

**Rolling the Dice:
The Economic Reality of
Expanded Gambling in the Commonwealth.**

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Introduction

Last fall the State Senate engrossed legislation authorizing the installation of 2,000 slot machines at each of the Commonwealth's four commercial pari-mutuel facilities.¹ Proponents claim that this legislation will generate hundreds of millions of dollars in tax revenue while also acting as a panacea for the moribund pari-mutuel industry. This argument, however, is as aged as it is misplaced. The issue of expanded gambling in the Commonwealth has been debated for well over a decade. Today, proponents argue that slot machines are needed to save the pari-mutuel industry, increase state revenues, and to recapture all the revenue being spent by Massachusetts residents at out-of-state gaming venues. In fact, the only changes since the last time the House soundly defeated a similar initiative have been the ambitious revenue projections of proponents and the precarious financial standing of the pari-mutuel industry.

Despite the unbridled optimism of proponents the unfortunate reality is that revenue projections in the hundreds of millions of dollars are grossly exaggerated. In fact, all of the estimates relied on by proponents are mere suppositions. There has not been one single, significant, independent cost-benefit analysis conducted to determine the actual impact casinos would have on the Massachusetts economy. Moreover, the contention that slot machines will save the pari-mutuel industry and recapture those residents patronizing out-of-state gaming venues is simply erroneous. The reality is that the installation of slot machines at pari-mutuel facilities in other states has done little to reverse the decline in revenues at those facilities. As for recapturing residents patronizing out-of-state gaming venues, the odds, if you'll pardon the pun, of Massachusetts pari-mutuel facilities seriously competing with destination resorts such as Foxwoods and Mohegan Sun are remote.

Now while proponents have been quick to extol the virtues of expanded gambling, they have been far less willing to discuss the inherent costs. As an economic policy the potential impact of expanded gambling can, at best, be described as detrimental to the economic well being of the Commonwealth. Even studies relied on by proponents conclude that slot machines will not generate a significant amount of "new" revenue for the Commonwealth, but rather will "cause meaningful disruptions in existing patterns of consumer spending."² Moreover, proponents minimize the impact of slot machines on the Lottery and upon the legal, political and social culture of the Commonwealth.

As the pages that follow will demonstrate, the reality is that proponents of slot machines have grossly overestimated their revenue generation capabilities and critically misjudged their negative economic impacts.

¹ See Senate Bill 2227.

² See *Analysis and Recommendations for the Massachusetts Lottery*, Christian Capital Advisors, LLC, January 18, 2006.

1. Saving the Declining Pari-Mutuel Industry

Regrettably, the pari-mutuel industry does not hold the same allure for people today that it once did. At one time horseracing was a preeminent sport, with thoroughbreds such as Seabiscuit and Seattle Slew being household names. Today, in what has been called the decade of velocity, people demand an instant gratification that racetracks, by their very nature, are unable to provide. The unfortunate economic reality is that the pari-mutuel racing industry in the Commonwealth, and across the county, is in a state of continual decline. In fact, despite numerous concessions made by the Legislature to stabilize the industry, the live handle (the amount of money bet on live races) at the Commonwealth's four pari-mutuel facilities is declining at average rate of 13% annually. This decline can be attributed to any number of factors from the ubiquity of internet gambling to the lure of out-of-state casinos. Regardless of the reason for the decline, however, the immutable facts are that the decline has been precipitous and unrelenting.

Proponents of authorizing slot machines at the state's four pari-mutuel facilities have framed the debate as being about preserving the venerable racing industry and the jobs associated with it, but the owners themselves are poised to be the only clear-cut winners/beneficiaries. In fact, this statement is consistent with both the reality of what has occurred in other states which have authorized slot machines in an effort to salvage their respective pari-mutuel industries, and with the opinions of two of the industry's most preeminent authorities, Churchill Downs CEO Tim Meeks and Magna CEO Frank Stronach. Both have publicly acknowledged that slot machines are not the long term solution to sustaining the moribund pari-mutuel industry in the United States.³ The unfortunate reality for the racing industry is that Mr. Meeks' and Mr. Stronach's statements have proven accurate. In state after state that has authorized slot machines at pari-mutuel facilities in an effort to rescue the industry, the attempt at saving the industry has failed, and the only clear-cut winners/beneficiaries have been the owners. Let us take a look at experiences of some of these states.

In 1994, the State of Iowa authorized the installation of slot machines at its pari-mutuel facilities in an attempt to shore up the industry.⁴ Despite this, the live handle at the state's pari-mutuel facilities has continued to decline sharply. Let's examine the figures from two of the state's facilities, the Bluffs Run Track and the Dubuque Greyhound Park and Casino. In 1993, the year before slot machines were authorized, the total live handle for Bluffs Run was \$42,000,000.⁵ In 2004 (the latest year for which statistics are available), the total live handle at Bluffs Run plunged to \$6,200,000⁶--a decline of over 80%. The live handle statistics from the Dubuque Greyhound Park and

³ See The Thoroughbred Times, April 17, 2004 and December 7, 2004.

⁴ See www.iowa.gov/irgc

⁵ It was \$42,080,047. See www.iowa.gov/irgc

⁶ It was \$6,206,325. Id.

Casino are equally discouraging. In 1993 the total live handle was \$7,400,000.⁷ In 2004, the total live handle plunged to \$2,480,000⁸--a decline of over 70%.

The experience of the state of Rhode Island is strikingly similar to that of Iowa. In 1992, Rhode Island authorized the installation video lottery terminals at its only pari-mutuel facility, Lincoln Downs, in an attempt to shore up the industry. Despite this the live handle at the facility has continued to decline sharply. In 1988, four years before video lottery terminals were authorized, the total live handle at Lincoln Downs was \$162,000,000. In 2000, the total live handle plummeted to \$32,400,000—a decline of over 80%.⁹ The decline has been so precipitous since the introduction of video lottery terminals that the video lottery terminals have been called “the top dog” at Lincoln Downs while live dog racing has been dubbed “largely an afterthought.”¹⁰ Moreover, when Rhode Island authorized slot machines at its pari-mutuel facilities, it required that 10% of slot revenues be earmarked for live purses. By 2005, however, that percentage was reduced by nearly 2/3 to 3.4% (further evidence that, contrary to the track owners’ contention, this debate isn’t about the workers).

Finally, let’s examine the situation in the state of New York. In 2001 the State of New York authorized slot machines at its pari-mutuel facilities. Despite this, in December of 2005 the state was forced to provide a \$30,000,000 bailout to the New York State Racing Association (the private organization which operates several of the state’s pari-mutuel facilities) in an effort to avert a threatened bankruptcy filing by the group.¹¹

In the face of the incontrovertible evidence that slot machines will not save the pari-mutuel industry in the Commonwealth, proponents of expanded gambling continue to argue that we as policy makers have an obligation to preserve this venerable industry. I would argue that this contention is grossly misplaced for two reasons.

First, one must question what the underlying public policy objective is that we are seeking to accomplish by artificially sustaining a moribund industry. In other words, what is the political justification for adopting a public policy favorable only to the four pari-mutuel facilities? The justification provided by the proponents essentially boils down to two reasons: tax revenues and jobs. From a state revenue perspective, the reality is that the Commonwealth does not collect any industry specific taxes from the operation of the pari-mutuel industry. This is because in 2001, in yet another attempt to preserve the industry, the Legislature enacted legislation which invested all the industry specific taxes collected by the Commonwealth (i.e., the pari-mutuel tax) into the purse accounts at the four facilities.¹² Thus, the Commonwealth does not collect one penny in tax revenue from

⁷ It was \$7,398,008. *Id.*

⁸ It was \$2,485,311. *Id.*

⁹ See *Winner’s Circle: Greyhound Betting Plummet, But Dog Owners Get Millions From Video-Slot Law*, *The Providence Sunday Journal*, March 19, 2000, page 1.

¹⁰ *Id.*

¹¹ See *New York, NYRA Agree to \$30-Million Bailout Package*, *Thoroughbred Times.com*, December 30, 2005.

¹² See generally Chapter 139 of the Acts of 2001.

the pari-mutuel industry.¹³ Now, from an employment perspective, the reality is that not only have the proponents grossly overstated the number of jobs associated with the pari-mutuel industry, nobody has seriously argued that there is any potential for future job growth in the industry. In fact, Suffolk Downs recently released figures showing that, between January 1 and September 24 of 2005, it employed 2,026 employees.¹⁴ Included in this list of employees, however, were 796 people (roughly 40%) who were classified as “owners.” In the vernacular of the pari-mutuel industry, the owners are those individuals who own the animals, i.e., in the case of Suffolk Downs those who own the thoroughbred race horses. To put this in the proper context, Suffolk Downs classifying owners as employees is analogous to the ABC Corporation classifying a shareholder as an employee simply because that person owns ABC corporate stock. Now in fairness Suffolk Downs does employ approximately 1,200 people, though, as is the case with the other three facilities, Suffolk Downs either cannot or will not provide information as to the circumstances surrounding these jobs. That is to say, we cannot ascertain how many of these jobs are full time vs. part time; seasonal vs. year round; and how many provide full benefits.¹⁵

Second, notwithstanding the argument above, the fact of the matter is that we as a Commonwealth have done everything within our power to sustain the pari-mutuel industry. We have authorized and expanded simulcasting, permitted account wagering, established capital expense and promotional trust funds, and, most recently, we have directed all the industry specific taxes we collect (i.e., the pari-mutuel tax) to bolster purses. Still, despite all these concessions, the pari-mutuel industry in the Commonwealth continues to decline at a rate of 13% annually. Moreover, it must be noted that from an employee protection perspective the facts belie the contention of the owners that their sole concern is their employees. Where was this magnanimity several weeks ago when the owners were threatening to shut down the industry and lay-off their employees (some on Christmas Eve) if they were not afforded additional operating concessions by the Commonwealth? Based on this demonstrated callous disregard for the well being of their workers it is reasonable to conclude that the owners’ priority isn’t as much protecting their employees as it is lining their own pockets.

The reality of the situation facing pari-mutuel facilities in the Commonwealth, a reality that is confirmed by the experience of other states, is that the industry is failing and that authorizing slot machines will do little to reverse this downward trend. So the question becomes, if the racing industry isn’t saved and the workers are not protected, why would we want to give the four pari-mutuel facilities a license to operate slot machines at the expense of our economic, legal and social culture in the Commonwealth?

¹³ The Commonwealth does, however, collect tax revenue in the form of employment taxes, corporate taxes, sales taxes, etc., but it does not collect any pari-mutuel industry specific taxes.

¹⁴ See The Lowell Sun, December 4, 2005.

¹⁵ According to the State Racing Commission, the other three facilities report the following numbers of employees: Raynham: 1,159; Plainridge: 953; and Wonderland: 416. The total employed by these 3 facilities is 2,528 people, but if you reduce that number by 40% (i.e., the amount of employees classified as “owners”) then the total number of actual employees drops to approximately 1,500. Thus, in total, the pari-mutuel industry employs (excluding owners) approximately 2,700 people in the Commonwealth.

2. Recapturing Gambling Dollars From Connecticut

In recent months much has been made of the number of Massachusetts residents who patronize Connecticut casinos. Proponents of expanded gambling often cite a need for Massachusetts to recapture these residents. At the forefront, let me just say that there is universal agreement that Massachusetts residents patronize Connecticut casinos. Where we find ourselves disagreeing, however, is on the issue of how many Massachusetts residents patronize these casinos and on whether slot machines at the state's four pari-mutuel facilities would recapture these individuals. The reality is that the number of Massachusetts residents patronizing Connecticut casinos is significantly lower than proponents claim and authorizing slot machines at the state's four pari-mutuel facilities would do little in terms of recapturing these gamblers.

Proponents rely primarily on a series of studies produced by Professor Clyde W. Barrow, the Director of the Center for Policy Analysis at the University of Massachusetts Dartmouth. In his most recent study,¹⁶ Mr. Barrow concludes that in 2004 Massachusetts residents spent approximately \$831,500,000 at Connecticut's two Native American casinos, thereby indirectly contributing an estimated \$116,600,000 to the Connecticut state treasury as a result.¹⁷ Moreover, he alleges that since Foxwoods and Mohegan Sun opened their doors in 1992 and 1996, respectively, residents of Massachusetts have lost a combined total of \$5.7 billion at the two resorts, thereby contributing a total of over \$1 billion in revenue to the State of Connecticut. I have two specific concerns with Mr. Barrow's conclusions. My first concern goes to both the source and interpretation of the data used to reach his conclusions, which at best is questionable. And my second concern is the fact that Mr. Barrow does not hypothesize on what percentage of Massachusetts residents currently gambling in Connecticut we could expect to recapture if we were to authorize slot machines at the state's four pari-mutuel facilities. I will address each concern individually.

Sources and Interpretation of the Data

The reality is that Mr. Barrow's conclusions are based more on his personal opinions than on an independent, scientific interpretation of a truly accurate set of data. The methods by which Mr. Barrow purports to study this issue are at best questionable. In fact, his main study relies on counting license plates in the parking lots of Connecticut's gaming facilities, then extrapolating that data to project a percentage of total patrons visiting the casinos and then further extrapolating that number to calculate the amount of money these patrons wagered at the casinos. In short, Mr. Barrow employs a methodology known as a "patron origin analysis." As I just said, this study relies on counting license plates in a parking lot as a means of estimating the total population of out-of-state casino visitors at a given facility. In essence, this protocol leads us to believe that by counting Massachusetts license plates in a parking lot we can ascertain how many Massachusetts citizens are gambling in Connecticut casinos, and, by further extrapolating those numbers, conclude how much money those Massachusetts residents are gambling

¹⁶ See Clyde W. Barrow, *New England Casino Gaming Update*, 2005.

¹⁷ It should be noted that the State of Connecticut collected a total of \$417,000,000 in revenue in 2004.

and losing in Connecticut. One need not be a social scientist to see that there are a number of concerns with this approach, in particular the validity of the data both as collected and consequently as applied, and the reality that the patron origin analysis is misleading and a questionable approach to analyzing patron origination. Consequently, we should look carefully at any set of data derived as a result of this approach as well as how that data is interpreted and applied before we take such a logical leap of faith.

In other patron origin analyses, the technique of counting license plates alone has proven to be unreliable when seeking to ascertain the number and origin of out-of-state visitors. For example, this method misses many of the out-of-state visitors who drive rental cars with both in-state and out-of-state license plates – and by Mr. Barrow’s own admission, this number may be as much as 3% of all the cars surveyed. Moreover, this number does not include those out-of-state patrons who use alternative means of transportation to and from the casino, and most importantly it does not count for those out of state patrons who may be at the facility, but not gambling (e.g., there for a non-gaming related activities). In addition, there are no safeguards to discount the repeat counting of the same license plates during the sample period. Finally, the sample size for the survey relied upon by Mr. Barrow is somewhat disconcerting. How can 9,000 cars counted in a parking lot over a 5 day period (which included a holiday weekend) be statistically representative of yearly averages for visitors at that location?

Academics agree that identifying visitor domicile is a major challenge in visitor surveys. Patron origin analyses which rely on counting license plates can only tell us the number of out-of-state vehicles in the parking lot at a given time, with the inherent weakness being an inability to track the exact number of people entering the facility. Therefore, in conjunction with a license plate count, conscientious researchers contemporaneously calculate the number of people per vehicle via the use of another survey known as a “patron intercept” survey. Simply put, this is interviewing people on their way in to or out of a location to find out where they are from, how much they wagered, how much they spent on non-gaming activities, etc. To control the data and match them positively, researchers utilize these survey methodologies in tandem over the same time period. Unfortunately, Mr. Barrow’s study does not employ this confirming methodology. Instead of performing the proper combined research, Mr. Barrow simply refers to his own previous license plate counting results from 1995 and 1999, and then attempts to corroborate these findings with a separate patron intercept study conducted independently by the University of Connecticut in 1999. This flawed, self-referential approach, purportedly corroborated by a separate study conducted at a different point in time and by different researchers, corrupts the results of the data at their core, thereby compounding the potential for error as more layers are built atop this failed foundation.

Mr. Barrow’s arguably flawed methodology leads him to conclude that 33% to 36% of Foxwood’s patrons and 21% of Mohegan Sun’s patrons are Massachusetts residents. As the source of Barrow’s preliminary data sets are in doubt (based on a combination of his inadequate patron origin analysis methodology and a lack of a simultaneous/corroborating patron intercept analysis), his estimation of 33% to 36% and 21%, respectively, is, at best, suspect. For example, Mr. Barrow’s study takes the license

plate percentages and applies them to the total annual slot machine “win,” which is reported to the State of Connecticut for revenue collection at a rate of 25%, to determine the amount of money that Massachusetts residents wager and lose, and thus indirectly contribute to the state of Connecticut.¹⁸ Second, he again applies the 36% and 21% figures, this time comparing them with data from other non-contemporaneous patron intercept surveys to determine the spending rates of Massachusetts patrons as the percentage of total spending at Foxwoods and Mohegan Sun. He then further extrapolates these spending rates to determine how much revenue Massachusetts gamblers contribute indirectly to the Connecticut treasury through both gaming and non-gaming related spending. All his calculations and findings, however, are predicated upon numbers derived from his flawed patron origin analysis, numbers which were not confirmed with a standard contemporaneous patron intercept analysis, thus seriously calling into question the reliability of his results.

At this point, I am compelled to point out two additional flaws in Mr. Barrow’s methodology and the corresponding data used to support his conclusions.

First, in estimating the amount of money gambled and lost by Massachusetts residents in Connecticut, Mr. Barrow simply applies his flawed attendance percentages for Foxwoods and Mohegan Sun (i.e., 33%-36% and 21%, respectively) to conclude what percentage of the annual tax collected by the state of Connecticut is attributable to Massachusetts residents. In other words, he concludes that 33%-36% of the tax revenue generated by Foxwoods and 21% of the tax revenue generated by Mohegan Sun come from Massachusetts residents. This logic is inherently flawed insofar as the tax revenues collected by the state of Connecticut are derived solely from a 25% tax on the adjusted net gaming revenue (ANGR) of the slot machines. Put another way, there is no state tax on any casino profits generated by table games, beano, etc. Consequently, to arrive at his estimate on how much Massachusetts residents are losing in Connecticut, Mr. Barrows makes one considerable assumption, and that is that every Massachusetts resident who enters Foxwoods or Mohegan Sun plays the slot machines. To make such an assumption is, at best, naïve and, at worst, disingenuous. In fact, without a socio-economic breakdown of patrons from Massachusetts we have no credible basis upon which to hypothesize what gambling activities these individuals pursue. Put another way, it is well understood in the gaming industry that those of a lower socio-economic class tend to patronize slot machines, while those of a higher socio-economic class tend to participate in more advanced, high stakes games of skill (i.e., table games). So, if a majority of the patrons from Massachusetts were from a higher socio-economic class (admittedly an assumption, albeit a reasonable one in light of the fact that Massachusetts residents require the financial wherewithal to get to Connecticut; alternatively, to put it in context, this is no worse of an assumption than Mr. Barrow assuming every patron from Massachusetts plays the slot machines) it would be belie Mr. Barrow’s revenue conclusions.

¹⁸ In the gaming industry, the “win” is known as the adjusted net gaming revenue (ANGR). The adjusted net gaming revenue (ANGR) is comprised of the proceeds remaining after the payment of prizes. On average 90% of the money wagered on slot machines is returned to the player in the form of prizes, while the remaining 10% comprises the ANGR. The ANGR is the amount of revenue subject to state taxation.

Second, and rather illustrative, is the fact that Mr. Barrow's own random telephone survey of Massachusetts residents concluded that only 19% of adults have gambled at Foxwoods in the last 12 months, while only 13% gambled at Mohegan Sun in the last 12 months.¹⁹ Moreover, a similar independent random telephone survey of 600 Massachusetts residents concluded that only 16% of those surveyed "often or sometimes visited a casino or gaming facility in nearby states" during the previous 12 months.²⁰ Now if we juxtapose these results with the results of Mr. Barrow's patron origin analysis (e.g., counting license plates in the parking lot), the validity of his conclusions that 33%-36% and 21% of the patrons at Foxwoods and Mohegan Sun, respectively, are Massachusetts residents is at best questionable. The fact is that Mr. Barrow's patron origin analysis was conducted over a period of 5 days, which included Easter weekend, and was not corroborated by a companion patron intercept analysis (as is the protocol). The results of the telephone surveys, however, asked respondents about their behavior over the preceding 12 months. Any results of a 5 day study conducted over a holiday weekend extrapolated to represent a full year's worth of activity are dubious at best, especially when these results conflict with multiple, long term, index surveys.

Regardless of where one stands on the issue of expanded gaming in the Commonwealth, when the facts are understood, any reasonable person will conclude that the sources and interpretation of the data Mr. Barrow uses to conclude that 33%-36% of Foxwoods patrons and 21% of Mohegan Sun patrons are from Massachusetts are, at best, inadequate and questionable and, at worst, irresponsible. Consequently, Mr. Barrow's conclusions are unreliable and arguably overestimated.

Recapturing Massachusetts Residents Who Patronize Connecticut Casinos

There is universal consensus that Massachusetts residents patronize casinos in Connecticut. There are, however, two points of disagreement. As discussed above, the first point is on exactly how many Massachusetts residents patronize Connecticut casinos. The second point of disagreement relates to what potential slot machines at the Commonwealth's four pari-mutuel facilities would have to recapture these residents. Mr. Barrow's study, while quite vocal on the statistics of how many Massachusetts residents patronize Connecticut casinos and how much money they lose, is conspicuously silent as it relates to how many of these patrons Massachusetts could expect to recapture if we authorize slot machines at the Commonwealth's four pari-mutuel facilities. Consequently, one has to assume that implicit in this silence is a belief that if we authorize slot machines at the state's four pari-mutuel facilities we will recapture a significant percentage of those Massachusetts residents traveling to Connecticut.²¹ Unfortunately, once again the facts belie Mr. Barrow's contention.

¹⁹ See Barrow, Clyde *New England Casino Update, 2004*, University of Massachusetts at Dartmouth.

²⁰ See generally, *Statewide Survey to Measure Public Awareness and Attitudes Toward Gambling Disorders* Massachusetts Council on Compulsive Gambling, Fall 2005. See also www.masscompulsivegambling.org

²¹ It should be noted that Mr. Barrow does concede that two full fledged casinos, one in western and one in southeastern Massachusetts, would "hit" Foxwoods the hardest. A tacit admission that slot machines at

One needs look no further than the statistics from the State of Rhode Island. In 1992, the state authorized video lottery terminals at its two pari-mutuel facilities. Despite this, they have been unable to significantly reduce the number of their residents patronizing Connecticut casinos. In fact, a 2003 survey of Rhode Island residents conducted by Harrah's Entertainment concluded that 88% of those residents who traveled to Connecticut prior to Rhode Island's authorization of video lottery terminals at their pari-mutuel facilities continue to do so today.²² Put another way, Rhode Island authorized video lottery terminals to recapture the gambling dollars being spent by Rhode Island residents in Connecticut and they were only successful at recapturing approximately 12% of those residents and more importantly their dollars.

In any discussion of recapturing gaming revenue, we must look at three factors which will have a significant impact on what percentage of Massachusetts residents who patronize Connecticut casinos we could expect to recapture by authorizing slot machines at the state's four pari-mutuel facilities. These factors are: the socio-economic status of the patron; the gambling preference of the patron; and the geographic location of the patron.

First, as discussed above, the socio-economic status of the Massachusetts residents patronizing Connecticut casinos is of significant import. To date, no independent reliable study has been conducted to ascertain the percentage of Massachusetts residents patronizing Connecticut casinos, let alone a socio-economic breakdown of these patrons. Socio-economic status is important because as previously discussed, it is common knowledge in the gaming industry that those of a lower socio-economic status favor slot machines, while those of a higher socio-economic status favor more advanced high stakes games of skill (i.e., table games). I think it is reasonable to hypothesize that a significant percentage of Massachusetts residents who patronize Connecticut's casinos are of a higher socio-economic status and are thus more likely to favor more advanced high stakes games of skill. This contention is supported by the fact that, on average, Massachusetts residents have a relatively high level of income, and also by the fact that Massachusetts residents who patronize Connecticut casinos must have the financial wherewithal to actually travel to Connecticut. Let's assume for the sake of argument that 50% of Massachusetts residents who patronize Connecticut's casinos are of a higher socio-economic status. Slot machines at the state's four pari-mutuel facilities will not recapture these people. People who patronize Connecticut's casinos to play high stakes games of skill such as poker, blackjack, roulette, craps, etc. will not summarily decide to patronize Wonderland Park or Suffolk Downs to play slot machines simply because they are closer to home. To make such a contention is analogous to saying that a vegetarian is going eat at a steak house simply because it is located closer to his home. Any sophisticated consumer is going to travel to wherever their product of choice is located, be it a high stakes game of skill or a vegetarian meal.

the pari-mutuel facilities would not be the best approach to recapturing Massachusetts residents patronizing Connecticut casinos.

²² See *The Woonsocket Call (RI)*, 10/1/03

Second, is the gambling preference of the patron. As discussed, universally agreed to statistics indicate that those of a higher socio-economic class generally prefer more advanced high stakes games of skill over slot machines. That being said, however, no one could credibly claim these groups are mutually exclusive. That is to say that some people of a lower socio-economic class undoubtedly prefer high stakes games of skill while some people of a higher socio-economic class undoubtedly prefer slot machines. On the surface, this would seem to be a double edged sword with each crossover group ostensibly negating the impact of the other. I would contend, however, that this is not the case. Anecdotal evidence could lead one to conclude that people of a lower socio-economic class are more likely to prefer advanced high stakes games of skill than vice versa. One need look no further than the overwhelming popularity (which transcends socio-economic classes) of high stakes poker such as the game known as Texas Hold ‘Em. People who are interested in this form of gambling will not choose to instead play slot machines at Plainridge Race Course or Raynham Taunton Greyhound Park. Consequently, a majority of those Massachusetts residents who patronize Connecticut casinos in order to engage in a certain activity will continue to do so even if we authorize slot machines at the Commonwealth’s four pari-mutuel facilities.

Finally, we need to consider the geographic area from which the patron comes. That is to say for a Massachusetts resident who lives anywhere outside Interstate 495, the geographic reality is that it would be easier to travel to Connecticut than it would be to travel to Boston, Revere, Raynham/Taunton or Plainville. Unfortunately, as there has been no independent reliable study conducted to ascertain the overall percentage of Massachusetts residents patronizing Connecticut casinos, it is impossible to identify these patrons by region. Most people familiar with the gaming industry would agree that approximately 80% of a casino’s patrons come from within a 35-50 mile radius of the casino.²³ Applying these statistics to the four pari-mutuel facilities in the Commonwealth would lead us to conclude that any resident of Massachusetts living west of Worcester would be more likely to continue to patronize Connecticut’s casinos instead of patronizing any of the pari-mutuel facilities, all of which are located in eastern Massachusetts.²⁴ This position is supported by the fact that if an individual could elect to drive one hour to Connecticut or over one hour through Boston, chances are very good that the driver will elect Connecticut. Moreover, when you factor in such intangibles as preference for a destination resort, comfort with the facility, existing bonus accounts at the facility, the superstitions of the gambler, and the fact that high rollers are less likely to want to gamble with their neighbors, it is reasonable to conclude that most Massachusetts residents who live outside a 50 mile radius of one of the four pari-mutuel facilities would continue to patronize Connecticut casinos.

The facts, as well as the socio-economic and geographic reality, belie the argument that simply authorizing slot machines at the state’s four pari-mutuel facilities

²³ See Gringols, Earl L. *Gambling in America, Costs and Benefits*, p.p. 55-92. See also www.ncalg.org.

²⁴ Again, it is worth noting that Mr. Barrow does concede that two full fledged casinos, one in western and one in southeastern Massachusetts, would “hit” Foxwoods the hardest. A tacit admission that slot machines at the four pari-mutuel facilities would not be the best approach to recapturing Massachusetts residents patronizing Connecticut casinos.

will recapture every Massachusetts resident who patronizes Connecticut casinos. In fact, the statistical and anecdotal evidence of other states leads us to conclude that it would be unlikely we could recover even a small percentage of those residents.

Conclusion.

As discussed, Mr. Barrow's study is predicated upon questionable data sources which he fails to independently corroborate. In fact, he utilizes a single scientific model (the patron origin analysis, i.e., counting license plates) to support his conclusions when reputable researchers would utilize that model only in conjunction with another scientific model (the patron intercept analysis), which provides a control for the research. His recklessness is then further compounded by the fact that, in an effort to corroborate his conclusions, he simply cites his earlier studies on the issue. In short, he is justifying his misplaced conclusions with his earlier misplaced conclusions. It goes without saying that this methodology is at best questionable and at worst irresponsible. Moreover, add to this the fact that Mr. Barrow's conclusions from his patron origin analysis are refuted by the conclusions of his own, as well as an independent, telephone survey of Massachusetts residents who patronize Connecticut casinos and his contention becomes even more untenable. The fact of the matter is that Massachusetts residents patronize Connecticut casinos. The irrefutable evidence, however, is that the number of Massachusetts residents doing so is significantly lower than what Mr. Barrow alleges based on his faulty data and, more importantly, the odds (if you'll pardon the pun) of slot machines at the four pari-mutuel facilities recapturing even a significant percentage of these residents are remote.

3. The Revenue and Economic Development Reality of Expanded Gambling

Proponents claim that authorizing slot machines at the Commonwealth's four pari-mutuel facilities will generate tax revenues for the Commonwealth in the hundreds of millions of dollars. In fact, they have consistently alleged that slot machines will generate net tax revenues ranging anywhere from \$411,000,000 up to \$690,000,000. To support these lofty figures, proponents rely primarily on two studies conducted by private research firms, one by Cummings Associates and another by Christian Capital Advisors, LLC. I will discuss each study individually.

*The Cummings Associates Study*²⁵

The study conducted by Cummings Associates concludes that by authorizing 1,500 slot machines at each of the four pari-mutuel facilities and taxing the ANGR at a rate of 50%, the Commonwealth will generate \$411,000,000 in net tax revenue.²⁶ To put this number in the proper context, in order for the Commonwealth to collect \$411,000,000 in net tax revenue, the adjusted net gaming revenue (ANGR)²⁷ would have to be \$822,000,000 and in order for the ANGR to be \$822,000,000, players would have to wager \$8,200,000,000 (yes, \$8.2 billion) annually on slot machines.²⁸ Unfortunately, when the Cummings study is deconstructed more questions than answers arise and it becomes apparent that this number is based more on hope than reality.

First, one must question the accuracy of a study extolling the virtues of slot machines when the cost of the study was underwritten entirely by a corporation which is poised to reap significant benefits if slot machines are authorized. In other words, one must question the objectivity of the Cummings study insofar as it was commissioned and paid for by Wonderland Greyhound Park. It goes without saying, but if we were to authorize slot machines at the Commonwealth's four pari-mutuel facilities, Wonderland Greyhound Park would be one of the primary beneficiaries of this policy—a fact clearly calling into question their ability to be impartial in any sort of analysis of the benefits of authorizing slot machines at the pari-mutuel facilities.

Second, while the figure of \$411,000,000 arrived at by the Cummings study is ostensibly based on an exhaustive analytical review of the potential slot machines have for creating a new source of state revenue, one must ask why the only document submitted to the committee was a PowerPoint presentation elucidating what were alleged to be the highlights of this exhaustive analysis.²⁹ The PowerPoint presentation is a

²⁵ See *Creating \$550,000,000 Million in New Tax Revenues and 4,000 New Jobs for the Commonwealth of Massachusetts*, Cummings Associates, September, 2005.

²⁶ *Id.*

²⁷ The ANGR is the amount remaining after the payment of prizes which is subject to state taxation.

²⁸ On average, 90% of the money wagered on slot machines is returned in the form of prizes with the remaining 10% representing the ANGR. So, if the ANGR is \$822,000,000 then players would have to gamble \$8,200,000,000 (i.e., the ANGR multiplied by 10).

²⁹ See *Creating \$550,000,000 Million in New Tax Revenues and 4,000 New Jobs for the Commonwealth of Massachusetts*, Cummings Associates, September 28, 2005. It is worth noting that this PowerPoint

magnificent tool for highlighting the conclusions of a study in a succinct fashion, but it conveniently does not permit the reader to critique the methodology used to reach these conclusions. In short, the document submitted to the committee, while long on conclusions, is short on elucidating the methodology used to reach these conclusions.

Finally, in reaching its revenue projection of \$411,000,000, the Cummings report relies on a “slot win per day ranging from \$177.00 to \$366.00 per day, per machine.”³⁰ To be perfectly truthful, I have no idea what this means or how it relates to what the Commonwealth would realize in the form of potential tax revenues. In other words, the slot “win per day” is presumably the amount returned to the player (which for slot machines is approximately 90% of what is wagered). As for how much the state collects in tax revenue, we are concerned solely with the so-called adjusted net gaming revenue (ANGR), which is the amount of money remaining after the payment of prizes which is subject to taxation by the state. To put this in context, if \$100.00 was wagered on a slot machine in any given day, \$90.00 would be returned to the player in the form of prizes, leaving \$10.00 in adjusted net gaming revenue (ANGR). If the state were to tax the ANGR at 50%, the tax revenue collected would be \$5.00 per \$100.00 wagered. Now, according to an independent study of the six states that have authorized slot machines at their respective pari-mutuel facilities,³¹ the average ANGR is \$232.00 per machine, per day.³² Based on this average, if we authorize slot machines at the Commonwealth’s four pari-mutuel facilities, the annual ANGR would be approximately \$677,440,000.³³ Thus, even if the Commonwealth were to tax the ANGR at a rate of 50%, we would realize annual tax revenues of approximately \$338,720,000, significantly lower than the \$411,000,000 alleged by proponents.

*The Christian Capital Advisors Study*³⁴

The study conducted by Christian Capital Advisors concludes that by authorizing 2,000 slot machines at each of the four pari-mutuel facilities and taxing the ANGR at a rate of 60%, the Commonwealth will generate \$489,240,000 in net tax revenue in year one of operation, and up to \$690,000,000 by year five of operation.³⁵ To put these

presentation is virtually the same presentation submitted to the former Joint Committee on Government Regulations in October, 2003.

³⁰ Id.

³¹ Nine states have authorized slot machines at pari-mutuel facilities, but meaningful statistics are not yet available for three states (Maine, New York and Pennsylvania). See also Appendix A of this report for a state-by-state breakdown of these figures.

³² I arrived at this figure by calculating the average win per machine, per day for each of the six states for which statistics are available and then averaging those numbers. See also Eadington, William R. *Economic and Political Dimensions of Slot Machines at Racetracks*, University of Nevada at Reno, December 2002.

³³ I arrived at this figure by multiplying 8000 (the total number of slot machines at the pari-mutuel facilities—2000 per facility) by 365 (the number of days in a year) and then multiplying that number by \$232.00 for a total of \$677,440,000.

³⁴ See *Analysis and Recommendations for the Massachusetts Lottery*, Christian Capital Advisors, LLC, January 18, 2006.

³⁵ Media reports have erroneously stated that the revenue would be \$505,500,000 in year one and up to \$715,100,000 in year five. These totals, however, include the 2% takeout for the host municipalities which would have no net impact upon state revenues.

numbers in the proper context, in order for the Commonwealth to collect \$690,000,000 in net tax revenue the ANGR would have to be \$1,150,000,000 and, in order for the ANGR to be \$1,150,000,000, players would have to wager \$11,500,000,000 (yes, \$11.5 billion) annually on slot machines.³⁶ As with the study conducted by Cummings Associates, however, when the Capital Christian study is deconstructed, serious questions emerge.

First, the study fails to address the inconsistency between the revenue projections of this study and those of the Cummings study. The Cummings study concludes that a total of 6,000 slot machines taxed at a rate of 50% will generate \$411,000,000 in net tax revenue for the Commonwealth. The Christian Capital study, however, claims that 8,000 slot machines/video lottery terminals taxed at a rate of 60% will generate \$489,240,000 in net tax revenue for the Commonwealth. How do we reconcile the fact that the Christian study concludes more machines at a higher tax rate (i.e., 8,000 machines taxed at 60%) will generate only marginally more revenue than fewer machines at a lower tax rate (i.e., 6,000 machines taxed at 50%)? These numbers need to be reconciled before any confidence can be placed in the revenue projections of either study.

Second, as for the impartiality of the author, by his own admission he states that he has conducted similar studies for 12 other states and “a variety of other North American markets.” Arguably, experience such as this would tend to solidify his bona fides as an independent analyst. However, upon looking at these other studies we could find nary a one which concluded that the expansion of gaming would have a negative impact on the respective market being analyzed. This leads any reasonable person who has at least a modicum of knowledge of economics to question whether the author is a truly independent market researcher, or a paid advocate of the gaming industry.

Third, ad hominem questions aside, there are significant questions of fact surrounding the conclusions of the study. The study, which is based primarily on a complicated analysis of population data,³⁷ concludes that by authorizing the installation of 8,000 so-called “Central System Video Lottery Terminals” taxed at a rate of 60% the machines will generate \$815,400,000 in adjusted net gaming revenues in year one and up to \$1,150,000,000 by year five, resulting in net tax revenues for the Commonwealth of \$489,240,000 and \$690,000,000, respectively.³⁸

In fact, despite his convoluted narrative attempting to explain the methodology used to arrive at these figures, the author fails to adequately address one key issue relative to his reliance on the population variable. More to the point, the author’s conclusions are

³⁶ As stated previously, 90% of the money wagered on slot machines is returned in the form of prizes with the remaining 10% representing the ANGR. So, if the ANGR is \$1,150,000,000 then players would have to gamble \$11,500,000,000 (i.e., the ANGR multiplied by 10).

³⁷ The dominant variable in the study is “population surrounding each facility for distance”, but also includes an analysis of other variables including per capita income, the proportion of urban to rural residents, the non-resident visitor population, and competition.

³⁸ There are two types of video lottery terminals (VLTs): Central System VLTs (where the outcome is determined randomly by each individual machine) and Central Determination System VLTs (where the outcome is pre-determined remotely at a host computer site). In essence, a Central System VLT is more like a slot machine while a Central Determination System VLT is more like a scratch ticket.

predicated upon an analysis of population data, with his hypothesis being that because the pari-mutuel facilities in Massachusetts are in high density population centers and players “tend to gamble at the facility that is most conveniently located,” these facilities will generate a prodigious amount of revenue.³⁹ This contention, however, is misplaced because it incorrectly makes one critical assumption which is that every potential player in the Massachusetts market will play slot machines to the exclusion of other forms of gambling simply because the slot machines are more conveniently located. The fact is that universally agreed to statistics indicate that those of a higher socio-economic class generally prefer more advanced high stakes games of skill over slot machines, yet the study marginalizes the per-capita income variable in favor of the population/location approach. As I stated in Section 2 of this report, people who play high stakes games of skill such as poker, blackjack, roulette, craps, etc., whether on the internet or at casinos in neighboring states, will not summarily decide to instead patronize Wonderland Park or Suffolk Downs to play slot machines simply because of their geographic proximity. To make such a contention is analogous to saying that a vegetarian is going eat at a steak house simply because it is located closer to his home. Any sophisticated consumer is going to travel to wherever their product of choice is located, be it a high stakes game of skill or a vegetarian meal.

Finally, in arriving at its lofty figure of \$489,240,000 in net tax revenues in the first year of operation, the study arbitrarily concludes that the adjusted net gaming revenue (ANGR) per machine, per day for the slot machines/video lottery terminals at the four pari-mutuel facilities will be approximately \$279.00, per machine, per day with a potential of reaching \$500.00 per machine, per day.⁴⁰ The problem with this conclusion is two-fold. First, it is based on an assumption (i.e., people who prefer games of skill will instead patronize video lottery terminals because they are more conveniently located) that is not corroborated by any independent empirical data, and is, in fact, refuted by both common sense and industry statistics.⁴¹ And second, the ANGR per machine, per day predicted based on this faulty data is significantly more than the \$232.00 per machine, per day average ANGR of the six states which presently permit slot machines/video lottery terminals at their pari-mutuel facilities.⁴²

Now, in the interest of fairness, if slot machines/video lottery terminals are authorized at the pari-mutuel facilities, the Commonwealth will collect tax revenues from their operation. For the sake of argument, let us assume that the ANGR from these machines will be \$256.00 per machine, per day.⁴³ Based on this concession, the total annual ANGR

³⁹ See *Analysis and Recommendations for the Massachusetts Lottery*, Christian Capital Advisors, LLC, January 18, 2006, page 97.

⁴⁰ The author fails to explain the methodology used to reach this conclusion.

⁴¹ Recall that even Mr. Barrow concedes that two full fledged casinos, one in western and one in southeastern Massachusetts, would “hit” Foxwoods the hardest--a tacit admission that slot machines at the pari-mutuel facilities would not be the best approach to recapturing Massachusetts residents patronizing Connecticut casinos.

⁴² I arrived at this figure by calculating the average win per machine, per day for each of the six states and then averaging those numbers. These numbers are included in Appendix A of this report.

⁴³ I arrived that this figure by averaging the average ANGR of the six states which authorize slot machines/video lottery terminals at their pari-mutuel facilities (\$232.00 per machine, per day) with the

would be \$747,520,000, 60% of which, or \$448,512,000, the Commonwealth would collect in tax revenue. This would undeniably be an extraordinary amount of revenue for the Commonwealth. That being said, however, equally important to the question of how much tax revenue will be generated by slot machines/video lottery terminals is where does this revenue originate? The answer to the question of revenue origination determines whether slot machines/video lottery terminals represent actual economic development or merely a mirage of economic development. In order to determine revenue origination and thus the impact of slot machines/video lottery terminals on an economy, economists apply one of three economic models.

First, and least desirable, is that all the revenues are derived from Massachusetts residents.⁴⁴ Under this model, we are merely encouraging residents to substitute and spend their disposable income at casinos instead of spending it on other goods and services provided elsewhere in the economy (which is exactly the assumption that the Christian Capital Report is predicated upon). This will have a “negative multiplier” effect upon our economy insofar as it simply redirects money already in our economy from local businesses and/or existing forms of entertainment to slot machines. The consequence of this diversion is a reduction in the demand for labor which will produce higher levels of unemployment and lower levels of consumption in other sectors of the economy, which further reduces the demand for goods and services from these existing sectors. The end result is the so called Wal-Mart effect—a cannibalization of the existing state and local economies. Moreover, it should be noted that the goods and services as well as the jobs that are cannibalized are equally taxable by the Commonwealth, so there is no real fiscal incentive to substituting an existing predictable source of revenue for a new, unpredictable source.⁴⁵

Second, and most desirable, is that all revenues are derived from out-of-state residents. The “no dollar is better than the tourist dollar” Bahamas approach.⁴⁶ Fiscally, this model makes absolute sense insofar as it brings “new” dollars into the economy which are otherwise not being spent here and thus not diverting disposable income from other existing and equally valuable sectors of our economy. In short, there is no substitution effect. It must be noted, however, that not even the most ardent supporters of authorizing slot machines at the Commonwealth’s pari-mutuel facilities believe that all the revenue, or even a significant percentage of the revenue, generated by slot machines at the pari-mutuel facilities will be from out-of-state residents.⁴⁷ In fact, the optimistic revenue projections included in the Christian Capital Advisors study are predicated upon the majority of revenue coming from patrons who are located within a close geographic

projected ANGR offered by the CCA Report (\$279.00 per machine, per day) which was approximate \$256.00 per machine. Moreover, to put this number in context, for the ANGR to be \$256.00 per machine, per day, the amount gambled per machine, per day would have to be \$2,560.00.

⁴⁴ Bare in mind that most analysts, including the author of the Christian Capital Advisors report, agree that 80% or more a casinos patrons come from a 35-50 mile radius. See also Gringols, Earl L. *Gambling in America, Costs and Benefits*, p.p. 55-92. See also www.ncalg.org.

⁴⁵ See generally *Casino Gambling in Massachusetts: The Economic Impacts* August 1999.

⁴⁶ Residents of the Bahamas are prohibited from engaging in any form of gambling.

⁴⁷ Recall that even Clyde Barrow conceded that slot machines at the four pari-mutuel facilities would not recapture as many Massachusetts residents as two full casinos would recapture.

proximity of the gaming facility, which based upon the geographic location of these facilities will be primarily in-state residents.

Third, is a hybrid of the first and second models whereby revenues are derived from a combination of both residents and tourists alike. This is the model that will most likely apply to Massachusetts. So the critical question then becomes: what percentage of the revenues from slot machines will come from Massachusetts residents to the detriment of other sectors of our economy which rely on discretionary spending by residents for survival, such as restaurants, theaters, and cultural facilities?

In analyzing what percentage of revenues will originate from Massachusetts residents, there is no study, independent or otherwise, which even attempts to predict a percentage. It is, however, common knowledge in the gaming industry that most urban casinos draw 80% of their patrons from a 35-50 mile radius (again a critical assumption upon which the Christian Capital Advisors report and its corresponding revenue projections are predicated).⁴⁸ Consequently, statistically speaking 80% of the patrons that would visit a Massachusetts pari-mutuel facility to play slot machines would be residents of the Commonwealth. Put another way, 80% of the money wagered on slot machines would not represent a “new” source of revenue for the Commonwealth. Why? Because this money is disposable income which is already being spent in our state economy by our residents on a diverse array of discretionary activities ranging from restaurants, Lottery, movie theaters, taverns, museums, and other viable sectors of our leisure economy, where it has what economists refer to as a ‘positive multiplier effect’, e.g., when you purchase a meal at a restaurant it is taxed; then the restaurant, in turn, reinvests a portion of that profit to purchase supplies, an ancillary transaction which is again taxed, and the positive effects continue to reverberate through our economy. Now juxtapose that sort of discretionary spending which has a positive multiplier effect on our economy, with the sterile discretionary spending of income on slot machines. Spending discretionary income on slot machines would have what economists refer to as a ‘negative multiplier effect’ on our economy. That is to say that there is one transaction: the player places his wager and when he loses the house keeps the profits, pays the taxes associated with that transaction and distributes the remaining proceeds to its shareholders. This dollar has no further reverberations through our economy, making it a sterile transaction of wealth.

Now a reasonable person will ask, ‘won’t pari-mutuel facilities employ people and purchase supplies?’ The answer is, obviously, yes. That being said, however, from a state economic policy perspective the limited economic activity generated by gaming is dramatically inferior to vast forms of economic activity generated by the existing sectors of our economy. I say this for two reasons. First, gaming does not lead to the creation or exportation of any new goods or services, while the other equally taxable sectors of our economy (which are the ones poised to be negatively affected by the expansion of gaming) do lead to the creation and exportation of goods and services which serve to

⁴⁸ See *Analysis and Recommendations for the Massachusetts Lottery*, Christian Capital Advisors, LLC, January 18, 2006. See also Gringols, Earl L. *Gambling in America, Costs and Benefits*, p.p. 55-92. See also www.ncalg.org.

further strengthen our economy. And second, these existing sectors of our economy are diverse both in terms of their geographic location and their economic impacts. In other words, substituting these diverse economic sectors for one industry which is dependent on regressive and unstable revenues is not sound economic policy. Consider the following remarks by Nobel Prize winning economist Paul Samuelson and the Governor of the State of Nevada Kenny Guinn:

“There is a substantial economic case to be made against gambling. It involves simply sterile transfers of money or goods between individuals creating no new money or goods. Although it creates no output it does nonetheless absorb time and resources. When pursued beyond the limits of recreation, where the main purpose after all is to ‘kill time’ gambling subtracts from the national income.” Paul Samuelson.

“The challenges we face reflect the unique condition of today’s Nevada and our history. For years, our economy has depended almost exclusively on tourism and gaming rather than by exporting goods and services. Three out of every four dollars are collected from sales and gaming taxes, taxes vulnerable to swings in the economy. Implicit in this tax strategy was a belief that the revenues from gaming could keep pace with our growing and diverse population. Unfortunately, this strategy has failed. My fellow Nevadans, the lesson of the past twenty years is clear: our revenue system is broken because it has relied on regressive and unstable taxes.” Governor Kenney Guinn (R-Nevada) in his 2003 State of the State Address.

Now again, for the sake of argument, let us assume that the average ANGR of the slot machines/video lottery terminals at the Commonwealth’s pari-mutuel facilities would be \$256.00 per machine, per day.⁴⁹ Assuming this, the total annual ANGR would be \$747,520,000 (which means that players would have to wager approximately \$7.4 billion annually). If the tax rate on the ANGR is 60%, the Commonwealth would collect \$448,512,000 in net tax revenues from the operation of the slot machines/video lottery terminals. That being said, however, if 80% of this revenue is from discretionary dollars which are already being spent in our economy, then these dollars are merely being shifted from one sector of our economy to another sector of our economy. Consequently, they do not represent “new” revenue for the Commonwealth. Therefore, in terms of new revenue, the actual ANGR is only approximately \$149,504,000 (or 20% of the \$747,520,000) of which only \$89,702,400 can be considered “new” tax revenue for the Commonwealth. Now admittedly \$89,702,400 is a substantial amount of state revenue. However, when viewed in conjunction with the inherent costs associated with expanded gaming (i.e., impact to the Lottery, cost of regulatory oversight, etc), this number declines precipitously.

Finally, from an economic development perspective, there are two fundamental benchmarks against which any alleged economic development initiative must be measured: the creation of new capital and the creation of new jobs. Viewed in this

⁴⁹ As stated previously, I arrived that this figure by averaging the average ANGR of the six states which authorize slot machines/video lottery terminals at their pari-mutuel facilities (\$232.00 per machine, per day) with the projected ANGR offered by the CCA Report (\$279.00 per machine, per day) which was approximate \$256.00 per machine.

context, the notion that casinos stimulate economic development in and around their geographic base is absurd. As discussed above, slot machines/video lottery terminals at the pari-mutuel facilities won't create even a fraction of the new capital alleged by proponents. In fact, the failure of slot machines/video lottery terminals to add any significant new capital to the economy will be compounded by the fact that they will actually consume existing sources of state revenue. One needs look no further than Connecticut. According to municipal officials in Ledyard,⁵⁰ Preston,⁵¹ and North Stonington,⁵² Connecticut, each town has suffered significant reductions in their business sectors due to the casinos building malls that contain restaurants, clothing stores, and other businesses similar to local enterprises. Casinos use these non-gaming activities to stimulate demand while cannibalizing the local retail market. In fact, upwards of 35% of casino revenues are derived from these non-gaming services. In short, once casinos have you, they don't want to let you go outside of their compound for anything. Now compare this with the positive economic development associated with the Massachusetts State Lottery. The State Lottery has 8,000 sales agents across the Commonwealth who help to support local businesses, local jobs, and the local economy.

On an employment note, expanded gambling won't create even a fraction of the jobs proponents allege.⁵³ It has been estimated that only 8.5% of casino employees were unemployed and receiving welfare assistance prior to employment at a casino.⁵⁴ Thus, the other 91.5% of the "new" jobs created are filled by persons merely substituting one position for another. In Massachusetts, this 8.5% is approximately 330 people.⁵⁵ The question must be asked: is it wise for the state to adopt an economic policy that will generate gaps in other labor markets? Moreover, how long will it be until a future Legislature is called upon to provide tax breaks to preserve this new stable of jobs?⁵⁶ Even assuming that there is at least a minimum level of job creation, a reasonable person must inquire as to the quality of these jobs. As the average full-time employee of a large resort casino earns approximately one-half of the present median income in Massachusetts, it can be convincingly argued that casino-related jobs are not necessarily value-added jobs.

⁵⁰ See Generally *Fiscal Impacts of Foxwoods Casino on the Town of Ledyard, Connecticut*. Mayor Wesley J. Johnson, December, 2001.

⁵¹ See Generally *Casino Related Impacts on Preston, Connecticut*. Preston Board of Selectmen, December, 2001.

⁵² See Generally *Casino Impacts on North Stonington, A Summary of Financial Impacts*, North Stonington Board of Selectmen, December 2001.

⁵³ It is worth noting that in 1998 (during the height of an economic boom) the unemployment rate in Atlantic City was an astounding 12.7%. This was considerably above both the national unemployment rate as well as the unemployment rate for the rest of New Jersey. See Generally *National Impact Study Commission Report*, at 7-11 (June 1999).

⁵⁴ See Generally *Casino Gambling in Massachusetts: The Economic Impacts* August 1999

⁵⁵ Based on the proponents contention that we will see 4,000 new permanent jobs. See *Creating \$550,000,000 Million in New Tax Revenues and 4,000 New Jobs for the Commonwealth of Massachusetts*, Cummings Associates, September, 2005.

⁵⁶ Again, one need only look to Louisiana to prove that as soon as casinos gain a foothold they seek concessions. Harrah's Entertainment which operates a casino in Louisiana recently sought a 50% tax break arguing that without it they would at a minimum lay off employees and at a maximum cease operations. In short, it demonstrates that casinos do not provide a stable form of revenue or employment.

The reality is that expanded gambling does not lead to economic development and any tax revenue generated by expanded gambling is regressive and unstable. Perhaps this is why the preeminent periodicals in the field of economic development, both at the national and local level (i.e., *The Wall Street Journal*, *The Economist*, and *The Boston Business Journal*), have all editorialized that expanded gaming is bad economic policy. The reality is that casinos repel potential businesses that could diversify the state's job base. Why? Because, as we heard time and again on the job growth listening tour, what businesses want is access to affordable health care, educated workers, easy access to markets, other business clusters that complement them, affordable housing, and above all else, a stable economic environment sufficiently diversified to withstand the cyclical nature of a free market.

From a state revenue and economic development perspective, we must decide the type economy we seek to foster for the Commonwealth: a diversified economy which produces goods and services and has a positive multiplier effect; or a specialized economy predicated on unstable and regressive taxes which produces nothing and consequently has a negative multiplier effect.

4. Killing the Goose that Lays the Golden Egg: The Impact of Expanded Gambling on the Lottery⁵⁷

The Massachusetts State Lottery is, per capita, the most successful lottery in the United States, if not the world. In fiscal year 2005, the Lottery's gross sales were \$4,482,911,000, resulting in a staggering \$936,133,995 net profit, \$738,993,877 of which was returned to the state's 351 cities and towns in the form of unrestricted local aid. To put these numbers into perspective, the Massachusetts State Lottery's net profit was over twice what the state of Connecticut netted from Foxwoods and Mohegan Sun combined,⁵⁸ over twice what the state of New Jersey netted from its 12 commercial casinos,⁵⁹ and even exceeded the amount netted by the state of Nevada from its casino operations.⁶⁰ As these statistics indicate, state revenue from casinos is significantly less than revenue generated by lotteries because casinos return more per \$1.00 wagered to the player than lotteries. In fact, on average, slot machines typically return approximately \$.90 per \$1.00 wagered to the player compared to the approximately \$.75 per \$1.00 wagered that the Massachusetts Lottery returns to the player.⁶¹ More to the point, right now the Commonwealth receives approximately \$.24 of every \$1.00 wagered on the Lottery, i.e., approximately 24% of the gross gaming revenue. If, however, we authorize slot machines at our four pari-mutuel facilities then we would see only \$.06 of every \$1.00 wagered on the slot machines, i.e., approximately 6% of the gross gaming revenue. This is because the tax structure for slot machines is based on the adjusted net gaming revenue (ANGR), the amount the casino retains after the payout of prizes, which for slot machines/video lottery terminals is approximately \$.10 for every \$1.00 wagered. Consequently, if we were to tax the ANGR at 60%, the Commonwealth would receive only \$.06 for every \$1.00 wagered on a slot machine (60% of \$.10).

In an effort to minimize the impact that the introduction of slot machines would have on the Lottery, proponents cite a study commissioned by the Massachusetts State Lottery Commission which concluded that the impact to gross Lottery revenues would be only 3.6% in the first year and 3.8% in the second year, and would recover to "previous levels" by year five of operation.⁶² Unfortunately, the reliance by proponents on this study is misplaced for several reasons.

First, even if accurate, the contention that gross Lottery revenues will only decline by 3.6% in the first year is misleading. According to statistics provided by the Massachusetts State Lottery, from fiscal year 1992 through fiscal year 2005, the average annual growth of the Lottery was 4.995%. Assuming that the Lottery would grow at the same rate in future years, a reduction in gross revenue only would not accurately reflect

⁵⁷ Appendix B includes statistics on Lottery Revenues provided by the Massachusetts State Lottery.

⁵⁸ In FY '04 Connecticut collected approximately \$417,000,000 in revenue.

⁵⁹ In FY '03 New Jersey collected approximately \$447,000,000 in revenue.

⁶⁰ In FY '04 Nevada collected approximately \$886,000,000 in revenue.

⁶¹ This is a very conservative percentage, some facilities payout as much as \$.95 for every \$1.00 wagered. In addition, it should be noted that Senate Bill 2227 requires that a minimum of 85% of the amount wagered be returned to the player in the form of prizes.

⁶² See *Analysis and Recommendations for the Massachusetts Lottery*, Christian Capital Advisors, LLC, January 18, 2006, page 136.

the impact to overall sales. Put another way, if we authorize slot machines/video lottery terminals at the four pari-mutuel facilities and the first year the impact to gross Lottery revenues is 3.6% as compared to the previous year, it still does not account for the elimination in the anticipated growth of Lottery revenues. Thus, while the impact to gross Lottery sales based on the previous year's figures may be 3.6%, we would also need to factor in the loss in potential Lottery growth, i.e., 4.995% annually. Consequently, the minimum impact to Lottery sales would be 8.595% (3.6% + 4.995%), not 3.6%.

Second, despite his own admission that “evaluating the impact of casino and machine gaming on traditional Lottery sales is a complex task because environments differ markedly from jurisdiction to jurisdiction when both forms of gambling operate,” in analyzing the impact of slot machines on future Lottery sales in Massachusetts, the author bases his conclusions in large part on the impact that slot machines have had on other state lotteries.⁶³ In fact, the author cites as evidence that the impact of slot machines on the Massachusetts Lottery will be minimal, the experience of the State of Colorado, which has seen an 81% increase in Lottery sales since slot machines were introduced in 1991. The experience of Colorado, however, is readily distinguishable from that of Massachusetts because when slot machines were introduced in Colorado in 1991 the Colorado Lottery was essentially in its infancy having only itself been established in 1982. Now compare the experience of the Colorado Lottery with the unique circumstances surrounding the Massachusetts Lottery, which even the author himself concedes is a “mature” Lottery. If a lottery is “mature,” it would stand to reason that it is adequately serving market demand and competition would have what the author concedes would be “meaningful disruptions in existing patterns of consumer spending on gambling.” Moreover, the author states that “with the highest per capita sales in the nation (and possibly the world) the Massachusetts Lottery has effectively supplied the demand for gambling entertainment, meaning that as competing products enter the market there is less discretionary income available” for the Lottery. Now if we assume that 80% of the customers playing slot machines will be Massachusetts residents (a fact upon which the conclusions of the study are predicated upon), it is reasonable to say that the impact on Lottery sales would be more along the lines of a “meaningful disruption” than the marginal nuisance the author's conclusion would suggest.

Third, the unparalleled success of the Massachusetts State Lottery is based largely on the sales success of Keno and instant tickets. In fact, 60% of the Lottery's gross sales revenue is from the sale of Keno and instant tickets. As the author concedes in his report, Keno and instant game revenues are disproportionately affected by the introduction of slot machines/video lottery terminals. This makes sense insofar as Keno and instant games appeal to the same player demographic as slot machines/video lottery terminals, i.e., those seeking instant gratification from their gambling experience. It stands to reason that as the majority of the Lottery's revenues are from Keno and instant games this, coupled with the fact that 80% of patrons at slot machines will be Massachusetts residents, indicates that the impact to Keno and instant game sales will be profound, and consequently, the impact to net Lottery revenues will be equally severe.

⁶³ Id.

Fourth, the author contends that the impact to the Lottery will be mitigated by the “limited geographic presence” of slot machines. This assumption betrays a critical misunderstanding of both the legal and political realities of expanded gambling in the Commonwealth. As is discussed in detail in Section 6 of this report, if we authorize slot machines at the four pari-mutuel facilities, we could expect to see a vast proliferation of gambling in a relatively short period of time. This is based on the legal reality of the federal Indian Gaming Regulatory Act, which specifically permits any federally recognized Native American Indian Tribe located in the Commonwealth to conduct any form of gambling authorized by the Commonwealth.⁶⁴ Moreover, even if we were to ignore the legal reality of the Indian Gaming Regulatory Act, the political reality is clear that the expansion to other geographic areas of the Commonwealth is a certainty. In fact, the legislation engrossed by the Senate last fall specifically permits the newly created Lottery and Gaming Commission to issue one additional slot machine/video lottery terminal license to a yet to be determined (or even established) pari-mutuel facility in Western Massachusetts. Clearly, as the number and geographic locations of gaming facilities increase, so too will the impact on Lottery sales—a fact not lost on the author of this study as evidenced by his decision not to factor this reality into his analysis.

Fifth, the author further contends that the impact to the Lottery will be mitigated because the Lottery market has “already been somewhat restructured by the impacts of casino games at Foxwoods and Mohegan Sun and VLTs in Rhode Island. In other words, in many ways, the Massachusetts Lottery is already competing with nearby casinos and pari-mutuel devices for the gambling dollar.” This contention is misplaced for two reasons. First, arguably inherent in this contention is a belief that slot machines at the four pari-mutuel facilities will serve to recapture a significant percentage of those Massachusetts residents patronizing out-of-state gaming venues. In essence the author is arguing that slot machines will have a marginal impact upon Lottery sales because the majority of patrons who will patronize the slot machines are already gambling at out of state gaming venues. This reliance on recapturing Massachusetts residents who patronize out-of-state gaming venues is misplaced because, as previously discussed in this report, the prospects of slot machines at the four pari-mutuel facilities recapturing even a small percentage of these patrons is remote. And second, the fact of the matter is that since fiscal year 1992 (the year Foxwoods opened) the average annual growth of the Lottery has been 4.995%, and if the market has already adjusted to competition from slot machines in neighboring states, why does the author project a 3.6% decrease in gross Lottery sales?

Finally, in analyzing what impact slot machines/video lottery terminals would have on the Lottery, the Christian Capital Advisors study fails to even reference what has been described as one of the only studies on the correlation between casinos and lottery substitution.⁶⁵ In fact, this study concluded that for every \$1.00 of casino revenue received by a state that state’s net lottery revenues will be reduced by \$.56, and this

⁶⁴ See 25 U.S.C. § 2701-2721.

⁶⁵ See Elliot, D and J. Navin (2002) “*Has Riverboat Gambling Reduced State Lottery Revenue?*” Public Finance Review 30, 235-247. See also Fink, Steven and Jonathan Rock, (2003) “*The Importance of Self-Selection in Casino Cannibalization of State Lotteries.*” Economics Bulletin, Vol. 8, No. 10 pp.1-8.

estimate is 33% *less* than what other similar studies have concluded.⁶⁶ Apply these figures to the Massachusetts Lottery, and the results would be staggering. If, as previously discussed in the report, the ANGR from slot machines is \$747,520,000 and the net tax revenue for the Commonwealth is \$448,512,000,⁶⁷ the impact to the net Lottery proceeds would be a staggering \$251,166,720.⁶⁸ To put this in context, using fiscal year 2005 figures, the Lottery's net revenue would go from \$936,133,995 to \$684,967,275—a decline of approximately 30%. Again, this is applying the conservative numbers. Other national studies, including the study considered by academics to be the gold standard on the issue of casino-lottery substitution, have concluded that for every \$1.00 in tax revenue received from casinos, a state's net lottery revenues would decline by \$.83.⁶⁹

Now the inherent weaknesses of the Christian Capital study, as well as the Elliot and Navin and Fink and Rork studies, are that none of them looked solely at the impact of slot machines on the Massachusetts Lottery.⁷⁰ We are fortunate, however, to have an independent study the sole purpose of which was to evaluate the potential impact of slot machines on the Massachusetts Lottery.⁷¹ Specifically, this study analyzed the impact that a land-based casino in New Bedford and Hampden County and the installation of 700 “gaming devices” at each of the state's four commercial pari-mutuel facilities would have upon Lottery revenues. The conclusions of the study were, in a word, sobering. The study found that authorizing two casinos and 700 “gaming devices” at each pari-mutuel facility would result in a 15-17% reduction in gross Lottery sales, which again in FY '05 were \$4,482,911,000. According to the study, the impact to the Lottery's gross sales revenue (using FY '05 figures) would range from \$672,436,650 (15%) to \$762,094,870 (17%). Even more alarming is the corresponding impact to the Lottery's net revenue (i.e., the amount distributed between the general fund and cities and towns), which again in FY '05 was \$936,133,995. The cumulative impact on the Lottery's net revenues would range from \$140,420,000 (15%) to \$159,142,780 (17%). To put these numbers in context, based on FY '05 figures, the average city or town would lose anywhere from \$320,000 up to \$363,000 in local aid⁷² from the Lottery, while the general fund would lose anywhere from \$28,000,000 up to \$32,000,000⁷³ in revenue received from the Lottery proceeds. Clearly, applying these numbers, the Lottery is poised to lose a considerable amount of revenue if we expand gaming.

⁶⁶ Id.

⁶⁷ As discussed previously, this is based on ANGR per machine, per day of \$256.00 at a tax rate of 60%.

⁶⁸ I arrived at this figure by multiplying the net slot revenue of \$448,512,000 by \$.56.

⁶⁹ See Elliot, D and J. Navin (2002) “*Has Riverboat Gambling Reduced State Lottery Revenue?*” Public Finance Review 30, 235-247.

⁷⁰ The Christian Capital Study's purpose was to determine how best to expand gambling in the Commonwealth, and to the extent slot machines/video lottery terminals factored in to this purpose, they were analyzed.

⁷¹ See The Gaming Strategy Group, *The Impact of Casinos and Gaming Devices on the Massachusetts State Lottery*, Final Report, June 28, 1996.

⁷² These numbers were derived by calculating 15% and 17% of the total amount distributed to cities and towns in FY '05--\$748,993,877 and dividing those numbers by 351 (the number of cities and towns in the Commonwealth).

⁷³ These numbers were derived by calculating 15% and 17% of the total amount deposited into the General Fund in FY '05 which was \$187,140,118.

Now to be intellectually honest, the 1996 study commissioned by the Lottery also analyzed the impact of authorizing 700 “gaming devices” at each of the Commonwealth’s four commercial pari-mutuel facilities. The study concluded that doing so would result in a 9.1% reduction in gross Lottery sales. Applying this to FY ‘05 figures, the Lottery would lose \$403,461,990 in gross sales revenue and \$84,252,060 in net revenues. This, however, is not the whole story. As stated above, the figure of 9.1% was predicated upon each pari-mutuel facility installing only 700 “gaming devices.” The legislation engrossed by the Senate last fall authorized each pari-mutuel facility to install 2,000 slot machines—a 64% increase in the number of machines. If we increase the projected reduction in gross Lottery sales by a corresponding 64%,⁷⁴ we arrive at a figure of approximately 15%. So, if we authorize the installation of 2,000 slot machines at the Commonwealth’s four commercial pari-mutuel facilities, we will see a 15% reduction in gross Lottery revenues, a total of \$672,436,650 based on FY ‘05 figures and a corresponding 15% reduction in net Lottery revenue, of \$140,420,000. Put another way, by authorizing slot machines, we will be reducing local aid to cities and towns by approximately 15% annually, an average of \$320,000 for each city or town, while also eliminating an annual \$28,000,000 source of revenue for the general fund.

Notwithstanding the results of the Christian Capital study, the immutable and incontrovertible fact is that the Lottery will see a minimum of a 15% reduction and potentially a 30+% reduction in sales if we authorize slot machines/video lottery terminals at the four pari-mutuel facilities. Perhaps this is why the Massachusetts Municipal Association has opposed the authorization of slot machines at the four pari-mutuel facilities. Now despite these dire statistics some people will contend that from a state revenue perspective it does not matter whether the revenue comes from the Lottery or from slot machines. This contention is misplaced for two reasons.

First, as discussed above, at present the Commonwealth receives approximately \$.24 of every \$1.00 wagered on the Lottery, but, at best, would only receive \$.06 of every \$1.00 wagered on slot machines. Consequently, in order for the Lottery’s revenues to be held harmless, every gambler who elects to forgo playing the Lottery in favor of playing slot machines would have to spend approximately \$4.00 on slot machines for every \$1.00 he/she would have spent on the Lottery. In other words, in order for the Lottery to simply break even, the average player who abandons the Lottery in favor gambling on slot machines would have to wager almost four times more on slot machines than he/she would have wagered on the Lottery. The unfortunate reality is that most people, especially those who tend to play the Lottery and slot machines, have a finite amount of disposable income which would preclude them from increasing their gaming allowance by four times what they currently spend. Consequently, these people will spend the same amount of money at the pari-mutuel facilities as they would have spent on the Lottery, the only difference being the Commonwealth’s share of the proceeds will be reduced from 24% to 6%.

⁷⁴ That is to say, there has been a 64% increase in the number of slot machines so it stands to reason that the original 9.1% reduction would also increase by 64%.

Second, unlike casinos or racinos, discretionary income spent on the Lottery has a “positive multiplier effect” on the economy. Moreover, with over 8,000 licensed sales agents this positive economic impact is diffused across the Commonwealth. Consider that in fiscal year 2005 alone, the Lottery awarded over \$250,000,000 in commissions and bonuses to these agents—an average of \$33,000 per agent. These agents, by and large, reinvest these commissions and bonuses in their businesses and their communities. Furthermore, many of these agents are small mom and pop type operations, so often times the commissions and bonuses received from the Lottery allow them to expand their businesses, hire extra employees, and pay higher wages. In short, unlike casinos or racinos, the Lottery has a positive multiplier effect upon our local economies. The unfortunate reality is that Lottery agents will be negatively affected, some irreparably, by even a minimal reduction in Lottery sales. The consequences of such a financial loss would undoubtedly mean that many would have to eliminate positions or perhaps even close down altogether, thereby reducing the amount of state and local taxes that they pay, and eliminating the convenience these merchants provide across the state. Perhaps this is why the Massachusetts Convenience Store Association has opposed the authorization of slot machines at the four pari-mutuel facilities.

It should be noted that the proponents of authorizing slot machines at the Commonwealth’s four pari-mutuel facilities have conceded the fact that the introduction of slot machines will have a detrimental effect upon Lottery revenues.⁷⁵ In fact, not only do proponents concede this fact, they actually have a plan to off-set the expected revenue loss. The legislation engrossed by the Senate last fall specifically requires that prior to the distribution of any proceeds from slot machine revenues “a sum equal to the diminishment” in Lottery revenues shall be deposited in the local aid fund.⁷⁶ In other words, even before taxes are collected by the Commonwealth, the first funding priority from the adjusted net gaming revenue (ANGR) is to off-set the decline in Lottery revenues. Now, while noble in intent, this language is problematic for two reasons.

First, is that statutorily requiring that any “diminishment” in Lottery revenues be compensated from the ANGR prior to the Commonwealth receiving its share of the ANGR is essentially requiring the general fund to repay 60% of any diminishment in Lottery revenues. Put another way, proponents claim that the state tax rate will be 60% of the ANGR. This is false. The state tax rate will be 60% of the A-ANGR (adjusted-adjusted net gaming revenue). The ANGR is the amount remaining after the payment of prizes. Here, the Commonwealth will only be able to tax what is left after the payment of prizes **and** after the payment to offset any diminishment in Lottery revenues. To put this in context, if the annual ANGR is \$747,520,000 the net revenue accruing to the Commonwealth would be \$448,512,000 (i.e., 60% of the ANGR).⁷⁷ If, as expected, the

⁷⁵ See *Creating New Revenues for the Commonwealth: A \$550 million Solution*, Cummings Associates, December, 2002 (“legislation could include a provision that would hold harmless the lottery revenues that are distributed to the cities and towns”). See also subsection (b) of subsection 4 of section 6 of Senate Bill No. 2227.

⁷⁶ See subsection (b) of subsection 4 of section 6 of Senate Bill No. 2227.

⁷⁷ As discussed before, I arrived at an ANGR of \$747,520,000 by assuming that the average ANGR per machine, per day would be \$256.00 (the average of average ANGR for the 6 states that permit slot

net Lottery revenues decline by 15%, or \$140,420,000, then the ANGR that is taxable by the Commonwealth declines precipitously from \$747,520,000 to \$607,100,000, and thus the tax revenue collected by the Commonwealth will decline from \$448,512,000 to \$364,260,000, a total of \$84,252,000 (or 60% of the “diminishment” in Lottery revenues). Thus, the plan for “holding Lottery revenues harmless” relies heavily upon the general fund doing the holding—a rather magnanimous gesture by proponents, offering to off-set 60% of the Lottery’s annual losses with a payment from the general fund.

Second, is the fact that the language (other than who pays) is lacking in specifics. For example, how will a loss to the Lottery be calculated? In other words, what will be used as a benchmark to measure the Lottery’s past vs. future performance? The legislation engrossed by the Senate last fall is conspicuous in its silence on this issue. Moreover, regardless of what arbitrary year or set of years we would compare future Lottery revenues to, the reality is sooner or later the retroactive look back will cover a period where the Lottery saw no growth and thus the local aid fund will not be supplemented with revenues generated by slot machines because there would be no “diminishment” in Lottery revenues. To put this another way, hypothetically, if we were to use the previous fiscal year’s revenues as our benchmark it would only have a practical effect for one year. As discussed above, we would expect to see a 15% reduction in revenues in FY 2006 with the net revenue impact being \$140,420,000. So in FY ’06, the Lottery would net a profit of approximately \$796,000,000 (approximately \$140,000,000 less than in FY ’05).⁷⁸ Now according to the provisions of the legislation engrossed by the Senate last fall, this \$140,420,000 loss would be compensated for by allocating \$140,420,000 in proceeds from slot machine revenues (60% of which would come from revenues that would have otherwise gone to the general fund) to the Lottery local aid fund. That’s great for FY 2006. The question is what happens in FY 2007 when the Lottery revenues stabilize at \$796,000,000 level? Looking back one year, the Lottery will have generated roughly the same amount of money as it did in FY 2006 and thus the supplement from slot machine revenues will be negligible. Therefore, the notion that we ‘hold the Lottery harmless’ by ensuring a certain growth is misleading. The reality is that as a result of authorizing of slot machines we would go from generating over \$936,000,000 in Lottery revenues to generating less than \$800,000,000 in just two short years.

The reality, and more importantly, the consensus, is that by authorizing slot machines we will be negatively and severely impacting Lottery revenues. To this end, one has to question why we would want to substitute a form of gambling wherein we as a Commonwealth retain approximately \$.24 out of every \$1.00 wagered for one where we retain only \$.06 for every \$1.00 wagered. Add to this the fact that it will have a devastating impact to the revenues of our cities and towns, and it is easy to conclude that, from the Commonwealth’s perspective, this is a lose/lose proposition.

machines at their pari-mutuel facilities (\$232.00) and the projected ANGR per machine, per day that the Christian Capital Advisors study was predicated upon (\$279.00).

⁷⁸ A number by the way which does not factor in future growth of the Lottery. From 1992-2005 the average growth of the Lottery was 4.95 percent annually.

5. The Regulation of Expanded Gambling.

At present the Commonwealth regulates the conduct of both ‘skilled’ and ‘unskilled’ wagering. Skilled wagering includes pari-mutuel wagering at the state’s four licensed pari-mutuel facilities and is regulated by the Massachusetts State Racing Commission while unskilled wagering includes the Lottery and charitable bingo and is regulated by the Massachusetts State Lottery Commission. Although it would seem that the start of a regulatory scheme for casino gambling is firmly in place, this is misleading. Consider the political reality of the existing structure. The Governor oversees the Massachusetts State Racing Commission while the State Treasurer oversees the Massachusetts State Lottery Commission. Thus, in any consideration of expanded gambling, one would have to inquire as to under whose authority would the regulatory agency with oversight of this complex multi-billion dollar industry fall? Would all three regulatory agencies be merged under one department, and if so, how would this work politically? And, how much would this regulatory scheme cost the Commonwealth? These questions need to be asked, and, more importantly, answered, lest we find ourselves with three different overlapping regulatory agencies.

As for the political question of where to house this regulatory agency, I will leave that for another time. The more germane question for the purposes of this report is how much will it cost the Commonwealth to establish and maintain a government bureaucracy whose sole mission will be to oversee a complex 24 hour a day, 7 day a week multi-billion dollar a year cash industry? In answering these questions, several factors must be considered.

First, we should examine what it costs to administer the Massachusetts State Lottery. In fiscal year 2004, the Massachusetts State Lottery Commission appropriated over \$73 million dollars (or approximately 1.7% of their gross sales) for administration, a number that allowed the Lottery to maximize the amount of revenue going back to cities and towns without sacrificing the quality of service.⁷⁹ Common sense would dictate that the regulation of a 24 hour a day, 7 day a week, multi-billion dollar a year cash industry would cost significantly more than the cost of administering the Lottery. Unfortunately, proponents have not provided us with any projections as to the cost of regulation, a cost that will be borne entirely out of the Commonwealth’s share of any revenues received as a result of slot machines/video lottery terminals.⁸⁰

Second, in considering the cost of regulating such a 24 hour a day, 7 day a week, multi-billion dollar a year cash industry, we must identify what kind of organizational structure this new agency would have. In reviewing the organizational structure of gaming commissions and agencies across the country, one can easily glean an idea of how such an agency should be structured. Suffice it to say that the organizational structure of a typical gaming commission goes far beyond the appointment of

⁷⁹ Source: Massachusetts State Lottery Commission.

⁸⁰ According to Senate Bill No. 2227, the ANGR shall be distributed in the following manner: 60% to the Commonwealth; 7% to pursues; 5% to the Massachusetts Live Racing Development Fund; 2% for local community mitigation; and 0.5% for compulsive gambling programs.

commissioners. In fact, the experiences of other states show us that, in addition to an appointed commission, we will at a minimum need an Executive Director to oversee day-to-day operations; a Deputy for Enforcement to oversee both compliance and licensing; a Deputy for Administration to oversee all fiscal, personnel and record-keeping issues including the accounting and auditing of the industry; a Deputy to serve as General Counsel to oversee all legal issues associated with the industry including licensing and enforcement hearings; and a Deputy for Corporate Securities and Finance to conduct financial reporting, gaming market analysis, financial suitability analysis of reported transactions, and tax collections. And, it goes without saying that all of these deputies will require large professional staffs (i.e., attorneys, accountants, investigators, etc). Thus, as you can see, the organizational structure is quite complex and consequently expensive.

It is reasonable to assume that the more complex an organizational structure, the more it will cost to operate. An analysis of the spending by other states indicates that the regulatory costs associated with gaming are approximately 10% of the ANGR. Therefore, if we assume that the average annual ANGR of the slot machines/video lottery terminals at the Commonwealth's four pari-mutuel facilities would be \$747,520,000, the annual cost of regulating slot machines for the Commonwealth would be approximately \$74,750,000.⁸¹

In light of the Lottery figures referenced above, \$74,750,000 is certainly a reasonable, if not a conservative, estimate for the expenses related to the regulation of a 24 hour a day, seven days a week, multi-billion dollar a year cash industry.

⁸¹ It is important to note that this cost would not include the cost of administering the Lottery.

6. The Wildcard: The Federal Indian Gaming Regulatory Act

Due to the political system within which we operate, i.e., a federal system with a supreme national government, any decision relative to expanded gambling must be guided by existing federal law, specifically the Indian Gaming Regulatory Act (hereinafter “federal law”).⁸² Pursuant to federal law, any federally recognized Native American Indian Tribe may engage in any form of gambling authorized by the state wherein said tribe is located.⁸³ In terms of the effect federal law would have upon Massachusetts if we authorize slot machines at the Commonwealth’s four pari-mutuel facilities, it would be, in a word, profound. If we authorize slot machines federal law is clear that, upon receipt of a written request from a federally recognized Native American Indian Tribe, the Commonwealth must negotiate a tribal-state gaming compact governing the conduct of class III gaming on the petitioner tribe’s reservation. The Commonwealth then has a maximum of 180 days within which to negotiate a compact with the tribe. If the compact is not settled within this 180 day time frame, federal law permits the tribe to initiate a cause of action in the Federal District Court for the District of Massachusetts.⁸⁴ Pursuant to federal law, the court will then appoint a mediator who will draft a compact and submit it to the Bureau of Indian Affairs for approval.⁸⁵ Presumably at this point the state will raise an 11th Amendment defense to the action and the court will dismiss the case.⁸⁶ However, in response to the holding of the United States Supreme Court in Seminole Tribe of Florida v. Florida, the Bureau of Indian Affairs has promulgated regulations prescribing procedures to permit class III gaming when a state interposes its 11th Amendment immunity from suit by an Indian Tribe.⁸⁷ Under the federal regulations, the Secretary of the Bureau of Indian Affairs has the legal authority to promulgate a tribal-state compact in the absence of good faith negotiation on the part of the state. It should be noted that there is no dispute that the power to regulate commerce with Indian Nations is an enumerated power of the federal government, and thus the regulations permitting the Secretary to promulgate tribal state compacts are prima facie constitutional.

Thus, the question becomes: what is the potential impact of federal law upon the Commonwealth if we authorize slot machines at the state’s four pari-mutuel facilities? In analyzing the impact of federal law, one must look to issues such as the proliferation of gambling, a weakening of the Commonwealth’s future bargaining position and the potential to substantially reduce any revenue that the Commonwealth might realize from slot machines at pari-mutuel facilities. Let us closely examine each issue.

⁸² See 25 U.S.C. § 2701-2721.

⁸³ Id.

⁸⁴ Id.

⁸⁵ Id.

⁸⁶ See Seminole Tribe of Florida v. Florida, 517 U.S. 44. (tribes are constitutionally precluded from bringing suit against recalcitrant states that do not consent to being sued).

⁸⁷ Id. See also *Class III Gaming Procedures*, 64 Fed. Reg 17535 (1999).

Proliferation:

The legal⁸⁸ and political⁸⁹ reality of expanded gambling indicates that the Commonwealth will see upwards of 16 gaming venues if we authorize slot machines at the state's four pari-mutuel facilities. Consider the following both tribal and non-tribal entities that are closely watching the debate.

1. Wampanoag Tribe of Gay Head (Aquinnah);⁹⁰
2. 6 additional tribes in various stages of the federal recognition process including:⁹¹
 - Cowasuck Band of the Pennacook—Abenaki People (Franklin);
 - Hassanamisco Band of the Nipmuc Tribe (Sutton);
 - Chaubunagungamang band of the Nipmuc Tribe (Dudley/Webster);
 - Pocasset Wampanoag Indian Tribe (Cheshire, Ct);⁹²
 - Wampanoag Tribe of Mashpee (Mashpee);
 - Federation of Old Plimoth Indian Tribes (Plymouth);
3. Salisbury Beach (Non-Indian);
4. Holyoke (Non-Indian);
5. Suffolk Downs (Harrah's Entertainment, Boston Herald 1-29-03);
6. Wonderland;
7. Plainridge;
8. Raynham;
9. Palmer (referendum);
10. Springfield (Boston Herald 12-6-02);
11. South Boston MGM Mirage (Boston Herald 1-29-03).

Now in the interest of full disclosure, it can be argued that the likelihood of all six of the referenced tribes being able to open a Tribal casino is remote. This is a fair argument insofar as most tribes are precluded from even applying for federal recognition because they lack the financial wherewithal to successfully complete the application process. In fact, the costs of seeking recognition can run into the hundreds of thousands of dollars and the process can take years. That being said, however, destitute Native American Tribes in state after state that have authorized class III gaming have soon found the needed financial backing to obtain recognition from commercial casino interests. These commercial casino interests are more than willing to underwrite the costs of the federal recognition process for the rights to develop and manage the Tribe's casino

⁸⁸ Specifically, the Federal Indian Gaming Regulatory Act.

⁸⁹ Elected officials from each corner of the state are clamoring for a venue in their jurisdiction, and the legislation engrossed by the Senate last fall permits the Gaming and Lottery Commission to issue an additional gaming license for an as yet to be named facility in Western Massachusetts.

⁹⁰ Officially recognized by the Federal Government on April 11, 1987. As a federally recognized Native American Tribe, it may engage in any gaming activity permitted in the Commonwealth of Massachusetts.

⁹¹ All of the tribes referenced have filed a letter of intent to petition for federal recognition. See *Federal Register, Part IV*, Department of Interior, Bureau of Indian Affairs.

⁹² The Tribe is headquartered in Connecticut but their tribal land extends into Massachusetts.

should the Tribe's application for federal recognition be granted.⁹³ In fact, even Tribes with questionable authenticity have been successful at obtaining recognition with the financial support of commercial casino interests.⁹⁴ If we authorize slot machines at the Commonwealth's four pari-mutuel facilities, one must question how long it would be before commercial casino interests step in and fund the costs of federal recognition for these marginal tribes, and we have several resort-style Native American Casinos operating in the Commonwealth.

The reality is that if Massachusetts authorizes slot machines at the four pari-mutuel facilities we could expect to see a vast proliferation of gambling in a relatively short period of time.⁹⁵ The political reality is that once gambling gains a foothold and state government becomes more and more dependent upon gambling revenues, expansion is unavoidable as are the inevitable concessions operators will seek. We need look no further than our own state Lottery for proliferation and our pari-mutuel industry for concessions. Our Lottery started off with the Daily Number. We added Megabucks, Mass Millions, Mass Cash, Big Game, and a Sunday Game. We went to twice weekly drawings on the weekly game, introduced Keno, instant tickets at Bingo, and now have up to 35 scratch tickets on sale at any given time. Once started, we kept expanding in an effort to generate more revenue. Most recently, the Lottery Commission authorized shortening the interval between Keno games from one every five minutes down to one every four minutes. Moreover, as discussed previously, we have made numerous concessions to our pari-mutuel industry. Consider that we allow them to simulcast their own sports (dogs get dogs, horses get horses). We then gave them increased simulcasting rights, an increased capital expense fund, increased purse money out of taxes, phone betting, and more flexibility. In 1996, track owners requested 700 slot machines, and immediately increased that request to 800, and then, in subsequent sessions, they increased their request up to 1,500. Now their bill this session is seeking 2,000 slot machines at each facility.⁹⁶

Negative Impact on Bargaining Position:

First, it is essential to note that the negotiation of a tribal-state gaming compact does not only involve an agreement as to a tax rate. It is far more complex. Pursuant to the United States Constitution, Native American Tribes are considered sovereign nations. Thus, unless specifically agreed to in a tribal-state gaming compact, the laws and regulations of the Commonwealth of Massachusetts will not apply on tribal land.⁹⁷

⁹³ See generally *Look Who's Cashing-In At Indian Casinos*, Time Magazine December 16, 2002.

⁹⁴ *Id.*

⁹⁵ It is important to note that this would not include restaurants and taverns in Massachusetts. The Massachusetts Restaurant Association has stated publicly that if slot machines are authorized, restaurants and taverns should be allowed a minimum of three slot machines in order to try and remain competitive.

⁹⁶ One need only look to Louisiana to prove that as soon as casinos gain a foothold they seek concessions. Harrah's Entertainment which operates a casino in Louisiana recently sought a 50% tax break arguing that without it they would at a minimum lay off employees and at a maximum cease operations. In short, it demonstrates that casinos do not provide a stable form of revenue.

⁹⁷ See *Mashantucket Pequot Tribe v. State of Connecticut*, 737 F. Supp. 169 (1990), certiorari denied 499 U.S. 975 (holding state could not impose statutory restrictions on sovereign Native American Tribe without consent).

Consequently, in order for the Commonwealth's civil and criminal statutes to apply on tribal land, the tribe must consent to such an application in a duly negotiated tribal-state compact.⁹⁸ The same holds true for state regulations. Consider that unless specifically provided for in a compact, Native American casinos in Massachusetts will not be subject to such things as state and local regulations relative to alcoholic beverages, environmental impact reviews, local land ordinances, permitting, labor laws, etc. In fact, the State of Connecticut has been unable to enforce state environmental review, permitting, and law enforcement regulations against Foxwoods and Mohegan Sun.⁹⁹ If the Legislature authorizes the installation of slot machines at Commonwealth's four pari-mutuel facilities, it would significantly handicap the Commonwealth's bargaining ability when (not if) a tribe (or more likely tribes) requests that the state enter into negotiations for a tribal-state gaming compact. The Commonwealth's bargaining position with Native American Tribes would be paramount if, as part of the negotiations, we agreed to authorize class III gaming (i.e., slot machines). If, however, we authorize class III gaming prior to negotiations with a tribe or tribes, we will be at a significant competitive disadvantage. As I have spelled out above, the Federal Indian Gaming Regulatory Act is clear: a federally recognized Native American Tribe may engage in any form of gambling authorized by the state within which said tribe is located.¹⁰⁰ From a state perspective, negotiations become significantly more complicated when the state has already authorized class III gaming. Tribes are in a better negotiating position due to the fact that if a state fails to negotiate in good faith, they have a clearly defined recourse under federal law.

Revenue Implications:

The Indian Gaming Regulatory Act specifically prohibits states from imposing taxes or fees on Indian gaming unless they are the result of a tribal-state compact. These taxes and fees, however, are only intended to compensate the state for its costs relative to regulation under the tribal-state compact. Thus, if the Commonwealth finds itself in the unenviable position of having a compact imposed upon it by the Federal Bureau of Indian Affairs, you can rest assured that the tax rate established for regulatory compensation will be minimal (and not even close to 60%). If, however, we negotiate with the Native American Tribes prior to authorizing class III gaming, we would be poised to garner a more substantial percentage of the ANGR in return. Moreover, it should be noted that, unless provided for in a tribal-state compact, sovereign Tribal Nations are not subject to state taxation on business activities conducted inside their borders. This becomes relevant insofar as approximately 35% of a resort casino's revenues are derived from non-gaming activities, i.e., movie theaters, shopping malls, restaurants, etc.¹⁰¹

⁹⁸ See Rhode Island v. Narragansett Indian Tribe, 19F. 3^d 685, 690 (1st Cir. 1993) (holding "the very structure of [IGRA] forbids the assertion of state civil or criminal jurisdiction over class III gaming except when the tribe and the state have negotiated a compact that permits state intervention).

⁹⁹ Source: Massachusetts Audubon Society letter to members of the General Court. October 28, 2003.

¹⁰⁰ See generally, 25 U.S.C. 2701.

¹⁰¹ All areas that the state presently receives taxes on that we would be poised to lose to a Tribal casino.

It should also be noted that proponents have failed to discuss the effect that Tribal casinos would have upon tax receipts from slot machines at the pari-mutuel facilities, not to mention the effect that building competing casinos in neighboring states would have upon the bottom line. That is to say, even if we concede that slot machines at the pari-mutuel facilities will generate \$448,572,000 in net tax revenue, one must ask what impact the opening of a Tribal resort casino would have on this revenue stream. Assuredly, an in-state Tribal resort casino would siphon gaming dollars away from the pari-mutuel facilities to the detriment of the Commonwealth. In fact, a recent survey revealed that only 4% of Rhode Island gamblers patronized the slot machines at in-state pari-mutuel facilities while a staggering 88% continued to go to either Foxwoods or Mohegan Sun in Connecticut.¹⁰² The authors of the survey concluded that these lopsided figures are based on the fact that gamblers do not perceive the pari-mutuel facilities as ‘casinos.’¹⁰³ Moreover, when these Tribal resort casinos begin operations how long will it be before the pari-mutuel facilities appeal to the Legislature to reduce their tax rates so that they are competitive with these resort casinos? That is to say that, from a state revenue perspective, we will lose revenue as soon as competing Tribal casinos begin operation, and then we will be poised to lose even more revenue when the owners of the pari-mutuel facilities seek a reduction in their tax rate in order to compete with these new casinos and maintain the jobs at their facilities.¹⁰⁴

Finally, it is important to note that although state revenues will certainly be negatively impacted by the opening of Tribal casinos, there is one constant that we can rely on—the costs associated with expanded gaming. The costs will remain while the “benefits” are poised to disappear.

¹⁰² See *Bettors Love Conn. Casinos*, *The Call*, October 1, 2003.

¹⁰³ *Id.*

¹⁰⁴ Again, one need only look to Louisiana to prove that as soon as casinos gain a foothold they seek concessions. Harrah’s Entertainment which operates a casino in Louisiana recently sought a 50% tax break arguing that without it they would at a minimum lay off employees and at a maximum cease operations. In short, it demonstrates that casinos do not provide a stable form of revenue.

Conclusion

Proponents have alleged that authorizing slot machines at the state's four pari-mutuel facilities will be an economic panacea for both the industry and the Commonwealth. In fact, before they can even count the revenue, proponents have made grandiose promises on how it will be spent, funding a myriad policy initiatives ranging from increased local aid to universal health care. Unfortunately, the economic reality of introducing slot machines/video lottery terminals precludes us from adopting their optimistic revenue outlook.

As we have throughout this report, let us assume that the annual adjusted net gaming revenue (ANGR) from 8,000 slot machines/video lottery terminals at the Commonwealth's four pari-mutuel facilities will be \$747,520,000.¹⁰⁵ Prior to any of these funds being distributed, however, any "diminishment" in Lottery revenues must be offset.¹⁰⁶ Thus, assuming (conservatively) that the diminishment in Lottery revenues will be \$140,420,000,¹⁰⁷ the actual ANGR which will be taxed by the Commonwealth would be \$607,100,000. Now if, as the study relied on by proponents hypothesizes, 80% of customers patronizing slot machines/video lottery terminals at the pari-mutuel facilities are Massachusetts residents spending disposable income they would have, but for slot machines, spent in some other sector of the Massachusetts economy, then this revenue cannot be considered "new" revenue for the Commonwealth. Put another way, even if slot machines/video lottery terminals are not authorized, the Commonwealth will collect 80% of the total ANGR via other sectors of the economy. Thus, only 20% of the ANGR can be considered "new" revenue for the Commonwealth. Consequently, the actual ANGR drops to \$121,420,000 (i.e., 20% of \$607,100,000). Assuming a tax rate of 60%, the Commonwealth is poised to collect \$72,852,600 in net tax revenue. Now assuming that the cost to regulate this multi-billion dollar a year cash industry will be similar to those of other states, which means the costs will be approximately 10% of the ANGR, the regulatory costs for the Commonwealth will be approximately \$74,750,000 (or 10% of \$747,520,000). Consequently, authorizing slot machines at the Commonwealth's four pari-mutuel facilities will result **in an annual deficit** of \$1,897,400 (i.e., the \$74,500,000 cost of regulation subtracted from the \$72,852,600 ANGR).

Now for the sake of analysis let us concede the proponents' projection that in year one the adjusted net gaming revenue (ANGR) from 8,000 slot machines/video lottery terminals at the Commonwealth's four pari-mutuel facilities will be \$814,680,000. Prior to any of these funds being distributed, however, any "diminishment" in Lottery revenues must be offset.¹⁰⁸ Thus, assuming (conservatively) that the diminishment in Lottery revenues will be \$140,420,000¹⁰⁹ the actual ANGR which will be taxed by the

¹⁰⁵ Again, this figure is predicated upon the ANGR of each slot machine/video lottery terminal being \$256.00 per day.

¹⁰⁶ See Senate Bill 2227.

¹⁰⁷ This number represents 15% of the Lottery's FY 2005 net revenues which were \$936,133,995. It should be noted, however, that this number could exceed 30%.

¹⁰⁸ See Senate Bill 2227.

¹⁰⁹ This number represents 15% of the Lottery's FY 2005 net revenues which were \$936,133,995. It should be noted, however, that this number could exceed 30%.

Commonwealth would be \$674,260,000. As we discussed above, if only 20% of this can be considered “new” revenue the actual ANGR drops to \$134,852,000 (i.e., 20% of \$674,260,000). Assuming a tax rate of 60% the Commonwealth is poised to collect \$80,911,200 in net tax revenue. Now once we subtract the \$81,468,000 cost associated with regulation (i.e., 20% of the \$814,680,000 ANGR) we would be faced with a deficit of \$556,800. Thus, even applying the revenue projections relied on by the proponents themselves, in terms of tax revenue, the Commonwealth does not even break even.

The direct costs of authorizing slot machines/video lottery terminals are quite sobering, and more importantly, irrefutable. But, unfortunately, they do not represent the only costs to the Commonwealth of authorizing slot machines/video lottery terminals at the four pari-mutuel facilities. In conducting any cost-benefit analysis related to expanded gambling one must consider the significant indirect costs, including the impact of the Indian Gaming Regulatory Act, as well as the impact of social costs, upon any revenues that may be generated. Unfortunately, no one comprehensive study of the social impacts of casino gambling exists. That being said, however, virtually everybody agrees that there will be some impact to the rate of compulsive gamblers in the Commonwealth. In fact, statistics indicate that the rate of pathological gambling addiction is significantly higher the closer a population is to a gaming venue. The costs associated with an increase in pathological gambling must be addressed in any cost/benefit analysis of expanded gambling.¹¹⁰ Moreover, add to this the fact that there is a plethora of anecdotal evidence to suggest that gambling revenues will be significantly impacted by an increase in the overall cost to society in the form of such intangibles as divorce, suicide, bankruptcy, declining property values, a decline in affordable housing, an increase in crime rates, an increase in traffic, etc., anecdotal evidence that was so profound that it was one of the major factors that led the National Gambling Impact Study Commission to recommend a moratorium on the expansion of gambling in 1999.¹¹¹ Thus, any cost-benefit analysis of expanded gambling in the Commonwealth must examine not only the direct costs associated with expanded gambling, such as the cost of economic transfer, the cost of regulation, and the impact to the Lottery, but also the indirect costs associated with expanded gambling, such as an increase in pathological gambling, other social costs, infrastructure costs, and costs associated with public safety.¹¹² From a state revenue perspective, these costs are as real as they are significant. In fact, a 1999 study of the impact of machine gambling on the State of South Carolina concluded that “the bottom line is that machine gambling is a major cost for the State of South Carolina. The society

¹¹⁰ Howard Shaffer, head of the Harvard Medical School’s Center for Addiction Studies, estimates that that between 3.5 to 5% of those exposed to gambling will develop into pathological gamblers. Moreover, it has been estimated that the average annual cost to the public of a pathological gambler is anywhere between \$13,600 and \$52,000. To put this in context, using the lowest numbers, based on a population of 6.4 million people, Massachusetts could expect approximately 240,000 people (approximately 3.5% of our population) to be pathological gamblers.

¹¹¹ See The National Gambling Impact Study Commission, Final Report, June 1999.

¹¹² As a point of reference, it should be noted that in 1997, then Attorney General Scott Harshbarger estimated the public safety related costs of expanded gambling to be approximately \$48,000,000 annually.

and economy of South Carolina loses over \$424 million each year because of the machines. And this assessment downplays about all of the costs identified.”¹¹³

In conclusion, if we acquiesce in the political view—and it is a profoundly political view—that slot machines at the Commonwealth’s four pari-mutuel facilities will save the pari-mutuel industry and generate hundreds of millions of dollars in new revenues, we will be abdicating our responsibility as policy makers and ignoring the economic realities of expanded gaming. Those realities being that the pari-mutuel industry will not survive, the revenues will not materialize, and we will forever alter the Commonwealth’s economic, political, legal and social culture for no compelling reason.

¹¹³ See Thompson, William N. and Frank L. Quinn, *An Economic Analysis of Machine Gambling in South Carolina*, May 18, 1999.

Appendices

Appendix A

Revenue Statistics of Other States **With Pari-Mutuel Slot Machines**

State	# of machines	ANGR	ANGR / Machine / Day	Source
Louisiana	4,500	\$314,960,518	\$192	Louisiana Gaming Control Board/Various Racetracks
New Mexico	2,242	\$174,330,134	\$213	New Mexico Gaming Control Board, Gaming Licensees, Quick Facts
Rhode Island	4,072	\$399,315,900	\$269	Rhode Island Lottery, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2005
West Virginia	10,802	\$882,400,000.00	\$224	West Virginia Lottery, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2004
Delaware	6,464	\$573,751,100.00	\$243	Delaware State Lottery, Monthly Proceeds & Track Data for the Video Lottery, Fiscal Year Ending June 30, 2005
Iowa -- Racetracks	3,736	\$340,843,941	\$250	Iowa Racing & Gaming Commission, Track Revenue Gaming Report for Fiscal Year 2005 (Slots Revenue Only)

Appendix B

Massachusetts Lottery Financial Statistics