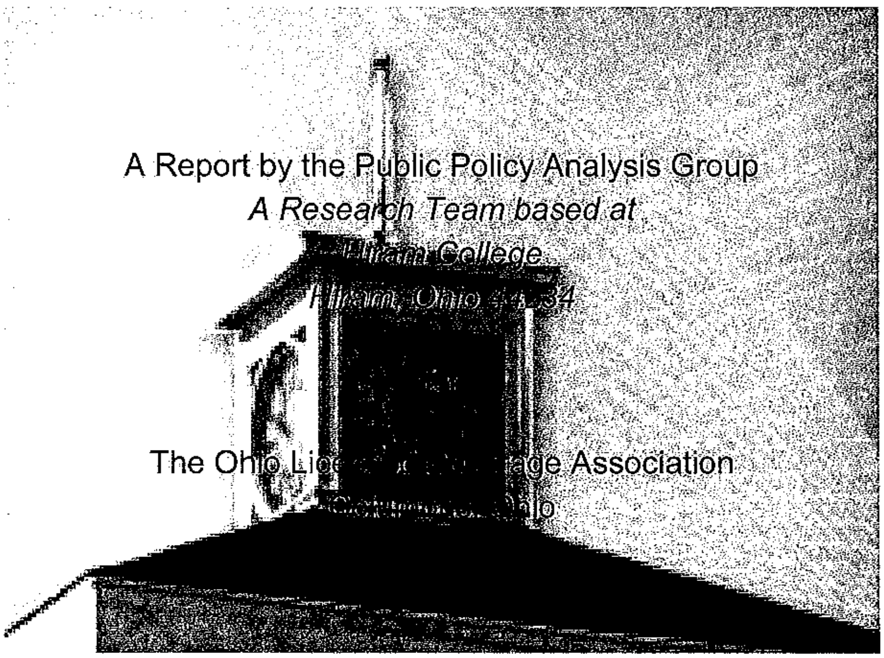
STATEWIDE ECONOMIC and SOCIAL FACTORS RELATED to BALLOT ISSUE 3

(Ohio General Election, November 3, 2009)



A Report by the Public Policy Analysis Group

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I. INTRODUCTION

Statewide Issue 3 on the November 3, 2009, general election represents the latest attempt by interested parties to amend Article XV, Section 6 of the Ohio Constitution so that Casino gaming is authorized in the State of Ohio.

The amendment is very specific. It defines exactly how taxes on casino revenues shall be distributed, that exactly one casino shall be located in each of Cleveland, Cincinnati, Columbus, and Toledo, and even where, exactly, the casinos shall be located within the cities. This latter section of the amendment means, of course, that the current property owners of the specified casino locations have considerable leverage over who obtains the actual licenses needed to operate the casinos. These licenses would grant regional casino gaming monopolies to the owners of the four casinos within the State of Ohio. Only a future amendment to the Ohio Constitution could change that situation.

Since Issue 3 has been certified for inclusion on the November ballot, campaigning for and against the issue has begun. The various elements of this campaigning have been all too familiar to Ohio citizens who have been through this already four times since 1990. Predictably, there have been newspaper articles and editorials, endorsements by various groups, and intense advertising in every form of media. Equally predictably, new committees and organizations have been formed with names intended to convey a message that they stand only for what is good for the State of Ohio. One of these groups, the "Ohio Jobs and Growth Committee," is the political action committee that filed the paperwork with the Ohio Attorney General's office to place Issue 3 on the ballot. To help make its case for the benefits of Issue 3, the Ohio Jobs and Growth Committee commissioned a group of researchers at the University of Cincinnati College of Business to conduct an economic impact study (Economics Center, 2009). The results of this study were released this past June. The highlights of this study, especially the assertion that Issue 3 would create "34,000 jobs." have been quoted frequently in pro-Issue 3 advertising, with the report's cover even featured in one television spot.

The UC Economics Center Report provides a detailed study of potential new economic and fiscal <u>impacts</u> of the proposed casinos. However, the Report's disclaimer acknowledges that the Report does not address the full "range and nature of the potential impacts of casinos" and that the Report abstains from discussing issues such as "impacts on surrounding businesses, ability to generate tourism, impacts on other gambling institutions, such as the state lottery, and perceived social costs." Therefore, the Report is not an appropriate basis for a full consideration of the factors surrounding Issue 3.

In August, a research team based at Hiram College was asked to conduct a study of economic and social factors related to Issue 3 by the Ohio Licensed Beverage Association, a long-established industry association concerned about the impact of Issue 3 on established hospitality venues in the four cities where the new casinos would be located. The Hiram team accepted the invitation, with the understanding that the study would aim to provide an objective analysis of the full benefits and costs associated with the introduction of casino gaming in the State of Ohio as envisioned by Issue 3. This report begins with a brief summary of our findings, which consist of carefully reasoned conclusions and judgments, and also the identification of key unanswered questions. The report then continues on with a discussion of each finding. As much as possible, we have based our analyses and conclusions on scholarly, peer-reviewed prior research.

Casino gaming is a very lucrative industry. One measure of the validity of that statement is that more than $36M was spent to defeat the Ohio casino proposal sponsored by rival companies last year. It is regrettable for the citizens of Ohio that ballot initiatives are the process that is used to make decisions of such enormous economic magnitude. One might hope for a more open process through which casinos might be legalized with the direct involvement of elected officials, negotiating to balance costs and benefits to achieve what is best, on balance, for all Ohio citizens. Nevertheless, we are now in the middle of the process we do have. It is our hope that this report will contribute to the right outcome on November 3 by adding clarity, coherence, and completeness to the available information.

NOTE: The views expressed in this report are those of the authors and do not necessarily represent positions endorsed officially or otherwise by Hiram College.

II. SUMMARY of FINDINGS

A. Impact on Employment for Ohio Residents

1. Overall, the UC Economics Center Report (Ohio Jobs and Growth Committee) is an economic impact study, not a full cost/benefits study. It estimates certain economic benefits for the state and local communities, and by implication projects benefits for the casino owners, but it fails to measure important costs, especially job losses in competing hospitality venues and social costs.

2. The vast majority of the casino jobs created by Issue 3 will be low-paying. Moreover, the long-term value of many of these jobs can be questioned because the skills needed by many casino workers are not easily transferred to other businesses and industries.

3. The widely-reported claim of "34,000 new jobs" is misleading because it includes substantial numbers of temporary jobs and part-time jobs. In addition, research indicates that many non-casino jobs in the local communities will be lost as a result of casino activity. According to E.L. Grinols (testimony before the US Congress, April 30, 2003), the combination of a regional casino with 80-90% local patrons and out-of-state ownership makes it likely that there will be a net loss of area jobs in the new casino locations.

B. Franchise Fees

1. Franchise Fees are substantially higher in some states. Why is Ohio selling its licenses for only $50M – one fifth the cost of a casino franchise in Indiana? According to a recent *Plain Dealer* editorial (8/23/09), "a planned Illinois casino ,has a licensing fee of $400M, two Indiana racetrack casinos have a $250M licensing fee each, in Massachusetts a discussion of a $500M fee each for two casinos." Shouldn't these valuable State of Ohio resources be auctioned to the highest bidder?

2. Why should the Cleveland license cost no more than the Toledo license when it includes a casino monopoly with a much greater local population and much greater distances to adjacent casinos?

3. Why should the franchise fee for a full-scale casino ($50M) cost less than the

cost of a slot machine license ($65M) at the seven designated race track venues? Why is there no expiration date on the casino license, but the racino license is only good for ten years?

4. The franchise fees also appear to be a bargain when compared to the current value of some existing casinos. For example, the initial investment in each of the four casinos, from about $300M in Toledo to about $575M in Cleveland, is substantially less than the value of a casino recently sold in Indiana, $675M (Indiana Gaming Commission, 2008 Annual Report).

C. Tax Rates and Revenue Estimates

1. Casino revenues in the 12 states with state-licensed casinos are declining, by approximately 3% from 2007 to 2008, and 8% from 2008 to 2009. A variety of factors explain this decline, including the recession, but there is also evidence that the decline is caused by saturation in the casino industry (New York Times, 9/10/2009). Thus, the revenue estimates based on past data have to be considered questionable.

2. "Gross Revenues," upon which taxes are based, are really amounts wagered, discounted by winnings. Thus a more appropriate term is "net gambling losses."

3. The UC Economics Center Study projects taxes on gross revenues to be $651M. Put another way, this means that Ohio gamblers (almost all Ohio residents) will have net gambling losses of about $2 billion. $651M is distributed in Ohio according to the Issue 3 tax formulas, but the other two-thirds, $1.35 billion, is gross revenue for the new casino owners.

4. Past predictions of gambling revenues in Ohio have been unreliable, even in good times. For example, Keno was projected to have annual revenues of $73M, but actual revenues were less than half of that figure ($30M) (Columbus Dispatch 8/21/2009)

5. The tax rate for the proposed casinos does not cover the costs imposed on the citizens of the State of Ohio, contrary to "standard public-finance corrective theory for an industry with externalities." (Grinols, 2004, p 183) According to Grinols, the appropriate tax rate should be 45 to 70 percent, not 33 percent. If the right tax rate for Ohio is at the midpoint of this estimate (i.e., 57%, approximately the same as Pennsylvania's rate of 55%), Ohio is surrendering $473M annually by agreeing to a tax rate of only 33%.

D. Impact on Existing Non-Casino Business

3. Research shows that regional casinos do not spur significant other development in the immediate vicinity of the casino. In fact, there is evidence that regional blight develops, especially as local businesses close. The latter effect can be observed directly in areas such as Atlantic City. Casinos are specifically designed not to partner with other businesses in the immediate vicinity – they provide food, lodging, and entertainment under one roof to minimize the need for patrons to leave the premises.

4. The UC Economics Center Study concludes that current levels of state and local sales and other taxes will fall by $22.8M because "some of the money that will be spent in the casinos consists of a substitution for current spending on other goods and services in Ohio." If these taxes average about 10%, this means that those existing Ohio businesses that provide the "other goods and services" would stand to lose more than $225M in sales as a result of the presence of casinos.

E. Competition Factors

1. In the national competition for gamblers' dollars, the best situation would be for in-state casinos to attract mostly out-of-state patrons. However, the vast majority (80-90%) of casino patrons at the proposed new Ohio casinos are likely to be from Ohio.

2. Gamblers in adjacent states (Indiana, Michigan, and Pennsylvania) are unlikely to travel to Ohio because their in-state casinos are closer.

F. Social Costs and Benefits

1. Research shows that divorce rates and bankruptcies increase significantly among casino gamblers. For example, a survey by SMR Research Corporation (1997, p. 118) showed that "20% of compulsive gamblers has (sic) filed for bankruptcy as a result of their gambling losses."

2. Research has demonstrated that gambling addiction rates double within 50 miles of a casino. (Grinols 2004) Moreover, a casino within ten miles of home yields a 90% increased risk of becoming a pathological or problem gambler.

3. Using the most conservative estimates, Grinols *et al.* (2001) have calculated that "casino gambling fails a cost-benefit test by a ratio of 1.9 to one or greater." This means that in a true reckoning of the social benefits and costs of casinos, there are $2 in costs to the larger community for every $1 in benefits.

4. Costs of casino gaming fall disproportionately upon middle and lower socioeconomic classes, and the elderly.

G. Interactions: Racing Track Slots, Casinos, and the Ohio Lottery

1. Right now, projections for new tax revenues from gambling in the State of Ohio exist for both the racino plan and the Issue 3 casino plan. Each of these estimates have been made independently, assuming no gambling competition from within the state. Therefore it is likely that neither the racinos, with 17,500 slot machines, nor the casinos, with 20,000 slot machines and a full array of other gaming activities, will be as successful as projected. Beyond this important question there is another: How will the Ohio Lottery and charitable games be affected by racinos or casinos or both?

III. DISCUSSION, METHODOLOGY and EVIDENCE for FINDINGS

In this section, we discuss each of the Section II findings (in italics) in more detail. We describe research studies supporting the findings, we present additional information related to the finding, and we provide the details of calculations and other analyses upon which some of the findings rest.

A. Impact on Employment for Ohio Residents

1. *Overall, the UC Economics Center Report (Ohio Jobs and Growth Committee) is an economic impact study, not a full cost/benefits study. It estimates certain economic benefits for the state and local communities, and by implication projects benefits for the casino owners, but it fails to measure important costs, especially job losses in competing hospitality venues and social costs.*

   - As noted by the National Research Council (1999), "Economic impact studies often fail to explain the potential for one expenditure to displace another." As noted in the report's disclaimer, the UC Economics Center report has this limitation. It fails to take into consideration the social costs generated by a new casino and it fails to consider the impact on surrounding business. Modern casinos tend to be self-contained. Within the casino there will be several restaurants in addition to gambling. The design encourages patrons to remain inside the casino for the entire time of their visit. They are not encouraged to leave the casino to purchase lunch or dinner at a neighboring business. In fact casinos send patrons discount coupons for meals that are eaten in the casino, or provide senior citizens with special meal discounts. The negative impact on existing businesses is not considered by the study.

2. *The vast majority of the casino jobs created by Issue 3 will be low-paying. Moreover, the long-term value of many of these jobs can be questioned because the skills needed by many casino workers are not easily transferred to other businesses and industries.*

3. *The widely-reported estimate of 34,000 jobs is misleading because it includes substantial numbers of temporary jobs and part-time jobs. In addition, research indicates that many non-casino jobs in the local communities will be lost as a result of casino activity. According to E.L. Grinols (testimony before the US Congress, April 30, 2003), the combination of a regional casino with 80-90% local patrons and out-of-state ownership makes it likely that there will*

be a net loss of area jobs in the new casino locations.

- The Pennsylvania Gaming Control Board notes that the two new casinos (Sands Casino Resort Bethlehem and the Rivers Casino in Pittsburgh) generated 2,045 new jobs. This figure is an average of slightly more than 1,000 employees per casino. This figure is substantially below the figures presented by the supporters of Issue 3. There is no inherent difference that can be ascertained between casinos in one state versus another state. Why would a casino in Ohio require 4-5 times as many employees as a casino in Pennsylvania? This question becomes even more intriguing when one looks at other states. The American Gaming Association reports that Indiana has thirteen (13) casinos with 16,040 employees or 1,234 per casino. Illinois has 9 casinos with 7.711 employees or 857 per casino. Colorado has 40 locations with 9,073 jobs or 227 per casino. Florida has 2,201 jobs with 3 casinos or 734 per casino. Michigan is one of the highest employment states for casinos with 8,568 jobs in 3 locations or 2,856 per casino. It would appear that casinos across the nation employ far fewer individuals than contended by supporters of Issue 3. (www.americangaming.org)

B. Franchise Fees

1. *Franchise Fees are substantially higher in some states. Why is Ohio selling its licenses for only $50M – one fifth the cost of a casino franchise in Indiana? According to a recent Plain Dealer editorial (8/23/09), "a planned Illinois casino ,has a licensing fee of $400M, two Indiana racetrack casinos have a $250M licensing fee each, in Massachusetts a discussion of a $500M fee each for two casinos." Shouldn't these valuable State of Ohio resources be auctioned to the highest bidder?*

2. *Why should the Cleveland license cost no more than the Toledo license when it includes a casino monopoly with a much greater local population and much greater distances to adjacent casinos?*

3. *Why should the franchise fee for a full-scale casino ($50M) cost less than the cost of a slot machine license ($65M) at the seven designated race track venues? Why is there no expiration date on the casino license, but the racino license is only good for ten years?*

4. *The franchise fees also appear to be a bargain when compared to the current value of some existing casinos. For example, the initial investment in each of the four casinos, from about $300M in Toledo to about $575M in Cleveland, is substantially less than the value of a casino recently sold in Indiana, $675M (Indiana Gaming Commission, 2008 Annual Report).*

C. Tax Rates and Revenue Estimates

1. *Casino revenues in the 12 states with state-licensed casinos are declining, by approximately 3% from 2007 to 2008, and 8% from 2008 to 2009. A variety of factors explain this decline, including the recession, but there is also evidence that the decline is caused by saturation in the casino industry (New York Times, 9/10/2009). Thus, the revenue estimates based on past data have to be considered questionable.*

   - Casino revenues are declining. For example, the Casino Control Commission reports that Atlantic City casino profits are down 19.8% compared with the collections by the collective casinos for the second quarter of 2009. This was a decline from $247.3 million in the second quarter of 2008 to $198.4 million for the second quarter of 2009. A decline of $48.9 million. The saturation of casinos and the general economic condition of the nation both would seem to be contributing factors. Neither of these factors appears to have been included in the UC Economics Center report. If they were included there is no indication of how these declining factors affect the estimated revenues suggested by the supporters of Issue 3. (www.yogonet.com) (www.pgcb.state.pa.us)

   - The New York Times on September 10, 2009 states, using data from the Nelson A. Rockefeller Institute of Government at the State University of New York, that the year-over-year change in casino revenues from all states fell 3% in 2008 and about 8% so far in 2009. There were significant losses of casino revenue in Nevada, Colorado, Illinois, Michigan, Mississippi, Louisiana, and New Jersey with Pennsylvania recording a large increase because the casinos were just opened in that state. The negative change in lottery revenue was also very dramatic in most states.

2. *"Gross Revenues," upon which taxes are based, are really amounts wagered, discounted by winnings. Thus, a more appropriate term is "net gambling losses."*

- There is only a certain amount of money available for recreation and entertainment. In order to exceed this amount most families must divert scarce resources from paying utilities, food purchases, home mortgages or other essentials. Since most of the patrons will live within a 35 mile radius the gambling activity generates a largely zero sum game. The casinos are better off by the amount that the region's residents are worse off. There is no real growth in wealth to the region, simply a redistribution of income from one group to another group. In fact if the casino owners are outside the region the situation can be worse for the region. The outside-the-region owners are likely to take the profits from the casino out of the region for investment and expenditures in another part of the country. This leaves the region with less not more wealth.

3. *The UC Economics Center Study projects taxes on gross revenues to be $651M. Put another way, this means that Ohio gamblers (almost all Ohio residents) will have net gambling losses of about $2 billion. $651M is distributed in Ohio according to the Issue 3 tax formulas, but the other two-thirds, $1.35 billion, is gross revenue for the new casino owners.*

   - The estimated $2B in gambling losses ("gross revenues") at the Ohio casinos is presented as an economic benefit for the state. As Grinols has noted, this is true only to the extent that the gambling losses are incurred largely by out-of-staters, and to the extent that the casino's share of these revenues (two-thirds) is spent and reinvested in the state. The latter is questionable, and the former is certainly not true at all.

4. *Past predictions of gambling revenues in Ohio have been unreliable, even in good times. For example, Keno was projected to have annual revenues of $73M, but actual revenues were less than half of that figure ($30M) (Columbus Dispatch 8/21/2009)*

5. *The tax rate for the proposed casinos does not cover the costs imposed on the citizens of the State of Ohio, contrary to "standard public-finance corrective theory for an industry with externalities." (Grinols, 2004, p 183) According to Grinols, the appropriate tax rate should be 45 to 70 percent, not 33 percent. If the right tax rate for Ohio is at the midpoint of this estimate (i.e., 57%, approximately the same as Pennsylvania's rate of 55%), Ohio is surrendering $473M annually by agreeing to a tax rate of only 33%.*

   - The Plain Dealer reports that other states in this region of the nation enjoy greater revenue from casinos. Pennsylvania has a maximum tax rate of

55%; Illinois has a rate of 50%; Indiana has a rate of 35%, while Ohio proposes a rate of 33%. If Ohio had a rate of 55% similar to Pennsylvania and one used the estimated revenue provided by the supporters of Issue 3, the Ohio total tax revenue would be about $1.08 billion rather than $651 million. The State of Ohio and its residents would enjoy an additional $357 million each year. Why should the citizens of Pennsylvania enjoy higher tax revenues than the citizens of Ohio?

D. Impact on Existing Non-Casino Business

1. *Research shows that regional casinos do not spur significant other development in the immediate vicinity of the casino. In fact, there is evidence that regional blight develops, especially as local businesses close. The latter effect can be observed directly in areas such as Atlantic City. Casinos are specifically designed not to partner with other businesses in the immediate vicinity – they provide food, lodging, and entertainment under one roof to minimize the need for patrons to leave the premises.*

    - The UC Economics Center study needs a full accounting of dollar flows to properly account for regional economic benefits and costs. Only such a study can ascertain if gambling activities are generating economic growth and creating more jobs than it loses. On the surface one would anticipate a negative impact on the local economy not a positive impact. The structural economic problems of Ohio can not be solved with the introduction of four casinos that do not bring outside wealth to the State but simply reshuffle existing wealth or reduce existing wealth. A casino is not an economic growth vehicle. An industry that generates real economic growth requires secondary industries for support of services. This would have a true multiplier effect on Ohio's regions. Such industries would sell goods and services outside the region which would bring new wealth back to the region. A casino does not have such an impact. It sells no goods to the outside. It is a stand-alone facility. It is not a generator of wealth to the citizens of Ohio.

    - In an exhaustive study of retail business receipts near casinos in Illinois, Grinols (2004) concluded that revenues were up, or mixed, near casinos, but only at the expense of sales further away. Moreover, Grinols states that the data for increased sales close to the casinos is inconclusive because it includes sales at the casinos

    - The small retail businesses around the four casinos will likely be very adversely affected by these new enterprises. According to Alfonso Oddo in the Saturday, March 22, 1997 issue of the Review of Business who quotes T. Grey in testimony before the House Judiciary Committee on September 29, 1995, "The number of retail businesses in Atlantic City declined by one-third." The number of restaurants "declined from 243 in 1987 to 146 in 1997. Only about 10 percent of the businesses nearest to the casino locations in 1976 are still open today." Grey concludes, "The gambling enterprise cannibalizes existing businesses, stealing their customers and revenues. At the same time, gambling establishments bring new social costs that are inevitably paid by business."

- A casino's indirect effects depend on new net job creation and new net customer spending that is not reallocated from existing employment in the city and or state and not reallocated from spending on other goods and services. It is likely that most of the indirect effects projected by the UC study are negated by the substitution of casino spending and new employment that displaces the current employment and spending from existing local entertainment businesses and by local consumers. According to Heather Brome, a policy analyst at the Federal Reserve District Bank of Boston (New England Public Policy Center memo 9/14,2006): Steve Wynn, a major casino operator, said this to local businessmen in Bridgeport, CT, when they were considering the value of a casino: "There is no reason on earth for any of you to expect for more than a second that just because there are people here , they're going to run into your restaurants and stores just because we build this building (casino) here." Brome went on to say that "Casinos that cater to a local market generally do not bring outside money into the economy through the spending of their patrons. In fact such casinos may have no ancillary benefit. Residents who patronize such casinos may simply substitute gambling for other goods and services."

2. *The UC Economics Center Study concludes that current levels of state and local sales and other taxes will fall by $22.8M because "some of the money that will be spent in the casinos consists of a substitution for current spending on other goods and services in Ohio." If these taxes average about 10%, this means that those existing Ohio businesses that provide the "other goods and services" would stand to lose more than $225M in sales as a result of the presence of casinos.*

E. Competition Factors

1. *In the national competition for gamblers' dollars, the best situation would be for in-state casinos to attract mostly out-of-state patrons. However, the vast majority (80-90%) of casino patrons at the proposed new Ohio casinos are*

likely to be from Ohio. Numerous research studies, including the UC Economics Center report support this conclusion.

2. *Gamblers in adjacent states (Indiana, Michigan, and Pennsylvania) are unlikely to travel to Ohio because their in-state casinos are closer.*

F. Social Costs and Benefits

1. *Research shows that divorce rates and bankruptcies increase significantly among casino gamblers. For example, a survey by SMR Research Corporation (1997, p. 118) showed that "20% of compulsive gamblers has (sic) filed for bankruptcy as a result of their gambling losses."*

- Bankruptcies, divorce, alcoholism correlations are real. Addiction rates double within 50 miles of a casino. Furthermore, a casino within 10 miles of a home yields a 90% increased risk of its occupants becoming pathological or problem gamblers. (www.spgfoundation.org). An Iowa State University study notes that there is an increase in debt incurred by gamblers. The average debt of gamblers studied by the Consumer Credit Counseling Service of Greater Des Moines was $13,055. For non-gamblers the average debt was $9,961. Furthermore, 16% of gamblers and only 6% of non-gamblers had a maximum debt of over $25,000. A second survey of the Iowa Gamblers Anonymous organization revealed that some individuals spend as much as $500-$1,500 per day on gambling. The reasons for these high gambling amounts varied from to feel a high, to escape, and/or to win money. (www.iastate.edu)

2. *Research has demonstrated that gambling addiction rates double within 50 miles of a casino. (Grinols 2004) Moreover, a casino within ten miles of home yields a 90% increased risk of becoming a pathological or problem gambler.*

- Estimates of the rates of Problem and Pathological gamblers are generally in the 4% range, or even higher, and the AGA estimates that about two million Ohioans visited casinos in 2005. Conservatively, if we assume that those numbers would remain the same even after in-state casinos open, we still have about 80,000 Ohio gamblers with serious addiction potential. Grinols (2005) has estimated the cost of gambling treatment to be more than $10K (not counting the highly correlated costs of addition: substance abuse, divorce, bankruptcy, even crime). But the tax-sharing formula for providing assistance for at-risk gamblers would yield only $163 per person, less than 2% of the estimated need. This is especially problematical in the face of two other facts: (1) The Issue 3 tax sharing formula provides more support for Ohio's commercial horseracing tracks than it does for problem gamblers ($20M for seven racetracks vs. $13M for 80,000 at-risk gamblers), and (2) problem and pathological gamblers, on average, account for substantially more of a casino's gross revenues than other gamblers. By some estimates, the problem and pathological gamblers account for 40% or more (Grinols, 2005) of a casino's gross revenues.

3. *Using the most conservative estimates, Grinols et al. (2001) have calculated that "casino gambling fails a cost-benefit test by a ratio of 1.9 to one or greater." This means that in a true reckoning of the social benefits <u>and</u> costs of casinos, there are $2 in costs to the larger community for every $1 in benefits.*

   - New Jersey is an example of a state that embraced casino gambling (in Atlantic City) because of promises of lower taxes and a revitalized economy. According to A. Zipser in the article "Tapped Out" in Barron's of July, 1995, two decades later, "New Jersey has among the highest tax rates in the nation and any visitor wandering two blocks off the boardwalk will get an extraordinary vivid lesson in the local economic uplift (or lack thereof) provided by casinos."

4. *Costs of casino gaming fall disproportionately upon middle and lower socioeconomic classes, and the elderly.*

   - Zaranek and Lichtenberg (2008) have done extensive research on low income and elderly casino gamblers. Casinos are particularly attractive to older adults in poor health because "gambling is both a physically passive activity and a potentially exciting and compelling one." This attractiveness may explain why in Detroit the low-income and elderly casino patrons "lost 2.4 times more gambling in proportion to their total income compared to those in higher income groups." Welte et.al. (2004) quotes Schissel (2001): "Lower SES persons may see gambling as a form of investment, and a possible escape from poverty. An individual who believes that gambling has these positive qualities may be more prone to gambling addiction.

G. Interactions: Racing Track Slots, Casinos, and the Ohio Lottery

1. *Right now, projections for new tax revenues from gambling in the State of Ohio exist for both the racino plan and the Issue 3 casino plan. Each of these*

estimates have been made independently, assuming no gambling competition from within the state. Therefore it is likely that neither the racinos, with 17,500 slot machines, nor the casinos, with 20,000 slot machines and a full array of other gaming activities, will be as successful as projected. Beyond this important question there is another: How will the Ohio Lottery and charitable games be affected by racinos or casinos or both?

- The issue of saturation of gambling opportunities does not appear to be a factor considered in the studies done by the supporters of Issue 3. The number of casinos in close proximity to Ohio is further saturated by the racinos authorized by the State of Ohio at various race tracks. In or near Cuyahoga County there is the potential for two (2) casinos at race tracks plus the Issue 3 casino for a total of 3 casinos. Some communities such as Cleveland has experienced substantial population decline and Cuyahoga County has not been a growing county. This population and the population of surrounding counties, therefore, would be the market for the three casinos. The UC Economics Center report and reports by other groups note that 80% - 90% of casino customers are drawn from within a 35-50 mile radius. With a stable or declining population are three casinos needed? Nowhere in the UC Economics Center report is such saturation addressed. This phenomenon is not unique to Cuyahoga County but true of all of the casinos proposed by Issue 3. This competition and saturation brings the revenue estimates of Issue 3 supporters into serious question.

- Many people in Ohio believed that the Ohio Lottery would solve the problems of public education in Ohio. This has clearly not been the case and the state's school districts continue to depend heavily on local property taxes and there are still enormous disparities in funding per student across Ohio's public school districts. While new revenues to local school districts would help, will the additional revenues projected by Issue 3 solve the problem? The Ohio Lottery Commission reported that in 2008 the lottery transferred profits of $672 million to education. The supporters of Issue 3 argue that approximately $213.7 million will be provided to education or 32% of the Ohio Lottery transfer. The Ohio Lottery did not solve the problem. Will an additional lesser amount that is one-third the size of the Ohio Lottery transfer to education solve school funding problems? More importantly, will the Ohio Legislature decrease the budget for education by the amount of any casino profits thereby becoming a "bait and switch" for local school districts? What safeguards are in place to insure against such a possibility? Can the education crisis in Ohio really be solved with an additional $18.60 per person, the equivalent of the casino proposal? (www.ohiolottery.com)

- According to the New York Times on Thursday, September 10, 2009, " Ms. Dadayan of the Nelson A. Rockefeller Institute of Government said that racino windfalls might be short-lived because slot profits usually soften with time as their novelty wears out and more states add machines."

- Again according to the same New York Times article, if Pennsylvania and Indiana, where slots are new, are excluded, the total slot revenue from the other 10 states with racinos actually fell by $76 million in fiscal year 2009 which is a 4 percent decline.

- The racinos in Ohio will have 17,500 slot machines and the racetrack owners are already seeking to increase this number. If Issue 3 is approved, this would add at least 20,000 more slot machines. It is difficult to see how the weak economy of the state of Ohio can support this large gaming infrastructure.

- The racetracks and the potential new casino owners are <u>both</u> concerned about saturation and competition for Ohio's gambling dollars. Several race track owners appear to be reluctant to commit to their first payments of $13M on total of $65M based on uncertainties created by Issue Three. Casino proponents should be concerned about the seven racetrack gaming venues encroaching on their revenue as well. Two rival groups appear to be competing for sole monopoly rights to gaming operations in the State of Ohio. Thomas Suddes (Plain Dealer, September 6, 2009, *Hide Your wallet: Its Slots vs. Casinos*. "Gambling (regardless of the games and whoever runs them) is a false economic promise for Ohio... As of today the casino slots debate supposedly is about which deal is better for Ohio. The answer is they're both bad."

- If the new casinos do adversely affect the race tracks, as seems likely, then one must ask: Does it make sense to put at risk 16,000 existing race track jobs for the promise of *fewer* new casino jobs?

IV. CONCLUSION

In preparing this report, the Hiram Public Policy Analysis Group sought to understand all of the implications of ballot Issue 3 as broadly as possible. This led us to research the various particular arguments for and against Issue 3 that seem to be based on narrow interests and concerns, and also to research the full range of both the benefits and costs that might be associated with the introduction of casino gambling in Ohio. As experienced scholars and researchers, we have sought to build on the peer-reviewed research of previous scholars in the field of gambling studies, especially those that we could determine, as much as possible, were not funded by either strong opponents or strong proponents of the casino gaming industry. As citizens of Ohio, our primary goal was to understand Issue 3 well enough to make a judgment on the decision facing the voters on Nov. 3.

The key question is simple: Is it fair and responsible to give away a valuable state property – the right to a casino monopoly – and also to incur certain long-term cost obligations, all in exchange for some immediate economic benefits, and the promise of limited cash payments in the future? In our judgment, the answer to this question is no, for the following reasons:

1. The decision should be based on a full and careful cost-benefit study, not only an economic impact study; for Issue 3, the costs appear to outweigh the benefits.

2. Many important questions remain unanswered. The most important questions are identified in parts B and G in Section II of this report, and other questions are raised in the Section III discussions.

3. The State of Ohio government, through its regular public policy processes should examine the gaming issue. The constitutional amendment ballot initiative process is fundamentally flawed. If the State could establish guidelines for the cost of licenses, the percentage of taxation, compensation for social costs, and the nature of gambling competition and saturation, then Ohio's voters might face a more transparent decision in the future.

The research team began this work with little objection to the institution of gambling. Our feelings have not changed. We see little harm in casino gambling as long as we have assurance that those who benefit from such activities take responsibility for all of the costs associated with the activity. Issue 3 does not provide that assurance.

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