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The Socio-Economic Impact Analysis as a Tool for Casino Development

Casino development is a long and complex process. After a suitable site is identified and is found to be in compliance with state compacts and federal regulations, a decision is made by tribal leadership to explore the feasibility of the project. At this point the tribe may engage the services of an architectural firm to develop an architectural program. Concurrently, a feasibility study is conducted primarily for the developer, in this case the tribe, and lenders who will finance the project in order to determine whether the project is financially feasible. The feasibility study measures market demand and market supply. It determines the appropriate size and gaming capacity for the project and forecasts the project's expected market share. Once this is determined, the feasibility study forecasts future revenue streams and expenses in order to determine the project's cash flow and the project's ability to meet debt service.

If the project is deemed feasible, more detailed financial statements are prepared including balance sheets and pro forma income statements. The initial concept and capacity

assumptions are then placed under greater scrutiny as is the project's positioning and mix of amenities. The architectural programming is further refined to match the project's size and positioning.

It is often at this point when the project is presented to local, regional or state planning commissions for preliminary approvals. It is also at this time when residents of the communities that are near the project are first introduced to it and invariably those who are opposed to the project share their collective displeasure.

As all developers of Native American casinos have discovered, there is a small and vocal minority who are opposed to gaming development. They may be local residents who fear the negative impact on area roadways, the local environment or a possible reduction in property values. There are others who are opposed to casino development purely on moral grounds and wish to impose their beliefs on the greater community. Regardless of the reasons, tribal leadership must recognize that casino projects, by their nature, are placed under greater scrutiny than other forms of development. Therefore, they must be prepared to demonstrate, in economically quantifiable terms, the benefits that such projects will have on the surrounding community.

The Economic Impact Analysis

The Economic Impact Analysis (EIA) is an independent study that quantifies the economic benefits that a proposed casino project will have on the surrounding community. This analysis will include, at the very least, the number of jobs that the project will create (both during construction and after completion), estimates of increased retail spending caused by the creation of those new jobs, additional employment to suppliers of goods and services to the project and spending generated by those employees, as well as increases in sales tax revenue that would be generated by this increased spending. Tadayuki Hara, visiting assistant professor at Cornell University's School of Administration and developer of a sophisticated EIA model for casino and tourism development, refers to this as "the quantification of social goods."

Traditional EIA models rarely attempt to quantify any negative impacts of a casino project. Their goal invariably is to quantify only the benefits of the proposed development. However, it is to the benefit to the casino developer to also quantify those negative aspects of the project in order to better illustrate the net benefits of the project. Invariably, once the social costs are quantified, they often are less than what project critics, who rely solely on anecdotal evidence, say they are.

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Dr. Hara's model goes further than traditional EIAs and quantifies the *social bads* of a given project. These may include the costs of mitigating increased vehicular traffic, additional police to deal with the volume of people visiting the community, increased fire protection as well as the costs associated with increased water and sewer usage. Social costs such as possible increases in crime, which occurs whenever large groups of people are introduced into a community, along with increased police personnel, are also estimated. These costs are quantified and subtracted from the benefits to yield the net benefits to the community.

Considering that the public's perception of casino developments tend to be, at the very least, skeptical, it makes sense that tribal leadership step forward during the initial phase of the development process and prepare a Socio-Economic Impact Analysis (SEIA) in order to quantify all of the *social goods* and *social bads* so that all stakeholders in the project (tribal members, casino employees, community leaders and residents) understand how the project will affect their community.

Presentation of the SEIA early in the development process, when the project is first made public, allows the tribe to mitigate the complaints that will invariably come from various constituents in the community. By being proactive, tribal leadership can quickly dispel the myths associated with casino development, address the concerns of the community and develop a project that is in harmony with its social and physical environment.

Casino development is invariably a long and often a politically charged process. It can be an emotional issue for those residents who may be negatively impacted by the project. Once all stakeholders are given all the information, they will be less inclined to rely solely on qualitative information or anecdotal evidence to disparage the casino project and will ultimately realize the benefits that the project will have on the community. ♣

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The Sovereign Nations Scholarship Fund was launched in 2001 with a challenge grant of \$900,000 from the Shakopee Mdewakanton Sioux Community of Minnesota. We are asking other tribes to contribute until the fund totals \$10 million.

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