

IMPACTS OF DETROIT'S CASINOS ON THE LOCAL COMMUNITY

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ABSTRACT

Several communities have adopted casino gaming as an economic impact strategy. The main reasons for casino development are: to generate tax revenue and to keep local gaming money inside. In 1996, Proposal E allowed the City of Detroit the establishment of three land-based commercial casinos. The first Detroit casino opened in 1999, however, debates about the impacts of casino development in the city are still heated, most of which are not based on scientific examinations. An economic impact analysis was conducted by this study, followed by an examination of crime volume and bankruptcy filings in the city of Detroit*.

Keywords: casino gaming, tourism development, social impacts, economic impacts, Detroit.

INTRODUCTION

The fiscal situation of cities in the United States varies greatly from one to another and, to some extent, from one region to another. Many growing cities enjoy relatively good fiscal health. However, a number of the larger, older cities have experienced severe distress and urban problems. States' budgetary shortfalls are the primary reasons for policy makers considering strategies to broaden their economic base and thereby generate more tax revenue. All cities make serious efforts to broaden their tax base and promote their own economic development. There are over 15,000 organizations in the United States devoted to promoting local and state economic development (Levy, 1997). To attract commercial and industrial activity, some cities have offered desirable firms/corporations an attractive subsidy for locating in their respective communities; others have launched massive publicity campaigns to promote themselves as good investment locations, and still others have looked for various ways to diversify their economic base (Yeoman, 2001), including the development of tourism (Gartner, 1996). Gartner (1996) defines economic development as a means of enlarging the tax base. The enlargement provides more tax revenues that governments can use either to improve the community's infrastructure, facilities, or to reduce the level of taxes paid by existing residents. It is seen also as a source of jobs and income that enables residents to improve their quality of life. One strategy that has often been embraced by governments as an economic development catalyst is tourism. One aspect of tourism that has received much attention since the 1990s is casino gaming.

Although legalized casino gaming has emerged as a popular alternative economic growth strategy for communities of all sizes, casino development has remained controversial. While the "factors behind the spread of legalized [gaming] are fairly clear, (...) the consequences of adopting [gaming] as part of an economic development strategy or as a revenue-raising tool continues to be debated (Chadbourne, Walker and Wolfe, 1997, p. 3)." Those who advocate gaming argue that it has positive economic impacts, but opponents are increasingly questioning the arguments promoted by casino officials and local public officials raising issues related to the economic, as well as, social impacts of casino gaming on people and communities (Stokowski, 1996). Casino development is not only debated on economic and social grounds but also on moral/religious beliefs (Cabot, 1996). From a public policy standpoint, most of the debate about the development of casino gaming hinges on the following four central issues:

* For a comprehensive analysis and detailed information see Moufakkir (2002) "Changes in selected economic and social indicators associated with the establishment of casinos in the City of Detroit", Unpublished Dissertation, Michigan State University, East Lansing, MI.

- a. Economic contribution to the community,
- b. Crime in the community and neighboring communities,
- c. Social pathology,
- d. Impact on people and business, and resultant bankruptcy.

Several differences across the studies in the published literature may account for the inconsistent conclusions drawn from their results including:

The nature of the gaming community – is the community rural or urban, big or small, and in close proximity to a large population or not?

Is the community a gaming destination with multiple casinos or one that offers only one casino?

The nature of the casino – does it offer only gaming or is it a full resort-conference center complex with gaming?

Is it an Indian casino, a land-based commercial casino, or a riverboat casino?

Is the casino location in close proximity to population centers, considered as a stop-over or a primary destination/attraction?

What is the research methodology?

The gaming position of the researcher –does the researcher generally oppose or support gaming?

Who is sponsoring the study –is it a private consulting firm, a non-profit organization?

What is the purpose of the study?

STATEMENT OF THE PROBLEM

In the early 1990s, Michigan was the 11th state to legalize casino gaming. Michigan has more than 17 Indian casinos. After a marathon of five failing referenda starting in the early 80s, the passage of Proposal E, in 1996, finally allowed the City of Detroit to develop up to three commercial casinos. MGM Grand casino opened on July 29, 1999, Motor City Casino opened on December 19, 1999 and Greektown casino opened on November 10, 2000. Before casino development was adopted, former Michigan Governor Engler ordered a Blue Ribbon Commission in 1994 to examine the expansion of gaming in Michigan. In 1996, after Proposal E passed, former Detroit Mayor Archer ordered a commission to examine the probable impacts of gaming in Detroit. However, there is no study that examined the actual impacts following the development of casinos in the City of Detroit. The problem of this study was to investigate the changes in selected economic and social indicators following the development of casino gaming in Detroit. This study was delimited to the following five primary research questions:

Research question 1: How effective are the Detroit casinos in enhancing the tourism activity in the area?

Research question 2: Do Detroit casinos curb the gaming dollar flow to Casino Windsor?

Research question 3: How close are the feasibility study projections to actual estimates?

Research question 4: Did crime volume increase following the development of casinos in the City of Detroit?

Research proposition 5: Detroit bankruptcy filings are expected to increase following the development of casinos in Detroit.

PURPOSE OF THE STUDY

In the midst of the controversy that shadows casino gaming development debates, this study attempted to provide a better understanding of casino gaming development and allowed a scientific examination of the benefits and opportunities that follow gaming development. The opening of land-based casinos in the City of Detroit provided a fresh opportunity to examine the changes that occurred in selected economic and social indicators after the establishment of casinos and to objectively contribute to the debate over the changes that take place following the establishment of casinos. Results may help policy makers formulate sound decisions concerning the development of casinos in their respective jurisdictions. They may also help communities with casinos to mitigate associated problems and take advantage of associated opportunities.

METHODS AND PROCEDURES

The analysis method chosen for this study was the case study approach. Investigating social and economic indicators related to the four research questions required using multiple units of analysis. Multiple units of analysis necessitated multiple data sources and required different procedures, data sources and data collection techniques. The analysis method chosen for this study was the case study approach. The research design selected for this study was the embedded single case study design. The time frame for this study covers primarily the period 1996 to 2000. Time series were used in case studies as a research technique to minimize threats to validity (Yin, 1994). In this study, time series

tests were used to assess change in casino performances, bankruptcy filings and crime rates that might have occurred following the introduction of casino gaming in the City of Detroit. This procedure involved measuring a selected variable (or variables) at equal intervals before and after a treatment (or event), in this case before and after the casinos opened to the public.

For the economic impact analysis, casino visitors were intercepted in the non-gaming areas of the casino building and only those who resided outside the study area, Macomb, Wayne and Oakland counties were asked to provide a phone number for a follow-up telephone survey consisting of 42 questions and taking 12 to 15 minutes to complete. Two week days and two weekends were randomly selected each month as sampling periods, with intercepts taking place between 10:00 AM and 4:00 PM or between 4:00 PM and 10:00 PM, over a five-month period from May to September 2000. Respondents were asked seven specific questions about their trip expenditures in the study area. These included: Spending on lodging, spending on food and beverages inside the casino, spending on food and beverages outside the casino, spending on gambling inside the casino, spending on gasoline, spending on gift and souvenirs, and spending on local transportation (for more details see Moufakkir, 2002).

FINDINGS

Research question 1: In order to answer this question, it was necessary to (1) find out the local/non-local ratio of casino visitors and (2) to assess the economic impact of casino visitors based on their expenditures. (1) Over 9000 visitors were randomly intercepted in the non-gaming areas of the casino buildings. Of these, 7,212 or 79% were local and the remaining 1,887 or 21% were non-local. Non-local visitors were those who do not reside in the Tri-county area (Macomb, Oakland and Wayne counties). (2) The spending of Non-local casino visitors spending is summarized in Figure 2. In this figure, two types of economic impact analysis were assessed: a) the conservative estimates excluded visitors whose primary trip purpose was not to visit the casino. These people would not have come to the community were it not for the casinos. b) the comprehensive estimates included all non-local casino visitors' spending in the analysis. These visitors might have extended their stay because of the availability of gaming in the community and therefore their economic impact is equally as important as those who came specifically for the casino(s). Figure 1 presents economic impact estimates outside the casino, economic impact estimates of gaming inside the casino, economic impact estimates of non-gaming in the casino and total economic impact estimates. Total economic impact was conservatively estimated to be \$165.35 million. The comprehensive estimates amounted to \$286.0 million.

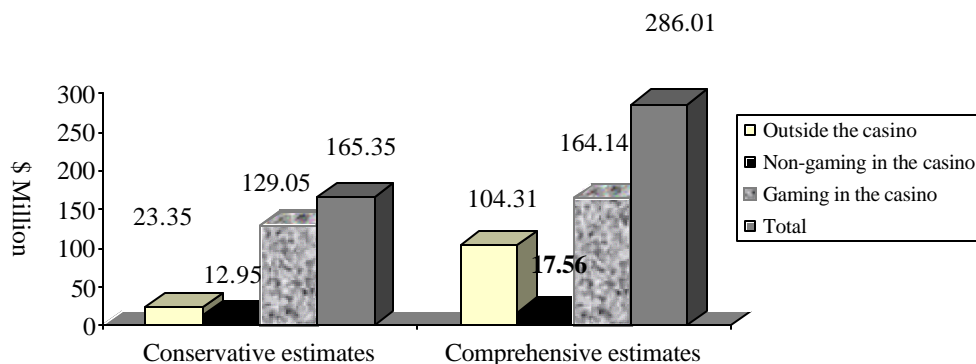
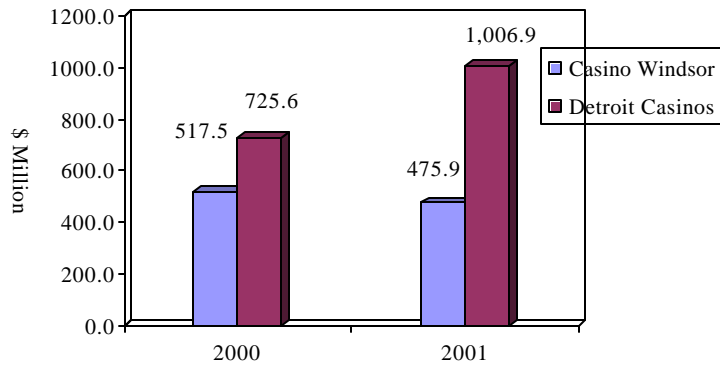


Figure 1. Summary results of the economic impact analyses of the Detroit casinos on the local economy.

Research question 2: Comparing Casino Windsor's revenues with those of the Detroit casinos, it appears that Windsor revenues have been declining while the Detroit casinos' revenues were increasing. As indicated in Figure 2, in 2000 Casino Windsor revenue was US \$517.5, in 2001 it was US \$475.9. This represents a decrease of 42 million dollars (a decrease of 8%). In the same period, revenues of Detroit's casinos increased by \$281 million or 38.7%.



Note: Figures for Casino Windsor have been converted into U.S. \$. For 2000, it was 735.0 Canadian \$. For 2001, it was 679.9 Canadian \$.

Figure 2. Comparison of adjusted gross receipts for Casino Windsor and the Detroit casinos in 2000 and 2001

Source: Detroit casinos figures are from the Michigan Gaming Control Board. Casino Windsor figures are from the Ontario Lottery and Gaming Corporation.

Research question 3: The feasibility projections presented by Deloitte & Touche to former Detroit’s mayor were higher than the estimates found by Travel, Tourism and Recreation Resource Center (TTRRC). The latter’s estimates were based on expenditures reported by non-local casino visitors. As can be seen in Table 1, the number of non-local casino visitors projected by Deloitte & Touche is 7.8 times higher than TTRRC estimates.

Table 1. Comparison of Deloitte & Touche feasibility projections with TTRRC estimates.

	Deloitte & Touche projections for 2002	TTRRC estimates based on non-local casino visitor spending	Factor
Non-local casino visitors	17,929,000	2,299,500	7.8
<u>Spending in the casino on:</u>			
Gaming	\$1,102,008,000	\$164,138,000	6.7
Non-gaming	<u>\$108,237,000</u>	<u>\$17,563,500</u>	6.2
Sub-total	\$1,210,245,000	\$181,701,500	6.7
<u>Spending outside the casino</u>	<u>\$374,502,000</u>	<u>\$104,301,000</u>	3.6
Total	\$1,584,747,000	\$286,002,500	5.5
Economic impact (dir=ind)	\$2,377,120,500	\$429,003,750	5.5

Comparing actual casino revenues in 2000 with D&T projections and TTRRC estimates, it appears that the latter’s estimates are a little lower than actual casino revenues and Deloitte & Touche projections are a little higher than actual casino revenues (Table 2). Three plausible explanations for the difference:

1. Casino visitors may have not reported their actual losses (telescopic error).
2. Casino visitor counts given by casino officials may have been deflated.
3. The Whales were deep in the ocean (sampling bias).

Table 2. Comparing actual casino revenues in 2000 with D&T projections and TTRRC estimates.

	Results for two casinos
Deloitte & Touche projections	\$ 806,830,000
TTRRC estimates	\$576,830,000
Actual casino revenues published by the Michigan Gaming Control Board	\$712,982,309

Research question 4: Crime Index offenses for six locations were examined. As can be seen in Table 3, the volume of Index Crime Offenses for Detroit following the establishment of Detroit’s casinos did not increase. The decline in Crime Index volume was indicated nationwide. Selected NonIndex Crime offenses were also investigated. Results suggest that, overall the volume of NonIndex Crime offenses did not increase after the casinos opened in the city.

Table 3. Six-year comparison of Crime Index offenses in the U.S., Michigan, Tri-county area, and Detroit.

	1996	1997	1998	1999	2000	2001 ¹
	<i>Before the casinos opened</i>			<i>After the casinos opened</i>		
United States* ²	13,493,863	13,194,571	12,485,714	11,634,378	11,605,751	Na
All Michigan**	502,281	477,697	470,845	429,638	411,873	405,633
Wayne County**	182,202	174,313	171,311	150,366	142,807	133,059
Macomb County**	28,682	28,739	28,979	24,387	22,358	23,488
Oakland County**	51,883	48,610	47,482	40,482	36,658	36,320
Tri-county area**	262,767	251,662	247,532	215,235	201,823	192,867
Detroit City**	121,999	121,801	120,095	103,682	97,776	91,827
% Change Detroit		-0.2	-1.4	-13.6	-5.7	-6.1

Source: *U.S. Department of Justice, Federal Bureau of Investigation.

**Criminal Justice Information Center, Michigan State Police.

Research question 4: Bankruptcy filings following the opening of the casinos in the City of Detroit for the period 1999-2000, did not increase. As indicated in Figure 3, bankruptcy filings fell from 22,266 in 1998 to 20,265 in 1999 to 19,557 in 2000. Due to the events of September 11, 2001, it is difficult to attribute the increase in bankruptcy filing in 2001 to the casinos.

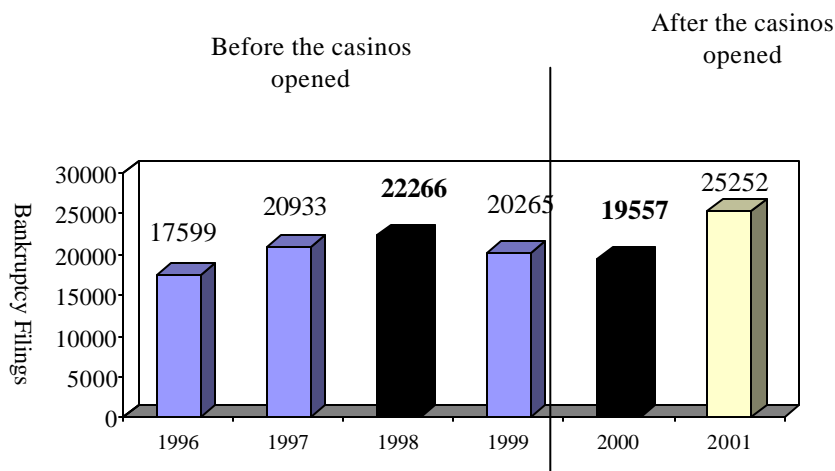


Figure 4. Bankruptcy filings for Detroit, 1996-2000.

¹ Due to the unique nature and the statistical implications inherent in the events of September 11, 2001, the crimes committed in those attacks were not included in the Uniform Crime Report’s program.

² Does not include arson.

CONCLUSIONS

According to the research questions and propositions examined by this study, it appears that Detroit's casinos are effective in contributing to the tourism activity in the community: 1) They are effective in attracting tourists and generating new money in the area. 2) They generate taxes and employment. 3) They contribute to other community tourism-related businesses. On the other hand, crime volume did not increase following casino gaming development in the city. In addition, it was found that bankruptcy filings in Detroit did not increase a year after the casinos opened in the city. This does not mean that casino gaming is all positive. Longitudinal studies can provide more objective conclusions because they allow the researcher to control for "history" which is the source of invalidity that threatens the internal validity of time-series designs. Furthermore, other economic and social indicators such as problem/pathological gambling and factors that generally impact on the residents overall quality of life need to be examined as well. Only two casinos were operating when this study was launched. Including the Greektown Casino in future investigations may yield different results than those found by this study, especially that this casino is located in the downtown entertainment zone. Its impact on neighboring community businesses, especially restaurants may be greater than the impact of the two other casinos. The casinos investigated by this study are temporary. The permanent casinos are planned to open in 2006. Having themed casinos scattered in the city might have different social and economic impacts on the community.

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