



the **G2E**
future watch series

an insider look at new trends in gaming


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Executive Summary



**AMERICAN
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Global Gaming Expo (G2E) showcases the best and brightest in the gaming industry today. But G2E is about more than the here and now; it's also about the cutting-edge nature of our business. The G2E Future Watch Series, an original research series released in conjunction with G2E each year, serves as a tool to help highlight and examine some of the most significant industry trends.

As 2008 marks the 20th anniversary of the passage of the Indian Gaming Regulatory Act (IGRA), this year's Future Watch Series examines important trends and issues facing the Indian gaming industry both now and in the future. To inform our research, we surveyed some leading tribal gaming executives, regulators and analysts and asked them to give us their thoughts on what the future holds for this vibrant and dynamic segment of the gaming entertainment industry. This year's research touches not only on IGRA, but on Class II gaming as well as a host of other critical regulatory and legal matters.

Our survey respondents are leaders at the forefront of the Indian gaming industry. Nearly 70 percent of those with whom we spoke have been working either directly or indirectly with tribal gaming for more than a decade. We hope our findings, detailed on the following pages, provide some truly unique insights into where this burgeoning sector of our industry is headed in the years to come.

This year's Future Watch Series also will be the centerpiece of a Signature Series panel discussion on Tuesday, Nov. 18th at 9:15 a.m. in Room N-102. Moderated by Frank Fahrenkopf, president and CEO of the American Gaming Association, this featured session will allow audience members to hear first-hand accounts of how some of Indian gaming's foremost leaders are tackling the challenges of today with an eye toward the opportunities of tomorrow.

The AGA and Reed Exhibitions, organizers of Global Gaming Expo, would like to thank all of the Indian gaming industry experts for taking the time to help us complete this Future Watch Series.

The State of the Industry

- **Indian Gaming Revenue Growth Expected to Continue.** According to some market forecasters, gaming revenues at Indian casinos in the U.S. were about \$26 billion in 2007. By contrast, the American Gaming Association reports operators in the 12 commercial casino gaming states generated about \$34 billion in gaming revenue over this same period. So, how long do our tribal experts think it will be before revenues at Indian gaming operations exceed those on the commercial side? While there is no consensus on the answer, the fact that nearly half (48 percent) of our experts think Indian gaming revenues will overtake their commercial counterparts within the next year or two (10 percent) or within three to five years (38 percent) is an extraordinary statement. On the other hand, one-third (33 percent) of our survey takers think this event is not going to happen any time soon.
- **Views of Current Economic Woes May Impact Future Expectations.** There has been no shortage of news reports in recent months detailing the headwinds many operators in the commercial casino sector have been facing. Less has been mentioned about how the economic slowdown in the U.S. has impacted the Indian gaming sector. Perhaps one of the reasons our experts are so sanguine about the future prospects for growth in the Indian gaming sector relative to the commercial casino segment is because tribal operators are weathering the current economic storm a bit better. In fact, nearly three quarters (71 percent) of our experts think the consequences of the economic slowdown on gaming in Indian Country had been either “much less severe” (19 percent) or “somewhat less severe” (52 percent) than on their non-tribal counterparts. Only a fraction thinks the impact has been “about the same” (24 percent) or “somewhat more severe” (5 percent).
- **Increased Focus on Non-Gaming Amenities Less Prevalent at Tribal Operations.** Many resorts in the commercial casino sector, particularly on the Las Vegas Strip, generate an increasingly large percentage of their revenues from non-gaming sources. We wanted to hear from our Indian gaming insiders to what degree this trend is being seen in their sector of industry. Interestingly, more than two-thirds (67 percent) of our interviewees say the increased emphasis on non-gaming amenities is “only a little prevalent” (48 percent) or “not prevalent at all” (19 percent) at tribal operations. Roughly one-in-three think it is either “very” (10 percent) or “somewhat prevalent” (24 percent).
- **What Will Be the Most Important Non-Gaming Amenities of the Future in Indian Country?** While spas, signature chef restaurants and nightclubs might not yet be prevalent in Indian Country, we still wanted to get our experts’ opinions about which non-gaming revenue sources hold the most promise for tribal operators five to 10 years from now. Our survey takers think convention and business facilities (43 percent) hold the most promise, with hotel rooms (24 percent) coming in a distant second. An equal number of interviewees choose restaurants (14 percent) and clubs and nightlife (14 percent) as being non-gaming amenities with the most promise, while only a small fraction (5 percent) choose golf courses.

The Indian Gaming Regulatory Act

- **Views on IGRA are Overwhelmingly Positive.** While people have differing views on how the National Indian Gaming Commission (NIGC) has interpreted and implemented certain elements of IGRA over the last 20 years, the vast majority (81 percent) of our experts think IGRA has had either a “very positive impact” (57 percent) or “somewhat positive impact” (24 percent) on Indian Country. It is worth noting though, that nearly one in five respondents (19 percent) feels that the Act, as implemented by the NIGC, has had a somewhat negative impact on tribes.
- **A Majority Would be Open to Minor Changes to IGRA.** In recent years, some members of Congress have proposed amending certain elements of IGRA. While our experts were not asked about specific amendments, a majority (62 percent) say that “some minor changes to IGRA might serve Indian Country well.” On the flip side, one-third (33 percent) of respondents stand firm in their belief that no part of IGRA should be amended by Congress. Almost no one (5 percent) thinks major changes to IGRA would be desirable.
- **Concentration of Gaming Revenue an Issue for Some.** According to some estimates, the top 15 percent of tribes generated roughly 70 percent of total Indian gaming revenue in 2007. For a portion of our experts (19 percent), this concentration of revenues “very much” impacts their view of the economic progress and empowerment brought about by IGRA, and they definitively say the “economic progress needs to be more widespread.” The vast majority of our experts take a milder view, with 43 percent saying they think “there might be better ways to make prosperity more widespread.” A full 38 percent say their views about economic progress are not impacted at all by the figures because revenue concentration is inevitable in any industry.
- **Challenges in Gaining Federal Recognition are Expected to Continue.** During the eight years of the Bush administration, 13 of the 15 tribes who sought federal recognition were denied. Was this record the result of administration views about the economic development benefits associated with gaming or indicative of a broader trend? Overwhelmingly, 86 percent of our Indian gaming experts think it is “very likely” (48 percent) or “somewhat likely” (38 percent) that this lack of success for tribes in gaining federal recognition is part of a broader trend that will continue after the Bush administration and into the near future.

Joint Management Agreements

- **No Consensus on the Future of Joint Management Agreements.** In Indian gaming's early years, tribes often signed management agreements with commercial casino operators to take advantage of their experience in running a gaming floor or resort. But are joint management agreements now a thing of the past given the experience tribal operators have gained over the last 20 years? Our respondents are about equally divided in their opinions on this question. A bare majority (53 percent) thinks management agreements are "definitely" (24 percent) or "probably" (29 percent) not going to be a feature on the Indian gaming landscape going forward, yet nearly as many (48 percent) think management agreements will continue to have a role.
- **Tribal Operators are Likely to Have an Increased Presence in the Commercial Gaming Sector in the Future.** Some tribes, such as the Mohegan Tribe of Connecticut, have already opened gaming operations in commercial casino jurisdictions. If our interviewees are right, this will only be the beginning of a larger trend among tribal gaming operators in the years to come. In fact, more than eight out of 10 respondents think that this is something we are "very likely" (43 percent) or "somewhat likely" (38 percent) to see more of over the next decade.

Indian Gaming and the Courts

- **Widespread Agreement That Seminole Case Sets a Bad Precedent.** Earlier this year, the Florida Supreme Court struck down a compact signed by the Seminole tribe and Governor Charlie Crist. Many people in Indian Country are worried that there could be broader, negative implications for tribes outside of Florida as a result of this ruling, and our experts concur with this thinking. For example, among our interviewees:
 - 81 percent agree that, "State legislators in other states will be encouraged to sue to get existing compacts overturned in the hopes of getting a better deal."
 - 76 percent agree that, because Florida racetrack casinos operate Class III gaming machines, "The Seminoles should be allowed in this case to define Class III as including not only machines but table games as well."
 - 62 percent agree that, "Governors and state executive branch officials should be allowed to negotiate compacts with tribes without approval from the legislature."
- **Narragansett Case Before the U.S. Supreme Court Viewed as Vital.** Can the Secretary of the Interior hold land in trust under the 1934 Indian Reorganization Act for a tribe that was not federally recognized until after the Act's passage? That is one of the central questions being considered by the U.S. Supreme Court in *Carcieri v. Kempthorne*, and roughly eight out of 10 (81 percent) of our experts think that if the Court rules in the Narragansett's favor, it would be "very important for tribes across the country."

Class II Gaming

- **The NIGC's Withdrawal of New Regulations on Class II Gaming Machines is Good News, But for How Long?** The Indian gaming industry insiders surveyed overwhelmingly agree (81% very much so) that if the NIGC had gone ahead with new regulations redefining Class II gaming machines, there would have been serious, negative consequences for many tribes. Unfortunately for these same tribes, 81 percent of our experts also think it is either "very likely" (52 percent) or "somewhat likely" (29 percent) that the NIGC will revisit this Class II issue within the next five to 10 years.

Other Regulatory Issues

- **Recent Actions by California Gambling Control Commission are Worrisome.** The California Gambling Control Commission voted recently to impose new regulations on tribal casino operations even though federal law suggests that these types of regulations are supposed to be established during tribal-state compact negotiations. The vast majority of our survey respondents say they are either "very concerned" (57 percent) or "somewhat concerned" (29 percent) about these kinds of actions being replicated by commissions in other states.
- **No Consensus on How Tribal-State Regulations Should Evolve with the Times.** The question of whether state regulations pertaining to Indian gaming must all be specifically enumerated in tribal-state compacts is challenging, and our experts are divided over the best answer to it. Just over half (52 percent) of our interviewees say that, because of the ever-changing, dynamic nature of the industry, they favor the ability of regulations to evolve without renegotiating compacts each step of the way. On the other hand, nearly the same number (48 percent) think that any state regulations of tribal gaming need to be specifically enumerated in the compact, and anything beyond that should require compact renegotiation.

