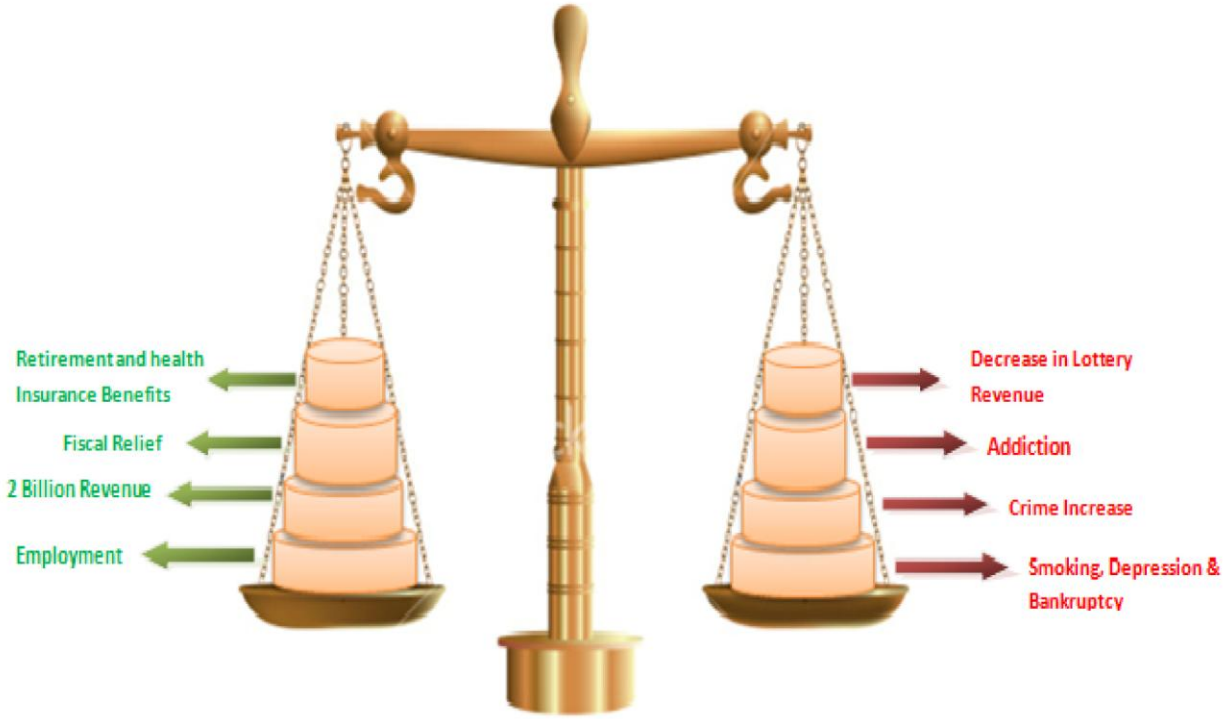
Dice or No Dice: The Casino Debate in Massachusetts

University of Massachusetts Boston, College of Management
Financial Services Forum

Spring 2011 Report



UMASS BOSTON COLLEGE OF Management
Financial Services Forum

Welcome to the UMASS – Boston, College of Management, Financial Services Forum's 2011 Report on the casino debate in Massachusetts.

The debate on casinos has intensified over the last few years. Governor Deval Patrick tried to get approval for three casinos back in September 2008, which was rejected by the then Speaker Salvatore Dimasi. However, two years ago, the Governor stood in the way of casinos by vetoing the bill passed by the House and the Senate.

With the economy still recovering from the aftermath of the "Great Recession", there are talks about job creation and consumer spending all over Massachusetts. Currently, the three most critical players in the government of Massachusetts - Governor Deval Patrick, House Speaker Robert DeLeo, and Senate President Therese Murray are in favor resort casinos. But, the debate is still burning hot. Proponents argue that Massachusetts resort casinos will create jobs and help local businesses, and will not increase crime or cause gaming addiction. Opponents caution that casinos in Massachusetts would bring a risk of organized crime and create a potentially expensive state law enforcement obligation that could reduce any new state revenue from slots and casinos.

In this report the Forum examines various issues related to the casino debate. Read and you decide!

The Financial Services Forum is a source of current information and commentary about critical issues facing the industry in Boston and at the national level, as well as the health of financial services in general. Please visit the Forum's website (www.management.umb.edu/businesscenter/financial_forum.php) for more information.

- Director of the Forum: Arindam Bandopadhyaya, Professor of Finance and Chair of the Department of Accounting and Finance at UMB.
- Research Associates: Amy Shuai Wang, PhD student at Temple University in Philadelphia and Professors Atreya Chakraborty and James Grant at UMB.
- Research Assistants: Sung-Il Jung, Rammaharaj Sundareswaran, Diane Tran and Brande Si Peng.

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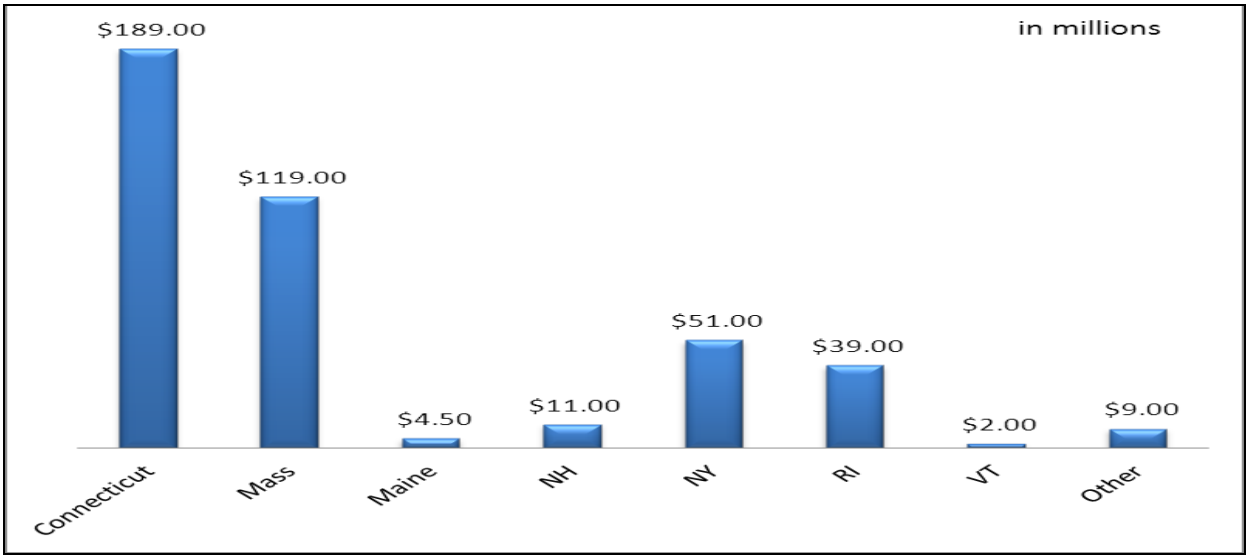
A Brief History of the Casino Debate in Massachusetts

The casino debate in Massachusetts has been a burning issue for decades. It started back in 1978 when campaign staffs for Jim Williams and Claude Kirk, two gubernatorial candidates, engaged in verbal jousting prior to a scheduled debate on the casino issue. Then in 1992, the Las Vegas casino giant, MGM, contemplated but ultimately decided not to build a casino in Massachusetts. By 1994, casino gambling, in the minds of many, seemed to be not nearly the state revenue generator it once promised to be. However, in 2002, several amendments were filed that reignited the debate. Senator Steven Panagiotakos, D-Lowell, cosponsored an amendment that would allow the state to enter into an agreement with the Wampanoag Indian Tribe for one casino in southeastern Massachusetts. The debate continued through 2003, when the senate rejected a proposal for slot machines thus pulling the plug on the issue.

In September 2008, Governor Deval Patrick proposed licensing three casinos across Massachusetts to generate state funds and jobs and to keep "at home" some of the spending that has found its way to the neighboring state of Connecticut [**Figure 1**]. The proposal projected job creation of 20,000 and 2 billion dollars in economic activity. But Speaker Salvatore Dimasi rejected the proposal stating that the figures, lacking substantial evidence, were over estimated.

Figure 1. Spending by States in Connecticut Casino



Source: George Patisteas and Sean . Murphy/Globe Staff;Globe File,Istock Photos

On April 1, 2010, the new speaker, Mr. DeLeo, introduced legislation to expand gambling in Massachusetts which was passed by the full House. The DeLeo Bill would authorize two resorts and up to 750 slot machines at each of Massachusetts' four pari-mutuel wagering tracks—one thoroughbred horse racing track, one harness racing track and two former Greyhound racing facilities. DeLeo estimated that the legislation would provide 15,000 permanent jobs for Massachusetts residents. Nevertheless, Governor Patrick was against it as he was against the concept of "Racinos" and believed they do not have a large impact on the economy.

The debate intensified to new levels in 2010. Local pro-casino legislators have suggested casinos in Palmer and Holyoke. Many players have shown interest - The Mohegan Sun, which operates a casino in Connecticut, is proposing a casino resort for Palmer while a group called Paper City Development unveiled a casino plan for the Wyckoff Country in Holyoke. Mr. DeLeo has promised to bring an end to this debate in 2011 and Governor Patrick is still for the bill as long as no more than one track is associated with the slots and certain other conditions are considered. For now, all chatter is centered on the number of slot locations and the impact the casinos will have on the economy as a whole – either good or bad. [**Table 1 in Appendix**]

What Happened Elsewhere: Connecticut as a Benchmark

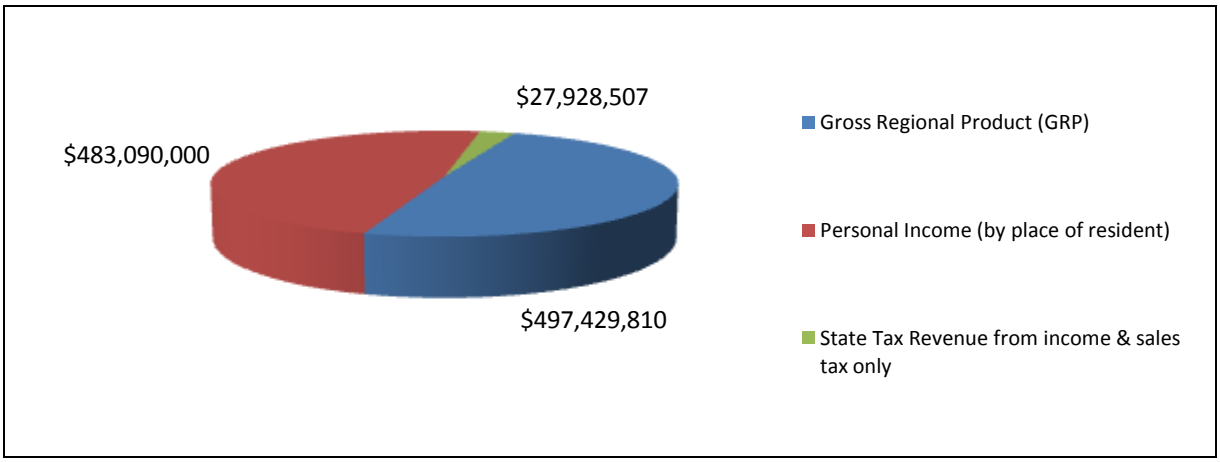
To investigate the social and economic impacts of the legalization of the gambling business, it is useful to consider casinos in Connecticut as a benchmark. If Massachusetts legalizes gambling and builds its casinos, Connecticut and New York will be the closest competitors.

Economic effects in Connecticut

Foxwoods and Mohegan were opened in 1992 and 1996 respectively. The two casinos grew rapidly over the years and are now among the most successful in the world. In fact, Mohegan and Foxwoods have made great contributions to the economic and fiscal growth of Connecticut. Together, they have created more than 32,000 jobs through the construction processes of casinos and within the casinos operations. Greater workforces in the gambling and related businesses have stimulated local consumption. Growth of tourism due to the presence of casinos has also benefitted the local hotels and restaurants. Meanwhile, Foxwoods and Mohegan Sun generate

revenue for state and local government via direct taxes and indirect payment from the casino's sales and income. Furthermore, the casinos frequently donate millions of dollars to nonprofit organizations and charities. The charts below show the combined economic and fiscal impact of Foxwoods and Mohegan Sun:

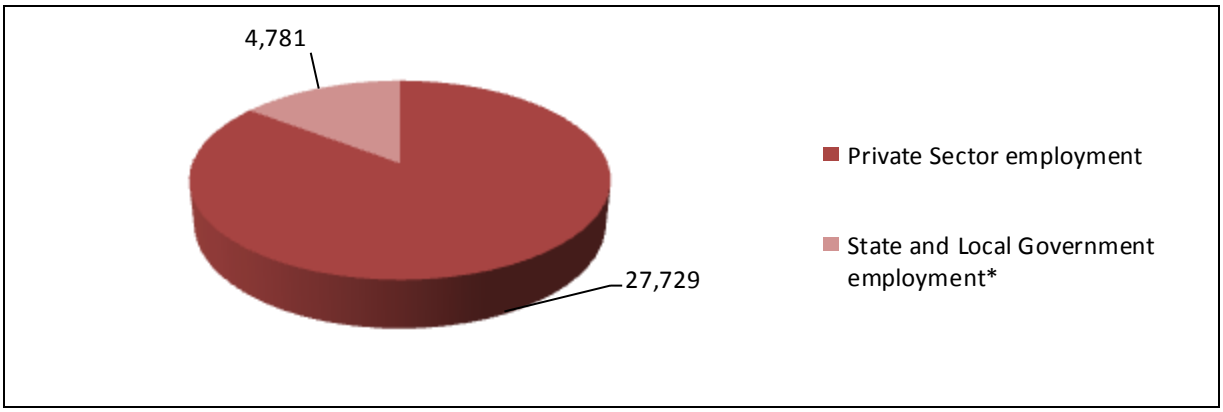
Figure 2: Construction Impact for Mohegan Sun and Foxwoods



Source: Spectrum Research

The construction of Foxwoods and Mohegan Sun generated around $498 million over 2007 and 2008. It also generated $ 483 million in personal income by Connecticut residents. In the same period, the state tax revenue from income & sales tax only, reached $28 million.

Figure 3: Economic Impact of Operations from Foxwoods and Mohegan Sun in 2007



*Includes municipal government employees throughout the state along with all state employees. The REMI model calculations are based on inputs of state and local government spending resulting from tax revenue generated at the casinos. The model does not differentiate between full- and part-time jobs. Only public-sector jobs are included in this category. Source: Spectrum Research

In 2007, Foxwoods and Mohegan Sun generated 32,510 direct, indirect and induced jobs. Among the jobs created, 27,729 are in the state and local government sector and 4,781 are in private sector.

Indeed, over the years, the two casinos contributed $416.7 million in revenue to the state and $139.8 million to the local government [**Table 2 in Appendix**], and created an estimated total of $340 million payroll for their employees [**Table 3 in Appendix**]. The data for Connecticut suggest that there could be future positive economic effect of casino building in Massachusetts.

Social impacts in Connecticut

Pathological gambling is an important social problem that impacts both individual and family. For instance, an addicted gambler may spend time away from work in the casino. This results in the loss of productivity and financial income. Gamblers may also have higher tendency to commit criminal acts in order to finance their debt payment. "In Connecticut alone, there was significant increase of embezzlement from 43 in 1992, the year the first casino opened, to 214 in 2007. The increase is nearly 10 times that of the national average."[1]

According to a study of family and problem gambling, "Lorenz and Yaffee found that 50% of the respondents indicated that their spouses lost interest in sex during periods of heavy gambling."[1] Meanwhile, a survey conducted by Spectrum indicated that 52% of the gamblers experienced periods of depression. All these factors may affect the family, resulting in increase of divorce, bankruptcy, and criminal activities.

What could potentially happen in Massachusetts?

As the casino debate continues in Massachusetts, it is not only important to keep the Connecticut experience in mind but also the benefits and costs of casino construction in Massachusetts need to be carefully weighed against each other.

Benefits from the presence of Casinos in Massachusetts

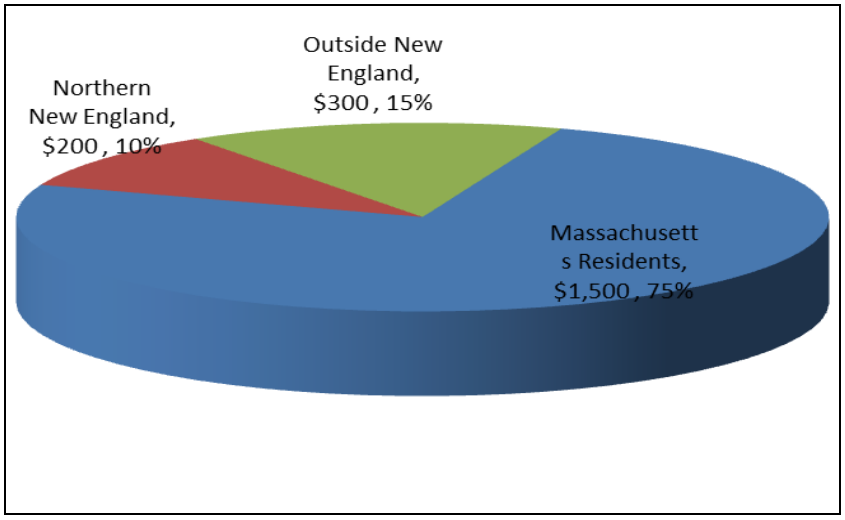
- *Revenues*

Revenues reported by the casino industry are typically reported in terms of gross gaming revenues (GGR):

GGR = TOTAL AMOUNT WAGERED – TOTAL WINNINGS PAID OUT.

According to a study commissioned by the Greater Boson Chamber of Commerce there will be between 2.0 and 2.3 billion dollars of GGR. The study also conservatively estimates that $500 to $550 million of this total will be derived from out-of-state patrons. The outside-New-England patrons include international travelers as well. [2]

Figure 4: Massachusetts Casino Gross Gaming Revenue Estimates (in millions of dollars)



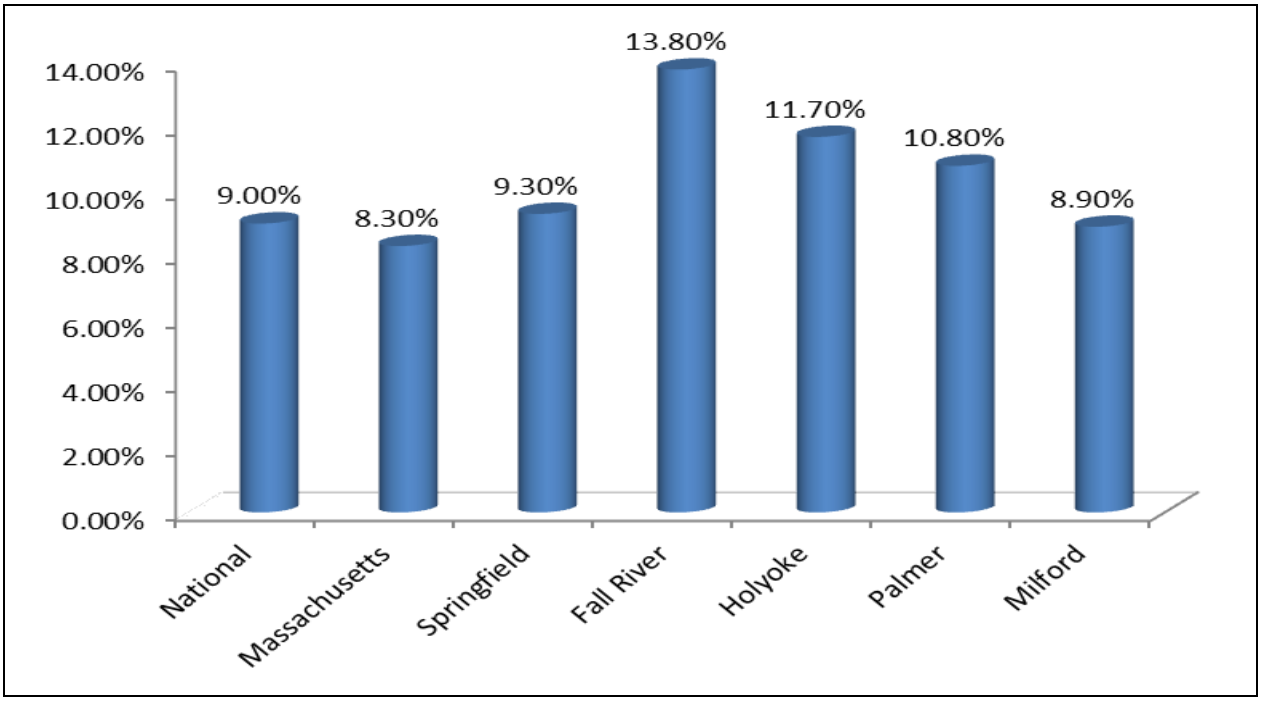
Source: Casino Gaming in Massachusetts: An Economic, Fiscal & Social Analysis

According to the study, Massachusetts residents frequently visit casinos out of state. Currently, 31% of Massachusetts residents report engaging in gambling activities and spend an estimate of $1.1 billion in Connecticut and Rhodes Island. The proportion of state residents that reported they had engaged in casino gaming in the past twelve months was the same as that of residents of states that already has legalized casino gaming. The number of casino trips reported by Massachusetts residents was two-thirds as high as the states with legalized casino gaming. Given the large proportion of state residents that already patronize casinos out of state, the amount of revenues that can be recaptured is potentially large, perhaps upwards of one billion dollars. [3]

- *Job Creation*

In January 2011, 13.8% of Fall River City's residents were unemployed, followed by 11.7% in Holyoke and 10.8% in Palmer.[**Figure 5**] Legalizing casinos will probably help create jobs in these areas. Indeed, overall 20,000 jobs, including a minimum of 15,000 permanent jobs, are expected to be created in Massachusetts.

Figure 5: Unemployment Rate of Casino Potential Locations



Sources: US. Census Bureau

- *Construction Labor*

Additionally, the projected total labor requirement for the initial construction is between 30,100 and 34,400 worker-years of labor. The lower and upper ends of the range are derived from different assumptions concerning the amount of labor used relative to the cost of construction. Dividing labor requirements measured in worker-years by a three year construction period results in an estimate of 10,000 to 11,500 construction jobs during development. The estimates are based on construction costs of approximately $4.3 billion and do not include additional jobs that would be created in the transportation sector or in the building material industry.

- *Casinos' Internal Labor*

Overall, casino workers in Massachusetts could be expected to earn an average of $36,000 to $44,000 per year, with considerable variation between job categories and level of responsibility.

Few positions in the gaming industry require advanced training beyond a high school diploma or GED, which may particularly help alleviate unemployment in cities and towns with a high unemployment rate among persons with only a high school diploma or less.

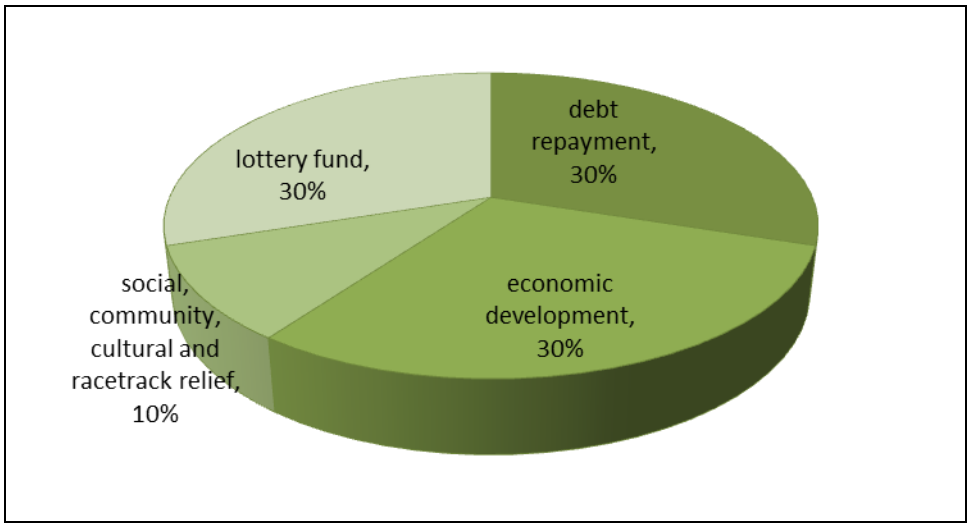
- *Quality of Life Improvement*

In addition to the increase of consumption power, casino workers generally receive benefits, including health insurance. Historically, casinos provide their employees with significant health insurance and retirement benefits: 83 percent of unionized casino workers have healthcare coverage - 10 times the national average - as do 63 percent of all casino workers, most of whom are low skilled hourly workers. This will reduce the burden for Massachusetts spending on MassHealth insurance, which is currently $8.5 billion. [4]

- *Fiscal Reliefs*

According to Governor Deval Patrick, $355 million in additional state revenues would be directed toward rebuilding the state's crumbling roads and bridges and providing property tax relief for beleaguered homeowners in 351 cities and towns of the State. Clearly, there will be a dramatically reduced need to rely on property taxes as the major generator of local revenue.
If the Senate measure became law, 90 percent of the revenue would be divided equally for three purposes: debt repayment, economic development, and lottery funding. [**Figure 6**] The remaining 10 percent would be used "for social, community, cultural and racetrack relief".

Figure 6: Projected Revenues Distribution



Sources: Casino Gaming in Massachusetts: An Economic, Fiscal & Social Analysis

Cost from Casinos: Positive or Negative Impacts?

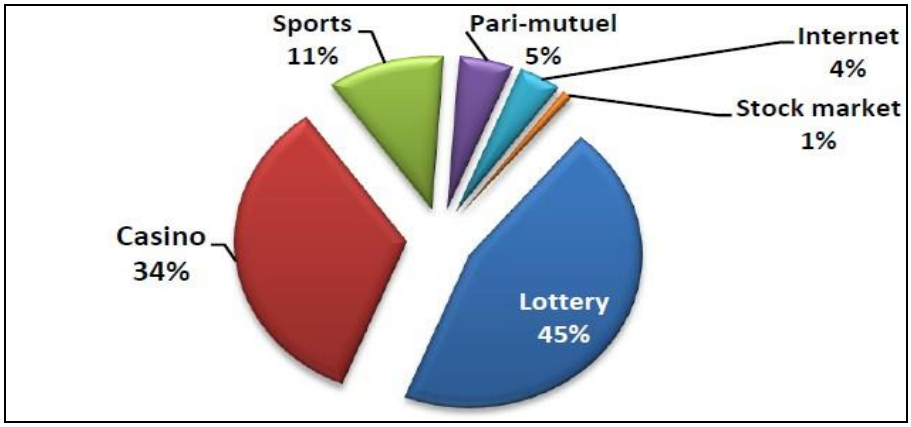
The negative effects of casinos will be critical and continuous, particularly in the long-term perspective, even though they are not clearly visible or hard to measure in monetary value. Potential or hidden costs of building casinos to the communities of Massachusetts would include increased crime, addiction, bankruptcies, foreclosures, traffic, harm to local businesses, additional burdens on local governments, decreases in lottery aid disbursement, negative impacts to the environment and infrastructure, and stresses on families.

- Social costs

If casinos are legalized in Massachusetts, there may be an increase in crime rate in the near future. A study found that crime rates did not increase when a casino first opened but started to rise slowly during the first year of operation. Then the crime rates increased more quickly than before the casino was built. After the fifth year of a casinos' operation, robberies increased by 136%, and aggravated assaults (91%), auto theft (78%), burglary (50%), larceny (38%), and rape (21%) also climbed, [5] If we take a look at the trend line of casino crime cost from 1977-1996, it is not hard to find that the crime rates increased dramatically in the last ten years due to the expanding of casino. [**Figure 1 in Appendix**]

Expanding gambling may cause increased gambling addiction. More seriously, gambling addiction affects many other costly behaviors, including smoking, suicide, depression, domestic violence, child neglect, bankruptcy, traumatic stress and crime. Proponents of casinos think that gambling addiction is an unfortunate, insignificant but manageable problem. In addition, most of problem gamblers do not admit or are not aware that they are addicted to gambling. However, according to the National Gambling Impact Study Commission, about one third of active gamblers have some level of mild, moderate to severe problem. About 50% of people with gambling problems are estimated to also have drinking problems. In Massachusetts, more than one third of calls for help were from people who have trouble with gambling, even though there was no casino in the state in 2007 [**Figure 7**].

Figure 7: Why People Called MA Council on Compulsive Gambling Helpline



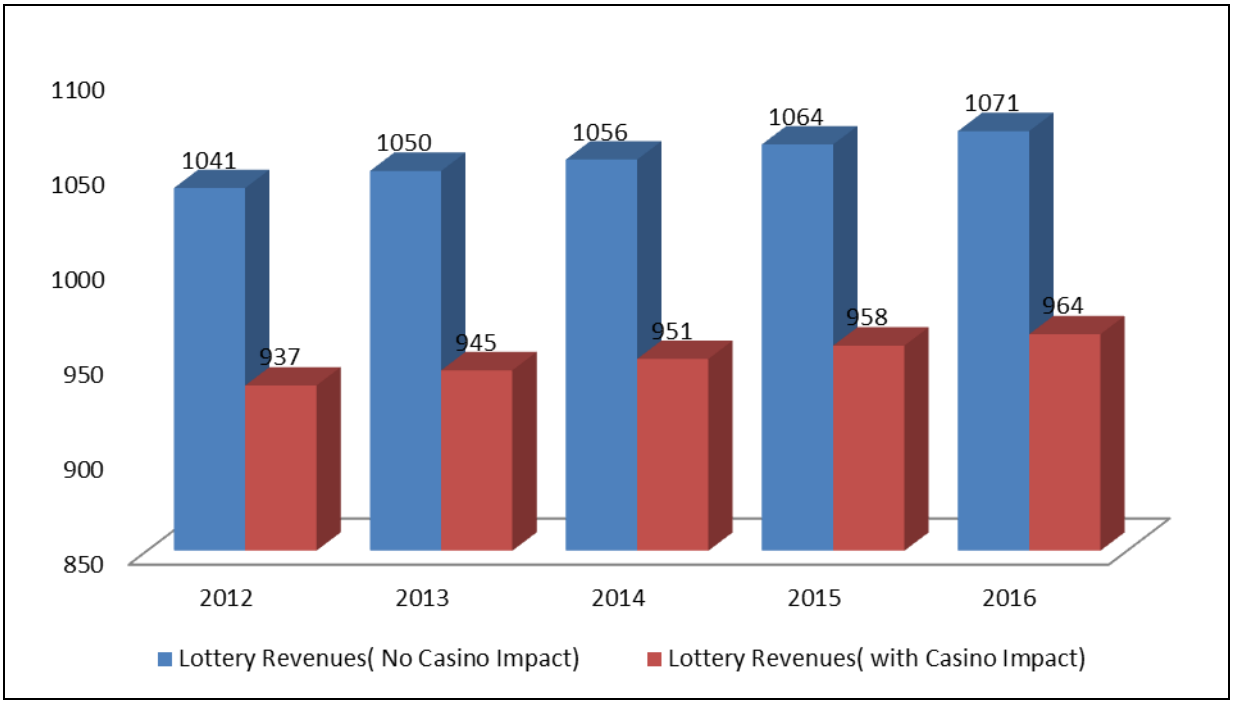
Source: Gambling in Connecticut: Analyzing the economic and social impact

- Economic costs

Revenues from the lottery are an important source of revenue for the state and local governments. Revenues from the lottery are transferred to towns and cities through state general funds. Greater Boston Chamber of Commerce estimated that the lottery revenue would decrease by 10% or $100 million from launching casinos and slots.

Casinos could be harmful to local business in Massachusetts rather than helpful. When money is spent at casinos and is not spent on movies, local restaurants, and home improvement, the local economy will certainly suffer. Professor Earl L. Grinols said in his book 'Gambling in America Costs & Benefits' that local business up to 30 miles away from casinos made a loss of $243 per $1,000 increased in casino revenue. [**Figure 8**] Indeed, Casino customers do not spend their money at businesses outside gambling establishments. Casino buildings are all-inclusive, have no windows or clocks, and provide for the customer's every need including food, beverages and ATM machines. Besides that, based on the historical data, we can easily realize that the individual bankruptcy rates are higher in open-casino county than no casino county. [**Figure 2 in Appendix**]

Figure 8: Reduction in Projected Lottery Revenues (amounts in millions)



Source: Casino Gaming in Massachusetts: An Economic, Fiscal & Social Analysis

Some people want to go to and like casinos, but few people want to live near casinos. Similarly, many people want to see casinos and enjoy their benefits, but they do not want to deal with the associated costs. Thus, the negative impact of casinos might be much bigger than what we would expect.

APPENDIX

Table 1: Time Line

Year	Event
1978	- Two candidates for governor sharpened their wits for a scheduled debate on the casino gambling issue
1992	- MGM looks to build a casino in Mass
1994	- The Mohegan Tribe of Montville won federal recognition, meaning it too can open a casino. - Massachusetts plans to allow a non-Indian casino in the western part of the state
1999	- House Speaker Thomas Finneran yesterday held open the Legislature's door to renewed debate over casino gambling
2002	- Sen. Steven Panagiotakos cosponsors an amendment allowing the state to set up a casino in Southern Massachusetts
2003	- The senate rejects the proposal
2008	- Governor Deval Patrick proposes licensing three casinos - Speaker Salvatore Dimasi rejects the proposal
2010	- DeLeo introduces legislation to expand gambling in Massachusetts - Governor Deval Patrick vetoes the bill
2011	- The Mohegan Sun and Paper City Development unveils casino plan. - Palmer and Holyoke emerges as potential locations - Speaker DeLeo has promised to bring an end to this debate in 2011

Table 2: Operational Impact for Foxwoods and Mohegan Sun 2007

Tax / Fee	Revenue to State	Revenue to Local Govt.	Total Revenue to Govt.
DIRECT			
Slot revenue contribution	$339,553,712	$90,922,000	$430,475,712
Regulatory Levy	$9,964,629		$9,964,629
Personal Income tax (Direct)	$31,217,846		$31,217,846
Local Property Tax		$48,850,000	
TOTAL DIRECT	$380,736,187	$139,772,000	$520,508,187
INDIRECT AND INDUCED			
Personal Income tax (indirect & induced)	$22,633,633		$22,633,633
Sales tax (indirect & induced)	$13,306,921		$13,306,921
TOTAL INDIRECT & INDUCED	$35,940,554	$0	$35,940,554
TOTAL DIRECT, INDIRECT & INDUCED	$416,676,742	$139,772,000	$556,448,742

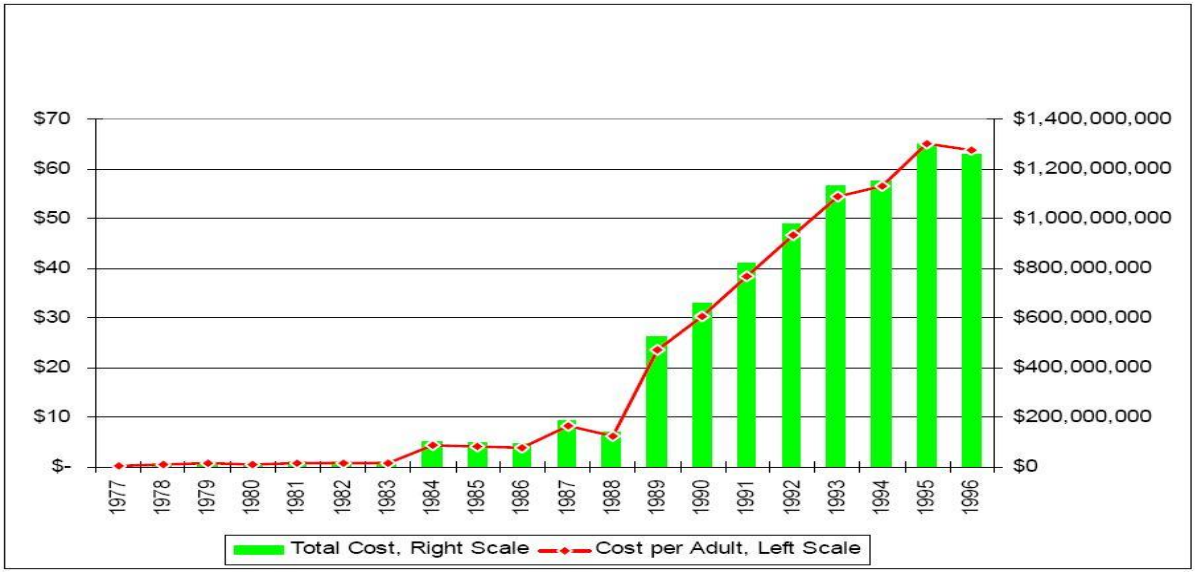
Source: Spectrum research

Table3: Direct Casino Employment and Wages in 2007

	Foxwoods	**Mohegan Sun**
Employees	10,137	10,810
Average wage	$33,232	$33,012
Total payroll	$336,872,324	$356,857,585

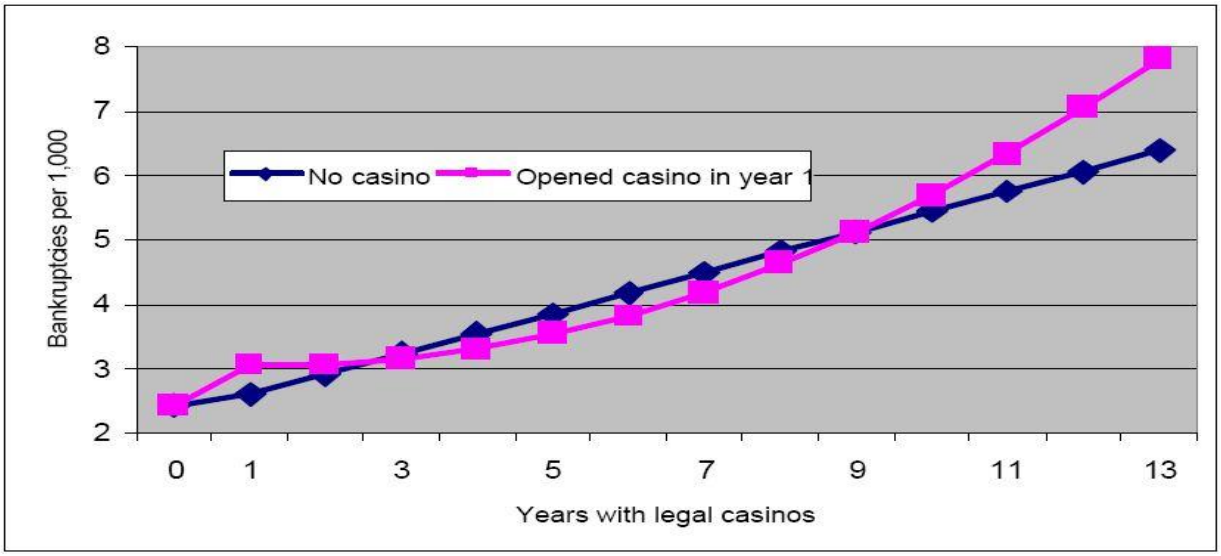
Source: Gambling in Connecticut: Analyzing the economic and social impact

Figure 1: Casino Crime Costs: 1977-1996



Source: Measuring Industry Externalities: The Curious Case of Casinos and Crime

Figure 2: Estimated individual bankruptcy rates-casino vs. Non-casino County



Source: The Impact of Casino Gambling On Individual Bankruptcy Rates from 1990 to 2002

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