

A RESEARCH NOTE ON THE IMPACT OF THE ECONOMIC RECESSION ON INDIAN GAMING IN CONNECTICUT

Thaddieus W. Conner, University of Oklahoma and William A. Taggart, New Mexico State University,

Abstract

This research note continues our investigation into the impact of the economic recession across Indian Country by focusing on what are arguably two of the most successful and recognizable Class III operations in the industry, the Mashantucket Pequot and the Mohegan Indian casinos in Connecticut. Monthly data from the State of Connecticut Division of Special Revenues were converted into quarterly totals spanning 12 fiscal years, resulting in 48 observations from the first quarter (July-September) of FY97-98 to the fourth quarter (April-June) of FY08-09. The results suggest that as the national economy continued to slow heading into latter part of 2008, so did the experiences of the Foxwoods and Mohegan Sun casinos, with record percent losses reported in the 2008-2009 fiscal year. Furthermore, while both tribes have reported sizeable layoffs in response to the declining economy, our investigation was able to capture empirically how both tribes have attempted to adjust to the current economic climate with increases in the number of gaming machines on the floor. Although it is still difficult to tell what the remainder of 2009 holds in store for gaming nations across Indian Country, the results of this analysis suggest a difficult year ahead for the

Indian gaming industry in Connecticut as further losses are already being reported for the first month of the new fiscal year.

Introduction

The economic recession that began in the fall of 2007 has tested the durability of the gaming industry in the United States. According to a 2009 “State of the States” report released by the American Gaming Association (AGA), gross gaming revenues nationwide were down 4.7% from 2007, while the New York Times reports that 60% of gaming patrons across the country have cut back their spending on casino gambling (Urbina 2009). Discourse regarding the overall impact of the economic recession on Indian gaming has been less definite. Both the National Indian Gaming Association (NIGA) and the National Indian Gaming Commission (NIGC) have reported that, while revenues from Indian gaming have slowed over the past year, the industry remains relatively unaffected by the economic downturn overall (NIGA 2009; NIGC 2009). The NIGC reports that Indian gaming industry’s gross revenues in 2008 exceeded revenues in 2007 by approximately \$500 million, translating into a 2.3% *increase* since the dawn of the recession (NIGC 2009). However, this information comes alongside news surfacing across Indian Country of declines in net win (Palermo 2009), dips in discretionary spending (Toensing 2009; Urbina 2009), layoffs and salary cuts of casino employees (Light and Rand 2009; Salgado 2009), and even casino closures (Palermo 2009). In a research note appearing in the Spring 2009 issue of this journal, we reported that the tribes with Class III gaming in the state of New Mexico had experienced a steady decline in net win revenues since the first quarter of 2008, with further losses anticipated in 2009. Thus,

while the resiliency of the Indian gaming industry may be substantiated at the national level, there appears to be considerable variation in regards to the impact of the recession at the tribal level that continues to deserve attention.

Indian Gaming in Connecticut

This research note continues our investigation into the impact of the economic recession across Indian Country by focusing on what are arguably two of the most successful and recognizable Class III operations in the industry, the Mashantucket Pequot and the Mohegan Indian casinos in Connecticut. The Mashantucket Pequot nation operates the notorious Foxwoods casino resort, having signed a gaming compact with the state in April 1991. The Mohegan nation entered the gaming market shortly after gaining federal recognition in 1994 with the opening of the Mohegan Sun casino. Furthermore, a joint memorandum of understanding was signed by both tribes and the state that requires each nation to pay the state 25% of its “gross operating revenues” on video facsimile and slot machines in exchange for exclusivity rights within the state. Gross operating revenue, according to the State of Connecticut Division of Special Revenues (2009b), is defined as “the total sum wagered less amounts paid out as prizes,” typically considered as a casino’s “net win.”

The Division of Special Revenues releases for each month of the fiscal year (July 1-June 30) the net win of each casino, along with information regarding the handle (also known as the “churn”, which measures the total wagering on machines), revenue sharing payments to the state, and the weighted average number of slot machines on the floor. Given that the tribes entered the market at different times, we use the 1997-98

fiscal year (FY) as the starting point in our analysis, which is when both nations first reported a full year of earnings. Monthly data were assembled for 12 fiscal years through the end of FY08-09. To improve interpretability, we converted the months into quarterly totals, producing 48 observations from the first quarter (July-September) of FY97-98 to the fourth quarter (April-June) of FY08-09. We feel that this is a sufficient number of time points to identify patterns in the data, and especially changes in more recent years that may be attributable to the economic recession. Lastly, data are reported in both current dollars and 1996 constant dollars in order to take into account the impact of inflation on purchasing power over the past twelve years.ⁱ

Gaming Revenues in Connecticut

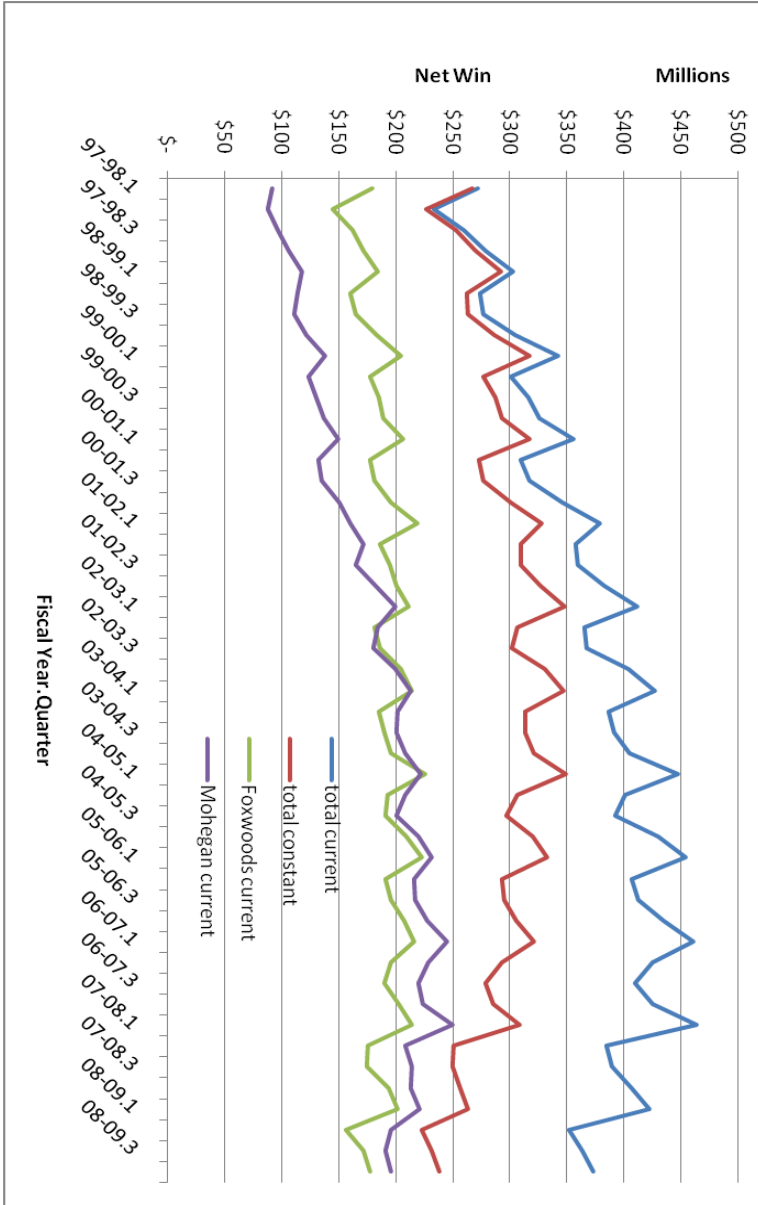
Figure 1 presents the total quarterly net win in current and constant dollars between FY97-98 and FY08-09, as well as the current net win shown separately for both Foxwoods and Mohegan Sun casinos. For both casinos there is a clear overall upward trend in current and constant net win dollars, though with regards to constant dollars the slope begins to flatten as the effects of inflation accumulate over the 12 year period. More importantly, there is an apparent downward progression in all the series that becomes especially pronounced by the beginning of FY08-09.ⁱⁱ In the course of one year, from FY07-08 to FY08-09, the current net win total in Connecticut dropped by more than \$134 million, a striking 8% decline. For the years covered by our analysis, the nations experienced their largest quarterly loss in the second quarter (October-December) of FY07-08, followed by the second largest loss in the second

quarter of FY08-09, with a drop in net win of \$79 million and \$70 million, respectively.

There is also a noticeable cyclical pattern in total current net win over the course of the data, with the first quarter of each fiscal year showing the highest revenues, followed by a sizeable dip in the second and third quarters, and then recovering in the fourth quarter as the nations generate their second highest revenues. This annual pattern of peaks and valleys is consistent for every fiscal year since 1998-99. Notwithstanding, the first quarter in FY08-09 shows the lowest total of all first quarter peaks since FY02-03, six years earlier. Even more alarming, the fourth quarter of FY08-09, where revenues typically rebound, displays the smallest “recovery” since FY00-01 and hardly matches the upward spikes witnessed in these earlier fourth quarters.

To get a better idea of how this pattern holds for each tribal casino taken individually, we also present the overall trend in current net win for both Foxwoods and Mohegan Sun casinos appearing in the lower half of Figure 1. The first overall trend that stands out is how Mohegan Sun has not only closed the gap in regards to net revenues in comparison to Foxwoods, but has actually surpassed the powerhouse by the first quarter of FY03-04. However, this gap would appear to be narrowing slightly by the end of FY08-09 as both tribes experienced declines in revenues as the affects of the recession noticeably set in. In regards to the previously mentioned annual cyclical pattern, both tribes appear to have seen a dull in recovery typically enjoyed during the fourth quarter of the fiscal year, with Mohegan Sun actually experiencing a lower fourth quarter in FY07-08 than the second and third quarters of that year.

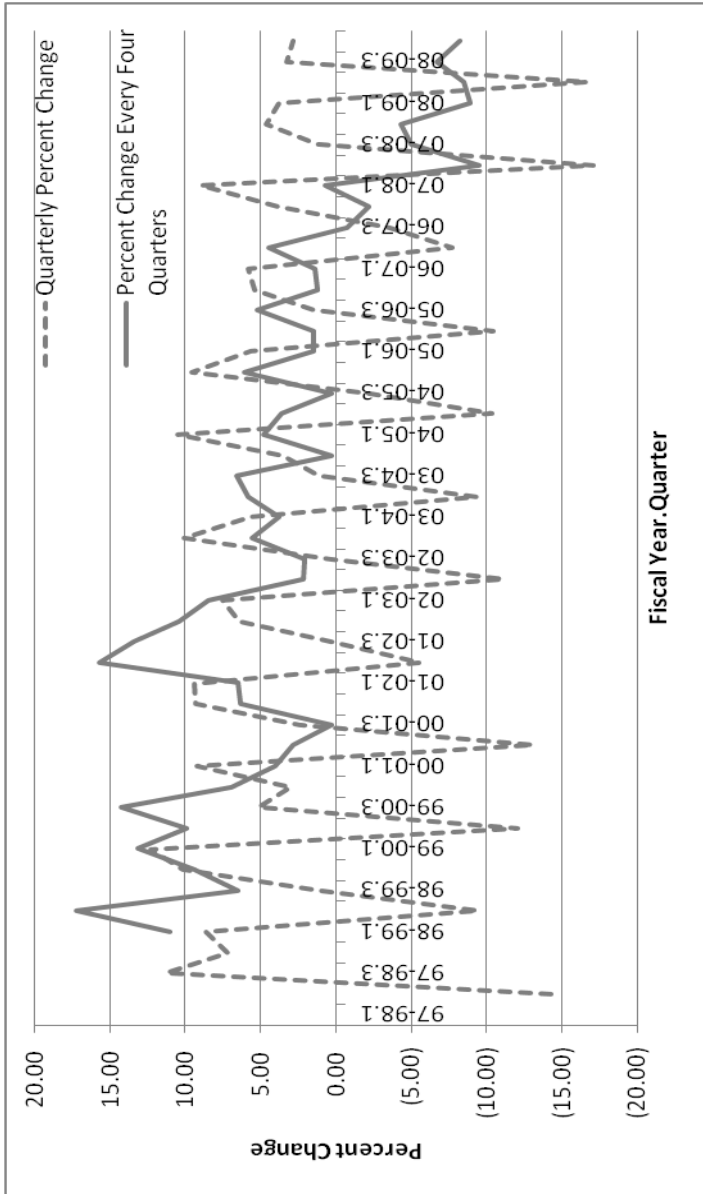
Figure 1: Quarterly Net Win in Current Dollars and Constant 1996 Dollars for the Foxwoods and Mohegan Sun Casinos in Connecticut between FY97-98 and FY08-09



Overall, the trends observed in Figure 1 suggest a considerable decline in net win for the gaming nations in Connecticut, especially since the beginning of FY07-08. Furthermore, both the Foxwoods and Mohegan Sun casinos appear to be equally affected by the downturn in revenues, although the latter took a harder hit near the end of FY07-08. To better understand these dynamics, we summed the totals for both nations and calculated the percent change in current net win between consecutive quarters, as well as between every four quarters to compensate for the cyclical pattern noted above.ⁱⁱⁱ These two series are presented in Figure 2.

The dramatic decline in net win observed from FY07-08 to FY08-09 of more than \$134 million is equally apparent when looking at the quarterly percent change series. Indeed, the largest percentage decline in revenues during the period analyzed occurs during the second quarter of FY07-08, followed by the second quarter of FY08-09. In both instances, the percentage decrease exceeds 15%. When turning to the percent change in current net win between every four quarters, a much more pronounced pattern of decay emerges. Although it is the case that the series is trending downward generally, reflecting a more complex process of change, the two gaming nations had been enjoying positive gains from previous quarters each year, save for a slight dip near the end of FY06-07, up until the second quarter of FY07-08.^{iv} In comparison to the second quarter of FY06-07, the tribes experienced an almost 10% drop in net win. Over the remaining six quarters, Indian gaming revenues show consistent percentage declines of up to 9%.

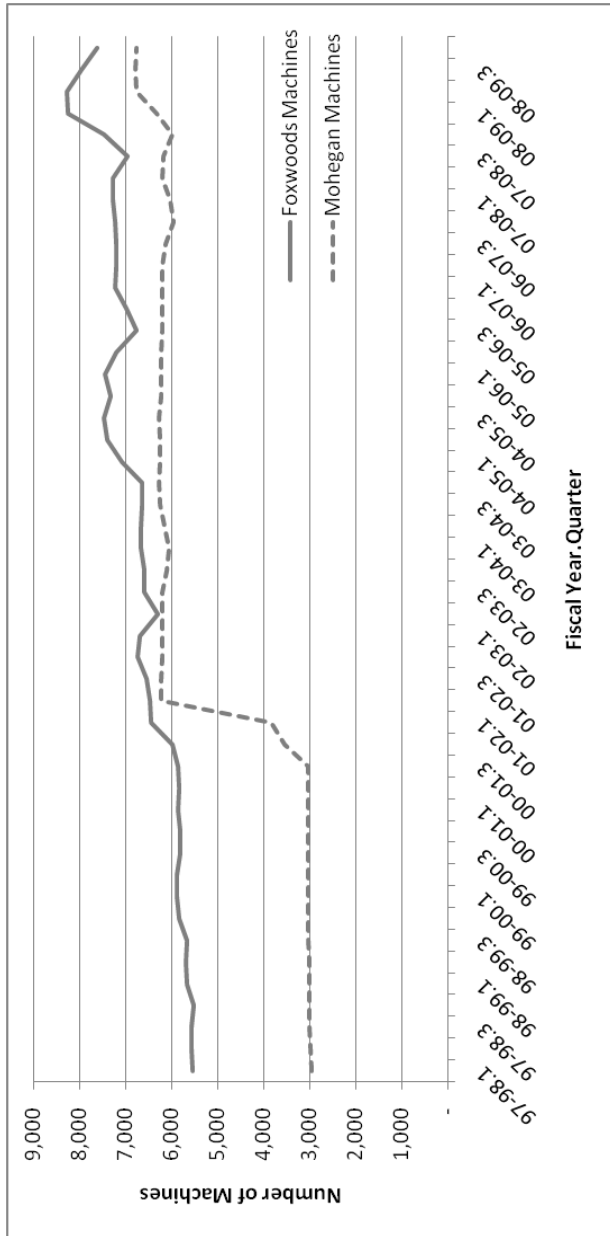
Figure 2: Quarterly Percent Change and Percent Change Every Four Quarters in Current Net Win for Both Gaming Nations in Connecticut between FY97-98 and FY08-09



Finally, data made available by the Division of Special Revenues offers an opportunity to consider one possible way these two nations might be adjusting to the current economic climate. In a phone conversation with a Gaming Control Board official in the state of Michigan, we learned several gaming tribes in that state were increasing the number of slot machines on the floor as they were cutting back on more labor intensive table games such as poker, blackjack, and roulette.^v The logic behind this move is to reduce employee costs, while offering a substitutable product that may yield a similar or higher rate of return. Connecticut reports the weighted average number of slot machines on the floor each month, which we converted to quarterly totals for the years included in our analysis. These results are plotted in Figure 3.^{vi}

As may be observed, the number of gaming devices offered by both tribes is relatively stable over most quarters, save for a few noticeable changes, including a sudden increase during the first quarter of FY08-09.^{vii} In fact, the number of slot machines had actually declined slightly in the prior couple of quarters for the nations, and then increased by as much as 9 to 12 percent over the course of the following fiscal year. Both casinos announced sizeable layoffs of casino employees during FY08-09 in response to declining revenues (Gershon 2009; Light and Rand 2009). Coupled with the data reported in Figure 3, there would appear to be some evidence suggesting that these nations are responding to negative economic conditions in ways similar to what is being reported in Michigan.

Figure 3: Quarterly Number of Slot Machines by Gaming Nation in Connecticut between FY97-98 and FY08-09



Summary

Overall, our analysis reveals that the Indian gaming industry in Connecticut has experienced declining revenues since the second quarter of FY07-08. Equally noteworthy, the once predictable annual cyclical pattern observed in net win since 1997 appears to have been disrupted starting with the final quarter of FY07-08, suggesting a lack of recovery typically expected in the fourth quarter of each fiscal year. Although the first quarter of FY09-10 has yet to be fully realized, the Division of Special Revenues has released the first month of data for both tribes that may help us anticipate what the coming year will bring. Comparing July of FY09-10 to July of FY08-09, the Foxwoods casino resort is already down almost \$10 million in net win, while Mohegan Sun casino is down more than \$6 million. Although it is difficult to predict what the coming year will bring based on these early reports, these numbers do not bring very good news.

Finally, these findings for the gaming tribes in Connecticut parallel the results we discovered for the nations in New Mexico, though on a much larger scale. The unavailability of similar data from other states makes it difficult to assert with much confidence about what is happening at the sub-national level generally but these two investigations, involving very different regions and markets, would suggest that the Indian gaming industry is not as recession proof as was once thought. Conversations with various state gaming officials indicate it is difficult to determine what the landscape of Indian gaming will look like as the country emerges from the depths of the current economic recession. At this juncture, a return to the days of years past does not appear eminent.

Work Cited

- American Gaming Association. 2009. "State of the States: The AGA Survey of Casino Entertainment." Accessed on September 1, 2009 from <<http://www.americangaming.org>>.
- Conner T. and W. A. Taggart. 2009. "A Research Note on the Impact of the Economic Recession on Indian Gaming in New Mexico." *Indigenous Policy Journal* (IPJ). Vol. XX(1). Available at <<http://ipjxx1.wordpress.com/>>.
- Gershon, Eric. April 30, 2009. "Mohegan Sun Reports Lower Revenue." *The Hartford Courant*.
- Light, Steven and Rand, Kathryn. January 6, 2009. "Indian Gaming and the Recession." *Indian Gaming Today*. Accessed on May 10, 2009 from <<http://indiangamingtoday.blogspot.com/2009/01/indian-gaming-and-recession.html>>.
- National Indian Gaming Association. 2009. "NIGA Report: The Economic Impact of Indian Gaming in 2008." Accessed on June 30, 2009 from <<http://www.indiangaming.org/index.shtml>>.
- National Indian Gaming Commission. June 3, 2009. "NIGC Announces 2008 Revenues." Accessed on June 30, 2009 from <<http://www.nigc.gov/ReadingRoom/PressReleases/PressReleasesMain/PR113062009/tabid/918/Default.aspx>>.
- Palermo, Dave. May 15, 2009. "Recession Impact on Native America Varies with Tribes." *Indian Country Today*. Accessed on May 15, 2009 from <<http://www.indiancountrytoday.com/business/44899072.html>>.

- Salgado, Ernie. 2009. "Tribes Face Economic Gloom." *California Indian Education*. Accessed on May 15, 2009 from <<http://www.californiaindianeducation.org>>.
- State of Connecticut Division of Special Revenue. 2009a. "Gaming Revenue and Statistics." Accessed on September 1, 2009 from <<http://www.ct.gov/dosr/cwp/view.asp?a=3&q=290840&dosrNav=|>>.
- State of Connecticut Division of Special Revenue. 2009b. "Memorandum of Understanding." Accessed on September 19, 2009 from <<http://www.ct.gov/dosr/cwp/view.asp?a=2031&q=421838&dosrPNavCtr=|43105|#49479>>.
- Toensing, Gale C. May 8, 2009. "Tribal Financial Advisors Solve Debt-Related Issues: Former Bankers Work Exclusively with Tribes." *Indian Country Today*. Accessed on May 11, 2009 from <<http://www.indiancountrytoday.com/business/44167722.html>>.
- U.S. Department of Commerce, Bureau of Economic Analysis. 2009. *National Income and Products Accounts Table*. Accessed on May 12, 2009 from <<http://www.bea.gov/national/nipaweb/TableView.asp?SelectedTable=13&ViewSeries=NO&Java=no&Request3Place=N&3Place=N&FromView=YES&Freq=Qtr&FirstYear=2002&LastYear=2009&3Place=N&Update=Update&JavaBox=no>>.
- Urbina, Ian. September 9, 2009. "Investigating the Impact of the Global Recession." *The New York Times*. Accessed on September 11, 2009 from <<http://www.nytimes.com/2009/09/10/us/>>

10gambling.html?_r=2&adxnnl=1&emc=eta1&adx
nnlx=1253380751-JQ+nqWGUE8/
n8tmOsAAUGA>.

ⁱ Instead of the consumer price index, which is based heavily on urban consumers, we used the implicit price deflator for state and local government on the premise that it is likely to portray a more realistic mix of purchases of goods and services by tribal governments. The source of this information is the U.S. Department of Commerce, Bureau of Economic Analysis (2009).

ⁱⁱ Perhaps not surprisingly, an almost identical trend is detected when looking at the handle.

ⁱⁱⁱ The calculation of percent change results in the loss of one and four time points, respectively, at the beginning of each series.

^{iv} Interestingly, during FY06-07 Foxwoods casino began issuing free play coupons for slot machines that may or may not have effected overall net win during this and later quarters. The total redeemed from free play coupons is reported separately in the monthly data released by the Division of Special Revenues and is not figured into overall net win. Mohegan Sun began a similar policy during the latter part of 2007.

^v Our phone conversation took place on August 26th with Eric Bush, Director of Tribal Gaming, State of Michigan Gaming Control Board.

^{vi} According to a representative with the State of Connecticut Division of Special Revenues, a weighted average is employed because of constant fluctuations on the gaming floors due to such things as maintenance, cleaning, and rearrangements for marketing events and other demands on floor space.

^{vii} In the second quarter of FY01-02, the Mohegan Sun nearly doubled the number of slot machines on the floor, which explains the sudden change in level at about the midpoint on the trend line. This increase in machines also corresponds with a more than 10% increase in net win from the same quarter the previous year.