<u>The Governor's Casino Gambling Proposal: An Exaggeration of State Revenue</u>

- **The big questions: Where does this revenue come from? What does it cost to get this revenue?**
- The Governor's revenue numbers are based on a static, non competitive appraisal of the gambling market in Massachusetts, when in fact, the market is overwhelmingly competitive
- The Governor did not consider the realities of state gambling markets through the United States
- The Governor's proposal overstates the amount of gambling revenue that the Commonwealth can recapture from Connecticut
- A significant portion of the Governor's projected revenues will be derived from money that is already spent in the state economy
- The casino license auction will not be as competitive or lucrative as the Governor imagines
- The loss of Lottery revenues due to the advent of casino gambling will be extensive

Casino gambling is not long term, sustainable, economic development policy. The costs simply outweigh the benefits in both short and long term analysis.

The Governor's Casino Gambling Proposal: An Exaggeration of State Revenues

In reviewing the Governor's casino proposal, I believe he overstates the benefits and downplays the costs of bringing casino gambling to the Commonwealth. His figures are high and the projected revenue can not be counted on.

The Governor has said that his casino proposal will produce $400 million to $450 million in **new** revenues for the State. He has stated on several occasions, both in speeches and in printed materials, that these revenues will be divided between property tax relief and transportation spending. While these are more than worthy causes, they would be better served by initiatives founded on solid research and reliable projections such as the Legislature's recent decision to increase local aid to cities and towns by $223 million in the next fiscal year. In addition, the Governor has suggested that he is open to spending gambling revenues on several other causes other than transportation and property tax relief.

With this casino gambling proposal, the Governor has promised far more than he has to give.

The following are some of the reasons that I am skeptical of the Governor's casino gambling proposal:

- The Governor's revenue estimates are unrealistically high
    - The Governor's figures are based on a static analysis of gambling figures from casinos in Connecticut. He then applies these numbers to his three-casino proposal.
        - In an official briefing prior to the filing of the Governor's bill, the administration explained that their financial projections came from the simple act of taking the average revenue per slot machine in other commercial casinos, such as Foxwoods and Mohegan Sun, and applying a per machine average to the Massachusetts proposal.
        - There are significant problems with simply extrapolating future revenue numbers in Massachusetts from the experience of other states
            - If we were to enact the Governor's proposal, we would go from two commercial casinos between Connecticut and Massachusetts to five. This is a tremendous expansion of the market. The Governor can't count on all casinos to do as well per machine as the two most successful casinos in the United States, especially with that kind of expansion in the market. This is economics 101, the law of diminishing marginal utility.
        - The Governor also doesn't count on increased competition.

        - New Hampshire officials have publicly stated that they will consider siting gambling facilities on the Massachusetts border if the Governor's bill passes
        - Will Connecticut sit still and allow us to compete with out a plan to keep market share?
        - We can't simply look at a non competitive snapshot of the market and expect that we will continue to do as well in the future
  - Market Saturation - There are already signs that the east coast gambling market is becoming saturated with gambling venues. New York has not done as well with slots as expected and New Jersey is experiencing a downturn in market.

- The Governor's revenue figures overstate the amount of gambling we will be able to recapture from Connecticut casinos.
  - The Governor's recapture figures are based on a study that builds its numbers on flawed analytical techniques and extrapolates all of its numbers off questionable initial research. Concerning recapture:
    - The Governor presupposes that people want to play closer to home. There is evidence that this is not true for high rollers. They don't want to gamble next to their neighbors.
    - Even more compelling is the fact that industry studies have found that other states in the region that have introduced gambling in their states as a way to recapture "lost" revenue have not been successful in recapturing gambling money, but have been very successful in creating more gamblers.
      - The same recapture argument was made in Rhode Island in a bid for casinos a few years ago and Harrah's Entertainment, Inc. had the University of Rhode Island conduct a study. This industry-backed study indicated that Rhode Island would recapture approximately 4-6% of the money that was being spent by Rhode Island patrons in Connecticut casinos. The advent of casinos in Rhode Island has actually just created a whole new group of gamblers spending money that would have been spent in other segments of the economy. If this percentage is even remotely accurate, the Governor's figures are grossly inflated.
  - Even if we were to agree with the Governor on his overall revenue figure, the vast majority of revenue in the Massachusetts casinos would be from Massachusetts residents. This is not new revenue, as the Governor has suggested, but is revenue that is already being spent in our economy.
    - A Federal Reserve Bank of Boston study from 2006 suggests that 35% to 75% of the money spent in a casino is already being spent in the economy.

        - Since Massachusetts is a high wage state and one of the top tourism and cultural destinations in the United States, intuitively, we are going to be on the higher side of that range. That means we are merely moving money from elsewhere in the economy to casinos. This, again, is not the new revenue that the Governor claims.
    - A look at other states with casinos shows that many have become more reliant on a few casinos taking in a lot of revenue than on a more evenly spread out economy. We don't have to go elsewhere to see the danger in this. If we look at our lottery, we see how cities and towns have become overly reliant on this income. When the lottery doesn't perform to their expectations, the taxpayers are asked to pick up the cost of the difference.
    - This economic diversion is why groups such as the Restaurant Association of Massachusetts and the Convenient Store Association have come out in opposition to the Governor's casino proposal. It is why 72% of cultural institutions registered their opposition to casinos in a recently completed survey. They are afraid that casinos will cannibalize existing businesses.
        - Examples of this economic diversion are abundant
            - Ledyard, Uncasville, and North Stonington, CT have seen declines in overall business activity with the notable exception of Dunkin Donuts and gas stations
            - In Cripple Creek, Colorado there were 66 bars, restaurants, and taverns prior to the 1998 opening of casinos in that community. Today, there are close to none left.
            - In Atlantic City, there were 311 bars, restaurants, and taverns in 1978. Today, there are less than 50 left.

- The Governor's figures are premised on his proposed new casinos being as financially successful from day one as the two best casinos in the United States. Foxwoods and Mohegan Sun were able to establish a significant portion of the casino gambling market on the east coast upon their entrance during the 1990's. The circumstances surrounding their market entrance, and subsequent dominance, are a far cry from the possible market entrance of Massachusetts, particularly considering the regional competition from Connecticut, Rhode Island, New York, New Jersey, Pennsylvania, and even our own State Lottery.

- The Governor did not adequately consider the experience of other states in calculating the projected revenues of the casino gambling proposal.
    - In reviewing the materials supplied to the Governor last year, a vast majority was from the casino industry and was focused on Massachusetts and Connecticut.

- A study of casinos in other states reveals a pattern of changing taxes and continued expansion of the gambling influence in these states.
  - The slots in New York were supposed to bring in $400/day/machine. They are averaging between $112-193/day/machine. When asked why the projections were not being met, the proponents stated that the tax was too high and there weren't enough machines. They proposed a lower tax and more machines under the supposition that even if machines weren't meeting payoff expectations, more machines would bring in more money.
  - Even with the revenues of 14 casinos in New Jersey, the state government shut down in 2006 due to a disagreement over $1.1 billion needed to plug a state budget gap
  - In Louisiana, casino operators have responded to low revenues by threatening to leave if their taxes weren't cut in half.
  - The state of Illinois was forced in 2003 to deal with a <u>$5 billion</u> budget gap in 2003, despite the existence of nine casinos in the state.
  - Slot machine operators in Rhode Island have asked the Governor and State Legislature to approve thousands more slot machines because of a deficiency in state revenues generated by gambling
- The Governor's proposal has unrealistic requirements for casino operators that will facilitate future renegotiations on industry standards and state revenue
  - Part of the bid criteria is that casinos must be environmentally friendly (green). The casino bidders are encouraged to create project labor agreements, be union friendly, have health care plans, affirmative action plans, and create career ladders for employees.
  - The casino owner must pay for community mitigation, some state infrastructure costs, compulsive gambling treatment, lottery decrease offset, gambling commission and public safety costs, as well as give us 27%. Under the Governor's proposal, all of these costs are paid with gross casino revenues.
  - All of these added expenses have caused casino advocates to grumble that the Governor has not made it profitable enough in Massachusetts to ensure the success of his casino proposal.

- The auction for casino licenses in Massachusetts will not be as competitive or lucrative as the Governor has projected.
  - Given that auctions for casino licenses only happen once every ten years, this is one time revenue that can not be relied on for perennial spending obligations
    - There are signs that an auction in Massachusetts for three licenses may not live up to the Governor's expectations

- Going from two to five casinos in Connecticut and Massachusetts will further exacerbate existing saturation of the gambling market in these two states.
- There has also been, according to several sources within the casino industry, some market consolidation in the casino industry. There are continuously fewer companies that own more industry assets. We have heard from several sources within the casino industry that feel that we may get closer to five bids rather than the twelve that the administration has said they would receive in an open bid process. These same casino industry advocates believe that this consolidation will cause the casino license auction to be far less competitive, which will have the effect of driving down the price of those licenses as well as the potential benefits to Massachusetts that the industry is willing to give up in order to put a casino in our state.
- Capital markets have dried up for the type of infrastructure necessary to build a casino as described by the Governor. Just recently in New Jersey, Pinnacle Entertainment announced that it is considering scrapping a $2 billion casino development because the credit market would necessitate unaffordable debt payments.

➢ As we look at revenues, we must again ask two questions:
  - Where does the revenue come from?
  - What does it cost us to get this revenue?

➢ If this is money that is already being spent in the economy, we lose market power, as casino dollars do not have the force of other investments. We have heard from many economists on this effect, including Nobel Prize winner Paul Samuelson from Cambridge. Samuelson states that dollars spent on gambling are the worst use of money in the economy because of the inherent loss of economic opportunity due to the restriction of cyclical flow in the economy. Unlike business sectors like the life sciences industry, there is far less of a multiplier effect with investment in casinos. Money spent in casinos does not have as much of a positive effect on the rest of the economy as spending and investment in other industries.

➢ Interestingly, the recently-completed Chamber study makes the same mistake the Administration made on projected revenues for the casino proposal. The Chamber study looks at per capita spending on gambling in Massachusetts and Connecticut and concludes that the two states spend nearly the same amount on total gambling. They indicate that while Connecticut residents spend $400 per capita on casino gambling, Massachusetts residents spend zero. They then conclude that the difference is unexpended casino revenues that we can capture. The flaw is in their reconciliation between gambling spending and casino spending. We believe that the difference is spent on the lottery in its entirety. We have the most successful lottery in the United States.

- Our per capita spending routinely doubles the average of any other state. Therefore, the difference in their figures is money that would be diverted from the lottery.
- The major difference in demographics for slot players and lottery players is opportunity. If we bring casinos closer, we raise the opportunity. That means that we could see a potentially large hit to the bottom line of the lottery. Even the Governor's bill acknowledges this and mandates that the casinos contribute into an account to make up for the lottery losses. There are two problems with this approach.
    - The Governor places the loss at approximately 4%. We believe it is closer to 15%. Even if we split the difference and get to 9%, which is close to the Treasurer's estimate, the Governor's revenue figures are off by hundreds of millions of dollars.
    - The Governor and the Chamber study make the same mistake of replacing lottery dollars with casino dollars on a one to one basis. In other words, for every dollar the lottery loses, we will take a dollar from casinos. However, the reality is that we make less from each dollar spent in a casino than we do from each dollar spent on the lottery. We use a figure of five to one. We need to spend five dollars in a casino for each dollar that we lose in lottery products.
        - There are some who argue about the replacement value. For the sake of argument, if we say that we need two dollars for every dollar lost, we would need to offset almost $170 million. This, of course is the net to cities and towns, so the gross amount gambled at casinos to make up the net would be in the billions. Even if we take a straight 2-1 ratio on a 25% tax, gamblers have to wager almost a billion dollars more right off the top in order to simply hold the lottery harmless.
        - The lottery should serve as a cautionary tale for us. We have constantly expanded the lottery from the first little green daily number ticket until we have a Keno game every four minutes all day and up to 35 scratch tickets at any one time in over 8,500 lottery outlets around the state. Yet, in spite of this massive expansion, cities and towns are demanding more money from the lottery proceeds.

- The passage of the Governor's casino gambling bill could lead to more than three casinos. The federally recognized Indian tribes in Massachusetts have already indicated that they are not interested in bidding for one of the Governor's three commercial casino licenses. And why would they be? If the Governor's casino proposal were to pass, it would be in the Indian tribe's best interest to wait and go through the IGRA process. This way they would have much greater leverage with the state during a compact negotiation.

- Under the circumstances, the federally recognized tribes would most likely open smaller casinos without the help of large scale industry financing.
- This reality would create additional competition in the market and would cause the commercial casino operators in the state to try to renegotiate their license agreements because of the change in the market.
- There are also additional Indian tribes in Massachusetts that are currently seeking federal recognition. Large casino industry interests would have great incentives to pay for the entire IGRA process for the Indian tribes that might not have otherwise received federal recognition or land in trust.

➢ Lottery loss alone may be enough to make one pause before endorsing the Governor's plan. However to that we must add the costs of increased law enforcement and public safety, a new gaming commission, environmental offsets, compulsive gambling and various state infrastructure costs not covered under mitigation payments to surrounding communities. On top of this you need to transfer out all of the revenues that are economic shift and not new revenues, and we can see that the most likely outcomes from the Governor's casino proposal is that we derive no new revenues from this legislation.

  - While this conclusion may seem counterintuitive, it is a reality. A particularly compelling example is seen when comparing Massachusetts with several surrounding states. What two things do Rhode Island, New Jersey, Connecticut, and New York have in common? The first is that they have all expanded gambling dramatically over the last few decades. The second is that they all have higher property, income, and sales taxes than Massachusetts. Casinos have not solved their fiscal problems and may have indeed contributed through lost economic opportunity and over reliance on a sole source of revenues. We should not make the same mistake in Massachusetts.