VLTs Potential for Developing Tourism in Texas

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June 2004

Introduction

The State of Texas is considering the legalization of Video Lottery Terminals (VLTs). The primary benefits of VLTs are additional tax revenue, revitalizing the horse racing industry in Texas, and diminishing the outflow of dollars being spent by the Texas residents in border states. A benefit that seems to be receiving less attention and could be one of the more important long-term benefits is that VLTs could play a major role in developing the State's meeting and convention industry. This industry is vital to the State's major cities.

In this paper the authors make a case for the role VLTs could play in developing tourism by providing funds for the development of tourist attractions. The first proposition is that gaming, like other industries, attracts different segments. In Las Vegas, the Palms and Hard Rock casinos target the younger players, while the prime market for most casinos are middle-aged and older players. Another way of segmenting gaming markets is between tourists and locals. Therefore, because of the variety of available target markets, it is difficult to have a casino that will be equally effective across all markets. Thus, creating separate casino products for tourists and locals is an effective way to maximize the benefits to these markets. The second proposition of this paper is that the revenues from gaming can be used to develop entertainment centers to help attract meetings and conventions to Texas.

Segmentation

During a recent visit to Austin, one of the authors was surprised by the notion held by some political advisors that gaming at racetrack venues would attract conventioneers. Certainly, there will be some gamblers that will make the trip out to the racetrack, but the average attendee will not spend the time and effort to go out to these casinos. Las Vegas has the largest locals markets and the largest visitors gaming market in the United States. This allows one to gain insight into the difference between the locals market and the tourist market, as both these markets are well developed. The Las Vegas Convention and Visitors Authority surveys both the tourists and the residents regarding their spending and playing habits. This makes it easy to show that there are differences between a locals market and a tourist market. The information provided in this section comes from the *LVCVA Clark County Residents Study* (2002) and the *Las Vegas Visitor Profile Study* (2003).

The locals gamble on a regular basis, often visiting a casino once or more a week. As a result of this frequent gaming they only spend about $50.76 a visit. The locals play in suburban casinos and video poker bars. The local poker bars feature video poker, often with machines in the bar top. The video poker bars typically feature inexpensive food and frequent players are known by the bartenders and receive free food and drink. Realizing, that only 25% of the locals play on the strip, Stations has developed a product for the locals. Their casinos feature mid-scale restaurants, buffets, movie theaters, child care centers and moderately priced entertainment. Buffets are popular with locals, with about 37% of the locals usually eating at the buffet when they dine in a casino. The machine mix at locals casinos contains a higher percentage of video poker than that of the strip casinos. The most popular game for locals is video poker, played by 39% of residents who gamble. The locals prefer video poker because the odds are better than video slots or reel slots.

In 2003, the Las Vegas tourist market had a gaming budget of $480 per trip. Only 5% of the Las Vegas visitors mentioned they came for gaming. The majority stated they came for entertainment or leisure. Unlike locals, the LVCVA study found that the visitors' most frequently played game was slots. Study findings showed that more visitors (64%) are playing slots, up significantly from 56% in 2002 and 53% in 2001. When compared to locals in 2003, fewer visitors (9%) said they played video poker, down from 12% in both 1999 and 2000, and 17% in 2001 and 2002. This difference in gaming preference between the local and tourist markets means the machine mix of a locals casino is very different from a tourist casino on the strip.

According to the 2003 visitor profile, 68% of visitors to Las Vegas attended shows during their stay. This reflects an increase from 48% in 1999 and 2000 and from 58% in 2001. About half of those attending shows attended production shows. These shows average about $100 per ticket. Visitors also spent about $180 per trip on food and beverage. Most of those attending meetings and conventions are on expense accounts. To entertain and impress clients, they want nice restaurants and quality shows respectively. They are willing to pay for these products. Bellagio, the Venetian and Mandalay Bay are among the casino resorts that have catered to the needs of these visitors. These resorts contain restaurants operated by nationally known chefs, resort retailing and great entertainment. They are very different from the Stations Casinos and Fiesta Casinos found in the suburbs.

In the nineties Las Vegas transformed itself from a gaming destination to an adult resort and meeting destination. During a meeting with Steve Wynn at the Mirage in the late nineties with the advisor for this paper, Wynn stated that the Mirage now made more from room revenue than from gaming. This marked the beginning of a new era for Las Vegas. This transition from gaming to other forms of revenue continues today. The major resorts no longer feature cheap entertainment and $4.95 buffets. Instead they have created a full service resort environment with spas, golf, entertainment, great restaurants, resort retailing, and gaming. The authors of this paper are not claiming that Texas should replicate Nevada. Drawing upon Nevada's use of gaming to fund a variety of tourist products, a model could be created and adapted to promote tourism in Texas. The remainder of the paper will include a discussion of the effect of gaming on tourism products, and will be followed by a suggested model to promote the meeting and convention business in Texas.

Effects of Casino Gaming on the Food and Beverage Industry

According to Hashimoto and Fenich (2003), members of the food and beverage industry often "vehemently oppose" casino development. The researchers cite the Minnesota Restaurant Association, who "[came] out in opposition to any expansion of casinos because of a belief that casinos cause the number of restaurants to diminish". Hashimoto and Fenich add commentary from the Louisiana Restaurant Association who "lobbied strongly against food and beverage operations attached to gambling enterprises":

> Where other businesses already exist, . . . the threat of inexpensive rooms and food may cannibalize existing lodging and restaurant businesses. In New Orleans, it is estimated that $62 million per year will be diverted from current businesses when the new megacasino arrives.
>
> (cited in Hashimoto and Fenich as extracted from Turco & Wiley, 1996)

However, the researchers quickly challenge this commentary. Using Mississippi as the focus of their entire study, they then cite three reasons for flawed logic on behalf of the opposition. The first is an Arthur Anderson report (1997) for the state that showed a 4.3% increase in restaurant sales (excluding casino F&B) from 1994 to 1995 (cited in Hashimoto and Fenich, 2003). The first casino in the State opened in 1992.

Table 1 is based on data from four counties in Mississippi with non-Native American, non-sailing riverboats. The study compared data for the four years preceding and following the introduction of gaming to Mississippi in 1992. The chart below summarizes the findings of Hashimoto and Fenich in terms of percent increases and decreases for each of the subheadings listed for each county. This report shows that the number of food and beverage establishments, number of employees, and food and beverage payroll increased after the introduction of casinos.

Table 1
Food and Beverage Growth After the Introduction of Casinos

County	Number of Employees		Total Payroll		Number of F&B Establishments	
	1989-1992	1992-1995	1989-1992	1992-1995	1989-1992	1992-1995
Tunica	+24%	+9%	+9%	+33%	Negligible*	+13%
Warren	+11%	+34%	+6%	+20%	Negligible*	+25%
Washington	-5%	+18%	-4%	+12%	-10%	+29%
Harrison	+15%	+23%	-11%	+19%	+6%	+4%

** the data reflects no positive or negative change of merit*

Source: Hashimoto and Fenich 2003

Again, the data noticeably demonstrates a consistent increase in employment rates, aggregate payroll, and number of food and beverage establishments after the entrance of casino gaming in each county. Washington county's numbers reflect the most dramatic turn of events as the economic situation for the food and beverage industry was in a tailspin before 1992.

Most studies cite that the simple increase in visitor traffic from the entrance of casino into their market created a larger customer base. In 2001, a panel of food industry experts noted that in Biloxi, Mississippi "with the increased tourism numbers and growth in residents, the Coast blossomed in new franchise restaurants, in addition to continuing to support longtime local favorites…" (Bunch). Biloxi restaurant owner, Joe Lancon added that "[t]he casino business and the restaurant business are getting along well on the Coast".

In Shreveport, Louisiana similar effects have been experienced. According to Ruggless (2002), "[s]ince [Shreveport's] first casino opened in 1994, four more casino-hotels have debuted on both sides of the Red River, fueling a development boom for local and national restaurant brands here and across the river in Bossier City, LA". Ruggless also credits the development of large entertainment districts in both Shreveport and Bossier City which has helped "spur casino traffic and broaden the tourism demographic". He adds that the entertainment districts in combination with a proposed light rail system aimed to draw more families into the tourist market. He asserts that because of these phenomena, "[m]ore restaurants are expected to locate in the newly created entertainment areas". As is suggested by trends in Biloxi and Shreveport, an increase in tourist population serves as a primary asset to the development of local restaurant business.

In Detroit, the Greektown Casino's concept itself aimed to capitalize on the existing Greektown neighborhood's familiarity. Even though it was the last of the Detroit casinos to enter the market, the Greektown Casino is "[W]holly owned by Michigan residents" and "[a] 1996 poll of metro Detroiters found that Greektown is one of the best-known areas in the city and that people regard it as familiar and safe" (Lam, 2000). Born in the "nearly empty and forlorn Trappers Alley", the Greektown Casino has revitalized the area into "a Mediterranean-themed gambling palace already surrounded by nearly two dozen restaurants and bars." Additionally, considered unique in the casino market, "the casino is not a self-contained fortress. With just one restaurant of its own and no buffet[…]it will encourage gamblers to eat at nearby restaurants already operating near Greektown."

As part of the casino's effort to create a symbiotic relationship with area business, "[t]he casino owners have put another $200 million into refurbishing Trappers Alley, and the adjoining restaurants have also had major facelifts" (Lam, 2000). Also, in a creative marketing move consistent with their concept the "Greektown Casino plans to include area restaurants and other retailers in a 'players' club' points program to generate increased business from gamblers" (Ankeny, 1999). "In most such programs, gamblers must spend their points in the casino where they are earned. The Greektown plan seeks to promote its already-established venue as well as the casino." While the success of this plan is uncertain, the integration of local business into the casino's concept seems a promising opportunity for an area in evident need of refurbishment.

Effects of Casino Gaming on the Convention and Tourism Industry

The convention and tourism industry is a large part of the Dallas-Fort Worth economy. While convention business is active, the areas' competitive market is threatened by many political and bureaucratic variables barring the industry from its greatest success. Similarly, vacationers and tourists in general sidestep the Dallas-Fort Worth Metroplex more often than the local Convention and Visitors Bureaus would like. With nine of the top thirty "Travelers' Top Attractions: 1998-2002", the Dallas-Fort Worth area leads the State in volume of popular attractions (Travelers' Top Attractions, 2003) but consistently falls behind San Antonio and Houston as travel destinations. Despite the aforementioned hurdles of the political climate, the addition of a casino venue to this city's existing attractions may offer a chance for the convention and tourism market to evoke its greatest potential.

The National Gambling Impact Study Commission (1999) found that "[c]ommunities with casinos had 43 percent higher earnings in their hotel and lodging sectors than those communities at a greater distance from casinos." According to Bill Holmes, director of the Mississippi Coast Coliseum & Convention Center (Biloxi, Mississippi), a casino's entrance into a convention market "definitely has a lot more plusses for us than it does negatives" (How Do Casinos Affect Your Business?, 1996). Holmes cites the increase in regional employment as a positive factor while also noting that the casinos' "sponsorship dollars" help convention center events thrive. He continues by noting that the casinos in the Biloxi area have "brought in a tremendous amount of marketing dollars to market the whole area as a destination." Lisa Nossfer, director of sales and marketing for Vicksburg Convention and Visitors Bureau said that casinos give conventioneers something to do in the evening and have had a positive overall impact on the town's meeting and convention business by adding attractions in Vicksburg (Gillete, 1999).

Sam Giordino, manager of the State Fair of Louisiana in Shreveport (a market which currently benefits from Dallas' untapped gaming market) mentions similar phenomena. "Casino gambling has been the best thing to happen to Shreveport in a long time. It has been very positive for our year-round operation at the State Fair of Louisiana and our annual state fair," and continues by noting that the local casinos are "all major sponsors of the fair". Giordino also reveals that the State Fair of Louisiana does "promotions in conjunction with the three different casinos" in the form of bounce-backs printed on the back of fair tickets and offering shuttles between the fair and casinos. He closes by stating that "[a] lot of people from Dallas come to town for the casinos…" (How Do Casinos…?, 1996).

While cooperative marketing strategies provide evidence of possible tangible benefits to local business, a quantitative marker would better solidify these proposed benefits. Writing on the convention and tradeshow business on the United States gulf coasts, Ray (1995a) summarizes the above trends:

> Whether in the form of increased business, increased sponsorship offers, or increased availability of state funds, facilities in [Louisiana and Mississippi] have benefited from the casino's presence.

Ray continues by noting that in Biloxi, Mississippi, "the number of hotel rooms [has] increased from about 6,000 to 12,000 since casinos opened in August 1992" and also mentions 1,400 additional rooms being built by three of the [then] 13 hotels in the region. Bill Holmes, director of the Mississippi Coast Coliseum and Convention Center, adds that this insurgence of new lodging venues has also prompted older properties to renovate. Additionally, the Coliseum and Convention Center will benefit from a $10 million project funded in part by a hotel/motel room tax that will add 70,000 square feet to the facility (Ray, 1995a).

Similar growth was experienced in Bossier City, Louisiana as Jim Forman, director of the Bossier Civic Center credits the casinos' success with much of the growth of tourism and lodging success in the area: "…prior to casino gaming, hotel occupancy rates averaged about 60 percent. Today they range from 85 to 90 percent" (Ray, 1995a) A benefit of the increased occupancy has been an increase and supply to fulfill the surging demand.

Baton Rouge, Louisiana's Riverside Centroplex director of promotions, Brian Broussard observes the necessity for adequate lodging facilities in a convention market seeking to benefit from gaming. He commented that while the Centroplex has adequate meeting facilities for conventions and tradeshows, the draw of a nearby riverboat casino is limited because overnight stays cannot be rationalized with the absence of a hotel linking the two venues physically and logistically (Ray, 1995a).

Regarding potential drawbacks, Biloxi's Bill Holmes notes the loss of his employees to new casino properties. Still, Ray adds that this also forced the convention facility to "raise its wage scale and increase its benefits packages". Shreveport's Civic Center Complex has faced some conflict from losing school-related events because of gaming jurisdiction laws. Parking has also been a problem for the center as previously-owned space has been transformed into a parking garage for the nearby Harrah's Casino (Ray, 1995b). Nonetheless, most managers of convention venues laude the benefits over the inconveniences of their new casino partners.

Considering the proposed gaming market in the Dallas-Fort Worth Metroplex, much potential can be realized by successfully integrating the gaming and tourist markets. According to Adam Schaffer, publisher of Tradeshow Week magazine, "Dallas was the host of just 10 of the nation's largest 200 trade shows in 2002, down from a high of 22 in 1988." (Las Vegas led the pack with 35.) Also, Dallas has also suffered from its tourist image as a town with "nothing to do". Travel and Leisure magazine dropped Dallas from its "America's Favorite Cities" list in March 2004. However, newbie CEO of the Dallas Convention and Visitors Bureau, Phillip Jones hopes to revamp this image while also eliminating the dated association with the 80s primetime soap opera sharing the city's name: "We have more four- and five-star restaurants in Dallas than New Orleans, but nobody knows that story" (Curry, 2004).

When weighed with gaming, Dallas' lower average lodging rates (compared to other large convention cities like Chicago), potential for use of right-to-work (non-union) laborers that reduce convention and tradeshow costs, reforming image, and untapped attractions can all contribute to a more profitable convention approach (Slania, 2003).

Model

If licenses for VLTs were offered to organizations that would use gaming to drive the development of tourist oriented attractions such as restaurants and entertainment venues, then VLTs could play a major role in increasing the State's meeting and convention business. It is beyond the scope of this paper to go into specific regulations to gain this end. However, in general terms a license that would require the operator to have a certain percentage of their income derived from food in free standing restaurants is the type of requirement that could force the development of tourist attractions, supported by gaming income. This type of requirement forces the casino operator to develop restaurants and other attractions that would make the destination more attractive to tourists.

The meetings and convention business bring in room tax dollars, liquor tax dollars, and sales tax dollars to the State. A secondary benefit is that those who are exposed to tourist attractions through a meeting venue sometimes come back on a pleasure trip to further explore the destination. The meetings and convention business employees thousand of people. The revenue often comes from out of state visitors. The State should use VLTs to make our destinations more competitive in the meetings and convention market.

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