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Abstract

The casino segment of the hospitality industry is experiencing unprecedented growth. As a result, many academics and practitioners alike cannot stay abreast of developments in the field. The author addresses the situation by providing an overview of casino development in the United States from an historical perspective, a review of current developments, and some predictions about the future.

Keywords

George Fenich, Gaming, Gambling, Casino

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by
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The casino segment of the hospitality industry is experiencing unprecedented growth. As a result, many academics and practitioners alike cannot stay abreast of developments in the field. The author addresses the situation by providing an overview of casino development in the United States from an historical perspective, a review of current developments, and some predictions about the future.

While gambling has been a part of humankind since ancient times, how has gambling evolved in present-day society? What is the status of gambling in the U.S. today? Exploration of one of the newer forms of gaming, casinos, may answer these questions. Casino gaming is a major part of the hospitality industry, with many of the better-known corporations embarking on these endeavors. It might even be said that casino gaming is the major growth industry of the 1990s and the only sector of the hospitality industry that is really expanding.

Gambling is not new to the United States; various forms of it have been present in the country since its founding. From cock fighting to poker playing, people have been lured by the idea of big payoffs. For example, the sale of lottery tickets existed in the Jamestown colony and helped to finance the first plantation. During the French and Indian War, heightened levels of taxation prompted colonists to resort to lotteries in order to raise money when British authorities tightened control. In 1776, the Revolutionary War was financed, in part, by the sale of lottery tickets. Further, in New Orleans the French and the Spanish allowed gambling, and by 1810 the city had as many gambling halls as the four largest American cities combined. By 1815, New Orleans licensed and taxed gambling dens, with the proceeds being donated to charity. In 1827, John Davis opened the Crescent City House that may have been the first full-blown American gaming casino, and a precursor of those in Nevada.

After the first transcontinental railroad was finished, San Francisco became a hub, but Americans coming to the West wanted to

depart from the social standards of the East and live the life of chance about which they had heard. Gold Rush Californians were the epitome of the western experience and characterized the crowds that frequented the gambling saloons popping up in San Francisco. Eastern influence still loomed, however, as California slowly began to outlaw public gambling and drive away illicit operators. In order to enjoy the lifestyle they had grown accustomed to, Californians resorted to illegal clubs and to travelling out-of-state to Nevada.

Casinos Have Always Been a Part of U.S. History

Casinos, or so-called gambling houses, have existed in many parts of the U.S. since at least the 17th Century. Until World War I, illegal gambling houses operated in most of the country's large cities. However, during that war the armed services forced these illegal establishments out of the cities and into nearby suburbs. Thus, servicemen did not lose their money when they came to port or into town. During this time there was increased concern that crime figures were controlling most of the gambling activity and, as a result, gaming was outlawed. Further, there was a hiatus from lotteries between 1893 and 1963 due to a ban by the federal government. New Hampshire was the first state to reinstate a lottery, followed by New York State in 1967.

In 1931, Nevada initiated a deliberate strategy to improve the state's finances and to stimulate economic growth by legalizing almost all forms of public gambling. Converted storefronts served as gambling parlors throughout Nevada, until Raymond Smith and William Harrah opened the first large gambling clubs in Reno in 1937. In the 1940s, Benjamin "Bugsy" Siegel, an alleged crime figure, built the first casino in Las Vegas that combined gambling, recreation, and entertainment. The acquisition of numerous casino properties by Howard Hughes in the late 1960s enhanced the respectability of the gambling industry nationally, in spite of lingering fears of intervention by organized crime. As the country has come to accept gambling, casinos in Nevada have grown and prospered.

Recent Legislation Has Permitted Growth

Although the history of gambling in the United States is extensive, legalized casino gambling has only existed since 1931 in Nevada¹ and since 1976 in New Jersey.² Subsequent to the passage of these measures, the casino industry has become a thriving, multi-billion dollar business. In 1993 there were 93 million visitors to casinos and the industry took in more than \$30 billion. Many experts suggest that the American market is only one third developed. Recent legislation has shown that many other states are looking toward casino gambling to help stabilize ailing economies through taxation and increased tourism. This has launched a storm of debate over the viability of these measures, raising questions about taxation and controls on development, and even questions about the morality of legalized

gambling. Regardless of the moral questions, casino gaming is here to stay and the passage of new legislation over the past few years shows that the casino industry is in a period of rapid and extensive growth.

Until recently, casino development was relegated primarily to cities such as Las Vegas or Reno in Nevada, and Atlantic City in New Jersey. Las Vegas has remained the shining star of the casino industry in the United States with its renowned "Strip." People have been drawn from all over the world to this glittering community with the promises of big payoffs and performances by big name stars. Las Vegas continues to grow and will remain the benchmark by which to measure others in the spread of legalized casino gambling.

Las Vegas attracted tourists when the first gambling halls opened in 1931 and expanded quickly after World War II as large hotels were built. By the 1950s, it was already a tourist destination that combined casinos with live entertainment and superb hotel accommodations. Las Vegas is also a completely developed business center and one of America's fastest growing cities. Hospitality infrastructure in Las Vegas includes a 1.1 million square foot convention center with an additional 1.3 million feet of exhibition space at hotels throughout the city, and a first class airport. "Las Vegas is the ultimate in destinations, the city that tourism built."³

In 1993, 23.5 million visitors checked into Las Vegas' 74,000 hotel rooms, a 7.3 percent increase over the year before. Saul Leonard talks about growth by saying "1990 was an incredible year of growth for Las Vegas. Visitor volume increased 12 percent; convention attendance rose 15.5 percent, and gaming win was up almost 18 percent."⁴ However, the Nevada Gaming Board suggests that 42 percent of Las Vegas' 62 casinos were unprofitable, with half the casinos in the downtown area losing money in 1990.⁵ Further, continued expansion in 1993 has put even greater pressure on profits.

There are announcements almost monthly about new casino projects and expansions in Las Vegas. With the opening of mega-resorts such as the Mirage in 1989 and the Excalibur in 1990, as well as multi-million dollar additions to the airport and convention center, the 1990s have proved to be an incredible growth period for Las Vegas.⁶ Today, Las Vegas continues to grow with a 1,500-room tower addition to the Stardust, the opening of the 2,526-room pyramid shaped Luxor, as well as MGM Grand's 5,000-room hotel casino and theme park that opened in December of 1993.⁷ Although new legislation allows for the spread of casino gambling across the United States, it seems that Las Vegas will remain the shining star of the industry.

Some Communities Take Lead From Las Vegas

A few communities followed the lead of Las Vegas in legalizing gambling. Initially, the group consisted of only places in Nevada like Reno, Laughlin, and Lake Tahoe. Later, New Jersey followed their lead by legalizing gambling in Atlantic City in 1976 and, as a result,

that city witnessed rapid development for 10 years. Atlantic City's casinos bring in \$3 billion a year and generate \$391 million in state taxes. The national economic downturn, which began in 1989, has effectively devastated the casino industry in Atlantic City, with only five out of 12 casinos showing profits after interest and taxes. According to figures from the Casino Association of New Jersey, casinos in Atlantic City collectively lost \$265 million in 1990 and, of the five casinos that reported profits, only the Claridge, Caesar's, and the Showboat reported profits that reflected growth compared to 1989 figures. Even the Trump Taj Mahal reported a \$120 million loss in spite of the fact that it took in \$69 million in the first nine months of operation.⁸ These huge losses and the bankruptcy of Resorts International do not bode well for Atlantic City; many people are predicting that Atlantic City's development drought will continue for several years. Thus, Atlantic City is without casino development for the first time in 14 years and stands in sharp contrast to Las Vegas with its plethora of development activity. City and state governments have tried to bolster Atlantic City's position by initiating development of a new convention center and improvements to the regional airport.

Several additional states are deliberating the pros and cons of developing government-sanctioned, land-based casinos. One example is Biloxi, Mississippi, where a beach marina hotel was recently approved for renovation and transformed into a casino/hotel. Objectives of the plan include creation of new jobs, revitalization of a poor economic situation, and an increase in the tourism industry in Mississippi. Other hotels in the area are expected to improve and enhance their image in order to compete with the new property. The clientele is expected to be regional with Georgia, Florida, Alabama, and Arkansas contributing the greatest number of visitors. The casino commission estimates that just under half the visitors will stay at least one night, but the in-state draw may be limited because of the region's bible-belt demographics. Other analysts view the casino simply as an added amenity to the existing resort. In any case, the start of gaming depends on positive endorsement through a local referendum.⁹

Colorado Develops Gaming in Mining Towns

Colorado turned to state sanctioned casino gambling to boost failing economies in devastated mining towns after passing a referendum in 1990 allowing casino gambling in Central City, Cripple Creek, and Black Hawk.¹⁰ Their inspiration comes from Deadwood, South Dakota, also a former mining town, where low stakes games have injected new economic life. When gambling began in Colorado in October 1991, the industry grew so fast that many local residents began to regret their decisions to legalize it.

"Instead of a few slot machines, full-blown casinos owned by Las Vegas veterans and real estate developers have swept in, swallowing many mom-and-pop businesses along the way. Water, sewer, and traffic systems have been overwhelmed; crime has increased; non-casino

businesses face huge tax increases, and the relative calm of local politics has been shattered."¹¹ Because of these concerns, Central City imposed a building moratorium in April 1992, halting all projects that would require a new water connection.

These concerns aside, many Coloradans feel that casino gambling has proven successful beyond anyone's imagination, with wagering totals rising each month. In May of 1992 upward of \$168 million was wagered, with casino owners netting close to \$15 million after taxes.¹² Casino gambling has also sparked interest in secondary development, including hotels and restaurants. The projected surge of construction has many local residents fearing that supply will exceed demand. Less than a year after gambling began, four of the smaller casinos closed, while the Vegas-style casinos are thriving. This is offset by the fact that, even though no new hotels have opened, the casinos have provided 3,000 new jobs for local residents, and casinos have reported winnings of up to \$115.8 million in the first 10 months of operation.

Unfortunately for local residents, casino development has caused property values to skyrocket. In just one year, a jewelry store's property tax value went from \$4,000 to \$437,000. The reason for this increase is that the property must be valued at its "highest and best use," which, in this case, is gambling. Despite these debilitating factors, gambling is entrenched in Colorado, with 68 casinos in operation as of July 1992 and construction expected to continue well into 1995.¹³

Louisiana Also Joins the Ranks

Louisiana approved an exclusive license for a land-based casino at the Rivergate site in New Orleans. The license allows for 20 years exclusivity, but strict regulations and controls caused many potential operators to re-evaluate their proposals. According to state regulations, the casino would have to be free-standing and not physically connected to a hotel. The proposed tax structure is another dampening factor. The casino is required to pay 18.5 percent or \$100 million a year, whichever is greater, for 20 years. Many operators feel that these numbers would make it impossible to profitably operate a land-based casino. Lawrence Klatskin of Prudential-Bache Securities figures that "you'd have to do \$540 to \$550 million of win to generate that tax...No casino in the world generates that much."¹⁴ For example, the Mirage in Las Vegas had the highest gross in the world in 1991, and that was only \$393 million. Therefore, theoretically, a casino based in New Orleans would have to pay 26 percent of its take in state taxes.

In October 1993, Harrah's, a unit of the Promus companies, was awarded the bid to build New Orleans' casino and entertainment complex "in one of the nation's most promising markets."¹⁵ The goal here is similar to that in Biloxi: to revitalize local tourism and bolster the economy of New Orleans. It is estimated that the project will create over 11,000 new jobs and a multi-faceted entertainment complex that could attract up to 11 million visitors a year. Harrah's plans to build a 200,000 square foot casino at the Rivergate site. The development will

cost an estimated \$670 million, including a \$165 cash payment to the City of New Orleans.¹⁶ Louisiana has also joined a growing number of states in legalizing water-based gaming establishments: riverboats.

Riverboats Are Latest in Casinos

The newest trend in the casino industry is that of riverboat casinos along the Mississippi. Iowa, Illinois, Louisiana, Mississippi, and Missouri now have legalized riverboat gambling¹⁷ with 15 casino boats already operating on the Mississippi and Gulf Coasts. At least 30 more are expected by the end of 1994.¹⁸

Iowa was the first state to approve riverboat gambling in July of 1989, with the first boats starting operations in April 1991. Between 1991 and 1992 Iowa riverboats hosted 2.3 million visitors and generated \$8 million in revenues. Iowa is also the only state that has betting limits with a \$5 maximum bet and a \$200 maximum loss limit per person, per excursion. Iowa legislation has specified that riverboats must reflect Iowa's historical paddle wheel design and they must cruise during operations.¹⁹

Unlike other states that have legalized riverboat gambling, Mississippi has imposed no such restrictions. State law only permits those counties that adjoin the Mississippi River and three counties along the Gulf Coast to host riverboats. As of April 1992, seven counties out of a possible 13 had legalized gambling in their areas. There are no cruising specifications, nor limits on betting or hours of operation. There are also no limits on the number of licensed riverboats, with the state of Mississippi preferring to let the market dictate that. In order to improve occupancy rates and save deteriorating hotel stock, voters in Biloxi, Mississippi, have approved dockside gambling legislation with multi-million dollar plans for the renovation of resorts such as the Broadwater Beach Hotel and Marina and the Grand Biloxi Resort.²⁰ Hotel operators and investors hope that legalized gambling will help boost the area's status as a resort destination and suggest that business will increase. However, Harrah's Hotels Casinos announced in October 1993 their intent to abandon plans for a riverboat casino there, citing market saturation as the reason.²¹

When Illinois passed the bill legalizing gambling in December 1989, three boats began operating with promising results. Within a six-month period, they saw a total of 750,000 visitors board the boats and generate \$38.8 million in revenue, as well as \$9.2 million in taxes on the win and per-person admissions.²² There are no betting limits in that state either, but state law dictates that 10 licensees can run two riverboats each, with a total of 20 riverboats allowed to operate. In the two years since passing the legislation, the Chicago area alone has seen six boats launched.

Missouri jumped on the bandwagon in 1991 with plans for seven licensed riverboats and one continuously docked boat. The Missouri Tourism Commission is responsible for licensing activities and anticipates that the riverboats will each accommodate about 800 people,

with the docked boat holding about 2,000.²³ However, Missouri riverboats are only allowed to operate games of "skill" such as blackjack and poker, thus disallowing slot machines. Thus, they may have trouble competing with full-service boats from the other side of the river in Illinois. According to the tourism commission, riverboat operations are expected to begin by 1994.

With the new legislation and dozens of proposals pending, the riverboat gaming industry is predicted to be a huge growth market in the next few years. Philadelphia, New York City, Erie, Pittsburgh, and the Meadowlands of New Jersey are all considering riverboat gaming. Depending on the success of riverboat gaming along the Mississippi, it is foreseeable that more and more states or cities will resort to similar measures. With sagging economies and insurmountable budget deficits, it would appear that other states will follow the example of the five Mississippi river states in the hopes that legalized gambling will provide a quick fix for their economic troubles.

Indian Reservations Are Popular Sites

Native American tribes are now getting in on the action. Currently, more than half the tribes in the U.S., or 150 of them, either have or are planning casinos. Even though many had bingo parlors for years, in 1988 Congress passed the Indian Gaming Regulatory Act, granting them the right to open casinos in states where gambling in any form is allowed. Further, since the tribes are "sovereign nations," they are exempt from state betting limits or taxation. In fact, it is the Indian casinos that rank Minnesota as the third largest casino gaming state in the country. There are 16 Indian casinos in that state, of which almost 10 are destination resorts. These 16 casinos gross \$2 billion dollars a year and pay no taxes. Thus, "The Minnesota hospitality association wants some regulation on either the national or state level on these operations."²⁴ In the fall of 1993, casino operator Donald Trump filed suit to prevent Indian casinos in the country from operating tax free.

In contrast to Minnesota's Indian casino gambling, the Connecticut Hotel/Motel Association endorses gaming operations at Foxwoods Casino in Ledyard, operated by the Mashantucket Pequot Indians. Here the tribe has agreed to pay the state \$30 million a year at first, and at least \$100 million in each fiscal year thereafter. Further, the casino employs 2,800 local residents, many of whom were laid off from their defense industry jobs.

Since Foxwoods opened its doors in February 1992, it has taken in more than \$100 million. The day they opened, the parking lot was full within a half hour and the state police had to seal off approach roads. Within months they had decided to expand the casino and have since become the largest casino in the country, taking in upward of \$3 million a day and making \$20 million in June of 1993 alone. They have also built a 303-room hotel, with another 250 rooms to follow in 1994. In addition, in 1992 the Pequots contributed

\$1 million to the regional visitors bureau for advertising promoting southern Connecticut tourism.²⁵ In late 1993, the Mohegans in Connecticut were granted tribal status and plan to build their own casino near Foxwoods. As a result, the two tribes have agreed to pay the state \$160 million per year.

Not all Indian casinos are mega-operations. Two tribes outside Tucson, Arizona, operate smaller facilities. One, which is housed in an expanded warehouse style structure, functions primarily as a bingo parlor with approximately 100 slot machines. The other is more in the Vegas style with lights and glitter, but is much smaller than Foxwoods. At least 10 of Arizona's 21 tribes have signed compacts with state officials to allow gaming.

Indian Gaming Operations Are Profitable

Indian gaming houses are reaping huge profits. The National Indian Gaming Association reports tribal casinos nationwide have grown into a \$6 billion a year business operating in 20 states. Indian casinos are seen as the beginning of "general style" gambling, a prize sought after by many traditional casino operators who are hungry for expansion.²⁶ Some, like Donald Trump, say that Indian casinos have the potential to hurt the conventional gaming industry and, thus, both politicians, along with competing gambling interests, are maneuvering to slow the spread of tribal casinos. On the other hand, tribal leaders say the accusations of preferential treatment are false and are only a ploy in the battle over sovereignty. They are standing firm to protect their "sovereign nation" status and claim to be using gaming as a means of providing badly needed social services, housing, and new venture capital.

In 1993, Governor Cuomo of New York signed an agreement allowing the Oneida Tribe to open the state's first high stakes gambling casino in more than a century. It is located just east of Syracuse and opened in the summer of 1993. The casino is expected to generate more than \$100 million in profits annually. It will also provide over 2,000 jobs for this poverty stricken area, and raise capital for a variety of Indian businesses and social services ranging from low income housing to day care.²⁷ A pact for another casino in New York was signed by the governor in October 1993. It is with the St. Regis tribe located just south of Montreal and will include a \$10 million, 40,000 square foot casino.²⁸ Another Indian tribe, the Cahuilla Tribe of California, has signed an agreement with Caesars World, Inc. to build a \$25 million casino in Palm Springs.²⁹

The Future Is Now

Gambling is this country's fastest growing industry, with budgets as large as that of the Pentagon. Over the past decade, gross U.S. gambling revenues went from \$10.4 billion in 1982 to \$29.9 billion in 1992. Net revenues for casinos have also risen, ranging from \$2 billion in 1978 to \$10 billion in 1993. This amount is expected to double

by the turn of the century, while Philip Satre predicts that the combined revenues of legal and illegal gambling will hit \$500 billion by the year 2000.³⁰

Currently 33 states and the District of Columbia have some level of government sanctioned gambling, including lotteries, poker parlors, or casinos. Statistics also show that government entities collect more than \$20 billion from lotteries alone. The huge revenues generated have lured many states to adopt gambling measures as a quick fix for rising budget deficits. Gambling fever has hit Indian reservations, states along the Mississippi, and even Georgia and Chicago are considering its legalization. "This is an indication of the future of gambling in the United States," says Massino Schawlder, marketing director for Tivilino Teller House, Inc., a Swiss gambling operator with an eye on U.S. expansion. "In 10 years, every American will have gaming within a two-hour drive."³¹

Several pieces of legislation in a number of states could potentially expand the industry even further. States such as Texas, Florida, Washington, and Connecticut have proposed legislation for land or riverboat-based gambling facilities. In the case of Connecticut, the effort is aimed squarely at the highly successful Foxwoods Indian Casino and includes a proposal in downtrodden Bridgeport by an Indian group along with a revitalization plan centered around a casino in Hartford.

In spite of this increased competition, some experts feel that America's casinos will continue to prosper as long as they adapt to changes in customer desires. Steve Wynn, the Las Vegas tycoon, defends his "mission to gentrify gambling in America, cleansing it of its associations with high life and low life while delivering it to local suburbs, as the innocuous extension of the middle class weekend outing."³² Wynn does not use the traditional name "gambling" when referring to the business he is attempting to revolutionize, but rather states he is in the "recreation business." Las Vegas has embarked on a deliberate strategy to expand its market beyond the adult gambler by developing theme park/casinos such as the MGM Grand or Treasure Island.

Casino patrons have embraced Wynn's "recreation" concept by demanding more from a hotel casino. They are no longer satisfied with only game rooms and sleeping accommodations. They want to have a complete experience, an unforgettable one. Las Vegas is a burgeoning destination resort because it has so much to offer guests, with some of the newer facilities being so extensive that they qualify as mega-resorts.

Hotel casinos have tried to differentiate themselves through designs and themes since they all offer the same basic commodity on the casino floor. Evidence of this trend, and its continuance, abound. In Las Vegas, the Mirage intrigues guests with many varieties of magic tricks and a theater that cost \$24 million. The facility is also well known for its 45-foot-tall volcano that erupts outside every four

minutes while the interior is adorned with lush vegetation, and live animals like lions, dolphins, and white tigers. The Mirage, along with Caesar's with its Roman theme, are said to target upper echelon gamblers, particularly when the latter hosts world heavyweight boxing championships. Trump's Taj Mahal in Atlantic City is also geared to the higher roller with its multi-million dollar chandeliers and extensive use of marble, while the Excalibur in Las Vegas is geared to the tastes and pocketbooks of middle America. The carnival atmosphere of Circus Circus is unquestionably the most family-oriented theme; they will be adding a water park soon. This must be done to match the intense competition being fostered by the opening of the pyramid-shaped Luxor and the MGM Grand hotel and theme park with a gaming floor that uses a Hollywood fantasy theme.

Casino gaming is here to stay and all indicators would suggest that it will continue to grow in the foreseeable future. Americans will probably have some form of casino gaming within a two-hour drive by the turn of the century, and this proliferation could lead to market saturation, at least in some locations. The winners of the casino development competition will be those facilities that offer a complete and multi-faceted attraction that appeals to more varied tastes than those with a strictly gaming orientation. Hospitality operators who are astute enough to predict the changing wants and desires of the guest and adapt quickly to them will survive, while the laggards will perish.

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