-casino hotel because a guest chooses to stay at a hotel at an Indian casino instead.

Tribal Gaming Operations in 2005

Data collected from individual tribes for the 2005 calendar year form the inputs of the impact analysis. This data includes the revenues, the number of direct hires and their wages, and expenditures by major categories.

Revenues and Expenditures

Table 5 shows the revenue and spending data of the tribal gaming operations in 2005. The casinos generated about \$459.7 million in gaming revenues, \$49.1 million from food & beverage sales, \$21.0 million from lodging, and \$16.4 million from all other sources for a grand total of \$546.2 million. Those revenues were used for operations, capital expenditures, tribal government services, and to pay back debts incurred for construction.

Table 5: Revenues and Selected Expenditures by Tribal Casinos in Oregon, 2005

Revenues & Expenditures	2005
<u>Revenues:</u>	
Gaming	\$459,688,801
Food & beverage sales	49,081,692
Hotels and RV parks	21,020,788
Gift shops, recreation & other	16,392,649
Total Revenues	\$546,183,929
<u>Selected Expenditures:</u>	
Labor	\$184,918,980
Utilities	6,304,684
Advertising, marketing, & sales	28,660,566
Costs of goods sold	31,912,488
Repairs and maintenance	3,721,341
Supplies	7,889,234
Professional services	3,700,085
Entertainment, comps & other operating expenses	52,363,325
Charity and community fees & donations	13,452,120
Construction & equipment purchases	28,512,760
Tribal govt. services & member support	179,991,819

Source: Tribal reports.

Labor Costs

Labor is the biggest expense for casinos because it is a highly labor-intensive industry. In 2005, the casinos employed an average of 5,036 workers. The average employee in 2005 earned \$26,736 in wages and salaries. This was far greater than the statewide average wage for workers in the leisure & hospitality industry, which was \$15,009 in 2005.¹⁴

Benefits and payroll taxes paid by the casinos averaged \$9,984 a worker. Employer paid healthcare alone was \$4,547 per worker. The average employee paid \$5,206 in state, federal, and social security taxes for their wages earned at the casinos.

Details of labor costs are shown on Table 6. In addition to these amounts, the tribes also paid for several hundred thousand dollars worth of temporary labor.

¹⁴ Oregon Employment Department website accessed on January 6, 2007 at <http://www.qualityinfo.org/olmisj/CEP>

Table 6: Wages, Taxes, and Benefits Paid by Tribal Casinos and Employees, 2005

Labor Statistics	2005
<u>Labor Costs Paid by Casinos:</u>	
Wages & gratuities	\$134,640,676
Payroll taxes	13,788,799
Healthcare benefits	22,899,808
Retirement, other benefits & compensation	13,589,697
Total paid by casinos	\$184,918,980
Avg. number of employees	5,036
<u>Per Employee:</u>	
Wages earned	\$26,736
Benefits and taxes paid by casinos	\$9,984
State & federal income, Medicare, & Social Security taxes paid by workers	\$5,206

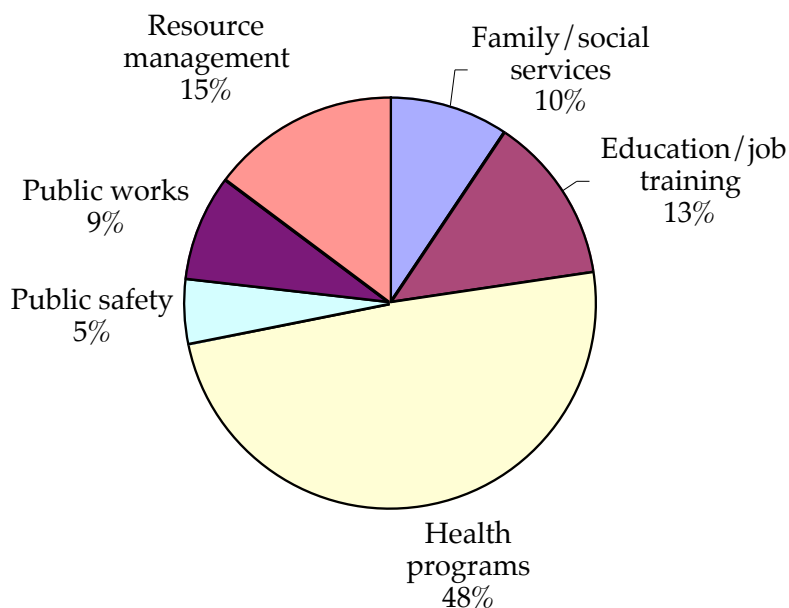
Sources: Tribal reports, Oregon Department of Revenue, Social Security Administration, and the Oregon Employment Department. ECONorthwest estimated taxes paid based on full-time resident tax return averaged of comparably compensated Oregonians.

Tribal Government Support

The main purpose of having casinos is so that tribes can underwrite services to tribal members and to provide jobs and other economic development opportunities for their members and citizens in the surrounding communities.

All of the casinos provided much needed employment for tribal members. Six of the nine tribes reported having earnings from gaming, which were sufficient, after paying for gaming operating expenses, capital costs, and debts, to also pay for tribal government services. A breakdown of where those dollars went is shown in Figure 2.

Figure 2: Tribal Government Spending on Major Programs Paid for by Gaming Revenues in 2005



Healthcare is the greatest tribal expense which casino gaming helped pay for in Oregon. Gaming revenues went to pay for various other essentials, such as family and social services (10 percent), public works and public safety (collectively 14 percent), and education and job training (13 percent).

In some cases, these services are available for both tribal and non-tribal members of the community. Without casino revenues, these programs likely would have been reduced or curtailed, or the financial responsibilities of federal, state, and local governments would have increased.

Results of the Impact Analysis

Tribal gaming supported a total of \$674.8 million in direct economic output and \$227.0 million in wages and benefits in Oregon during 2005.

Direct impacts came from two sources. The first was from tribal casino operations (gaming, hotels, gift shops, restaurants, and related services). The second was the additional tribal government spending made possible because of support from tribal gaming operations. These direct economic impacts and their totals are shown in the first three rows of Table 7.

Table 7: Economic Impacts of Tribal Gaming in Oregon in 2005

Economic Activity	Economic Output	Wages and Benefits	Full- and Part-Time Jobs
<u>Direct Impacts Supported by Tribal Gaming</u>			
Gaming & Hospitality Revenues	\$546,184,000	\$184,919,000	5,036
Tribal Needs Supported by Casinos	128,601,000	42,096,000	903
Direct Impacts	\$674,785,000	\$227,015,000	5,939
<u>Indirect & Induced Impacts on Oregon's Economy</u>			
Natural Resources and Construction	\$71,141,000	\$20,921,000	734
Manufacturing	95,378,000	15,539,000	361
Wholesale and Retail Trade	117,978,000	42,238,000	1,405
Services	296,607,000	119,510,000	4,946
Other	218,812,000	84,184,000	1,836
Indirect & Induced Impacts	\$799,916,000	\$282,392,000	9,282
Total Impact of Casinos on Oregon's Economy	\$1,474,701,000	\$509,407,000	15,221

The bulk of the direct economic impacts came from the gaming and hospitality businesses of the nine tribes. They directly generated \$546.2 million in economic output and \$184.9 million in wages and benefits for 5,036 jobs in 2005 inside the State of Oregon.

Revenues from tribal gaming paid for another \$128.6 million in direct economic output in the form of tribal government services. These required the work of 903 employees who were paid nearly \$42.1 million in wages and benefits in 2005.

Induced and Indirect Impacts

There are strong linkages between spending by tribes and their casinos and other sectors of the state economy because Oregon tribes are, by definition, local. Thus, they direct most of their spending to in-state suppliers that mostly hire people that live in Oregon. In economic terms, this spending is the first round of indirect impacts.

Subsequent rounds of indirect impacts, caused by increased spending downstream at other Oregon-based businesses, adds to the indirect impacts. On top of this, workers for the casinos and all of the suppliers, as well as money made by small business proprietors that benefit indirectly from the tribes and their casinos, cause substantial induced impacts.

When added together, the indirect and induced impacts in Oregon are larger than the original direct ones. This is often described as a “multiplier” effect, since the direct impacts multiply as they flow through Oregon’s economy.

As can be seen in Table 7, the indirect and induced output from tribal gaming in 2005 was \$799.9 million. The value of this additional output stimulated an additional 9,282 jobs and \$282.4 million in wages and benefits in Oregon.

These indirect and induced impacts spread throughout the state economy. The service sector—Oregon’s largest—gained the most with \$296.7 million in additional output, 4,946 more jobs, and \$119.5 million in higher wages and benefits. This is expected. The extra wages, earned because of tribal gaming and the tribal government it supports, go to residents of Oregon. They spend much of it elsewhere in the state on services, such as medical care, restaurants, daycare, and car repairs. Thus, the service sector benefits considerably.

Workers in the trade sector, which consists of wholesalers and retailers, depend non-directly on the casinos for 1,405 jobs and \$42.2 million in wages and benefits. Much of that support begins with the purchases of goods and services by the casinos. For example, in 2005, casinos spent \$21.8 million in wholesale food and beverages just to keep their restaurants running. They spent another \$28.7 million on advertising and promotions. Overwhelmingly, this spending went to Oregon companies that, in turn, many made additional purchases from other Oregon based businesses.

Table 7 shows that “Other” sectors of Oregon’s economy accounted for a large share (27.4 percent) of the indirect and induced output. Much of that was the result of the spending on housing by casino and tribal employees. It shows up as increased output in the banking and real estate industries, which are two of the largest “other” sectors. Workers in Oregon spend over 32 percent of their incomes on housing.¹⁵ Dollars from casinos flow directly into home purchases, apartment rents, and remodeling projects—and ultimately into higher property taxes for local schools and communities.

Multiplier Effects

As noted, the total impact of tribal gaming on Oregon was much greater than the direct impact alone. There are large multiplier effects.

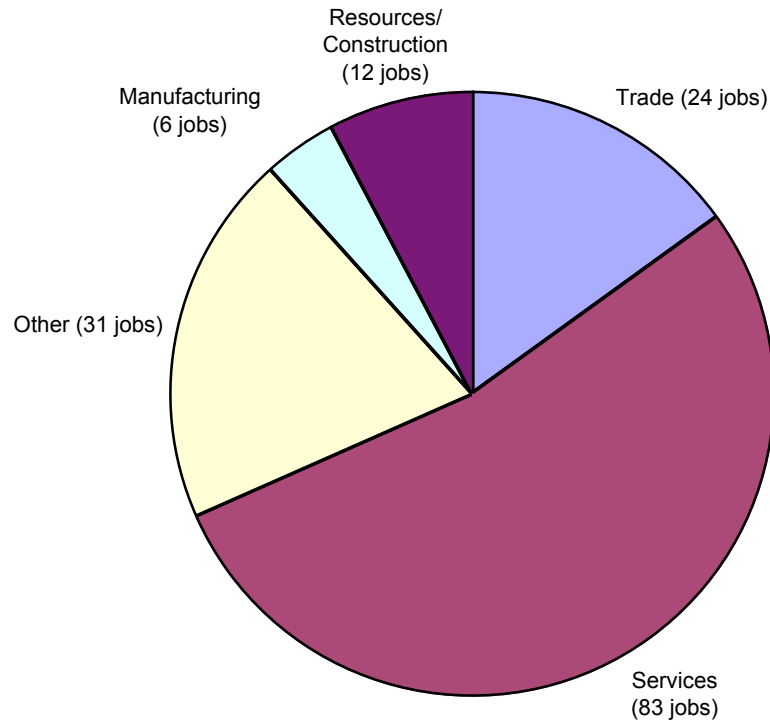
Economic multipliers are used to gauge interdependence that one sector, such as tribal gaming, has on the rest of the economy. In general, the larger an economic multiplier is, the greater the interdependence a sector has on the rest of the economy.

The multiplier of greatest importance, especially in rural Oregon where so many casinos are located, is the jobs multiplier. Tribal gaming has a jobs multiplier of 2.56 in Oregon. This says that, on average, for every job directly supported by tribal gaming, another 1.56 jobs in other sectors of the state economy are supported for a total of 2.56.

¹⁵ Portland MSA data from the US Bureau of Labor Statistics <http://www.bls.gov/cex/home.htm>.

To help illustrate where the other 1.56 jobs are, Figure 3 shows what sectors they fall into. To make it easier to read and avoid fractions of jobs, the figure illustrates the total impact of a hundred tribal gaming jobs instead of one. After applying the job multiplier, a total of 156 jobs are supported around the State of Oregon through indirect and induced impacts. As can be seen from Figure 3, these additional jobs are found in sectors many steps removed from gaming including construction and manufacturing.

Figure 3: Indirect and Induced Job Impacts Felt in Oregon, by Sector, Resulting from 100 Tribal Gaming Jobs in 2005



Gaming results in similarly high multipliers for other measures. For example, the output multiplier is 2.19, which says that for every dollar of output directly from tribal gaming another \$1.19 of additional output results elsewhere in Oregon for a total of \$2.19. The wage multiplier in 2005 was even higher: 2.24. That means for every dollar in wages and benefits directly paid for by tribal gaming operations in Oregon, a total of \$2.24 in wages and benefits were supported statewide.

Tax Impacts

Tribes are governments unto themselves. They earn revenues and then use them to pay for affordable housing projects, healthcare, education, police services, public works, road construction, and social services. Some of this spending also directly benefits non-tribal members of the affected local communities through shared services for healthcare, recreation, and support for public schools. In addition, the contributions and donations made by tribal governments benefit all Oregonians.

Casinos in Oregon are part of tribal governments, much as the Oregon Lottery is part of Oregon State government. Neither the Oregon Lottery nor the tribal casinos are subject to income and property taxes, but their cash flows are both used to pay for government services and needs. In addition, many tribal governments do, in fact, pay state and local jurisdictions for services, and some remit lodging taxes to state and local governments.

The greatest fiscal impact of tribal gaming comes in the form of income taxes paid by casino employees, tribal members, and all the workers and businesses that earn money in non-direct ways because of the casinos. In 2005, tribal gaming generated approximately \$26.6 million in Oregon personal and corporate income taxes and \$43.4 million in federal income tax revenue. In total, almost \$140.3 million in revenues to federal, state, and local governments in 2005 was attributable to the economic effects of the nine tribal casinos in the state.

Table 8: Taxes and Other Government Revenues Attributable to Oregon Tribal Gaming in 2005

Jurisdiction/Source	Tribal Gaming Impact
<u>State of Oregon:</u>	
State personal & corporate income tax	\$26,554,500
Other state taxes, fees & licenses	14,600,500
Oregon Government Revenues	\$41,155,000
<u>Local Governments in Oregon:</u>	
Local property taxes	\$15,725,300
Other local taxes, fees & licenses	6,311,600
Local Government Revenues in Oregon	\$22,036,900
<u>U.S. Federal Government:</u>	
Federal personal & corporate income tax	\$43,368,400
Excise & retirement taxes	33,704,300
Federal Taxes	\$77,072,700
Total Federal, State & Local Revenues	\$140,264,600

Recent Trends

Tribal gaming in Oregon is growing. This is reflected in the operating data of the casinos. It also has benefited tribal governments, which are able to increase services and support for members. Collectively, the growth in gaming and the tribal services it supports have helped the entire state economy in direct and non-direct ways.

Gaming Operations

Visitation to casinos increased approximately 3.8 percent and the number of room nights sold increased 13.6 percent. Revenues of all categories were higher in 2005. Gaming revenues increased 9.6 percent. With the expansion and construction of additional hotel rooms (up 17.8 percent), as well as additional recreational vehicles sites (up 10.5 percent), lodging revenues increased almost \$2.8 million in 2005.

Table 9: Comparison of Tribal Gaming Visitation, Revenues, and Expenditures 2003 – 2005

	2003	2004	2005
Visitation			
Casino	8,102,578	8,600,599	8,926,938
Hotel Room Nights	169,558	212,881	241,738
Revenues			
Gaming	\$384,192,000	\$419,599,000	\$459,689,000
Food and Beverage	41,672,000	45,633,000	49,082,000
Hotel, Lodging and RV	14,783,000	18,254,000	21,021,000
Other	13,098,000	15,552,000	16,393,000
Total Revenues	\$453,745,000	\$499,038,000	\$546,185,000
Major Expenditures			
Labor (including temp. services)	\$162,935,000	\$174,161,000	\$185,588,000
Operating and Other	127,528,000	128,761,000	149,733,000
-Donations and Contributions	7,713,000	8,088,000	9,079,000
-Fees/Contributions to S&L Govt	1,987,742	4,872,526	4,864,000
Construction/New Equipment	42,124,000	56,735,000	28,513,000
Support for Tribal Govts and Members	\$141,665,000	\$168,826,000	\$179,992,000

Catering to the needs of more visitors resulted in higher spending by the casinos. Labor costs grew by \$11.4 million. Other operating costs, especially on utilities, entertainment, and maintenance, jumped nearly \$21.0 million.

Tribes have continued making significant contributions to Oregon charities and non-profits. In 2005, donations and contributions reached another record high of \$9,079,000—about a million more than in 2004.

Capital spending on construction, new equipment, and other fixed assets dipped in 2005 to \$28.5 million. A number of large casino projects had concluded by 2005, which caused the decline. However, the slowdown is apt to be short-lived. Spirit Mountain just completed a major remodeling in 2006 of its old bingo hall into a new casino area, the Mill, Wildhorse, and Three Rivers casinos are in the midst of major expansions and improvements, and several other casinos are planning improvements and renovations.

Since the first bingo hall opened in 1992, the nine Indian tribes of Oregon have invested nearly \$445 million on hotels, casinos, and other tourism amenities. The tribes paid for these investments on their own, and by borrowing money at considerable risk and cost. Overall, these investments equal 18.2 percent of all the spending on the construction of lodging, amusement, social, and recreation facilities in Oregon between 1992 and 2005.¹⁶

Tribal Services

Increases in gaming visitors and revenues have meant more financial resources for tribal government activities. In 2005, approximately \$180 million in gaming revenues went to support tribal government and members—up \$11.2 million from the previous year. The money has gone to build or improve health clinics, housing, youth and cultural centers; provide medical and job training services; pay for education programs ranging from Head Start classes to college scholarships; and increase the standard of living for tribal members.

Oregon tribal governments are planning more construction, infrastructure improvements, economic development projects, and spending on social programs. All of this will enhance the economic capacity of the communities, tribal members, and affected employees and their families for years to come. Much of this spending, however, is dependent on the success of the tribes' major economic development program—tribal gaming.

Economic Impact Trends

The continuing success of tribal gaming has translated into a steadily growing impact on the economy of the state. Table 10 shows the economic impacts associated with tribal gaming in 2003, 2004, and 2005.

In total, tribal gaming directly and non-directly generated almost \$1.475 billion in economic activity in 2005—up more than 43.6 percent from just two years ago. In addition, \$509.4 million in wages and benefits can be traced to tribal gaming in 2005—an increase of \$160.5 million from 2003. The number of jobs affected rose during that period from 10,970 to 15,221.

Table 10: Comparison of Economic Impacts, 2003 – 2005

Impacts	2003	2004	2005
Direct			
Output	\$563,671,000	\$619,269,000	\$674,785,000
Total			
Output	\$1,026,921,000	\$1,326,931,000	\$1,474,701,000
Wages	348,874,000	470,454,000	509,407,000
Jobs	10,970	14,534	15,221

¹⁶ Based on construction project data from F.W. Dodge.

Fiscal Impact Trends

As shown in Table 11, the rising economic impacts of tribal gaming have directly translated into higher federal, state, and local government revenues. These rose from \$100.9 million in 2004 to nearly \$140.3 million in 2005.

Table 11: Comparison of Fiscal Impacts, 2003 – 2005

Fiscal Impacts (Taxes & Other Revenues)	2003	2004	2005
State of Oregon	\$25,611,700	\$34,487,100	\$41,155,000
Local governments in Oregon	17,013,900	19,293,900	22,036,900
Federal government	58,289,400	68,693,700	77,072,700
Total	\$100,915,000	\$122,474,700	\$140,264,600

Gaming Market in 2005

The gaming market is measured in terms of gaming revenues, which is approximately the difference between how much people wager and what they collect in prizes at lotteries, casinos, racetracks, and elsewhere. A detailed explanation of how gaming revenues are measured and the different types of gaming in Oregon can be found in Appendix A, which begins on page 40.

For this analysis, the size of the gaming market in Oregon was determined by assembling data from lotteries, state agencies, federal government sources, tribes, and surveys. Because many Oregonians go across state borders to gamble, data was collected for Washington and Nevada. Proprietary economic models were also used.

There are two basic ways of measuring a market. This analysis reports revenues from these two perspectives:

- (1) Gaming conducted within the borders of the State of Oregon, and
- (2) Gaming done by residents of Oregon regardless of whether it was done at places inside the state or outside of the state.

Gaming Revenues in 2005

In 2005 a total of \$1,314,882,007 was spent on gaming inside the state. That was up nearly 12 percent from the previous year. The increase was driven primarily because of the Oregon lottery, which introduced line games in May 2005. Line games are essentially video slot machines. Also contributing to the increase was the Three Rivers Casino in Florence. It opened in June 2004 and 2005 was its first full year of operation.

The Oregon Lottery changed many video poker machines so that players would have the option of playing line games as well. They also installed many new machines in bars throughout the state. As a result, line games cannibalized business from video poker, which sustained a \$76 million loss in sales in 2005. However, line games more than compensated for this by bringing in \$168 million of new gaming revenues.

Since many VLTs allow patrons to choose between video poker and line games, data on video lottery products are often combined. In calendar year 2005 these video lottery games made nearly \$642.1 million in gaming revenues.

In addition to line games, the healthy economy led to large gain in out-of-state casino gaming by Oregonians. Racing, however, declined as Magna Entertainment, the company that owned the Multnomah Kennel Club, closed the Portland area dog track in December 2004.

Overall, Oregon residents spent \$1,437,870,305 on gaming in 2005 or 12.56 percent more than in 2004. That was \$395.95 per person and 1.23 percent of total personal income. Gaming grew faster than incomes in large part because of the introduction of line games. Detailed revenue data by type of gaming is shown in Table 12.

Table 12: Oregon Gaming Market, 2005

Type of Gaming	Gaming Revenues in 2005	
	Conducted in Oregon	Done by Oregonians
<u>Oregon Lottery:</u>		
Breakopens	\$655,651	\$640,543
Scratch tickets	44,409,912	44,322,763
Megabucks lotto	11,298,581	11,271,136
Powerball lotto	21,104,880	20,999,674
Keno	38,836,315	38,749,862
Sports action game	3,304,908	3,254,410
Pick-Four game	496,469	495,448
Win for life game	2,006,294	2,002,159
Scoreboard sports lottery game	244,529	244,005
Video poker	473,972,918	462,491,865
Video line games	168,099,379	164,027,505
Oregon Lottery Subtotal	\$764,429,836	\$748,499,371
<u>Other Gaming:</u>		
Charitable bingo	\$12,489,799	\$12,466,023
Charitable raffles	4,021,414	4,016,484
Charity casinos & fundraisers	537,460	536,185
OR Indian casinos	459,688,801	379,541,924
WA pulltabs	-	129,823
WA casinos and card rooms	-	33,585,649
Casinos outside OR & WA	-	186,809,485
Live racetrack betting	741,778	759,690
Off-track & simulcast betting	10,100,634	7,803,385
Parimutuel account wagering	2,194,083	2,194,083
Misc. legal out of state gaming	-	850,000
Illegal Internet & other illegal	60,678,204	60,678,204
TOTAL	\$1,314,882,007	\$1,437,870,305
Increase from 2004	11.98%	12.56%
Gaming per person		\$395.95
Gaming as a share of income		1.23%

In and Out-of-State Flows

Non-residents and tourists increased the amount of gaming they did in Oregon by 7.5 percent in 2005, spending nearly \$98.4 million.

Table 13: Gaming Market by Player Residency, 2005

Gaming by Place & Residency of Player	Revenue 2005	% of Total
<u>Gaming Conducted in Oregon:</u>		
By Oregon Residents	\$1,216,495,348	92.5%
By Non-Residents & Tourists	98,386,659	7.5%
Total Gaming Inside Oregon	\$1,314,882,007	100.0%
<u>Gaming Done by Oregonians:</u>		
At Venues in Oregon	\$1,216,495,348	84.6%
At Venues Out of State	221,374,957	15.4%
Total Gaming by Oregonians	\$1,437,870,305	100.0%

Oregonians spent over \$221.3 million on gaming out-of-state. Thus, Oregon is still a net importer of gaming primarily because it borders Nevada, which is an international gaming destination. Just in air travel alone, 589,809 Oregonians flew to Nevada and gambled (net) nearly \$164 million. That was about \$20 million more than in 2004—growth driven by a strong job and income growth rates in Oregon.

Besides Nevada, Oregonians gambled and lost almost \$33.6 million in Washington commercial and tribal casinos during 2005, which is about four million dollars more than in the previous year. Casinos in Idaho are modest competitors for gaming dollars from players residing in northeastern Oregon and tribal casinos in northern California capture a small, but nonetheless significant amount of business from Oregonians traveling along I-5 and US-101.

Market Shares

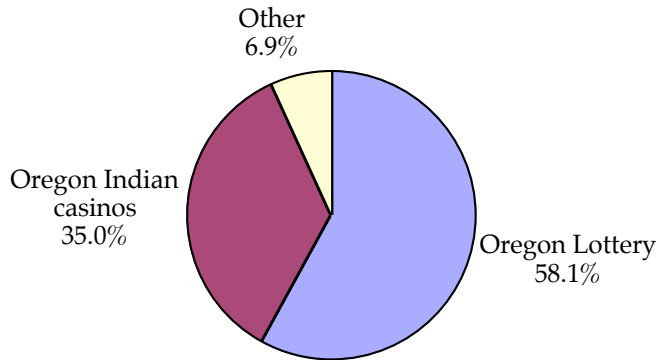
The analysis examines three types of market shares. The first is the share of all the gaming done in Oregon. The second looks at where Oregonians spent their gaming dollars—both in and outside the state. Finally, the market shares of tourism gaming dollars are also analyzed.

Share of Gaming Conducted Inside Oregon

Tribal casinos accounted for 35 percent of every dollar of gaming revenue produced inside Oregon in 2005—probably the first decline in market share since the casinos opened. The Oregon Lottery grew in market share from 57.6 percent to 58.1 percent due almost entirely to the introduction of line games at nearly 2,000 bars and restaurants scattered around the state.

Surprisingly, the share of other forms of gaming grew as well at the expense of Indian casinos. This was mostly the result of a proliferation of Internet poker gaming and continued growth in legal horse wagering online.

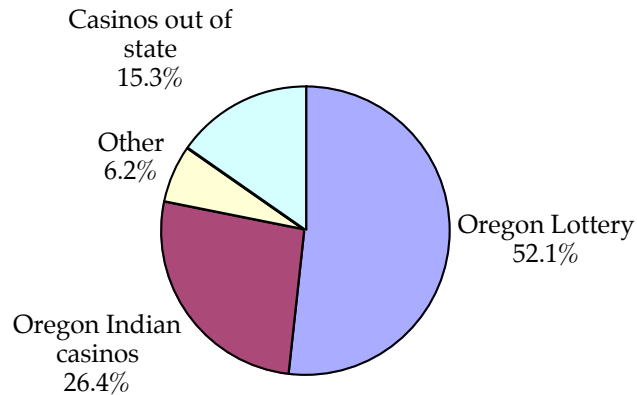
Figure 4: Market Shares of Gaming Conducted in Oregon in 2005



Where Oregonians Spend Their Gaming Dollars

In terms of spending by Oregonians, the Oregon Lottery grew even more dominant in 2005. Fully 52.1 percent of every dollar spent on gaming by Oregonians went towards Oregon Lottery games. That is up from 51.8 percent in 2004. Oregon Indian casinos accounted for 26.4 percent of the gaming by Oregonians, which is down from 27.0 percent in the previous year. This is indicative of the growing competition from the Oregon Lottery, Internet gaming, and out-of-state casinos. For every dollar spent by Oregon residents at the Indian casinos inside the state, they spent another \$2.79 gambling elsewhere.

Figure 5: Market Shares of Gaming Done by Oregonians in 2005

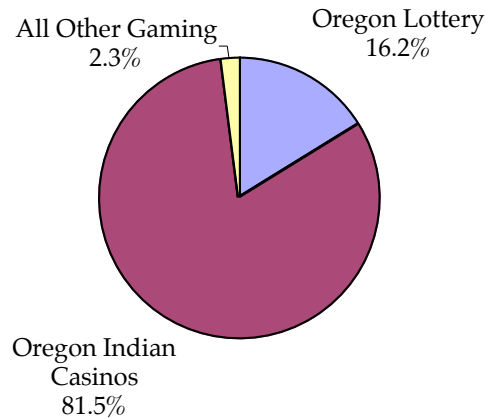


Tourism Gaming Market Shares

Tourists spent \$98.4 million gambling in Oregon or about \$6.8 million more than in 2004. This growth was due mostly to the efforts of Indian casinos, which through developments in lodging, other amenities, and marketing, managed to attract a growing segment of out-of-state players to Oregon.

In 2005, the Indian casinos in Oregon took in 81.5 percent of the gaming generated by tourists. The share of tourism dollars from other forms of gaming fell from 3.5 percent in 2004 to 2.3 percent. This was because of the closure of the Multnomah Kennel Club, which historically had attracted a large share of its business from Washington residents.

Figure 6: Market Shares of Gaming Done in Oregon by Tourists and Other Non-Residents in 2005



Gaming in Oregon: Market Changes 2004 to 2005

The amount of gaming conducted in Oregon grew \$140.6 million or 12 percent in 2005. Tribal casinos saw revenues rise \$40.1 million—helped in part by having one casino operate for a full year. However, as noted before, the greatest change occurred in the Lottery where line games, new to the market, brought in \$168.1 million. Illegal forms of Internet wagering rose too. Gambling on poker online grew dramatically.

Table 14 shows the net changes in gaming conducted in Oregon between 2004 and 2005.

Table 14: Changes in Gaming Conducted in Oregon, 2004 to 2005

Type of Gaming	\$ Change	% Change
<u>Oregon Lottery:</u>		
Breakopens	(\$157,138)	-19.3%
Scratch tickets	282,338	0.6%
Megabucks lotto	(5,357,106)	-32.2%
Powerball lotto	2,185,267	11.6%
Keno	(595,412)	-1.5%
Sports action game	519,212	18.6%
Pick-Four game	(77,450)	-13.5%
Win for life game	71,418	3.7%
Scoreboard sports lottery game	(15,805)	-6.1%
Video poker	(76,327,607)	-13.9%
Video line games	168,099,379
Oregon Lottery Subtotal	\$88,627,096	13.1%
<u>Other Gaming:</u>		
Charitable bingo	(\$856,463)	-6.4%
Charitable raffles	198,865	5.2%
Charity casinos & fundraisers	213,013	65.7%
OR Indian casinos	40,090,066	9.6%
Live racetrack betting	(1,015,986)	-57.8%
Off-track & simulcast betting	(1,991,293)	-16.5%
Parimutuel account wagering	96,421	4.6%
Illegal Internet & other illegal	15,284,454	33.7%
TOTAL	\$140,646,172	12.0%

The Oregon Lottery became even more formidable in the market. By the end of 2005 there were 2,063 video lottery retailers—53 more than a year earlier. Retailers had 10,721 video lottery terminals at the end of 2005, which is a gain of 431 from 2004. Just that increase of 431 machines exceeds the total number of VLTs on the floors of four of the nine Indian casinos in Oregon.

Trends in Video Lottery Hold Rates

Besides expanding machine capacity and outlets, the Lottery maintained aggressively low hold rates on their machines.¹⁷ When video poker first became available in 1992, the hold rate was over eleven percent.

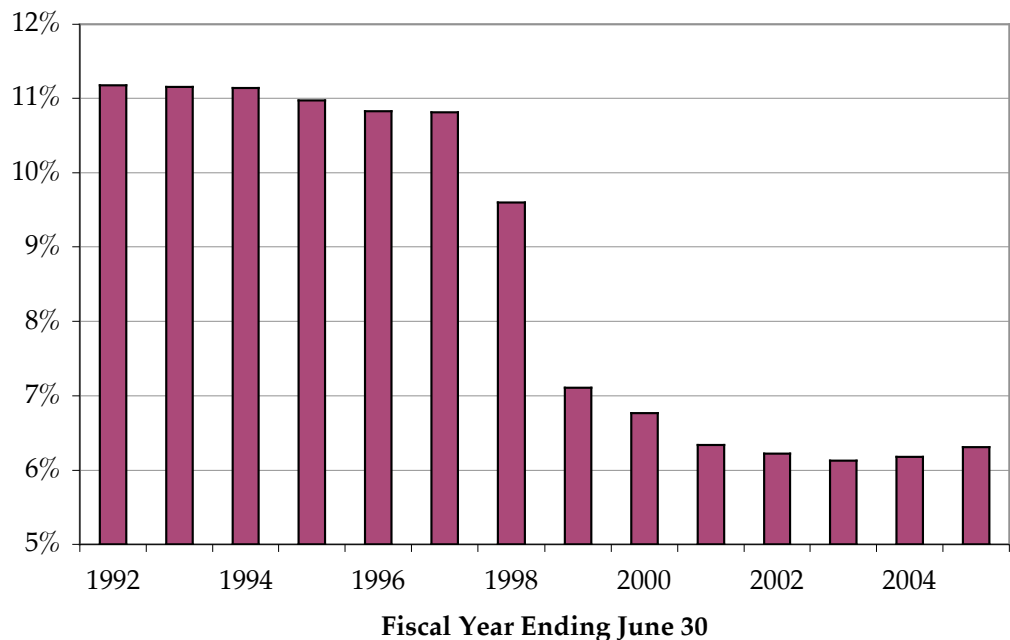
¹⁷ The hold rate is the average percent of every dollar wagered that is lost by players. The effect of a lower hold rate is to stimulate more play by reducing the probability that players would face protracted periods of losses. It also encourages more play, especially away from machines that might have higher hold rates.

Gradually new versions of video poker were introduced, such as *Flush Fever*, which have lower hold rates. When line games came on the market they were set with hold rates as low as five percent.

By fiscal year 2005, the average hold rate video lottery games was only 6.31 percent even though the Lottery had introduced nickel games, which traditionally would have higher hold rates than video poker machines with minimum wagers of a quarter.

On the Las Vegas Strip, for example, the hold rate on nickel line games averaged 10.42 percent and for all slot machines, 6.56 percent in 2005.¹⁸ Thus, Oregon Lottery machines were priced even below those in the highly competitive Las Vegas Strip market in 2005.

Figure 7: Average Hold Rates on Oregon Lottery VLTs, 1992 - 2005



Source: Oregon Lottery data.

Trends in Video Lottery Machine Counts and Revenues

The Oregon Lottery rapidly expanded the number of VLTs soon after the video lottery was introduced in 1992. Table 15 shows the historical data. The number of units leveled off in the late 90's as the penetration of VLTs in bars neared its peak. Concerned about slowing revenue growth, the State Legislature changed the maximum number of units any retail establishment may have from five to six. Unit and revenue growth resumed soon after, and then accelerated with the introduction of line games.

¹⁸ Nevada Gaming Control Board. Gaming Revenue Report. December 31, 2005.

Table 15: Number of Machines and Gross Revenues of Oregon Video Lottery Games, Fiscal Years 1992 - 2006

Fiscal Year	VLTs at Year	
	End	Gross Revenues
1992	4,973	\$24,871,927
1993	5,276	172,156,647
1994	6,128	247,026,168
1995	7,287	331,068,286
1996	7,823	355,683,544
1997	8,738	393,193,068
1998	8,929	407,475,217
1999	8,767	402,581,509
2000	8,776	436,531,650
2001	8,903	462,398,035
2002	9,140	480,201,739
2003	9,344	498,712,314
2004	9,767	530,966,187
2005	10,433	579,650,266
2006	11,105	732,888,437

Source: International Gaming & Wagering Business. November 2006. Page 52.

Gaming by Oregonians: Market Changes 2004 to 2005

Oregonians spent \$160.6 million more on gaming in 2005 than they did in 2004. As shown in Table 16, this equaled \$39.41 more per person.

Table 16: Changes in Gaming by Oregonians, 2004 to 2005

Type of Gaming	\$ Change	% Change
<u>Oregon Lottery:</u>		
Breakopens	(\$153,517)	-19.3%
Scratch tickets	282,252	0.6%
Megabucks lotto	(5,343,397)	-32.2%
Powerball lotto	2,174,982	11.6%
Keno	(594,440)	-1.5%
Sports action game	511,436	18.6%
Pick-Four game	(77,289)	-13.5%
Win for life game	71,335	3.7%
Scoreboard sports lottery game	(15,759)	-6.1%
Video poker	(74,151,375)	-13.8%
Video line games	164,027,505
Oregon Lottery Subtotal	\$86,731,733	13.1%
<u>Other Gaming:</u>		
Charitable bingo	(\$855,971)	-6.4%
Charitable raffles	198,505	5.2%
Charity casinos & fundraisers	212,509	65.7%
OR Indian casinos	34,274,112	9.9%
WA Pulltabs	(31,114)	-19.3%
WA casinos and card rooms	3,968,871	13.4%
Casinos outside OR & WA	22,746,781	13.9%
Live racetrack betting	(635,072)	-45.5%
Off-track & simulcast betting	(1,510,265)	-16.2%
Parimutuel account wagering	96,421	4.6%
Instant racing VLTs	-
Misc. legal out of state gaming	37,026	4.6%
Illegal Internet & other illegal	15,284,454	33.7%
TOTAL	\$160,517,989	12.6%
Per Capita Gaming	\$39.41	11.1%
Population July 1	48,840	1.4%
Personal Income	\$7,392,231,000	6.7%

Appendix A

Measuring the gaming market is complicated by what forms of gambling to consider and how to measure them. The following explains some of the definitions and intricacies of how gaming markets are measured.

Gaming Revenues

People often confuse the terms gaming and gambling. They have two very different meanings. Gambling is the activity that consumers do when they make a wager—usually at a venue such as at a lottery retailer, casino, or bingo hall. Gaming revenue is the difference between the total amount players bet and how much they win in cash and prizes. Another way to look at it is to consider gaming revenue the amount that consumers, in total, lose or spend on gambling. Gaming revenue is the standard unit used to measure the market.

Social Gambling

Not all gambling produces gaming revenues. Informal social games, such as office Super Bowl pools and many private poker games, do not produce gaming revenues because the players in total do not lose money. The sum of the amounts won by some players equals the losses of all the others. Money simply changes hands between them.

The same is true for social gaming outside of homes and offices. Oregon permits social gaming at fraternal clubs, restaurants, and bars only where local ordinances allow it. Cities, such as West Linn and John Day, for example, allow social gaming such as blackjack played among customers at clubs. No money in net is taken from all the players and given to the business, so there are no gaming revenues. As a result, neither informal nor formal social gaming appears in our assessment of the Oregon gaming market.

Amusement Games

Amusement games, which are carnival and crane games played for prizes at fairs and supermarkets, are an exception. People put up money for a skill game where the prize is a toy, watch, or some novelty. Although regulated by the Washington State Gambling Commission, operators of amusement games are not counted as gaming providers in Oregon.

Using Expected Values

Complications arise when measuring the gaming market because it is conceivable that for a given game, winnings can exceed wagers. For example, in October 2005, a man in Jacksonville, Oregon won a record \$340 million Powerball prize. Therefore, winnings from the Powerball lottery game in 2005 would far exceed wagers made in Oregon and, technically, Powerball lottery gaming revenues would be negative.

A similar problem exists for casinos that have networked VLT game titles. These games are linked to machines in other casinos around the country. By doing so, the casinos may offer very high grand prizes—usually several million dollars. Wherever the grand prize is won, in a sense gaming revenues for that location are negative.

Similar negative revenues can occur when measuring gaming on the county level for games with lesser prizes. Indeed it is difficult to determine how much prize money was won from the wagers of games, such as lotteries, on a county level because winning tickets can be cashed in counties other than those where they were bought. Thus, as a standard, it is a common practice to measure gaming revenues on an accrual or expected value basis.

The expected value for revenue is the average player loss per dollar bet on a particular game. Thus, for example, if a lottery game keeps on average 30 cents of every dollar bet, we estimate that the revenues for a particular county would be 30 percent of that lottery game's sales. Using expected values takes out potentially large swings due to where people cash tickets and where they buy them. In Oregon, for example, all tickets worth over \$800 must be cashed in Marion County (at the Lottery headquarters). However, the greatest problem that using an expected value corrects for is in big prize lotto games, such as Powerball, where there can be a single hundred million dollar winner.

For casinos with a VLT title that has a high grand prize, the VLT manufacturer often takes the responsibility of paying the top prize, but charges all casinos with the VLTs a percentage that approximates the appropriate expected value.

Two Ways of Measuring the Market

There are two ways to measure a gaming market: (1) by counting all the gaming done inside a state and (2) by measuring all the gaming that residents of the state engage in, whether it is inside the state or out of state.

Where it is Conducted

The simplest measure counts all the gaming conducted in a given geographic location. This is a good way to assess the size of the gaming industry in a state. However, it is not useful for comparisons to a state's population or income because people often travel across state lines to gamble.

How Much Residents Spend on Gaming

The second method counts all the gaming by residents, whether it is done in the state where they live or outside the state. Only the gambling done by residents is counted, so any gambling by tourists visiting the state is excluded. The advantage of this measure is that it is a component of the budgets of residents. Thus, it tracks closely with changes in local population and income.

Categories of Gaming

ECONorthwest collects revenue data on many forms of gaming. For this report we combined some of the categories and reduced the market analysis down to a set of 22. They are:

1. **Oregon Lottery pull-tabs or breakopens.** Pull-tabs, which are also known as breakopens, are games where players buy a piece of paper for a specific game. The players pull off paper tabs to reveal symbols. These symbols indicate whether a player has won a prize. Pull-tabs or breakopens are roughly similar to a paper form of a slot machine. They are available in many bars in Oregon as a product of the Oregon Lottery.
2. **Oregon Lottery scratch tickets.** These are traditional lottery scratch off tickets, usually for small to mid-sized prizes, which typically are sold for \$1 to \$5 at convenience stores and markets throughout Oregon. They are called scratch or instant tickets because the player determines whether they have won by scratching off a waxy coating to reveal numbers or symbols that indicate if they are a winner.
3. **Oregon Lottery Megabucks lotto.** The Megabucks game was the original lotto game in Oregon. Lotto is a game where players buy a ticket with numbers or symbols and then await the outcome of a drawing where numbers or symbols are randomly selected. Megabucks drawings are done three times a week and the top prize is at least a million dollars.
4. **Powerball.** This is a multi-state lotto game sold in Oregon. When the carryover pool is large, many out of state residents will play the game as well. Only the revenues from sales of Powerball tickets sold inside Oregon are counted in this category.
5. **Oregon Lottery keno.** Keno is a game where 20 out of 80 random numbers from one to 80 are drawn. Prizes are paid according to how many correct numbers a player chose in advance of the draw. In Oregon, the Lottery operates a centrally determined game that is played every four minutes and transmitted throughout Oregon to 2,790 keno retailers (year-end 2005).
6. **Oregon Lottery sports action game.** This is a parlay card based on NFL football games. Sports Action is popular with out of state residents and is being discontinued because it was believed to have hindered Portland's attempts to attract NCAA basketball games.
7. **Oregon Lottery pick-four game** is a once a day lotto with a modest prize payout, which is similar to numbers games on the East Coast.

8. **Oregon Lottery Win For Life game** is a three times a week, four number lotto game that pays winners a top prize of a thousand dollars a week for life.
9. **Oregon Lottery Scoreboard game** is similar to an office football pool where players pick the last digits of game scores. Unlike many office pools, the number selection in this Oregon Lottery game is done randomly. It is available at Oregon Lottery retailers during football season.
10. **Oregon Lottery video poker.** At the end of 2005, there were 2,063 retailers in Oregon and they had 10,721 video poker VLTs. To be allowed to have VLTs a retailer must have a license to serve beer, wine, or hard liquor, restrict VLT access to people over 20, and pass a criminal background check. Most retailers are bars or restaurants. They are limited to six VLTs per establishment.
11. **Oregon Lottery line games.** In May 2005, the Oregon Lottery introduced line games, which are effectively video slot machines. The transition involved modifying existing video poker machines around the state. Thus, in many cases, a terminal will play video poker or line games depending upon the choice of the consumer. Lottery line games offer several common casino slot machine titles.
12. **Charitable bingo.** This includes bingo games run by charities and licensed by state government. Bingo sessions held at casinos are reported under casino revenue. Games with handles below the state minimum for licensing (\$5,000 in Oregon) are excluded.
13. **Charitable raffles.** All state licensed charitable raffles and fifty-fifty games are included here.
14. **Charity casino nights.** Some charities run fundraising events called casino nights or Monte Carlo nights. These are licensed by the states of Oregon and Washington. Casino night revenues may include small amounts from raffles, pull-tabs, and other gaming activities that are done at some charitable casino events.
15. **Oregon Indian casinos.** In 2005, there were nine Indian casinos in Oregon.
16. **Washington Indian casinos and card rooms.** At the end of 2005, there were 32 Indian casinos, including bingo halls and slot venues not under state compact, in Washington. There were 115 commercial card rooms operating in Washington during the fourth quarter of 2005. Card rooms, also known as mini-casinos, can offer poker and usually house-banked card games, such as 21 and *pai gow* poker.

17. **Casinos outside of Oregon and Washington.** This category is the sum of all the gaming dollars spent by Oregonians physically visiting casinos and card rooms located out of state. This would include Indian casinos, commercial casinos, and cruise ships. Some major destinations for out-of-state casino play for Oregonians include Idaho, California, British Columbia, Reno, and Las Vegas.
18. **Live racetrack betting.** In Oregon this includes wagering on live horse races conducted at Portland Meadows racetrack and county fairgrounds (Tillamook, Union, Prineville, and Grants Pass). Outside of Oregon it may include betting at dog tracks.
19. **Off track & simulcast betting.** This is the revenue from all wagering at racetracks and at commercial off track betting parlors inside the state where betting on races being conducted at other locations is allowed.
20. **Parimutuel account wagering.** Wagering done inside the state on races conducted outside the state placed by telephone or by using the Internet, and paid for by using an account that is legal according to the state.
21. **Miscellaneous legal out of state gaming.** This covers all other forms of legal gaming, but the largest component is betting on lotteries outside of Oregon. It also would include such things as non-casino slot play in Montana, wagering on Jai Ali, pull-tabs, and video poker at bars in Nevada and Louisiana.
22. **Illegal Internet and other illegal.** This is a catchall category for all forms of illegal gaming. It is estimated based on national averages and comparisons to local personal income levels. The main forms of gaming in this category are illegal sports betting (other than the Oregon Lottery, Nevada sports books, and similar legal outlets), simulated casino gaming over the Internet, dog fighting, cock fighting, non-casino *pai-gow*, unlicensed poker games with house rakes, Internet poker games with house rakes, and other illegal Internet gaming.