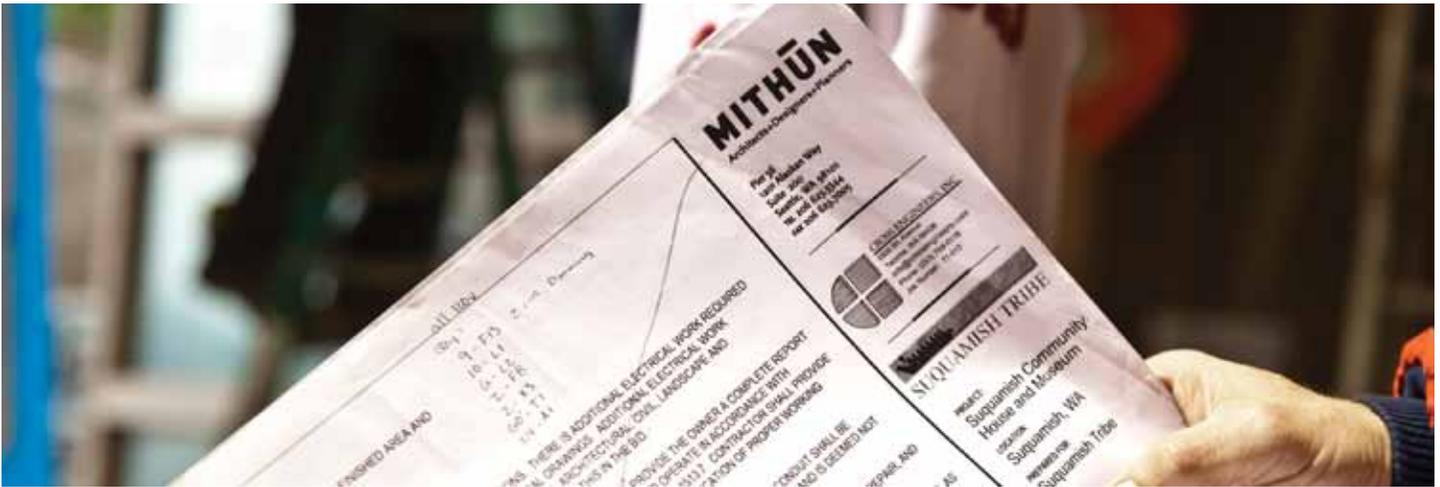




# THE ECONOMIC AND FISCAL IMPACTS OF INDIAN TRIBES IN WASHINGTON

Jonathan B. Taylor | February 15, 2012

*The Puyallup Tribe's 59th Street road improvement project.*



Seattle's Mithun Architects designed the Suquamish Community House and Museum.

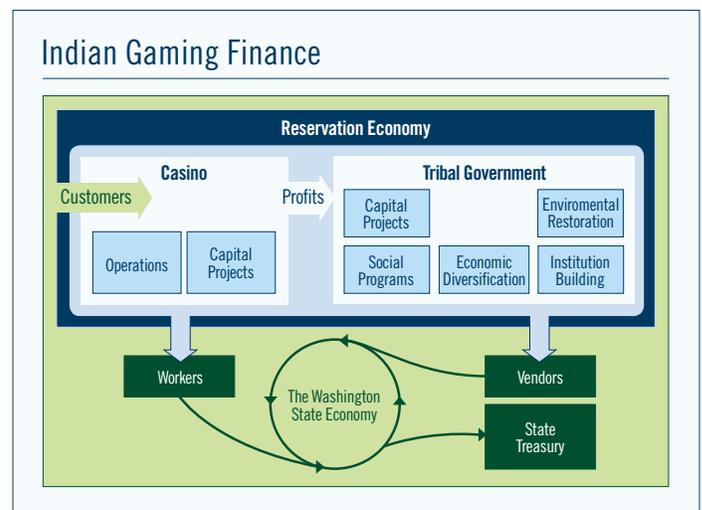
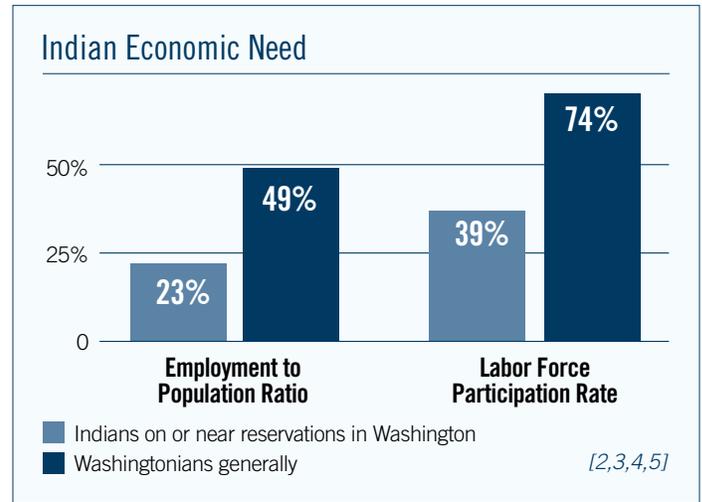
The economies of Washington’s Indian reservations have grown over the last half-decade, and despite some complaints to the contrary, Washington taxpayers have little to fear and much to gain from American Indian economic development. The evidence points to strong net benefits for Indians and non-Indians alike.

The history of American Indian hardship is beyond dispute. Nationwide, American Indians are repeatedly the poorest identified minority [1], and while there has been hopeful and significant improvement since the last census, the latest available data show continuing economic challenge in Indian Country. The Bureau of Indian Affairs reports that among Indians on and near Washington’s reservations, each employed Indian supported more than three others who were not employed. By contrast, the proportion was one to one in Washington generally. This employment-to-population ratio highlights the economic dependency tribal governments intend to conquer.

The labor force participation rate—the proportion of able-bodied civilians of working age that are working—corroborates the underutilization of Indians by the formal economy. Little more than a third of Indians receive a paycheck, versus nearly three-quarters of all Washingtonians. To counter this long-lived problem and as part of a broader move toward effective self-determination, Indian tribes built the casinos that are now prominent on Washington’s reservations.

Success and the distinctiveness of retained Indian sovereignty have attracted the impression that perhaps the Washington treasury bears a burden for Indian economic growth. As the argument goes, leisure dollars

leave the taxable Washington economy for the untaxed Indian economy. The impression is mistaken, and the argument begs for evidence. Yes tribes compete for Washington’s leisure dollars, but federal law requires Indian government ownership of casinos, which makes one-hundred percent of their profits government



revenue. Those government funds underwrite long-needed investments in Indian physical, human, and environmental capital.

What’s more important, virtually all Indian government spending turns to the non-Indian Washington economy for goods, services, and labor. Indian reservations simply cannot supply the requisite trucks, electricity, computer software, restaurant staff, or architectural services. As Indian demand registers in the Washington economy, it begets further demand for inputs and household goods, all of which carry tax consequences. It is the work of this report to document the tribes’ purchasing and hiring, to calculate how those affect the state economy, and to estimate the resulting change in the state’s treasury collections.

### Federally Recognized Tribes in Washington

	Survey Participation	
1	Confederated Tribes of the Chehalis Reservation	Full
2	Confederated Tribes of the Colville Reservation	Partial
3	Cowlitz Indian Tribe	Full
4	Lower Elwha Tribal Community of the Lower Elwha Reservation	Full
5	Hoh Indian Tribe of the Hoh Indian Reservation	Full
6	Jamestown S’Klallam Tribe of Washington	Full
7	Kalispel Indian Community of the Kalispel Reservation	Full
8	Lummi Tribe of the Lummi Reservation	Full
9	Makah Indian Tribe of the Makah Indian Reservation	Full
10	Muckleshoot Indian Tribe of the Muckleshoot Reservation	Full
11	Nisqually Indian Tribe of the Nisqually Reservation	Full
12	Nooksack Indian Tribe of Washington	Full
13	Port Gamble Indian Community of the Port Gamble Reservation	Full
14	Puyallup Tribe of the Puyallup Reservation	Full
15	Quileute Tribe of the Quileute Reservation	None
16	Quinault Tribe of the Quinault Reservation	Full
17	Samish Indian Tribe	Full
18	Sauk-Suiattle Indian Tribe of Washington	Full
19	Shoalwater Bay Tribe of the Shoalwater Bay Indian Reservation	Full
20	Skokomish Indian Tribe of the Skokomish Reservation	None
21	Snoqualmie Tribe	Full
22	Spokane Tribe of the Spokane Reservation	None
23	Squaxin Island Tribe of the Squaxin Island Reservation	Full
24	Stillaguamish Tribe of Washington	Full
25	Suquamish Indian Tribe of the Port Madison Reservation	Full
26	Swinomish Indians of the Swinomish Reservation	Full
27	Tulalip Tribes of the Tulalip Reservation	Full
28	Upper Skagit Indian Tribe of Washington	None
29	Confederated Tribes and Bands of the Yakama Nation	Partial

Twenty-five of the twenty-nine federally recognized tribes in Washington participated in a survey issued by the Washington Indian Gaming Association (WIGA) to document economic impacts. The surveyed tribes represent ninety-five percent of the Indian casino capacity in the state. Most tribes reported data from their gaming and related enterprises, non-gaming enterprises, and government operations, making this a very comprehensive but slightly understated picture of Indian economies in 2010.

The responding tribes purchased \$2.4 billion in goods and services. In addition, they paid \$1.3 billion in wages and benefits to workers in their casinos, governments, and non-gaming businesses. On top of that, the reporting tribes spent \$259 million on construction activities ranging from basic infrastructure like roads and sewers to large facilities such as clinics and hotels. Altogether, this represents an impulse of nearly \$4 billion in demand.\* This spending greatly exceeds the \$1.7 billion of Indian gaming revenue reported by the Washington State Gambling Commission because economic diversification, tribal taxes, real estate leases, stumpage, other natural resource revenue, and of course, federal and state grants also contribute to tribal treasuries.

Tribes paid the \$1.3 billion in payroll to more than 27,000 Washington residents, the vast majority of whom were non-Indian. Fully eighty-one percent of the gaming employees and more than half of the employees of other



Western Washington’s Mortenson Construction at the Tulalip Tribes’ Cabela’s construction site.

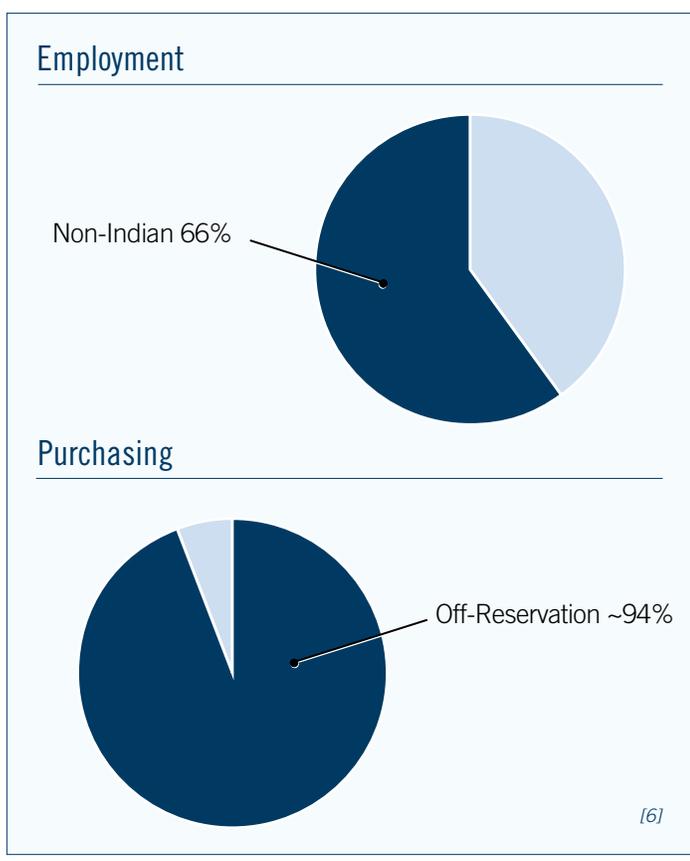
\* In addition to the understatement from incomplete participation noted above, this number counts neither individual Indian-owned businesses nor non-Indian businesses benefiting from tribal policies.

enterprises were non-Indians. In government, forty-five percent of employees were non-Indians, putting the average non-Indian participation at two-thirds of all tribal employment. As for the purchasing, evidence indicates that the vast preponderance comes from off the reservations. In 2004, more than ninety-four percent of goods and services purchased by four Washington case-study tribes came from zip codes outside the purchasing tribes' reservations.

### Employment

	Indian	Non-Indian	Total
<b>Gaming</b>	2,913	12,474	15,387
<b>Enterprises</b>	2,015	2,145	4,160
<b>Government</b>	4,322	3,507	7,829
<b>Total</b>	<b>9,250</b>	<b>18,126</b>	<b>27,376</b>

As the tribes make purchases and hire workers, demand registers in Washington economy for input purchases and indirect hiring. For example, the demand for carbonated drinks at an Indian casino requires inputs of beverage syrup and carbon dioxide and, of course, the labor of truck drivers to deliver them. These indirect effects induce further effects as the direct employees



of the reservation economy and the input suppliers' employees make household purchases. In total, the combined annually recurring and construction impacts in 2010 are associated with \$3.5 billion worth of value-added in the Washington economy. In other words, \$3.5 billion of the total gross state product can be attributed to the activity on American Indian reservations. That total impact generates an estimated \$268 million in indirect business taxes for the state treasury.

### Impact on the Economy (2010 dollars in millions)

	Total Value-Added	Non-Indian
<b>Annually Recurring</b>	\$3,263	\$255
<b>2010 Construction</b>	\$270	\$12
<b>Total</b>	<b>\$3,533</b>	<b>\$268</b>

[7]

Comparing these impacts to the impacts of the reservation economies in 2004 demonstrates dramatic growth. Employment grew by more than half. The proportion of gross state product, more than a quarter. And indirect business taxes grew by fifty-seven percent. The reservations are increasingly dynamic engines in the Washington economy.

### Change in Impacts (2010 dollars in millions)

	2004	2010	Total
<b>Jobs</b>	17,573	27,376	+56%
<b>Gross State Product</b>	\$2,566	\$3,263	+27%
<b>Taxes</b>	\$162	\$255	+57%

[6,7,8]

In contrast to tribes' dependence on federal funds and natural resource revenues a few decades ago, today self-determined economic activity provides the bulk of tribal government funding. Statewide, enterprise profits, taxes, leases, and natural resources support more than two-thirds of tribal government budgets. Though this statewide average masks some of the remaining economic dependence on the most remote reservations, the overall picture displays welcome and overdue self-sufficiency.

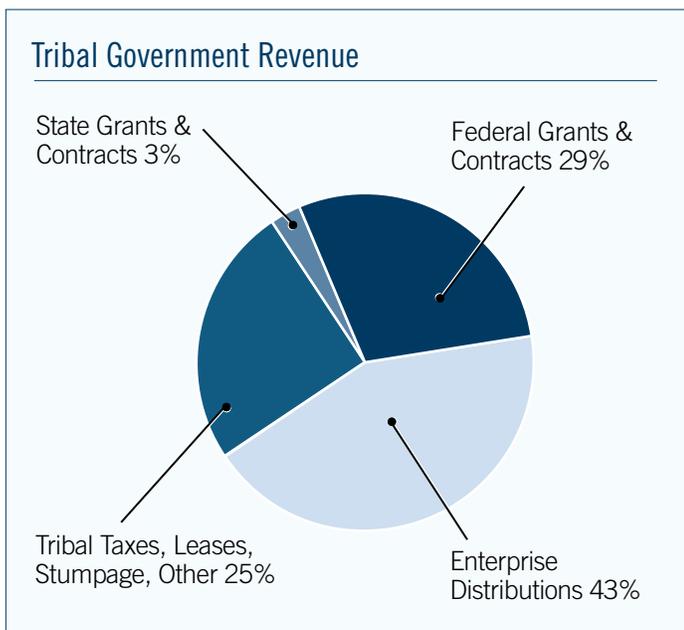
A number of features of Indian economies render their economic impacts net positives for Washington. First, in contrast to other forms of gambling, the owners of Indian casinos do not disperse the profits to shareholders spread far and wide across globalized



Edgewood, WA-based Caliber Concrete at the Tulalip Tribes' Cabela's site.

capital markets. Instead, in-state governments—the tribes’—spend the proceeds of Indian gaming in Washington to build physical and human capital in the places that need it most. Indian reservations cannot and will not move their operations overseas or out-of-state.

Second, spending on an Indian reservation tends to intensify impacts because it puts underutilized resources to work. When a family acquires another wage earner because, say, a single mother starts working at the casino, the net economic impacts for the state are overwhelmingly positive. While it is very difficult to count how many times this happens, there is no doubt that the net gains are large when it does. The same goes for underutilized land, buildings, and other reservation resources.



Third, as noted above, the claim that customers moving their discretionary spending to reservations reduces Washington tax collections goes begging for evidence. A statistical analysis of 268 tax districts in Washington spanning fourteen years shows that neither the introduction of a casino within five miles nor within fifteen miles creates a discernible change in taxable sales or taxable property [9]. That finding aligns with national evidence showing that casino introductions are associated with benign economic consequences [10,11,12].

Some claim that Washington should have more gambling to raise revenue for the state. The foregoing indicates that the state is not losing revenue to Indian gaming. However, as is the case in most states, law and regulation restrict entry and capacity in gambling markets. Is Washington policy restricting economic growth and associated tax collections? What could the state treasury expect from loosening gambling restrictions?

Washington gambling expenditures per person grew rapidly from 1996 to 2004, averaging twelve percent compound annual growth. Growth plateaued at about two percent thereafter, suggesting that Washington has received all the gambling capacity it would under free entry. In addition, a Washington State University poll conducted for the Gambling Commission indicates that past-year visitation of Las Vegas is down thirty-nine percent among Washingtonians over the same period [13]. In other words, some of the recent expenditure growth actually reflects gambling customer recapture from Nevada and not in-state expansion. Furthermore,



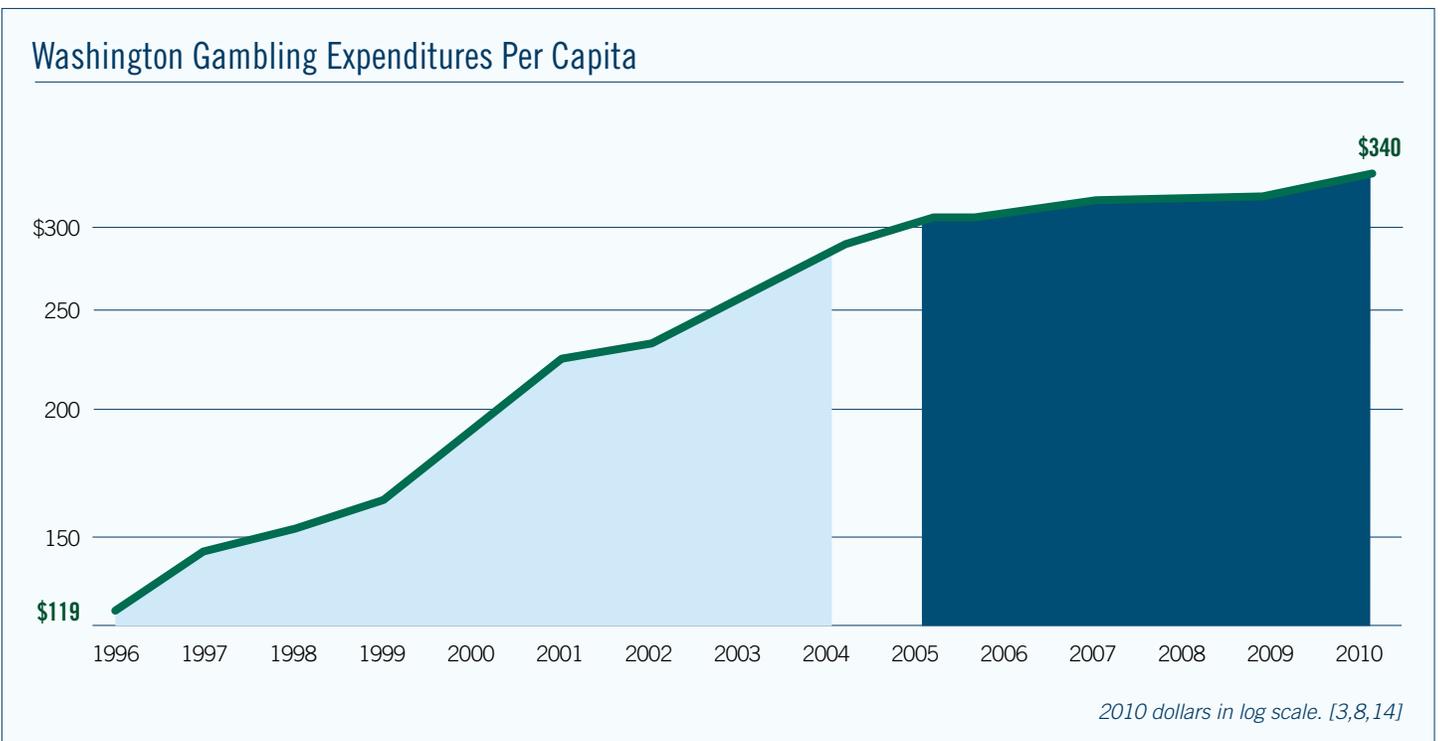
Poulsbo-based Kimco Plumbing at the Port Gamble S'Klallam Tribe's The Point Casino construction site.

the Commission reports ten percent of the electronic gaming device capacity that tribes could legally deploy has not been, notwithstanding the tribes' ability to move devices to better markets. The proponents of expansion thus face a heavy burden of proof to credibly claim the Washington treasury will benefit from expansion. There may be many public policy rationales for more gambling, but revenue is not one.

Indian gaming need not be a source of friction. Just as the national economy grows with interstate trade and the world economy grows with international trade, so the Washington economy grows with American Indian economic development. Washington

businesses sell goods and services to Indian tribes. Washingtonians work for Indian tribes, their businesses, and their suppliers. The net effects are positive. More importantly, both Indians and non-Indians benefit when Indian economic development puts to good use the underutilized human and physical resources of the state's reservations.

*The Washington Indian Gaming Association funded this study under a contract with the Taylor Policy Group, Inc. The views expressed in this document are those of the author and do not necessarily reflect those of the institutions with which he is affiliated. Unless otherwise indicated, the Washington Indian Gaming Association or its member tribes provided the data and graphics herein.*



## About the Author

Jonathan Taylor is an economist with expertise in natural resources, gaming, and American Indian development. He provides counsel to tribes and bands in the United States and Canada consisting of public policy analysis, strategic advice, and economic research. He has authored or supported expert testimony in litigation and other public proceedings for a number of Native American groups.

Mr. Taylor has assessed economic impacts of tribal enterprises (including of casinos), assessed tribal tax regimes, assisted in tribal institutional reform, provided public policy analysis and negotiation support for resource development, valued non-market attributes of natural resources, and educated tribal executives.

### Recent publications include:

*“Determinants of Development Success in the Native Nations of the United States.”* (Cambridge and Tucson: Harvard Project on American Indian Economic Development and Native Nations Institute for Leadership, Management, and Policy, 2008).

*“Managing the Boundary between Business and Politics: Strategies for Improving the Chances for Success in Tribally Owned Enterprises,”* (with Kenneth W. Grant II). In Jorgensen, M. R., ed., *Rebuilding Native Nations: Strategies for Governance and Development* pp. 175-196, (Tucson: University of Arizona Press, 2007).

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Squaxin Island Tribe's Salish Cliffs Golf Pro Shop.



*Suquamish Community House and Museum.*



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