

The Hospitality Industry's Impact On the State of Nevada: A Summary & Review

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Abstract

This article summarizes the economic, fiscal, and social impact findings of *The Hospitality Industry's Impact on the State of Nevada*, a report issued in November 1998 by the International Gaming Institute. This summary includes data on jobs, wages, output, taxes, crime, and other social issues. A brief discussion is included regarding the authors' opinions of the state's dependence on the hospitality industry and gaming taxes, as well as the potential ramifications of this dependence in a changing economic environment. **Keywords:** *gaming, impact, economics*

Introduction

The consequential expansion of gaming nationwide, beginning in the late 1980s, and the recent appointment of the Federal Gaming Impact Study Commission have elevated the "gaming impact" debate to a new level. Proponents of gaming find strength in the fiscal and economic benefits of gaming proliferation, citing growth in jobs, wages, business output, and tax revenues. They use examples like Greenville and Gulfport, Mississippi; Atlantic City, New Jersey; Blackhawk, Colorado; and a multitude of Native American reservations where the gaming industry has been a catalyst for economic growth in once depressed areas. The opposition to gaming is armed mainly with social issues, some of which have merit. Opponents speak of increased rates of suicide and addiction. They speak of lives lost and families broken, often using testimonials to support their cause. While several well-founded studies have shown that there is a segment of the population that suffers meaning-

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ful negative effects from “interacting” in a gaming environment, the majority of the anti-gaming arguments are so obviously motivated by emotional rhetoric and biased science they are utterly ineffective and statistically irrelevant.

Over the last year, the authors have spent a significant amount of time reviewing both the positive and negative impacts of gaming in Nevada. Our analysis did stray from traditional gaming impact analyses; we looked at Nevada’s hospitality industry as a whole and not just the gaming segment. While gaming remains the hospitality industry’s cornerstone, it has become multi-faceted, evolving to make retail, entertainment, recreation, and dining major components and attractions. Travel and expenditure patterns suggest that this comprehensive approach provides a more holistic perspective about the industry’s economic and social impacts. The following summarizes the results of our work. It also includes a brief discussion regarding the conclusions of our assessment regarding the Nevada gaming industry.

Selected Findings and Statistics: Hospitality Industry

Jobs:

Direct: 307,000 jobs.

Total: 473,700 full-time equivalent positions.

Wages:

Direct: \$5.7 billion paid to employees.

Total: \$10.3 billion paid to employees.

Incomes: While per capita incomes in Western States have fallen below the national average since 1990, Nevadans continue to have incomes above the national average.

Output:

Total: \$30.6 billion in gross business receipts.

Impact Multiplier: Every \$1 in visitor spending generates \$1.86 in gross business receipts.

Taxes:

State and Local Government Revenues: \$1.7 billion annually.

State General Fund Revenues \$750 million annually.

Social Issues:

Population: Growth: There is a statistically significant correlation between the expansion of the hospitality industry and the expansion of Nevada’s resident population.

Employment: For every job created in the hospitality sector, there are two positions in non-gaming sectors. The hospitality sector, as a percentage of total employment, has remained fairly stable since 1989.

Unemployment: The Nevada economy has not shown any material deviation from national rates of unemployment.

Public Service Costs: Government expenditures have grown at the rate of population growth.

Services Standards: Nevada falls behind national standards in some social services categories (i.e., schools and parks). However, the services in Nevada are not materially different from the services in other Western states that have seen significant growth during the last decade. In addition, the geographic climate restrictions of Southern Nevada pose additional challenges to meeting some services standards.

Social Assistance Programs: On average, a smaller share of Nevada's residents participate in the Aid to Families With Dependent Children and Food Stamp programs than in the nation as a whole.

Crime Rate: While the aggregate number of crimes committed per capita (permanent residents) in Nevada is higher than the national average, when the population is adjusted to reflect the tourist population, Nevada's crime rate falls below the national average. (4,600 crimes per 100,000 residents, compared with 5,100 crimes per 100,000 residents).

There is no evidence to substantiate the hypothesis that the expansion of gaming results in increased crime in Nevada. The number of crimes committed per \$1 million of gross gaming revenue has fallen over the last 10 years, from 16.3 crimes per \$1 million in gross gaming revenue in 1987 to 12.9 crimes per \$1 million of gross gaming revenue in 1996.

Problem Gaming: This is the most well supported and documented social problem resulting from the existence and proliferation of gaming. Several studies have identified that certain segments of the population suffer meaningful negative effects as a result of interacting in a gaming environment. For these people gaming is problematic, and can become a serious risk to the well being of those afflicted as well as their families.

While the marginal propensity to be afflicted by problem gambling is not agreed upon, the available research does indicate that for the vast majority of the population, gaming activities do not result in problematic or pathological patterns of behavior.

It is likely that the propensity of problematic and pathological gaming behavior is higher in Nevada than in the nation as a whole. This is due to the number of persons working in gaming establishments, the existence of convenience gaming, and the integration of social activities tied to casino entertainment that do not exist in less saturated markets.

The Assessment of Impacts

The hospitality industry is the largest contributor to the Nevada economy in the form of jobs, wages, business sales, and tax revenues. When compared to the state's second largest industry, mining, Nevada's dependence on the hospitality

industry becomes overwhelmingly apparent. Gaming directly creates 20 times as many jobs as mining. Gaming taxes account for 38% of the state's General Fund own-source revenues; in contrast, mining taxes represent only 1.2%. A "slowdown" in the hospitality sector could ripple through every part of the Nevada economy. Several factors need to be considered, including:

1. The hospitality industry directly employs one-third of all employees, and indirectly supports 60% of the state's workforce.

2. Nevada, and particularly, Southern Nevada, is a growth economy. Several jobs are dependent on the continued expansion of local businesses and industries (e.g., construction).

3. One of the more dangerous characteristics of a gaming-dependent economy is that it derives a significant portion of its revenue from the income of residents. Nevadans are estimated to contribute \$2 billion to the state's gross gaming revenues total each year, or 2.7% of all gaming revenues. A slowdown in tourism that materially influences the hospitality industry has the potential to generate significant job losses in the overall economy.

Does this mean that the Nevada economy is in imminent danger? Not necessarily. Remarkably enough, the rapid expansion of the hospitality industry has been accompanied by the rapid expansion of other businesses and industries, not all of which are dependent on, or derived from, the existence or growth of hospitality-related businesses. A number of businesses have been attracted to Nevada by its pro-business tax structure and booming population; as such, the base of non-gaming industries has grown considerably over the last 10 years. While Nevada's economy had not diversified as is often stated, it has similarly not become more dependent on the hospitality industry, even with such phenomenal industry growth over the period.

Several reports suggest that the Nevada economy will slow during the next 5 years. However, this slowdown is going to be from 9% growth per year to 4.5% growth per year. An economy growing at 4.5% is still strong by any measure, and is considered by most economists as healthier and more sustainable. There are several reasons why a slowdown in economic growth would be beneficial to Nevada. Fiscally, the hospitality industry, the visitors it attracts, and the people it directly employs are conservatively estimated to contribute 50% of Nevada's state and local own-source revenues. Own-source revenues are defined as monies raised through imposed user fees and charges. Using more aggressive assumptions to estimate the industry's contribution to the state's tax structure (where correlations are not readily available, e.g., business-related retail sales and use tax contributions), including indirect and induced impacts, results in a total contribution as high as 70%.

It is no surprise that Nevada's tax structure is dependent on the hospitality industry; it is the state's strongest and wealthiest enterprise. However, it must be noted that when compared to a "typical" tax structure, Nevada's non-gaming businesses and residents pay lower than average effective tax rates. At the same time, they demand a relatively similar amount of social and public services. In essence, the gaming industry subsidizes the tax payment of residents and non-gaming businesses. One must also recognize that the hospitality industry, the visitors it attracts, and the people it employs demand a great deal of public and social services. Most notably, the industry attracts more than 42.2 million visitors annually. These visitors

equate to roughly 20%-25% of the state's resident population total. They use roads, water and power, demand police and fire protection, as well as other public services. These services must be paid for by visitors and the industries that profit from attracting them. In addition, there are social costs associated with gaming. It is difficult to estimate monetary costs of associated social problems. Likewise, it is difficult to accurately quantify the additional expenditures made by hospitality-related companies to reduce the prevalence of, or increase the awareness of, such problems. Also, social benefits of gaming are often overlooked (i.e., decreased unemployment and fewer families on social assistance programs).

The existing system has historically worked well. Nevada has set the standard in gaming regulation and has taken great strides to keep pace with booming growth. However, the system is reliant upon an industry that is no longer restricted to the borders of its state. This system has worked well because the hospitality industry has been able to grow in proportion to the growth of the resident population and other businesses and industries. If this growth becomes disproportionate, the industry will have to subsidize a greater share of municipal expenditures per dollar of revenue. Consequently, if economic diversification is a legitimate goal and/or if the hospitality sector experiences a slowdown, fiscal and economic solutions may need to be identified, including broadening the state tax base. In one way or another, the hospitality industry's health affects the quality of life of all Nevadans. The industry will face several challenges as it moves into the millennium. Its ability to navigate through these obstacles, and the state's ability to grow and change with it, will determine its success as an industry and its long-term impact on the State of Nevada.

Editor's note: The original report summarized here is titled, *The Hospitality Industry's Impact on the State of Nevada: A Review and Analysis*. To order the full report, go to web site: www.nscee.edu/igi/Publications2000.htm.

