

Phase One Research
Land-Based Gaming in Kahnawà:ke

Executive Summary

September 12th 2011

Introduction

On April 26th 2011, the Mohawk Council of Kahnawà:ke initiated Phase One Research into land-based gaming. The motivation for the MCK to look into this area of revenue generation was the growing need for our community to generate its own revenue, and sustain its own community programs. The message and actions of the Federal and Provincial governments is very clear, they will be reducing funding to First Nations, as they have begun to do so already. As a result, the MCK made the decision to research land-based gaming. Land-based gaming has proven to be highly successful for First Nations throughout Canada and the United States. In addition to casino facilities, the MCK also researched video lottery terminal/slot machine only facilities, and 'racino' facilities (horse/dog track and sports betting).

Five Guiding Principles of a Land-Based Gaming Project

As stated by the MCK in April 2011, a land-based gaming project would have to adhere to the following principles:

- 1) The collective must be the prime beneficiary;
- 2) No lands slated for residential development will be considered for use;
- 3) Community members shall receive a dividend;
- 4) The social impacts of gaming will be addressed through immediate and effective measures;
- 5) There will be independent community management of gaming profits. In effect, a communal treasury would be developed to oversee and disperse monies.

Phase One Research Activity

All preliminary research was conducted by current MCK employees Ryan Rice and Paul Rice (both Concordia University Business School graduates), and not professional gaming industry experts. The MCK did not provide a budget for Phase One research, and no expenditures were made for any form of professional studies or reports. Current MCK staff performed the research over and above their current job duties. The first order of business was to review previous reports and documentation from the 1994 and 2003 Casino Projects, the latter being managed by Tewaohnhisak'tha back in 2003. Preliminary research in several key gaming feasibility areas was performed. The results of this research would allow for the MCK to make an informed decision on moving forward with in-depth professional (Phase Two) research into land-based gaming.

These key gaming feasibility areas and their preliminary findings are listed below. The details of each are provided in the following section.

- 1) Overview of Immediate & Regional Gaming Markets - Positive

- 2) Population Demographics in Census Montreal Area (CMA) - Positive

- 3) First Nations Gaming Activity - Positive

- 4) Analyzing Size and Scope of Gaming Facility - Potentially Feasible

- 5) Location of Land-Based Gaming Project - Potentially Feasible

- 6) Social Impacts of Gaming Activity - Neutral (to be professionally assessed)

- 7) Communication Strategy During Land-Based Gaming Review Process - Positive

- 8) Analysis of Political Environment in Relation to Land-Based Gaming - Neutral

- 9) Allocation of Profits Generated by a Land-Based Gaming Project - Positive

Findings

1) Overview of Immediate & Regional Gaming Markets

The immediate market consists of Montreal/South Shore metropolitan areas, with only the Montreal Casino in existence. The Montreal casino has not expanded its gaming operations, with the exception of a small poker area several years ago. Loto Quebec had reduced the number of Video Lottery Terminals (VLTs) in restaurants, bars, and other retail establishments since 2002, as the number has dropped from 14,700 machines down to 11,700. Loto Quebec has opened a very small casino in Mount Tremblant, which is performing very poorly. Loto Quebec has two other casinos in Gatineau (Casino Lac Leamy - near Ottawa) and La Malbaie (Casino de Charlevoix - northeast of Quebec City), and also two VLT "Salons" in Quebec City and Trois Riveries. Within the nearby eastern Ontario and Northern New York regions, there are the Rideau Carlton Raceway (over 1,200 gaming machines near Ottawa), the OLG Thousand Islands Casino (over 500 gaming machines and 20 table games near Gananoque), and the Akwesasne Mohawk Casino (1,600 gaming machines and 20 table games).

Overall there is significant demand potential existing for gaming activity in the immediate and nearby regions surrounding Kahnawà:ke, due to minimal existing gaming facilities. There have been no major increases in gaming activity over the last decade, and Loto Quebec has reduced its gaming presence (less VLTs in circulation), which provides Kahnawà:ke with a great opportunity to capitalize on this existing market demand.

2) Population Demographics in Census Montreal Area (CMA)

Montreal's Census Metropolitan Area (area directly surrounding Kahnawà:ke) is estimated to number 3.8 million people as of 2010, and has experienced 4.7% growth over the last ten years. Even more impressively, nearly all South Shore municipalities surrounding Kahnawà:ke have experienced very high growth rates over the last 5 and 10 year periods. In addition, the average income levels for Quebec residents in Montreal's CMA has increased dramatically. In the income ranges of \$50,000-\$100,000, income levels have increased between 36.9%-55.8%.

These demographics translate to increasing market potential for a land-based gaming operation in Kahnawà:ke.

3) First Nations Gaming Activity

First Nations gaming facilities number approximately 480 facilities in the US, with just over 280 being casinos and the remainder primarily being bingo halls with a small number of card rooms. There are 16 First Nation gaming facilities throughout Canada, with no First Nations gaming facilities existing in Quebec. First Nations gaming revenues represents 26% of all gaming revenues in North America, although that number drops in Canada (First Nations only represent 2.5% of total Canadian gaming revenues). First Nations gaming has experienced a 15.8% growth in revenues between 2005 to 2009, while non-First Nation has only growth at a rate of 6.5% during the same period. The most profitable gaming activities are standard casino games (slot machines, VLTs, and casino table games). Bingo halls and card rooms are far less profitable in comparison, where measured by revenues generated by square foot of gaming space used.

4) Analyzing Size and Scope of Gaming Facility

Nearly all First Nations gaming facilities began with relatively small to medium sized facilities (500-1,500 gaming machines and 20-30 table games), and expanded their operations as needed. Due to limited location options for a land-based gaming facility in (and close to) Kahnawà:ke, it is recommended that the size of the facility be within this range of size and scope. It is recommended that Kahnawà:ke only consider the most profitable gaming activities if a gaming property were considered. As a result, gaming activities such as bingo, card/poker rooms, sports betting, and horse/dog racing should not be considered.

5) Location of Land-Based Gaming Project

The most desirable location for a land-based gaming project would be on Ministère des Transports du Québec (MTQ) returned lands along Highway 30. These returned lands are owed to Kahnawà:ke as compensation for the Highway 30 construction work that has been ongoing in recent years through Kahnawà:ke's SSSL land claim area. Because these returned lands would not be directly attached to the existing territory of Kahnawà:ke, there are the **(MCK Correction Sept 16: Lands are attached to existing territory. What was meant was lands would not be part of the current boundaries we know today.)** benefits of not using existing Kahnawà:ke acreage that could be used for other purposes, and there is the potential for expansion for the gaming facility if needed. The downside to this site location is the fact that the process for MTQ returning lands is estimated to be between 5-7 years. The MCK will attempt to speed up this slow bureaucratic MTQ process, but the potential of succeeding with this goal is unknown at this time.

The secondary location would be the SLS area directly adjacent to the seaway within Kahnawà:ke (between Delaronde's Garage and the Kahnawà:ke Survival School). This area has been designated for commercial use by the Mohawk Council of Kahnawà:ke, and is not deemed suitable for residential development because of the numerous Hydro Quebec lines that populate the SLS area. Some of the drawbacks to this location would be close proximity to residential areas, limited acreage for building a gaming facility, and no room for future expansion.

Both potential locations are extremely attractive because of their accessibility to major highways, and a high volume of vehicle traffic on a daily basis.

6) Social Impacts of Gaming Activity

There are an abundance of social impact studies on gaming (Native and non-Native) that have been published over the last 15 years, and their accounts of the negative impacts (crime and problem gaming) are inconclusive. It would seem that studies that were funded by "anti-gaming" organizations have very pessimistic estimates of negative impact rates, while "pro-gaming" organizations are more optimistic views of those same negative impacts. In reality, the social impacts of gaming in all probability lie somewhere in the middle of these two extremes. In reviewing published articles which touched on the social impacts of gaming within First Nations, the theme is clear: there has been no evidence of an increase in crime or negative social behaviors after a gaming project was developed by a First Nations. In all documentation reviewed, nearly all First Nations reported a decrease in crime and negative social behaviors because of their ability to improve employment opportunities and fund social programs. Of course it is understood that Kahnawà:ke is very unique and different when compared to other First Nations, so a detailed Social Impact Analysis Study is recommended, in order to identify the potential for negative social impacts within the community.

7) Communication Strategy During Land-Based Gaming Review Process

The goal in terms of a communication strategy is to make information available to community members as it is realized. It is understood that the issue of land-based gaming has been very controversial during both the 1994 and 2003 referendum processes, and that is not expected to change. It is important that as much factual and nonpartisan gaming-related information is made available, and that responses to inquiries and questions as made as quickly as possible. It is considered of the utmost importance that both the community and the MCK have key information at their disposal as this land-based gaming review proceeds into Phase Two.

8) Analysis of Political Environment In Relation to Land-Based Gaming

There are currently no First Nations gaming facilities within the province of Quebec, with all six existing gaming facilities (four casinos and two VLT salons) being operated and regulated by Loto Quebec. There is currently no relationship regarding land-based gaming between Kahnawà:ke and Quebec. The relationship regarding on-line gaming is negative, with Quebec considering Kahnawà:ke's regulation and data center hosting of gaming activities (Mohawk Internet Technologies) to be illegal. When considering First Nations matters, Quebec is possibly the most bureaucratic and "against the grain" provincial government to deal with in all political matters. In 1994 and 2003, Quebec's position was that of not "coming to the table" to discuss gaming until Kahnawà:ke had community support for a land-based gaming project.

It is important to note that all known First Nations land-based gaming properties have some form of gaming compact with their respective province (Canada) or state (US). The details of First Nations gaming compacts vary. For example, the Pequots (Foxwoods Casino) and Mohegans (Mohegan Sun Casino) pay a very large percentage of gross gaming machine revenue (25%) in exchange for casino exclusivity within the state of Connecticut. Other compacts seem to be quite poorly negotiated, such as the 25% of net gaming machine profits that the Akwesasne Mohawk Casino pays to the state of New York (without casino exclusivity). The details of First Nations gaming compacts in Canada are not publicly shared information, and would have to be researched further in the near future.

9) Allocation of Profits Generated by a Land-Based Gaming Project

It has been made very clear by the MCK that the profits of a land-based gaming operation would be handled by a treasury entity, and not the MCK or any other existing organization in Kahnawà:ke. The primary purpose of a treasury is to optimize financial management of cash resources, ensuring that community organizations/institutions are provided with the necessary resources for efficient service and program delivery. The MCK will have no direct involvement with daily management of the treasury entity and would seek funding allocations like any other organization, with no priority given to MCK programs. A treasury entity would also administer and oversee the dividend distribution process to community members. Currently, no universal design for a treasury exists, and the final structure would be designed to meet the needs of Kahnawà:ke. The challenge for a treasury entity is how to prioritize community needs and the claims for the limited resources that are available. As a result, it is extremely important that any individuals who serve on the treasury are unaffiliated with existing organizations/institutions, and have the professional credentials needed to meet the demands of that a treasury would require.

While the concept of a treasury is designed for the administering of all public funds, this particular concept would specifically allow for a treasury entity to oversee land-based revenue only, and no other existing revenue sources within Kahnawà:ke. This treasury structure would not absorb the existing individual funding agreements that currently exist with the various non-MCK organizations that function throughout Kahnawà:ke.

The most important function of a treasury entity in Kahnawà:ke is to ensure that gaming profits are properly accounted for and distributed, according to a proper prioritization of community needs. It is also important to repeat that land-based gaming profits will not be handled, distributed, or decided on (for use) by the Mohawk Council of Kahnawà:ke.

Conclusion

As was presented in the preceding section, all key gaming industry areas that were researched had positive or neutral results in respect to Kahnawà:ke moving into land-based gaming. There are no glaring “red flags” that would signal that the MCK moving into professional Phase Two research would be a poor decision. All preliminary research is signaling that the MCK to move forward immediately into the Phase Two research stage.

Phase Two would involve professional research into a Gaming Market Assessment Report, an Economic Impact Analysis report, a Social Impact Analysis report, as well as a technical survey to gauge community support. The total cost of Phase Two research is estimated to be \$115,000. Should the Phase Two research reports have positive results with the findings proving to be supportive of a land-based casino being a viable venture, Chief & Council would have to decide how the community will choose whether or not it wishes to support such a project. The most likely decision-making method would be a community referendum.