

S2015 (EXPANDED GAMBLING) AND LOCAL AID
“When Casinos Win, Communities Lose”

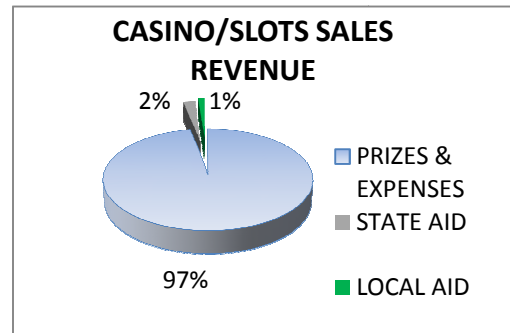
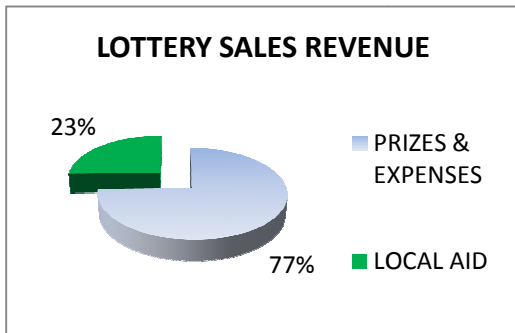
S2015 (EXPANDED GAMBLING) AND LOCAL AID

“WHEN CASINOS WIN, COMMUNITIES LOSE”

A NEW SURVEY FROM UMASS DARTMOUTH’S CENTER FOR POLICY ANALYSIS REPORTS THAT 73% OF MASSACHUSETTS CITIZENS BELIEVE BUILDING THREE CASINOS AND A SLOT PARLOR IN MASSACHUSETTS WOULD “GENERATE TAX REVENUE FOR THE STATE”.¹

PLEASE READ THIS

ONLY ABOUT TEN TO FIFTEEN CENTS OF EVERY DOLLAR GAMBLED WILL BE SUBJECT TO TAX (AT 25%).² LESS THAN ONE-THIRD OF THAT TAX (ROUGHLY ONE PENNY) IS DEDICATED TO UNRESTRICTED LOCAL AID.³ THE REST IS KEPT IN THE STATE’S COFFERS TO BE SPENT AS THE GAMING COMMISSION, THE LEGISLATURE AND OTHER STATE OFFICIALS DECIDE.⁴ SHOULDN’T IT BE THE OTHER WAY AROUND? WHAT EVER HAPPENED TO THE GOVERNOR’S PROMISE OF PROPERTY TAX RELIEF AS SOON AS IT WAS POSSIBLE? THE LOTTERY PAYS OUT 23% OF TOTAL LOTTERY REVENUES TO CITIES AND TOWNS.⁵ WHY SHOULD CITIES AND TOWNS ACCEPT A SCHEME THAT LETS CASINOS GET AWAY WITH CONTRIBUTING LESS?



DELIVERING ON THE PROMISE OF PROPERTY TAX RELIEF SHOULD BE THE FIRST PRIORITY NOT THE LAST!

ALL STUDIES PREDICT A SLOWDOWN AND LOSS OF LOTTERY REVENUE AFTER THE CASINOS ARE BUILT. PROJECTED LOSSES RANGE FROM ABOUT 3% TO 26%.⁶ AT THE HOUSE ESTIMATE OF \$1.2 BILLION TAXABLE GAMING REVENUE (NEARLY DOUBLE WHAT MASS. RESIDENTS NOW PUT INTO CASINOS), A 10% LOSS WOULD MEAN \$90 MILLION LESS IN LOCAL AID TO CITIES AND TOWNS FROM THE LOTTERY. THIS IS AN AMOUNT THAT SIMPLY CANNOT BE REPLACED, MUCH LESS SUPPLEMENTED, WITH WHAT LITTLE THE BILL TARGETS FOR UNRESTRICTED LOCAL AID (I.E., 20% OF THE HOUSE ESTIMATED \$300 MILLION TAX RECEIPTS FROM CASINOS)⁷

EVEN IF THE INTRODUCTION OF CASINOS SIMPLY WERE ASSUMED TO SHIFT REVENUE FROM THE LOTTERY TO CASINOS, CITIES AND TOWNS WILL STILL SUFFER, BECAUSE THE LOCAL AID PAYOUT FROM MONEY SPEND ON CASINO GAMBLING IS 20% LOWER THAN FROM LOTTERY SALES. (SEE PIE CHART ABOVE.)

CHECK THE ATTACHED SPREADSHEET TO SEE WHAT EACH COMMUNITY STANDS TO GAIN OR LOSE.

DO NOT BE FOOLED BY THE REVENUE ESTIMATES THAT ARE BEING QUOTED ON BEACON HILL IN THE COST/BENEFIT ANALYSIS.

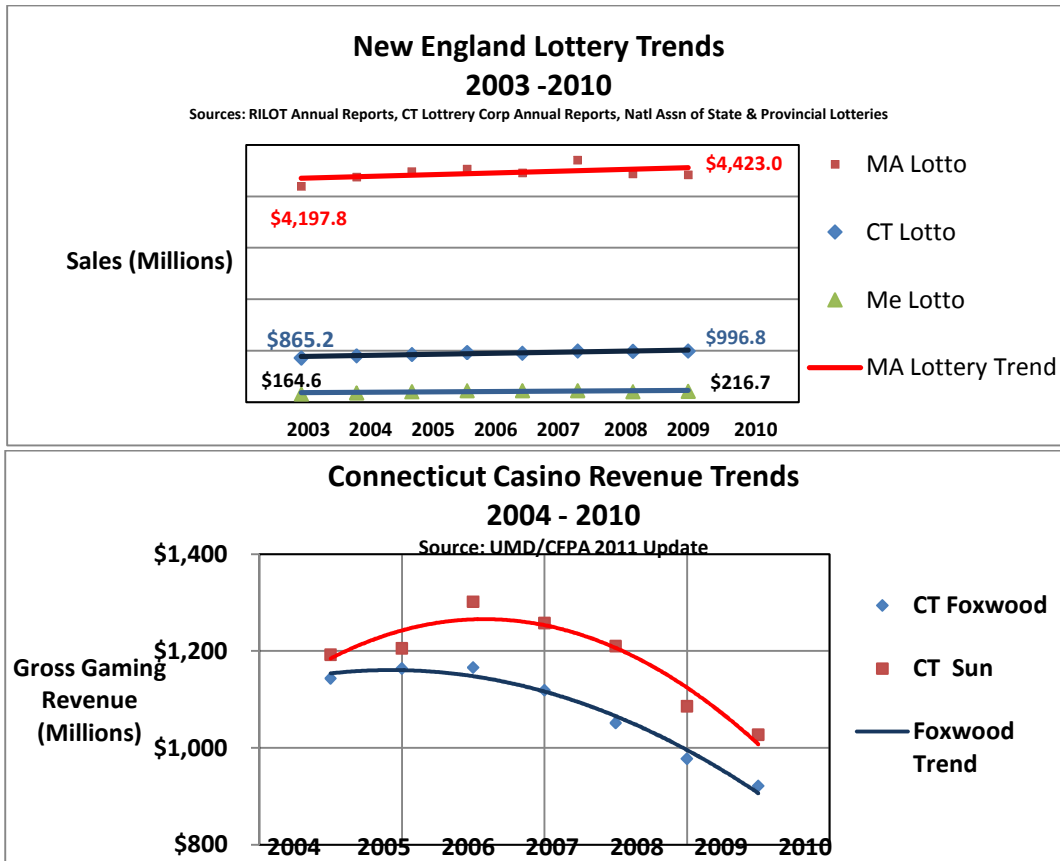
- GOVERNOR PATRICK WAS QUOTED TO HAVE SAID THAT MASSACHUSETTS RESIDENTS ALREADY DRIVE TO CONNECTICUT CASINOS AND “SPEND \$1.5 BILLION DOLLARS . . . RIGHT NOW.”⁸ THE HOUSE OF REPRESENTATIVES USED A FIGURE OF \$1.2 BILLION AS THE POTENTIAL REVENUE STREAM, AND A WEEK LATER THE SENATE WAS USING A FIGURE OF \$1.8 BILLION. THE BACK-UP FOR BOTH THESE FIGURES APPEARS TO BE “PRE-RECESSION” REPORTS THAT ARE “ADMITTEDLY, SOMEWHAT OUTDATED”.⁹
- THE MOST RECENT DATA FROM THE UMASS/DARTMOUTH 2001 UPDATE SHOWS THAT THE AMOUNT GAMBLED AND LOST BY MASSACHUSETTS RESIDENTS IN CONNECTICUT CASINOS WAS \$486 MILLION (AND \$613 MILLION SPENT OVERALL.)¹⁰ AT A 25% CASINO TAX RATE, THIS EQUATES TO ONLY \$121 MILLION IN GAMING TAX REVENUE, AND 25% (LOCAL AID SHARE) WOULD PRODUCE ONLY \$30 MILLION IN NEW UNRESTRICTED LOCAL AID TO CITIES AND TOWNS.
- IN ORDER FOR THE LOCAL AID FORMULA TO JUST BARELY BREAK EVEN, IT WILL BE NECESSARY TO ACCOMPLISH THE UNLIKELY GOAL TO REPATRIATE ALL OF THE \$707 MILLION GAMBLED AND LOST BY MASSACHUSETTS CITIZENS IN CONNECTICUT AND RHODE ISLAND¹¹ AND FIND AT LEAST ANOTHER \$500 MILLION IN GAMING REVENUE FROM NEW GAMBLERS. WHERE IS THE CONVINCING, INDEPENDENT, UP-TO-DATE, “POST RECESSION” DATA TO SUPPORTS THE IDEA THAT SUCH UNPRECEDENTED GROWTH CAN BE ACHIEVED BY ADDING FOUR MORE GAMING ESTABLISHMENTS IN THIS REGION, WHICH ALREADY HOSTS THREE OF THE FOUR LARGEST GAMING OPERATIONS IN THE COUNTRY?¹² IS IT TOO MUCH TO ASK FOR THAT DATA BEFORE WE ASK THE PUBLIC TO GAMBLE WITH THE CHERRY SHEET OF EVERY CITY AND TOWN IN THE COMMONWEALTH?

THE DEMOGRAPHICS OF CASINO GAMBLING ALSO RAISE A RED FLAG AS TO HOW HARD IT WILL BE TO ACHIEVE AND SUSTAIN THE PREDICTED REVENUE LEVELS.

- THE PROPENSITY TO GAMBLE IS DIRECTLY RELATED TO AGE – A THIRD OF THOSE UNDER 50 DO NOT GAMBLE, ABOUT 20% OF THOSE BETWEEN 50 AND 65 DO NOT GAMBLE, AND NEARLY 90% OF THOSE OVER 65 DO.¹³ THUS, THE GAMING BUSINESS MODEL HAS A “TOBACCO” PROBLEM: THEIR BEST CUSTOMERS ARE PART OF A GENERATION THAT IS DYING OFF AND ARE BEING REPLACED BY BOOMERS AND OTHER GENERATIONS BEHIND THEM WHO ARE PROGRESSIVELY EACH LESS AND LESS LIKELY TO GAMBLE.
- THIS PROBLEM IS EXCACERBATED IN NEW ENGLAND, GENERALLY, AND IN MASSACHUSETTS, IN PARTICULAR, WHOSE POPULATIONS ARE ALL WELL ABOVE THE NATIONAL MEDIAN AGE.¹⁴

MAKES SENSE SO FAR, DOESN'T IT? WELL, THERE'S MORE

CASINO REVENUE IS, INHERENTLY, AN UNRELIABLE CHOICE AS A SUSTAINABLE SOURCE FOR MUNICIPAL ANNUAL LOCAL AID FOR SEVERAL ADDITIONAL REASONS. FIRST, RESORT CASINOS APPEARS MUCH LESS “RECESSION PROOF” THAN LOTTERIES. WHILE LOTTERY SALES IN MASSACHUSETTS AND OTHER NEW ENGLAND STATES HAS REMAINED COMPARATIVELY STABLE, CASINO REVENUE HAS BEEN ON A ROLLER COASTER RIDE SINCE IT PEAKED IN 2006. THUS, THERE IS NO COUNTING ON CASINO REVENUE TO BE THERE WHEN IT IS NEEDED MOST, IN TOUGH ECONOMIC TIMES AND LOCAL AID IS THE MOST VULNERABLE TO BUDGET CUTTING.



SECOND, UNLIKE STATE LOTTERIES, CASINOS COMPETE WITH EACH OTHER, BOTH WITHIN AND ACROSS STATE BORDERS, INCLUDING ON PRICE. THIS COMPETITION WILL ONLY ESCALATE AS THE MARKET BECOMES MORE SATURATED AND INTER- AND INTRA-STATE CASINO COMPETITION FOR CUSTOMERS BECOMES INTENSE.

- CASINOS ARE HIGHLY COMPETITIVE MONEY MACHINES. THEY COMPETE TO ATTRACT THE PLAYERS (AKA “LOSERS” WITH THE PROPENSITY TO GAMBLE. THEY OFFER FREE ALCOHOL, FOOD, LODGINGS AND OTHER PROMOTIONAL AMENITIES TARGETED TO THIS GROUP AND DESIGNED TO INDUCE PLAYERS TO KEEP PLAYING, SINCE THE LONGER A PERSON STAYS AT THE SLOTS, THE MORE THEY ARE LIKELY TO LOSE. CASINOS COUNT ON THESE COMPUSLIVE GAMBLERS TO TURN A PROFIT.¹⁵ THESE MARKETING TECHNIQUES ARE ENSHRINED IN THE PENDING LEGISLATION --- THE GAMING COMMISSION COULD NOT BAN THEM EVEN IF IT WANTED TO.¹⁶

- A KEY COMPETITIVE TOOL AT THE CASINOS' DISPOSAL IS THE ABILITY TO CHANGE THE PAYOUT PERCENTAGE, THE GAMBLING EQUIVALENT OF PRICE CUTTING, WHICH CASINOS ADVERTISE HEAVILY. (YOU MAY HAVE SEEN THE MOHEGAN SUN AD ON THE SOUTHEAST EXPRESSWAY.) GGR (THE REVENUE ON WHICH CASINOS ARE TAXED) IS A PERCENTAGE OF WHAT IS LEFT (AKA THE 'HOLD') AFTER WINNINGS ARE PAID OUT. (IN A SENSE, THE GAMING TAX IS PAID BY THE LOSERS, NOT THE WINNERS.) AN INCREASE IN THE PAYOUT PERCENTAGE DECREASES THE "HOLD" AND, THUS, WILL DECREASES THE TAXES PAID, WHICH, IN TURN DECREASES LOCAL AID TO CITIES AND TOWNS PROPORTIONATELY.¹⁷
- IT SEEMS INEVITABLE THAT CASINOS WILL USE THESE MARKETING DEVICES TO TARGET MASSACHUSETTS LOTTERY PLAYERS TO SWITCH TO THE CASINO "EXPERIENCE", ESPECIALLY WHEN TOLD THEIR CHANCES OF WINNING (AN 80% TO 95% PAYOUT RATE) ARE BETTER (AND MORE "FUN") THAN PLAYING THE LOTTERY (WHICH HAS A 68% PAYOUT). AS EXPLAINED ABOVE, EACH GAMBLING DOLLAR SWITCHED IS A NET 20 CENTS LOST TO THE STATE TREASURY.

FINALLY, PLEASE NOTE THE CURIOUS PROVISION IN THE BILL CONCERNING THE UP-OR-DOWN VOTE BY A "HOST" COMMUNITY THAT IS REQUIRED TO APPROVE SITING A CASINO OR SLOT PARLOR. THIS PROVISION APPLIES TO EVERY CITY AND TOWN IN THE COMMONWEALTH, EXCEPT IN BOSTON, WORCESTER AND SPRINGFIELD. IN THESE THREE CITIES, ONLY VOTERS IN THE "WARD" IN WHICH THE FACILITY WILL BE LOCATED ARE GRANTED THE RIGHT TO VOTE ON BRINGING GAMBLING TO THOSE MUNICIPALITIES.¹⁸ THE BILL FULLY ACKNOWLEDGES THAT THE IMPACT OF CASINOS GOES WELL BEYOND THE "HOST" COMMUNITY AND WILL AFFECT ALL "SURROUNDING COMMUNITIES" AND "IMPACTED ENTERTAINMENT VENUES", LET ALONE BEYOND THE "WARD" IN WHICH A CASINO HAPPENS TO BE BUILT.¹⁹ IN OTHER WORDS, THE STATE JUSTIFIES DEPRIVING THE VERY CITIZENS WHOM IT KNOWS ARE BEING AFFECTED BY A CASINO THE RIGHT TO APPROVE ONE COMING TO THEIR NEIGHBORHOOD BY PROMISING TO PAY FOR ALL THE DAMAGE IT WILL DO. NO CIVICALLY-MINDED PERSON SHOULD TOLERATE SUCH UNNECESSARY DISPARAGEMENT OF THE FUNDAMENTAL PUBLIC RIGHT OF CITIZENS AND TAXPAYERS TO ACCESS THE BALLOT BOX ON ISSUES THAT AFFECT THEM.

CONCLUSION

DECISIONS THIS CRITICAL THAT RISK IRREPARABLE DAMAGE TO THE FISCAL AND POLITICAL HEALTH OF THE COMMONWEALTH AND CITIZENS OF EVERY CITY AND TOWN IN MASSACHUSETTS MUST BE MADE THROUGH CONSIDERED AND DELIBERATE PROFESSIONAL AND EDUCATED JUDGEMENT. IN ITS PRESENT FORM, THE PROPOSED EXPANDED GAMING BILL PRESENTS A RISK THAT NO COMMUNITY SHOULD BE FORCED TO TAKE. THIS IS NO TIME TO ACCEPT A "TRUST ME ON THIS" APPROACH THAT WILL ALLOW BEACON HILL TO SHOOT FIRST AND ANSWER QUESTIONS (AND TRY TO FIX THE PROBLEMS) LATER. IF THIS BILL IS SOUND PUBLIC POLICY TODAY, IT WILL STILL BE THE RIGHT ANSWER TOMORROW, NEXT MONTH OR NEXT YEAR.

ENDNOTES

¹ UMass/Dartmouth Center for Policy Analysis, “Statewide Poll on MA Casino & Slot Parlor Proposal” (September 2011). Note that, in Illinois, after casinos had operated for some time, the public perception also had also been initially favorable toward casinos, but is now to 2-1 against. See Statement of Professor Richard Kindt (WGBH 10/5/2011), <http://www.wgbh.org/programs/The-Callie-Crossley-Show-855/episodes/Wed-Oct-5-Casinos-in-Massachusetts-32048>

² “Gaming Revenue” (GR or GGR) is defined as the total amount wagered less prizes paid. S2015, Section 16, Ch. 23K§2. Approximately 90%-95% of money gambled at slot machines, and 80% of table game wagers are returned as winnings. See Memorandum of General Counsel to Massachusetts House Committee on Government Relations p. 12 (2004); Rhode Island Lottery Published VLT Payout Rate, www.rilot.com (VLT payout rates for 2010 & 2011 ranged from 90.436% to 91.529%); David G. Schwartz, “Seeking Value or Entertainment? The Evolution of Nevada Slot Hold, 1992-2009”, University of Nevada Las Vegas (2010) (payouts varied from about 10% -11% for penny slots and from about 3% to 8% for other denomination machines) Based on the historical resort casino gaming patterns at Foxwoods and Mohegan Sun, about 80% of GGR comes from slots and 20% from other gaming. See UMass/Dartmouth Center for Policy Analysis, “New England Casino Update”, pp. 8, 11 (2011); Massachusetts Taxpayers Ass’n “An Analysis of Property Tax Credits and Transportation Funding Under the Governor’s Casino Proposal”, p.4 (2007)

³ Under S2015, the three resort casinos will be taxed at a 25% rate of GGR and, then, 25% of the tax collected from casinos is deposited into a “Gaming Local Aid” fund targeted for unrestricted local aid, (except that, after three years of casino operations, 12.5% of these deposits into the “Gaming Local Aid Fund” will be set aside into a separate “Local Aid Stabilization Fund” instead (and, apparently, will no longer be available for annual distribution except by separate appropriation). The House-passed version (H3711) reduced the amount dedicated to unrestricted local aid to 20% and allocated 5% to the Community Preservation Fund (CPA Trust) instead. Both bills provide that the GGR from the one slot parlor will be taxed at 40%, although that is expected to be a much smaller operation. Using a 90% payout rate, a 30% blended tax rate, and a 25% local aid apportionment = $\$1.00 \text{ GGR} \times 0.1 \times 0.3 \times 0.25 = \0.0075 tax revenue per \$1 wagered available for local aid. Under S.2015, the other 75% of casino tax is distributed as follows: (1) 15% to a “Transportation and Infrastructure Fund”; (2) 14% to a “Mass. Education Fund”; (3) 10% to the Commonwealth Stabilization Fund; (4) 10% to an “Economic Development Fund”; (5) 10% to “debt reduction”; (6) 6.5% to a “Community Mitigation Fund”; (7) 5% to a “Public Health Trust Fund”; (8) 2% to the Massachusetts Cultural Council (9) 2% to a “Local Capital Projects Fund”; and (10) 0.5% to a “Massachusetts Tourism Fund”. S2015, Section 16, Ch.23K, §§. 55 & 59; H3711, Section 16, Ch.23K, §§55 &59.

⁴S2015, Section 16[Ch.23K, §§57- 64 & 71; S2015]; Section 18. The Gaming Commission is also granted authority to collect annual fees from gaming licenses and borrow money, which it may hold, in and spend as it sees fit, without legislative appropriation. S2015, Sections 8 & 16 [Ch.23K,§4 through 6, 34, 57, 71]

⁵ Massachusetts State Lottery, Frequently Asked Questions, www.masslottery.com/winnners/faqs

⁶ In October 2007, the Massachusetts Taxpayers Foundation reviewed the studies of the impact on the Lottery from Governor Patrick's initial proposal to establish three resort casinos, based on the Governor's assumptions that his plan would generate \$200 million in gaming taxes for local aid (using the initial proposed 27% tax rate on a projected \$2.1 billion GGR and a 45% allocation of gaming tax revenue to local aid), including a **12%** drop estimated by Governor Patrick. Massachusetts Taxpayers Ass'n "An Analysis of Property Tax Credits and Transportation Funding Under the Governor's Casino Proposal", pp. 6-8 (2007) See UHY Advisors, "Casino Gambling in Massachusetts: A Economic, Fiscal & Social Analysis" (2008) (**5%** to **10%** reductions); Dr. Clyde Barrow, "Maximum Bet: A Preliminary Blueprint for Casino Gaming and Economic Development in Massachusetts (2007) (up to **8%** drop); Report of Massachusetts House Committee on Economic Development (2006) (**15%** reduction); Michael Semanchick, "An Estimation of the Substitution Effect of Casino Revenues on Lottery Revenues in the State of Pennsylvania" (2006) (**26%** decline); Eugene Christiansen, "Analysis and Recommendations for the Massachusetts Lottery" (2003) (**3%** to **8%** decline). See also State Representative Thomas P. Conroy, Report: "Preliminary Cost/Benefit Analysis of Three Destination Resort Casinos in Massachusetts" (2008); The Gaming Strategy Group, "The Impact of Casinos and Gaming Devices on the MA State Lottery" (1996)

⁷ The House estimated \$1.2 million GGR is about \$600 million below the \$1.8 million figure that has been mentioned in the Senate. Both estimates assume a substantial increase in the amount of gambling that is currently done by Massachusetts residents. See text at footnotes 14 through 17 below.

⁸ State House News Service, "Patrick Defends Expanded Gambling Push, Process" (9/30/2011)

⁹ Edward L. Glaeser, "To Avoid scandals, auction off casino licenses", www.bostonglobe.com/opinion (10/6/2011). See Massachusetts Taxpayers Ass'n "An Analysis of Property Tax Credits and Transportation Funding Under the Governor's Casino Proposal", pp. 4-5, 9 (2007) (concluding the estimates of generating \$1.5 billion in GGR "no small feat" and that it was "extremely unlikely" that the Governor's plan for casino gaming would generate the projected \$200 million for property tax relief (under the initial legislative plan that proposed a 27% tax rate on GGR and a 45% allocation to local aid)

¹⁰ UMass/Dartmouth Center for Policy Analysis, "New England Casino Gaming Update", Appendix A (2011)

¹¹ UMass/Dartmouth Center for Policy Analysis, "New England Casino Gaming Update", Appendix A (2011); Massachusetts Taxpayers Ass'n "An Analysis of Property Tax Credits and Transportation Funding Under the Governor's Casino Proposal", pp. 4-5, 9 (2007)

¹² The four casinos/racinos with the most slots/VLTs: (1) Foxwoods CT (6,964); (2) Mohegan Sun CT (6,405); Empire State Raceway NY (5,309) and Twin River RI (4,749)

¹³ UMass/Dartmouth Center for Policy Analysis, "Place Your Bet III: Who Gambles at New England Gaming Casinos and Racinos?", p.21 (September 2011)

¹⁴U.S.Census Bureau, 2010 Census, “ACS Demographic and Housing Estimates, <http://factfinder2.census.gov> & State & County QuickFacts, “People”, <http://quickfacts.census.gov> (visited 10/10/2011)

¹⁵ See Christina Brinkley, “Winner Take All”, p. 184 (2009); Dr. Has Breiter, Director MGH Motivational and Emotional Neuroscience Center, Testimony to Massachusetts Senate Committee on Economic Development and Emerging Technologies (6/2009); Bob Tita, “Casinos fined 800K for marketing to banned gamblers”, Chicago Business (5/19/2008);Natasha Shull, Testimony to Massachusetts House Committee on Economic Development (10/31/2007). See also MGM Resorts International, 2010 Annual Statement, Consolidated Statements of Operations, p. 32 (owner/operator of 15 casinos paid \$633 million in promotional allowances in 2010)

¹⁶ S2015, Section 16 [Ch.23K, §§2, 26, 27, 28, 29, 33].

¹⁷A slight change in the payout rate can have a material impact in attracting business. See Richard N. Velotta, “Marketers: Reduce slot hold to attract more customers”, Las Vegas Sun (7/31/2009); David G. Schwartz, “Seeking Value or Entertainment? The Evolution of Nevada Slot Hold, 1992-2009”, University of Nevada Las Vegas (2010)

¹⁸ S2015, Section 16 [Ch.23K, §15]

¹⁹ For the numerous provisions describing the numerous social and economic risks to “host” and “surrounding communities” that are anticipated in the legislation, see S.2015, Section 10, Section 16 [Ch.23K, §§ 1, 2, 9, 15, 17, 18, 37 through 47, 51 through 54, 58, 68 & 71]; Section 47 [Ch.267A (newly created crime of “Money Laundering”)]; Section 66 [Ch.271A (newly created crime of “Enterprise Crime”)]