



# Tribal Gaming in Wisconsin

Informational  
Paper

81

Wisconsin Legislative Fiscal Bureau  
January, 2005



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## TABLE OF CONTENTS

Introduction .....	1
Historical Development .....	1
Current Extent of Tribal Gaming in Wisconsin and State Administration .....	4
Gaming Compact Features.....	5
Recent Wisconsin Supreme Court Decisions .....	14
State Revenues from Tribal Gaming.....	16
Tribal Gaming in Other States .....	25



# Tribal Gaming in Wisconsin

## Introduction

Prior to 1965, Article IV, Section 24 of the Wisconsin Constitution stipulated that "the legislature shall never authorize any lottery..." This provision was broadly interpreted to exclude all forms of gambling in Wisconsin. Over the years, five separate constitutional amendments have since modified this strict gambling prohibition. The first, ratified in 1965, allowed the Legislature to create an exception to permit state residents to participate in various promotional contests. In 1973 and 1977, amendments were passed authorizing the Legislature to allow charitable bingo games and raffles, respectively. Finally, in 1987, two amendments were adopted authorizing: (a) the creation of a state-operated lottery, with proceeds to be used for property tax relief; and (b) privately operated pari-mutuel on-track betting as provided by law.

In addition to these amendments, which expanded legal gambling in the state, Wisconsin voters ratified a constitutional amendment on April 6, 1993, that clarified that all forms of gambling are prohibited except bingo, raffles, pari-mutuel on-track betting and the current state-run lottery. The amendment also specifically prohibits the state from conducting prohibited forms of gambling as part of the state-run lottery. The amendment limits gambling in the state to those forms permitted in April, 1993.

A history and a detailed description of current lottery, pari-mutuel wagering and racing, and charitable gaming activities is provided in the Legislative Fiscal Bureau's informational paper entitled "State Lottery, Pari-Mutuel Wagering and Racing, and Charitable Gaming."

In separate developments resulting from

federal court rulings and federal law changes, Indian tribes in Wisconsin and other states were provided the right to negotiate gaming compacts authorizing a wide variety of gambling activities on reservation and on federal trust lands. As a result, 11 Indian tribes and bands currently operate gaming facilities in Wisconsin.

This paper describes the development and current status of tribal gaming in Wisconsin, including: (a) the historical and legal background relating to the development of Indian gaming; (b) the current extent of tribal gaming in Wisconsin and state administration under current law; (c) the major provisions of the state-tribal gaming compacts; (d) the impact of recent court decisions affecting tribal gaming in the state; and (e) the amount and use of gaming-related tribal payments to the state. This paper concludes with a comparative overview of the status of tribal gaming in other states.

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## Historical Development

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The appearance of casino gambling operations on Indian lands in Wisconsin is part of a national phenomenon resulting from the enactment of the federal Indian Gaming Regulatory Act and several court decisions. This Act and two key court decisions are described in the next section before turning to a discussion of Indian gaming in Wisconsin.

### Indian Gaming Regulatory Act (IGRA)

Enacted as P.L. 100-497 on October 17, 1988, IGRA provides that "Indian tribes have the exclusive right to regulate gaming activity on Indian lands if the gaming activity is not specifically pro-

hibited by Federal law and is conducted within a State which does not, as a matter of criminal law and public policy, prohibit such gaming activity." The Act is consistent with a principal goal of federal Indian policy: the promotion of tribal economic development, tribal self-sufficiency, and strong tribal government. The Act is also viewed as responsive to the interest many Indian tribes have in using gambling as a means to economic development. In order to provide clearer standards and regulations for the conduct of gaming on Indian lands, IGRA specifies what types of gaming are subject to what types of jurisdiction, defines on what lands Indian gaming may be operated, and establishes the requirements for compacts between Indian tribes and the states. These major features are briefly described here.

Three classes of gaming are defined by IGRA that are subject to different jurisdictions and levels of regulation. State-tribal gaming compacts are required for Class III gaming only.

**Class I Gaming.** Class I games are defined as "social games solely for prizes of minimal value or traditional forms of Indian gaming engaged in by individuals as a part of, or in connection with, tribal ceremonies or celebrations." Under IGRA, Class I games conducted on Indian lands are within the exclusive jurisdiction of the Indian tribes and are not subject to federal or state regulation.

**Class II Gaming.** Class II games are defined as the game commonly known as bingo and includes, if played at the same location, pull-tabs, punch boards, tip jars, instant bingo and other games similar to bingo. It also includes card games that are authorized by the laws of a state or are not expressly prohibited by the laws of a state and are played at any location in a state. However, Class II gaming does not include banking card games (where a player is playing against the "house" rather than other players: for example, baccarat, chemin de fer or blackjack) or electronic facsimiles of any game of chance or slot machines. Class II gaming on Indian lands is also within the jurisdic-

tion of Indian tribes, but is subject to federal provisions under IGRA.

**Class III Gaming.** Class III games are defined as all forms of gaming that are not defined as Class I or Class II games. These types of games would include banking card games, electronic or electro-mechanical games of chance, including slot machines, pari-mutuel racing, jai alai and, generally, all high-stakes, casino-style games.

Class III gaming may be conducted on Indian lands if the following conditions are met: (a) the gaming activities are authorized by an ordinance or resolution adopted by the tribe and approved by the Chairman of the National Indian Gaming Commission; (b) the gaming activities are located in a state that permits such gaming for any purpose by any person, organization or entity; and (c) the gaming is conducted in conformance with a compact entered into by the tribe and the state.

Generally, gaming may not be conducted on Indian lands acquired after October 17, 1988, by the U.S. Secretary of the Interior in trust for the benefit of an Indian tribe unless: (a) the lands are located within, or are contiguous to, the boundaries of a reservation of a tribe on October 17, 1988; or (b) the tribe has no reservation as of this date, but the land is located within the tribe's last recognized reservation within a state or states in which the tribe is presently located. An exception may be made to this rule if the Secretary of the Interior determines that a gaming establishment on newly acquired lands would be in the best interest of the tribe and would not be detrimental to the surrounding community, but only if the Governor of the affected state concurs in this determination.

The purpose of the state-tribal compact is to govern Class III gaming activities on Indian lands and may include provisions relating to: (a) the application of criminal and civil laws of the tribe and the state to the licensing and regulation of the gaming activities; (b) the allocation of criminal and civil jurisdiction between the state and the tribe; (c) the assessment by the state of amounts necessary to



defray the costs of regulation; (d) standards for the operation of gaming activities; (e) remedies for breach of contract; and (f) any other subjects directly related to the operation of gaming activities. A state-tribal compact takes effect only when notice of approval of the compact by the U.S. Secretary of the Interior has been published in the Federal Register.

IGRA also prescribes procedures for the negotiation of state-tribal compacts, requires states to negotiate in good faith and requires a mediation process to be utilized, under certain conditions, if negotiations are not successfully concluded. However, a 1996 U.S. Supreme Court decision (*Seminole Tribe of Florida v. Florida, et al.*) has determined that certain of these provisions are unconstitutional. The *Seminole Tribe* decision and other relevant decisions are discussed in the following section.

### **Early Federal Court Decisions**

The development of Indian gaming has been subject to various federal court decisions that have resolved issues relating to jurisdictional disputes over the regulation of Indian gaming activities and the types of games that may be offered on Indian lands. An important standard for subsequent cases was set in the U.S. Supreme Court's 1987 decision in *California v. Cabazon Band of Mission Indians*. This case involved California's attempt to require tribes to submit to state and local laws governing wagering on bingo and card games. The Supreme Court held that the application of a state's criminal laws to Indian gaming would depend on a state's policy toward gambling. If the policy is "criminal-prohibitory," that is, if the state prohibits all forms of gambling by anyone, the state's laws would apply to Indian gaming. However, if the state's policy is "civil-regulatory," that is, if the state allows some forms of gambling, even gaming that is subject to extensive regulation, the state is barred from enforcing its gambling laws on Indian reservations. California law was characterized by the Court as civil-regulatory. Consequently, the Court held that California could not enforce its criminal gambling

laws against the Cabazon gaming operations.

Congress relied on *Cabazon* in drafting the Indian Gaming Regulatory Act of 1988. The IGRA requirement that state-tribal gaming compacts be negotiated for Class III gaming was the means devised to balance state and Indian interests in the regulation and operation of high stakes gambling. An important interpretation of IGRA was provided in a 1991 Wisconsin case. In *Lac du Flambeau Band of Lake Superior Chippewa Indians and the Sokaogon Chippewa Community v. State of Wisconsin et al.*, the U.S. District Court for the Western District of Wisconsin held that:

"...[T]he state is required to negotiate with plaintiffs [the tribes] over the inclusion in a state-tribal compact of any activity that includes the elements of prize, chance and consideration and that is not prohibited expressly by the Wisconsin Constitution or state law."

This ruling settled a dispute over whether the state had to include casino games, video games and slot machines in its compact negotiations with tribes. Wisconsin had contended that unless a state grants leave expressly for the playing of a particular type of game within the state, that activity cannot be lawful on Indian lands. The Court, however, determined that:

"[I]t is not necessary for plaintiffs to show that the state formally authorizes the same activities plaintiffs wish to offer. The inquiry is whether Wisconsin prohibits those particular gaming activities. It does not."

This ruling applied the *Cabazon* standard of civil-regulatory versus criminal-prohibitory to state policy and concluded that the state's current lottery and pari-mutuel wagering provisions demonstrate that state policy permits gaming in a civil-regulatory sense.

The Indian Gaming Regulatory Act, in conjunction with court decisions prior and subsequent to

its enactment, set the stage for the negotiation of Class III Indian gaming compacts in Wisconsin and in other states where such gambling is permitted, even in a restricted manner. However, one important provision of IGRA has been struck down by the U.S. Supreme Court. Under IGRA, states have a duty to negotiate in good faith with a tribe toward the formation of a compact, and a tribe may sue a state in federal court in order to compel performance of that duty. In a 1996 decision (*Seminole Tribe of Florida v. Florida, et al.*) the U.S. Supreme Court held that the Eleventh Amendment of the U.S. Constitution prevents Congress from authorizing suits by Indian tribes against states to enforce legislation enacted pursuant to the Indian commerce clause. The *Seminole* decision would not prevent a state from negotiating or renegotiating a gaming compact in the future. However, if a state fails to negotiate or renegotiate a compact to the satisfaction of a tribe, the tribe would not have recourse in federal court. It is not clear at this time how a failed compact negotiation would be resolved.

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### **Current Extent of Tribal Gaming in Wisconsin and State Administration**

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As a result of these developments, 11 state-tribal gaming compacts were signed in Wisconsin in 1991 and 1992, and 17 Indian gaming casinos featuring electronic games and blackjack tables began operation across the state. In total, 24 casinos and ancillary sites (sites limited to electronic games) are currently operational. Based on the most recent data available from the Department of Administration's Office of Indian Gaming, Table 1 lists, for each tribe or band, the name and location of the casinos and ancillary locations and the number of electronic gaming devices and blackjack tables operated at each site.

State regulatory oversight of tribal gaming has been assigned to several different state agencies since the first tribal gaming compacts were signed. Under the original gaming compacts, state

administration for tribal gaming was under the Lottery Board, which was responsible for the operation of the state lottery. Effective October 1, 1992, the three-member Wisconsin Gaming Commission was created by 1991 Wisconsin Act 269 to coordinate and regulate all activities relating to legal gambling, including the operation of the state lottery, the regulation of pari-mutuel wagering and racing, the regulation of charitable bingo and raffles, and the state's regulatory responsibilities under the state-tribal gaming compacts.

Under 1995 Wisconsin Act 27, the Gaming Commission was eliminated and replaced by a Gaming Board, effective July 1, 1996. On that date, the administration of the state lottery was transferred to the Department of Revenue (DOR) and all other responsibilities of the former Gaming Commission were transferred to the Gaming Board. Finally, 1997 Wisconsin Act 27 eliminated the Gaming Board, and its functions were transferred to a Division of Gaming in the Department of Administration (DOA), effective October 14, 1997.

In the Division of Gaming, an Office of Indian Gaming is responsible for the state's administrative oversight of tribal gaming. A total of 16.0 FTE positions are currently authorized for the Office, including one unclassified director position. These employees are subject to background investigations and criminal record restrictions before hiring.

The Office's funding in 2004-05 totals \$1,856,400 in program revenue (PR) derived from the following sources: (a) tribal payments as reimbursement for state costs of regulation of Indian gaming; (b) tribal gaming vendors and from persons proposing to be tribal gaming vendors as reimbursement for state costs of certification and background investigations; (c) tribes, as reimbursement for state costs of gaming services and assistance provided by the state that are requested by an Indian tribe; (d) additional revenue received by the state from tribes pursuant to the gaming compacts. Tribal payments to the state are described in greater detail in the section on state revenue from tribal gaming.

**Table 1: Indian Gaming Casinos, October, 2004**

Tribe or Band	Casino Name	Casino Location	County	Gaming Devices	Tables
Bad River*	Bad River Casino	Odanah	Ashland	416	7
Ho-Chunk Nation	Ho-Chunk Casino	Baraboo	Sauk	2,650	48
Ho-Chunk Nation	Rainbow Casino	Nekoosa	Wood	625	0
Ho-Chunk Nation	Majestic Pines Casino	Black River Falls	Jackson	680	12
Ho-Chunk Nation	Whitetail Crossing	Tomah	Monroe	100	0
Lac Courte Oreilles *	Lac Courte Oreilles Casino	Hayward	Sawyer	596	24
Lac Courte Oreilles *	Grindstone Creek Casino	Hayward	Sawyer	100	0
Lac du Flambeau *	Lake of the Torches Casino	Lac du Flambeau	Vilas	890	36
Menominee Indian Tribe	Menominee Nation Casino	Keshena	Menominee	580	18
Menominee Indian Tribe	Crystal Palace Bingo	Keshena	Menominee	190	0
Oneida Tribe of Indians	Oneida Bingo & Casino	Green Bay	Brown	1,024	28
Oneida Tribe of Indians	Irene Moore Activity Center (IMAC)	Green Bay	Brown	905	8
Oneida Tribe of Indians	Convenience Store - Hwy. 54	Oneida	Outagamie	150	0
Oneida Tribe of Indians	Convenience Store - Mason St.	Green Bay	Brown	670	0
Oneida Tribe of Indians	Convenience Store - Hwy. 29	Oneida	Outagamie	61	0
Oneida Tribe of Indians	Convenience Store - Cty. Rd. E	Oneida	Outagamie	76	0
Stockbridge-Munsee Comm.	Mohican North Star Casino	Bowler	Shawano	1,062	24
Forest County Potawatomi	Potawatomi Bingo Casino	Milwaukee	Milwaukee	1,000	24
Forest County Potawatomi	Northern Lights Casino	Carter	Forest	423	10
Red Cliff *	Isle Vista Casino	Bayfield	Bayfield	236	2
Sokaogon Chippewa Comm.	Mole Lake Regency Resort Casino	Crandon	Forest	426	7
St. Croix Chippewa Indians	St. Croix Casino	Turtle Lake	Barron	1,083	24
St. Croix Chippewa Indians	Hole in the Wall Casino	Danbury	Burnett	304	6
St. Croix Chippewa Indians	Little Turtle Express Casino	Hertel	Burnett	<u>99</u>	<u>0</u>
Totals				14,346	278

\*Band of Lake Superior Chippewa Indians

In addition to DOA's regulatory role, the compacts authorize the Department of Justice (DOJ) to monitor each tribe's casino gaming to ensure compliance with the compacts, to investigate the activities of tribal officers, employees, contractors or gaming participants who may affect the operation or administration of the tribal gaming, and to commence prosecutions relating to casino gaming for violations of any applicable state civil or criminal law or provision of a compact. These responsibilities are primarily assigned to the Gaming Enforcement Bureau, a unit within DOJ's Division of Criminal Investigation. A bureau director and four special agents are responsible for this work, as well as the enforcement of the state's gambling statutes pertaining to the state lottery, pari-mutuel wagering and racing, charitable gaming, and illegal gambling. In 2004-05, funding for the Bureau totals \$570,600 (\$316,400 SEG from the lottery fund,

\$137,000 PR from pari-mutuel racing revenue, and \$117,200 PR from Indian gaming receipts).

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### Gaming Compact Features

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Under s. 14.035 of the statutes, the Governor is authorized to negotiate Indian gaming compacts on behalf of the state. The original gaming compacts with the 11 tribes and bands in the state were signed between August 16, 1991, and June 11, 1992, with an initial term of seven years.

Between February, 1998 and March, 1999, the compacts were amended, and the terms were extended for an additional five years. The Menominee Indian Tribe also negotiated additional

amendments, dated August 18, 2000, relating to a proposed casino to be operated in Kenosha.

Finally, except for the Lac du Flambeau, additional amendments to the state-tribal gaming compacts were completed in 2003. (The Lac du Flambeau's compact, as amended in 1998, has been renewed for a five-year period; therefore, the 2003 provisions described below do not apply to the Lac du Flambeau.) These 2003 amendments made major changes to certain aspects of the compacts, including the term of the compacts and the payment of significant additional amounts of tribal revenues to the state. Some of these provisions have been the subject of legal action. The gaming compacts, as modified by the 2003 amendments, are described in detail in this section. Recent Wisconsin Supreme Court actions are then described in the following section.

### **Major State-Tribal Gaming Compact Provisions**

While the 11 Wisconsin state-tribal gaming compacts contain many identical provisions, they also include a number of differences. Both the 1998/1999 and the 2003 compact amendments modify provisions of the original compacts and, in addition, create new features. The following discussion summarizes the major compact components, as currently provided under the amended compacts. Generally, these provisions apply to all of the compacts; however, important differences are specifically noted. Where variations between the compacts are deemed primarily minor or technical in nature, they are not separately described.

**Sovereign Immunity.** Sovereign immunity refers to the doctrine that prohibits a lawsuit against a government without its consent. The original compact provisions generally provided that by entering into the compact neither the state nor the tribe waive their sovereign immunity under either state or federal law (except as expressly provided in the compact and subject to the provisions of IGRA). However, both the state and the tribe

agreed that suit to enforce a compact provision could be brought in federal court against a state or a tribal official, but only for prospective declaratory or injunctive relief. If any enforcement provision of a compact was found to violate the sovereign immunity of the state or the tribe, or if a court should otherwise determine that the state or the tribe lacks jurisdiction to enforce the compact, the two parties were required under the original compacts to immediately resume negotiations to create a new enforcement mechanism.

Under most of the 2003 amendments, these provisions are largely restated, but the tribes and state expressly waive any and all sovereign immunity with respect to any claim brought by the state or tribe to enforce any provision of the compact, to the extent the state or tribe may do so under its laws. In the 2003 amendments with the Oneida and St. Croix, each tribe waives its sovereign immunity with respect to certain claims under the compact; however, this waiver becomes ineffective in the event the state's sovereign immunity prevents the resolution of the claim. In the 2003 amendments with the Stockbridge-Munsee, both the tribe and state, pursuant to law, grant a limited waiver of sovereign immunity and consent to arbitration and suit in federal court solely with respect to certain claims under the compact.

While there are variations between the compacts, the 2003 amendments represent a limited waiver of the state's sovereign immunity in disputes based on compact provisions. The sovereign immunity waiver provision of the 2003 amendments to the Potawatomi compact was challenged in 2004 in the case *Panzer v. Doyle*. The Wisconsin Supreme Court concluded, with respect to the 2003 Potawatomi compact amendments only, that the Governor has neither the inherent nor the delegated power to waive the state's sovereign immunity in compact negotiations. Therefore, provisions of the compact that waive the state's sovereign immunity are invalid. This court decision is discussed in greater detail in the section on recent Supreme Court decisions.

**Term and Renewal.** The term of each original compact was for seven years, beginning in 1991 and 1992. The 1998/1999 amendments extended this term for five years, to 2003 and 2004, and provided that the duration would automatically be extended for successive terms of five years. However, either party could serve written notice of nonrenewal on the other party not less than 180 days before the expiration date of a current compact. Under these provisions, if written notice of nonrenewal were given by either party, the tribe could request the state to enter into negotiations for a successor compact, pursuant to procedures under IGRA. In this event, the state agreed that it would negotiate with the tribe in good faith concerning the terms of a successor compact. If a compact were not renewed and a successor compact was not concluded by the expiration date, the tribe would be required either to: (a) cease all Class III gaming upon the expiration date; or (b) commence action in federal court under procedures enumerated in IGRA. Under this second option, the compact would remain in effect until the procedures under IGRA were exhausted.

Under the 2003 amendments, the duration provisions of the compacts were significantly modified to provide that the compacts remain in effect until terminated by mutual agreement of the parties, or by a duly adopted ordinance or resolution of the tribe revoking the authority to operate Class III gaming (except that the Stockbridge-Munsee require the mutual agreement of both the state and the tribe to terminate their compact). The 2003 amendments result in the compacts having unlimited duration (that is, they are "perpetual" compacts).

However, the 2003 amendments with three tribes (the Oneida, St. Croix, and Stockbridge-Munsee) specify that if the unlimited duration provision were found to be invalid or unlawful by a court of competent jurisdiction, then the term of the compact would default to expiration dates in 2101 or 2102 (approximately 99 years following the effective date of the 2003 amendments).

In addition to the unlimited duration provisions, the 2003 compact amendments deleted the provisions allowing either party to give a nonrenewal notice at five-year intervals. This nonrenewal process was one means for the parties to seek revisions in the terms of the compacts. The 2003 amendments include new provisions for the periodic amendment of the compacts. First, at five-year intervals, either the state or a tribe may propose amendments to the regulatory provisions of the compact. Second, at 25-year intervals, the Governor, as directed by the Legislature through the enactment of a session law, or a tribe may propose amendments to any compact provision. If amendments are requested by either party, the state and tribe are required to negotiate in good faith regarding the proposed amendments. Disputes over the obligation to negotiate in good faith are subject to the dispute resolution provisions of the compact, described below.

The perpetual duration provision of the 2003 Potawatomi amendments was also challenged as part of the *Panzer v. Doyle* litigation. In its ruling, the Wisconsin Supreme Court concluded that with respect to the Potawatomi amendments, the Governor was without authority to agree to the "perpetual" duration provision. This court decision is discussed in greater detail in the section on recent Supreme Court decisions.

**Types of Games Authorized.** The compacts specify the Class III games that may be operated by each tribe or band. Under the original compacts, these games included: (a) electronic games of chance with video facsimile displays; (b) electronic games of chance with mechanical displays; (c) blackjack; and (d) pull-tabs or break-open tickets, when not played at the same location where bingo is being played. Tribes are also not authorized to operate any other types of Class III gaming unless the compact is amended.

The compacts also provided that a tribe may request that negotiations be reopened in the event the state operates, licenses or permits the operation

of other types of games that are not currently authorized in the tribe's compact. This renegotiation provision would also apply in cases where additional games were newly authorized under another state-tribal gaming compact. Under some of the state-tribal compacts, tribes were authorized to request annually that the state and tribe discuss and consider the addition of new types of games, if the tribe specified the need to operate additional games in order to realize a reasonable return on its investment.

Under the 2003 amendments, the types of authorized games were significantly expanded to include the following: electric keno, pari-mutuel wagering on live simulcast races, roulette, craps, poker, and non-house banked card games. In addition, for some tribes, the compact amendments specify that other games, including lottery games, variations of blackjack, and other types of dice games are authorized.

This expansion of authorized games was challenged in *Panzer v. Doyle*. The petitioners contended that the Governor exceeded his authority by agreeing to these new types of games in the Potawatomi compact amendments. The Wisconsin Supreme Court ruled that most, but not all, of the games added in the 2003 amendments with the Potawatomi tribe could not validly be included in a compact as a matter of state law because their inclusion violated both the Wisconsin Constitution and state criminal code. Therefore, the Court concluded, the Governor had no authority to agree to these provisions. The ruling stated that the Governor did have the authority to agree to pari-mutuel wagering on live simulcast racing events because that form of wagering is not prohibited under state law. This court decision is discussed in greater detail in the section on recent Supreme Court decisions.

**Conduct of Games.** The compacts establish the following general provisions for the conduct of games: (a) no person under 18 years of age may be employed in the conduct of gaming; (b) no person

visibly intoxicated is allowed to play any game; (c) games must be conducted on a cash basis (bank or credit card transactions are permitted); (d) a tribe must publish procedures for the impartial resolution of a player dispute concerning the conduct of a game; and (e) alcoholic beverages may be served on the premises of gaming facilities only during the hours prescribed under state law. With two exceptions, the minimum age to play is 21 years. Under the Lac Courte Oreilles and Sokaogon compacts, the minimum playing age is 18 years.

Under IGRA, Class III games may not be conducted outside qualified tribal lands. These lands include all lands within the limits of any Indian reservation, or land held in trust by the United States for the benefit of any tribe or individual, or held by any tribe or individual subject to restriction by the United States against alienation and over which a tribe exercises governmental power. Further, the compacts specify that Class III gaming may not be conducted through the use of common carriers such as telecommunications, postal or delivery services for the purpose of facilitating gambling by a person who is not physically present on tribal lands.

**Gaming Procedures and Requirements.** The state-tribal compacts provide detailed procedures and requirements relating to the operations of Class III games to ensure gaming security and adequate regulatory oversight. Separate requirements are specified for the operation of electronic games of chance and the conduct of blackjack and pull-tab ticket games. These requirements are briefly summarized, as follows:

1. *Electronic Games of Chance.* The compacts require that electronic games of chance be obtained from a manufacturer or distributor holding a state certificate required for gaming-related contracts (described below). The electronic game must also be tested, approved, and certified by a gaming test laboratory as meeting the requirements and standards of the compact. Provisions also delineate procedures for testing, modifying, installing, oper-

ating, and removing games from play and specify hardware, cabinet security, software, and other requirements.

Under the original compacts, video games that are not affected by player skill must pay out a minimum of 80% of the amount wagered, and games affected by player skill must pay out a minimum of 83% of the amount wagered. In both types of games the maximum payout was established at 100%. The 2003 amendments for some tribes modified the maximum payout provision to: (a) authorize maximum payouts for games that are not affected by player skill to exceed 100%, if the games are being utilized in slot tournaments; and (b) authorize maximum payouts for games that are affected by player skill to be no more than 103%.

Under the 2003 compact amendments, an original compact provision that an electronic game of chance may not allow a player to wager more than \$5 during a single game was eliminated for nine of the 11 tribes. Only the Ho-Chunk (whose 2003 amendments did not make this change) and the Lac du Flambeau (who did not sign 2003 amendments) still retain the \$5 maximum wager limitation.

2. *Blackjack.* Under each original compact: (a) a tribe is authorized to operate blackjack games at no more than two facilities, unless the state (by amendment of the compact) consents to additional locations; (b) blackjack may not be operated at any location for more than 18 hours a day; and (c) the maximum wager before double-downs or splits is \$200. All these provisions still apply to the Ho-Chunk (whose 2003 amendments made no changes to this provision) and the Lac du Flambeau (who did not sign any 2003 amendments). However, the 2003 amendments for the other nine tribes eliminate the \$200 maximum wager limitation. For most tribes, the 18-hour daily limitation for blackjack play is also eliminated. Finally, four tribes (Menominee, Oneida, Potawatomi, and Stockbridge-Munsee) have the two blackjack facilities limitation deleted in their 2003 amendments.

The compacts also define a variety of blackjack terms and specify the regulations that apply to players and non-players, the cards used in the games, wagers, playing procedures and payment of winners. Minimum staffing levels for the conduct of blackjack and surveillance requirements are also provided.

3. *Pull-Tab Ticket Games.* For nine tribes, pull-tab ticket games, when conducted as Class III gaming under the compacts, must be conducted in accordance with the most recently published standards of the North American Gaming Regulators Association. Two tribes (Oneida and Stockbridge-Munsee) deleted this provision in their 2003 amendments. For these two tribes, pull-tab ticket games are now subject to each tribe's internal gaming regulations.

**Internal Control Standards.** A memorandum of understanding (MOU) associated with the 1998/1999 compact amendments for nine of the 11 tribes included provisions whereby each affected tribe agreed to utilize minimum internal control standards in their casino operations. Generally, these standards must be at least as restrictive as those adopted by the National Indian Gaming Commission and, under certain conditions or for certain tribes, at least as restrictive as the National Indian Gaming Association. These MOUs are discussed in more detail below.

Requirements for internal control standards under the 2003 amendments are similar to those in the 1998/1999 agreements, but are more developed and formalized. Under the 2003 amendments, minimum internal control standards (MICS) applicable to the conduct of casino games and to all Class III gaming facility operations are required to be proposed and implemented by the tribes. MICS relating to the conduct of play provide for an accurate payout ratio for each game, ensure the fairness of the playing of all games, and ensure that the revenue generated from the playing of each game is adequately counted and accounted for. MICS relating to Class III gaming facility operations are

intended to ensure not only that all revenue is adequately accounted for, but also to provide a system of internal control standards that is consistent with industry standards and to ensure compliance with relevant provisions of the Compact. The MICS applicable to Class III gaming facility operations must meet or exceed the standards promulgated by the National Indian Gaming Commission. The amendments establish timelines and procedures for the tribes and the state to agree to the MICS and provide for an arbitration process to resolve disagreements between a tribe and the state concerning these standards.

**State Data Collection.** With some variations, the MOUs associated with the 1998/1999 compact amendments require the tribes to provide the state with electronic access (in addition to the on-site physical access allowed under the compacts) to certain slot machine accounting data. Generally, the data must be treated as confidential by the state and may not be disclosed in the form of statewide aggregate totals without the permission of the tribes.

The 2003 amendments extend and formalize the state reporting requirements initiated under the 1998/1999 agreements. Generally, each tribe agrees that it will report information from its slot machine accounting systems to the state's Data Collection System (DCS) and will utilize DCS's hardware, software, and reporting formats. However, at no time may the DCS be used for live, on-line monitoring of any tribe's on-line accounting system. The tribes and the state also agree to meet and confer regarding any proposed modifications to the hardware, software and reporting formats of the DCS. Disagreements on such modifications are subject to arbitration. The arbitrators must approve the proposed modification, if it is determined to be reasonably necessary to allow the state to maintain electronic monitoring of the specified information, or must reject the modification, if it is determined to be unreasonably burdensome on the tribe.

Under the 2003 amendments, the tribes also agree to submit to DOA, in an electronic format

maintained by the tribe, a variety of daily revenue information for table games. This information must be submitted no later than 21 days after the conclusion of the previous calendar month.

**Gaming-Related Contracts.** The compacts define agreements under which a tribe procures materials, supplies, equipment or services that are unique to the operation of gaming and are not common to ordinary tribal operations as "gaming-related contracts." These contracts include, but are not limited to: (a) contracts for management, consultation, or security services; (b) prize payout agreements; (c) procurement of materials, supplies and equipment, and equipment maintenance; and (d) certain financing agreements related to gaming facilities. A gaming-related contract must provide that it is subject to the provisions of the state-tribal compact and will be terminated if the contractor's certificate, issued by DOA, is revoked.

Under the original compacts, any contract exceeding \$10,000 requires that the contractor be issued a certificate by DOA. Eligibility for a certificate is subject to criminal history background checks and other restrictions to ensure the integrity of Class III gaming conducted under the compacts. These provisions still apply to the Ho-Chunk, Lac Courte Oreilles, Lac du Flambeau, and Potawatomi, but the other tribal compacts were modified by the 2003 amendments with respect to these contracting provisions.

These new amendments generally require: (a) state certification by DOA, if the value of the contract exceeds \$25,000 annually; or (b) disclosure and the provision of fingerprints to DOA by the prospective contractor of all owners, officers, directors and key employees, if the value of the contract is more than \$10,000 but less than \$25,000 annually. Under this latter provision, if DOA has reasonable belief that the person does not meet all of the criminal history requirements, DOA may require the person to submit to the full certification process applicable to contracts exceeding \$25,000.

Provisions are also now in place for the tempo-



rary certification of contractors. Such temporary certification has been in effect since the 1998/1999 amendments for the Ho-Chunk and the Menominee tribes and, except for the Lac du Flambeau and the Potawatomi, other tribes adopted these provisions in the 2003 amendments. Generally, under these provisions, DOA may grant a temporary certificate to an applicant, at the request of the tribe, if certain criteria are met, including the submission of a complete application. The temporary certificate allows the applicant to provide gaming-related goods and services to the tribe until such time as DOA approves the certification, or suspends, revokes, or denies the temporary certificate. After an applicant receives a temporary certification, if DOA finds cause to deny the contractor a certificate, or to suspend or revoke the temporary certificate, any contract entered into by the contractor and the tribe is considered null and void and all payments received by a contractor while holding a temporary certificate must be returned to the tribe.

Pursuant to a gaming compact or regulations and agreements with the National Indian Gaming Commission, DOA must certify and conduct background investigations of any person proposing to be an Indian gaming contractor. Such persons must be photographed and fingerprinted. Further, DOJ is authorized to submit these fingerprint cards to the Federal Bureau of Investigation. Any certificate authorizing a person to be a gaming vendor is void if the results of the background investigation disclose information that disqualifies the person from being a vendor, under the terms of the gaming compacts. A person applying for a certificate must provide all required information and pay the state for the actual costs of the background investigation.

Management contracts for the operation and management of Class III gaming are subject to additional requirements. At least 60 days prior to a tribe's approval of a management contract, background information on the person or corporation proposed to perform the management services must be provided to DOA along with a copy of the

contract. A management contract must also provide for: (a) adequate accounting procedures; (b) access to the daily operations and records of the gaming facility by appropriate officials of the tribe, DOA and DOJ; (c) a minimum guaranteed payment to the tribe that has preference over the retirement of development and construction costs; (d) an agreed ceiling for the repayment of development and retirement costs; (e) a term of five to seven years for the contract depending on capital investment and income considerations; (f) a detailed specification of all compensation to be paid to the contractor; and (g) the grounds and mechanisms for contract termination. Finally, a management contract providing for a fee based on a percentage of the net revenues from gaming activities may not exceed 30% unless the tribe determines that an additional fee is required, based on capital investment and income considerations; however, in no event may any additional fee payments exceed 40% of net revenues. [Only the Oneida compact provides that the tribe agrees not to enter into management contracts for gaming activity conducted pursuant to the compact.]

**Employee Restrictions.** Under the compacts, the tribes agree that no person may be employed in the operation or conduct of gaming (including persons employed by a gaming contractor) who fails to pass a criminal history background check or poses a threat to the public interest or to the integrity of the gaming operation. A tribal governing board may waive these restrictions if the individual demonstrates to the tribal board evidence of sufficient rehabilitation and present fitness. The tribes have responsibility for investigations and determinations regarding employees. Current employees must also be reviewed at least every two years to determine whether they continue to meet these requirements. DOJ must provide a tribe with criminal history data, subject to state and federal law, concerning any person subject to investigation as a gaming employee. The tribes must reimburse DOJ for the actual costs of compiling this data.

**Audit and Records Requirements.** An inde-

pendent financial audit of the books and records of all gaming operations must be performed by a certified public accountant at the close of each tribal fiscal year. The audit must be completed within 90 days of the close of the fiscal year, and copies of any audit reports and management letters must be forwarded to DOA and the State Auditor (Legislative Audit Bureau).

A security audit to review and evaluate the effectiveness, adequacy and enforcement of the systems, policies and procedures relating to the security of all aspects of the tribe's gaming operations must be performed every two years by a qualified independent auditor. The audit must be completed within 90 days of the close of the tribal fiscal year and copies of any audit reports and management letters must be forwarded to DOA and the State Auditor.

Under the compacts, the state also has the right to submit written comments or objections regarding the terms of the engagement letters between the tribes and their auditors, to consult with the auditors prior to or following an audit, to have access, upon written request, to the auditors' work papers, and to submit written comments or suggestions for improvements regarding the accounting or audit procedures.

The compacts also specify that the state has the right to inspect and copy a variety of tribal gaming records including: (a) accounting and financial records; (b) records relating to the conduct of games; (c) contracts and correspondence relating to contractors and vendors; (d) enforcement records; and (e) personnel information on gaming employees. In exchange for the right of the state to inspect and copy these records, the state pledges under the compacts not to disclose such records to any member of the public, except as needed in a judicial proceeding to interpret or enforce the terms of the compacts.

**Withholding Wisconsin Income Tax.** The tribes generally must withhold Wisconsin income

tax on any payment of a prize or winnings subject to federal tax withholding. Withholding is not required from payments made to enrolled members of the tribe or to individuals who have certified that they are not legal residents of the state and who are not subject, under state law, to Wisconsin income tax on such winnings.

**Allocation of Criminal Jurisdiction.** For the term of the compact, the state has jurisdiction to prosecute criminal violations of its gambling laws that may occur on tribal lands. The consent of the state Attorney General is required before any prosecution may be commenced. The state may not initiate any prosecution against an individual authorized by the tribe, on behalf of the tribe, to engage in Class III gaming activities under the compact (or Class I or II gaming under IGRA). Some compacts specify that the tribe has jurisdiction to prosecute violations of its tribal gaming code against all individuals subject to the tribal code. Each compact provides that the allocation of civil jurisdiction among federal, state and tribal courts does not change.

**Enforcement.** Under the compacts, DOA and DOJ have the right to monitor each tribe's Class III gaming to ensure compliance with the provisions of the compacts. Agents of DOA and DOJ are granted access, with or without notice, to all gaming facilities, storage areas, equipment and records. DOA and DOJ are authorized to investigate the activities of tribal officers, employees, contractors or gaming participants who may affect the operation or administration of the tribal gaming. Suspected violation of state or federal law or tribal ordinances must be reported to the appropriate prosecution authorities; suspected violations of the compacts must be reported to DOA. Both DOA and DOJ may issue a subpoena, in accordance with state law, to compel the production of evidence relating to an investigation. The Attorney General is provided jurisdiction to commence prosecutions relating to Class III gaming for violations of any applicable state civil or criminal law or provision of a compact.

**Dispute Resolution.** Under the original compacts, if either the tribe or the state believed that the other party had failed to comply with any requirement of the compact, that party could serve written notice on the other. The tribe and the state were required to meet within 30 days of the notice being served to attempt to resolve the dispute. If the dispute was not resolved within 90 days of the service, either party could pursue other remedies that were available to resolve the dispute. This procedure did not limit the tribe and state from pursuing alternative methods of dispute resolution, if both parties mutually agreed on the method.

The 2003 amendments generally provide that if either party believes the other party has failed to comply with the requirements of the compact, or if a dispute arises over compact interpretation, either party may serve a demand on the other for dispute resolution under a variety of mechanisms. These include negotiations, non-binding mediation, binding arbitration, and, for certain disputes, court action. Under some tribal amendments, negotiation and mediation are required before binding arbitration can be utilized. Under other agreements, binding arbitration may be utilized without first engaging in negotiations or mediation.

Disputes over matters such as game conduct, game contractors, management contracts, criminal and background restrictions, records, conflicts of interest, audits, income tax, public health and safety, duration of the compact, liability, and compact amendments are generally subject to the negotiation, mediation, and arbitration processes. However, most of the compact amendments specify that, unless the parties agree otherwise, disputes over authorized Class III gaming, dispute resolution, sovereign immunity, payments to the state, and reimbursement of state costs must be resolved by a court of competent jurisdiction.

In addition to the dispute resolution procedures described above, most of the agreements also provide that, prior to engaging in these dispute resolution procedures, the tribe or state may petition a

court of competent jurisdiction for provisional or ancillary remedies to a dispute, including preliminary or permanent injunctive relief.

The major change in the 2003 amendments relating to dispute resolution under the compacts is the institution of a binding arbitration process for settling disagreement between the state and a tribe. However, this arbitration process is not uniform among the tribes. For example, some of the compact amendments specify the appointment of a single arbitrator, while others require the appointment of a panel of arbitrators. Most, but not all of the compact amendments provide that the arbitration must be conducted in accordance with the Federal Rules of Civil Procedure and Evidence. Several of the tribal agreements specify that the arbitrators must conduct the proceedings according to the "last best offer" format and subject to guidelines detailed in the compact amendments. Despite these differences, a binding arbitration process has now been instituted in the state-tribal relationship to deal with disputes arising from the gaming compacts. Only the Lac du Flambeau, who did not agree to new 2003 amendments, remain under the dispute resolution provisions of their original gaming compact.

**Severability.** With the exception of the Lac du Flambeau, all tribes now have a severability provision in their compacts. The Ho-Chunk have had this provision since 1992, and the Menominee since 2000. The other tribes added the provision in their 2003 amendments. Generally, the severability provision states the each provision of the compact will stand separate and independent of every other provision. If a court of competent jurisdiction finds any provision of the compact to be invalid or unenforceable, it is the intent of the state and the tribe that the remaining provisions remain in full force and effect.

**Tribal Payments to the State.** Relatively minor tribal payments (\$350,000 annually) were first required of the tribes under the 1991 and 1992 original compacts to reimburse the state for costs relating to the regulation of Class III gaming activities.

Under the 1998/1999 amendments, additional tribal payments (averaging \$23.7 million annually) were agreed to for the five-year period 1999-00 through 2003-04. Finally, under the 2003 amendments, the tribes agreed to make significantly higher payments beginning in 2003-04. These tribal payment provisions have become an increasingly important and complex aspect of the state-tribal gaming compacts and are described more fully in the section on state revenues from tribal gaming. Prior to the Wisconsin Supreme Court's decision in *Panzer v. Doyle*, total tribal payments to the state were estimated at \$101.3 million in 2003-04 and \$104.2 million in 2004-05. Following the Court's decision, these payment projections have been subject to revision, as also described in the section on state revenues from tribal gaming.

### **Menominee Indian August, 2000, Compact Amendments**

The Menominee compact amendments of August, 2000, made extensive changes to the tribe's gaming compact, primarily with respect to establishing provisions to govern Class III gaming at a proposed site in Kenosha, Wisconsin. In addition, the amendments revised other provisions that affect all of the tribe's Class III gaming operations.

The Kenosha proposal has not been implemented, and the future of this initiative is uncertain. Consequently, the 2000 compact amendment details relating to the Kenosha facility are not described here. [A detailed description of these provisions may be found in a previous version of this publication, *Informational Paper #78, Legal Gambling in Wisconsin*, published by the Legislative Fiscal Bureau in January, 2001.]

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### **Recent Wisconsin Supreme Court Decisions**

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There have been two important recent legal challenges to tribal gaming compact provisions in Wisconsin: *Dairyland Greyhound Park, Inc. v. Doyle*

and *Panzer v. Doyle*. The *Dairyland* case challenged the continuation of casino gambling in Wisconsin, while the *Panzer* case challenged the Governor's authority to agree to certain provisions contained in the 2003 compact amendments. In 2004, the *Dairyland* case was subject to a variety of appeals and remands, but has yet to be ruled on by the Wisconsin Supreme Court. However, in 2004 the Supreme Court did hand down a significant ruling in the *Panzer* case. This section describes each of these cases.

**Dairyland Greyhound Park, Inc. v. Doyle.** This litigation began in 2001 when the Dairyland race-track sued to bar the Governor from extending or amending tribal gaming compacts that authorize casino gambling, characterized by Dairyland as including blackjack and slot machines. The case is based on the 1993 state constitutional amendment that clarified that all forms of gambling in Wisconsin are prohibited except bingo, raffles, pari-mutuel on-track betting and the current state-run lottery. The amendment and corresponding statutes also specifically prohibit the state from conducting prohibited forms of gambling as part of the state-run lottery. The amendment, in effect, limits gambling in the state to those forms permitted in April, 1993.

The Supreme Court took the *Dairyland* case on certification from the Court of Appeals (a Dane County Circuit Court had earlier ruled against Dairyland). However, the Supreme Court tied 3-3 (with one recusal), withdrew its certification, and remanded the case to the Court of Appeals. On November 4, 2004, the Court of Appeals recommended that the Supreme Court again grant certification and rule on the case because the Supreme Court's composition had changed since it remanded the *Dairyland* case to the Court of Appeals, and because its subsequent decision in *Panzer v. Doyle* appeared to bear on the matter. On January 13, 2005, the Supreme Court agreed to hear the case again.

*Dairyland Greyhound Park, Inc. v. Doyle* challenges the fundamental ability of the state and the tribes to agree to renewed tribal gaming compacts.

The case argues that the 1993 constitutional amendment precludes the Governor from extending or renewing Indian gaming compacts to allow casino gambling to continue in the state, except for the limited forms of gambling authorized in the Wisconsin Constitution. As of this writing, the *Dairyland* challenge to the compacts is still pending.

**Panzer v. Doyle.** This litigation began in 2003 when the petitioners (Senator Mary E. Panzer, Speaker John G. Gard, and the Joint Committee on Legislative Organization) contended that Governor James E. Doyle had exceeded his authority by agreeing to certain provisions in the 2003 amendments to the gaming compact between the state and the Forest County Potawatomi Tribe. The 2003 provisions that were challenged relate to the: (a) newly authorized games; (b) unlimited duration of the compact; and (c) waiver of the state's sovereign immunity.

On May 13, 2004, the Wisconsin Supreme Court ruled 4-3 that the Governor had exceeded his authority by agreeing to these provisions in the 2003 Potawatomi amendments. The major features of the Court's ruling are described below.

*Scope of Games.* In addition to the electronic games, blackjack, and pull-tab games originally authorized under the 1992 compact, the 2003 Potawatomi amendments authorized variations of blackjack, pari-mutuel wagering on live simulcast racing events, electronic keno, and additional casino table games such as roulette, craps, poker or other non-house banked games, and other games played at blackjack style tables. Under federal law (IGRA), tribal gaming activities are to be permitted in a state only if the state permits such gaming for any purpose by any person, organization, or entity, and the games are conducted in conformance with a tribal-state compact. The question before the Court was whether these new games could be authorized, given the 1993 state constitutional amendments described above.

The Court held that most, but not all, of these

added games could not validly be included in a compact as a matter of state law because they violate both the Wisconsin Constitution and the state statutes. The Governor, therefore, did not have the authority to agree to provisions adding certain casino games. Under the ruling, the Governor did have the authority to agree to pari-mutuel wagering on live simulcast racing events because this type of wagering is not prohibited under state law. [The Court did not clearly address the status of casino games that were authorized under the original compact, particularly, electronic games of chance and blackjack.]

*Duration of the Compact.* Under the 2003 Potawatomi amendments, the compact would remain in effect until terminated by mutual agreement of the parties, or by a duly adopted ordinance or resolution of the tribe revoking the authority to operate Class III gaming. Essentially, this provision resulted in a compact of unlimited duration. While the Governor is delegated the authority to negotiate gaming compacts with the tribes, the question raised in *Panzer* was whether the new duration provision exceeded this delegated authority.

The Court held that the Legislature's delegation of power to the Governor to negotiate and enter into tribal gaming compacts under s. 14.035 of the statutes was subject to "certain implicit limits." Those limits, according to the Court, prohibited the Governor from agreeing to the duration provision in the 2003 Potawatomi amendments, which the Court characterized as creating a "perpetual" compact. According to the Court, the "perpetual" nature of the compact meant that the Governor had given away power delegated to him by the Legislature in a way that the Legislature could not take back. Under this ruling, the duration provision in the 2003 amendments circumvented the procedural safeguards which sustained the delegation in the first place. Therefore, the Court concluded, the Governor had not been delegated authority to agree to an unlimited duration provision.

*Waiver of the State's Sovereign Immunity.* Sovereign immunity refers to the doctrine that prohibits

a lawsuit against a government without its consent. Under the Wisconsin Constitution: "The legislature shall direct by law in what manner and in what courts suits may be brought against the state." [Wis. Const., art. IV, s. 27.] Several provisions in the 2003 Potawatomi amendments related to suits to enforce the agreements made under the compact. Generally, under the compact amendments, both the tribe and state expressly waived any and all sovereign immunity with respect to any claim brought by the state or tribe to enforce any provision of the compact. For example, one provision in the amendments provided that, to the extent the state may do so pursuant to law, the state expressly waives any and all sovereign immunity with respect to any claim brought by the Potawatomi to enforce any compact provision. The plaintiffs argued that the Governor did not have the authority to waive the state's sovereign immunity under the gaming compacts.

The Supreme Court noted that prior court decisions had held that: (a) only the Legislature may exercise the authority to waive sovereign immunity on the state's behalf; (b) a waiver of sovereign immunity is a fundamental legislative responsibility under the Wisconsin Constitution; and (c) if the Legislature wishes to authorize a designated agent to waive the state's sovereign immunity, the Legislature must do so clearly and expressly. The Court concluded that the Governor did not have inherent or delegated power to waive the state's sovereign immunity in the 2003 Potawatomi amendments.

The Supreme Court's *Panzer v. Doyle* decision does not provide a definitive clarification of many of the issues relating to the status of all tribal gaming in Wisconsin. First, the Court's ruling only addressed the Potawatomi compact amendments. It is unclear, at this writing, to what extent the Court's ruling is currently binding on the other tribes. (For example, some tribes have implemented and continue to operate some of the new games that the Court ruled could not be authorized under the Potawatomi compact.) A declaratory judgment by a court relating to the decision's applicability to the

2003 amendments with other tribes would clarify this issue. However, as of this writing, no party has filed a motion for such a declaratory judgment.

The Court also did not clearly address the continued legality of casino games like electronic games of chance and blackjack that were authorized under the original compact. A decision in the pending *Dairyland* case might possibly resolve this issue.

While the Supreme Court's decision concluded that the Governor is prohibited from agreeing to the perpetual duration provision in the 2003 Potawatomi amendments, three tribes (the Oneida, St. Croix, and Stockbridge-Munsee) have provisions stipulating that if the unlimited duration provision is voided by a court of competent jurisdiction, the term of the compact would expire approximately 99 years following the effective date of the 2003 amendments. The Supreme Court's *Panzer* ruling was silent on the permissibility of this type of provision because this feature was not a part of the Potawatomi compact amendments. Since the Court did not specify an acceptable compact term, it is not known whether a 99-year term for the compacts is an appropriate alternative to compacts with unlimited duration.

Finally, the Supreme Court's decision has implications for tribal payments to the state specified under the 2003 amendments. Uncertainties with respect to the applicability of the decision beyond the Forest County Potawatomi Tribe and the pending renegotiations between the state and the tribes in response to these uncertainties has complicated the status of certain tribal payments to the state during the 2003-05 biennium and beyond. The following section discusses these matters in detail.

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### State Revenues from Tribal Gaming

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The first state-tribal gaming compacts required

tribes to jointly provide \$350,000 annually to the state as reimbursement for its costs of regulation of Class III gaming under the compacts. Each tribe's share of this amount was calculated annually, based on its relative share of the total amount wagered on tribal Class III gaming statewide during the previous fiscal year. These state payments are still in effect. Each tribe must also directly reimburse DOA and DOJ for their actual and necessary costs of providing requested services and assistance.

More significant state payments were subsequently agreed to under both the 1998/1999 and 2003 compact amendments.

**The 1998/1999 Compact Amendments.** These amendments were required to extend the original seven-year term of the compacts. Each tribe agreed to make additional annual payments to the state that had not been required under the original compacts. These payments differed by tribe and reflected variations in total net winnings among the tribes at that time. The payments extended over the five-year term of the amended compact agreements, from the 1999-00 fiscal year through the 2003-04 fiscal year.

During the first four years of this period, tribal payments averaged \$23.5 million annually. Table 2

shows the annual payments by each tribe or band under the 1998/1999 amendments from 1999-00 through 2002-03. Annual payments were to continue through 2003-04 with a \$24.4 million payment scheduled for that year. However, because the subsequent 2003 amendments modified these payment provisions for most tribes, the 2003-04 amounts actually received by the state have reflected payments under either the 1998/1999 amendments or the 2003 amendments (or both), depending on the tribe. The 2003-04 payments from the tribes are elaborated in a discussion below.

Under the 1998/1999 amendments, each compact included a provision that relieved the tribe of its obligation to pay these additional amounts in the event that the state permitted the operation of electronic games of chance or other Class III games by any person other than a federally-recognized tribe under the Indian Gaming Regulatory Act or by the state lottery. For some tribes, the amended compacts also provided that the state and tribe must negotiate a reduction in the amount of tribal payments if a subsequent agreement with another tribe regarding Class III gaming causes a substantial reduction of a tribe's Class III gaming revenues. One tribe's agreement (Red Cliff) also stated that the state and tribe must meet to discuss a reduction in the payment amount, in the event that the state lottery permitted the operation of video lottery terminals or other forms of electronic games of chance not currently operated by the state lottery.

These provisions reflect the view that the additional tribal payments are *not* a form of state tax payment or a payment made in lieu of state taxes. Rather, the payments were agreed to by the tribes in recognition of an exclusive right to operate Class III gaming without additional competition from other parties in the

**Table 2: Annual Payments Under the 1998/1999 Compact Amendments -- 1999-00 to 2002-03**

Tribe or Band	1999-00	2000-01	2001-02	2002-03
Bad River	\$230,000	\$230,000	\$230,000	\$230,000
Ho-Chunk	6,500,000	7,500,000	7,500,000	8,000,000
Lac Courte Oreilles	420,000	435,456	436,800	457,800
Lac du Flambeau	0	738,900	738,900	738,900
Menominee	186,843	747,371	747,371	747,371
Oneida	4,850,000	4,901,387	4,850,000	4,850,000
Potawatomi	6,375,000	6,375,000	6,375,000	6,375,000
Red Cliff	0	0	0	0
Sokaogon	212,726	212,726	212,726	212,726
St. Croix	2,191,000	2,191,000	2,191,000	2,191,000
Stockbridge-Munsee	<u>650,000</u>	<u>650,000</u>	<u>650,000</u>	<u>650,000</u>
Total	\$21,615,569	\$23,981,840	\$23,931,797	\$24,452,797

Source: Division of Gaming, DOA

state. Federal law (IGRA) prohibits a state from taxing tribal gaming revenue, but federal authorities (who must approve compact provisions and their amendment) have allowed tribal payments to a state in exchange for exclusive tribal rights to Class III gaming.

With the exception of the Lac Courte Oreilles and Sokaogon agreements, each amendment also provides that, under certain circumstances, a natural or man-made disaster that affects gaming operations would allow for the state payment to be proportionately reduced. The percentage reduction would equal the percentage decrease in the net win for the calendar year in which the disaster occurs compared to the net win in the prior calendar year. Under this provision, the state and tribes also agree to meet to discuss additional assistance in the event of such a disaster.

*Intended Use of the Additional State Revenues.* The intended use of the additional state revenue under the 1998/1999 amendments was specified, with some variations, in most of the amended compact agreements. Nine agreements included an ancillary memorandum of understanding (MOU) relating to government-to-government matters, including the intended use of the additional state payments. The Ho-Chunk and Lac du Flambeau amendments did not include a MOU on government-to-government matters and are silent on the matter of how the state utilizes the additional gaming revenue.

The nine MOUs have a number of common elements (as well as some important differences) relating to the use of the additional payments. The most important element common to eight of the nine MOUs is the provision that the Governor must undertake his best efforts within the scope of his authority to assure that monies paid to the state are expended for specific purposes.

With the exception of the Menominee, Potawatomi, and Red Cliff, these purposes are: (a) economic development initiatives to benefit tribes and/or American Indians within Wisconsin; (b) economic development initiatives in regions

around casinos; (c) promotion of tourism within the state; and (d) support of programs and services of the county in which the tribe is located.

The Menominee MOU specifies three of these four purposes (the support of programs and services of the county in which the tribe is located is not included since the reservation and the county are coterminous).

The Potawatomi MOU specifies these four spending purposes, but limits such spending to Milwaukee and Forest Counties.

The Red Cliff MOU states these four purposes differently and adds a fifth purpose. These purposes are: (a) economic development initiatives to benefit federally-recognized Wisconsin tribes or their enrolled members; (b) economic development initiatives in Red Cliff and regions around Red Cliff; (c) promotion of tourism within the northwest region of the state; (d) support of programs and services which benefit the Red Cliff tribe or its members; and (e) law enforcement initiatives on the reservation.

Other differences among the MOUs include the following:

- Similar to the Red Cliff MOU, three of the MOUs specify an additional spending purpose: (a) the Bad River and St. Croix agreements include expenditures for law enforcement initiatives on reservations; and (b) the Stockbridge-Munsee agreement includes spending for public safety initiatives on the Stockbridge-Munsee reservation.

- Eight of the MOUs (Lac Courte Oreilles, Menominee, Oneida, Potawatomi, Red Cliff, Sokaogon, St. Croix and Stockbridge-Munsee) require the establishment of a schedule of regular meetings between the tribes and the state to address issues of mutual concern. The Potawatomi and Red Cliff MOUs specify that these meetings must occur annually, no later than certain prescribed dates.

- The Bad River MOU requires the



establishment of a schedule of regular meetings to address law enforcement issues of mutual concern.

- Under four of the MOUs (Menominee, Potawatomi, St. Croix and Stockbridge-Munsee), the state is required to consult with these tribes regarding the content of the proposals for the distribution of the monies paid to the state.

- Four MOUs (Bad River, Menominee, St. Croix and Stockbridge-Munsee) specify that the state and the tribe shall negotiate additional MOUs relating to state-tribal issues of mutual concern no later than certain annual dates.

- Seven MOUs (Bad River, Menominee, Oneida, Potawatomi, Red Cliff, St. Croix and Stockbridge-Munsee) require that one state-tribal government meeting each year contain an accounting of funds expended in accordance with the agreements.

- The Stockbridge-Munsee MOU, in addition to requiring a meeting with an annual accounting of expended funds, also include a discussion regarding the distribution of monies in the coming year.

The variations among the MOUs appear to reflect, in part, the different concerns of each tribe or band. However, the variations may also be a reflection of how the negotiation of the compact agreements built on the earlier ones. Thus, the later agreements in the negotiation cycle are generally more detailed and thorough than is the case with the first agreements signed in the negotiation cycle.

The variations in the 1998/1999 compact amendments and ancillary MOUs may or may not be considered material by the tribes; however, they have remained in place despite the fact that inconsistencies between the agreements could have been resolved. This is because each agreement contained a provision allowing a tribe to request that its agreement be revised should the state and any other tribe amend a compact or adopt a new compact with terms that are more favorable than the terms contained in the first tribe's agreement. The state and tribe, under these circumstances, would have been required to meet to negotiate the incorporation of substantially similar provisions in the applicable agreement. However, given the prospect of additional negotiations on new compact extensions beyond 2004, variations between the 1998/1999 amendments compacts were not further addressed until the 2003 amendment were negotiated.

**Allocation of Tribal Gaming Revenue under the 1998/1999 Amendments.** The additional tribal gaming revenue provided to the state beginning in 1999-00 has been allocated in each biennial budget to various state agencies for a variety of purposes. Under the respective biennial budget acts, appropriations of tribal gaming revenue totaled \$20.2 million in 1999-00, \$22.2 million in 2000-01, \$24.0 million in 2001-02, \$27.2 million in 2002-03, and \$22.9 million annually in 2003-04 and 2004-05. The agencies and programs receiving this funding have remained relatively stable through this period. The budgeted 2003-04 and 2004-05 allocations and funding purposes are summarized in Table 3.

**Table 3: 2003-05 Tribal Gaming Revenue Allocations**

Agency or Program	2003-04	2004-05	Purpose
1 Administration	\$500,000	\$500,000	County management assistance grant program.
2 Administration--Office of Justice Assistance	250,000	250,000	County-tribal law enforcement assistance grant program.
3 Administration--Office of Justice Assistance	700,000	700,000	Tribal law enforcement assistance grant program.
4 Administration	250,000	250,000	UW-Green Bay and Oneida Tribe programs.
5 Agriculture, Trade and Consumer Protection	1,900,000	1,900,000	Grants to ethanol producers.
6 Commerce	132,500	132,500	American Indian economic liaison and gaming grants specialist and program marketing.
7 Commerce	94,000	94,000	American Indian economic development technical assistance grants.
8 Commerce	0	0	American Indian liaison, economic development liaison grants, and technical assistance.
9 Commerce	2,838,700	2,838,700	Gaming economic development and diversification grants and loans.
10 Commerce	488,700	488,700	Physician, Dentist, Dental Hygienist and Health Care Provider Loan Assistance Programs.
11 Health and Family Services	500,000	500,000	Elderly nutrition; home-delivered and congregate meals.
12 Health and Family Services	120,000	120,000	Cooperative American Indian health projects.
13 Health and Family Services	271,600	271,600	Indian aids for social and mental hygiene services.
14 Health and Family Services	500,000	500,000	Indian substance abuse prevention education.
15 Health and Family Services	1,070,000	1,070,000	Medical assistance matching funds for tribal outreach positions and federally qualified health centers (FQHC).
16 Health and Family Services	800,000	800,000	Health services: tribal medical relief block grants.
17 Health and Family Services	150,000	150,000	Minority health program and public information campaign grants.
18 Higher Educational Aids Board	787,600	787,600	Indian student assistance grant program for American Indian undergraduate or graduate students.
19 Higher Educational Aids Board	404,000	404,000	Wisconsin Higher Education Grant (WHEG) program for tribal college students.
20 Historical Society	189,800	189,800	Northern Great Lakes Center operations funding.
21 Justice	708,400	708,400	County-tribal law enforcement programs: local assistance.

**Table 3: 2003-05 Tribal Gaming Revenue Allocations (continued)**

Agency or Program	2003-04	2004-05	Purpose
22 Justice	\$69,600	\$69,600	County-tribal law enforcement programs: state operations.
23 Natural Resources	3,000,000	3,000,000	Transfer to the fish and wildlife account of the conservation fund.
24 Natural Resources	650,000	650,000	One-time transfer to the parks account of the conservation fund.
25 Natural Resources	100,600	100,600	Management of an elk reintroduction program.
26 Natural Resources	128,300	128,300	Management of state fishery resources in off-reservation areas where tribes have treaty-based rights to fish.
27 Natural Resources	100,000	100,000	Payment to the Lac du Flambeau Band relating to certain fishing and sports licenses.
28 Natural Resources	1,026,000	1,026,000	State snowmobile enforcement program, safety training and fatality reporting.
29 Natural Resources	44,700	44,700	Reintroduction of whooping cranes.
30 Natural Resources	250,000	250,000	Grant to the Town of Swiss (Danbury) in Burnett County and the St. Croix Band for wastewater and drinking water treatment facilities.
31 Shared Revenue	0	0	Farmland tax relief credit payments by tribes with casinos associated with certain pari-mutuel racetracks. (No allocations are made in the 2001-03 biennium.)
32 Tourism	129,700	129,700	One permanent position and limited-term employees to operate or staff Wisconsin travel information centers.
33 Tourism	3,969,500	3,969,500	General tourism marketing, including grants to nonprofit tourism promotion organizations and specific earmarks.
34 Tourism	31,300	31,300	Law enforcement services at the Kickapoo Valley Reserve.
35 University of Wisconsin System	0	0	Ashland full-scale aquaculture demonstration facility debt service payments. (No allocations are made in the 2003-05 biennium.)
36 University of Wisconsin System	100,000	100,000	Ashland full-scale aquaculture demonstration facility operational costs.
37 Wisconsin Technical College System Board	300,000	300,000	Grants for work-based learning programs.
38 Workforce Development	<u>350,000</u>	<u>350,000</u>	Vocational rehabilitation services for Native American individuals and American Indian tribes or bands.
Total Allocations	\$22,905,000	\$22,905,000	

**The 2003 Compact Amendments.** Under the 2003 amendments, tribal payments increased significantly for those tribes with the larger casino operations. These increased payments also appear to be associated with the 2003 amendment provisions expanding the types of authorized games played at the tribal casinos and establishing compacts with unlimited duration.

Prior to the Supreme Court's *Panzer v. Doyle* ruling, tribal payments to the state were estimated to total more than \$100 million annually in the 2003-05 biennium. The Court's decision has interrupted some of the anticipated tribal payments. Consequently, estimates of state tribal gaming revenue in current and future biennia have become uncertain, pending a clarification of the effects of both the recent *Panzer* decision (and possibly a future *Dairyland* decision) and the negotiation of additional agreements between the state and the tribes. With these uncertainties in mind, the discussion now turns to an overview of the current status of tribal payments to the state in the 2003-05 biennium. This description includes a review of the actual and potential effects of the Supreme Court's *Panzer* decision on these state payments.

*Tribal Payments in the 2003-05 Biennium.* The 2003 amendments to the state-tribal gaming compacts were being finalized during the 2003-05 budget deliberations. Under 2003 Wisconsin Act 33, as affected by certain subsequent revenue estimate adjustments, tribal payments to the state were estimated to total \$101.3 million in 2003-04 and \$104.2 million in 2004-05. These estimates were developed prior to the Court's decision in *Panzer v. Doyle*.

The 2003-04 and 2004-05 scheduled tribal payments under the 2003 amendments are based on either lump-sum payments (for seven tribes in 2003-04 and four tribes in 2004-05) or a percentage of net revenue (that is, gross revenue minus winnings) for the remaining tribes. Beginning in 2006-07, all tribal payments to the state are to be made on a percentage of net revenue basis.

The seven tribes scheduled to make lump-sum payments in 2003-04 were the Ho-Chunk, Lac du Flambeau, Menominee, Oneida, Potawatomi, St. Croix, and Stockbridge Munsee. (While it was expected during the budget deliberations that the Lac du Flambeau would make a lump sum payment of \$2.5 million in 2003-04, this arrangement did not materialize because this tribe did not sign any 2003 amendments. However, the tribe did make a payment of \$738,900 in 2003-04 that was required under the 1998 compact amendments.) The four tribes scheduled to make lump-sum payments in 2004-05 are the Ho-Chunk, Oneida, Potawatomi, and Stockbridge-Munsee.

The Ho-Chunk, Oneida, and Potawatomi operate the most successful casinos in Wisconsin in terms of net revenue, and the scheduled lump-sum payments for these tribes totaled \$90.5 million in 2003-04 and \$93.6 million 2004-05. These payments represented more than 89% of the total tribal payments anticipated under Act 33 in each of these years.

Table 4 shows the estimated tribal payments to the state under Act 33 for 2003-04 and 2004-05, and the actual 2003-04 payments, both for the tribes making lump-sum payments and the tribes making percentage of net revenue payments. Those tribes paying a percentage of net revenues are aggregated in order to maintain the confidentiality of their net casino revenue stream, as required under the compacts. [In some cases a tribe's 2003-04 payment may be a combination of payments required under the 1998/1999 amendments and under the 2003 amendments. These cases are clarified in the footnotes to Table 4.]

In 2005-06, only the Stockbridge-Munsee will make a lump-sum payment (which will be supplemented with a payment based on a percentage of net revenue). Beginning in 2006-07, payments for all tribes will be based on a percentage of net revenue only. During budget deliberations for the 2003-05 biennium, future tribal payments in the following biennium were estimated at \$91.6 million in 2005-06 and \$109.7 million in 2006-07. These long-

**Table 4: 2003 Act 33 Estimated Tribal Payments in 2003-04 and 2004-05 and Actual 2003-04 Payments**

Tribe or Band	Estimated 2003-04	Actual 2003-04	Estimated 2004-05
<b>Tribes Making Lump-Sum Payments</b>			
Ho-Chunk	\$30,000,000	\$0	\$30,000,000
Lac du Flambeau <sup>1</sup>	2,500,000	738,900	0
Menominee <sup>2</sup>	747,371	747,371	0
Oneida	20,000,000	20,000,000	20,000,000
Potawatomi <sup>3</sup>	40,500,000	40,500,000	43,625,000
St. Croix	3,500,000	3,500,000	0
Stockbridge-Munsee <sup>4</sup>	<u>3,000,000</u>	<u>3,000,000</u>	<u>650,000</u>
Subtotal	\$100,247,371	\$68,486,271	\$94,275,000
<b>Tribes Paying Percent of Net Revenue</b>			
	<u>\$1,006,222</u>	<u>\$734,610</u>	<u>\$9,959,374</u>
<b>Total</b>	\$101,253,593	\$69,220,881	\$104,234,374

<sup>1</sup> Following budget deliberations, the Lac du Flambeau did not agree to the anticipated lump-sum payment in 2003-04, but did make a \$738,900 payment due under their 1998 amendment provisions.

<sup>2</sup> The lump-sum payment of \$747,371 was due under the Menominee Tribe's 1998 amendment provisions. In addition, the Menominee pay a percentage of net revenue in 2003-04 and in subsequent years under the provisions of the 2003 amendments.

<sup>3</sup> The 2003-04 amount includes \$6,375,000 due under the Potawatomi Tribe's 1998 amendment provisions.

<sup>4</sup> In addition to percentage of net payments, the Stockbridge-Munsee are scheduled to make annual lump-sum payments of \$650,000 in 2004-05 and 2005-06 only.

term projections were based on tentative casino revenue estimates and will be subject to reevaluation during 2005-07 budget deliberations.

*Compact Payment Provisions Relating to Court Decisions.* All ten tribes that signed 2003 amendments included provisions specifying that a compact remains in effect until terminated by mutual agreement of the tribe and the state, or by the tribe revoking its own authority to conduct casino gaming. However, the Supreme Court held that the Governor exceeded his authority when he agreed unilaterally to this type of indefinite duration provision in the Potawatomi compact amendments.

As previously noted, three of the tribes agree-

ing to an indefinite compact duration provision (Oneida, St. Croix, and Stockbridge Munsee) have a default provision in their 2003 amendments specifying that if the indefinite compact duration provision is voided by a court, each affected compact would instead expire on different dates in 2101 or 2102. Under this provision, these three tribes would have compact terms of 99 years. Further, the three tribes with the default 99-year compact term would be relieved of their state payments only if both the indefinite compact duration provision *and* the 99-year compact term are found unenforceable or invalid by the courts. Because a 99-year compact term provision was not included in the Potawatomi amendments, the *Panzer* decision did not address this type of provision. The provision, therefore, has not been found invalid at this time, and state payments by these three tribes still appear to be required under the terms of the 2003 compact amendments.

The seven other tribes (Bad River, Ho-Chunk, Lac Courte Oreilles, Menominee, Potawatomi, Red Cliff, and Sokaogon) with an unlimited compact duration provision, but no 99-year default term, have amendment provisions specifying that if the unlimited compact duration provision is determined by a court to be unenforceable or invalid, the tribe would not be required to make further payments to the state. The Ho-Chunk also have a provision requiring the state to refund any tribal payments made in 2003-04 or 2004-05, if a court voids the indefinite compact duration provision. The Ho-Chunk agreed to make annual payments of \$30.0 million annually in 2003-04 and in 2004-05.

The Potawatomi compact amendment includes a provision governing the consequences of a court determination that the indefinite compact duration provision is unenforceable or invalid. Under such circumstances, the state would be indebted to the tribe, if payments of \$34.1 million in 2003-04 and \$43.6 million in 2004-05 have been made. The tribe

would recoup these payments under procedures in state law for the recovery of unpaid debts of the state. The Potawatomi also have a required payment to the state of \$6.4 million in 2003-04 under the tribe's 1998 compact amendments. This payment was unaffected by the *Panzer* decision.

Given these compact provisions, and in light of the Court's *Panzer* decision, many of the tribal payments agreed to in the 2003 amendments could have been in jeopardy. However, because the Court's decision dealt only with the Potawatomi amendments, the decision's applicability to the other tribes' compact amendments must still be clarified. In addition, there appears to be a desire on the part of both the state and the tribes to maintain a stable and functional relationship between the parties with respect to tribal gaming in Wisconsin. Consequently, except for the Ho-Chunk, those tribes with outstanding payments due following the Court's decision agreed to make such payments in 2003-04, and actual tribal payments totaled \$69.2 million in that year (as shown in Table 4).

At this writing, DOA has indicated that the state and the Ho-Chunk are negotiating new agreements governing payments to the state and related provisions. The Department believes the tribe will eventually pay the \$60.0 million relating to the 2003-05 biennium. Over time, it is likely that the state payment and other compact provisions affected by the Supreme Court's *Panzer* decision will be reworked for all tribes.

*Fiscal Implications of the Current Tribal Payments Uncertainties.* The fiscal implications in the 2003-05 biennium of the current tribal gaming payment situation must be viewed in the context of the revenue estimates and appropriated expenditure authority contained in Act 33. Total tribal payments to the state were originally estimated at \$101.3 million in 2003-04 and \$104.2 million in 2004-05. From these amounts, \$22.9 million annually was appropriated to a variety of programs operated by 12 state agencies. In addition, \$1.8 million in 2003-04 and \$2.0 million in 2004-05 was

budgeted for tribal gaming regulation in DOA and for gaming law enforcement in DOJ. Under current law, the allocations to state agencies and the appropriations for regulation and enforcement are a first draw on the tribal gaming revenue. Only the net revenue in excess of the total amounts appropriated (\$24.7 million in 2003-04 and \$24.9 million in 2004-05) is credited to the general fund. A total of \$80.3 million in 2003-04 and \$80.6 million in 2004-05 was originally estimated in Act 33 as net revenues to the general fund from tribal gaming payments.

If the Ho-Chunk or other tribes do not make gaming payments to the state in the 2003-05 biennium, the immediate state fiscal effect will be a shortfall in the amount of revenues credited to the general fund. In 2003-04, based on carryover revenue from the prior year, actual tribal payments to the state of \$69.2 million, and actual expenditures of appropriated funds, approximately \$48.2 million was credited to the general fund. Compared to the original Act 33 estimates, this amount represented a shortfall of approximately \$32.1 million. This 2003-04 shortfall is attributable to the Ho-Chunk nonpayment, a smaller than estimated payment from the Lac du Flambeau, and other minor variations from estimates for tribes paying a percentage of net revenue. A comparable shortfall for 2004-05 is likely. However, if the Ho-Chunk payments for the 2003-05 biennium are ultimately made, this general fund revenue shortfall during the biennium would be largely addressed.

## **Net Indian Gaming Revenue**

The compacts require the tribes to submit annual independent financial audits of casino operations to DOA and to the Legislative Audit Bureau (LAB). These audits are confidential, and the revenue data for individual tribal operations may not be publicly disclosed. However, aggregate statewide data relating to Class III net revenue for all casino operations is made available by the LAB. Table 5 shows the annual net revenue (revenue remaining after winnings are paid out) for tribal

**Table 5: Tribal Casino Net Revenue  
1992-2003 (Class III Gaming)**

Reporting Period	Net Revenue (Millions)	Percent Change
1992	\$142.7	
1993	333.0	133.4%
1994	498.7	49.8
1995	612.0	22.7
1996	634.4	3.7
1997	611.9*	-3.5
1998	693.5	13.3
1999	750.5	8.2
2000	845.3	12.6
2001	904.1	7.0
2002	980.7	8.5
2003	<u>991.5</u>	1.1
Total	\$7,998.3	

\*Excludes data from one tribe not reporting financial data for its 1996-97 fiscal year.

casinos for the period 1992 to 2003. Summarizing this data by year is complicated by the fact that fiscal year periods used by the 11 tribes and bands are not uniform and also do not necessarily coincide with the state's fiscal year.

Net revenue increased each year through 1996 before declining somewhat in 1997. Revenue then increased to its highest level to date in 2003, although the percent increase from 2002 to 2003 (1.1%) was quite modest in comparison to the annual growth rates in the previous five years. The revenue decline in 1997 and the subsequent increase in 1998 are primarily attributable to the fact that one tribe failed to provide data for its 1996-97 fiscal year. Net revenue increases beginning in 1998 can be traced to the fact that under some of the amended state-tribal compacts, some expansion of casino gambling has been permitted (for example, the expanded Potawatomi Casino in Milwaukee, which opened in 2000). These types of expansion affect overall net revenue. Finally, this aggregate data is not necessarily representative of revenue performance for individual tribes. LAB indicates that not all tribes experienced increases in their net gaming revenue in recent years.

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## Tribal Gaming in Other States

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Tribal gaming has developed into an economic and political phenomenon in many states and continues to grow and evolve in response to a variety of factors. Little systematic information about the development of tribal gaming in other states has generally been available in the years since the inception of Class III gaming on Indian lands. The Legislative Fiscal Bureau, in cooperation with staff of the National Conference of State Legislatures (NCSL), undertook a survey of states in October, 2004, to obtain basic comparative information on tribal gaming across the country.

This survey sought the following information: (1) the number of tribes with compacts and the number of casinos operating in the state; (2) the branch of government responsible for the negotiation of state-tribal compacts; (3) the role of the Legislature in approving or otherwise affecting the compacts; (4) the duration provisions of the compacts; (5) the states' regulatory budgets and the extent to which the costs of regulation are paid by tribes; and (6) the amount of additional payments, if any, that tribes make to the state and the use of such revenues.

While there is still some uncertainty about the total number of states in which Class III tribal gaming is authorized, it appears that this is the case in at least 23 states. In addition, several states have Class II tribal gaming operations; however, this type of gaming does not require a state-tribal gaming compact. The Legislative Fiscal Bureau/NCSL survey was sent to all 50 states. Of the 26 responding states, 17 indicate the presence of Class III tribal gaming, and nine states report no Class III tribal gaming. The results of this survey are discussed in this section, and Table 6 provides a summary of this material.

**Compact Negotiations.** Under IGRA, a state is required to negotiate gaming compacts with a

tribe, but federal law does not dictate which branch of state government has this responsibility. While the responsibility for compact negotiation may be determined by each state, in practice it is generally the responsibility of the Governor through his or her designees in the executive branch.

The survey responses indicate that the compact negotiation process has varied among states. In Arizona, the negotiation authority of the Governor was unsuccessfully challenged in court. In Connecticut, one of the two tribes operating Class III gaming received this right under federal procedures imposed by the U.S. Secretary of the Interior, rather than through negotiation with the state.

Under Minnesota law, the Governor (or his or her representatives) is required to negotiate a compact, and the state Attorney General is designated as the legal counsel for the process. If the Governor appoints designees to negotiate the compacts, the designees must include at least two members of the state Senate and two members of the state House of Representatives, two of whom must be the chairs of the Senate and House standing committees with jurisdiction over gambling policy.

In Montana, the Governor led a team that included the state Attorney General and the Administrator of the Gambling Control Division under the Attorney General. The South Dakota Governor also worked with the assistance of the state Attorney General. In Washington, the Washington State Gambling Commission, an executive branch agency, negotiated the compacts. Despite these variations, the Governor of each state is primarily responsible for the negotiation of tribal gaming compacts.

**Legislative Role.** Most state legislatures have been accorded little or no role in the compact approval process. Of the 17 states responding to the survey, no legislative approval of the compacts or amendments to the compacts is required in 11 states. California, Connecticut, New Mexico, and Oklahoma require legislative approval (although this authority in Connecticut was effective only

after the original compacts were in place). Legislative approval in Oklahoma is made by the Joint Committee on State-Tribal Relations, rather than the full Legislature. Michigan requires legislative approval under the terms of the compacts, but such approvals are not required under state law. However, this compact provision is currently being challenged in court.

In Montana, legislative approval is only required to sanction the play of new types of games or to appropriate state funds. In Washington, the Legislature may hold public hearings on any compact negotiations and forward comments to the Washington State Gambling Commission. Finally, in Minnesota, each party to the agreement, including the Legislature by joint resolution, may request that the agreement be renegotiated or replaced by a new compact. However, neither the state nor the tribes are required to renegotiate following such a request.

**Duration of the Compacts.** The term or duration of state-tribal compacts varies greatly from state to state. In some cases, important differences in the term of tribal compacts are found within the same state.

Of the 17 tribal-gaming states responding to the survey, five states (Colorado, Connecticut, Minnesota, Mississippi, and Washington) have compacts with unlimited duration. Wisconsin negotiated compacts with unlimited terms, but this provision was struck down by the Wisconsin Supreme Court in its review of the Potawatomi compact amendments. The effect of the Court's decision on other Wisconsin tribal compacts with a comparable feature is unclear at this time. Oregon's compacts are not subject to renewal requirements, unless a major expansion of tribal gaming is proposed.

In 10 states, specific renewal terms are set in the compacts. In six of these states (Arizona, Louisiana, Michigan, New Mexico, North Dakota, and Oklahoma), the terms appear to be consistent for all tribes. Of these six states, Oklahoma has the shortest term (three years), while Michigan has the



longest term (20 years). Arizona has an initial 10-year term, a 10-year extension, then a three-year extension. The intent of the three-year extension is to allow time for the negotiation of new compact agreements.

Of the 10 states with specific renewal terms, four states have terms that vary, depending on the specific compact. Most of the California compacts negotiated in 1999 have terms that extend to 2020; the compacts that were negotiated in 2004, extend to as late as 2030. South Dakota has short-term compacts, with the terms expiring in two-to-four years, depending on the tribe. The terms of the Idaho compacts also vary by tribe. Finally, Montana has four compacts with five-year terms and one compact with a perpetual term.

**State Regulation.** The amounts paid by tribes specifically to defray the state costs of gaming regulation and enforcement vary greatly among the states responding to the survey.

Five of the 17 tribal-gaming states responding to the survey (Colorado, Idaho, Mississippi, Montana, and Oklahoma) indicate that tribes do not make any payments relating to the costs of state regulation. Additionally, South Dakota receives less than \$5,000 annually from tribes. In these six states there is also little or no state regulatory oversight of tribal gaming.

Three states receive substantial annual payments from tribes for gaming regulation: Arizona (\$8.0 million), California (\$13.0 million), and Connecticut (\$8.6 million). These states also exercise relatively extensive oversight of tribal gaming with state regulatory budgets of \$10.5 million (and 105 positions) in Arizona, \$13.1 million (and 110 positions) in California, and \$8.6 million (positions were not reported) in Connecticut. If viewed on a per casino basis, Connecticut spends about \$4.3 million for regulation and enforcement for each casino, Arizona spends over \$477,000 per casino, and California spends in excess of \$247,000 per casino. Also of note is New Mexico, which receives about \$1.2 million from its tribes and budgets \$5.0

million for regulation and enforcement, an average of nearly \$385,000 per casino.

The remaining states receive smaller tribal payments for regulation and enforcement and have smaller regulatory budgets. The state of Louisiana has a regulation and enforcement budget that is paid for by the tribes; however, under the terms of the compacts, the amounts spent for such purposes are not made public. Wisconsin, which receives only \$350,000 annually for regulation, currently spends about \$2.0 million, or \$117,600 per casino. The additional cost of state regulation and enforcement, above the \$350,000 provided by the tribes for this purpose, is appropriated from the additional tribal payments made to the state.

**Additional Tribal Payments.** Tribes in some states have also agreed to make payments in addition to reimbursements for state regulatory activities. Generally, these payments are based on a percentage of net revenue. The highest tribal payments reported in the survey are made in Connecticut (with annual payments averaging an estimated \$428.4 million for the three-year period 2004-05 through 2006-07). Annual tribal payments in California are expected to average \$250 million for this three-year period. Wisconsin's tribal payments are estimated as the third highest among the tribal-gaming states responding to the survey (\$101.8 million annually), but these payments are somewhat uncertain due to the Wisconsin Supreme Court's *Panzer v. Doyle* decision described previously.

Three other states responding to the survey also receive additional tribal payments: Arizona (an average of \$73.7 million annually for the three-year period); New Mexico (an average of \$44.0 million annually for the three-year period); and Michigan, where estimated payments were not reported in the survey for these years. Michigan received about \$15.7 million in 2002-03, but payments are now in sharp decline because private casinos have opened in the Detroit area, which violates the exclusivity provisions in the compacts upon which the payments depend.

In 11 of the states responding to the survey, no additional tribal payments are made to the state.

A state's tribal revenue varies, depending on the number and size of casinos in the state and the percentage of net revenue specified for state payments under each of the compacts. Several states use a fixed percentage of net win to calculate tribal payments. In Connecticut, 25% of net slot machine revenue is provided to the state, but all table-game revenue is retained by the tribes. Similarly, in Michigan and New Mexico, state payments are based on 8% of net win from slot-machine play.

The Arizona compacts require payments based on a sliding scale, ranging from 1% to 8%, with higher percentages applied as tribal gaming revenue increases through the year. State revenue in California is based on both a percentage of net win [in the survey, California did not report the specific percentages used] and a licensing fee for each electronic game in operation. Finally, in Wisconsin, beginning in 2005-06, all tribes will pay a percentage of net win on all games, but the percents vary by tribe. Smaller tribes will pay as little as 1.75% of net win in excess of \$5.0 million; other tribes will pay 3% or 4.5% of net win; and the largest tribes will pay between 5% and 8% of net win. In some

cases, the percentage for a particular tribe will vary year-to-year.

The states that receive additional tribal revenue payments utilize these funds in a variety of ways. Arizona uses a formula to divide the revenue among the following purposes: local government assistance, the regulation of tribal gaming, programs for problem gambling, and programs dedicated to instructional improvement, trauma and emergency services, wildlife conservation, and tourism. In California, about \$100 million in tribal payments relating to the state's 1999 compacts must be used for specified purposes, while payments under the 2004 compacts may be used for any purpose. Connecticut allocates a share of its tribal payments to local governments, with the balance going to the state's general fund. Michigan deposits its tribal revenue in an economic development fund that is an autonomous entity outside of the state's budget process. New Mexico deposits its tribal gaming revenue to the state's general fund. Finally, as described above, Wisconsin allocates nearly \$23 million annually to a variety of state programs (see Table 3), appropriates funding for regulation and enforcement, and deposits any remaining revenue in the general fund.

**Table 6: Tribal Gaming Data (2004-05 Data Unless Otherwise Indicated)**

State	Number of Tribes with Compacts	Number of Casinos	Negotiation Authority	Legislative Approval Authority	Term of Compact	Current Tribal Payments for Regulation	State Regulation Budget/Number of State Agencies/Positions	Additional Payments (Millions)			Payment Notes
								2004-05	2005-06	2006-07	
Arizona	21	22	Executive branch negotiated original and current compacts. A lawsuit in 2001 challenged this authority, but was eventually dismissed.	No approval authority	10 years, then renewal for 10 years, then renewal for 3 years	\$8.0 million	\$10.5 million One agency 105 positions	\$78.0	\$68.8	\$74.4	Payments shared with local government
California	66	53	Executive Branch	Approval authority for compacts and amendments	1999 compacts to 2020; some 2004 compacts to 2030	\$13.0 million	\$13.1 million Two agencies 110 positions	\$200.0	\$250.0	\$300.0	\$100 million each year is restricted for specific purposes
Colorado	2	2	The Office of the Governor	No approval authority	No limit	\$0	Note 1	\$0	\$0	\$0	
Connecticut	2	2	For one tribe, federal procedures were imposed by the U.S. Secretary of Interior under IGRA. The Governor negotiated a compact with a second tribe.	Approval authority for compacts and amendments	No limit	\$8.6 million (2002-03)	\$8.6 million (2002-03) Three agencies Positions Not Reported	\$387.3	\$440.0	\$458.0	Payments shared with local government
Idaho	4	4	Executive Branch	No approval authority	Varies by compact	\$0	Minimal oversight with two agencies. No budget or positions reported.	\$0	\$0	\$0	
Louisiana	3	3	The Office of the Governor	No approval authority	7-year terms	Actual costs	Not reported (proprietary) One agency 18 positions	\$0	\$0	\$0	
Michigan	11	17	The Office of the Governor	Legislative approval required by compacts, not by state law. This is being challenged in court	20-year terms	\$332,000	\$332,000 One agency 3.5 positions	Unknown	Unknown	Unknown	Declining payments due to private casino openings

State	Number of Tribes with Compacts	Number of Casinos	Negotiation Authority	Legislative Approval Authority	Term of Compact	Current Tribal Payments for Regulation	State Regulation Budget/Number of State Agencies/ Positions	Additional Payments (Millions)			Payment Notes
								2004-05	2005-06	2006-07	
Minnesota	11	18	State law provides the Governor the authority to negotiate the compacts and the Governor may appoint a negotiating team. If a negotiating team is appointed, it must have legislative members. By law, the Attorney General serves as legal advisor for the negotiating team.	No approval authority	No limit	\$150,000	\$1.6 million One agency 25 positions (Budget and staff reflect additional, non-tribal functions)	\$0	\$0	\$0	
Mississippi	1	2	The Office of the Governor	No approval authority	No limit	\$0	\$0 Minimal or no oversight	\$0	\$0	\$0	Note 2
Montana	5	5	A team led by the Governor's Office and including an Assistant Attorney General and the Administrator of the Gambling Control Division	No approval authority, except if new types of games are proposed	One tribe no limit; 4 tribes with 5-year terms	\$0	\$0 Minimal or no oversight	\$0	\$0	\$0	
New Mexico	12	13	Executive Branch	Approval authority for compacts and amendments	15-year terms	\$1.2 million	\$5.0 million One agency 59 positions	\$38.6	\$45.5	\$47.8	
North Dakota	5	5	Executive Branch	No approval authority	10-year terms	\$92,000	\$92,000 One agency 1.5 positions	\$0	\$0	\$0	
Oklahoma	15	Note 3	Executive Branch	Approval authority by the Joint Committee on State-Tribal Relations	3-year terms with automatic renewal	\$0	\$0 Minimal or no oversight	\$0	\$0	\$0	Ballot question outcome could result in future state payments exceeding \$58.0 million annually

State	Number of Tribes with Compacts	Number of Casinos	Negotiation Authority	Legislative Approval Authority	Term of Compact	Current Tribal Payments for Regulation	State Regulation Budget/Number of State Agencies/Positions	Additional Payments (Millions)			Payment Notes
								2004-05	2005-06	2006-07	
Oregon	9	9	Executive Branch	No approval authority	No limit unless a major expansion is proposed	\$1.5 million	Not reported One agency 16.5 positions	\$0	\$0	\$0	
South Dakota	8	9	The Governor's Office with assistance from the Attorney General's Office	No approval authority	2- to 4-year terms	Less than \$5,000	\$0 Minimal or no oversight	\$0	\$0	\$0	
Washington	27	23	Executive branch, through a state agency: the Washington State Gambling Commission	No approval authority	No limit	\$2.67 million	\$2.67 million One agency 35 positions	\$0	\$0	\$0	
Wisconsin	11	17	The Office of the Governor	No approval authority	No limit, but provision struck down by Supreme Court for one tribe. Status uncertain at this time.	\$350,000	\$2.0 million Two agencies 17.25 positions (Note 4)	\$104.2	\$91.6	\$109.7	Estimated payments may be affected by Supreme Court decision or by renegotiated payment provisions.

**Notes:**

- 1 Colorado only performs background investigations of non-Indian employees. Costs are borne by the applicant.
- 2 The Mississippi compact has an option for the state and the tribe to each contribute \$250,000 annually for tourism promotion.
- 3 Oklahoma has more than 80 tribal gaming facilities, but it is unknown how many of these facilities are "casinos," offering both electronic and table games, and how many are "ancillary" sites offering electronic games only.
- 4 The cost of state regulation in Wisconsin exceeding the \$350,000 in regulatory payments provided by the tribes is appropriated from the additional tribal payments made to the state.