

The Florida Senate
COMMITTEE MEETING EXPANDED AGENDA

GAMING
Senator Richter, Chair
Senator Sachs, Vice Chair

MEETING DATE: Monday, September 23, 2013
TIME: 2:00 —3:00 p.m.
PLACE: *Toni Jennings Committee Room, 110 Senate Office Building*

MEMBERS: Senator Richter, Chair; Senator Sachs, Vice Chair; Senators Benacquisto, Braynon, Clemens, Dean, Galvano, Gardiner, Latvala, Lee, Margolis, Montford, and Thrasher

TAB	BILL NO. and INTRODUCER	BILL DESCRIPTION and SENATE COMMITTEE ACTIONS	COMMITTEE ACTION
1	Committee discussion of format and schedule for four public workshops		Discussed

2	Committee discussion of "Gambling Impact Study - Part 1A, Assessment of the Florida Gaming Industry and its economic effects"		Discussed
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Other Related Meeting Documents



THE FLORIDA SENATE

COMMITTEE ON GAMING

Location

103 Senate Office Building

Mailing Address

404 South Monroe Street
Tallahassee, Florida 32399-1100
(850) 487-5811

Senator Garrett Richter, *Chair*
Senator Maria Sachs, *Vice Chair*

Professional Staff: John Guthrie, *Staff Director*

Senate's Website: www.flsenate.gov

MEMORANDUM

To: Members of the Senate Committee on Gaming
From: Senator Garrett Richter, Chair
Subject: Public workshop schedule
Date: September 6, 2013

Senate President Don Gaetz approved the following schedule of public workshops to supplement Senate Gaming Committee meetings on September 23, October 7, and during the weeks of November 4 and December 9:

Wednesday, October 23, 2013, 4:00 – 7:00 PM (Eastern)
Broward College, North Campus, OMNI Auditorium
1000 Coconut Creek Blvd, Coconut Creek, FL 33066

Wednesday, October 30, 2013, 3:00 – 6:00 PM (Eastern)
George Jenkins High School, Auditorium
6000 Lakeland Highlands Road, Lakeland, FL 33813

Thursday, November 14, 2013, 1:30 – 4:30 PM (Central)
WSRE-TV Jean & Paul Amos Performance Studio
1000 College Boulevard, Pensacola, FL 32504

Friday, November 15, 2013, 2:00 – 5:00 PM (Eastern)
Florida State College at Jacksonville Downtown Campus, Advanced Technology Center
101 W. State St., Jacksonville, FL 32202

For convenience, the hearing locations are marked in [Google Maps](#). Knowing that it may not be possible for every committee member to attend each hearing, I nevertheless encourage Senators to take advantage of these valuable opportunities to hear local perspectives about findings in the [Two-Part Gaming Study](#). On October 1, 2013, Spectrum Gaming Group, LLC, will deliver its final report for publication on the Committee's website.

FOR IMMEDIATE RELEASE

September 6, 2013

CONTACT: Britton Alexander, 850-487-5229

MEDIA ADVISORY: SENATE GAMING COMMITTEE ANNOUNCES STATEWIDE WORKSHOP SCHEDULE

Tallahassee — The Florida Senate Gaming Committee has scheduled four public workshops this fall to gather citizen input about findings in the [Two-Part Gaming Study](#) commissioned by the Florida Legislature during the past Legislative Session. On October 1, 2013, Spectrum Gaming Group, LLC, will deliver its final report of the study for publication on the Committee's website.

"While the Florida Lottery, Seminole casinos, and gaming activities at licensed pari-mutuel facilities generate substantial economic activity, gaming regulations have been amended piecemeal over decades," said Senate President Don Gaetz (R-Niceville). "The Gaming Committee is charged with conducting a thorough review and recommending a comprehensive policy on how gaming fits into the broader Florida economy."

Senator Garrett Richter (R-Naples), Chair of the Gaming Committee, said, "The Two-Part Gaming Study will give legislators and interested citizens alike a factual foundation for assessing the economic and social impacts of possible changes in Florida's gaming environment; the public hearings provide a valuable opportunity for committee members to hear local and personal perspectives."

ALL MEDIA ARE WELCOME TO ATTEND:

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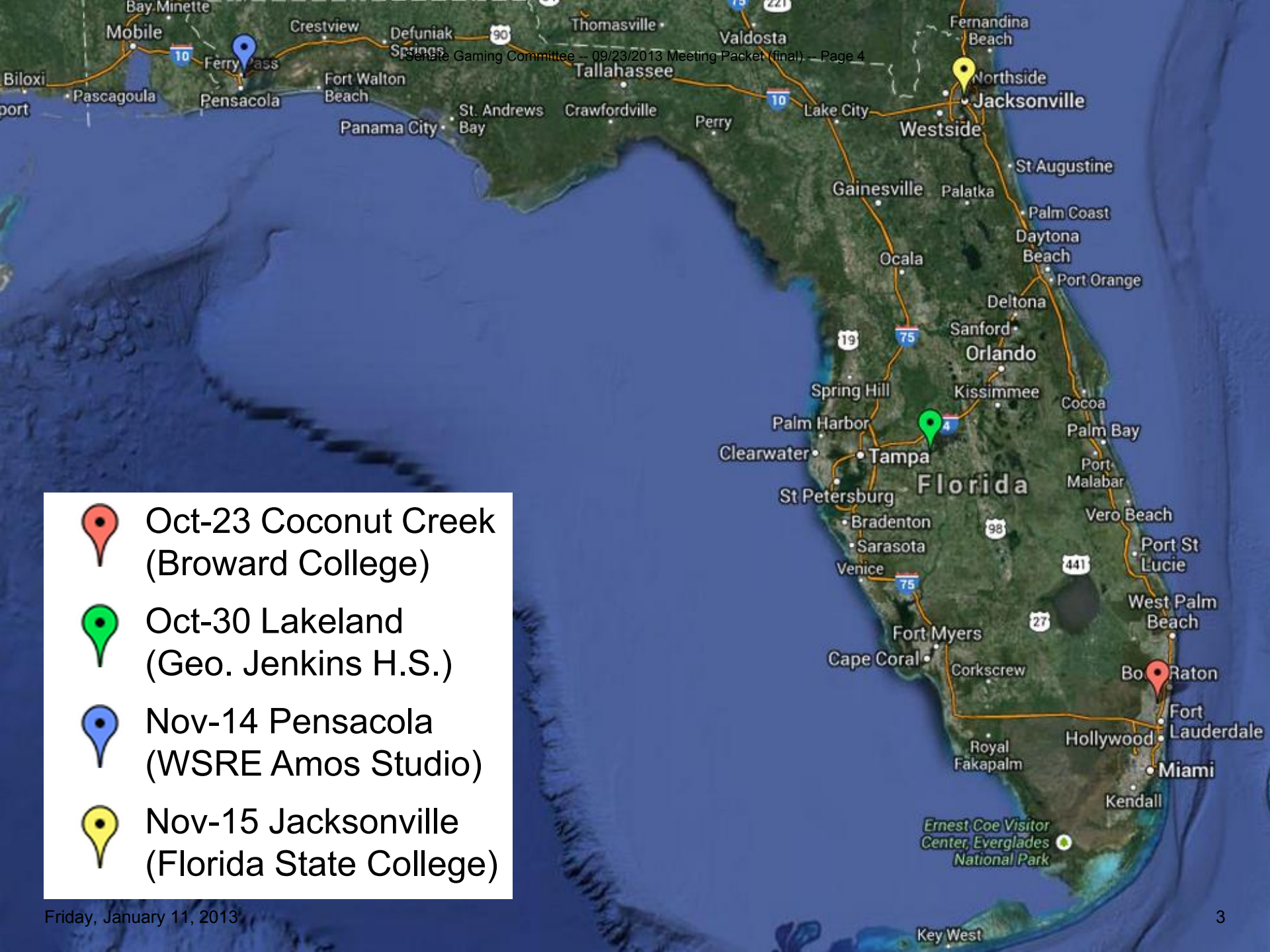
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Jacksonville, FL 32202

For directions, see hearing locations in [Google Maps](#). For more information, please visit the Senate Gaming Committee's [webpage](#).

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-  Oct-23 Coconut Creek (Broward College)
-  Oct-30 Lakeland (Geo. Jenkins H.S.)
-  Nov-14 Pensacola (WSRE Amos Studio)
-  Nov-15 Jacksonville (Florida State College)



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Senate's Website: www.flsenate.gov

MEMORANDUM

To: Gaming Committee Members
CC: All Senators
From: Senator Garrett Richter, Chair
Subject: House and Senate jointly invite proposals for a comprehensive gaming study
Date: February 20, 2013

The Florida Senate and House of Representatives today announced a joint invitation for written replies from qualified vendors to perform a two-part study detailing gaming market information. The study will be used by the Florida Legislature to better understand the economic, fiscal, and social impacts of possible changes in Florida's gaming environment. The "Invitation to Negotiate" is published at <http://www.leg.state.fl.us/ITN859>.

Gaming is a well-established business sector in Florida. Its roots stretch back to the 1890s. Pari-mutuel racing has been state-regulated since 1931. In the past 25 years, gaming industries have been transformed, not just in Florida but all around the country. Pari-mutuel wagering has declined. The State Lottery, as well as cruises, card rooms, casinos, and "Internet cafes" have emerged. Meanwhile, the State's approach to regulating and taxing gaming activities has not kept pace. Layers of exceptions and patches are not working well to promote the state's overall economic and social welfare.

The situation demands a comprehensive critical assessment, which is the task President Gaetz and Speaker Weatherford set for the Senate and House gaming committees. The study, which will be complete by October 1, 2013, will set a factual foundation for our deliberations.

The study will analyze not only what we have but also new possibilities knocking at the door. It will inform our choice of whether or not to open the door, and if so, how wide. The study will:

- Evaluate the structure and performance of Florida's existing gaming industry, including identification of subsectors, their size, and their economic importance;
- Describe the economic and fiscal impacts of each subsector, assess changes in those impacts over time until the present day, and include projections for the future.

February 20, 2013

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- Consider likely social costs of expanded casino gaming activities, including problem and pathological gambling-related behaviors and changes in crime rates.
- Include estimates of total spending and net economic impact for gaming expansion, recognizing changes in demand as well as reduced spending at other Florida businesses because visitor and resident spending has now flowed to gaming.

For more information about the Senate Gaming Committee, see the committee's [webpage](#).



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MEMORANDUM

To: Members of the Senate Committee on Gaming
CC: All Senators
From: Senator Garrett Richter, Chair
Subject: Florida Gambling Impact Study, Part 1A
Date: July 1, 2013

Today Spectrum Gaming Group delivered Part 1A of the Gambling Impact Study commissioned by the Florida Legislature. A copy is posted on the [Two-Part Gaming Study](http://www.leg.state.fl.us/GamingStudy/docs/FL_Gambling_Impact_Study_Part1A.pdf) web page (see, http://www.leg.state.fl.us/GamingStudy/docs/FL_Gambling_Impact_Study_Part1A.pdf).

Drawing on Spectrum Gaming Group's broad experience, the report evaluates the history and current state of gambling in Florida. It assesses economic and fiscal impacts of gaming subsectors, changes over time, and projections for the future. It also addresses social and economic costs of gambling and describes differences in how various states regulate gambling.

Part 1A is the first of three reports. The remaining installments are due by October 1, 2013:

- Part 1B. Assessment of potential changes and economic effects.
- Part 2. Statistical relationships between gaming and economic variables for communities.

The President and Speaker commissioned the "two-part gaming study" to lay the groundwork and factual foundation for important policy choices the Legislature will consider during the 2014 Regular Session. Spectrum Gaming Group was charged with delivering an independent and unbiased assessment.

The report does not, and will not make policy recommendations. It will be the Gaming Committee's responsibility to review gambling statutes, to address the ambiguities, inconsistencies, and exceptions in current law, and to craft an action plan. Over the next few months, we will evaluate Part 1A of the study. Public hearings will be scheduled for the fall of 2013, as directed by the President and Speaker, so legislators have the opportunity to listen to all interested parties.



GAMBLING IMPACT STUDY:

Part 1, Section A: Assessment of the Florida Gaming Industry and its Economic Effects

Prepared for the State of Florida Legislature
July 1, 2013



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Executive Summary

Introduction

The Florida Legislature commissioned Spectrum Gaming Group to undertake a three-party study of legalized gambling, focusing on its economic effects (including the social costs). This report, the first in the series, is divided into two primary parts:

- The first provides overviews of many aspects of gambling generally, both nationally and as they pertain to Florida (as relevant). Because this part consists of summaries of existing data and research, we have not summarized the content in this Executive Summary.
- The second provides the economic impacts of Florida's existing gambling industry as it stands now – including the Florida Lottery, the pari-mutuel industry including slot machines and cardrooms, and Indian casinos. We provide the key performance data by sector and, working in concert with project partner Regional Economic Models Inc. (“REMI”), we provide the economic and fiscal impacts of these gambling sectors. The key findings are provided below in this Executive Summary.

This report is the product of a far-reaching scope of research and analysis. In many respects, it is a collection of several reports. We have provided a detailed Table of Contents that allows readers to easily find the topics of greatest interest to them.

While reading this report, it is important that readers understand the Legislature's instructions:

- Spectrum will not make recommendations in any of its reports. The Legislature commissioned Spectrum to undertake an economic and academic study for the purpose of educating the state's policymakers and other stakeholders so that they may make enlightened decisions regarding the future of gambling in their state.
- This is the first of three reports due to the Legislature. The two additional reports will be delivered by Spectrum on or before October 1, 2013, are as follows: Part 1, Section B: *Assessment of potential changes and economic effects*; and Part 2: *Statistical relationships between gaming and economic variables for communities*.
- Spectrum was tasked with analyzing the social costs associated with gambling in the second report. While this initial report provides a discussion of the many social costs of gambling, in Part 1B, as part of our next report, we will determine the costs as they relate to expanded gambling in Florida.

Key Gambling Sector Findings

First, we review the key performance data for each of Florida's three primary gambling sectors – pari-mutuel (including the subsectors of slots, cardrooms and pari-mutuel wagering) lottery, and Indian casinos.

Pari-Mutuel

Three distinct types of gambling take place under the umbrella of Florida's pari-mutuel industry, only one of which actually involves pari-mutuel wagering. Because state-regulated slot machines and cardrooms must be coupled with a pari-mutuel license, these activities are offered only at racetracks and jai alai frontons. All three types of gambling are regulated by the Division of Pari-Mutuel Wagering, a unit of the Department of Business & Professional Regulation.

Racetrack Slots

- The racetrack slot industry (i.e., racinos), which is legally restricted to Broward and Miami-Dade counties, has steadily grown since inception in 2006. The six racinos in 2012 reported gross slot revenue of \$489.2 million and are set for continued growth with the opening of slots at Hialeah Park in summer 2013.
- The racinos in 2012 had 3,319 employees and generated \$149.8 million in taxes directly from slot revenue. Gross slot revenue is taxed at 35 percent.

Cardrooms

- Twenty-four pari-mutuel facilities operate cardrooms, which are restricted to poker and dominoes (which is rarely offered or played). Cardrooms last year generated \$131 million gross receipts and paid a tax of \$13.1 million.
- Cardrooms pay a state tax of 10 percent on gross receipts. Additionally, at jai alai and greyhound facilities 4 percent of cardroom gross receipts are used to fund purses and player awards; the figure is 50 percent at horse race facilities.

Pari-Mutuel Wagering

Most pari-mutuel facilities lose money on their pari-mutuel operations and need cardroom and/or casino revenue to subsidize those losses.

It is important to note that the total handle numbers cited below are understated because the Division of Pari-Mutuel Wagering does not collect data on out-of-state generated handle, which is the single largest component of handle.

- *Greyhound racing*: Total handle for the 13 facilities that ran greyhound racing fell from \$933.8 million in FY 1990 to \$265.4 million in FY 2012, a decline of 67 percent – mirroring the decline nationally. The number of Florida greyhound performances (a racing card of at least eight races) fell from 3,853 to 3,636, a decline of only 6 percent. One of the reasons for the relatively small decline is because of the 90 percent rule:

Operators with cardrooms are required to conduct at least 90 percent of the live performances that were held the year before their cardrooms opened, which for many of them was 1996. Although attendance has declined precipitously since 1990, reliable figures are unavailable because most tracks no longer charge for admission.

- *Thoroughbred racing:* Thoroughbred racing is the dominant pari-mutuel sector in Florida, with the three tracks accounting for 61 percent of total Florida handle in FY 2012. A Florida thoroughbred operator must run a minimum of 40 performances a year. From FY 1990 to FY 2012, Florida thoroughbred performances fell from 348 to 327, a decline of 6 percent; paid attendance fell from 653,206 to 97,738, a decline of 85 percent. Total handle in FY 2012 was \$530.7 million and live handle was \$78.6 million; both figures are in decline, although they have somewhat stabilized since slots were introduced at two of the tracks. Purses increased from \$78.1 million to \$81.1 million, a rise of 16 percent. The three tracks generated a combined operating profit of \$13 million for FY 2012. Much of the profit, \$10.6 million, came from pari-mutuel operations, with the rest from slots and/or cardrooms.
- *Harness racing:* Florida's sole harness track, Isle Casino and Racing at Pompano, accounted for 5 percent of total Florida handle in FY 2012. The Pompano track must run at least 140 performances a year but it can seek a one-time, 10 percent reduction from the 140-performance minimum. Attendance has declined such that Isle Pompano no longer charges admission and attendance figures are not kept. Total handle in FY 2012 was \$49.5 million and live handle was \$4.4 million; both figures are about the same as the year earlier.
- *Quarter horse racing:* Quarter horse racing returned to Florida in November 2009 at Hialeah Park after an 18-year absence. Quarter horse racing (inclusive of barrel racing) accounted for less than 1 percent of total Florida handle in FY 2012. Quarter horse racing had 76 performances in FY 2012. It generated a live handle of \$1.7 million, total handle of \$2.1 million and purses of \$3.8 million. Almost all of the traditional quarter horse activity was at Hialeah, where the operator subsidized purses as part of its contract with horsemen.
- *Jai alai:* Of all the pari-mutuel sectors, jai alai has sustained the steepest cuts in attendance and popularity. Since 1990, total handle has fallen 91 percent, live handle 96 percent, player awards 63 percent and performances, 63 percent. In 1990, 3.9 million people paid to watch the sport. In 2012, total paid attendance was 9,068. From pari-mutuel operations, the jai alai sector sustained an operating loss of \$14 million. Their cardrooms were able to generate an operating profit of \$1 million. Miami Jai Alai had the highest handle at \$6.6 million in FY 2012.

Lottery

The Florida Lottery reported FY 2012 sales of a record \$4.45 billion, up 11 percent over the previous year, ranking third in the nation in total sales revenue (FY 2011), behind New York (including its video gaming machine revenue) and Massachusetts. On a per-capita basis, Lottery sales were \$233, also a state record.

Since its inception in 1988, the Lottery has provided a total of \$24 billion to the Educational Enhancement Trust Fund (“EETF”). In the past fiscal year the EETF has allocated \$317 million for construction bonds, provided \$271 million for public school funding, \$130 million for state colleges, and \$254 million for state universities. Since 1997 the Florida Lottery has also provided scholarships to more than 600,000 students through the Bright Futures Scholarship Program, funded primarily through Lottery financial transfers. Lottery tickets are sold at 13,300 retail locations throughout the state.

Indian Casinos

The Seminole Tribe of Florida operates seven casinos, and the Miccosukee Tribe operates one casino. The Seminole Tribe advised Spectrum that in 2012 its gaming facilities employed 9,562 total employees, or 7,725 full-time-equivalent employees (“FTEs”). Another 4,000 are employed by Seminole casino facility tenants, such as retailers who operate on-site outlets. The Miccosukee Tribe declined to cooperate with this study, although a Miccosukee Gaming & Resort employee advised Spectrum that its gaming property employs “over 800.”

The Seminole Gaming enterprise generated \$1.96 billion in GGR in 2012 at its properties, and we estimate statewide GGR at Indian casinos to be \$2.2 billion.

At least two other Indian tribes/nations are trying to operate casinos in Florida:

- The Poarch Band of Creek Indians, based in Atmore, AL, has land in Escambia County, which is held in trust by the US government, and also owns, or has options to own, or agreements to control 10 pari-mutuel permits along the Interstate 10 corridor between Pensacola and Jacksonville. The Poarch Band said it is seeking to negotiate an agreement, which could include revenue-sharing, with the State to operate Class II gaming.
- For the past decade the Muscogee Nation of Florida has been pursuing federal recognition by act of Congress in order to initiate gaming operations as a means of economic development. Tribal landholdings are well positioned to offer casino gaming in the Florida panhandle.

Fiscal Impacts

Our analysis examines the total economic and fiscal impacts of the gambling industry by subsectors in 2012. Spectrum found that Florida's gambling industry directly employed 15,748 and supported an additional 10,063 jobs. Its impact on induced jobs was 4,983; when factoring in the estimated number of additional jobs created by retailers selling lottery tickets, Spectrum found that Florida's gambling industry was responsible for 55,648 direct jobs, 14,269 indirect jobs and 19,025 induced jobs.

Following are the economic and fiscal impacts by gambling sector:

2012	Direct Employment	Indirect Employment	Induced Employment	State Tax Revenues (FY 2013) (M)
Pari-mutuel	4,953	1,659	1,309	\$206.6
Lottery	408	2,267	-111	\$1,882.0
Retail Lottery	39,900	4,206	14,042	\$123.7
Native American Casinos	10,387	6,137	3,785	\$293.3
Floridians' Out-of-State Gaming Spending	0	693	3,143	\$15.4
2012-2060 Slow Growth	Average Annual Direct Employment	Average Annual Indirect Employment	Average Annual Induced Employment	Average Annual State Tax Revenues (FY 2013-2060) (M)
Pari-mutuel	5,449	1,757	-1,298	\$587
Lottery	449	5,295	969	\$3,452
Retail Lottery	39,099	10,148	28,918	\$581
Native American Casinos	10,933	6,246	769	\$401
Floridians' Out-of-State Gaming Spending	0	488	2,334	\$28.6
2012-2060 Normal Growth	Average Annual Direct Employment	Average Annual Indirect Employment	Average Annual Induced Employment	Average Annual State Tax Revenues (FY 2013-2060) (M)
Pari-mutuel	5,449	1,607	-1,939	\$581
Lottery	449	5,288	-1,106	\$3,561
Retail Lottery	39,099	9,775	27,674	\$590
Native American Casinos	10,933	5,660	-473	\$374
Floridians' Out-of-State Gaming Spending	0	455	2,239	\$27
2012-2060 Strong Growth	Average Annual Direct Employment	Average Annual Indirect Employment	Average Annual Induced Employment	Average Annual State Tax Revenues (FY 2013-2060) (M)
Pari-mutuel	5,449	1,478	-2,506	\$575
Lottery	449	5,256	-1,239	\$3,645
Retail Lottery	39,099	9,418	26,330	\$551
Native American Casinos	10,933	5,145	-1,605	\$364
Floridians' Out-of-State Gaming Spending	0	428	2,157	\$25

Source: Regional Economic Models Inc., Spectrum Gaming Group

I. Introduction

The study of gambling's economic and social impacts is a never-ending process that will only grow more critical over time: Some form of gambling is legal in 48 states, and debates over gambling expansion seem to be an annual event at statehouses across the country. Moreover, the effective legalization of Internet gambling at the state level has magnified such debates. At the same time, illegal and/or unregulated gambling is proliferating through such channels as so-called Internet cafes, gray-market electronic gaming devices, skill games, amusement games, and online games.

A majority of American adults are gamblers. Some 53 percent played the lottery last year and 32 percent gambled in a casino.¹ As gambling historian David G. Schwartz notes, the activity is nearly as old as civilization itself. In America, colonial legislatures authorized 157 lotteries from the 1740s through 1776 to assist governments and other institutions.²

Legalized gambling as we know it today is relatively young. The first legal casinos of the modern era opened in Nevada in 1931. The country's first lottery, in New Hampshire, began in 1964. Betting on horse races has a longer history, dating to colonial days in America but grew rapidly after the Civil War.³

Although popular in one form or another, gambling remains controversial. On the one hand, regulated gambling can provide substantial revenues to governments and, in many markets, a substantial number of direct, indirect and induced jobs; on the other hand, it can lead to compulsions that result in financial, familial and mental-health costs, as well as governmental costs ranging from gambling-addiction treatment centers to additional law enforcement. The arguments on both sides are strong – and usually impassioned.

This report will not resolve the debate over the merits of legalized gambling, nor is it the assignment of Spectrum Gaming Group to attempt to do so (nor has the Florida Legislature tasked Spectrum with recommending any course of action). Rather, the Legislature commissioned an economic and academic study for the purpose of educating the state's policymakers so that they may make enlightened decisions regarding the future of gambling in their state.

This analysis relies on the experience of Spectrum professionals in various disciplines, many of whom have studied this issue for decades, and is supported by additional research and interviews with numerous stakeholders in Florida who care deeply about this issue, and about the

¹ American Gaming Association, *2013 State of the States*, p. 25
http://www.americangaming.org/sites/default/files/uploads/docs/aga_sos2013_fnl.pdf.

² David G. Schwartz, *Roll The Bones: The History of Gambling*, p. 144.

³ *Ibid.*, p. 332.

future of their state. Our experience is tempered and governed by certain observations and principles:

- The gaming industry is uniquely intertwined with government, arguably as much as any other industry, particularly any industry that is dependent on discretionary spending. Government can legislate gaming into – or out of – existence, which underscores this relationship.
- Gaming is a privilege granted to those who meet affirmative obligations for demonstrating their good character, honesty and integrity. That principle is largely universal, and is shared by federal, state and tribal governments.
- Governments not only authorize legalized gambling, but often grant regional monopolies for operators. The corollary to that is that operators have a responsibility to operate in the public interest.
- With proper planning and coordination, the public and private sectors are more likely to identify common goals, and to achieve those goals.

Methodology

The State of Florida on April 16, 2013, retained Spectrum Gaming Group (“Spectrum,” “we” or “our”) to complete a two-party study of the state’s gambling industry, pursuant to Invitation to Negotiate #859 (“the ITN”).⁴ This report is Part 1, Section A: *Assessment of the Florida gaming industry and its economic effects*. Two additional reports as part of this engagement will be delivered by Spectrum to the Legislature on or before October 1, 2013: Part 1, Section B: *Assessment of potential changes and economic effects*; and Part 2: *Statistical relationships between gaming and economic variables for communities*.

Following is the assigned scope of this report, as published in the ITN:

A. Assessment of the Florida gaming industry and its economic effects.

1. An assessment of gambling generally, including:
 - a. A general description of gambling in terms of popularity, profitability, regulatory considerations, and cost mitigation, including not only industries currently operating in Florida but also other gambling activities such as table games, Internet poker, destination resort casinos, and sports betting.
 - b. A general description of gambling regulatory schemes, including: State-operated, consolidated agency oversight, multi-agency oversight, and the use of local and state commissions; Authorizing and revocation mechanisms; Taxation schemes.
 - c. A general description of trends and best practices in governance and regulation of gambling activities.

⁴ See http://www.leg.state.fl.us/GamingStudy/docs/ITN_859_Invitation.pdf.

- d. A general description of gambling as a public funding source, including: Comparison of states' reliance on and uses of gambling as a public funding source; Reliability and predictability of gambling revenues; Direct and indirect costs to the state.
 - e. A general description of gambling impacts, including: Social, criminal, and personal; Short- and long-term fiscal.
2. An economic assessment of the structure and performance of Florida's existing gaming industry, including:
 - a. An analysis of gaming subsectors and their size and economic importance.
 - b. A description of the direct, indirect, and induced components of the economic and fiscal impact of each of the subsectors. Impacts associated with facility construction should be distinguished from impacts associated with ongoing operation of a facility.
 - c. An assessment of the changes in those impacts over time until the present day, historically, and projections for the future.

In each section of the report, we provide the relevant ITN language (highlighted in gray) to provide an understanding of the scope of research with which Spectrum was tasked for this first report.

Our task was to study the impacts of legalized gambling. Like many other states, Florida had (and perhaps still has) illegal and/or unregulated gaming in the form of Internet cafes and slot-like arcade games. While we discuss the nature and issues involving such gambling, it is beyond the scope of this study to examine its performance and impacts.

Many of the topics covered herein are worthy of their own reports, but the broad, multi-subject scope of this report – and the directive of providing “an assessment of gambling generally” – limits the extent to which we could reasonably treat such topics. It is important to note, however, that in-depth analysis of several topics will be provided in the second and third reports of Spectrum's engagement. Further, our footnotes herein provide dozens of excellent document references – many available online, with the URLs included – where readers can find more information about these important topics.

Spectrum employed 16 project professionals for this report, all of whom are staff experts or associates, assisted by support staff as needed. We relied on publicly available data, as well as data requested from gambling operators and government sources, interviews with various Florida stakeholders (both in person, by telephone and by email), site visits, existing documents and research reports, and our collective expertise in having studied gambling for more than three decades.

For the second part of this report, which assesses the economic structure of Florida's existing gaming industry, we teamed with Regional Economic Models Inc., a globally respected economic modeling firm based in Amherst, MA, that works with numerous state governments, including the State of Florida. REMI's goal in this report was to establish, as best the data would allow, a baseline of the economic contributions of the existing gaming industry in Florida. To this

end, REMI relied on its Tax-PI model, data from the US Census Bureau, and data from the other project team members. REMI used each source of data to compliment the others in order to produce the best picture the data would support. Once a base year was established, REMI used an index of the growth in the relevant industry sectors in Tax-PI to forecast growth for the gaming industry into the future. With this baseline established, REMI then conducted a counterfactual study that removed the existing gaming industry from the economy in order to calculate its contribution.

II. General Assessment of Gambling

A general description of gambling in terms of popularity, profitability, regulatory considerations, and cost mitigation, including not only industries currently operating in Florida but also other gambling activities such as table games, Internet poker, destination resort casinos, and sports betting.

A. Growth and Evolution of Gambling in United States

Florida is not an emerging gambling state. In terms of revenue, employment, number of gaming locations and other important measures, it already *is* a major gambling state, with a wide array of options. Florida is arguably a microcosm of US gaming, with all of the forces that are shaping the industry in other states at play here. Absent a plan for growth, these forces will continue unabated in shaping the industry in both Florida and elsewhere. Moreover, the presence of such forces will also constrict the ability of lawmakers to chart the future of gaming. These forces can be segmented into the following broad areas:

- **Legal:** Within the bounds of the state Constitution and federal law, the Florida Legislature has significant ability to craft its own laws and policies. The boundaries that limit legislative authority, however, are significant. Florida is bound by a compact with the Seminole Tribe of Florida, and that compact is, in turn, bound by federal laws and regulations, most notably by the Indian Gaming Regulatory Act (“IGRA”). Other states, such as Connecticut, have found themselves in a similar position, having learned that compacts can represent missed opportunities that are difficult to revise after the fact.
- **Market:** As with any gaming jurisdiction, the future size of the gaming industry will be partly dependent on the size of the resident population, as well as on the size of the existing and future tourism markets. Those markets will, in turn, be dependent on the number of gaming and other entertainment options, both inside and outside Florida. As gaming expands within the home markets of Florida visitors, as well as within markets that compete for those visits, it will impact the growth of gaming in Florida, as well as the ability of lawmakers to guide that growth.
- **Historic:** The two federally recognized tribes in Florida lay claim to a longstanding history of gaming in Florida, as well as other rights and privileges granted to sovereign governments. Historic claims to sovereignty are at the root of IGRA and various court decisions that have supported and bolstered the concept of sovereignty and gaming rights. At the same time, the pari-mutuel industry – in particular, horse racing – has a long history within the state as well, and extends into various geographic regions and economic interests, from breeding and training to racing. This factor is arguably more acute in Florida, but is not unprecedented.

- **Political:** Among various private industries, gaming is uniquely dependent on the political process for its success and, in many instances, for its very existence. In Florida, as in other states, this essential connection with government and the political process means that gaming operators and their allied interests have devoted – and will continue to devote – considerable resources toward influencing that process. At the same time, other interests that oppose the expansion of gaming, for reasons ranging from moral to economic, will play a role in that process.
- **Technological:** Gaming is hardly immune to changes in technology that are whipsawing many industries and changing business models around the world. The development of the Internet, and offshoots of that, including the expanded use of mobile technologies, have created new gaming opportunities, while presenting new challenges for lawmakers and regulators. In turn, as other states – and the federal government – adapt their own gaming laws, it will inevitably have an impact on the future of gaming in Florida.
- **Competitive:** While states compete against other states, in-state competition is also common. Lotteries and casinos can view each other as threats (even though arguably the experience is quite different, as is the demographics of the player base). Similarly, within the casino sub-sector itself, in-state competition can occur, and that can include competition for legislative and regulatory attention and resources. In Indiana, for example, the state’s two racinos⁵ operate under different rules than the riverboats. For example, riverboats are allowed live table games, which are barred from racinos, while the tax rates also differ. Additionally, casinos compete against many other industries for a share of overall discretionary spending.

As these macro trends combine, a number of smaller yet still significant trends have emerged. For example, states that first legalized gaming with slots or video lottery terminals are evolving into full-service casinos, with both slots and table games. In part, this has been facilitated by political pressures for more gaming revenue and to create additional employment opportunities, but it has also been advanced through technology as well. Various companies, most notably Shuffle Master and International Game Technology, have developed popular electronic table games that mimic live table games, sometimes with virtual dealers, but can be governed like slot machines.

That is an example of how political and technological trends can combine to effect changes. The technology that created electronic table games was largely unanticipated when slots were initially authorized in many states, and as the technology developed, new questions arose, such as: Are the electronic games tables or slots?

With that in mind, this interim step of electronic table games has made it easier from both a management and a government standpoint to take the next step of live table games. Moreover,

⁵ “Racino” is a widely used portmanteau formed by the combination of two words, racetrack and casino.

in such instances, states are often responding to what other states are doing. This has clearly been the case with West Virginia first adding live tables to its slots-only mix, followed by Delaware and then by Pennsylvania.

Similarly, within the private sector, various operators are taking advantage of expansion by developing a “hub and spoke” business model, in which smaller properties that are generally in markets with a higher gaming tax can feed business to hub properties in destination markets where the tax rates are generally lower. This trend is explained in more detail later in the report.

With these factors combined, Florida is also emblematic of national trends. In-state competition is intense, not just on a geographic basis, but in terms of fighting for parity on issues ranging from the type of offerings allowed to the effective tax rate. Florida is arguably more heightened on the competitive front than other states.

As more than one stakeholder told us during the course of our research for this study, the pari-mutuel industry resembles a “circular firing squad.” Horse racing interests have little in common with their dog-racing counterparts, and both have little in common with jai alai. Even within horse racing, there are warring camps between those who favor racing as the principal line of business and those who favor the casino offerings.

The various parties that comprise the pari-mutuel industry have different agendas as well, with some favoring the addition of table games to pari-mutuels as the principal goal, with others favoring a lower effective tax rate, for example. Pari-mutuels will generally find some common ground among themselves on the issue of a perceived “unlevel playing field” with the Indian gaming operations, as well as in opposition to Internet cafes. Going further, the pari-mutuels will also find common cause with the tribal operations in their shared opposition to proposals to authorize additional destination gaming resorts under a competitive bidding process.

On that latter issue, they all find common ground with business interests in the Orlando region and others, such as No Casinos, in their uniform opposition to the introduction of new destination resorts.

Such shifting alliances and differing agendas are not uncommon within gaming, and highlight two other truisms:

- The status quo always has its adherents, and can make for some unusual political bedfellows.
- Gaming will continue to evolve, with or without guidance or planning from public officials.

The former point is best exemplified by how gaming has evolved in different states. For example, Nevada – the state that is most dependent on gaming revenues for government operations – has no state lottery. At the same time, Internet gambling is just beginning to emerge in the United States while it is a mature industry in Europe. In both instances, the same explanation applies: Those whose interests are tied to the status quo are more likely to resist change.

That does not mean that the industry will stop changing and evolving. Change will continue, whether public officials play a lead role or not. The factors leading to change, as outlined in this section, will not render any effort to develop a gaming policy as moot. In fact, the presence of these critical factors heightens the need for a comprehensive policy. Based on our research and experience in Florida and elsewhere, gaming will evolve in Florida whether or not the Florida Legislature develops a plan and puts that plan into action. Absent any plan, however, that evolution would be haphazard and would be far less likely to address or advance any public-policy goals.

1. How Governments Respond to Gambling Expansion

Gaming has been expanding for decades and continues to do so. Even when limits are enshrined in the state Constitution, it does not preclude serious expansion efforts. Constitutional limitations, as well as tribal compacts, can be viewed as obstacles to expansion, but in a real-world sense, do not serve as permanent barriers. The best example of this can be found in New York, where the state constitution prohibits commercial gambling, yet it has a highly successful lottery, nine racinos and five Indian casinos – all operating through a variety of exemptions, rulings and legal interpretations. Today, New York Governor Andrew Cuomo is pushing to outright amend the state Constitution to allow full-blown commercial casinos; i.e., those with true slot machines (as opposed to video lottery terminals) and live table games.

Florida’s convoluted gambling laws, which we discuss in detail later in this report, have allowed an expansion of gambling to occur that the Legislature may never have intended. Rulings in recent years by the state’s regulatory agency, the Division of Pari-Mutuel Wagering (“PMW”), have allowed what critics call an “exploitation” of current gaming laws.

As Kent Stirling, executive director of the Florida Horsemen's Benevolent and Protective Association, told the *Tampa Bay Times*, “If the law doesn’t specifically say no, the answer from the department seems to be, always, yes.”⁶

At issue, for example, is the simple definition of a pari-mutuel event. Can it involve just two horses or two jai alai players? Does a horse race have to run on a traditional oval? Can a race begin with a simple drop of a flag? Can an operator comply with the live racing requirement by instituting “barrel” or rodeo-type racing? Can an operator shut down, transfer its live racing dates to another facility and then establish an off-site simulcasting operation with a cardroom? Can a dormant jai alai permit be converted into a greyhound racing permit, with the result similar to the one just described? PMW, through rulings or inaction, has, in effect, answered all of these questions with a “yes.”

⁶ Mary Ellen Klas, “Gambling footprint expanding in Florida under Gov. Rick Scott,” *Tampa Bay Times*, June 30, 2013. <http://www.tampabay.com/news/business/gambling-footprint-expanding-in-florida-under-gov-rick-scott/2129317>.

The result has clearly been an expansion of gaming that has led to contentious litigation. There are currently 21 lawsuits challenging PMW policies.⁷

States place all sorts of limits on their gaming industry, from geographic locations (as with New Jersey, which restricts casinos to Atlantic City), to limits on the number of licenses (Pennsylvania, Illinois, Massachusetts and others), to limiting gaming to pari-mutuel facilities (as with many states, such as Delaware and New York), to limits on the number of gaming positions per property (Illinois, for example), to requirements that casinos be on riverboats (several Midwest states).

The following macro factors are driving the expansion of gaming:

- As states need more revenue, particularly in periods of economic recession, gaming bills and referenda are more likely to be introduced, and to be viewed favorably. This trend hails back to 1931, when Nevada introduced gambling in the midst of the Great Depression. In 1976, New Jersey voters approved casinos in large measure to assist economically depressed Atlantic City. Economic downturns in the 1990s prompted a number of Midwestern states, from Illinois down to Mississippi, to create riverboat casino industries.
- As related industries such as pari-mutuels see their own revenues and profitability decline, this prompts calls for subsidies, usually in the form of adding slot machines (often followed by table games) to pari-mutuel operations. Consequently, as racetracks use some of this additional funding to increase purses, that trend is further fueled as tracks that compete for horses and export signals are pressured to increase their purses in response.
- States respond to what occurs in other states. One political argument that often gains traction with legislatures and the general public is the notion that one state's residents are spending their dollars in neighboring states rather than at home. This argument has been used in a variety of states in the last decade including Kentucky, Massachusetts, Ohio and Pennsylvania.
- In the battles between pro-gaming and anti-gaming political campaigns, the playing field is not level in one important sense: Those who oppose gaming's expansion often succeed, but in many instances they have to continue doing battle in subsequent years. They have to win every time. Those who favor the expansion of gaming need to win only once.

⁷ Ibid.

That latter point can be illustrated in various states. For example, Ohio voters turned down four referenda between 1990 and 2008 that would have legalized casinos in various locations.⁸ In only one of those votes – a 2006 measure to approve two casinos in Cuyahoga County, plus slot machines at seven racetracks – did the measure gain support from more than 40 percent of the voters. Yet, a fifth ballot measure in 2009 to authorize one casino in each of four Ohio cities – Cleveland, Cincinnati, Columbus and Toledo – was supported by 53 percent of Ohio voters.⁹ Consequently, despite four successful efforts to defeat casinos, Ohio is now a gaming state.

The most notable example of this phenomenon can be found in Florida itself, starting with a failed measure in 1978. The following account summarizes that effort:

On November 4, 1978, Florida voters overwhelmingly rejected a proposal to legalize casinos along the Gold Coast – and in Miami Beach in particular. By a lopsided 73 to 27 margin, opponents of the casino legalization measure, led by two-term governor Reubin Askew, carried every county in Florida and beat back a referendum similar in style and substance to the successful 1976 New Jersey initiative.

There were many obvious differences between the two states, which might account for the disparity in the vote. Of these, two are particularly notable: Florida has a large Baptist population and is generally regarded as a politically conservative state; and Florida's economy, including its tourism, was strong. . . . As late as August 1978, polls conducted for the casino opposition had concluded that, while the November gambling contest would be close, the momentum of the election appeared to be with the gambling proponents. In the few months between those polls and the November election, a spirited campaign against casinos led by influential south Florida commercial interests appeared and turned a once close contest into a one-sided race.¹⁰

That unsuccessful campaign – which relied on the same campaign manager who conducted the successful 1976 campaign in New Jersey¹¹ – did not end such efforts in Florida.

Spectrum professionals, in previous careers, have been close observers of various gaming efforts in Florida. Indeed, working as a journalist for *The Press of Atlantic City* in 1986, Spectrum Managing Director Michael Pollock witnessed the first in-person meeting between the political directors of two referenda on the ballot that year: an effort to legalize land-based casinos in hotels

⁸ Rich Exner, "Ohio Casino vote passes on strength near would-be casinos; a look at the vote," *The Plain Dealer*, November 4, 2009
http://www.cleveland.com/datacentral/index.ssf/2009/11/ohio_casino_vote_passes_on_str.html.

⁹ Ibid.

¹⁰ John Dombink and William N. Thompson, "The Last Resort: Success and Failure in Campaigns for Casinos," 1990, *Nevada Studies in History and Political Science* No. 27, p. 42
http://books.google.com/books?id=F6Z1G1FqcskC&pg=PA41&lpg=PA41&dq=%22sanford+weiner%22+casino+florida+1978&source=bl&ots=AEigirADF_&sig=82P8HrWd_uUPFZ2JEuBcdTIBurU&hl=en&sa=X&ei=P3iGUfnHG_u94APc_l4C4Dw&ved=0OCEUQ6AEwAA#v=onepage&q=%22sanford%20weiner%22%20casino%20florida%201978&f=false.

¹¹ Michael Pollock, *Hostage to Fortune: Atlantic City and Casino Gambling*, 1987, p. 16.

with at least 500 rooms (subject to local approval), and another to legalize a state lottery. At an impromptu meeting at Tampa International Airport, the head of Citizens for Jobs and Tourism, the pro-casino lobby, suggested to his counterpart heading the lottery effort that they coordinate their campaigns to mutual benefit. The offer was politely but firmly rejected and, as it turned out, for good reason: The lottery referendum was approved by a 2-1 margin, while the casino effort lost by the same ratio.¹²

That 1986 Florida referendum, however, proved to be a harbinger as to how gaming issues would evolve throughout the United States, both in terms of public perception and in how pro- and anti-casino campaigns would be funded and operated. This was captured well in a prescient column in the *Sun-Sentinel*, "Money Shouts in Gambling Referendum," that appeared about eight months prior to the November 1986 Florida vote:

A few rich individuals and corporations have the potential of influencing - some even say buying - the result of the November 1986 referendum on legalizing casinos in Florida.

In this state, no limits exist on what one can contribute to a referendum campaign. As gamblers say, the sky's the limit. ...

... Millions of dollars will be spent this year to debate casino gambling. Those who want legalized casinos 'will have a more sophisticated campaign than in 1978,' casino foe (former Gov. Reubin) Askew said. 'I think they'll run a political campaign as opposed to a PR campaign. It's going to be a tough fight.' ...

Pro-casino forces are sensitive about the big-spender image. Therefore they will seek their donations from within the state. And the staff of Citizens for County Choice is all from Florida.

'It shouldn't be a carpetbagger image. It should be a Florida-supported effort and Florida-controlled effort,' said Andrew Rubin, who led Citizens for Jobs and Tourism.

Those favoring legalized casinos like to promote this referendum as democracy at its best, giving people a right to choose. (The proposed constitutional amendment that will appear on the ballot says if casinos are legalized by statewide vote, there still must be a local referendum to decide whether to permit casinos in a particular county.)

'This campaign is a more of a personal rights referendum as against a gambling referendum,' said pro-casino leader Kennedy. 'You are asking people to allow those people who may want casinos to have a right to vote on them.'¹³

Like the 1978 referendum, the 1986 referendum failed, albeit by a smaller margin of only 2-1 (while voters approved the lottery by about the same margin).¹⁴ In between those two failed

¹² Mary Ellen Klas, "A timeline of gambling in Florida," *Tampa Bay Times*, November 25, 2009 <http://www.tampabay.com/news/perspective/a-timeline-of-gambling-in-florida/1054345>.

¹³ Diane Hirth, "Money Shouts in Gambling Referendum," *Sun-Sentinel*, March 23, 1986 http://articles.sun-sentinel.com/1986-03-23/news/8601180125_1_pro-casino-forces-casino-referendum-casino-question.

¹⁴ Klas, "A Timeline of Gambling in Florida."

casino referenda, however, gambling was still emerging and evolving in Florida in the form of “cruises to nowhere,” simulcasting of races and high-stakes bingo.¹⁵ While another proposed constitutional amendment failed in 1994 by a vote of 62 percent to 38 percent, gaming proponents eventually seized a narrow victory in 2004 when a constitutional amendment was approved with less than 51 percent of the vote to allow racinos to open in Miami-Dade and Broward counties.¹⁶

As noted in the previous section, these trends do not evolve in isolation, and the factors that are driving expansion can feed off each other. For example, as states respond to actions taken in neighboring states, gaming is more likely to expand. This has the impact of making states more dependent on gaming revenue for growing portions of their budgets. At the same time, political forces that are pushing for expansion are learning from previous efforts in their own and in other states as to how campaigns could be shaped more effectively with messages that resonate.

Consequently, as more states authorize and expand gaming, bringing it closer to more population centers, participation and familiarity with gaming will inevitably increase. As an industry, gaming is uniquely dependent on – and uniquely intertwined with – the political process, and this relationship largely guides the industry’s growth. John Sowinski, president of No Casinos in Florida, observed a phenomenon that governs how elected officials largely view gaming: “The solution to having too much of it is to have more of it.”¹⁷

Indeed, that observation can be supported through various examples throughout the country. From New England to the Mid-Atlantic region and to the Midwest and beyond, states respond to the expansion of gaming in other states by expanding gaming within their states. As explained in more detail later in the report, the catalysts for such expansion include:

- A state’s residents are spending dollars elsewhere, and those dollars are best kept at home.
- The pari-mutuel industry is hurting, and needs expanded gaming in order to survive and to compete against larger purses available at competing tracks in other states.
- Gaming is viewed as a fiscal solution when states feel the pinch of an economic recession.

Additionally, we note that states that “import” gamblers from other states have a distinct fiscal advantage over states that “export” gamblers: Importing states gain dollars from other states but do not have to fund services such as problem-gambling treatment, which is usually funded by the state where the problem gambler lives. For example, Spectrum learned from studies we conducted in Massachusetts and Connecticut that problem gamblers who lived in Massachusetts might have been gambling at Connecticut casinos, but Connecticut and its tribal operators did not

¹⁵ Ibid.

¹⁶ Ibid.

¹⁷ Interview with John Sowinski, May 29, 2013.

have to fund any treatment programs for those gamblers. Massachusetts, which had no casinos at the time, funded the treatment absent any funding from gaming.

As noted earlier, limits that are enshrined in the state Constitution do not necessarily preclude serious expansion efforts. Florida offers another telling example of that, in the 2004 constitutional amendment that led to the approval of racinos in Miami-Dade and Broward counties. That amendment initially limited that privilege to operating pari-mutuels, which would have excluded Hialeah. That was changed through 2010 legislation, which survived subsequent legal challenges, but created some new consequences. Veteran gaming reporter Nick Sortal identified those consequences in a report for the *Sun-Sentinel*:

Hialeah Park is reveling in its rebirth, but the racetrack with the pink flamingos has caused a mess across the state.

When its quarter-horse season ends . . . , the track that first opened in 1921 will be eligible to house slot machines, thanks to a provision in a 2010 state law. But slot-machine proponents contend that law also applies to other venues, creating a flood of county referendums -- which legislators say illustrate how gambling in Florida has run amok.

Last month, Gadsden and Washington counties approved slot machines via referendum. Palm Beach, Hamilton and St. Johns counties also expect to vote on slots in November, citing the 2010 law.

‘Opening the way to Hialeah opened the way to everything,’ said Ron Book, a lobbyist whose clients include Hialeah’s rival, Magic City Casino. ‘It created a slippery slope.’¹⁸

a. States Endeavor to Realize Value from Gaming via License Fees

One important theme that resonates throughout this report is that no other private industry – and certainly none in the entertainment or hospitality fields – is as dependent as remaining in the good graces of public officials for its ability to earn a profit, or even for its very existence. The flip side of that is that no other private industry has the ability to secure such local or regional monopolies. Sometimes, these local monopolies are granted to private interests simply because those interests own a particular piece of land, such as a racetrack.

In Florida, the holder of a slot machine license must pay an annual license fee of \$2 million, which is due when the application is filed or with the renewal date. There is no fee to obtain an annual pari-mutuel operating license. But in conjunction with its monthly tax payment, each permitholder pays a daily license fee. For jai alai, it is \$40 per game. For greyhound permitholders, it is \$80 per race that may be offset with eligible tax credits under section 550.0951(1), Florida

¹⁸ Nick Sortal, “Hialeah Park: Flash Point for State’s Gambling Mess,” *Sun-Sentinel*, February 16, 2012 http://articles.sun-sentinel.com/2012-02-16/news/fl-hialeah-gambling-20120216_1_mutuels-pari-mutuels-slot.

Statutes. For horse racing, the fee is \$100 per race. For cardroom operators, the state charges annually a fee of \$1,000 for each table when the application is submitted.¹⁹

In recent years, a number of states have endeavored to realize value from the issuance of such licenses by requiring license fees or some equivalent in exchange for the rights and privileges of operating a gaming facility.

The core rationale in requiring such one-time fees is that licenses have value, and states should not give away something that could command significant dollars in the open market. Veteran investment banker Jeff Hooke, managing director of Focus Investment Bank, has been a longstanding advocate for the principle of states realizing the full value of such licenses. More than a decade ago, he noted the following regarding states that had authorized gaming in preceding years: "Illinois, Indiana and Michigan awarded the gaming licenses for free to politically connected groups, under the guise of aiding economically depressed areas or failing racetracks. Even after the impact of betting taxes were included, the awardees turned around and made vast profits."²⁰

Hooke collected the data for the following table:

¹⁹ Division of Pari-Mutuel Wagering, email to Spectrum Gaming Group, June 17, 2013.

²⁰ Jeff Hooke, "Jeff Hooke: If you go for slots, make casinos ante up," *Pittsburgh Post-Gazette*, May 14, 2013 <http://old.post-gazette.com/forum/comm/20030514edhooke14p5.asp>.

Figure 1: Gaming license transactions, values

Implied Value (\$M) ²¹	Date	Metro	Buyer/Seller	Transactions/ Offers
\$180	October 2011	New York City	Genting (Malaysia)/State of New York	Transaction ²²
\$435	December 2008	Chicago	Trilliant Gaming/State of Illinois	Offer/Transaction ²³
\$407	August 2007	Indianapolis	LHT Capital/Oliver Racing (Indiana Downs)	Transaction ²⁴
\$250	April 2007	Indianapolis	Indiana Downs/State of Indiana, Hoosier Park/ State of Indiana	Two transactions at \$250 million each
\$160	December 2006	Pittsburgh	PITG Gaming/City of Pittsburgh	Transaction ²⁵
\$220	November 2006	Pittsburgh	Millennium/Magna	Transaction ²⁶
\$140	June 2006	Dania Beach	Dania Jai Alai/Boyd Gaming	Transaction ²⁷
\$340	April 2006	Pittsburgh	Isle of Capri City	Offer ²⁸
\$500	January 2005	Catskills	Seneca Ind./New York State	Offer
\$310	October 2004	Poconos	Mohegan/Penn National	Transaction ²⁹
\$442	July 2004	Philadelphia	Harrah's/Inv. Group	Transaction ³⁰
\$518	March 2004	Chicago	Isle of Capri/State of Illinois	Offer
\$750	January 2001	Cincinnati	Argosy/Inv. Group	Transaction
\$663	November 2000	Detroit	Chippewa/Inv. Group	Transaction ³¹

²¹ The value represents license value only. In several instances, the values of casino structure, horse racing track, jai alai track or relevant real estate were excluded from the transaction value in order to determine the license value. For Pennsylvania transactions/offers, the value includes the \$50 million license fee that is paid by the license holder. The Maryland 2009 license awards have been excluded since the sizable tax rate (67%) precluded high initial fees and the bidding process was not open, but rather skewed toward certain landowners.

²² Aqueduct racetrack slots. The gross amount is \$380 million, minus \$200 million for a state contribution to construction costs. The low price is partly due to New York's high gaming tax rate and high purse contributions. The slots operator may keep only 30% or 35% of the net revenue.

²³ Trilliant Gaming offered \$435 million upfront for a Rosemont, IL, location. The State, however, awarded the license to Midwest Gaming for a Des Plaines, IL, location for \$125 million upfront and \$300 million to be paid at \$10 million per year for 30 years. The total NPV of the Midwest proposal is \$247 million at an 8% rate.

²⁴ Oliver Racing paid \$53.5 million for a 34% interest, plus a \$250 million license fee.

²⁵ PITG agreed to pay a \$7.5 million annual fee to City of Pittsburgh to subsidize a new hockey arena. Hooke Associates estimated the "present value" of the annuity at \$110 million, plus the \$50 million license fee.

²⁶ \$30 million value of racetrack subtracted from \$200 million price (i.e., \$170 million, net) and \$50 million license fee added, in order to provide a \$200 million license value.

²⁷ \$13 million appraised value (tax records) of jai alai fronton excluded from \$153 million purchase price.

²⁸ Isle of Capri offered to build a \$290 million hockey arena and to pay \$50 million for the license.

²⁹ Mohegan Tribe paid \$290 million (after post purchase adjustment) for the license plus the track worth \$30 million. We add \$50 million license fee for a value of \$310 million (i.e., \$290 minus \$30 plus \$50).

³⁰ In exchange for 50% interest, Harrah's put up over \$400 million to construct casino and racetrack.

³¹ Chippewa's buyout of a 40% interest, indicating a 100% interest at \$663 million.

While Hooke is correct in that states can realize value in something that many states had given away, the more immediate incentive is that states can realize significant revenue quickly. That prospect has driven more states in recent years to seek license fees.

However, license fees do have a cost. From the standpoint of a potential developer, a license fee is part of the necessary investment in a potential project. It is the equivalent of the capital investment that would be made in various areas, ranging from site acquisition and improvement to architecture fees and construction costs. But, unlike the costs that are incurred to build a physical facility, the license fee does not add to the value of that facility. When calculating a return on investment (“ROI”), a license fee is part of the investment, which is the denominator in that ratio. But a license fee does nothing to increase the numerator, the profit. Consequently, the license fee is effectively a sunk cost that does not generate revenue, which would in turn fuel various public benefits from gaming taxes to employment.

An operator that does not have to carry that cost can invest more in the property to increase revenue and ROI. That is particularly important in a competitive bidding process. In 2008, Spectrum prepared a report for the Commonwealth of Massachusetts, in advance of gaming legislation that included a provision for a \$200 million initial licensing fee. That report noted the following:

Initial license fees required of successful development bidders are generally viewed as part of their capital investments and therefore:

- Have a detractive effect on capital development spend, as the licensing expense competes internally for capital with construction spending.
- Pose a dampening effect on development interest among potential candidates, as the fees raise the cost of entry with no direct return on that expense, and thereby simultaneously reduce projected ROIC rates.

This is not to say government entities should not impose substantial operator license fees, to both winnow out under-resourced bidders and help recoup the state’s own start-up and other infrastructure costs, but rather to make clear the underlying considerations.

At a \$200 million minimum bid, the Massachusetts casino licensing fee, combined with the minimum development requirements, will ensure that only financially strong companies will apply. On the other hand, this is potentially \$200 million less in capital invested into each of the destination casinos. This fee could be viewed by both the state and license applicants as the price of operating in a closed, geographically protected environment.³²

³² Spectrum Gaming Group, “Comprehensive Analysis: Projecting and Preparing for Potential Impact of Expanded Gaming on Commonwealth of Massachusetts,” August 1, 2008. p. 119.

Three years later, the Expanded Gaming Act became law in Massachusetts, and included a minimum \$85 million licensing fee, significantly lower than what had been contemplated in the 2008 proposed legislation.³³

Between 2008 and 2011, a severe national recession struck, which certainly played a role in convincing lawmakers in Massachusetts to reduce the required minimum capital investment. At the same time, however, we suggest that lawmakers also recognized that a large license fee could also detract from capital investment and its subsequent economic benefits.

Based on the language within its statute³⁴ that governs the competitive bidding process, Massachusetts is a pioneer in the planning of gaming. The law requires bidders to put forth comprehensive proposals that address many areas that are often not addressed, or paid little heed, in other gaming statutes. Such areas range from impact on employment to impact on local arts, as well as on small businesses.

2. Racetrack Casinos Evolve, Table Games Arrive

In 1990, the concept of a racino was introduced to the United States with the opening of 165 video lottery terminals (“VLTs”)³⁵ at Mountaineer Park Racetrack in West Virginia. With the success of the West Virginia experiment, racinos soon spread to Rhode Island, Iowa and Delaware. Many states that introduce commercial casino gambling do so through the initial introduction of slots-only facilities. Examples of this include, among others, Pennsylvania, Delaware, West Virginia, Rhode Island, New York and Florida racinos – although poker at the Florida tracks is a notable exception. The logic behind such moves tends to include the following:

- Slots are viewed as more politically acceptable.
- Slots – because they lack live dealers, as well as necessary controls over dice and other gambling paraphernalia – are viewed as easier to regulate.

The latter point is particularly noteworthy for states in which the lottery is vested with the authority to oversee slots or VLTs, such as Delaware, Maryland, New York, Rhode Island and West Virginia. However, even in lottery states, the natural evolution over the past decade has been to add live tables to slots-only facilities. We attribute that trend to two larger forces at play, which are dealt with in more detail elsewhere in this report:

- Fiscal pressures to generate additional revenue, as well as pressure to add jobs.

³³ Massachusetts Expanded Gaming Act <http://massgaming.com/about/expanded-gaming-act/> (accessed May 8, 2013).

³⁴ Ibid.; see <http://massgaming.com/wp-content/uploads/Chapter-23K-2012.pdf>.

³⁵ From the standpoint of a player, slots and VLTs are indistinguishable. The core difference is that slots can be standalone devices, while VLTs can be tied to a central system that monitors and/or controls all critical aspects of the games.

- The need to respond to actions in other, often neighboring states.

Within a span of about two years, West Virginia added live table games, followed by Delaware and then Pennsylvania – states that, to varying degrees, have overlapping markets. Maryland followed suit by adding tables to its slots facilities this year. The trend was captured in a quote by Mark Nichols, an economics professor with the Institute for the Study of Gambling and Commercial Gaming at the University of Nevada at Reno: “Maryland is getting what the other states already have, which is going to make it very difficult for casinos in West Virginia and Delaware. The only way they can keep those Maryland residents from staying in Maryland is offering incentives or differentiated products that somehow make it worthwhile to travel. But almost anything they try, Maryland can copy. I’m not sure there’s much they can do.”³⁶

If regulated properly, the addition of table games can be a smooth transition that can also encourage capital investment and expansion. The addition of house-banked table games such as blackjack to a slots-only casino can serve to increase slot revenue. This seems counter-intuitive (the natural assumption is that new table games would simply cannibalize existing slot play) but experience in markets that have added tables to casinos that previously offered only slot machines shows otherwise. This phenomenon can be attributed to two major factors:

- Some new table-game customers (who previously had no incentive to visit a slots-only casino) can be expected to apportion some of their own spending to slots.
- Some of these new customers would be accompanied by other guests – such as a spouse or a friend – who would play slots during these visits.

Spectrum’s research finds no compelling evidence that adding table games to a slots-only casino would reduce slot revenue. In fact, research shows that slots and table games in a casino are complementary assets.

The remainder of this section shows examples of states and/or casinos where table games were added to what were once slots-only casinos.

a. Mid-Atlantic – Pennsylvania and Delaware, Collective Example

By way of example, casinos in both Delaware and Pennsylvania had been limited to slots prior to May 2010, but then table games were added to all 12 casinos in these states between May and July 2010.

Through the 12-month period ending April 2010 (pre-table games), the 12 casinos generated \$3.09 billion in slot revenue. Through the 12 months ending July 2011 (the first full annualized period when all 12 casinos had table games for the full duration of period), the same

³⁶ J. Freedom Du Lac, “Maryland raising stakes in casino wars with Delaware and West Virginia,” *Washington Post*, March 31, 2013 http://articles.washingtonpost.com/2013-03-31/local/38170896_1_maryland-live-delaware-park-table-games.

12 casinos generated \$3.26 billion in slot revenue (an increase of 5.6 percent over the period without having table games). Table games revenue at these 12 casinos amounted to \$508 million through 12-month period ending July 2011.

The overall increase in gross gaming revenue (“GGR”) for both tables and slots between the two periods was 22.1 percent, while table games revenue accounted for 74.5 percent of the GGR growth and slot revenue accounted for 25.5 percent of the GGR growth. Importantly, this growth occurred at a time when other casinos were opening in the region (SugarHouse in Philadelphia, PA, and Hollywood in Perryville, MD, in September 2010, along with Ocean Downs in Worcester, MD, in January 2011).

b. Delaware

Slots-only casino gambling commenced at Delaware’s three racinos in 1995, with table games operations commencing in 2010. Since table games effectively came online midway in 2010, we examined slot revenue variance data – comparing second half of year to first half of year – for 2008 through 2012 (two entire calendar years before and after table games). In the two years before table games, slot revenue was less in second half of year (July through December) than it was in first half of year (January through June), and for each casino.

To determine whether the implementation of table games had a material impact on slot revenue we examined the slot revenue variance in 2010 (when all Delaware casinos offered table games in second half of year). If the introduction of table games had a significant, negative impact on slot revenue we would expect to see the slot revenue variance to be inconsistent with 2008 and 2009 variance data (i.e., prior to table games). The following table illustrates this slot revenue variance data in Delaware from 2008 through 2012 – where 2010 (as highlighted) was the year when table games commenced operations midway through the year.

Figure 2: Delaware casinos, slot revenue variance – pre and post table games (2008-12)

Slot Revenue Variance	Delaware Park	Dover Downs	Harrington Raceway	DE TOTAL
2008 (2nd Half vs. 1st Half)	(12.6%)	(2.5%)	(14.2%)	(9.4%)
2009 (2nd Half vs. 1st Half)	(13.1%)	(5.5%)	(10.9%)	(9.9%)
2010 (2nd Half vs. 1st Half)	(12.1%)	(5.5%)	(9.0%)	(9.0%)
2011 (2nd Half vs. 1st Half)	(7.4%)	(3.9%)	(11.6%)	(6.9%)
2012 (2nd Half vs. 1st Half)	(14.1%)	(17.4%)	(18.7%)	(16.4%)

Source: Delaware Lottery, Spectrum Gaming Group

As illustrated, on a statewide basis (and consistent amongst casinos), the decline in slot revenue (second half of year compared to first half of year) was greater in the two years without Delaware having table games than it was in both the first and second years following the commencement of Delaware offering table games. Specifically, slot revenue only declined by 9 percent in 2010 from the first half of year to second half of year (when table games were fully operational); this percentage decline was greater in 2008 and 2009, absent presence of table games

(at 9.4 percent and 9.9 percent, respectively). We note that in 2011, the decline in slot revenue from the first half of the year to the second half of the year was even less pronounced than in prior years (at only 6.9 percent), which may suggest that table games were complimentary to slots and/or that table games enhanced overall appeal of Delaware's casinos.

We acknowledge that myriad other factors may impact these aforementioned growth rates, as illustrated in 2012, when growth rates plummeted from first half of year to second half of year (i.e., possibly due to opening of Maryland Live Casino located near Baltimore, MD, in June 2012 along with widespread impact of Superstorm Sandy hitting the region in October 2012).

c. West Virginia

There are four racinos in West Virginia, with all four offering table games. Initially, all four racinos were limited to slots: The racinos offer VLTs that are operated by the West Virginia Lottery, while there is also a network of limited VLT operations at numerous, licensed locations statewide.

In mid-2007, voters (via referendum at the host county level) supported allowing table games at three of the four racinos (the referendum failed in Jefferson County, home to Charles Town – the state's largest racino). Consequently, two casinos (Mountaineer Park and Wheeling Island) began table game operation in late 2007 while Tri-State Park began table game operations in August 2008. A December 2009 referendum to add tables at Charles Town did pass and table game operations commenced in July 2010. (A fifth casino, the Greenbrier resort, began operations in West Virginia in October 2009. The Greenbrier, a resort hotel with no racetrack, offers both slots and table games.)

We examined slot revenue performance at Charles Town, since this racino generates more than half of the GGR in West Virginia, and is relatively isolated from any other racino in West Virginia or neighboring states. Specifically, we examined slot revenue variance data – comparing second half of year to first half of year – for 2008 through 2012 (two years before and after table games – as table games became operational in July 2010 at Charles Town). In the two years before Charles Town having table games, slot revenue was lower in the second half of the year than it was in the first half of year.

To determine whether the implementation of table games had a material impact on slot revenue, we examined the slot revenue variance in 2010 (when Charles Town added table games in the second half of year). If the introduction of table games had a significant, negative impact on slot revenue, we would expect to see the slot revenue variance to be inconsistent with 2008 and 2009 variance data (prior to table games). The following table illustrates this slot revenue variance data at Charles Town from 2008 through 2012 – where 2010 (as highlighted) was the year when table games commenced operations midway through the year.

Figure 3: Charles Town Races (WV), slot rev. variance – pre and post table games (2008-12)

Slot Revenue Variance	Charles Town Races
2008 (2nd Half vs. 1st Half)	(8.3%)
2009 (2nd Half vs. 1st Half)	(13.2%)
2010 (2nd Half vs. 1st Half)	(1.5%)
2011 (2nd Half vs. 1st Half)	3.2%
2012 (2nd Half vs. 1st Half)	(18.6%)

Source: West Virginia Lottery, Spectrum Gaming Group

As illustrated, the decline in slot revenue (second half of year compared to first half of year) was greater in the two years without Charles Town having table games than in the initial year of Charles Town offering table games. Specifically, slot revenue only declined by 1.5 percent in 2010 from first half of year to second half of year (when table games were fully operational) while this percentage decline was greater in 2008 and 2009, absent presence of table games (at 8.3 percent and 13.2 percent, respectively). We note that in 2011, there was an increase in slot revenue from first half of year to second half of year, which may suggest that table games were complimentary to slots and/or that table games enhanced overall appeal of Charles Town (i.e., translating into greater slot revenue levels than what would otherwise be, absent table games).

As with Delaware (and so noted above), there are numerous factors that may impact growth rates.

d. Pennsylvania

There are 11 casinos in Pennsylvania, all of which prior to mid-2010 were limited to slots. Table games operations commenced in July 2010.

In reviewing slot revenue results for the first full year that Pennsylvania's casinos offered table games (LTM June 2011) compared to the full year prior (LTM June 2010) we see inconclusive results on the collective impact of table games on slot revenue. Collectively, slot revenue grew by 10.7 percent when comparing the two periods; however, nearly all of this slot revenue growth occurred at two of the newer casinos (Sands Bethlehem and Rivers, opening in May 2009 and August 2009, respectively) and as a result of a new casino in Philadelphia (which opened in September 2010).

The seven Pennsylvania casinos that opened in 2007 and 2008 had a collective 0.1 percent increase in slot revenue when comparing LTM June 2011 to LTM June 2010 (i.e., post- vs. pre-table games). Four of the seven reported increased slot revenue, while three of the seven reported declines in slot revenue.

This was, of course, a period of significant change in Pennsylvania's gaming industry, with additional casinos opening in-state and in surrounding area. That makes it difficult to isolate any precise cause and effect on either table or slot revenue. Still, we note that any expected cannibalization of slot revenue by the addition of table games did not materialize in Pennsylvania.

3. Battle for Entertainment Dollars: Competition on a Broader Scale

Caesars Entertainment Chairman, President and CEO Gary Loveman recently offered criticism of how the casino industry tends to break down revenue into two categories: gaming and non-gaming. Loveman suggested there is a problem in the industry's mindset when other revenues are defined by what they are not, rather than what they are. He noted, for example, that we don't divide people into two genders: "women and non-women."³⁷ Rather, he characterized other revenues as "entertainment" dollars, forecasting an evolution at his company and other gaming providers in which they broadly compete for a share of all discretionary income.

That might be a welcome and necessary step in an industry that is increasingly facing saturation in its core business. But that evolution has implications for other businesses, industries and regions that already battle for that entertainment dollar, and that do not offer gaming – nor do they intend to offer gaming as an option.

From Florida's standpoint, this issue is most readily apparent in Orlando, a successful, world-class resort by any standard that has managed to achieve success in multiple categories, most notably for purposes of this discussion: families with children; and business travel, particularly in the MICE (meetings, incentives, conferences and exhibitions) segment.

Due to its abundance of theme parks, hotels and other assets and infrastructure, Orlando competes nationally and globally in various segments, and Las Vegas – a destination centered on gaming – is clearly a competitor. Interestingly, Las Vegas endeavored to leverage its brand into the family segment, but has more recently sharpened its focus on more adult segments, as noted here:

By the late 1980's gaming revenue in Las Vegas was down as other areas in the country started to legalize gambling. In an attempt to stimulate visitor numbers the city was reinvented in the image of Disney. Themed hotels such as the Luxor and Excalibur emerged allowing Las Vegas to market itself as a place for adults to gamble while their children played at theme parks such as the one built by the MGM Grand. Circus Circus a kid's themed hotel that was built in 1976 was the only hotel that attended to the needs of children. With the development of these new hotels Circus Circus would now face competition for the younger demographic of customers and their families. Las Vegas in the 21st Century saw its second major change in visitor demographics. No longer the place for the family, Las Vegas has morphed into one of the top party cities in the world, ranking top ten in numerous different polls. Attracting 21 – 34 years olds from all over the world, Las Vegas now ranks number one in categories such as, top destination for bachelor and bachelorette celebrations (www.AskMen.com 2009), top destination to celebrate a 21st birthday (www.ehow.com).

³⁷ Gary Loveman, keynote speech at East Coast Gaming Congress, Atlantic City, NJ, May 22, 2013.

The sudden influx of younger tourist[s] can be attributed to the erection of new nightclubs and pool parties in many of the Las Vegas Hotels. MTV's reality TV show "the real world" portrayal of Las Vegas as a party city has also been a catalyst for the younger crowd to Las Vegas.³⁸

Based on our experience, we concur with the observation that Las Vegas operators determined that Las Vegas would not succeed in rebranding itself as a family destination, and began targeting hedonistic adults (best evidenced by the "what happens in Vegas stays in Vegas" campaign) and business travelers.

While Orlando and Las Vegas do not share the same *raison d'être*, they do share one critical characteristic: Both destinations developed from scratch, in a relatively brief period, a massive infrastructure of hotel rooms, meeting and convention space, and entertainment attractions. Each destination has a critical mass of attractions, which helps fuel visitation. John McReynolds, Senior Vice President of External Affairs for Universal Parks & Resorts, noted, for example, that Universal does well when other attractions in Orlando prove to be popular, and the success of the Wizarding World of Harry Potter serves as a magnet that, in turn, increases overall attendance, which benefits other non-Universal attractions.³⁹

According to McReynolds, almost 85 percent of the Orlando market is represented by the leisure market, with the remaining 15 percent being made up by the MICE market.⁴⁰ Total business attendance in Orlando has more than doubled in the past 20 years through good economic times and bad.

In Orlando, the conventions and meetings business is anchored by the Orange County Convention Center, where convention business is on an upswing and is approaching its pre-recession peaks.

Notably, that center has been hailed by Business Review USA as the top major convention destination in the nation: "Central Florida's OCCC is a massive center, offering 2,100,000 square feet of exhibit space in its 7,000,000 square-foot complex. But it's not just size that brought OCCC to the top of our list. The OCCC provides Central Florida with a remarkable amount of economic benefits at no cost to the county's citizens and it is estimated that activity in the center yields an annual tax savings of \$87.50 per Orange County household. This self-proclaimed "Center of Hospitality" offers amenities to please (including massage services, three full-service restaurants,

³⁸ Joseph Akinsete, "Las Vegas visitor demographics: Be careful what you wish for," University of Nevada, Las Vegas, April 1, 2010, p. 3-4.
<http://digitalscholarship.unlv.edu/cgi/viewcontent.cgi?article=1595&context=thesedissertations>.

³⁹ Interview with John McReynolds, May 29, 2013.

⁴⁰ *Ibid.*

eight food courts and remote airline check-in) and was the staging area for relief operations for Hurricanes Charley, Frances and Jeanne.”⁴¹

On a national level, many of the major convention destinations in Orlando’s competitive set are also hosting casinos. The number of major convention cities with casinos already includes Las Vegas, Philadelphia, New Orleans, Detroit and New York, and will soon include Boston, and the possibility of additional gambling venues in Chicago. Atlanta, another major convention destination in the Southeast, has been contemplating gaming for several years.

In 2007, PKF Consulting released a report on the potential economic impact of a casino in Atlanta, and its executive managing director Mark Woodworth made this statement: "We're seeing more and more destinations that have gambling, which functions as an important amenity, especially in attracting group meetings and conventions."⁴²

In our view, Orlando’s ability to grow its conventions and meetings business in the face of this countervailing national trend underscores an important asset in this market: Orlando’s strength in attracting business travelers is growing without gaming, and that absence is to some degree fueling that growth. Orlando has carved out a significant, profitable niche in that national market, and gaming would clearly be antithetical to that image and its ability to dominate that important segment.

Interviews with various hotel operators in the Orlando area, which are members of the Central Florida Hotel & Lodging Association, have lent support to that view. The members interviewed for this report note, for example, that many of the meeting planners who book Orlando for their groups cite the absence of gambling as a plus, since that attraction might otherwise be viewed as a distraction. Thea J. Sargent, General Manager of Disney’s Contemporary Resort in Orlando, expressed a view that was endorsed by many of her colleagues when she said the absence of gaming and the focus on other attractions “differentiates us (as a) family-friendly destination.”⁴³ The Orlando hotel owners interviewed for this report note that convention attendees and other business travelers who visit Orlando often extend their stays and bring their families with them.

A 2011 survey of Orlando visitors shows the various activities they participate in during their stay. The percentages listed here reflect the percentage of visitors who reported participating in each activity.

⁴¹ “Top Ten U.S. Convention Centers,” *Business Review USA*.
http://www.businessreviewusa.com/business_leaders/top-ten-us-convention-centers (accessed May 30, 2013).

⁴² Rachel Tobin Ramos, “Downtown Casino Could be \$1.6B Jackpot,” *Atlanta Business Chronicle*, February 12, 2007. <http://www.bizjournals.com/atlanta/stories/2007/02/12/story1.html?page=all>.

⁴³ Interviews with members of the Central Florida Hotel & Lodging Association, May 29, 2013.

Figure 4: Activities participated in during visit to Orlando

	Domestic Leisure	Domestic Convention-Group Meeting
Theme/Amusement Park	50.3%	15.5%
Dining	31.6%	39.5%
Shopping	31.5%	18.3%
Entertainment (Gen)	29.7%	16.4%
Touring/Sightseeing	17.1%	4.4%
Beach/Waterfront	12.2%	5.8%
Concert, Play, Dance	11.6%	4.4%
Night Life	10.9%	7.8%
Parks: national, state +	6.2%	1.9%
Festival, Craft Fair +	3.2%	0.8%
Hike, Bike +	3.0%	0.8%
Visit Historic Site	2.9%	2.4%
Play Golf	2.5%	1.8%
Museum, Art Exhibit	2.2%	3.2%
Boat/Sail	1.9%	1.3%
Hunt, Fish	1.2%	0.1%
Watch Sports Event	1.1%	0.5%
Other Adventure Sports	0.7%	0.0%
Look at Real Estate	0.6%	0.1%
Gamble	0.5%	0.1%
Nature/Culture -- Eco-travel	0.5%	5.5%
Camping	0.4%	0.0%
Shows: boat, auto, antique +	0.2%	0.0%

Source: D.K. Shifflet, Visit Orlando

Notably, gambling is listed as an activity, and the Orlando hotel operators interviewed for this study note that the Seminole Hard Rock Tampa – about 60-80 miles from the Orlando area – is an available attraction, which the hotel operators view as far enough away to not detract from the Orlando brand, but close enough to satisfy visitors who want to visit a casino during their stay.⁴⁴

But while Orlando can differentiate itself from Las Vegas or other gaming destinations, such convention markets still compete, in general and in specific instances. A conference of Wendy's franchisees recently selected the MGM Grand in Las Vegas over Orlando, based on a \$250,000 incentive that the MGM provided, which the Orlando competition could not match – although it did match other factors, such as the average daily room rate.⁴⁵

Orlando is able to compete on other levels as well, such as the absence of union-related rules in other states that often add to the cost of setting up conventions and other meetings, as

⁴⁴ Ibid.

⁴⁵ Ibid.

Florida is a “right to work” state.⁴⁶ We also note, however, that Orlando competes on an in-state as well as a national level, and would not be immune to the impacts of any change in gaming policy elsewhere in Florida.

Figure 5: Leisure, convention travel to Orlando by origin DMA, 2011

Origin DMA (Top 15)	Domestic Leisure	Domestic Convention/Group Meetings	
Orlando-Daytona Beach-Melbourne, FL	15%	Tampa-St. Petersburg (Sarasota), FL	12%
Tampa-St. Petersburg (Sarasota), FL	13%	Orlando-Daytona Beach-Melbourne, FL	11%
Miami-Ft. Lauderdale, FL	6%	Miami-Ft. Lauderdale, FL	10%
New York, NY	6%	Dallas-Fort Worth, TX	5%
Jacksonville, FL	6%	Oklahoma City, OK	5%
West Palm Beach-Ft. Pierce, FL	4%	Los Angeles, CA	4%
Chicago, IL	3%	Philadelphia, PA	3%
Atlanta, GA	3%	New York, NY	3%
Boston, MA (Manchester, NH)	2%	Houston, TX	3%
Washington, DC (Hagerstown, MD)	2%	Columbia-Jefferson City, MO	2%
Philadelphia, PA	2%	Chicago, IL	2%
Ft. Myers-Naples, FL	1%	Atlanta, GA	2%
St. Louis, MO	1%	Huntsville-Decatur (Florence), AL	2%
Houston, TX	1%	Baltimore, MD	2%
San Francisco-Oakland-San Jose, CA	1%	Phoenix, AZ	1%

Source: Visit Orlando, D.K. Shifflet & Associates

The table above shows that, in both domestic leisure and convention/group business, designated market areas (DMAs) – which are independent media markets – in other regions of Florida are critically important to Orlando. Daryl Cronk, Director of Research at Visit Orlando, described this phenomenon:

Yes, proximity is a factor. Please keep in mind the data includes both overnight stays and day-visits. The proximity of Daytona to the east, and Tampa to the west, makes Orlando a popular destination for day-trips. It may be to attend a convention, to visit a theme park, a special event such as Halloween Horror Nights at Universal or Food & Wine at Epcot, or something as simple as a Magic game (just like I have friends to go to Tampa for Rays games). And of course lots of VFR travel (visiting friends and relatives).

Origin markets take on a slightly different look if day-trips are excluded. Still a lot of in-state but not as much.⁴⁷

Even when the origin markets are limited to overnight stays, local markets play less of a role, as Cronk noted, but are still important:

⁴⁶ Ibid.

⁴⁷ Email from Daryl Cronk, May 24, 2013.

Figure 6: Market of origin share of overnight stays in Orlando

Origin DMA: Overnight Leisure	2010-2011
Tampa-St. Petersburg (Sarasota), FL	9.0%
New York, NY	7.7%
Orlando-Daytona Beach-Melbourne, FL	6.9%
Miami-Ft. Lauderdale, FL	6.1%
West Palm Beach-Ft. Pierce, FL	4.0%
Jacksonville, FL	3.9%
Atlanta, GA	3.7%
Chicago, IL	3.1%
Boston, MA (Manchester, NH)	2.8%
Philadelphia, PA	2.4%
Washington, DC (Hagerstown, MD)	2.0%
Ft. Myers-Naples, FL	2.0%
St. Louis, MO	1.7%
Dallas-Fort Worth, TX	1.5%
Detroit, MI	1.4%

Source: Visit Orlando, D.K. Shifflet & Associates

Taken together, these factors – the evolution of gaming into broader entertainment, the availability of gaming in convention destinations, and Orlando’s dependence on both local and national markets – support many of the concerns expressed by the Orlando business community as to the expansion of gaming throughout Florida, particularly the possibility of new destination resorts.

Clearly, the addition of such destinations – which would add new supply to the competitive conventions and meetings business, while adding additional amenities to competing facilities in South Florida – raises the possibility of an adverse impact on business in the Orlando area.

John Sowinski of No Casinos said the impact would not necessarily be limited to the larger players in Florida markets, but could have serious ramifications for the smaller attractions, many of which depend on in-state and out-of-state visitors who are looking for secondary and tertiary activities during their leisure time. Sowinski suggests that such attractions – which might include Gatorland in the Orlando region or Jungle Island in the Miami area – might be more likely to lose out if more discretionary dollars are targeted toward gambling.⁴⁸

Las Vegas’s failed foray into re-branding itself as a “family” destination underscores the success of the Orlando region, which can rightfully claim ownership to that brand. Anecdotal evidence suggests that the brand equity of Orlando has benefits for the entire state of Florida. In fact, much of the image of the state of Florida is centered on theme parks and families.

The risk that gambling poses for Florida’s existing tourism brand was also noted by William Bunkley of the Florida Ethics and Religious Liberty Commission, who testified before the Senate Gaming Committee meeting earlier this year, and noted: “We have a brand here in Florida. It is tourism. It is fishing. It is outdoor sports. And though we have had some expansion of gambling, I got to tell you that Las Vegas tried the family gambling routine. It did not work,”

⁴⁸ Interview with John Sowinski, May 29, 2013.

Bunkley said. “We have a lot of people coming, supporting our state in the area of tourism, and I am very concerned about the future.”⁴⁹

More generally, and with respect to Florida, expanded gambling may fundamentally change the state of Florida as a place to live and visit. Bill Lupfer, of the Florida Attractions Association, suggests that the expansion of gambling, particularly casino gambling, will be damaging to “the Florida brand.” Lupfer argues that many states with casinos legalized them in order to attract tourists. This was certainly true in the 1990s when casinos first began to expand outside Nevada and New Jersey. Florida, however, already offers more attractions than any other state; it doesn’t need casinos to attract tourism, he notes.⁵⁰ Rather than benefitting the state, expanded gambling (especially casinos) could make Florida a less-attractive tourist destination.

The tourism industry leadership in Orlando, as interviewed for this analysis, appears unified in its view that any expansion of gaming in Florida would have several tremendous economic and social impacts to the State.

If gambling were to be expanded in Florida, tourism leaders cite a variety of potential implications, including the following:

- Economic costs
 - Impact to Orlando’s global brand position.
 - Change in target market of the destination and thus potential economic losses.
 - Potential cost of moving to the unionization of hotels.
 - Economic impact to small businesses.
 - Lost business because some meeting planners will not book business in gaming destinations.
- Social costs
 - Change in the brand position and potential loss of global goodwill.
 - Change in staffing at properties that might impact the friendliness of the destination, which in turn might damage Orlando’s reputation as a friendly destination.
 - Change in the perceptions of safety, as the leisure market will not choose destinations where safety may be compromised.

⁴⁹ Florida Senate Gaming Committee, February 18, 2013
http://www.flsenate.gov/media/videoplayer.cfm?EventID=2443575804_2013021203.

⁵⁰ Bill Lupfer, Florida Attractions Association, phone interview, May 23, 2013.

4. Conclusion

Intentionally or not, the policies established by lawmakers – or the lack thereof – play a critical role in the evolution and expansion of gaming. Indeed, in the views of many, the “evolution” and “expansion” of gaming are largely synonymous. The industry rarely shrinks, and quite often, expands as a result of expansion. As demonstrated in this section, the notion expressed by John Sowinski of No Casinos that the answer to saturation is often more gaming can be borne out by examples. Even industry segments that have seen their customer base decline – such as jai alai or dog racing, as well as other segments of the pari-mutuel industry – are still in business. Rules that may seem fixed and immutable – such as constitutional amendments – often prove to be less than immutable. Policymakers need to be aware that every change in policy creates consequences that, in turn, create a demand for more policy changes. As demonstrated in the past, such changes often lead to an expansion of gaming, which creates a demand for more changes.

Such changes could have significant impacts that extend beyond gaming, as evidenced by the concerns expressed by the business community in Orlando.

B. Types of Gambling and Their Performance, Participation

Legalized gambling is seemingly everywhere in the United States:

- 43 states have a lottery, with a 44th – Wyoming – having enacted lottery legislation in March 2013.
- 42 states have casinos of some kind, whether Las Vegas-style, floating, Indian, racetrack, or slots-only. Even Arkansas and Kentucky – considered non-casino states by the American Gaming Association – each have two racetrack gaming facilities that offer hundreds of Instant Racing machines⁵¹ and/or “electronic games of skill” reel games in a casino-like setting (and thus are included in our casino count), indicative of the efforts by operators and/or states to capitalize on the popularity of casinos. In total, there are approximately 985 casinos in the United States.⁵²
- 33 states have pari-mutuel racing, whether horse racing, dog racing or jai alai.
- 7 states have what Spectrum terms “retail gaming,” which is the widespread placement of a small quantity of slot machines (generally 5 to 10) inside retail businesses throughout a state (typically liquor-licensed establishments).

⁵¹ See description of Instant Racing machines at the Ellis Park website:
<http://www.ellisparkracing.com/news-and-events/instant-racing/>.

⁵² Based on American Gaming Association and Spectrum counts.

- 5 states have standalone cardrooms, which offer poker and, in some cases, casino card games. At the end of 2012, there were standalone 407 cardrooms in the United States.
- 2 states have sports betting.

For better or for worse, legalized gambling is growing – in dollars, in locations and in options. Many states are clamoring to either legalize a new form of gambling or expand what they already have – and these debates are a regular occurrence in statehouses across the country. The proponents in such states argue either that they need the additional tax receipts and/or jobs, or that they need to stem the flight of residents’ gambling dollars to neighboring states. The nascent rollout of Internet gambling has begun changing how gambling will be delivered, played, taxed and accepted – in statehouses, among gambling operators, and among patrons. Opponents argue legalized gambling has spread too far, leading to negative impacts that include addiction, personal bankruptcy, crime and industry cannibalization of consumers’ discretionary dollars.

Florida is among the more gambling-rich states, as measured by number and types of options:

- 8 Indian casinos (7 Seminole, 1 Miccosukee)
- 1 state lottery, the nation’s second-largest as measured by FY 2011 sales excluding VLTs
- 27 pari-mutuel facilities (plus intertrack at Ocala),⁵³ including:
 - 24 with active cardrooms
 - 14 with live greyhound racing
 - 5 with live horse racing (thoroughbred, standardbred, and quarter horse [including barrel racing])
 - 6 with active jai alai
 - 6 with slot machines (a seventh, at Hialeah Park, opens in summer 2013)
- Charitable bingo throughout the state, regulated at a local level.

In addition, day-cruise vessels and cruise ships that dock at various Florida ports offer unregulated (but not illegal) casino gambling once they reach international waters three miles offshore on the Atlantic side, but 10 miles on the Gulf side.

⁵³ Data from Florida Division of Pari-Mutuel Wagering; July 24, 2012, facilities map and fiscal year-to-date data through March 2013. <http://www.myfloridalicense.com/dbpr/pmw/documents/FACILITIESMAP--Internet-hyperlinks.pdf> and <http://www.myfloridalicense.com/dbpr/pmw/documents/Stats/HandleandCardroom2012-2013--2013-05-13--April--YTD.pdf>.

1. The Prevalence of Gambling

a. *Nationally*

To our knowledge, the most comprehensive gambling studies, both nationally and for Florida on a statewide basis, were conducted more than a decade ago. The first authoritative national gambling research was conducted by the Commission on the Review of the National Policy Toward Gambling in 1976. The most extensive and authoritative nationwide study was published in 1999 by the National Opinion Research Center at the University of Chicago in a 768-page report. This groundbreaking research compiled survey results from approximately 3,000 gamblers and non-gamblers and was conducted as part of the National Gambling Impact Study Commission for the federal government. The study documented gambling prevalence among US residents at a lifetime rate of 68 percent and a past-12-months rate of 61 percent for all forms of gambling.⁵⁴

Gambling has expanded greatly since 1999, when some form of legalized gambling was being offered or had been approved in a total of 25 states,⁵⁵ to the present where 42 states currently offer some form of legal gambling other than the lottery. The most recent information on national gambling prevalence comes from the American Gaming Association's ("AGA") 2013 *State of the States* survey. While this is not a rigorous academic study it does represent the most up to date data released, released in the first week of May, 2013. This latest update to the annual study documents gambling prevalence as follows among the general US population:

- Past -12-months participation in the following gambling activities:
 - Lottery 53 percent
 - Casino gambling 32 percent
 - Casual betting with friends 26 percent
 - Playing poker 12 percent
 - Wagering on a race 6 percent
 - Internet gambling 3 percent

From the above information we can extrapolate that almost one-third of the adult population over 21 in the United States has gambled in a casino within the past year. Among young adults, aged 21 to 35, the proportions playing the lottery, betting casually with friends, playing poker, and gambling over the Internet are significantly greater.

⁵⁴ "Gambling Impact and Behavior Study, Report to National Gambling Impact Study Commission," National Opinion Research Center at the University of Chicago, April 1, 1999.

⁵⁵ American Gaming Association, *1999 State of the States*; the yearly AGA reports are available at <http://www.americangaming.org/industry-resources/research/state-states>.

Of course, gambling incidence varies considerably with access to local or regional gaming facilities. Various studies commissioned by individual states since 1976 have shown lifetime prevalence rates ranging from 64 percent to 96 percent, with past-12-month prevalence rates ranging even more broadly from between 49 percent to 89 percent.⁵⁶ A meta-analysis of available research across the United States and Canada conducted in 1997 estimated a lifetime gambling prevalence rate of 81 percent in the general population across the country as a whole.⁵⁷

b. Florida

The most comprehensive study of gambling behavior across the state of Florida was conducted for the Florida Council on Compulsive Gambling Inc. ("FCCG") by the University of Florida in 2001. The study documented gambling prevalence and participation rates as follows:⁵⁸

- Lifetime gambling prevalence of approximately 90 percent among Florida residents, ages 18 and older:
 - 10 percent of Floridians surveyed report they have never gambled
 - 20 percent have not gambled in the past 12 months
 - 45 percent have gambled in the past 12 months
 - 25 percent gamble weekly
- Lifetime participation in the following gambling activities:

○ Lottery	73 percent
○ Raffles	63 percent
○ Casino gambling	60 percent
○ Pari-mutuels and OTB	30 percent
○ Bingo	24 percent
○ Stock Market	23 percent
○ Cards (not at casino)	20 percent
○ Slot machines (not at casino)	18 percent
○ Pool	18 percent
○ Sports	16 percent

⁵⁶ Howard J. Shaffer, Matthew N. Hall, Joni Vander Bilt, *Estimating the Prevalence of Disordered Gambling Behavior in the United States and Canada: A Meta-analysis*, Division on Addictions, Harvard Medical School, December 15, 1997.

⁵⁷ Ibid.

⁵⁸ Nathan A. Shapira, Mary Ann Ferguson, Kimberly Frost-Pineda, Mark S. Gold, *Gambling and Problem Gambling Prevalence Among Adults in Florida*, University of Florida, October 2002.

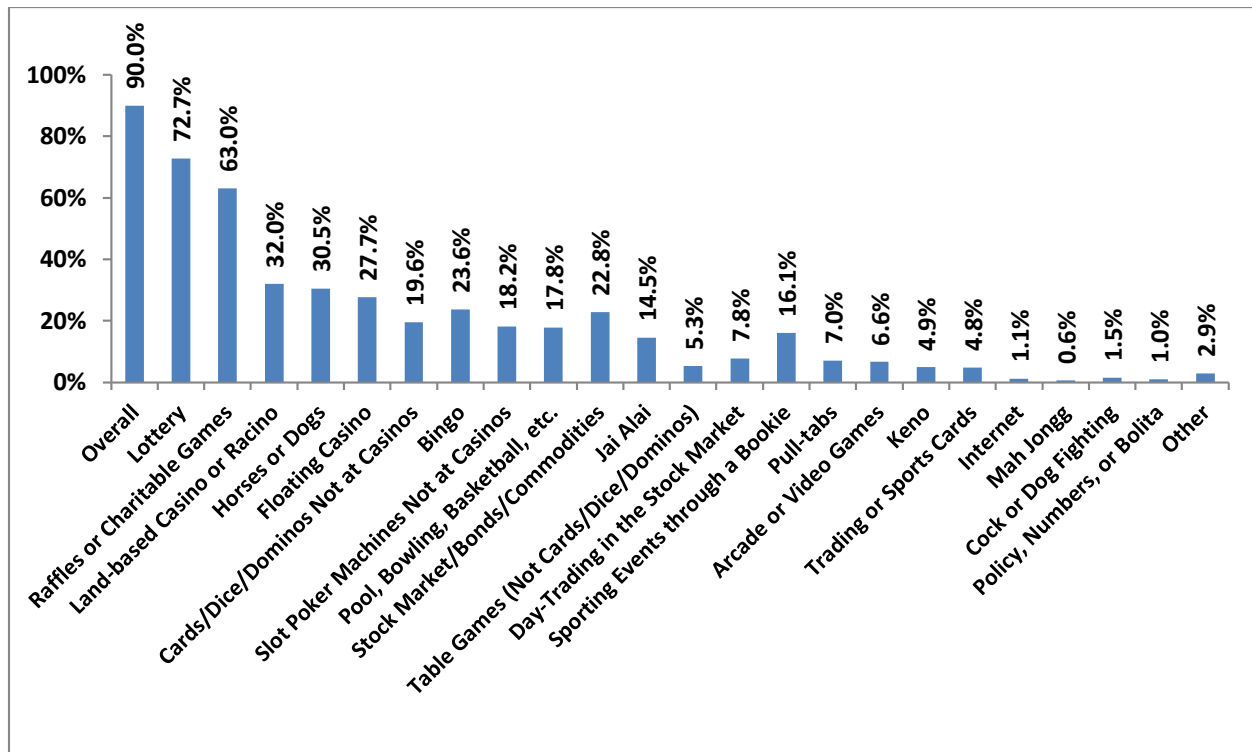
- Jai Alai 14 percent
- Lifetime prevalence was highest for lottery, raffles or sweepstakes, casino gambling, and pari-mutuels or off-track betting (“OTB”) with nearly one-third to almost two-thirds of respondents acknowledging participation in these activities on a lifetime basis.
- Past-year participation rates were highest for lottery, raffle, casino and stock market gambling, followed distantly by bingo, cards outside a casino, day trading, horses, dogs or other animals and OTB, pool, sports and slot machines outside a casino.
- Respondents participating in one or more of these gambling activities did so by:
 - Gambling in a casino 32 percent
 - Gambled at a convenience store 16 percent
 - Gambling at the supermarket 13 percent
 - Gambled in their homes 8 percent
- Males are significantly more likely to be weekly gamblers than females (30.5 percent versus 20.2 percent)
- Florida residents in the 50 to 65 age range are most likely to be weekly gamblers
- Residents 18 through 29 are least likely to gamble weekly
- SOGS problem gambling⁵⁹ among adult Florida residents:
 - Past-year problem/pathological 2 percent
 - Lifetime problem/pathological 3.6 percent
- NORC DSM problem gambling⁶⁰ among adult Florida residents:
 - Past-year problem/pathological 0.8 percent
 - Lifetime problem/pathological 1.0 percent

Lifetime gambling participation among Floridians as documented in the 2001 study is illustrated in the following chart. Note that for land-based casino or racino gambling, in 2001 virtually all of this would have taken place outside of Florida, as the only casino open at the time was the original Seminole casino in Hollywood.

⁵⁹ Pathological and problem gambling based upon South Oaks Gambling Screen (“SOGS”).

⁶⁰ Pathological and problem gambling based upon National Opinion Research Center’s DSM Screen (“NORC DSM”).

Figure 7: Lifetime gambling participation by Floridians, 2001



Source: Florida Council on Compulsive Gambling

The 2001 study was replicated 10 years later by the FCCG, with the University of West Florida collecting and analyzing the survey data. The 2011 replication survey published in January 2012, explored gambling behavior among a total of 2,500 Florida residents.⁶¹ This update provides better granularity of data for gambling prevalence but in the process makes some direct comparisons more difficult. For instance, due to a stricter definition of gambling as “placing something of value at risk in hopes of gaining something of greater value”⁶² instead of simply “bet or spent money on” as gambling was defined in the 2001 study⁶³ lifetime prevalence of gambling in the 2011 study benchmarks at only 60 percent as opposed to 90 percent in the earlier study.⁶⁴

Due to this difference in the broad definition of “gambling” it would not be appropriate to compare the two overall statistics, and the change from 90 percent to 60 percent lifetime gambling participation should in no way be construed as a decline in the overall prevalence of gambling in

⁶¹ Robert J. Rotunda, Terry L. Schell, “Gambling and Problem Gambling Prevalence Among Adults in Florida: A 2011 Replication,” University of West Florida, January 2012.

⁶² M.N. Potenza, T.R. Kosten, and B.J. Rounsaville, Pathological Gambling, *Journal of the American Medical Association*, 286, p.141-144, 2001.

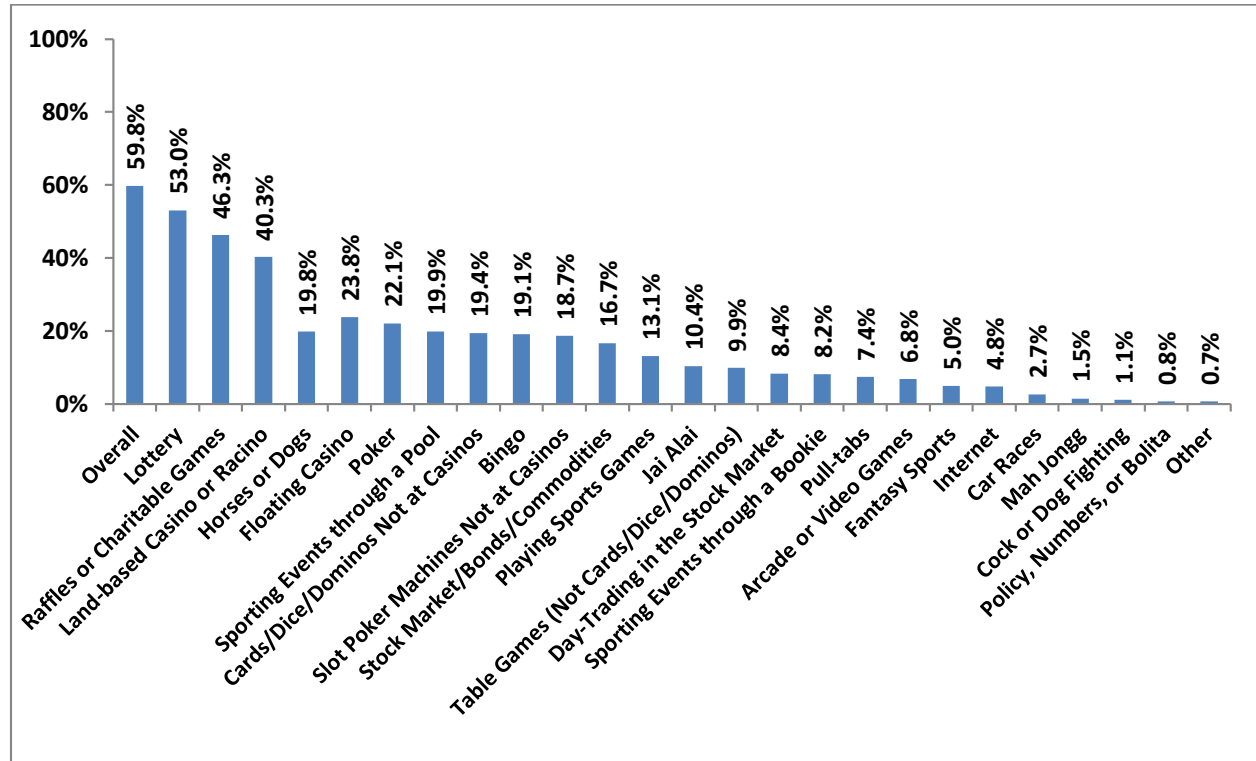
⁶³ Nathan A. Shapira, Mary Ann Ferguson, Kimberly Frost-Pineda, Mark S. Gold, “Gambling and Problem Gambling Prevalence Among Adults in Florida,” University of Florida, October 2002.

⁶⁴ Ibid.

Florida but rather viewed as a refinement of the measurement criteria in the 2011 study and more consistent with the national rate of gambling participation.

Despite the difficulty in making overall gambling prevalence comparisons, the 2011 update agrees closely with the 2001 study in identifying lottery, raffles or charitable games, casinos, horse or dog racing, and bingo as the top five gambling activities among Florida residents. More than half of all survey respondents have played the lottery at least once in their lifetime, almost half have participated in a raffle, and 40 percent have gambled in a land-based casino.

Figure 8: Lifetime gambling participation by Floridians, 2011

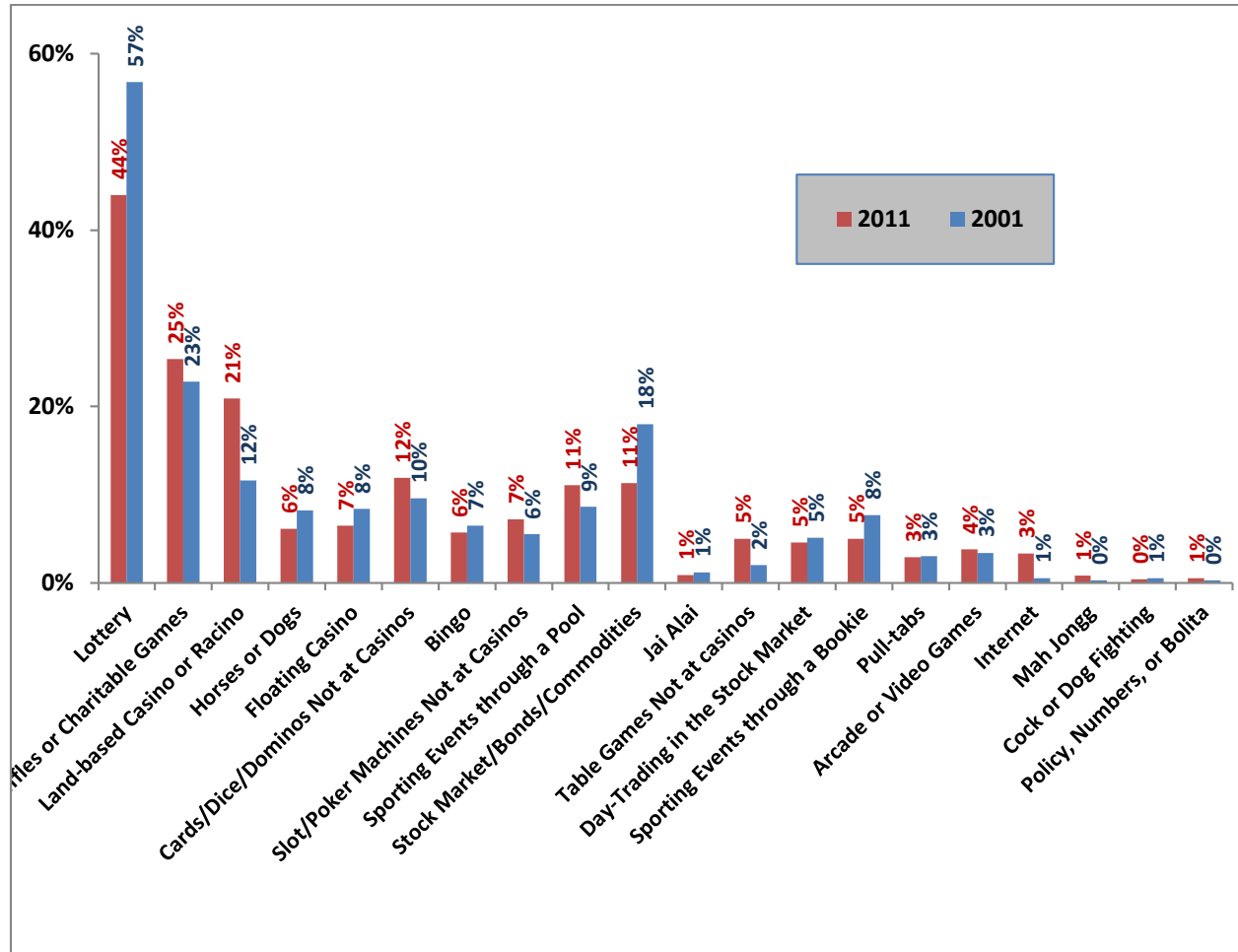


Source: Florida Council on Compulsive Gambling

Both gambling prevalence studies also break out past year gambling participation. Past-year gambling participation among Floridians is generally consistent with lifetime participation and similarly highest for the lottery, raffles or charitable games, and casinos (both floating and land-based), followed by cards/dice/dominos, horse or dog racing, and sporting events through a pool or between friends. What is most revealing about this behavioral comparison after a decade is that Florida residents report less past-year gambling participation for lottery, horse and dog racing, floating casino, the stock market, and sporting events through a bookie in 2011 than they did in 2001. Conversely, gambling participation has increased among Floridians since 2001 for

land-based casinos, cards, table games, and gaming machines found outside the casinos, sporting events through a pool, and gambling on the Internet.⁶⁵

Figure 9: Past-year gambling participation by Floridians, 2001 vs. 2011



Source: Florida Council on Compulsive Gambling

The statistics regarding prevalence have to be balanced and understood within the context of human stories, particularly among those with gambling problems. As Pat Fowler of the Florida Council on Compulsive Gambling noted in an op-ed article: “Every day we hear statistics about a variety of topics including dangerous activities, life style risk factors, and diseases of the world. Most of these statistics go in one ear and out the other. They are just numbers. But when a real story of hardship and devastation is tied to the numbers, it makes us think and consider the people behind the ratios and percentages.”⁶⁶

⁶⁵ Nathan A. Shapira, et al., and Robert J. Rotunda, Terry L. Schell, “Gambling and Problem Gambling Prevalence Among Adults in Florida: A 2011 Replication,” University of West Florida, January, 2012.

⁶⁶ Pat Fowler, “Gambling a Devastating Addiction,” *Gainesville Sun*, March 3, 2011 <http://www.gainesville.com/article/20110303/NEWS/110309814>.

2. Competitive Issues

Florida's land-based casino industry competes within itself on two levels: for customers and gaming revenue, and for attention from the Florida Legislature.

Seminole Gaming – particularly its flagship Seminole Hard Rock in Hollywood – is a well-functioning, well-capitalized and well-managed operation that has succeeded in leveraging numerous assets, from its brand to its design to its tax structure and beyond, to the point where it essentially competes to varying degrees with all of the operating racinos in Miami-Dade and Broward counties.

The racinos themselves compete with each other and with the Seminole operations on the bases of their location, access, design, customer service, loyalty programs as well as their brands and racing operations. Various other rules they must operate under, from their hours of operation to their mandated no-smoking policies, also play a role. The most visible and impactful rules that limit their competitive abilities are the tax structure they operate under, as well as their inability to match the same array of offerings as their tribal competitors. The racinos, for example, are barred from offering house-banked card games, which are popular at the Seminole casinos.

While the racino operations share those concerns, they do not necessarily share the same priorities. Some put the need for table games as a top priority, while others would place tax parity higher on the list, or at least a reduced tax rate that would help justify additional capital investment.

This absence of a uniform agenda has made it difficult for the racinos to advance their cause(s), a situation that is exacerbated by a lack of understanding among the racinos themselves as to their individual challenges. While jai alai has little in common with dog racing, and neither has much in common with horse racing, there is little visible camaraderie between operators of thoroughbred and standardbred facilities, even the thoroughbred tracks themselves can find themselves at odds.

For example, Gulfstream announced its racing schedule this year and is breaking a longstanding tradition of cooperation with other thoroughbred tracks by extending its meet year-round, thus competing directly with Calder. This is one of several related issues regarding skirmishes between the tracks, which are about 10 miles apart.

Still, the issue of conflicting agendas – what was referred to earlier by some observers as a “circular firing squad” – has created a legislative stalemate, but has also led to other curious results, as exemplified by the situation in jai alai. That sport – which originated in Spain and first appeared in the United States in Miami nearly a century ago – enjoyed its heyday of popularity between the mid-1950s and 1970s, when nine jai alai frontons opened in Florida alone.⁶⁷ Starting in the early 1990s, the sport endured a dramatic retreat in popularity, with many frontons closing.⁶⁸ Still, the

⁶⁷ Jai-Alai.info <http://www.jai-alai.info/history-of-jai-alai.html> .

⁶⁸ Ibid.

sport survives, in large measure because it is tied to – and subsidized by – casino gaming and, to a lesser extent, by revenue from cardroom poker, which is roughly 4 percent of gross poker receipts.

Jai alai cannot make the same claims as the horse-racing industry that it supports numerous ancillary industries – such as racing’s ties to agriculture, as well as its span across multiple states and nations – yet its subsidies endure, with no visible efforts to eliminate, reduce or replace them.

With a jai alai fronton comes the ability to open a cardroom, a simulcasting parlor and/or a casino in Broward and Miami-Dade counties in South Florida. Those possibilities have been enough to entice investors to seek new jai alai permits even though investors realize that the jai alai portion of their investment will lose money. They hope to cover their losses with revenue from other forms of gambling. When Hamilton Jai Alai and Poker opened in December 2005, it was the first new fronton built in Florida in 22 years.⁶⁹ Its owner, Glenn Richards, told Spectrum in an interview that without the cardroom and simulcast parlor, he never would have built the fronton and it would have been closed long ago without the cardroom revenue.

Miami Jai Alai opened its slot facility on January 23, 2012. Its operator was hopeful that slot machine revenue would improve its fiscal situation. But the company has struggled to pay its debt service, resulting in a foreclosure action by its lenders. During its first six months of casino operation in 2012, it lost nearly \$7 million.⁷⁰

In addition to the prospects of cardroom and casino revenue, a jai alai license can be transferred or leased to another operator. The courts are currently reviewing whether a jai alai permit can be converted into a greyhound or racing permit. The bottom line is that jai alai permits are being issued and sought due to reasons that have nothing to do with the profitability of jai alai. Indeed, the jai alai sector as a whole sustained an operating loss of \$14 million in FY 2012.⁷¹

So why do the subsidies for jai alai endure? The elimination or reduction of jai alai subsidies would give casinos tied to frontons an unfair advantage over casinos tied to other forms of pari-mutuel wagering. The same arguments could be made for dog racing as well. If dog-racing and jai alai were allowed to “decouple” their pari-mutuel operations from their gaming operations, this would effectively lower their overall obligations, the effective tax rate they now pay. By having a lower effective tax rate, this would eliminate parity with the pari-mutuels that are not decoupled, and any potential for eliminating parity can be expected to generate opposition. So, the subsidies endure because their presence helps ensure that all pari-mutuels pay a similar effective tax rate.

⁶⁹ “Hamilton Jai-Alai and Poker Opens Saturday,” *Suwannee Democrat*, December 21, 2005
<http://suwanneedemocrat.com/jasper/x66389098/Hamilton-Jai-Alai-and-Poker-opens-Saturday>.

⁷⁰ Brian Bandell, “Miami Jai Alai in \$84 million foreclosure,” *South Florida Business Journal*,”
<http://www.bizjournals.com/southflorida/news/2012/09/14/miami-jai-alai-and-casino-in-84m.html?page=all>.

⁷¹ Spectrum review of annual audited financial statements submitted by jai alai operators to PMW.

As a result, the current stalemate is perpetuated, and policymakers are not encouraged by the industry to address issues that could arguably advance public policies, such as the possibility of shifting some revenue-sharing that now goes to various forms of pari-mutuel wagering to general revenues.

So, while racinos do not agree amongst themselves, nor do they agree with Indian gaming operators, on most critical issues, there is largely a consensus on another aspect of gaming in Florida: opposition to gaming expansion by allowing new entrants to develop destination resort casinos.

Last year, legislation to authorize three casino resorts with capital investments of at least \$2 billion each was “killed by an unlikely coalition of opponents: Central Florida tourism interests led by Walt Disney World and the Florida Chamber of Commerce; social conservatives opposed to more gambling; and the state's pari-mutuel industry and the Seminole Tribe of Florida, whose gambling interests would have faced new competition.”⁷²

The value of this “unlikely coalition” was affirmed in a recent press release by Fitch Ratings, in which it noted: “Fitch believes there is a low likelihood that the integrated resort legislation passes in the near term, since it faces heavy opposition from STOF [Seminole Tribe of Florida], the pari-mutuels, the Orlando theme-park companies and other interest groups. If it eventually passes, Fitch expects the impact on STOF’s financial profile will be manageable. Per the compact agreement, STOF would be able to stop making the compact fee payments from its Broward County casinos (Hollywood Hard Rock, Seminole Hollywood Classic and Seminole Coconut Creek) which account for about half of the gaming division's revenues. Other facilities in Immokalee, Tampa and Brighton would not be directly impacted.”⁷³

3. Identifying, Capturing Markets

Depending on their location, access, neighborhoods, amount and quality of capital investment and distance from competitors, each existing Florida operation has developed its own marketing strategy and customer base.

For example, Isle Casino Racing Pompano Park competes against the Seminole Hard Rock for its higher-end play and against Seminole Coconut Creek casino for the day-tripper business.

⁷² Kathleen Haughney, “Destination casino bill is dead for this year,” *Sun-Sentinel*, February 3, 2013 http://articles.sun-sentinel.com/2012-02-03/news/fl-gambling-dies-or-lives-another-day-20120203_1_destination-casino-bill-gambling-regulation-debate-gambling.

⁷³ Fitch Ratings, “Fitch Rates Seminole's \$750MM Term Loan 'BBB-'; Affirms IDR at 'BB+'; Outlook to Positive,” April 1, 2013 <http://www.businesswire.com/news/home/20130401006002/en/Fitch-Rates-Seminole-750MM-Term-Loan-BBB->.

Yet, with 1,450 slots and 48 poker tables, Isle still managed to generate \$155 million in gross gaming revenue during the past 12 months.⁷⁴

Isle generally generates about 40 percent of its annual revenue during the January-April period, thanks to the lift created by the incoming snowbird population that fills the condominiums and other housing units near the beach. In that sense, Isle is typical of many of the racino operations in South Florida.

Isle is also typical in its marketing strategy, eschewing relatively expensive mass-media options in favor of more targeted approaches, such as direct-mail and billboards. According to General Manager Rob Wyre, customers respond to the nature of the offer, which casino is providing the best deal, but also to the perception as to the looseness of the slots. Isle reports that between 60 and 65 percent of its slot play is “rated,” a term referring to players who have signed up for the loyalty program and who identify themselves as players during their visit to earn rewards.

That percentage is about 10 points higher than what is reported at Miami Jai Alai, an older property in a more urban area.⁷⁵ Miami Jai Alai management views its location as an asset that can be exploited, with heavy population centers nearby, and easy access to South Beach in Miami Beach. The property enjoys a strong police presence and patrons feel safe, according to management, which also notes that while the median player in its database is likely to be a female between 50 and 55 years of age, age drops noticeably after 2 a.m. Its demographics are also skewed heavily to the Cuban/Latino population, and to a lesser degree the Haitian population. With that in mind, management views the televising of jai alai on Telemundo and Univision as part of its marketing strategy.

Calder Casino and Race Course is also typical of the racino market in drawing most of its customers from within a 10-mile radius, and also competes against both the Hard Rock and Coconut Creek casinos, with the former being only two exit stops away on the Florida Turnpike. Calder competes against Coconut Creek for the market in the Boca Raton area.⁷⁶

Calder management believes that its close proximity to Sun Life Stadium, its Turnpike access, its equidistance of 20 miles from both Miami and Fort Lauderdale airports and its 220-acre site are assets that could benefit from additional capital investment in more amenities, but that possibility is presently precluded by the tax structure, which would prevent such investments from generating a sufficiently attractive return on investment.

Calder competes with Gulfstream on multiple fronts, from geography to its thoroughbred racing meets, but the racinos clearly operate under different models. Gulfstream is being positioned

⁷⁴ Interview with Isle Casino Racing Pompano Park General Manager Rob Wyre, May 1, 2013.

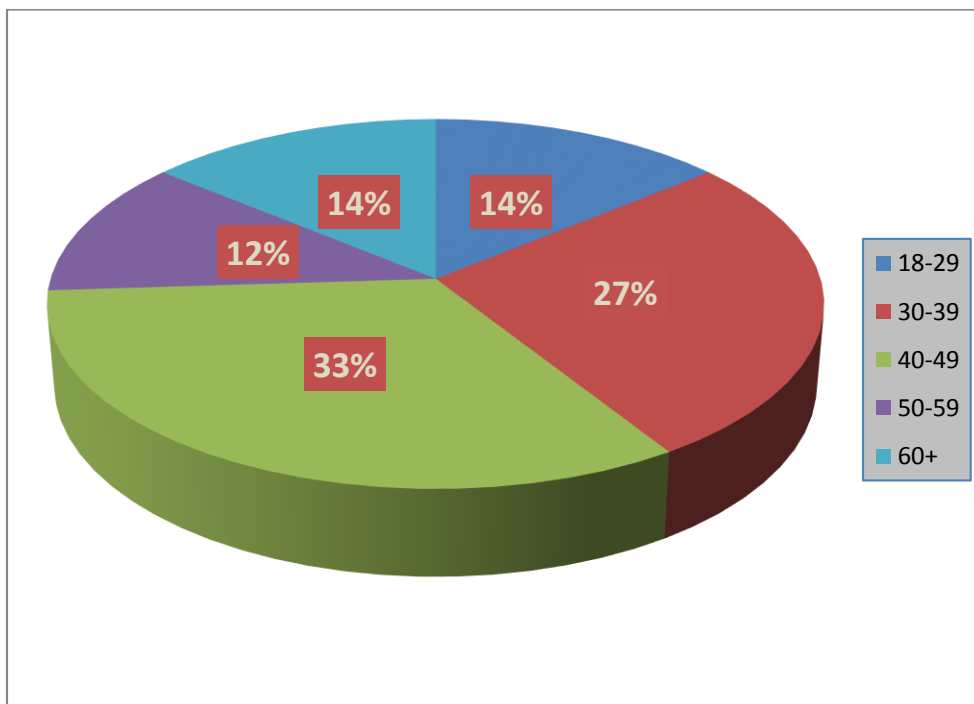
⁷⁵ Interview with Miami Jai Alai management, May 2, 2013.

⁷⁶ Interview with Calder management, May 2, 2013.

as a racing destination and as a centerpiece for the Stronach Group, which is moving its racing operations to Florida, and which operates other tracks, including the signature Santa Anita in California. The core difference is that Gulfstream focuses more on racing, and views casino gaming primarily as a means of funding purses, which allows it to compete for top horses with tracks in northern states.⁷⁷

Gulfstream is planning significant additional capital investment (see Chapter II[B][6][c] for more detail), undeterred by the tax rate. It has already managed to attract a younger demographic, in part because of its Village at Gulfstream investment, which opened in 2009. Gulfstream took a recent snapshot of its customer base to reveal the following about its customer base:

Figure 10: Gulfstream snapshot of customer demographics



Source: Gulfstream Park

A number of the racino operators report that competition is fierce, a competition heightened by the restrictions under which they operate. Not all restrictions are gaming-related. Magic City Casino reports, for example, that any plans it might consider to add a hotel are limited by restrictions on high-rise development near the airport.⁷⁸ Managers there are also concerned about capital investment that might be impacted by future destination resort casinos, a risk factor that discourages capital investment as well. Along that same line of reasoning, Mardi Gras management

⁷⁷ Interview with Gulfstream management, May 2, 2013.

⁷⁸ Interview with Casino Magic management, May 8, 2013.

said it would consider capital investments in hotel rooms, meeting space and restaurant improvements, if it had assurances that destination resort casinos were no longer a possibility.⁷⁹

Hialeah Park is pursuing significant capital investment in its facility, in an effort to recapture much of the appeal from its 1930s heyday as a racing icon. The \$470 million project will ultimately include, in addition to the casino, a 750-room hotel, convention and entertainment and retail centers.⁸⁰ The concept was summarized in a brochure produced by Hialeah management:

(Hialeah Chairman) John Brunetti Sr.'s vision for Hialeah's rebirth is a comprehensive development that supports the rich tradition and revitalization of the entire 200-acre Hialeah Park property and to energize the hospitality industry in Florida - a place that would entertain families, adults young and old and once again become a tourist destination.

John's plan restored Hialeah's historic buildings and verdant gardens, brought horse racing back to the region and created a new entertainment experience for Miami – Dade County. Soon will come a small museum exhibiting the history of racing and the history of South Florida; the creation of an urban entertainment district for those who live, work, shop and play in the region; an outlet shopping village with restaurants; a new boutique hotel and a metro rail station and business complex for the City of Hialeah and Miami Dade County.⁸¹

The property plans to take advantage of some inherent assets, ranging from its location in the midst of a large Cuban-American population to its proximity to a train station in front of its property. Hialeah management plans to aggressively market itself throughout Latin America and Europe.⁸²

4. Profitability

Casino gambling is generally a profitable business. As service businesses without costs of raw materials and inventory or the need to invest in research and development, casino companies are efficient operations, generating high operating margins. As shown in the following table, in 2012 the four largest publicly owned casino companies generated an average margin of cash flow (as measured by the commonly used metric of EBITDA, or earnings before interest, taxes, depreciation and amortization) to revenues of 22.1 percent, driven in great part to their Asian operations.

The next five largest gaming companies, all US regional operators, generated an average margin of 22.7 percent in 2012. This compares favorably to a comparable average margin of 16.6

⁷⁹ Interview with Mardi Gras management, May 9, 2013.

⁸⁰ Hialeah Park Master Development Plan, June 29, 2012; revised May 14, 2013.

⁸¹ Ewing Cole architects, "Hialeah Park Now and Forever," undated development brochure, emailed May 29, 2013.

⁸² Interview with Hialeah management, May 9, 2013.

percent for the four largest US publicly owned hotel operating companies as well as to the three largest cruise companies, which have an average margin of 20.2 percent.

Figure 11: Profitability of casino and leisure companies, as measured by 2012 EBITDA margin

Casino operators with Asia exposure	EBITDA/Net Revenue
Las Vegas Sands	31.4%
Wynn Resorts	27.2%
MGM Resorts	11.0%
Melco Crown	19.0%
<i>Average</i>	<i>22.1%</i>
Regional casino operators	EBITDA/Net Revenue
Penn National	23.7%
Ameristar	28.0%
Pinnacle	22.1%
Boyd	17.1%
<i>Average</i>	<i>22.7%</i>
Racino Operators	EBITDA/Net Revenue
<i>Dover Downs</i>	<i>7.4%</i>
<i>Churchill Downs Inc.</i>	<i>16.9%</i>
Indian Casino Operators	EBITDA/Net Revenue
<i>Mohegan Tribal Gaming Authority</i>	<i>23.1%</i>
<i>Seneca Gaming <u>for 2009</u></i>	<i>30.0%</i>
US cruise companies	EBITDA/Net Revenue
Carnival Cruises	21.8%
Royal Caribbean	14.8%
Norwegian Cruise Line	24.0%
<i>Average</i>	<i>20.2%</i>
US lodging companies	EBITDA/Net Revenue
Marriott	9.7%
Starwood	18.4%
Wyndham	23.1%
Hyatt	15.4%
<i>Average</i>	<i>16.6%</i>

Sources: Annual Reports, YCharts.com, pro.edgar-online.com. **Note:** Seneca Gaming stopped publicly reporting results in 2010.

a. Reasons for Gaming Profitability

In terms of EBITDA return on total invested capital, a measure of profitability in relation to fixed plant, casino companies are very profitable. In 2012, the same four large gaming companies generated an average of 16.2 percent return on invested capital. The regional gaming companies generated a 13.6 percent return on the same measure. This compares to 18.8 percent for the hotel companies in this group and 2.1 percent for the three cruise companies.

Figure 12: EBITDA return on invested capital of casino and leisure companies, 2012

Gaming operators with Asia Exposure	ROIC
Las Vegas Sands	20.3%
Wynn Resorts	25.4%
MGM Resorts	5.6%
Melco Crown	13.4%
<i>Average</i>	<i>16.2%</i>
Regional gaming operators	ROIC
Penn National	14.0%
Ameristar	18.0%
Pinnacle Entertainment	14.0%
Boyd Gaming	8.3%
<i>Average</i>	<i>13.6%</i>
Racino-only Operators	ROIC
<i>Dover Downs</i>	<i>1.2%</i>
<i>Churchill Downs Inc.</i>	<i>7.5%</i>
Indian Casino Operators	ROIC
<i>Mohegan Tribal Gaming Authority</i>	<i>17.4%</i>
<i>Seneca Gaming <u>for 2009</u></i>	<i>23.6%</i>
US cruise companies	ROIC
Carnival Cruises	4.5%
Royal Caribbean	0.3%
Norwegian Cruise Lines	1.4%
<i>Average</i>	<i>2.1%</i>
US lodging companies	ROIC
Marriott	32.1%
Starwood	17.5%
Wyndham	16.9%
Hyatt	8.6%
<i>Average</i>	<i>18.8%</i>

Sources: Ycharts.com, Annual Reports. **Note:** Seneca Gaming stopped publicly reporting results in 2010.

Casinos tend to be profitable in great part due to the many barriers to entry that limit competition. First among these is the requirement for licensing. Many persons and companies will not want to get licensed due to the invasiveness of the process and its ongoing nature. Similarly, the transparency of the operations due to public reporting requirements is a deterrent to those not wanting to operate in a “fish bowl.” Possibly more importantly, most jurisdictions limit the number of gaming licenses or restrict the locales in which casinos can operate, thereby restricting the number of casinos that can open. Additionally, the capital-intensive nature of gaming, whether for the need for large and specialized physical plants or the high working capital needed to run the operations, result in a high capital cost, limiting participants only to those who can amass the great amount of capital needed. Lastly, gaming is a highly specialized cash-intensive operation requiring complex management controls regarding security, marketing and cost controls, which limits the number of capable operators.

b. Factors Affecting Profitability

Within the gaming industry, some properties are more profitable than others for a multitude of reasons:

- **Gaming tax rate** – The assessment made by the hosting jurisdictions is among the most significant determinants in casino profitability. Tax rates can range from 7 percent to 65 percent of house gaming win⁸³, sometimes with additional up-front and ongoing payments to host communities, local public benefit organizations and the state or national government that is granting the gaming license. Higher rates are generally imposed in jurisdictions that limit competition, vesting greater value in the license rights. But obviously, the higher the tax rate, the lesser the ability of the gaming operator to absorb fluctuations in other elements of the business's operating results, jeopardizing profitability and the ability to withstand competition.

The absence of a gaming tax is a key element to the profitability of many Indian casinos. Without having to pay such a tax, the tribal gaming operation has substantially more flexibility to spend more on customer marketing including complimentary services such as rooms, food and beverage, giving them a potential competitive advantage against tax-paying commercial casinos. Additionally, non-tax-paying Indian casinos can return more to their owners or use the funds to pay down debt sooner, assuring them greater financial stability. The benefits of such a tax advantage are compounded by the tribe's exemption from corporate federal and state income taxes.

- **Cost of capital** – Gaming is a capital-intensive business, and getting more so as casinos get larger and incorporate more non-gaming amenities. A gaming company's ability to attract lower cost capital can make a huge difference in its profitability as measured by return to shareholders and its ability to pay down debt. Capital costs tend to be lower for larger projects, more diversified gaming companies, and companies with a longer track record.
- **Competition** – The level of competition in a market is a major determinant in any casino's profitability. This is best illustrated in operating margin performance, as a more competitive environment will force casinos to offer more incentives to customers to get them to play at any particular casino and reduce this margin. Return on investment will similarly be affected by greater competition as the operating profit declines in relation to the original capital cost.
- **Scope and diversity of offerings** – The efficacy of investment on the variety of amenities that can accompany a casino can have a dramatic impact on overall

⁸³ "Win" and gross gaming revenue ("GGR") are effectively interchangeable terms, and both reflect the amount retained by the casino after all winning bets are paid.

profitability. A hotel that was costly to build but unable to generate a sufficiently high average daily room rate due to the need to give away rooms can bring down a project's overall profitability. Similarly, restaurants and clubs that are overbuilt relative to their standalone profit-making capability can reduce the casino project's margins. Conversely, high volume turnover at any of these offerings can lead to highly efficient businesses that may generate profits beyond what similar operations not associated with a casino could generate, thereby enhancing the overall profitability of the project.

- **Accessibility** – Gaming is often convenience-driven, so accessibility, ease of parking, and matters of ingress and egress can have a major impact on profitability. Gaming customers are often repeat visitors and are attracted to facilities that make their arrival and departure easy. A casino in a competitive market with accessibility advantages will likely be more profitable by virtue of having more customers.
- **Management quality** – Operating efficiency is critical in gaming operations due to the high fixed cost nature of the business. Maximizing revenues is a key to successful operations of such businesses, so management skill in cost control and efficient marketing can make dramatic differences in operating margins and profitability.

Profitability within the Casino

Casinos are complex operations, in that there are many types of gaming and non-gaming operations occurring within the envelope of the casino development. This mix can vary significantly depending on the type of operation – destination vs. local, slots vs. tables vs. full service, standalone casino or a project with many amenities.

Generally, slots are the biggest contributor to profitability due to their low operating cost. There is little labor involved other than maintenance since the advent of ticket-in/ticket-out technology. Additionally, individual slot machines take up little room on the floor. Before considering gaming taxes, slots-only casino operations tend to generate among the highest returns on capital as they tend to have fewer amenities. The margins on net slot revenue can vary widely depending on the tax rate and regulatory requirements.

Tables generate higher individual bets than slots and the house retains a greater percentage in the individual gaming transaction, but table game transactions are much slower than the pull of a slot machine so calibrating the mix of tables and slots relative to demand is critical. Given the amount of labor required between dealers, supervisors, security personnel and cleaners, tables are generally less profitable than slots. An exception to this might be in extraordinarily high volume markets like Macau, where table games are the largest profit makers. The margins on net table games revenue can vary widely depending on the tax rate and regulatory requirements.

Hotel rooms may generate high operating margins in markets of ultra-high occupancy, but generally, due to the high labor, maintenance and utilities cost, their contribution is not as substantial as is gaming, especially after considering the development and recurring capital cost of

building, maintaining and refurbishing hotel rooms. Similarly, casino food and beverage operations tend to run with little to no departmental profit with exception for certain “celebrity chef” restaurants in destination resorts.

As between destination resort casinos and local casinos, the profitability comparison cannot simply be made as so many of the elements affecting casino profitability, mentioned above, come into play. Destination casino project profitability is dependent on the efficacy of its design and appropriateness of the mix of demand generators – hotel, spa, restaurants, and clubs – and, management’s capability to get the various elements working together efficiently. Such projects’ successes are also dependent on being able to attract visitors from farther away and get them in and out of the project.

Internet gambling is just now being tested legally in the United States, with the first Internet poker games just opening in Nevada in May. In Europe and other parts of the world, Internet gaming has proven very popular with the pure customer based gaming element generating cash flow margins of between 20 percent and 30 percent.⁸⁴ Capital cost in Internet gaming is based on technology investment or technology licensing fees (if using a third party online provider) and marketing to potential online gaming players.

5. Florida’s Competitive Landscape

Florida has an active land-based casino gaming industry, with seven Native American casino operations and six South Florida slots-only casinos at racetracks and jai alai frontons (collectively “racinos”). Three of the Native American casinos are located in Broward County and one each in Miami, Tampa, Immokalee and Okeechobee. The Seminole Tribe of Florida operates all of the Native American casinos except the Miami casino, which is owned and operated by the Miccosukee Tribe of Indians of Florida. Each of the South Florida racinos also offers poker, as do the majority of the pari-mutuel facilities elsewhere in the state. There is also one small Native American-owned slots facility in Clewiston on the southwest corner of Lake Okeechobee (a 5,600-square foot facility with a few slot machines), although we consider this to be too small to be truly defined as a casino.

Florida had a total population of 19 million in 2012, of which more than 14.6 million (77 percent) were adults (age 21+). Approximately 81 percent of the adult population (11.8 million adults) in Florida resides within a two-hour drive of an existing casino in Florida, excluding cruise ships, while 54.7 percent of the adult population (8 million adults) resides within a one-hour drive of an existing casino. The two-hour drive time figure comprises nearly all of the Florida population south of Gainesville. It should be noted that the drive-time population projections presented in this

⁸⁴ Thomas Allen, Morgan Stanley Report on Boyd Gaming Corporation, “Early to the Party,” p. 7, April 11, 2013.

report refer solely to permanent residents of Florida and do not include seasonal residents, either snowbirds or sunbirds.

Statewide, there are also a handful of casino cruises departing daily from ports throughout the state, some of which provide overnight cruises to the Bahamas and others which solely provide day-cruise excursions into international waters for gaming. The casino cruise industry in Florida is in a constant state of flux, generally downward. Ten years ago there were far more casino cruises in operation, but the industry niche has not fared well competing against land-based operations.

The racinos report their slot revenues to the State each month, which publishes the figures; Native American casino data are not published. The racinos also face a significant tax differential relative to the Native American casinos. Initially, racino slot revenue was taxed at 50 percent of net gaming revenues, excluding distributions to local governments. Effective July 1, 2011, the racino tax rate was lowered to 35 percent of GGR net of promotional credits and unclaimed tickets.

The Seminole Tribe historically (pre-2010) paid no gaming taxes, but was permitted to operate only Class II slots and Class II table games (non-house-banked games). In 2010, the Seminole Tribe signed a 20-year compact with the State of Florida under which the Seminole Tribe agreed to pay the State an aggregate total of \$1 billion over the first five years of the compact (effectively less than 10 percent of gross gaming revenue), and potentially as much as \$1.5 billion based on an additional revenue-sharing component for the right to offer house-banked table games at its casinos in Hollywood, Immokalee and Tampa, with an option to add table games at its Coconut Creek casino. The compact also stipulated that all seven of the tribe's casinos could continue to operate Las Vegas-style slot machines for the next 20 years with no additional slot competition allowed outside of Broward and Miami-Dade counties, and that no Class III table games would be permitted anywhere else in the state.

Through 2012, we estimate that total GGR from the 13 racinos and Native American casinos in Florida was at least \$2.7 billion:

- The six racinos publicly reported GGR of \$527.6 million in 2012 (from an average of 6,327 slot machines over the course of the annual period and more than 140 poker tables). At year-end there were 6,393 slot machines and 147 poker tables operating.
 - Gross slot revenue was \$489.2 million (92.7 percent of GGR), while average slot win per unit per day was \$211;
 - Total cardroom revenue was \$38.3 million (7.3 percent of GGR), while average win per table per day was \$713;
 - Average GGR per gaming position per day was approximately \$198.
- We estimate the seven Native American casinos last year generated GGR of \$2.2 billion.

- This estimate is based on two percent annual growth from the 2011 reported figure of \$2.16 billion (from 13,069 slots and 457 table games, or 15,811 gaming positions having \$374 in GGR per position per day).⁸⁵
- It should be noted that some expansion at Native American casinos has occurred since 2011, such that in aggregate, we estimate there are were at least 14,500 slot machines and 450 table games (or 17,200 gaming positions) at Native American casinos in Florida in 2012.

The following table provides our estimated snapshot of the Florida casino industry for calendar year ended 2012 (based upon estimated results for Native American casinos, as applicable).

Figure 13: Florida casino supply and performance, 2012

	Racinos	Native American casinos	Statewide total
Estimated GGR (\$M)	\$527.6	\$2,200.0	\$2,727.6
No. Casinos	6	7	13
Slot Machines	6,393	14,500	20,893
Table Games	147	450	597
Est. Gaming Positions	7,275	17,200	24,475
Est. GGR/position/day	\$198	\$349	\$304

Source: Florida Department of Business and Professional Regulation; Spectrum Gaming Group estimates

We believe that the vast majority of GGR generated by Florida's casinos is generated by adults residing in close proximity to a casino (i.e., within a one-hour or two-hour drive).

6. Casinos (Commercial, Racetrack, Indian)

There are nearly 1,000 casinos in the United States, and in 2012 they generated an estimated \$66 billion⁸⁶ in gross gaming revenue ("GGR"). Put another way, gamblers experienced net losses of \$66 billion in US casinos last year. Casinos are the highest-grossing form of legal gambling in the country, having surpassed lottery sales.

In this section we provide an overview of various aspects and components of an industry that, from an economic perspective, has been highly successful.

a. National Overview

The modern casino industry began in Nevada, which was the first state to legalize casino gaming, when legislation was passed and signed into law by then-Governor Fred Balzar in 1931.

⁸⁵ Alan Meister, *Casino City's Indian Gaming Industry Report*, 2013 Edition.

⁸⁶ Per American Gaming Association 2012 report of commercial casino revenue and 2012 4.7 percent commercial casino growth rate applied to National Indian Gaming Commission FY 2011 Indian casino revenue. Actual NIGC FY 2012 data are expected to be released later this year.

While casinos grew in the state it was not until 1941 when the first casino, El Rancho Vegas Hotel-Casino, was built on Highway 91. This came to be known as the Las Vegas Strip and is now home to 41 casinos generating \$6.2 billion in gross gaming revenue (“GGR”), or roughly 57 percent of the total GGR in the state of Nevada. It then took until 1976 for another gaming jurisdiction to be legalized when New Jersey voters passed a voter referendum for a constitutional amendment to utilize privately owned casinos to revitalize Atlantic City – the former “Queen of Resorts” – that was in severe decline. This dynamic – economic recovery, urban renewal or Tribal self-sufficiency – has been one of the primary driving forces in the expansion of gaming throughout the United States.

The following table provides a state-by-state breakout of the types of casino gambling. Of note, this review and analysis does not include a discussion of lotteries even though the proliferation of slot machines at racetracks is frequently operated under the auspices of the respective state lottery commissions. In the sections that follow we will provide a discussion of the various forms of casinos.

Figure 14: Types of casino operations by state

State	Commercial Casino Legalization Date	Land/Floating Commercial Casino	Racetrack Casino	Indian Casino	Cardroom	Retail Gaming
Alabama				✓		
Alaska				✓		
Arizona				✓		
Arkansas	2006		✓			
California				✓	✓	
Colorado	1990	✓		✓		
Connecticut				✓		
Delaware	1994		✓			
Florida	2006		✓	✓	✓	
Georgia						
Hawaii						
Idaho				✓		
Illinois	1990	✓				✓
Indiana	1993	✓	✓			
Iowa	1989	✓	✓	✓		
Kansas	2007	✓		✓		
Kentucky	2011		✓			
Louisiana	1991	✓	✓	✓		✓
Maine	2004	✓	✓			
Maryland	2008	✓	✓			
Massachusetts	2011	✓				
Michigan	1996	✓		✓		
Minnesota				✓	✓	
Mississippi	1990	✓		✓		
Missouri	1993	✓				
Montana				✓	✓	✓
Nebraska				✓		
Nevada		✓		✓		✓
New Hampshire						
New Jersey		✓				
New Mexico	1997		✓	✓		
New York	2001		✓	✓		
North Carolina				✓		
North Dakota				✓		
Ohio	2009	✓	✓			
Oklahoma	2004		✓	✓		
Oregon				✓		✓
Pennsylvania	2004	✓	✓			
Rhode Island	1992		✓			
South Carolina						
South Dakota	1989	✓				✓
Tennessee						
Texas				✓		
Utah						
Vermont						
Virginia						
Washington				✓	✓	
West Virginia	1994	✓	✓			✓
Wisconsin				✓		
Wyoming				✓		

Source: American Gaming Association, Spectrum Gaming Group.

Notes: Massachusetts has legalized casinos but they have yet to open. Florida does have “floating” casinos in that day-cruise vessels and cruise ships dock at state ports, but the gambling is unregulated and takes place in international waters.

Note the second column in the above table, which indicates the year that commercial casinos were legalized in each state and note that most of the legislation was passed around the time of economic recessions in the United States.⁸⁷ Of note, the legalization of casinos in Atlantic City followed the 16-month November 1973 recession (although Atlantic City was in such a depressed state that it defied economic cycles), and the eight-month July 1990 to March 1991 recession can be considered as the impetus for the legalization of casinos in Colorado, Illinois, Louisiana and Mississippi. As previously indicated, economic recovery has been one of the leading reasons states and municipalities enact gaming legislation and casino gaming has become an economic mainstay in many communities.

The gaming industry is known for substantial capital investment in facilities, with the size and scale of the investment dependent upon potential returns that are, in turn, dependent upon population and visitation, regulations and proposed tax rate, to name a few factors that are considered in such investment decisions.

This investment creates construction jobs during the development phase of the project, followed by long-term job creation to staff the properties and service the customers. As an example, Tunica County, MS, was the poorest county in the country – 53 percent living below the poverty line and 15 percent unemployment – and was referred to as “America’s Ethiopia” by Jesse Jackson in 1985.⁸⁸ The first casinos opened in Tunica in 1992 and by 1994 when *U.S. News and World Report* revisited Tunica, 95 percent of all adults were working. The county budget, which was under \$3 million before the casinos commenced operations, is just under \$50 million for fiscal year 2013.⁸⁹ Farther south in Biloxi, MS, the experience was much the same. At the opening of the new Isle of Capri casino in Biloxi, MS, CEO Bernie Goldstein is quoted in his autobiography as, “We held a jobs fair, at which we were deluged with enthusiastic applicants. One in every 10 Mississippi workers was unemployed at the time, and we were offering outstanding salaries, benefits and promotion opportunities.”⁹⁰

The commercial casino industry⁹¹ is large and growing. While this statement might seem counterintuitive given the challenges the industry faced during the economic recession and with certain companies still facing an uncertain future due to highly levered balance sheets, the fact remains that the gaming industry in the United States has expanded to new jurisdictions, invested

⁸⁷ Based on data provided by the National Bureau of Economic Research Business Cycle Dating Committee.

⁸⁸ James Popkin, “A Mixed Blessing for ‘America’s Ethiopia,’” *U.S. News and World Report*, March 6, 1994 http://www.usnews.com/usnews/news/articles/940314/archive_012562.htm.

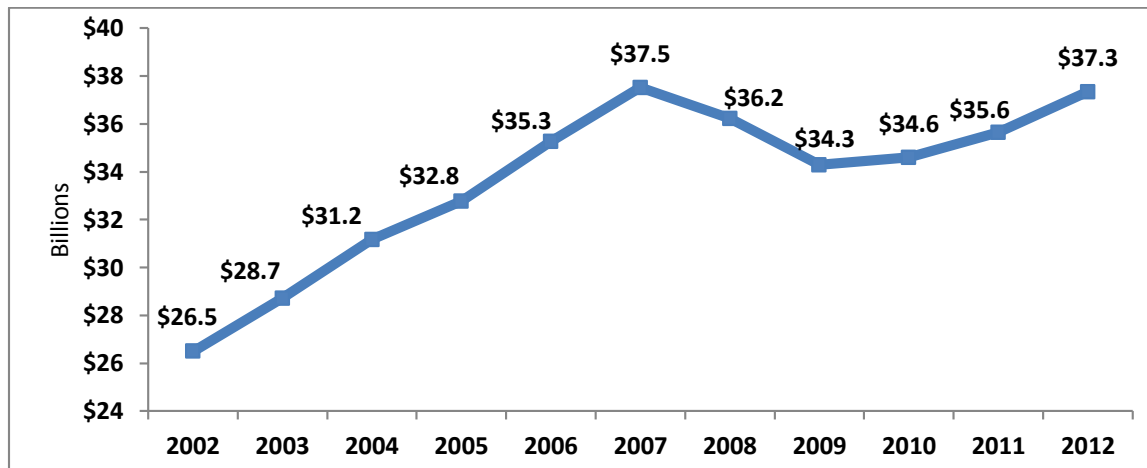
⁸⁹ Meg Coker, “Tunica County Sets \$47 Million Budget,” *The Tunica Times*, September 21, 2012.

⁹⁰ Bernard Goldstein and William Petre, *Navigating the Century; A Personal Account of Alter Company’s First Hundred Years*, p. 154-155.

⁹¹ We are defining commercial casinos as land-based, riverboat and racinos. This definition does not include Native American casinos or cardrooms.

in new facilities and realized an almost 9 percent increase in GGR since the end of the Great Recession in June 2009.⁹² The commercial industry generated \$37.3 billion in GGR in 2012, slightly below the 2007 peak revenue of \$37.5 billion. Much of this growth can be credited to the expansion of gaming to new jurisdictions – Pennsylvania, Ohio and Kansas are examples – or new properties opening in existing jurisdictions – Resorts World New York, Rivers Casino Des Plaines (Illinois) and SugarHouse (Philadelphia) – but some of it can also be ascribed to the improving economy and stabilizing housing sector providing consumers with the confidence to again visit and spend in casinos.

Figure 15: US commercial casino gross gaming revenue



Source: American Gaming Association; state regulatory agencies.

Today, 26 states have legalized commercial casinos of some type. As the casino industry expanded into other states and regions it has also evolved. To make casino gaming palatable to an electorate whose only exposure to the industry was from movies like *The Godfather* or *Bugsy*, states enacted legislation with certain requirements, such as limits on the number of gaming positions or the imposition of bet limits. In Colorado the casinos are only allowed in the former mining towns of Black Hawk, Central City and Cripple Creek, and the casinos have architecture common to pre-World War I Colorado. Iowa riverboats must replicate 19th Century Mississippi steamships.

As the electorate became more comfortable with the industry, which contributed employment and raised revenue, many jurisdictions began to loosen regulations so that the in-state casino industry could continue to be competitive against the new casino jurisdictions being enacted throughout the country. The Iowa Legislature voted in 1993 to remove bet and loss limits and allow “as many gaming tables and slots as the boats could safely fit.”⁹³ Missouri removed its loss

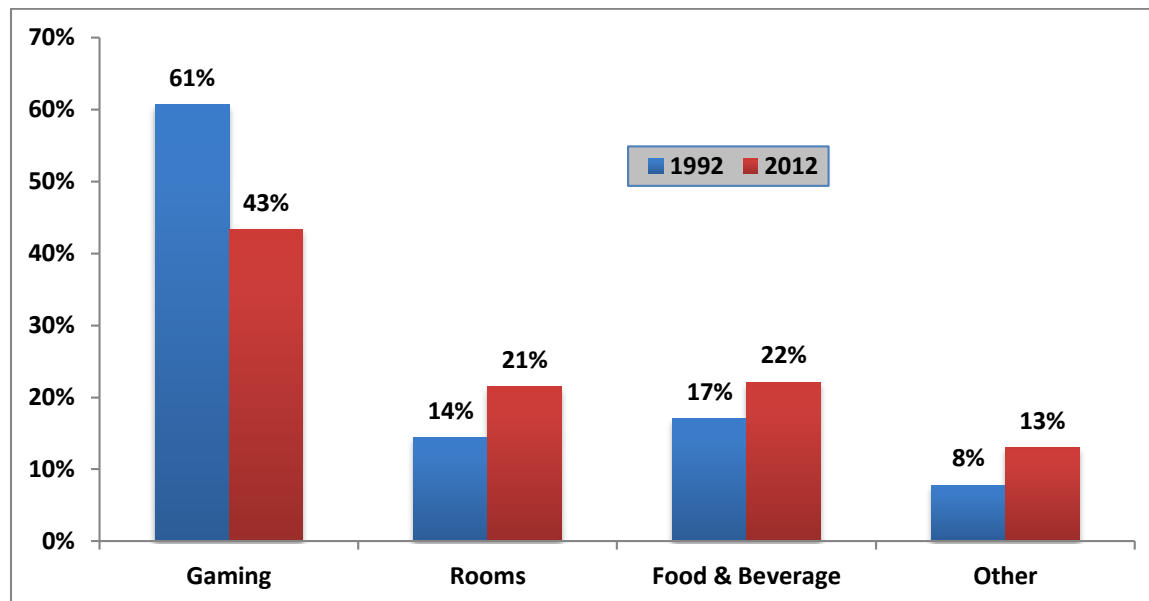
⁹² National Bureau of Economic Research Business Cycle Dating Committee.

⁹³ Bernard Goldstein, *Navigating the Century; A Personal Account of Alter Company's First Hundred Years*, p. 166.

limits in 2008. Colorado raised the maximum bet limit from \$5 to \$100 in 2009. Over the years, the requirement that riverboats cruise has been removed in all riverboat markets.

Because of the way regulations were written with riverboats enjoying monopoly-like status surrounded by other casinos throughout the state, most of the new jurisdictions became day-trip markets where customers drove from within a small radius, typically 50 to 75 miles, and stayed at each property for only a few hours. Properties located in Las Vegas, Atlantic City and Mississippi operated under different regulations that created a critical mass of properties and lower tax rates that incited the property owners to invest in larger facilities with hotels, more expansive food and beverage offerings, nightlife, entertainment and convention space. In the early part of the industry life cycle, the majority of the casino property's revenue and earnings came from the gaming floor. Today, and especially for these larger properties, casino gambling now represents less than half of revenue.

Figure 16: Analysis of the shift in revenue contribution, Clark County, NV, casinos, 1992 vs. 2012



Source: Nevada Gaming Control Board, for all casino locations with Gaming revenue of \$1 million or larger. As such, the data reflect some casinos we would not consider "destination resorts." For the destination resort casinos, the non-gaming portion of revenue in 2012 would be higher. Source: Nevada Gaming Control Board, Nevada Gaming Abstract 1992 and 2012.

b. Evolution of Destination Resort Casinos

As casinos expanded to other parts of the country, they introduced the industry to new customers and drove increased visitation to Las Vegas and, to a lesser extent, Atlantic City. With the financial backing of the Wall Street high-yield bond markets, developers, particularly in Las Vegas, but also in Atlantic City and Mississippi, invested in larger and more luxurious properties. We classify these casino properties as destination resorts. The term "destination resort" is subject to interpretation, but Spectrum views it to be one with a critical mass of hotel rooms (typically 1,000 or more), restaurants, leisure activities and other resort features that has the ability to attract

out-of-market patrons for a multiple-night stay. As an example, Bellagio in Las Vegas has 3,950 guest rooms, world-class architecture, a dancing-water show, a Dale Chihuly hand-blown-glass lobby ceiling, and “O” Cirque du Soleil show to draw customers. Bellagio provides visitors with a spa, conservatory and botanical gardens, fine art gallery, nightclubs and several fine restaurants to keep the guest entertained outside of the casino.

Because there are more activities than gaming, the typical destination casino property employs a larger hotel with a higher ratio of rooms per gaming position⁹⁴ than regional or day-trip properties, which often have no hotel at all. Stated another way, at full occupancy there would likely be more people staying at a destination property than could be satisfied by the number of gaming positions. Thus, by design, there need to be more activities to keep the guests satisfied. The following table provides a snapshot of the ratio of rooms per gaming position for the destination, regional destination or day-trip property. The average number of rooms/gaming position for a destination casino is 1.75 rooms/gaming position, which is more than three times the ratio for a regional destination casino and a little over 10 times the ratio for the day-trip casino hotel. This higher room count leads to more people in a property with a longer length of stay and higher spend/visit. Just adding hotel rooms will not ensure occupancy. It is the addition of other high-end amenities that draws the customers to the property with the demand justifying the larger hotel offering.

⁹⁴ A gaming position is defined as one slot machine or one seat at a gaming table. Spectrum assumes six seats per gaming table.

Figure 17: Analysis of select casino hotels ratio of hotel room count to gaming position

Property	Slot	Table	Gaming	Hotel	Rooms/Gaming
<i>National Destination Resorts</i>					
Bellagio	2,111	146	2,987	3,933	1.32
Mandalay Bay	1,782	82	2,274	4,752	2.09
CityCenter	1,942	129	2,716	5,744	2.11
Caesars Las Vegas	1,370	180	2,450	4,270	1.74
Wynn/Encore	2,195	240	3,635	4,750	1.31
Venetian	1,200	110	1,860	4,028	2.17
Palazzo	1,200	130	1,980	3,064	1.55
<i>Average, Destination Resorts</i>					1.75
<i>Regional Destination Resorts</i>					
Borgata	3,305	183	4,403	2,767	0.63
Harrah's Atlantic City	2,630	180	3,710	2,590	0.70
Caesars Atlantic City	2,190	180	3,270	1,140	0.35
Tropicana	2,677	116	3,373	2,079	0.62
Beau Rivage	2,046	82	2,538	1,740	0.69
L'Auberge du Lac	1,616	75	2,066	995	0.48
<i>Average, Regional Destination Resorts</i>					0.58
<i>Day-Trip Casinos</i>					
Mark Twain	649	13	727	0	0.00
Lakeside Iowa	1,027	13	1,105	150	0.14
Casino Aztar	907	30	1,087	347	0.32
Par-A-Dice	1,176	20	1,296	202	0.16
Blue Chip	1,954	42	2,206	486	0.22
Rising Star	1,300	37	1,522	190	0.12
River City	2,018	62	2,390	200	0.08
Harrah's Council Bluffs	830	20	950	250	0.26
Harrah's New Orleans	1,830	150	2,730	450	0.16
Horseshoe Tunica	1,460	90	2,000	510	0.26
<i>Average, Day-Trip Casinos</i>					0.17

Source: Company documents.

In addition to the luxury hotels and spas, destination resort casinos now boast high-end restaurants, along with the all-you-can-eat buffets for which Las Vegas was previously known. The *Forbes Travel Guide* (formerly *Mobil Travel Guide*) evaluates properties on over 500 service criteria and delivers comprehensive ratings and reviews, including the prestigious Five Star ratings. Today, there are more four- and five-star rated restaurants in Las Vegas than in any other US city, including New York, Los Angeles and Miami.

Figure 18: Four- and five-star restaurants for select cities

City	Number of 4- and 5-Star Restaurants	Example restaurants
Las Vegas	29	Twist by Pierre Gagnaire, Joel Robuchon, Restaurant Gus Savoy
New York City	21	Jean Georges, Masa, Daniel, Per Se
Los Angeles	12	Scarpetta, Melisse, Circa 55
San Francisco	12	Parallel 37, Gary Danko, Madera
Miami	10	Azul, NAOE, Palme d' Or
Orlando	5	Victoria and Albert's
New Orleans	3	The Grill Room

Source: Forbes Travel Guide and Startle.com

The amenities we cited are within the control of the property developer. Despite their beachfront settings, Atlantic City and Biloxi have been unable to compete with Las Vegas for international visitors, because of factors outside the control of the developer. Of particular importance is accessibility to each respective market. Simply put, Atlantic City International Airport and the Gulfport-Biloxi International Airport do not – and cannot with their current infrastructure – provide the same airlift as McCarran International Airport in Las Vegas. In 2012, there were 41.7 million air passengers in Las Vegas,⁹⁵ while data from the Atlantic City Convention and Visitors Authority indicate that Atlantic City International Airport has more than 1 million annual passengers⁹⁶ and Gulfport-Biloxi air passengers were less than 1 million in 2012.⁹⁷ As such, we consider Las Vegas to be a national destination market, while both Atlantic City and Biloxi are regional destinations. Because of the critical mass of casino properties, combined with hotels and other amenities these two markets can draw from further away and for a longer stay duration than the primarily day-trip riverboats, but do not draw customers from as far or as long as Las Vegas.

c. Evolution to Hub and Spoke Business Model

The evolution of commercial casino gaming in the United States has evolved over a period of decades from a policy in which some states allowed casino licensees to cluster in a central location (Mississippi, Nevada, New Jersey) to one in which most states issue fewer licenses, giving some regional exclusivity, but balancing that with a relatively high tax rate. As the following table shows, the trend for higher tax rates has been rather strong, with few exceptions:

⁹⁵ Las Vegas Convention and Visitors Authority visitor statistics <http://www.lvcva.com/includes/content/images/media/docs/ES-YTD20128.pdf>.

⁹⁶ Atlantic City Convention and Visitors Authority, air travel information http://www.atlanticcitynj.com/atlantic_city_international_airport.aspx.

⁹⁷ Gulfport-Biloxi International Airport <http://www.flygpt.com/Statistics/Stats.htm>.

Figure 19: Changing tax rates over time

	Casino-revenue tax rate at adoption ⁹⁸	Year gaming was established
Nevada	6.8%	1931
New Jersey	8.0%	1978
Iowa	24.0%	1991
Colorado	20.0%	1991
Illinois	50.0%	1991
Iowa	23.2%	1991
Mississippi	12.0%	1992
Rhode Island	72.7%	1992
Louisiana	21.5%	1993
Missouri	21.0%	1994
West Virginia	56.7%	1994
Indiana	40.0%	1995
Delaware	56.9%	1995
Michigan	24.0%	1999
New Mexico	46.0%	1999
New York	65.0%	2004
Oklahoma	41.8%	2005
Maine	49.1%	2005
Florida	50.0%	2006
Pennsylvania	55.0%	2007
Maryland	67.0%	2008
Kansas	25.0%	2009
Ohio	33.0%	2010
Massachusetts casinos	25.0%	2011
Massachusetts slots only	40.0%	2011

Source: State gaming commissions

Tax rates are often set on the basis of political considerations rather than through an economic analysis. This is best illustrated through the anecdotal example of New Jersey, which today is viewed as a low-tax state, but did not start out that way.

In 2010, Spectrum authored a peer-reviewed white paper on tax policy⁹⁹ that included the following:

New Jersey was the first state outside Nevada to legalize casinos, with voters approving a November 1976 referendum to authorize casinos in Atlantic City. The enabling legislation, the Casino Control Act, was approved eight months later, and the first casino opened in

⁹⁸ Some states have different rates for table games or other exceptions. This lists only the highest rates in such states. Some rates have been subsequently adjusted, but this highlights the political trends regarding the adoption of rates.

⁹⁹ Spectrum Gaming Group, *Casino Tax Policy: Identifying the Issues that Will Determine the Optimal Rate*, November 18, 2010 <http://www.spectrumgaming.com/dl/SpectrumNationalTaxAssociation.pdf>.

May 1978. The tax rate in New Jersey was set at 8 percent, which today is the second lowest in the nation (behind Nevada).¹⁰⁰

In researching this paper, we asked Steven P. Perskie – who was a member of the state Assembly in 1976 and 1977, and is widely hailed as the architect of the Casino Control Act – to provide the thought processes that guided the decision to set the rate at 8 percent. He responded with the following written comment:

‘In researching the drafting of the bill introduced in 1976, after the referendum passed, we found that the highest (combined) tax on gross revenues was 7.5 percent (in Nevada). For principally political reasons, we therefore set the initial rate for New Jersey at 8 percent. We assumed that this would inoculate us from any argument in either direction (that the tax was too high or too low), and indeed we never had to defend that decision. We didn't, at that time, make any effort to calculate the revenue estimates for the state, as we had no idea (and, as experience would show, we had *no* idea) what we would be dealing with.’¹⁰¹

That “inoculation” rationale could have been applied in many states, and demonstrates that gaming did not evolve based on market demand or player preferences. Still, the market did respond to these political arguments. In large measure, that evolution prompted the gaming industry to develop what has been termed the “hub and spoke” business model.

Under this model, one company would operate multiple properties. The higher-tax properties that are isolated in various regions would attract local business and develop databases of players within their respective regions. As these databases grow, players who earn loyalty points at these properties would be encouraged to redeem those points at “hub” properties where the tax rate is lower, and thus the profit margin is higher.

Caesars Entertainment embodies this model, and arguably pioneered the concept and developed it. Under this model, Caesars leverages its multiple locations, with spoke properties in feeder markets, and hub properties in markets such as Las Vegas and Atlantic City, as well as leveraging its loyalty program, known as Total Rewards.

In a recent column in *Global Gaming Business* magazine, Caesars Chairman, President and CEO Gary Loveman described the core of the program:

Many commentators have identified Total Rewards as the leading loyalty program in the gaming industry. We agree that Total Rewards provides Caesars with some unique advantages. No other program allows patrons to earn reward credits or points at one property in Las Vegas, for example, and redeem them inside the casino in New Orleans or at a Harrah's New Orleans strategic business partner's restaurant in the French Quarter. No other gaming company comes close to matching Caesars' distribution of 52 properties in

¹⁰⁰ New Jersey also imposes a 1.25 percent reinvestment obligation, which offers casinos a below-market return. We normally calculate the effective overall rate in New Jersey at 8.4 percent. That reinvestment obligation, however, was not imposed at the time of the statute's initial adoption.

¹⁰¹ Email from Steven Perskie, August 6, 2010.

the US and on four continents around the world, all of which create marketing opportunities for our home communities.

Currently, there are more than 45 million customers in the Total Rewards database that have taken advantage of the program, 8 million of whom have been active in the past 12 months. The program provides for four tier cards or levels based on activity of the guest, with each card having a unique cadre of benefits. Patrons earn Reward Credits (points) while playing slots and table games, by making non-gaming purchases at our properties, or by using our Total Rewards-branded credit card to make purchases anywhere. These points accrue and can be redeemed across all Caesars Entertainment properties.¹⁰²

Others are moving in the same direction. The Mohegan Tribal Gaming Authority, which began with a hub property at its Connecticut casino, has since branched out to a spoke in Pennsylvania, is applying for a resort destination license in Massachusetts, is managing a casino in Atlantic City, and seeking to manage casinos elsewhere. A Florida example is the Seminole Hard Rock, which is developing plans to leverage its national brand in gaming markets such as Massachusetts and New Jersey, as well as in hotel markets. Hard Rock Chairman Jim Allen identified between eight and 15 markets that could potentially support a Hard Rock hotel casino, and as many as 50 markets that could support a Hard Rock hotel.¹⁰³ A recent article on HotelNewsNow.com noted:

Hard Rock, which now has 18 properties in its portfolio, could triple that number over the next three to five years, Chairman Jim Allen told HotelNewsNow.com. ...

Globally, Hard Rock has secured relationships with development partners in 58 countries, Allen said.¹⁰⁴

Other operators, including those with properties in Florida, acknowledge the benefits of the model. Virginia McDowell, President and CEO of Isle of Capri Casinos Inc., said:

If you look at the Caesars [Entertainment] business model, they benefited tremendously from stringing their regional operations together across the United States in their hub-and-spoke model, using that as drivers to their destination resorts. They built loyalty in the regional markets because people wanted to go to the destination markets. There's enough independent operators in Las Vegas that, to the extent you want to partner with somebody, there are lots of opportunities for us to send our customers and the regional markets have changed enough that you don't *have* to have a destination driver, although it's nice to have.¹⁰⁵

¹⁰² Gary Loveman, "Heart of the City," *Global Gaming Business*, April 30, 2013
<http://ggbmagazine.com/issue/vol-12-no-5-may-2013/article/heart-of-the-city1>.

¹⁰³ Shawn A. Turner, "Hard Rock Plans Global Hotel Push," HotelNewsNow.com, February 1, 2013
<http://www.hotelnewsnow.com/articles.aspx/9822/Hard-Rock-plans-global-hotel-push>.

¹⁰⁴ Ibid.

¹⁰⁵ David McKee, "Meet Virginia McDowell," Stiffs and Georges blog, January 18, 2012
<http://dmckee.lvablog.com/?p=8303>.

Notably, while the hub-and-spoke business is still evolving and has yet to reach its full potential, new models are emerging. Indeed, Caesars is pioneering a model that Loveman recently detailed:

Policymakers and social scientists increasingly understand that casino development projects offer the most economic and social benefits when they are specifically tailored to the needs of their host communities. The long-held view that casinos exist across a spectrum anchored at one end by neighborhood slot parlors and other forms of convenience gaming and at the other end by integrated destination resort casinos has become incomplete.

Over the past decade, a third dimension of casino gaming has emerged in North America that provides another option for urban policymakers to consider.

I call this model the city-integrated or urban resort. Its defining feature is integration with its location's pre-existing business community and attractions. In this model, the casino itself is both a physical and a metaphorical hub. Its spokes radiate not only to amenities in the casino complex itself, but also to established restaurants, shops, hotels and recreation offerings in the larger metropolitan area.¹⁰⁶

This analysis should note that, while the hub-and-spoke model is still developing, a new business model may be forming in its wake. Whether the future includes new urban resorts or traditional destination resorts, the goals for policymakers remain unchanged: Capital investment remains the key target. Consider that a destination property – a “hub” in this model – will likely employ at least 3,000 full-time equivalents, and as many as 5,000. A typical “spoke” property, which focuses on its nearby adult population, will employ about 800, and possibly as many as 1,000.

All else being equal, a destination resort is more likely to:

- Promote tourism, as it has the ability to pull adults from more distant locations.
- Withstand competition, since it typically offers more amenities.
- Generate more revenue, since it will likely penetrate a greater percentage of the adult population.

One corollary to this trend is that properties that begin life as convenience-oriented facilities, which would include so-called “spokes,” are not necessarily destined to remain in that category in perpetuity.

For example, Dover Downs – a racino in southern Delaware – responded to the threat of competition from nearby Maryland, as well as from Pennsylvania and New Jersey, by adding a 232-room hotel and conference center, along with a combination ballroom/concert hall, a new fine-dining restaurant, pool and spa. The property also added a 425-seat buffet, among other investments. That investment helped the property weather competition, by becoming something

¹⁰⁶ Loveman.

closer to a destination. The expansion has continued, and the facility now has 500 rooms, and significantly more amenities.¹⁰⁷

In Florida, Gulfstream has significantly expanded, starting with the addition of the 1-million-square-foot Village at Gulfstream, which includes 750,000 square feet of retail space. That property continues to expand, with plans now for a \$700 million expansion¹⁰⁸ that would include hotel rooms. As described by the *Sun-Sentinel*, “The development plan being formulated by The Stronach Group includes two hotels facing the track, greatly enlarged grandstand seating, as well as a standalone casino and adjacent concert hall. A giant statue of Pegasus will adorn a 4D theater nearby in a park area. But here's the most surprising aspect of a project that will cost hundreds of millions of dollars to complete: Public money is not part of the equation.”¹⁰⁹

In one sense, properties such as Dover Downs and Gulfstream are defying the basic economics of hubs vs. spokes in that such properties are burdened by relatively high tax rates, which tend to discourage such investments by reducing the potential returns on investment. Yet, in another sense, such properties recognize that such investments can protect – or even enhance – market share.

We do not suggest, however, that destination gaming resorts are panaceas, nor do we ignore the downside or the challenges they present to local communities. By definition, they increase traffic and create other demands on public services. The more successful they are in generating revenue, the more such demands increase.

In 2009, Spectrum studied in great detail the economic and social impacts of two destination resorts in Connecticut on their local communities. The two tribal properties – Foxwoods and Mohegan Sun – were responsible for \$1.2 billion worth of personal income in Connecticut, both directly and indirectly. Between 1992 and 2008, they accounted for about 12 percent of the net new job growth in Connecticut.¹¹⁰

At the same time, however, DUI arrests were up significantly. One town reported that such arrests doubled since the first casino opened in 1992, and three local communities reported that 20 percent of those arrested for DUI – including one motorist arrested for manslaughter for causing a

¹⁰⁷ Reuters, Dover Downs Entertainment company profile
<http://www.reuters.com/finance/stocks/companyProfile?symbol=DDE> (accessed May 14, 2013).

¹⁰⁸ Interview with Gulfstream executives, May 2, 2013.

¹⁰⁹ Craig Davis, “Gulfstream plans major expansion in pursuit of Breeders’ Cup, year-round racing,” *Sun-Sentinel*, November 27, 2012 http://articles.sun-sentinel.com/2012-11-27/sports/fl-gulfstream-park-expansion-1128-20121127_1_breeders-cup-gulfstream-park-race-track.

¹¹⁰ Spectrum Gaming Group, “Gambling in Connecticut: Analyzing the Economic and Social Impacts,” June 22, 2009, p. 8
http://spectrumgaming.com/dl/june_24_2009_spectrum_final_final_report_to_the_state_of_connecticut.pdf.

fatal accident by driving the wrong way on a highway – acknowledged that they had their last drink at one of the casinos.¹¹¹

Spectrum also noted that “with many casino workers unable to afford housing in southeastern Connecticut, some landlords have converted single-family homes into boarding facilities. The practice is not only illegal, it is unsafe as well.”¹¹² Such examples demonstrate that destination resorts present both challenges and opportunities.

d. Florida’s Racinos

Of the existing 27 pari-mutuel facilities, six currently offer slot machines (the “racinos”). Furthermore, of Florida’s pari-mutuel locations, slot machines are only authorized at existing pari-mutuel facilities in Broward and Miami-Dade Counties.¹¹³ Operations at Florida’s racinos are comprised of both slot machines and cardroom operations.

The following table shows how long each racino has been operational, along with number of slot machines and poker tables (all information as of the end of 2012).

Figure 20: Florida racino overview

Racino	Casino Miami	Magic City	Calder	Gulfstream Park	Mardi Gras	Pompano Park	FL TOTAL
Month Opened	Jan-12	Oct-09	Jan-10	Nov-06	Dec-06	Apr-07	n/a
# Full Months Open	11	38	35	73	72	68	n/a
Location (County)	Miami-Dade	Miami-Dade	Miami-Dade	Broward	Broward	Broward	n/a
Slot Machines	1,058	801	1,204	853	1,057	1,420	6,393
Poker Tables	12	18	29	20	30	38	147

Source: Florida Department of Business and Professional Regulation

A seventh racino is scheduled to begin operating later this year at Hialeah Park.

e. Native American Casinos

Nationally

Congress passed the Indian Gaming Regulatory Act of 1988 (“IGRA”) because many Native American nations and tribes had established gaming activities but federal laws at the time did not establish a clear regulatory framework for the conduct of such games. IGRA was passed to fulfill certain goals, including promoting tribal economic development, self-sufficiency and strong tribal governments; maintaining the integrity of the Native American gaming industry; and

¹¹¹ Ibid., p. 13.

¹¹² Ibid., p. 14.

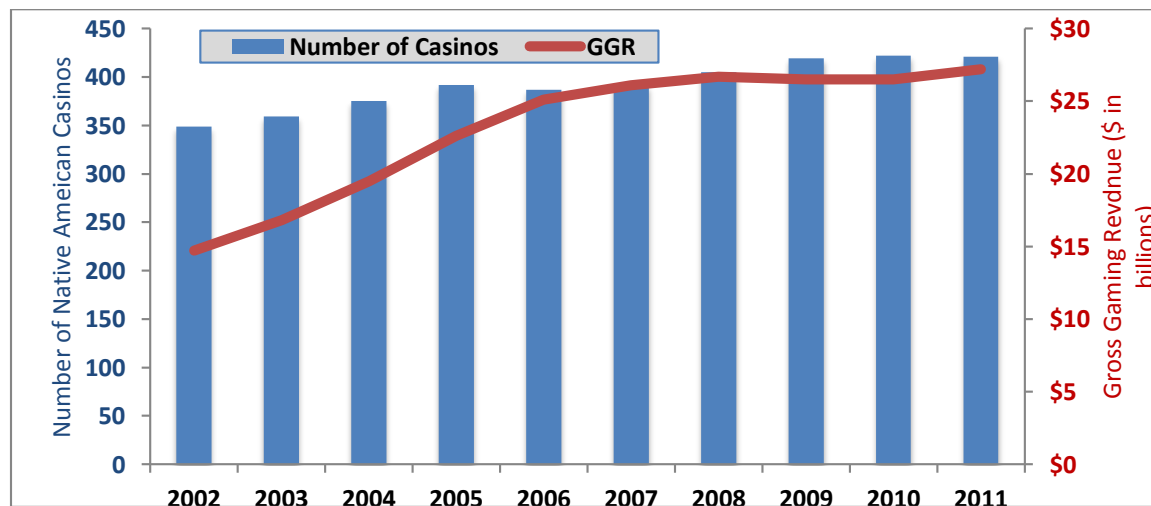
¹¹³ Florida Department of Business and Professional Regulation, Division of Pari-Mutuel Wagering <http://www.myfloridalicense.com/dbpr/pmw/faq-slots.html> (accessed April 29, 2013).

ensuring that tribes are the primary beneficiaries of their gaming activities.¹¹⁴ Under IGRA, games are classified into three categories: Class I, Class II and Class III.

- Class I gaming includes social games solely for prizes of minimal value or traditional forms of Indian gaming engaged in by individuals as part of tribal ceremonies or celebrations.
- Class II gaming includes bingo, pull-tabs, lotto, punch boards, tip jars, certain non-banked card games (if such games are played legally elsewhere in the state), instant bingo and other games similar to bingo, if those games are played at the same location where bingo is played.
- Class III gaming, meanwhile, includes all other forms of gaming, such as slot machines, video casino games (video blackjack and video poker), table games and other commercial gaming, such as sports betting and pari-mutuel wagering. To offer Class III games, federally recognized Indian tribes are required to negotiate a compact with the state in which they operate and attain approval of the compact by the US Department of the Interior.¹¹⁵

As in the commercial casino industry, the type of Native American casino is also varied, with the Seminole Hard Rock casinos, Foxwoods and Mohegan Sun being examples of national destination resorts. According to the National Indian Gaming Commission, there were over 420 Native American casinos generating more than \$27.2 billion in GGR in 2011.

Figure 21: Size of the Native American casino industry



Source: National Indian Gaming Commission

¹¹⁴ Indian Gaming Regulatory Act, National Indian Gaming Commission http://www.nigc.gov/Laws_Regulations/Indian_Gaming_Regulatory_Act.aspx.

¹¹⁵ Adam Steinberg, "Know Your Odds: Gaming Industry Investment Primer," Morgan Joseph & Co. investment research report, p. 76, January 9, 2006.

Florida

Florida's eight Native American casinos are spread throughout five counties (Broward, Collier, Hillsborough, Glades, and Miami-Dade), while Broward is home to three of the Native American casinos.

Native American casinos in Florida, for the most part, provide a full-service gaming experience, although non-card games such as craps or roulette are not allowed. The Indian casinos, however, are not subject to state regulation and thus have substantial competitive advantages over racinos including allowing patrons to smoke, offering live table games (except at Miccosukee, which is a Class II property) and paying no direct gaming tax.¹¹⁶

While there are two federally recognized tribes in Florida, the Seminole Tribe is dominant, and indeed Seminole Gaming is largely viewed as more than a Florida operation. As noted in Chapter II(B)(6)(c), by virtue of its ownership of Hard Rock International the Tribe is branching out with Hard Rock-branded casinos in other states. Notably, the Seminole Tribe has secured investment-grade rating for its debt, as noted by Fitch, a major rating agency:

Fitch believes that STOF's [Seminole Tribe of Florida] operating profile and credit metrics are consistent with 'BBB-' IDR (issuer default rating), and a further track record of fiscal prudence by the tribe may result in an upgrade of the IDR to 'BBB-' within the next 12-24 months. Specifically, an investment grade IDR can be supported by STOF's ... solid competitive position ... (and) strong credit metrics.¹¹⁷

At least two other Indian tribes are working through various legal channels to commence Florida gaming operations:

- The Poarch Band of Creek Indians, which is based in Atmore, AL, has land in Escambia County, which is held in trust by the US government, and also owns, or has options to own, or agreements to control 10 pari-mutuel permits along the Interstate 10 corridor between Pensacola and Jacksonville. The Poarch Band is seeking to negotiate an agreement, which could include revenue-sharing, with the State to operate Class II gaming (i.e., bingo-based slots and non-house-banked games) at the pari-mutuel facilities. "We believe that such an intergovernmental agreement between the Poarch Band and the State of Florida can be crafted in a legally viable manner that is allowable under State law, avoids the need for federal approvals and avoids violation [of] the Seminole Compact," according to attorney Steven Paul McSloy.¹¹⁸ A market study

¹¹⁶ The Seminole Tribe of Florida compact with the State of Florida provides for payments of approximately \$1 billion over five years.

¹¹⁷ "Fitch Rates Seminole's \$750MM Term Loan 'BBB-'; Affirms IDR at 'BB+'; Outlook to Positive," April 1, 2013 <http://www.businesswire.com/news/home/20130401006002/en/Fitch-Rates-Seminole-750MM-Term-Loan-BBB->.

¹¹⁸ Letter from Steven Paul McSloy of Dentons US LLP to Jay Corris, CEO of PCI Gaming, May 21, 2013.

showed that Poarch Band gaming at Pensacola Greyhound Track, Creek Entertainment Gretna, and Jacksonville Racing could generate \$1 billion in net revenue.¹¹⁹ The tribe currently operates three casinos (with electronic gaming machines only) in Alabama.

- For the past decade, the Muscogee Nation of Florida has been pursuing federal recognition by act of Congress in order to initiate gaming operations as a means of economic development. Tribal landholdings are well positioned to offer casino gaming in an underserved tourism market close to Gulf beaches in the Florida panhandle, where the nearest competition are greyhound tracks in Pensacola and Ebro. In 2003 US Representative Jeff Miller, Republican from Florida, introduced House Resolution 323, The Muscogee Nation of Florida Federal Recognition Act (“H.R.323”).¹²⁰ This bill, which has never been voted on, was assigned to the House Natural Resources, Indian and Alaskan Native Affairs Committee on January 13, 2013.¹²¹ It has received repeated extensions over the past 10 years. The last extension was granted in December 2012, and expires in early June. It is our understanding that current prospects for recognition through Congress are not promising.

7. Pari-mutuel

a. National Trends

In pari-mutuel wagering, bettors bet against each other. The house has no stake in the outcome. The house takes out a portion of the amount wagered, which in racing is known as handle. Racetracks typically retain about 20 percent of handle.

National trends mirror those of Florida. Live handle in calendar year 2010 (the most recent year for which data are available) accounted for just 12 percent of total handle for horse racing, 29 percent for greyhound racing and 42 percent for jai alai handle.¹²² For the 10-year period ending in 2010, pari-mutuel wagering fell from \$18.3 billion in 2000 to \$11.5 billion in 2010, a decline of 37 percent. States’ share of the revenue fell from \$470 million to \$191 million, a decline of 59 percent.¹²³ The Association of Racing Commissioners International (“ACRI”) no longer reports attendance figures because it says the figures are no longer meaningful. Most jurisdictions no longer report them, and of those that do, they are “increasingly inaccurate,” according to ACRI.

¹¹⁹ May 2013 Market Analysis prepared by Pro Forma Advisors LLC.

¹²⁰ Congress, Bill, HR 323, [www.govtrack.com http://www.govtrack.us/congress/bills/113/hr323](http://www.govtrack.com/http://www.govtrack.us/congress/bills/113/hr323).

¹²¹ Ibid.

¹²² Spectrum review of Association of Racing Commissioners International, *Pari-Mutuel Racing Annual Reports*. State revenue includes any revenue that state governments realize through pari-mutuel activity.

¹²³ Ibid.

That comment made in the ACRI 2010 report offers a telling statement about the declining popularity of live pari-mutuel wagering.

Florida only reports paid attendance. Operators who choose to charge for admission must collect an admission tax for the state. There is no requirement that a facility charge for admission. And in Florida, admission is free at the state's harness track at Pompano, at jai alai frontons and at most of the state's 16 greyhound tracks.¹²⁴

The following table puts pari-mutuel attendance nationally in perspective. Note that attendance for horse racing – the largest component by far of pari-mutuel wagering – attracts fewer than 3 percent of adults, although that percentage actually rose by two-tenths of 1 percent over the past four years.¹²⁵

Figure 22: Participation by adults in selected activities

Activity	Participated in the last 12 months (in thousands)		Frequency of Participation							
			Two or more times a week		Once a week		Two to three times a month		Once a month	
	No.	%	No.	%	No.	%	No.	%	No.	%
Adult education courses	16,640	7.3	3,116	1.4	1,973	0.9	762	0.3	1,312	0.6
Attend auto shows	19,346	8.5	313	0.1	337	0.2	557	0.2	721	0.3
Attend horse races	6,654	2.9	159	0.1	177	0.1	155	0.1	379	0.2
Attend rock music performances	25,176	11.0	187	0.1	173	0.1	730	0.3	1,136	0.5
Backgammon	4,234	1.9	435	0.2	366	0.2	416	0.2	486	0.2
Billiards/pool	19,468	8.5	975	0.4	1,432	0.6	2,125	0.9	2,063	0.9
Bird watching	13,793	6.1	6,101	2.7	1,338	0.6	1,169	0.5	876	0.4
Book clubs	5,747	2.5	285	0.1	234	0.1	419	0.2	2,732	1.2
Chess	6,896	3.0	549	0.2	533	0.2	823	0.4	576	0.3
Concerts on radio	6,441	2.8	1,308	0.6	747	0.3	548	0.2	572	0.3
Cooking for fun	50,243	22.0	19,162	8.4	7,495	3.3	6,795	3.0	4,415	1.9
Crossword puzzles	29,996	13.2	12,866	5.6	3,136	1.4	2,811	1.2	2,674	1.2
Dance/go dancing	20,995	9.2	1,636	0.7	2,162	1.0	2,728	1.2	2,964	1.3
Dining out	112,477	49.3	20,158	8.8	25,173	11.0	26,644	11.7	15,686	6.9
Fantasy sports league	8,969	3.9	2,855	1.3	1,559	0.7	372	0.2	330	0.1
Furniture refinishing	6,292	2.8	201	0.1	79		359	0.2	406	0.2
Go to bars/night clubs	43,513	19.1	3,133	1.4	4,846	2.1	7,428	3.3	6,430	2.8
Play bingo	10,271	4.5	754	0.3	1,095	0.5	811	0.4	1,342	0.6
Play cards	46,190	20.3	5,679	2.5	4,969	2.2	6,400	2.8	7,567	3.3
Reading comic books	5,557	2.4	1,161	0.5	636	0.3	886	0.4	527	0.2
Sudoku puzzles	26,540	11.6	10,265	4.5	2,505	1.1	3,159	1.4	2,495	1.1
Trivia games	11,872	5.2	1,891	0.8	1,327	0.6	1,397	0.6	1,490	0.7
Woodworking	10,202	4.5	1,714	0.8	965	0.4	1,631	0.7	1,443	0.6
Word games	22,147	9.7	7,768	3.4	2,709	1.2	2,817	1.2	1,899	0.8
Zoo attendance	28,148	12.3	189	0.1	239	0.1	632	0.3	2,112	0.9

Source: US Census Statistical Abstract of the United States

¹²⁴ Florida Division of Pari-Mutuel Wagering, review of *Annual Reports*.

¹²⁵ Statistical Abstract of the United States
<http://www.census.gov/compendia/statab/2012/tables/12s1240.pdf>.

Certainly, the creation of new wagering opportunities over the last several decades has given more adults more options. The history is summarized well in this excerpt from a report by Cummings Associates:

When they were first authorized in some states in the 1930s, and for a long golden age thereafter, race tracks essentially had a monopoly on legal gambling on a commercial scale. They were legalized because states needed money. During the economic collapse of the Great Depression, a number of states turned to legal gambling as a source of revenue. Nevada legalized casinos (in 1931), but every other state chose pari-mutuel betting on horse racing, and in a few states, on greyhound racing as well. This occurred, moreover, in the context of relatively simple leisure economies which, aside from movies and major league baseball, offered few alternative forms of commercial entertainment. In these circumstances, race tracks were by and large highly profitable. As businesses, horse tracks had little trouble developing large numbers of customers and were able to pay high rates of gambling 'privilege' taxes. They lived in a sheltered world.

Over the past thirty years, however, the economic environment has changed dramatically. Competing forms of legal gambling have proliferated, starting with state lotteries in the late 1960s. Ironically, the same force that legalized racing led to lotteries: states needed money. Thirty-nine states now have them, and all the provinces of Canada. ...

Then came an explosion of full-scale casino resort hotels in Las Vegas, New Jersey, Mississippi, Canada and Connecticut. These now attract tens of billions of dollars in consumer spending each year, with large amounts also spent on 'limited' casino gaming on riverboats in the Midwest, small casinos in Colorado and South Dakota, VLTs ('video lottery terminals') or slot machines at race tracks in seven states, and on a widespread basis in several Western states and much of Canada, on cruise ships operating out of many states, and at casinos on Indian lands across wide stretches of North America. ...

In the 1980s, racing's legal gambling competition more than doubled in size; in the 1990s, it more than doubled again. Over the same period, the U.S. leisure economy grew enormously and became vastly more diversified. Many leisure and entertainment activities are available today that did not exist in the 1930s, or even in the 1960s. Cable television, VCRs, DVDs, inexpensive air travel and the related (but not-so-inexpensive) theme park resort industries, major-league football and basketball and a host of other diversions now compete much more intensely with horse racing for the leisure dollars available.¹²⁶

¹²⁶ Cummings Associates, "Analysis of the Data and Fundamental Economics Behind Recent Trends in the Thoroughbred Racing Industry," p. 7-8, July 17, 2004

http://www.nationalhbpa.com/resources/cummings_report7-17-04.pdf.

b. Florida

Florida first authorized pari-mutuel wagering in 1932.¹²⁷ In 2010, the state accounted for 59 percent of the nation's pari-mutuel wagering.¹²⁸ The Department of Business and Professional Regulation ("DBPR"), through its Division of Pari-Mutuel Wagering ("PMW"), oversees gaming in Florida.

Pari-mutuel activities in Florida include thoroughbred horse racing, harness horse racing, quarter horse racing, greyhound racing and jai alai games. In addition, pari-mutuel facilities can operate cardrooms, which can only be operated by the holder of a pari-mutuel license (though card games do not involve pari-mutuel wagering). Cardrooms cannot open in a facility unless live racing or jai first takes place.¹²⁹ Events at racing and jai alai facilities are simulcast to other pari-mutuel facilities in Florida and to out-of-state venues.

Florida is the only state with live jai alai games. It is one of seven states with greyhound racing. Florida accounted for 64 percent of the nation's live greyhound races in 2010.¹³⁰ Since 1993, 10 states have outlawed greyhound racing.¹³¹

Florida allows slot machine casinos, also known as racinos, at pari-mutuel facilities in Miami-Dade and Broward counties. Numerous pari-mutuel operators in other areas of the state told us that they too need slot machine casinos to "even the playing field," as they are unable to compete with racinos in and outside of Florida that use slot revenue to enhance purses, which, in turn, allow racinos to attract higher quality racing animals and make significant capital expenditures to improve their facilities.

As of April 3, 2013, there were 27 pari-mutuel facilities in Florida (plus inter-track at Ocala) that accepted bets on live races or jai alai games. They included 14 greyhound tracks, six jai alai frontons, three thoroughbred tracks, one harness track and five quarter horse tracks. Twenty-four of them had cardrooms. Six had casinos. Ocala Breeders' Sales in Ocala and Bestbet in Jacksonville operate simulcast parlors without live pari-mutuel racing. The overall financial trend for Florida pari-mutuels has been on a steady downward spiral. Many operations have sustained steep operating income losses, and those losses would have been much greater if it were not for racino and cardroom revenue. The worst-performing sectors have been jai alai and greyhound.

¹²⁷ Florida PMW, *Annual Report, FY 2012*, p. 2.

¹²⁸ Association of Racing Commissioners International, *Pari-Mutuel Racing 2010*, p. 1.

¹²⁹ Section 849.086 (5a), Fla. Stat.

¹³⁰ Association of Racing Commissioners International, *Pari-Mutuel Racing 2010*, p. 39.

¹³¹ Danny Valentine, "Proposal could hasten decline of greyhound racing," *Tampa Bay Times*, April 28, 2011 <http://www.tampabay.com/news/business/proposal-could-hasten-decline-of-greyhound-racing-in-florida-nation/1166550>.

In FY 2012, Florida's pari-mutuel facilities had a combined overall operating profit of just \$1.9 million. Thirteen had losses, with the largest of \$21.6 million at the combined Fort Pierce/Miami Jai Alai operation. The biggest operating profit was \$16.4 million at Flagler Greyhound Track, which also operates slot machines.¹³²

Pari-mutuel operations involve wagering on pari-mutuel events. The wagers occur at the track on live events or at track simulcast rooms. Those operations by themselves sustained an operating loss of \$50 million. Only eight facilities were able to show an operating profit from their pari-mutuel operations.¹³³ The largest loss of \$11.6 million was at Fort Pierce/Miami; the highest profit of \$6.3 million was at Gulfstream, a thoroughbred track with slot machines.

State tax revenue from such operations is fraction of what it once was. From FY 1985 to FY 2012, it fell from:

- \$29.7 million to \$378,000 for jai alai, a reduction of 99 percent¹³⁴
- \$77.2 million to \$3.7 million for greyhound racing, a reduction of 99 percent¹³⁵
- \$12.5 million to \$7.6 million for horse racing, a reduction of 39 percent¹³⁶

The overall reduction in state revenue went from \$119.4 million to \$11.8 million, decline of 91 percent.¹³⁷

Slot machine casinos accounted for 77 percent of state gaming revenue in FY 2012. All of that slot machine money, \$144 million, was given to the state Department of Education. Unclaimed jai alai and greyhound winning tickets totaling \$1 million was also given to that same state agency. State tax revenue from cardrooms was split between the Pari-Mutuel Wagering Trust Fund and the General Revenue Fund. In accordance with section 849.086(13)(h), Florida Statutes, one-quarter of the moneys deposited into the Pari-Mutuel Wagering Trust Fund must be distributed to counties and municipalities that approved the cardroom. In October 2012, the division distributed approximately \$1,643,208 to the counties/municipalities from cardroom gross receipts.¹³⁸

¹³² Florida PMW, Independent Auditor's Report for Pari-Mutuel Permitholders, FY 2012.

¹³³ Ibid.

¹³⁴ Florida PMW, custom report, May 10, 2013.

¹³⁵ Ibid.

¹³⁶ Ibid.

¹³⁷ Ibid.

¹³⁸ Florida PMW, *Annual Report*, FY 2012, p. 18

Issues with PMW Annual Reports

In the course of our research, we discovered that purse numbers for the Isle of Capri at Pompano harness track were grossly overstated in PMW annual reports for fiscal years 2009 through 2012. PMW stated to us by email that it will be revising annual reports for Pompano to reflect the accurate figures. The mistakes were discovered when we asked standardbred horsemen to review purse information. The horsemen claimed that the numbers were wrong, and PMW asked the Pompano's comptroller to review them. The Pompano comptroller then acknowledged that errors had been made, and PMW said that the annual reports will be amended. The agency makes no effort to independently verify the information. The errors for the Isle of Capri at Pompano data raise issues as to whether other mistakes could have occurred at other pari-mutuel facilities.

In an email to Spectrum on May 21, 2013, PMW officials acknowledged that annual PMW reports fail to include out-of-state generated simulcast revenue. Gulfstream, for example, might send its signal to Yonkers, and revenue from wagers bet on Gulfstream races at Yonkers would not appear in PMW annual reports. The result is a significant understatement of simulcast revenues. To illustrate the point, PMW's 2012 report lists simulcast and intertrack handle for Gulfstream at \$102 million. But missing was out-of-state generated simulcast handle of \$605,319,440, an amount that is nearly six times the reported simulcast handle in the PMW FY report of 2012.¹³⁹ Other racing jurisdictions, such as New Jersey, include out-of-state export handle in their annual reports. The failure of PMW to indicate in its annual report that handle figures fail to include this category results in an incomplete picture of racing wagering in Florida. In a May 23 email to Spectrum, PMW explained it does not do so because the wagers made outside of Florida are beyond its regulatory authority and ability to impose taxes. PMW officials also noted they are unable to verify the data. Also unreported in out-of-state generated simulcast revenue is the amount through the Oregon hubs, which are companies that allow gamblers to place bets on races through the Internet or a cell phone.

PMW includes a category in its annual report identifying the amount of purses accounted for through "pari-mutuel" operations. Our research indicates that the number also includes financial contributions made by the operator. For example, the Melbourne Greyhound track contributed \$185,463 from pari-mutuel operations toward purses, according to the FY 2012 report.¹⁴⁰ Yet the annual report shows that the entire handle was only \$162,138, and only half of that goes into purses.¹⁴¹ If the operator is making a contribution toward purses, reports should indicate that the figure includes such contributions.

¹³⁹ Interview with Kent Stirling, Executive Director, Florida Horsemen's Benevolent and Protective Association, May 22, 2013.

¹⁴⁰ Florida PMW, *Annual Report*, FY 2012, p. 26

¹⁴¹ *Ibid*, p. 13.

It is critical for policymakers to have information relating to regulatory costs for each pari-mutuel sector. PMW told us in emails it cannot break down costs by sector. We note that Rep. Dana Young, R-57, asked the state agency for regulatory financial data relating to greyhound racing. In a letter dated August 19, 2011, Ken Lawson, Secretary of the Department of Business and Professional Regulation, said the state could identify only costs “directly attributable to all live greyhound racing,” which he said totaled \$1.88 million for FY 2011, which was slightly less than the revenues of \$1.85 million that live greyhound racing generated. But the expense figure did not include any allocation for salaries and benefits paid to 66 PMW employees or expenses they incurred. Those two categories alone totaled \$4.7 million. The Legislature needs to have detailed information concerning regulatory costs by sector in order for it to make informed decisions concerning the pari-mutuel industry.

Cutting Costs

Some operators say they have been adversely affected by a requirement that forces them to run a minimum number of racing performances (eight races make up a performance). Two greyhound tracks are conducting more than 350 performances a year, close to what they ran nearly 20 years ago because of the 90 percent rule. This rule requires pari-mutuel operators with cardrooms to conduct at least 90 percent of the live performances that were held the year before their cardrooms opened.¹⁴² For many operators, that was 1996. Florida had 3,857 live greyhound performances in 2010; West Virginia, the next-highest state, had 552.¹⁴³ The required minimum number of performances varies from sector to sector, and then within a specific sector depending on when a facility opened. This issue will be addressed in more detail later in the report.

Some operators have responded to the cost of doing business by reducing race cards and, in the case of jai alai, the number of players on a roster. Others have used quarter horse racing permits to run barrel racing, which prompted an administrative law judge to call the offering “a new species of racing.” The judge ruled that PMW had no authority to issue a permit for barrel racing. Other operators have proposed staging greyhound races with two dogs in each race¹⁴⁴ and jai alai games that involve two players playing over and over.¹⁴⁵

Barrel racing is being run at Gretna in Gadsden County. It involves rodeo-type racing in which horses are timed as they run around separate obstacle courses. The winner is the one with

¹⁴² Section 849.086 (5 b), Fla. Stat.

¹⁴³ Association of Racing Commissioners International, *Pari-Mutuel Racing 2010*, p.39.

¹⁴⁴ National Greyhound Association, “Two-dog race plan condemned,” February 13, 2013 <http://ngagreyhounds.com/issue/january-february-2013/article/two-dog-race-plan-condemned>

¹⁴⁵ Carlos Medina, “Area Fronton Accused of Doing the Minimum,” *Gainesville Sun*, February 14, 2012 <http://www.gainesville.com/article/20120214/articles/120219759>.

the fastest time.¹⁴⁶ It is much less expensive to build a barrel-racing track, and the costs of operating it are also much less expensive. At issue is whether it falls within the definition of a horse race. Critics call it a phony horse race. We discuss this issue in more Chapter II(B)(7)(f).

c. Decline of Purses, Handle

Purses are awarded to dog and horse racing owners who win races. They have declined slightly in recent years but the decline would have been much greater if it were not for revenue from slot machine and cardroom operations. The recent return of traditional quarter-horse racing in November 2009 at Hialeah Park also boosted overall purse numbers.¹⁴⁷

Total Florida pari-mutuel handle fell from \$1.8 billion in FY 1990 to \$876 million in FY 2012, a decline of 51 percent; live handle (the amount wagered by patrons at a host track where live racing was held) fell from \$1.8 billion to \$190 million, a decline of 95 percent; performances fell from 6,931 to 4,904, a decline of 41 percent and paid attendance fell from 15.3 million to 381,000, a decline of 83 percent.¹⁴⁸

Simulcasting first came to Florida on August 17, 1990, when Daytona Beach Kennel Club transmitted races to the Sports Palace in Melbourne. Prior to then, Florida handle came exclusively from live handle.¹⁴⁹

Simulcast wagering in Florida involves patrons visiting a pari-mutuel facility and wagering on live races conducted at other racetracks in Florida or at out-of-state tracks. In other words, the racetrack signal is being sent or imported to a Florida track to let its patrons bet on races/games at other facilities.

PMW categorizes intertrack handle as handle generated as a result of a Florida track/fronton exporting its signal to other Florida tracks or frontons, which enables patrons at those other Florida facilities receiving the signal to bet on those Florida races or games. Gulfstream, for example, would send its signal to the Palm Beach Kennel Club and patrons at the Palm Beach Kennel Club could then bet on those Gulfstream races. Intertrack involves only Florida-to-Florida facilities.¹⁵⁰

There is another simulcast category that PMW calls “Intertrack Simulcast.” It involves the rebroadcasting of simulcast signals received by a Florida track/fronton, which then sends that signal to other Florida tracks/frontons. Gulfstream, for example, would receive a signal from

¹⁴⁶ State of Florida Administrative Hearings, Case No. 11-5796RU.

¹⁴⁷ Florida PMW, review of Annual Reports.

¹⁴⁸ *Ibid.*

¹⁴⁹ Florida PMW, *Annual Report*, FY 1991, p. 3.

¹⁵⁰ PMW Annual Report, FY 2012, p. 2

Yonkers Raceway in New York, and then rebroadcast that signal to other Florida pari-mutuel facilities. Again, it involves only Florida-to-Florida facilities.¹⁵¹

The largest single category of simulcasting involves the export of signals from Florida pari-mutuels to out-of-state facilities. Gulfstream, for example, would send its signal to Yonkers. No information is available from PMW for this category, which is often called out-of-state generated simulcast revenue. The reason is because PMW does not track it. We note that other racing jurisdictions, such as New Jersey, do so. Without these data, it is not possible to offer a complete picture of simulcasting in Florida.

With the advent of simulcasting, live handle in Florida has accounted for less and less of total handle. By FY 2000, it accounted for 37.4 percent of total handle. Three years later, the figure fell to 29.7 percent, and for FY 2012 it was down to 24.3 percent.¹⁵²

d. Impact of Advance Deposit Wagering ('ADW')

Advance Deposit Wagering allows patrons to wager on racing (greyhound and horses) electronically. Patrons establish an account with an ADW company, and deposit money into the account prior to making any wagers. They can then place wagers from a computer, a home telephone or even a mobile phone.

ADW companies have flourished in recent years primarily due to convenience. A gambler never has to leave his or her house to make a bet, and can do so from just about anywhere. In addition, the low overhead associated with ADWs enables these companies to offer rebates to customers based on their betting volume. Since the ADWs command so much betting volume, they are able to negotiate take-out rates with host tracks that are quite favorable. The amount wagered through an ADW is funneled into the wagering pool of a host track, but Kent Stirling, executive director of the Florida Horsemen's Benevolent and Protective Association, said the track and horsemen are often forced to split between 6 cents and 9 cents of every dollar wagered through an ADW as opposed to 20 cents if the bet were made at a Florida racetrack on a live race.¹⁵³

Those ADW rebates can be as much as 12 percent of what a gambler wagers. Rob Wyre, general manager of the Isle of Capri at Pompano Park, told Spectrum racetracks cannot compete with the ADW rebates. "What's really frustrating is we see people come to the track and place their bets through ADW," he added.

¹⁵¹ Ibid.

¹⁵² Ibid.

¹⁵³ Interview with Kent Stirling, executive director of the Florida Horsemen's Benevolent and Protective Association, May 17, 2013.

The problem is exacerbated at the thoroughbred tracks in South Florida, as both Calder and Gulfstream are owned by companies that operate ADWs. According to Stirling, the television sets at Calder urge patrons to place their bets through an ADW.

Most of the ADW firms have established themselves in Oregon through a hub network. At a time when handle across the country and especially in Florida has been decimated, the ADWs have flourished. Greyhound racing lobbyist Jack Cory said that the greyhounds are hurt much more by the Oregon hubs than horse racing. He noted that at least with horse racing, some of that Oregon-hub money is split with the horsemen. The dog owners get nothing, he said. And, like the thoroughbreds, some greyhound racetracks operate their own ADWs. These greyhound facilities encourage their patrons to place bets on live races through their ADWs, depriving the dog owners of revenues if the bet had been made at the track.

Cory argues the handle is better than that painted by PMW annual reports as those reports fail to capture the Oregon-hub betting and the out-of-state generated handle, which is sizable.

The Oregon hub opened for business in 2000. Its total handle that year was just under \$2 million. In 2012, it had mushroomed to \$2.24 billion. From 2007 to 2012, handle increased 47 percent. During the same time period, total pari-mutuel handle in Florida fell 41 percent and simulcasting handle (where patrons came to a Florida track and wagered on races held at other Florida tracks) fell by 59 percent.¹⁵⁴ Other Florida handle sectors sustained significant declines as well. Live handle at Florida pari-mutuels fell 46 percent from 2007 to 2012.

Kentucky, another major racing state, is looking to tax the ADW companies on bets made in that state. A bill that passed a House subcommittee in February places a tax of 0.5 percent on Internet and telephone wagers made by Kentucky residents. The state will get 15 percent of the revenue, and racetracks and purse accounts would get the remaining 85 percent. Kentucky expects the tax to generate as much as \$400,000 a year.¹⁵⁵

Florida pari-mutuels have also been adversely impacted by wagering through offshore outlets or tribal hubs that are not captured by regulatory agencies at all. With the Oregon hubs, there is some revenue going back to the host thoroughbred and harness track and also to the state. But with the offshore hubs, the pari-mutuels and the state receive nothing. ACRI says there is good evidence that such handle amounted to more than \$1 billion in recent seasons.¹⁵⁶

¹⁵⁴ Oregon Racing Commission, http://www.oregon.gov/Racing/docs/Hub_Data/2013_quarterly_hub_handle_report.pdf (accessed May 17, 2013) and review of Florida PMW Annual Reports.

¹⁵⁵ Tom Lamarra, "Kentucky ADW Bill Clears House Committee," Bloodhorse.com, February 14, 2013, <http://www.bloodhorse.com/horse-racing/articles/76198/kentucky-adw-tax-clears-house-committee>.

¹⁵⁶ Association of Racing Commissioners International, *Pari-Mutuel Racing 2010*, p.1.

e. Impact of Slot Machine Casinos, Cardrooms on Purses

Florida voters approved a statewide slots referendum in November 2004 that made it possible for slot machine casinos to come to Broward and Miami-Dade counties. Voters in Broward County then approved a slots referendum in 2005 and Miami-Dade voters approved one in 2008.

As with handle, the source of Florida purse revenue has dramatically changed over the years. Before cardrooms and casinos, purses were funded exclusively through handle, and before simulcasting, all purses were funded through live handle.

Purses have received a significant boost with the introduction of cardrooms and slot machine casinos. At jai alai and greyhound facilities, 4 percent of cardroom gross receipts must be used to fund purses; the figure is 50 percent at horse race facilities. Unlike other racino states, Florida statutes do not mandate that a certain percentage of gross gaming revenue or a dollar amount from slot machines be used to fund purses and for breeding purposes. About the closest Florida comes is a requirement that a thoroughbred or quarter horse operator have a contract with horsemen before a casino can open. The horsemen at Pompano and greyhound owners say they need a similar-type law. Without one, they say the boost that casino revenue was supposed to generate for purses for greyhounds and harness will never be realized.¹⁵⁷

Spectrum's analysis shows that the percentage of GGR going into purses is much higher at thoroughbred than it is at harness and greyhound tracks. The two racino thoroughbred racetracks, Gulfstream and Calder, paid 14 percent and 12 percent, respectively, in FY 2012. The thoroughbred horsemen benefitted when the state's tax on GGR was lowered in FY 2010 from 50 percent to 35 percent, as the contract with the horsemen called for an increase if the tax rate was lowered. The GGR contribution nearly doubled. There was no such increase in GGR contribution at greyhound and harness racinos.¹⁵⁸ The two greyhound tracks and the one harness track put roughly 2 percent of GGR into purses in FY 2012.¹⁵⁹

Florida slot revenue accounts for much less on a percentage basis of total purse revenue than it does in other racino states. In Pennsylvania, for example, casino GGR accounted for anywhere from 75 percent to 91 percent of purses.¹⁶⁰ In Florida, our review of the FY 2012 PMW annual report showed that the figure ranged from 22 percent to 48 percent. In Iowa, the percentage

¹⁵⁷ Interviews May 5, 2013, with Joseph Pennachio, president of the Standardbred Breeders and Owners Association, and Jack Cory, lobbyist for greyhound owners.

¹⁵⁸ Florida PMW, *Annual Report, FY 2012*.

¹⁵⁹ *Ibid.*

¹⁶⁰ Pennsylvania Gaming Control Board, custom report, May 8, 2013.

figure of GGR for greyhound racing at Bluffs Run in Council Bluffs was 4.9 percent (\$10 million) in FY 2012 and 6.2 percent (\$3.7 million) at Dubuque Park.¹⁶¹

FY 2006 was the last year in which Mardi Gras and Isle Pompano operated without a casino. Comparing FY 2012 with FY 2006, purses increased by 33 percent at Mardi Gras and decreased by one-half of 1 percent at Isle Pompano. The Flagler dog track significantly increased its purses after its casino opened. The year before, Flagler paid purses of \$1.7 million; in FY 2012, it paid \$3.6 million in purses, an increase of 119 percent.¹⁶²

The percentage increases at racetracks in Pennsylvania ranged from 126 percent to more than 200 percent when we compared the increase from the year before a casino opened to the FY 2012 numbers.¹⁶³

Nonetheless, purse enhancements from Florida slot machines in FY 2012 totaled more than \$20 million. Overall purses increased slightly, from \$126.7 million in FY 2006 to \$129.5 million in FY 2012, an increase of 2.2 percent. The return of quarter horse racing generated \$4.1 million in purses during FY 2012.¹⁶⁴

f. Pari-Mutuels by Sector

Next, we discuss the pari-mutuel industry by sector. Two sets of reports were used for this analysis. One involved 2012 audited financial statements for each pari-mutuel license holder. They included detailed breakdowns of expenses and revenues. They are not normally available to the public. PMW agreed to make them available to us. Pari-mutuel operators are required to supply those audited financial reports on a yearly basis. We also reviewed annual reports from 1990 to 2012 that appear on the PMW website. These reports provide details as to purses paid, paid attendance, total handle and other items as well. The two reports cover different fiscal periods, and, as a result, the numbers sometimes do not match up.

Please note that Chapter III(A)(1) provides yearly performance and other key performance indicators for each sector.

Thoroughbred Racing

Thoroughbred racing is the dominant pari-mutuel sector in Florida, with the three tracks accounting for 61 percent of total Florida handle in FY 2012. Calder had the highest FY 2012 handle at \$207 million. Overall handle fell from \$789.2 million in FY 1990 to \$530.7 million in

¹⁶¹ Interview May 13, 2013 Joseph Quilty, Iowa Greyhound Association, Spectrum review of Pennsylvania Racing Commission Racing Reports.

¹⁶² Florida PMW, review of *Annual Reports*.

¹⁶³ Florida PMW, *Annual Report FY 2012 and Pennsylvania Gaming Control Board custom report*.

¹⁶⁴ Florida PMW, *Annual Report FY 2012*.

FY 2012, a decline of 33 percent while live handle fell even more, from \$170.5 million to \$78.6 million, a decline of 54 percent.¹⁶⁵

On a national level, handle losses were also significant. From CY 2001 to CY 2010, (CY 2010 was the most recent year data were available), total handle fell from \$10 billion to \$5.4 billion, a decline of 46 percent and live handle fell from \$1.8 billion to \$1 billion, a decline of 44 percent.¹⁶⁶

A Florida thoroughbred operator must run a minimum of 40 performances a year.¹⁶⁷ From FY 1990 to FY 2012, Florida thoroughbred performances fell from 348 to 327, a decline of 6 percent; paid attendance fell from 653,206 to 97,738, a decline of 85 percent. Purses increased from \$78.1 million to \$81.1 million, a rise of 16 percent.¹⁶⁸

The three thoroughbred tracks performed financially as a group much better than other sectors. They generated a combined operating profit of \$13 million for FY 2012. Much of the profit, \$10.6 million, came from pari-mutuel operations. Slot machines at Calder and at Gulfstream generated an operating profit of \$2.7 million. Cardrooms at the thoroughbred tracks had a gross operating profit of \$2.3 million.¹⁶⁹

Even Tampa Bay Downs, the one thoroughbred track in the state without a casino, generated operating income of nearly \$3 million. It currently ranks 12th out of 68 thoroughbred tracks in average daily handle although the figure has been declining in recent years. While its handle has held up well, its purses have not. It ranks 34th of 68 in average daily purses paid.¹⁷⁰ The Tampa Bay track is the only thoroughbred track in the country that competes with same-state racinos.

Average purses per race at Tampa Bay Downs in 2011-12 were \$15,769 – 42 percent below the combined Calder-Gulfstream average and 37 below the national average.¹⁷¹ While Tampa Bay continues to be a top-tier thoroughbred track, officials are concerned how much longer that may be with purses declining.¹⁷² As General Manager Peter Berube put it, “Florida sunshine can go just so far.”

¹⁶⁵ Florida PMW, review of *Annual Reports*.

¹⁶⁶ Spectrum analysis of Association of Racing Commissioners International, *Pari-Mutuel Racing report 2010*.

¹⁶⁷ Section 550.002 (11), Fla. Stat.

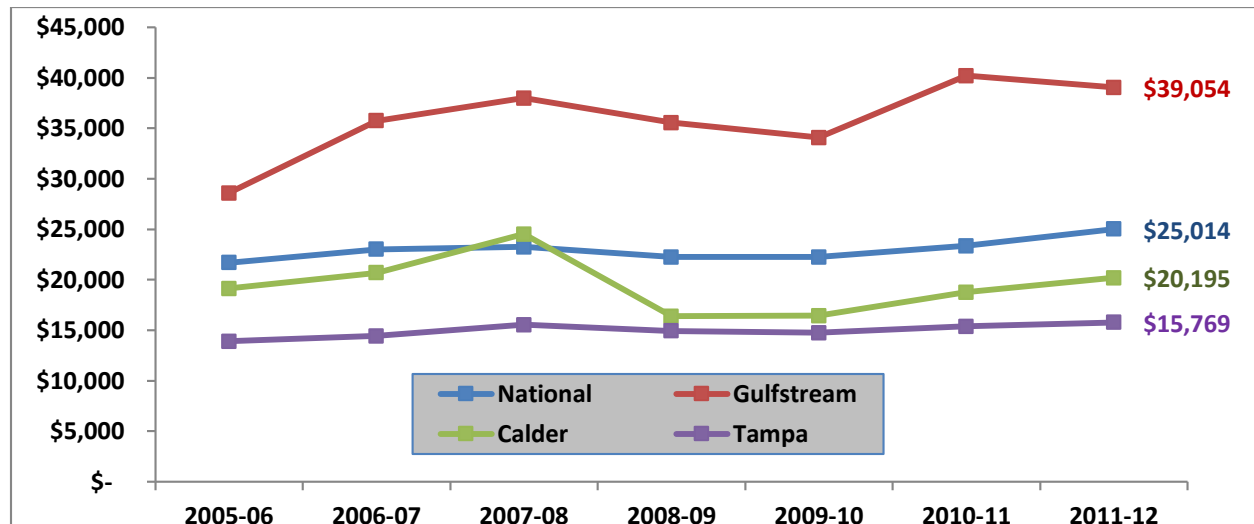
¹⁶⁸ Florida PMW, review of *Annual Reports*.

¹⁶⁹ Florida PMW, *Independent Auditor's Report for Pari-Mutuel Permitholders, FY 2012*.

¹⁷⁰ *Ibid.*

¹⁷¹ Data from, and interviews with, with Peter Berube, Tampa Bay Downs general manager, June 2013.

¹⁷² *Ibid.*

Figure 23: Average purse per race, Florida and national thoroughbred tracks, 2011-12

Source: Tampa Bay Downs

What has hurt Tampa Bay Downs is that it is unable to supplement its purses with casino revenue as other thoroughbred tracks in Florida and throughout the country have done. The competition is fierce for quality horses as the nationwide breeding program has collapsed, resulting in 23 percent fewer race-ready horses being available to compete. Tampa Bay Downs has seen its field size shrink by 12 percent in the past three years. Horse owners are taking their horses to tracks that offer higher purses, and that invariably means tracks that supplement their purses with casino revenue. “We are under siege,” Berube said.¹⁷³

Horsemen at thoroughbred racinos have much more leverage with regard to labor contracts than do other pari-mutuel sectors due to the law that says a contract must be negotiated with horsemen before a casino can open. Mike Couch, director of gaming at Gulfstream, said in an interview with Spectrum on May 16 that the law is unfair and results in Gulfstream paying out much more in GGR toward purses than the other sectors pay.

More than \$6.2 million, or 88 percent of Gulfstream’s operating profit, came from pari-mutuel operations.¹⁷⁴ No other pari-mutuel facility in the state comes close to that figure. In fact, most pari-mutuel facilities lose money on their pari-mutuel operations, and need cardroom and/or casino revenue to subsidize those losses. Couch said the reason Gulfstream is successful with its pari-mutuel operation is because it considers itself first to be a racetrack and then a casino.

The thoroughbred horsemen say that Gulfstream is a pari-mutuel success story that other pari-mutuel entities would do well to emulate. Gulfstream Park completed the 2013 winter race meet with a 20 percent increase in on-track wagering over the 2011-2012 race meet. Purses paid during the 2013 Gulfstream Park meet averaged more than \$411,000 daily. And \$658,000,000 was

¹⁷³ Ibid

¹⁷⁴ Ibid.

wagered on the Gulfstream Park signal outside of the state of Florida, or an average of over \$733,000 per race. California's Santa Anita, at \$622,000, was the next-highest in the country followed by New York's Aqueduct at \$508,000.¹⁷⁵

Harness Racing

Florida's sole harness track, Isle Casino and Racing at Pompano, accounted for 5 percent of total Florida handle in FY 2012. The Pompano track must run at least 140 performances a year but it can seek a one-time, 10 percent reduction from the 140-performance minimum. The harness track stopped charging an admission fee in 2002. In 2001, the last year it levied an admission fee, paid attendance was 9,908. In 1990, it was 565,216.¹⁷⁶

Harness handle fell from \$112.1 million in FY 1990 to \$48.1 million in FY 2012, a decline of 57 percent while live handle fell from \$14.1 million to \$4.4 million, a decline of 69 percent. On a national level, total harness handle from CY 2001 to CY 2010 fell from \$866 million to \$453 million, a decline of 48 percent and live handle fell from \$452 million to \$162 million, a decline of 64 percent. (CY 2010 was the most recent year available.)¹⁷⁷

The harness track is not required to have a contract with horsemen as thoroughbred tracks are required to do before a casino can open. The percentage of GGR to purses is much less than it is at thoroughbred tracks. In FY 2012, \$2.6 million of \$121 million in GGR went toward purses at Pompano. Gulfstream with a GGR of \$54.5 million put \$7.5 million of GGR into purses.¹⁷⁸

Joe Pennachio, president of the Florida Standardbred Breeders & Owners Association, told us in an interview on May 20, 2013, that track owners promised that 8 percent of GGR would go into purses when his group and others worked to support the 2004 statewide referendum that resulted in Pompano getting its casino. "It obviously never happened," he said. "We feel we were hoodwinked. And even worse, the track operator has done everything possible to discourage people from coming to the track. What's important to remember here is that if it were not for the pari-mutuel facilities, casinos would not be here."

Purses have actually declined slightly, one-half of 1 percent, from FY 2006 (the last full fiscal year that Pompano did not have a casino) to FY 2012.

We toured the Pompano facility on May 20, 2013. Only the ground floor of the racetrack was open. The facility is in a state of disrepair. According to Pennachio, management will close the grandstand area later this summer, which will force patrons to watch live races from a row of

¹⁷⁵ Florida Horsemen's Benevolent and Protective Association, custom report, May 22, 2013.

¹⁷⁶ Florida PMW, review of *Annual Reports*.

¹⁷⁷ Association of Racing Commissioners International, *Pari-Mutuel Racing 2010 and 2000*.

¹⁷⁸ Florida PMW, review of *Annual Reports*.

seats set up outside the casino. That places spectators by the turn as horses approach the finish line, making it difficult from that angle for them to see who wins.

Michael Tanner, executive director of the United States Trotting Association, said closing the grandstand will adversely affect live handle and give little incentive to patrons to go to the track to watch live racing. “Pompano could become the only track in the world where you watch the race 1/16 of a mile from the finish line,” Tanner said.

Pompano General Manager Rob Wyre said all options are being considered. He noted that the track was built in 1963, and it is too expensive to rehabilitate. In addition, there are safety issues relating to some of the windows on the upper floors, he noted.

The purse figures for Pompano that appear on the PMW website are inaccurate. Pennachio disputed the purse numbers that appear in the PMW annual reports. We relayed his concerns to PMW. We received an email from Leon M. Biegalski, Director of PMW, on May 16, 2013, in which the director acknowledged that the PMW purse amounts were overstated by several million dollars. PMW will be amending its annual report as it relates to Pompano for FY 2009-2012. Biegalski said in his email that PMW relies on figures provided to it by pari-mutuel operators. We have made the adjustments to the data, and our analysis reflects the adjusted numbers.

Quarter Horse Racing

Quarter horse racing involves American Quarter Horses that run a quarter-mile at speeds as high as 55 miles per hour. Quarter horse racing returned to Florida in November 2009 at Hialeah Park after an 18-year absence. Quarter horse racing accounted for less than 1 percent of total Florida handle in FY 2012. Quarter horse racing had 76 performances in FY 2012. It generated a live handle of \$1.7 million, total handle of \$2.1 million and purses of \$3.8 million. Almost all of the traditional quarter horse activity was at Hialeah, where the operator subsidized purses as part of its contract with horsemen.

Hialeah has already begun negotiations with the state to offer live thoroughbred racing, in addition to the quarter horse racing.¹⁷⁹ Obtaining the quarter horse permit made it possible for Hialeah to open a casino (scheduled for summer 2013) but Hialeah representatives say they want to do far more than just build a casino. Hialeah owner John Brunetti acknowledged that he is not “a fan of slot machine casinos” but noted that it afforded him an opportunity to bring back racing to Hialeah.¹⁸⁰

Eventually, Hialeah Park expects to convert the 200-acre property into a destination resort that will feature a \$112.5 million casino hotel, a \$75 million casino hotel, a \$119 million entertainment and convention complex, a \$210 million town center and retail district and a \$61.3 million parking garage. The total cost of the project is estimated to be \$842.9 million. Brunetti

¹⁷⁹ Interview with Hialeah owner John Brunetti and other Hialeah representatives, June 4, 2013.

¹⁸⁰ Ibid.

noted that racing will be integrated into the complex so that it will never become an afterthought, which he believes is the case at too many Florida pari-mutuel facilities.¹⁸¹

Steve Fisch, president of the Florida Quarter Horse Owners Association, said that Hialeah purses will total \$140,000 a day or \$5.6 million in FY 2013, 47 percent higher than it was in FY 2012, when Hialeah operated without a casino. Hialeah owner Brunetti explained in an interview with Spectrum on June 5, 2013, that live handle was so low the first three years that he had to pay almost the entire amount of purses himself from FY 2009 thru FY 2012. In FY 2012, Hialeah paid out purses of \$3.8 million. During the three-year period ending June 30, 2012, Brunetti said he lost nearly \$30 million as he had no cardroom or slot machine revenue to help him offset the loss.

Florida state law allows quarter horse racing to be imported only into Florida simulcast parlors while there is live racing at Hialeah. That is not an issue for the thoroughbreds since they race year-round. But it is a problem for the new quarter horse industry as the live meet is only 40 days. The lack of year-round simulcasting of quarter horses in Florida makes it difficult to attract new customers.¹⁸²

Barrel Racing

Another major issue for the quarter horse industry is PMW's racing permit granted to Gretna in Gadsden County for barrel racing. Fisch said the permit jeopardizes the future of legitimate quarter horse racing in Florida.

Barrel racing is conducted on an obstacle-type course that is often performed at rodeo and horse shows. Each horse is timed as it races around three barrels in separate, cloverleaf-type courses. The winner is the horse with the fastest time. No other racing jurisdiction has ever sanctioned such a pari-mutuel event. Gretna held its first race on December 1, 2011. Fisch's organization sued, arguing that the PMW decision made a mockery out of the state's pari-mutuel laws. An administrative law judge ruled on May 6, 2013, that PMW had no authority to issue a permit for barrel racing and that it had improperly created "a new species of horseracing."¹⁸³

With the permit, Gretna was able to establish a cardroom. And Gadsden County voters have approved a referendum that would allow it to have a casino. The state Constitution will have to be amended for that to happen, according to the Attorney General, as currently state law only permits racinos in Broward and Miami-Dade counties.

The Daily Racing Form reported that barrel racing represents an effort by permit holders to exploit the gambling opportunities in Florida presented by "a convoluted set of laws and

¹⁸¹ Ibid.

¹⁸² Interview Steve Fisch, President, Florida Quarter Horse Owners Association.

¹⁸³ State of Florida Administrative Hearings, Case No. 11-5796RU, Administrative Law Judge John Laningham, p. 55.

regulations” in Florida.¹⁸⁴ Wesley Cox, a spokesman for the North Florida Horsemen’s Association that represents the barrel riders, told us in an interview on May 14, 2013, that the administrative law judge decision will be appealed. He said the law is vague in its definition of a race. He acknowledged that the Gretna operator could not financially afford to build a traditional quarter horse race track so he turned to barrel racing.

Marc Dunbar, an attorney for Gretna, said his client would have had to have spent \$10 million to build a traditional 5/8 mile quarter horse track because of wetlands problems. It was prepared to build a \$3.5 million facility but the Florida Quarter Horse Racing Association refused to endorse the project so it then embraced barrel racing. “We believe that we will ultimately prevail,” Dunbar said.

Fisch notes that barrel racing requires substantially fewer horses and personnel than traditional quarter horse racing as conducted at Hialeah Park. The cost of erecting a barrel race course is minimal when compared with the several million dollars that would have to be invested to build a quarter horse track, he noted. Gretna offered purses of \$202,000 in FY 2012; Hialeah offered purses of \$3.8 million. Gretna had a live handle of \$31,000; Hialeah, \$1.6 million.¹⁸⁵ Another track, Hamilton Downs, has also received a license to operate barrel racing.

Greyhound Racing

Greyhound racing accounted for 30 percent of total handle in FY 2012. Total handle for the 13 facilities that ran greyhound racing fell from \$933.8 million in FY 1990 to \$265.4 million in FY 2012, a decline of 67 percent. Palm Beach Kennel Club had the highest handle at \$36.3 million; Melbourne Greyhound Park, the lowest at \$162,000. Live handle (live handle and total handle were the same in 1990) fell even more, from \$933.8 million to \$93 million, a decline of 90 percent. Purses fell from \$34.5 million to \$26.3 million, a decrease of 18 percent.¹⁸⁶

On a national level, from FY 2001 to FY 2010 (the most recent year for which data were available), total handle fell from \$2 billion to \$706 million, a decline of 65 percent and live handle fell from \$829 million to \$203 million, a decline of 76 percent. Performances fell from 4,242 to 3,336, a decline of 21 percent; paid attendance fell from 653,206 to 97,738, a decline of 85 percent.¹⁸⁷

Florida greyhound performances (a racing card of at least eight races) fell from 3,853 to 3,636, a decline of 6 percent. One of the reasons for the relatively small decline is because of the

¹⁸⁴Matt Hegarty, “Ocala Breeders' Sales Company plans Quarter Horse race Dec. 11,” *The Daily Racing Form*, October 25, 2012 <http://www.drf.com/news/ocala-breeders-sales-company-plans-quarter-horse-race-dec-11>.

¹⁸⁵ Florida Quarter Horse Association, custom report, May 24, 2013.

¹⁸⁶ Florida PMW, *Review of Annual Reports, FY 1990-2012*.

¹⁸⁷ Association of Racing Commissioners International, *Statistical Summaries, 2001-2010*.

90 percent rule. Pari-mutuel operators with cardrooms are required to conduct at least 90 percent of the live performances that were held the year before their cardrooms opened, which for many of them was 1996.¹⁸⁸

The Naples-Fort Myers greyhound track had to run 393 performances in FY 2012 to keep its cardroom license. Often, performances are run twice a day during the 190-day meet to comply with state law.¹⁸⁹ Track spokesman Isadore Havenick told us in an interview that his company does not want to eliminate racing but needs some relief from what he calls the “onerous” 90 percent rule. He noted that the situation was quite different in 1996 when greyhound racing was much more popular than it is today. Running so many races and performances results in the track sustaining a loss of more than \$2 million a year on its dog operations, he said, and forces it to offer lower purses, which adversely affects the amount of money wagered on simulcasting and the quality of dogs that race. Havenick said there is still a demand for greyhound racing in the Fort Myers-Naples region but not as “much as we are running.”

Repealing the 90 percent rule, or “decoupling,” could result in the closure of five to six greyhound tracks, according to operators we interviewed. Those facilities would still like to operate cardrooms, as they are profitable, but they cannot as current law states that a cardroom can only be operated at a licensed pari-mutuel facility that offers live racing. Top-tier tracks such as Naples-Fort Myers and the Palm Beach Kennel Club will benefit through higher simulcast revenue if other tracks were to close.

It is clear that pari-mutuel operations at greyhound tracks are loss leaders as the tracks sustained a combined operating loss from wagering on greyhounds of \$35 million. Only three tracks made a profit. Greyhound track cardrooms offset the loss with an operating profit of \$39 million.¹⁹⁰

“It is a dying sport,” said Michael Glenn, general manager of the Palm Beach Kennel Club, one of the country’s premiere greyhound tracks. “Decoupling (removing the requirement for minimum performances) will help us in the short run as we would run fewer races which, in turn, will lower our operating costs. Our simulcast revenue will also increase, but there just are not enough folks out there to come to the track and wager on these races. There is not any interest.” PBKC would shut down the dog track if it could, Glenn said.

Jamie Shelton, CFO of Jacksonville Greyhound Racing, agrees with Glenn. He said that no matter what efforts are made to prop up the sport, interest is not there. “We can see it by our live handle. The older folks are not being replaced,” he said. “There are just too many other things to do out there today. Watching a greyhound race is not at the top of most people’s agenda.”

¹⁸⁸ Section 849.086 (5 b), Fla. Stat.

¹⁸⁹ Florida PMW, *Annual Report FY 2012*.

¹⁹⁰ Florida PMW, *Independent Auditor’s Report for Pari-Mutuel Permitholders, FY 2012*.

Jacksonville has consolidated its operations. It has three greyhound permits, and runs all of them out of Orange Park. It shuttered its Jacksonville facility in March 2012, and, as the result of a declaratory statement from PMW, it was able to move its cardroom to a Jacksonville shopping center.¹⁹¹ The track operator requested a ruling from PMW before it built its new facility in Jacksonville. In effect, PMW sanctioned a form of decoupling, allowing a pari-mutuel facility to open without having to operate a track oval and offer live racing. PMW based its decision on the fact that section 550.475, Florida Statutes, “makes no reference to the existence of an actual track at the permitted location.” The Jacksonville permit was leased to Orange Park.

With the three permits, Orange Park operates year-round: 340 days and 417 performances in FY 2012. Shelton said the facility just about breaks even but he noted that it is just a matter of time before the losses on racing will become so large that Orange Park will have to close. Even slot machines would not help, as they would not compel people to bet on the dog races, he noted. Slot machines would prop up the business for a while but eventually the sport will die, he said.

Jack Cory, a lobbyist for greyhound owners, said the sport would not be dying if track operators would reinvest in their properties. He noted that some of them have let them deteriorate to the point where going to those tracks is unpleasant. He noted that the intent of the 90 percent rule was to preserve live racing by making sure that live racing had to be offered in exchange for the right to operate a cardroom or casino. “Let’s go back to the voters and see if they want to cut back on live racing,” Cory said in an interview with Spectrum on May 29, 2013. “We might even agree to reduce the numbers but there is no way we would agree to no live racing at all.”

As we have noted throughout this report, operators are looking for ways to reduce the costs of operating pari-mutuel events. Melbourne Greyhound track proposed running two-dog races with a two-kennel roster under the same ownership for its 2013 meet. The American Greyhound Association called the proposal “an affront to the greyhound owners and kennel operators in America who’ve raised, trained and invested in the development of greyhounds with the intent of competing in full fields (most preferably, eight entries per race), and to those fans who enjoy watching and wagering on such races.”¹⁹² In light of the opposition, Melbourne withdrew its petition for two-dog races.

Grey2K USA, an organization calling for the end of dog racing on humane grounds, frames the issue this way: Should the state “force a business to conduct one activity so that it may offer another?”¹⁹³ According to Grey2K, nearly two-thirds of the 1,199 licensed greyhound owners live out of state. As for humane issues, the organization claims that 8,000 greyhounds are kept in kennel

¹⁹¹ Petition for Declaratory Statement, Jacksonville Kennel Club, DS-2008-38, November 21, 2008.

¹⁹² National Greyhound Association, “Two-dog race plan condemned,” February 13, 2013. <http://ngagreyhounds.com/issue/january-february-2013/article/two-dog-race-plan-condemned>.

¹⁹³ Grey2KUSA, “Decouple Live Greyhound Racing,” <http://www.grey2kusa.org/pdf/DecoupleLiveGreyhoundRacingFL.pdf> (accessed May 23, 2013).

compounds in rows of small stacked cages. Dogs are kept in cages 20 to 23 hours a day. Nine cases of severe neglect have been documented at Florida dog tracks and kennels since 2004.¹⁹⁴ As of May 21, 2013, Florida greyhound tracks must report to the state the death of any racing greyhound that occurred at a track or kennel.¹⁹⁵

Jai Alai

The object of jai alai is to hurl the ball (pelota) against the front wall with the goal being that an opponent will be unable to return it. The game can involve doubles or singles. Games are 7 to 9 points. It used to be that as many as eight different teams would play. A losing team would go to the end of the bench.¹⁹⁶ Florida is the only state that continues to offer jai alai, which accounted for 3 percent of the state's total pari-mutuel handle in FY 2012.

Of all the pari-mutuel sectors, jai alai has sustained the steepest cuts in attendance and popularity. Since 1990, total handle has fallen 91 percent, live handle 96 percent, player awards 63 percent and performances, 63 percent. In 1990, 3.9 million people paid to watch the sport. In 2012, total paid attendance was 9,068.¹⁹⁷

The six jai alai operators suffered an operating loss for FY 2012 of \$25.6 million; \$21.6 million came from Ft. Pierce-Miami Jai Alai, whose auditor expressed concern whether the frontons could continue to stay in business. The slots at Miami Jai Alai may improve its fiscal situation.¹⁹⁸ From pari-mutuel operations, the jai alai sector sustained an operating loss of \$14 million. Cardrooms were able to generate an operating profit of \$1 million. Miami Jai Alai had the highest handle at \$6.6 million in FY 2012; Hamilton Jai Alai, the lowest at \$2.00.¹⁹⁹

The Miami fronton opened in 1926. Through the 1980s, business was brisk. The fronton was renovated and seating expanded from 7,000 to well over 13,000. But things changed as new forms of gambling became legal in 1960s and 1970s.²⁰⁰

Like other pari-mutuel sectors, jai alai is required to offer a minimum number of performances to keep its cardroom open. And the number depends on when the cardroom opened.

¹⁹⁴ Grey2K Florida Senate testimony, February 4, 2013
http://www.flsenate.gov/PublishedContent/Committees/2012-2014/GM/MeetingRecords/MeetingPacket_1997.pdf.

¹⁹⁵ Rule 61D-2.023, Fla. Admin. Code.

¹⁹⁶ Hamilton Jai Alai and Poker website, <http://www.hamiltondownsjaijai.com/> (accessed May 17, 2013).

¹⁹⁷ Florida PMW, *Annual Reports*, FY 1990-FY 2012.

¹⁹⁸ Florida PMW, *Independent Auditor's Report for Pari-Mutuel Permitholders*, FY 2012.

¹⁹⁹ Florida PMW, *Annual Reports FY 2012*.

²⁰⁰ Michael Mooney, "Echoes of a Dying Game," SB Nation, February 28, 2013
<http://www.sbnation.com/longform/2013/2/28/4036934/jai-alai-sport-in-america-miami>.

As noted in other pari-mutuel sectors, the 90 percent rule requires that live performances be equal to at least 90 percent of what was conducted the year before the cardroom opened. Performances in FY 2012 ranged from a high of 214 at Dania to 24 at Hamilton. A performance consists of eight games.

Last year, Ocala stretched the letter of the law when it hired two locals who played each other over and over to comply with the minimum-performance law. The operation drew protests from jai alai players in South Florida who picketed the fronton. They argued that having the same two players play was a gimmick to comply with the law. General Manager Brian Matthews told us in an interview on May 21 that he had no choice but to run jai alai the way he did because it loses so much money, adding, "We can't get anyone to watch it." According to the financial audited report submitted to the state for FY 2012, Ocala lost \$453,000 on jai alai. Part of that included a \$22,000 tax because Matthews elected to run only 41 performances instead of the 100 required by the state. "It was cheaper for me to pay the tax than it was to stay open," he noted. "If this was just jai alai, we would have been closed long ago."

Glenn Richards operates Hamilton Jai Alai and Poker. He operates pretty much the same way as Ocala, and acknowledged to us in an interview on May 8, 2013, that he is not happy about it. "People call it a joke, and I cannot disagree," he said. "It is either do this or shut the door. We cannot get anyone to watch this anymore." Hardly anyone is betting on it any more either. The total handle in FY 2012: two dollars.²⁰¹

Richards relies on a four-person jai alai roster. One is a father and his son, who both at one time played professionally at South Florida frontons. Richards must hold 100 performances over a fiscal year to retain his cardroom license, which opened in 2004. He is hopeful he can stay open until next year when the law will allow him to reduce his performances to 40.

For now, his four players play several times a day over a one-week period from March to June to meet the 100-performance requirement.

g. Critical Issues to Address

The thoroughbred sector is clearly the healthiest of the sectors but it too has sustained steep declines in live handle. What's keeping many of the other pari-mutuel facilities open is cardroom and slot revenue but eventually, if the downward trend continues, it is likely that even those revenues will not be enough to keep some greyhound tracks and frontons open. Many operators acknowledged to us that the prospect of possibly operating slot machines was enough for them to continue to stay in business and sustain significant losses. In FY 2012, the pari-mutuel operations at the greyhound tracks sustained operating losses of \$35 million, jai alai, \$14 million and harness, \$2.4 million. Only the thoroughbred tracks were able to realize an operating profit, \$10.6 million, from their pari-mutuel operations.

²⁰¹ Florida PMW, Annual Report, FY 2012,

One area that Spectrum's research indicates is in need of review is the law requiring a minimum number of performances. When the law was adopted in 1996, the intent was to assist pari-mutuels by providing a funding stream for purses. But operators say times have changed, and the current law prevents them from reacting to today's business climate. Many track operators across the country have reduced racing dates, which, in turn, lets them increase average purses and lower operating costs. In Florida, a number of operators are forced to run well over 300 performances a year.

At the same time, horsemen and dog owners stress that some operators have done all they can to destroy their pari-mutuel operations in an effort to convince the Legislature to adopt "decoupling," which would remove the requirement that a minimum number of performances be held.

Pennsylvania relies on a racing advocate to ensure that its racino operators do not ignore racing interests. Each year, the Pennsylvania Gaming Control Board compiles an annual benchmark report to measure the impact that slot machine revenues have had on the horse racing industry. Florida has no such review mechanism. Purses at the harness track, even with a casino, have actually declined, and horsemen say that casino operations overshadow the track. The track is considering shutting down the grandstand, which would make it the only track in the country where patrons watch the finish of a race one-sixteenth of a mile away from the finish line.

With respect to casinos, as we noted in this report, the thoroughbred and quarter horse sectors are treated differently when it comes to pari-mutuel requirements. This is true even within the horse racing sector itself. Thoroughbred and quarter horse operators, for example, must have a contract in place with horsemen before they can open a casino. There is no such requirement for harness or the other pari-mutuel sectors. Almost all racino states require that a certain amount of gross gaming revenue be set aside to enhance purses. There is no such requirement in Florida.

Another contentious issue that may come before the Legislature is how to define a race or a game. Jai alai and dog track operators have argued that the current law is vague enough that it allows them to run just two dogs in a race or have just two jai alai players play over and over. There is the barrel-racing issue that has drawn national attention. An administrative law judge recently ruled that PMW had no right to issue a barrel-racing permit for quarter horse racing.²⁰²

²⁰² State of Florida Administrative Hearings, Case No. 11-5796RU, Administrative Law Judge John Laningham.

8. Cardrooms

a. Nationally

Five states including Florida allow cardrooms that are not inside a casino. Typically, cardroom games are restricted to poker and poker variants, although Washington began allowing cardrooms in 1997 to offer blackjack.

It is difficult to compare cardroom performance in Florida with cardrooms in other states because Florida is the only state that restricts its cardrooms to pari-mutuel facilities that, for the most part, are racing-only operations. Other states such as Washington and California allow their cardrooms in standalone facilities. Montana does not provide any data. Minnesota has only one cardroom.²⁰³ Because of the differences from state-to-state in cardroom operations, the American Gaming Association stopped collecting revenue numbers for cardrooms effective with its 2009 annual *State of the States* report.

We tracked performance data for California, as its cardroom business model is the closest to Florida's. California had 119 cardrooms in FY 2002. In FY 2007, the number fell to 92.²⁰⁴ Despite the drop-off, its gross receipts increased from \$563 million to \$794 million, an increase of 46 percent. During the same time period, Florida's gross receipts increased from \$2.8 to \$54.2 million, a nearly 17-fold increase.

b. Florida

The first Florida cardrooms, which are restricted to poker and dominoes, opened on January 1, 1997. While dominoes is a permitted game, most facilities do not offer it. Palm Beach Kennel Club said it stopped offering it after months went by and no one played the game. By the end of the first fiscal year, nine cardrooms were operating.²⁰⁵ Gross receipts, or the amount received by the cardroom from players, totaled \$2.2 million that first year. At that time, the winnings of any player in a single round, hand or game could not exceed \$10. Players at a five-handed seven-card stud table would simply put in \$2 each and all betting and raising would cease. The dealer simply dealt the rest of the hand face up. A cardroom could only operate two hours prior to post time and up to two hours after the last pari-mutuel event. The state established a 10 percent tax on gross receipts, a rate that continues to this day. Additionally, each operator must pay cardroom table fees annually in the amount of \$1,000 for each table to be operated.²⁰⁶

²⁰³ 2008 *State of the States*, p. 35.

²⁰⁴ *State of the States*, 2004-2008.

²⁰⁵ Florida PMW, *Annual Report, FY 1998*, p. 3.

²⁰⁶ Florida PMW, *Annual Report, FY 2012*.

Poker in Florida began to increase in popularity in 2003, when the Legislature amended the law to enable the poker pot to exceed \$10, but players could still not bet more than \$2 with any given action. Up until then, poker gross receipts had not increased much at all but they soared from \$2.8 million in 2003 to \$18.5 million in FY 2004. With more venues added, the figure continued to rise by double-digit percentages through 2009 when it totaled \$102 million. In FY 2012, it reached \$131.5 million. The change that made Florida a major poker playing state was the removal of all betting limits as of July 1, 2010. Today, there are 24 cardrooms. In 2003, there were only 10. Other cardroom rule changes that increased the profitability of cardrooms included a provision that also took effect July 1, 2010, that increased their hours of operation to 18 hours during the week and 24 hours on weekends.²⁰⁷

The cardroom law was created to boost operations at pari-mutuel facilities. They had to be at a track or jai alai fronton. At jai alai and greyhound facilities, 4 percent of cardroom gross receipts are used to fund purses and player awards; the figure is 50 percent at horse race facilities.

But with opening of Bestbet in Jacksonville in February 2012, Florida had its first off-track betting parlor. PMW made it possible for that to happen when it issued a declaratory statement to allow pari-mutuel businesses to operate a separate cardroom and simulcast parlor if the license holder closed an existing facility and opened a poker room in the same county and within 30 miles of the old one.²⁰⁸ Jacksonville Greyhound Racing Inc. closed its Jacksonville track in 2009 but retained its license and transferred its racing dates to nearby Orange Park, which it also owns. Jacksonville was then able to transfer its cardroom license to the off-site location in Jacksonville, and establish the biggest cardroom in the state of Florida, without having to build a track oval. Geographical constraints make it difficult for other such license transfers to occur.²⁰⁹ But we note that Palm Beach Kennel Club acquired an inactive jai alai permit and then converted it into a greyhound permit. At issue is whether it can now operate a cardroom from a remote location as Jacksonville Racing has done.²¹⁰ The matter is currently before the courts.

Palm Beach Kennel Club had the highest cardroom receipts in FY 2012 at \$11.4 million; Hamilton Jai Alai and Poker the lowest at \$596,000.²¹¹ Palm Beach Kennel Club Manager Noah Carbone, in a May 16, 2013, interview said the rule changes have made Florida one of the top poker venues in the country. He said before the rule changes, professional players from Florida

²⁰⁷ Ibid.

²⁰⁸ Roger Bull, "Jacksonville Kennel Club to open poker room near Regency Square mall," *The Florida Times-Union*, June 28, 2011 <http://jacksonville.com/news/metro/2011-06-28/story/jacksonville-kennel-club-open-poker-room-near-regency-square-mall>.

²⁰⁹ Interview May 21 with Gene McGee, lobbyist for Jacksonville Racing Inc.

²¹⁰ Interview May 18 with PBKC officials.

²¹¹ Ibid.

would travel to Atlantic City and Nevada to play poker. Now, they stay here, he said. Further, many tourists are also playing now that the table limits have been removed.

Carbone said he would like to see the state remove the requirement that cash cannot be placed on a poker table. The law currently requires that players use only chips. He believes that relaxing the cash rule will increase profits for the cardrooms. The cardrooms have become so profitable that they have enticed new pari-mutuel operations to open and have resulted in still others continuing to remain open even though their pari-mutuel activity generate substantial losses, as we have noted throughout this report.

For example, the greyhound sector cardrooms generated an operating profit in FY 2012 of \$38.8 million while their pari-mutuel activities had an operating loss of \$35 million. Daytona Beach Kennel Club had the highest cardroom operating profit of \$6.4 million. All but one of the greyhound tracks had cardroom operating profits.²¹² The racing sector cardrooms also generated an operating profit of \$2.6 million.²¹³

Some operators, such as Jamie Shelton, the CFO of Jacksonville Greyhound Racing, noted though that cardroom revenues have begun to level off across the state. In an interview with Spectrum on May 30, 2013, Shelton said that it is unrealistic to expect cardroom revenue to continue to subsidize pari-mutuel operations. At some point, he noted that there will come a point where the cardroom profits cannot cover the pari-mutuel losses. "It is just a matter of time," he said.

FY 2013 data show that cardroom revenue has begun to decline at many facilities. We compared the 10-month period ending April 30 with the previous year: Calder was off by 17 percent, Tampa Bay Downs, 14 percent and Pensacola Greyhound track, 10 percent. Thirteen of the 24 cardrooms associated with live racing sustained declines.²¹⁴ Should these downward trends continue, the ramifications for the pari-mutuel operations could be ominous.

9. Charitable Bingo

Florida's bingo statute authorizes the conduct, handling of proceeds and limitations of bingo games by charitable organizations. All charitable organizations must meet the state's statutory requirements as well as be qualified as an exempt 501(c.) organization under the federal Internal Revenue Code.

Florida's bingo laws require that all proceeds from the conduct of the bingo games be donated to charitable organizations, less actual business expenses for the operation, conduct and

²¹² Florida PMW, *Independent Auditor's Report for Pari-Mutuel Permitholders, FY 2012*.

²¹³ Ibid.

²¹⁴ Review of PMW pari-mutuel wagering reports.

playing of bingo. The statute strictly prohibits the net proceeds from bingo games from being used for any other purpose. For more detail on the regulatory aspects of bingo, see Chapter II (D)(1)(c).

Bingo is not regulated by the State of Florida. However, municipalities and/or counties that permit bingo have their own ordinances that govern its operation. Most municipalities require a business tax license, or occupational license, to conduct bingo. The licenses are issued annually and require copies of IRS financial statements.

Spectrum interviewed charitable bingo owners/operators, a bingo industry publisher as well as bingo equipment distributor executives in an effort to assess the size and state of charitable bingo in Florida.

In Florida, charitable bingo is conducted by charitable organizations on the premises of the qualified organization (such as a VFW hall, Elks Club, church, etc.) or at “bingo halls” that lease their premises to a charitable organization. The state statute also provides for a condominium association, a cooperative association, a homeowners’ association or a mobile home owners’ association to conduct bingo provided that any net proceeds after paying prizes and deducting operating expenses are donated to a qualified charitable organization.

Bingo halls and charitable organizations that utilize “hall-for-hire” arrangements must meet all state statutory requirements, including a minimum one-year lease agreement at a reasonable rental cost. Lease arrangements vary and often include “rent per session” or percentage of sales agreements.

Some bingo halls have lease arrangements with one “lead” charitable organization while others lease the premises to multiple qualified organizations. For example, Bingo Magic of Lake Worth, in Greenacres, has a “lead” charity lease arrangement with the Department of Florida Jewish War Veterans of the United States of America, and Bingo at Four Corners, in Pompano Beach, has lease agreements with 20 qualified charities with each charitable organization arranging to conduct a bingo session at the bingo hall on a scheduled day or night.

All charitable bingo conducted in Florida is run by volunteers who are members of the charitable organizations. In the bingo halls we observed, the facility’s owner/operator and any other compensated employees are paid by revenues derived from the facility’s food concessions.

Since bingo is not regulated by the State, the statewide total net proceeds from bingo games that is donated to charity is not quantifiable. Several bingo publications and/or websites list the available bingo games throughout the state; however, most of the published lists we researched were not inclusive or current. Spectrum estimates that there are currently between 300 to 400 bingo active operations in Florida.

Based on our interviews with bingo owner/operators as well as others associated with charitable bingo in Florida, it is apparent that statewide participation in charitable bingo is trending significantly downward. The number of available bingo locations is dwindling and participation is rapidly decreasing. For example, daily attendance at Bingo at Four Corners is down from a

highpoint of over 400 bingo players per day in the 1990s to an average of approximately 100 players per day currently. Historically, the amount of revenues received by charities from this bingo hall has gone from \$30,000 to \$50,000 per month in 1995 to approximately \$10,000 a month currently. In Palm Beach County, the number of bingo halls in has decreased from six to two since over the past decade. Moreover, the general increase in rent and fixed operating expenses paid by bingo hall operators for their premises continues to rise and has had a negative effect on net proceeds.

Based on our research, the downward trend in bingo in Florida is attributable to several factors including:

- Overall downturn in the national economy
- Competition from other forms of gaming including casinos, racinos and lottery
- Competition from high-stakes bingo conducted at tribal gaming locations
- Statutory-limited jackpot prizes of \$250 maximum
- Aging demographic of bingo players
- Statutory limitations preventing more progressive games
- Weather-related (hurricanes) events
- Proliferation of adult arcades and Internet cafes

Charitable bingo in Florida, as currently sanctioned, is increasingly less competitive. As each new form of gambling has been introduced – legal and otherwise – bingo revenues continue to decline. Those associated with bingo in Florida said the downward trend in bingo participation is multifaceted but pointed to the fact that bingo is unable to compete with the costly marketing efforts and giveaways of Indian casinos, pari-mutuel operators and high-stakes tribal bingo facilities. Most bingo players live fairly close to the bingo location, and in the regions with other forms of gaming located nearby, the revenue impact is most pronounced.

Bingo distributors we interviewed agreed with the observation that an overall downward trend due to competition from various other forms of gaming and the outdated \$250 statutory limit on jackpot prizes. They pointed to Miami-Dade and Broward counties as prime examples of where competition from the opening of racinos has substantially adversely affected bingo participation. For example, the number of bingo locations in Broward County has shrunk from eight to one since racinos have opened.

Florida's bingo operators indicated that the state's players tend to be older and are dying at a significant rate. Many are senior citizens who no longer drive or feel comfortable going out in the evening. These one-time regular bingo players now have expanded gaming options nearby and choose to frequent these facilities, which may offer bus transportation to casinos and/or racinos. However, the introduction in the 1990s of hand-held "card-minders" that automatically mark dozens of cards instantly has allowed older and/or handicapped bingo players to keep up and has leveled the playing field for many seniors and disabled patrons.

In Florida, the downward trend in net bingo proceeds directly impacts the charitable organizations intended to benefit from this activity. However, those associated with bingo interviewed by Spectrum all emphasized that bingo and expanded gaming can coexist if bingo is allowed to offer the right jackpot prizes and game content. Most agree that bingo, unlike other gaming options, is “a social thing” that people play with friends and relatives. Bingo is considered “social or soft gaming” that distinguishes it from harder forms of gaming such as casinos or pari-mutuel gaming.

Indeed, numerous published reports, including a recent *Wall Street Journal* article,²¹⁵ point to a renewal of bingo in the United States. Progressive approaches that include new technological advances, coupling bingo with other entertainment amenities, linked jackpots and higher prize offerings have resulted in more bingo participation by younger players and college students. Some of these innovative practices range from bingo being offered in bowling alleys and in venues that offer alcoholic beverages to specialized offering such as “hip-hop” and “cosmic” bingo. These newer, “hip” versions of bingo have given rise to younger patrons, particularly among the Hispanic population in South Texas, Arizona and California. Also noteworthy is a new approach in Illinois, where legislation has been introduced to allow bingo on hand-held devices in bars and restaurants.

The bingo equipment distributors we interviewed indicated that bingo participation across North America has been trending downward but provided several particular examples of upward trends in states where recent progressive statutory reforms have been implemented. For example, in Virginia and Minnesota, electronic pull-tab bingo and other newer game offerings have resulted in an increase in participation rates. Other progressive reforms, such as in Ontario, Canada, where new regulations provide for splitting proceeds between the bingo owner/operators and charities has resulted in significant upward trends in overall proceeds.

In several other states, the proliferation of Internet/sweepstakes cafes has adversely affected traditional bingo participation. Tim Stewart, President and CEO of Bingo King, a worldwide bingo equipment distributor, estimates that gross sales in states such as Ohio and California where Internet cafes have spread have declined more than 20 percent.

In Florida, the recent enactment of legislation that bans Internet cafes and adult arcade has adversely affected some bingo operators in the state who also had adult arcade games on their premises. The bingo halls we visited that previously had operational adult arcade games took the games out of play in order to comply with the new law.

The bingo operators with arcade games had previously offered prizes that were essentially free credits for regular bingo play. Many traditional bingo players would arrive well before the scheduled start of regular bingo and play the arcade games hoping to win free credits (such as

²¹⁵ Julie Jargon, “How Do You Spell Hipster? It Could Be B-I-N-G-O,” *The Wall Street Journal*, Page A1, April 10, 2013 <http://online.wsj.com/article/SB10001424127887324883604578398973682460716.html>.

“bingo bucks”) toward the cost of bingo cards for that day. It was also pointed out the extra time spent in the bingo hall usually resulted in the patron purchasing food or beverages at the hall’s concession. Now, bingo players have little incentive to arrive early because there are no “gaming activities” until the traditional bingo game starts. The loss of the adult arcade games in bingo halls have driven many bingo players to casinos and racinos where gaming is basically around the clock.

The legal challenges to the new Florida Internet cafes and adult arcades prohibition are currently ongoing and the final remedy is unclear at this time. Local law enforcement authorities now have enhanced tools to enforce the new law and recent published reports have documented considerable law enforcement efforts throughout every part of the state.

Gale Fontaine, President of the Florida Arcade and Bingo Association, said her trade group currently has about 215 members and has been losing bingo members steadily over the past decade. With all the recent developments regarding arcade games, she said the organization has over 50 new arcade members that joined this year. The connection between bingo and adult arcades is quite prominent with many bingo hall owners/operators also in the arcade business or having arcade games within the bingo hall itself.

Michael Wolf, the Bingo Association’s legal counsel, said the group has filed a lawsuit seeking to halt enforcement of the new law in regard to adult arcades. He said the same types of games are in bowling alleys and children’s arcades and the law is being enforced discriminatorily against the adult arcades.

In regard to the new law’s effect on traditional bingo, Dennis Conroy of *Bingo Bugle*, a monthly publication distributed in metro markets throughout the United States (including several Florida editions), pointed out that the new law may be a positive development for bingo in Florida. He said he it is likely that there will be an increase in applications for traditional bingo game operations due to the new law and the end result would be an increase in overall bingo revenues.

Florida also has one of the nation’s most prominent high-stakes Indian bingo markets. In fact, most point to Florida’s Seminole Classic Casino in Hollywood to be the birthplace of high-stakes Indian bingo. The Seminole Classic Casino is located across the street from the Seminole Hard Rock Casino. The one-story building started as a high stakes bingo hall about 30 years ago; however, the facility has slowly been transformed mostly into a slots-heavy casino with only about 15 percent of the gaming floor still devoted to bingo. On a recent tour of the Seminole Classic Casino, Spectrum observed that the bingo room that once had over 1,500 seats is now down to about 400 seats. Seminole Gaming advised Spectrum that its bingo revenue for 2012 was \$4.1 million,²¹⁶ continuing a steady decline from \$24.6 million in 2001.

The Miccosukee Tribe of Indians of Florida, located in Miami, operates a 1,000-plus seat High Stakes Bingo Hall within its Resort & Gaming complex. The facility operates daily bingo games from 9 a.m. to 11 p.m. and has extensive bus service to the facility from throughout the

²¹⁶ Bingo is currently offered at the Seminole Classic and Seminole Brighton casinos.

greater Miami-Dade area. The bingo hall advertises over \$35,000 in daily bingo jackpots and has a large email promotion system that caters to regular bingo players.

Most observers agree that Florida's state-sanctioned model of charitable bingo is good for Florida, in that it provides needed funding for the state's many charitable organizations. Many of the bingo hall owner/operators have a genuine connection to the charitable organizations they help support. As Chris Thomas, owner/operator of Bingo Magic in Lake Worth, said for the system to work you have to be "in your community" through the charitable organizations that bingo helps to support.

Unlike the other forms of gaming available in Florida, bingo is distinctive in that it is truly a "social thing" that players often enjoy with friends and relatives. Its traditional role in charitable organizations is well documented in the state. Policymakers and stakeholders need to closely examine the role bingo plays in Florida so it can fulfill the intent of the original enabling legislation.

10. Lottery

a. *Nationally*

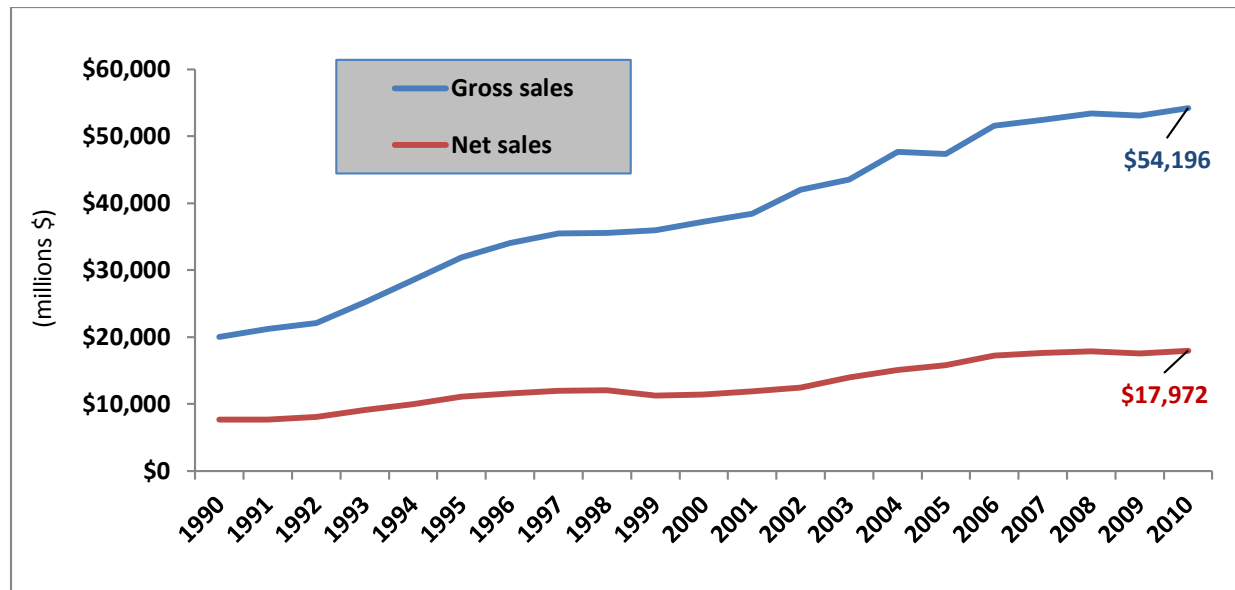
The first modern state lottery began in New Hampshire in 1964.²¹⁷ A large number of states began introducing lotteries in the 1980s, and currently, the only states without a lottery are Alaska, Alabama, Hawaii, Mississippi, Nevada, Utah, and Wyoming (although Wyoming in March 2013 enacted lottery legislation). By 2012, the Florida Lottery ranked third in the nation, behind New York and Massachusetts, in total sales revenue (FY 2011).²¹⁸ Each of these states had net receipts (total sales minus prizes paid and administrative costs) of over \$1 billion.²¹⁹ The following chart shows the trend in US lottery sales between 1990 and 2010, in nominal dollars. Gross sales (handle) represents total lottery sales for all states; net sales represents gross sales minus prizes paid out and administrative costs, or the net amount of revenue for the states. As the chart shows, the net revenue to states has increased modestly over this period.

²¹⁷ Charles T. Clotfelter and Philip J. Cook, "On the Economics of State Lotteries," *Journal of Economic Perspectives*, vol. 4, 1990, p. 107.

²¹⁸ Teresa Markle La Fleur, Byron la Fleur, *La Fleur's 2012 World Lottery Almanac*, p. 259.

²¹⁹ Douglas M. Walker, *Casinomics*, 2013), p. 68.

Figure 24: US lottery sales, 1990-2010



Source: US Census Bureau, *Statistical Abstract*, various years. For fiscal years.

As shown in the chart, lotteries raised almost \$18 billion for state governments in 2010. Lotteries are very popular among politicians because they are often viewed as a “voluntary tax.” That is, even though lotteries represent a relatively high tax rate on spending, citizens can easily avoid the tax simply by not purchasing lottery tickets.

Lotteries are, by far, the most profitable form of legalized gambling. For each \$1 ticket sold, the state keeps approximately 50 cents as “net revenue.”²²⁰ Roughly 10 to 20 cents is directed to administrative costs, and the remainder is paid out in prizes. Based on the data in the chart above the proportion of net revenue to states was roughly 40 percent in 2010 (over \$50 billion in gross sales and about \$18 billion in net revenue).

Despite the benefits touted by the lottery’s proponents, the lottery – like other forms of gambling – has its critics. A long-running criticism of lotteries is that the revenues tend to come disproportionately from lower-income individuals. As such, the lottery is a “regressive tax.”²²¹ In addition, studies have found that the benefits from lottery funded educational initiatives tend to accrue to higher-income individuals.²²² When combined with the tax effect, this compounds the

²²⁰ Thomas A. Garrett, “The Leviathan Lottery? Testing the Revenue Maximization Objective of State Lotteries as Evidence for Leviathan,” *Public Choice*, vol. 109, 2001, p. 104.

²²¹ Charles T. Clotfelter and Philip J. Cook, “On the Economics of State Lotteries,” *Journal of Economic Perspectives*, vol. 4, 1990, p. 112.

²²² Ross Rubenstein and Benjamin Scafidi, “Who Pays and Who Benefits: Examining the Distributional Consequences of the Georgia Lottery for Education,” *National Tax Journal*, vol. 55, 2002.

regressivity of the lottery. While critics have termed state lotteries “a tax on the stupid”²²³ due to their unfavorable odds, lottery play remains the most broadly popular and regionally widespread gambling activity both nationally, where 53 percent report playing the lottery within the past year,²²⁴ and within Florida, where 60 percent of residents report having played the lottery at least once in their lifetimes and 44 percent say they have played within the past year.²²⁵

A 2005 report from the Brookings Institution notes the following:

A number of studies have investigated the demographic predictors of lottery gambling and have tended to find that, on average, state lottery products are disproportionately consumed by the poor. . . . The data reveal the following general trends. First, lottery gambling extends across races, sexes, and income and education groups. Second, black respondents spend nearly twice as much on lottery tickets as do white or Hispanic respondents.

The average reported expenditure among blacks is \$200 per year, \$476 among those who played the lottery last year. Black men have the highest average expenditures. Third, average annual lottery spending in dollar amounts is roughly equal across the lowest, middle, and highest income groups. This implies that on average, low-income households spend a larger percentage of their wealth on lottery tickets than other households. Interestingly, the regressivity of the state lottery appears to vary across lottery products.

Low-income lottery players are more likely than other lottery players to bet on instant games. Among NORC survey respondents who report playing the lottery, 38 percent of those in the lowest-income third report that they purchased an instant ticket the last time they played the lottery, compared to 27 and 19 percent of players in the middle and highest-income third. Higher-income players are more likely to have purchased a ticket on a jackpot lotto game - 56 percent of those in the highest-income third, 49 percent in the middle group, and 39 percent in the lowest-income third.

The NORC survey also asks respondents about their favorite state lottery game. Instant games are the most common reported favorite among those in the lowest-income third, while jackpot lotto games are by far the most common stated favorite among those in the higher income categories.²²⁶

Spectrum has asked the Florida Lottery for ZIP Code and other information related to examining both the proportion of lottery purchases in poor neighborhoods, as well as the proportion of tickets sold to non-Florida residents. As of this writing, Spectrum has not received a response.

²²³ James Walsh, *True Odds: How Risk Affects Your Everyday Life*, 1996.

²²⁴ *2013 State of the States*.

²²⁵ Robert J. Rotunda, Terry L. Schell, “Gambling and Problem Gambling Prevalence Among Adults in Florida: A 2011 Replication,” University of West Florida, January, 2012.

²²⁶ Melissa Schettini Kearney, “The Economic Winners and Losers of Legalized Gambling,” Brookings Institution, February 2005, p. 16 <https://www.documentcloud.org/documents/266971-the-economic-winners-and-losers-of-legalized.html>

Another criticism of lotteries is that, despite the fact that they are often earmarked for programs such as education, it is not clear that the overall level of funding for such programs actually increases. For example, politicians could reduce other types of education funding as lottery contributions to education increase. Thus, the lottery may result in a net increase or decrease to educational funding in a state.

A variety of research has examined the demographics of lottery players. Clotfelter and Cook have provided what is regarded as the most important economic research on lotteries. They find that “the most active 10 percent of [lottery] players account for 50 percent of the total amount wagered, while the top 20 percent wager about 65% of the total.”²²⁷ In addition, Clotfelter and Cook (p. 112) summarize:

- Men play more than women
- Adults play more in their middle years than when young
- Catholics play more than Protestants
- Lottery play falls with formal education
- 46 percent of laborers play; 25 percent of advanced professionals play
- Retirees and students play least of all
- Hispanics in the west and blacks in the east play more than non-Hispanic whites

The Ipsos Reid study for the Florida Lottery discusses demographics specific to Florida lottery players. The study includes a variety of survey questions aimed at understanding people’s opinions of the lottery and attitudes toward gambling in general. While 42 percent of respondents agreed that “lotteries are an innocent form of entertainment,” 19 percent indicated that they were “morally opposed to gambling.”²²⁸ This finding reflects the general differences in opinion that exist across the states.

Overall, state lotteries are the most common forms of legal gambling in the United States. In aggregate, lotteries generate far more income for states than any other form of gambling. Lotteries also provide employment and economic benefits, both from direct employment of approximately 440 employees²²⁹, as well as assistance to a large and diverse network of retailers throughout the state. The Florida Lottery provides local sales through a network of 13,138 retail agents who receive a 5 percent commission on ticket sales.²³⁰ This sales network operates through

²²⁷ Charles T. Clotfelter and Philip J. Cook, “On the Economics of State Lotteries,” *Journal of Economic Perspectives*, vol. 4, 1990, p. 111.

²²⁸ Ipsos Reid, “2012 General Population Segmentation: Final Report, April 30, 2012 http://flalottery.com/exptkt/FloridaSegmentationFinalReport_30April2012.pdf.

²²⁹ Florida Lottery, Lottery Insider <http://www.lotteryinsider.com/lottery/florida.htm>.

²³⁰ Teresa Markle La Fleur, Byron La Fleur, *La Fleur’s 2012 Lottery Almanac*, p.66.

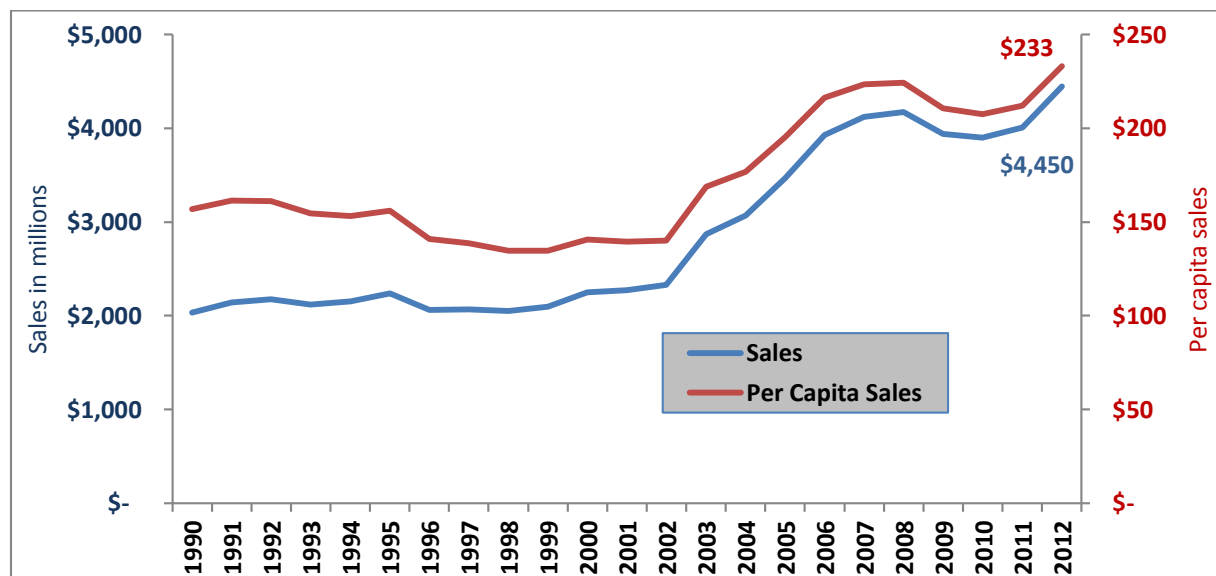
a wide variety of establishments including convenience stores, gas stations, bars, restaurants, grocery stores, drug stores, liquor stores, newsstands, etc. Spectrum research in Massachusetts demonstrates the importance of lottery sales to the continued operation of these many small businesses providing entry level employment throughout the state.²³¹

b. Florida

Florida is one of many states that has adopted lotteries that earmark the revenues for special purposes, such as education. The Florida Lottery contributed over \$1.3 billion to the state’s Educational Enhancement Trust Fund during the 2012 fiscal year and \$24 billion since the lottery’s inception in Florida in 1988. Lottery revenues are used for scholarships for college students, construction and renovation on college campuses and at K-12 schools in the state.²³² Many states have similar programs that use earmarked lottery funds.

As noted above, the Florida Lottery is one of the highest selling in the country. The following chart illustrates Florida lottery gross sales and per capita sales from 1990 through 2012.

Figure 25: Florida lottery sales, 1990-2012



Data source: Florida Lottery, Florida Office of Economic & Demographic Research; for fiscal years

²³¹ Spectrum Gaming Group, *Facing The Lottery’s Future*, December 4, 2012; amended January 8, 2013 <http://www.masslottery.com/lib/downloads/leadership/pdfs/SpectrumGamingGroupFinalReport12-4-12Ammended.pdf>.

²³² Florida Lottery, “Dollars to Education” <http://www.flalottery.com/education.do> (accessed May 9, 2013).

11. Retail Gaming

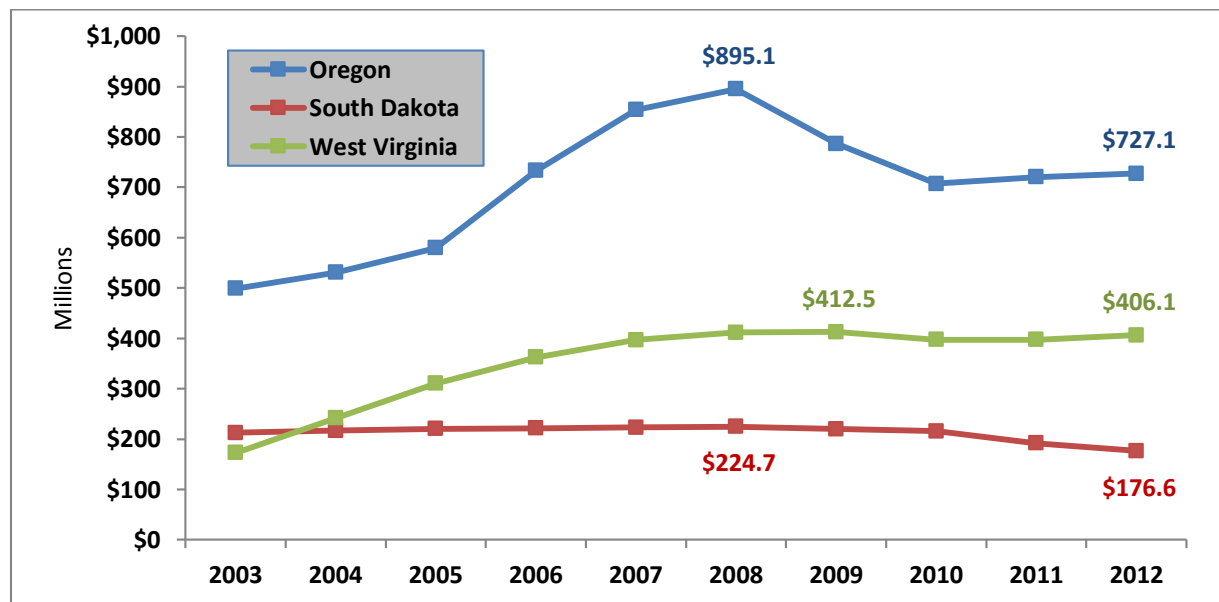
Seven states currently authorize what Spectrum terms “retail gaming,” which is the placement of a small number of electronic gaming devices (typically 5 to 10) in authorized retail locations – often liquor-licensed establishments. Electronic gaming device (“EGD”) is a catchall term for slot machines, video lottery terminals, video poker machines, electronic bingo game, or any other slot-like gambling machine. At year end 2012, EGDs operated in 12,042 locations in the seven states.²³³ In the five states where full-year data were reported for fiscal year 2012, the retail EGDs generated \$2.3 billion in gross gaming revenue.

In Illinois, Louisiana, Montana and Nevada, the retail gaming programs are regulated by their respective gambling control boards/agencies. In Oregon, South Dakota and West Virginia, the respective state lottery operates the retail gaming programs. The states use a variety of taxes, revenue sharing, franchise fees and/or device fees to collect revenue from the EGDs. The host establishments receive a share of the revenue based on a formula established by the state.

Retail gaming programs are seen as successful from a revenue standpoint because of their wide geographic distribution and convenience. However, they are controversial because the EGDs may be too convenient for those with, or susceptible to, gambling problems and because they may be in plain view of children.

Following are the revenue results – in net sales (i.e., gaming revenue) – for the three retail gaming programs operated by state lotteries:

Figure 26: Oregon, South Dakota and West Virginia lottery retail gaming revenue, 2003-2012



Sources: Oregon, South Dakota and West Virginia lotteries; for fiscal years

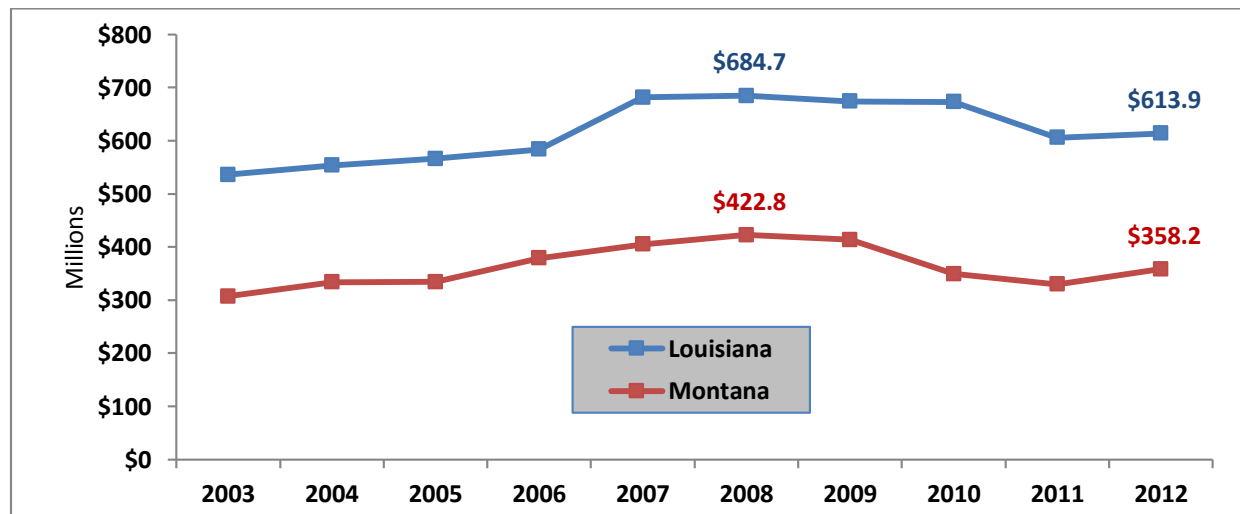
²³³ 2013 State of the States, p. 4.

Retail gaming is a crucial part of the three lotteries' total revenue: In FY 2012, Oregon Video Lottery net sales accounted for 69 percent of total lottery sales; the Video Lottery accounted for 88 percent of sales in South Dakota; and the Limited Video Lottery ("LVL") net sales accounted for 26 percent of total lottery sales – but 52 percent when excluding the racetrack casinos, which are also overseen by the Lottery.

The Oregon Video Lottery permits six EGDs in authorized liquor-licensed establishments and 10 at racetracks. The South Dakota Lottery permits 10 EGDs in liquor-licensed establishments. The West Virginia LVL permits six EGDs in liquor-licensed establishments and 10 in fraternal organizations.

As noted, four states authorize retail gaming that is independent of the lottery. Nevada does not report retail gaming revenue, and Illinois, which launched its program in September 2012, has yet to report a full year of results. The following chart provides the retail gaming revenue for Louisiana and Montana:

Figure 27: Louisiana and Montana retail gaming revenue, 2003-2012



Source: Louisiana and Montana gaming control boards/agencies; for fiscal years

In some states, enterprising businesses have attempted to create a casino-like environment by putting multiple authorized EGD locations side by side. In Oregon, residents and legislators have become concerned about a concentration of 12 such establishments that form “lottery row” on Hayden Island, near Portland. “For years they’ve watched a group of legitimate restaurants morph into ‘lottery row,’ a strip of 12, gaming-focused establishments where food takes a back seat to lottery games and cigarette and alcohol sales.”²³⁴ Oregon House Speaker Tina Kotek this year sponsored bills “that would give state and local governments dramatic new powers to shut

²³⁴ Casey Parks, “Jantzen Beach's 'Lottery Row' will remain after Oregon lottery commission pulls proposed limits,” *The Oregonian*, August 5, 2012
http://www.oregonlive.com/portland/index.ssf/2012/08/jantzen_beachs_lottery_row_wil.html.

down lottery outlets and bars that either gain most of their profits from video machines or become known for violent crime, drug dealing and excess noise.”²³⁵

Other states have considered retail gaming programs over the years, and Spectrum believes that states will continue to consider implementing retail gaming as other forms of gambling within their borders become saturated or difficult to legalize.

Key issues in considering the authorization of retail gaming include:

- Whether the easy accessibility could exacerbate problem gambling.
- Whether the devices would be in sight of minors who patronize a host establishment.
- Whether the EGDs would cannibalize existing casino or lottery play.
- The types of EGDs that would be allowed.
- The tax scheme/distribution of revenue.
- Which state agency would be responsible for directing and/or regulating the program.

12. Sports Betting

The 1992 federal Professional and Amateur Sports Protection Act (“PASPA”) outlawed sports betting while grandfathering the four states that already had authorized it in some form. The four states are Delaware, Montana, Nevada and Oregon.

Only Nevada offers traditional sports betting; i.e., the opportunity to wager on a single-event outcome, covering both professional and amateur sports, based on odds posted by the casino. A sports book operator sets the initial “line,” or odds of winning, and then typically adjusts the line based on wagering patterns and/or event information, with the goal of attracting the same amount wagered on both sides of the bet. The casino makes its money by effectively charging a commission on the bets, although it can incur a significant win or loss if a lopsided amount is wagered on the winning or losing team.

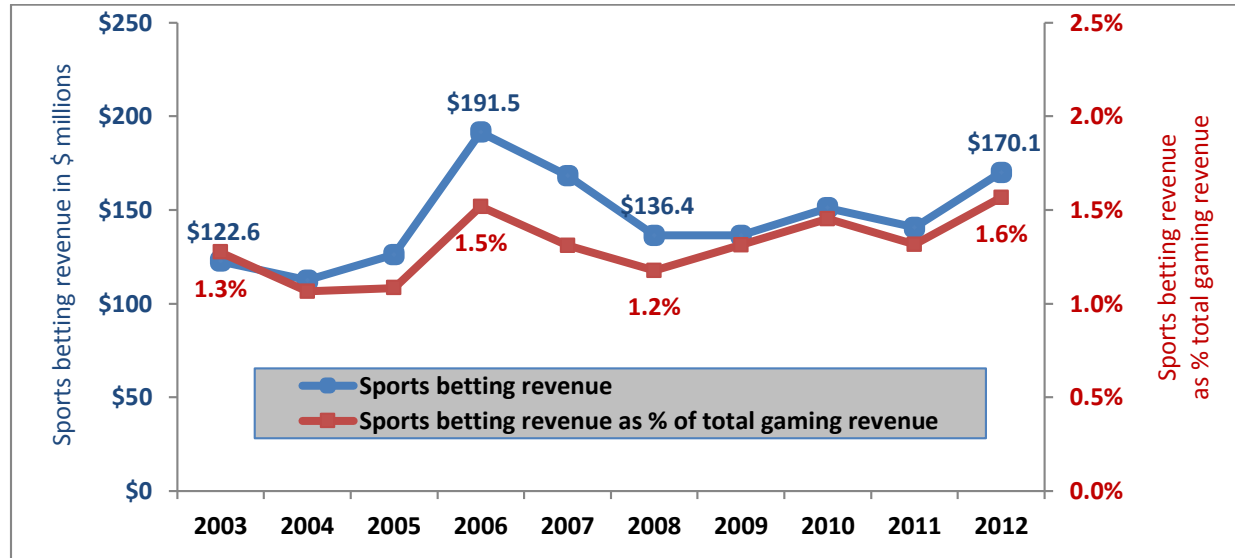
The Nevada Gaming Control Board regulates sports betting, as it does all casino games in the state.

Over the last 10 years, the Nevada casino industry has retained between 4 percent and 8 percent of sports betting wagers as net gaming revenue. Nevada casino operators generally describe their sports betting operations as “marginally profitable.” At large casino hotels, sports betting attracts many guests who otherwise might not visit the property – and who spend on food, beverage, lodging and other amenities. Further, sports bettors often are accompanied by a non-sports-betting partner who will play other casino games.

²³⁵ Harry Esteve, “Lottery ‘casinos,’ problem bars under assault by Oregon House speaker,” *The Oregonian*, March 20, 2013
http://www.oregonlive.com/politics/index.ssf/2013/03/lottery_casinos_problem_bars_u.html.

Over the last 10 years, Nevada sports betting revenue has accounted for between 1.1 percent and 1.6 percent of all gaming revenue. At the major casino hotels on the Las Vegas Strip over the same period, sports betting accounted for between 0.74 percent and 1.52 percent of all gaming revenue.

Figure 28: Nevada sports betting revenue performance, 2003-2012



Source: Nevada Gaming Control Board data

In 2012, 45 percent of the \$3.4 billion wagers made in Nevada casinos were on football, followed by basketball at 28 percent, baseball at 20 percent and other sports at 6 percent, according to the Nevada Gaming Control Board. Nevada's sports books do a particularly brisk business leading up to the Super Bowl and NCAA basketball tournament. The Nevada Gaming Control Board reported that the state's sports books took 2013 Super Bowl wagers of \$98.9 million and won \$7.2 million.²³⁶

The Nevada legislature in May 2013 defeated two bills that would have expanded sports betting:

- One would have allowed "entities" – as opposed to individuals – to place wagers. Such entities could be investment funds or other groups so long as they were based in Nevada.
- Another would have allowed wagering on the outcome of federal elections.

In Delaware, sports betting is restricted to parlay bets on National Football League games only. The parlay requires a bettor to wager on three or more individual games in one wager. "To win the bet, the player must win all the wagers in the parlay. If the player loses one wager, he loses

²³⁶ Nevada Gaming Control Board press release, February 4, 2013
<http://gaming.nv.gov/modules/showdocument.aspx?documentid=7577>.

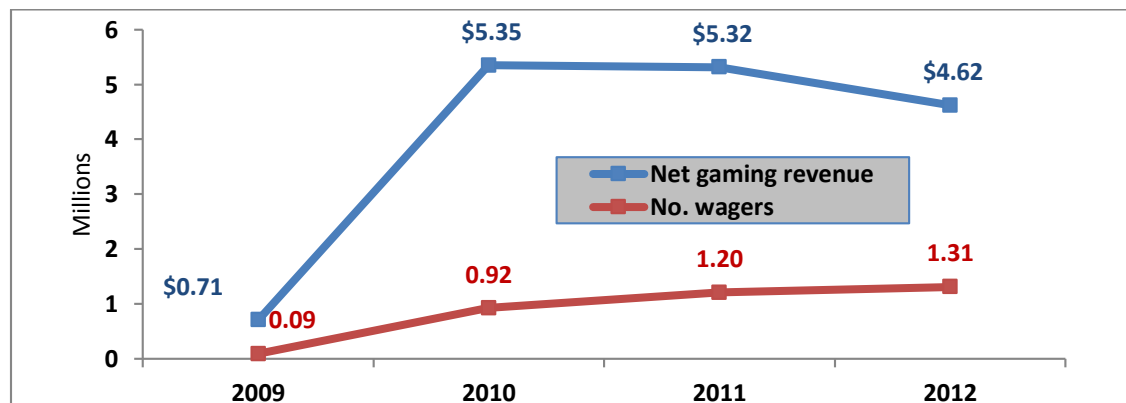
the entire bet. However, if the player wins all the wagers in the parlay, he wins a higher payoff than if he had placed the wagers separately.”²³⁷

Delaware in 2009 passed legislation to allow sports betting on all major sports, but a federal appeals court ruled later that year that the activity is restricted to the state’s pre-PASPA structure of allowing only NFL parlay bets. As such, the sports betting takes place only during the NFL season.

The Delaware Lottery is the state’s regulator and provider of sports betting, which is offered at both the state’s three racetrack casinos (also overseen by the Lottery) and, effective in 2012, at 31 authorized retail locations.

In 2012, Delaware reported \$19.7 million in sports betting wagers on 1.3 million wagers, resulting in net gaming revenue of \$4.6 million. Of the net gaming revenue, 86 percent was generated in the three racetrack casinos and 14 percent in the 31 retail locations. The following chart shows the Delaware sports betting results since its inception:

Figure 29: Delaware Sports Lottery performance, 2009-2012



Source: Delaware Lottery

Note in the chart above that revenue has declined despite an increase in wagers. This is because bettors were luckier/more skillful or, from the operator’s perspective, the lines may have been poorly set. Delaware operators say their sports books are barely profitable or break-even enterprises. As in Nevada, the real value of the sports books is that they generate traffic for other, more profitable segments within the gaming complex.

In Oregon, the Lottery offered Sports Action from 1989-2006, in which bettors would wager on NFL parlays and, for a lesser time, National Basketball Association parlays. The state ended all sports betting games as a condition of hosting NCAA basketball tournament games.²³⁸

²³⁷ Delaware Sports Lottery rules <http://www.delottery.com/games/sports/> (accessed May 3, 2013).

²³⁸ Anne Peterson of The Associated Press, “NCAA to bring bit of March Madness to Rose Garden,” *The Register-Guard*, July 7, 2006 <http://news.google.com/newspapers?id=SF1WAAAIBAJ&sjid=sfADAAAIBAJ&pg=4652%2C1191260>.

Montana does not offer traditional sports betting.

The federal ban on sports betting is currently being challenged by the State of New Jersey, whose voters in 2011 voted to authorize the activity. If New Jersey is ultimately successful, Spectrum believes other states would follow New Jersey in offering sports betting. Four states – Georgia, Kansas, Virginia and West Virginia – are supporting New Jersey’s appeal, not necessarily out of support for the cause but because they see it as a violation of “equal sovereignty” among states.²³⁹

The four major professional sports leagues and the NCAA vigorously oppose sports betting, believing it undermines the integrity of sports in two ways: It encourages fans to root based on a team “covering” the point spread as opposed to the actual game outcome, and it could make players susceptible to accepting bribes in exchange for point-shaving; i.e., ensuring that a player’s team covers or does not cover the point spread. Nevada regulators and sports book operators argue that by regulating and tracking bets, they are able to spot suspicious betting patterns that could signify nefarious activity.

Illegal sports betting towers over legal sports betting in size and scope. The National Gambling Impact Study Commission in 1999 reported that the size of illegal sports betting nationwide ranges from \$80 billion to \$380 billion annually,²⁴⁰ vs. \$2.9 billion wagered in Nevada’s sports books in 2011.²⁴¹

Globally, sports betting is projected to represent 10 percent of all land-based gambling revenue in 2013, according to London-based H2 Gambling Capital. On the Internet, however, sports betting is by far the most popular form of gambling, projected to represent 45 percent of the 2013 global total.²⁴²

13. Illegal/Unregulated Gambling

Unsanctioned and unregulated gambling has long taken place in every state and, by its nature as an “underground” activity, can be difficult to assess. The Internet site Havocscope, which profiles illegal activity globally, estimates that illegal gambling in the United States generates \$150 billion annually.²⁴³ As in most states, illegal gambling has a long and storied history in Florida,

²³⁹ John Brennan, “Haskell Invitational horse race gets a title sponsor,” *The Record*, May 7, 2013 http://www.northjersey.com/news/Four_states_back_NJ_challenge_of_federal_ban_on_sports_betting.html.

²⁴⁰ National Gambling Impact Study Commission (“NGISC”), *Final Report*, June 1999, p. 2-14 <http://govinfo.library.unt.edu/ngisc/>.

²⁴¹ American Gaming Association Sports Wagering fact sheet <http://www.americangaming.org/industry-resources/research/fact-sheets/sports-wagering>, accessed May 7, 2013.

²⁴² H2 Gambling Capital, Global Gambling Data summary, April 9, 2013.

²⁴³ Havocscope, “Illicit Trade Value: United States” <http://www.havocscope.com/tag/united-states/>.

beginning with the genesis of Florida's tourism economy. It has been said that for every hotel that Henry Flagler built, he also built a church and a gambling hall nearby.²⁴⁴

Unregulated gambling is the broader definition for these activities and it includes everything from slots and table games offered outside casinos, amusement or arcade machines, sports betting through bookies, privately-run sweepstakes and numbers games, cock or dog fighting, as well as private wagers between individuals. To catalogue and profile all forms of unregulated gambling is a large study in itself; for the purposes of this report we will provide an overview of the most prevalent types of non-sanctioned gambling and a brief description of the most prominent and widespread illegal or unregulated gambling activities in Florida.

The participation rates of Florida residents in various forms of illegal or unregulated gambling activities are documented in the 2011 survey sponsored by the Florida Council on Compulsive Gambling Inc. for lifetime, past 12 months, and past 7 days, as follows:²⁴⁵

Figure 30: Illegal and unregulated gambling participation in Florida, 2011

Gambling Activity	Lifetime %	Past Year %	Past Week %
Poker	22.1	12.0	3.4
Sporting Events Through a Pool	19.9	11.1	0.9
Cards/Dice/Dominos Not at Casinos	19.4	11.9	2.2
Bingo	19.1	5.7	1.1
Slot/Poker Machines Not at Casinos	18.7	7.2	1.2
Playing Sports Games	13.1	7.3	2.0
Table Games Not at Casinos	9.9	5.0	0.2
Sporting Events Through a Bookie	8.2	5.0	1.0
Pull-Tabs	7.4	2.9	0.3
Arcade or Video Games	6.8	3.8	0.8
Fantasy Sports	5.0	3.6	1.5
Internet Gambling	4.8	3.3	0.8
Car Races	2.7	1.2	0.6
Mah Jong	1.5	0.8	0.4
Cock or Dog Fighting	1.1	0.4	0.0
Policy, Numbers, or Bolita	0.8	0.5	0.1
Other	0.7	0.0	0.0

Source: Florida Council on Compulsive Gambling

The above table does not include playing the stock market, which was also profiled as a gambling activity in the FCCG study, while it does include poker played privately and betting on sporting events through a pool, which are generally perceived to be acceptable forms of wagering even if they are not regulated. Bingo is another generally accepted form of gambling, but

²⁴⁴ Mary Ellen Klas, "Gambling's Long History in Florida," *Tampa Bay Times*, November 24, 2009 <http://www.tampabay.com/news/perspective/gamblings-long-history-in-florida/1054214>.

²⁴⁵ Robert J. Rotunda, Terry L. Schell, *Gambling and Problem Gambling Prevalence Among Adults in Florida: A 2011 Replication*, University of West Florida, January, 2012.

unregulated bingo wagering can compete with charitable and regulated bingo operations elsewhere in the state. Unregulated gambling activities of more immediate concern include playing casino style games outside the casinos, sports betting through bookies, and numbers games offered outside the Florida Lottery.

It should also be noted that the 2011 FCCG survey, while carefully weighted and designed to be representative of Florida's diversity, completed less than 3 percent of its interviews in Spanish or Creole,²⁴⁶ which indicates that illegal gambling prevalence among Latinos and other minority groups may be somewhat underrepresented in the above findings. In addition, any survey questions regarding illegal or unregulated activities such as gambling are less likely to be openly and honestly answered by respondents, so it is reasonable to assume that the prevalence of illegal gambling activities may be higher than documented in self-reported surveys.

Until recently, Internet cafes offering sweepstakes games and arcades with gambling-style machines that offered cash-equivalent prizes operated through real or perceived loopholes in Florida law – in either case without regulation and enforcement; now they are explicitly illegal. Internet/sweepstakes parlors constitute a shadow gambling category which is now receiving increased attention across the country and has been banned in many states. Advocates contend that this is legal activity because players simply purchase Internet access time blocks and are not wagering money on the prospect of receiving a greater reward, which is the traditional definition of gambling. Critics argue that there is little difference between the electronic gambling devices employed and video slot machines, and those players are incited by the opportunity to win prizes with monetary value. In 2011 *Businessweek* estimated that there could be as many as 5,000 Internet cafes operating nationwide generating \$10 billion to \$15 billion dollars in revenue.²⁴⁷

On April 10, 2013, Florida Governor Rick Scott signed into law HB 155, which effectively proscribed sweepstakes gambling.²⁴⁸ This action followed the well-publicized Allied Veterans of the World prosecution which resulted in the arrest of 57 people in racketeering indictments for illegal gambling²⁴⁹ and eventually led to the resignation of former Lt. Gov. Jennifer Carroll.²⁵⁰ At the time of the bill's passage, the Internet/sweepstakes gaming industry was estimated to be operating 1,000 Internet cafes statewide throughout the state producing approximately \$1 billion

²⁴⁶ Ibid.

²⁴⁷ Felix Gillette, "The Casino Next Door," *Businessweek*, April 11, 2011
http://www.businessweek.com/magazine/content/11_18/b4226076180073.htm.

²⁴⁸ Mary Ellen Klas, "Gov. Rick Scott signs Internet café ban bill into law," *The Miami Herald*, April 10, 2013
<http://www.miamiherald.com/2013/04/10/3334274/gov-rick-scott-signs-Internet.html>.

²⁴⁹ Mike Schneider, "57 Indicted in Florida Gambling Scandal," Associated Press, March 13, 2013
<http://www.wctv.tv/home/headlines/57-Indicted-in-Florida-Gambling-Scandal-197837441.html#.UZ5DrPzD-M8>.

²⁵⁰ Aaron Deslatte, Amy Pavuk and Rene Stutzman, "Lt. Gov. Jennifer Carroll resigns amid federal Internet café probe," *Orlando Sentinel*, March 13, 2013
http://articles.orlandosentinel.com/2013-03-13/news/os-jennifer-carroll-resigned-20130313_1_Internet-cafes-jennifer-carroll-federal-probe.

in annual revenue, according to the Florida League of Cities.²⁵¹ This legislation effectively banned Internet cafes and the “maquinitas” by included language which defines what constitutes illegal gambling and closing loopholes which have existed in Florida for decades and had allowed the earlier growth of unregulated wagering. Among other things HB 155 updates the definition of both illegal slot machines and legal arcade games, requiring that “amusement games or machines” must operate only “by means of the insertion of a coin” not swipe cards, and that, in order to be distinguished from “casino style games” they must be classified as games of “skill” rather than chance.²⁵² Specifically, the new legislation stipulates that legal machines cannot be “casino-style games in which the outcome is determined by factors unpredictable by the player or games in which the player may not control the outcome of the game through skill.”²⁵³

The stricter interpretation of gambling in the legislation cited above also potentially impacts the approximately 200 “adult arcades” that offer slot style gambling outside of state or tribal-regulated slot machines as well as hundreds of children’s arcades and arcade restaurants. These unregulated “amusement slots” represent a gray area of gambling activity and one which has been criticized both for taking advantage of seniors and for teaching minors and even children to gamble. Most adult arcades offer video gaming machines very much like the video devices found in Internet cafes but instead of buying time online players can win small prizes and gift cards. Adult arcades were specifically prohibited from dispensing gift cards as prizes in the recent legislation which also limits top prize values to no more than 75 cents.²⁵⁴

Unsurprisingly, Internet cafés, adult arcades, amusement arcades, and children’s restaurants have fought the legislation.²⁵⁵ Internet cafés alone have been estimated to employ as many as 14,000 people who will now be unemployed.²⁵⁶ The Florida Arcade & Bingo Association has appealed in Broward County, so far unsuccessfully, the inclusion of arcades in the HB 155

²⁵¹ “Florida Internet Cafes, Legislative Indecision Requires Local Governments to Make Tough Choices,” *Florida League of Cities* <http://www.floridaleagueofcities.com/Assets/Files/Pre-emptionThreatsInternetCafeDRussell.pdf>.

²⁵² The Florida Senate, “CS/HB 155: Prohibition of Electronic Gambling Devices,” April 10, 2013 <http://www.flsenate.gov/Session/Bill/2013/0155>.

²⁵³ Ibid.

²⁵⁴ Kathleen Haughney, “Gov. Rick Scott signs bill banning Internet cafes,” *Orlando Sentinel*, April 10, 2013 http://articles.orlandosentinel.com/2013-04-10/news/os-scott-signs-Internet-cafe-ban-20130410_1_florida-arcade-association-group-allied-veterans-gale-fontaine.

²⁵⁵ Mary Ellen Klas, “Gov. Rick Scott signs Internet café ban bill into law,” *The Miami Herald*, April 10, 2013 <http://www.miamiherald.com/2013/04/10/3334274/gov-rick-scott-signs-Internet.html>.

²⁵⁶ Kathleen Haughney, “Gov. Rick Scott signs bill banning Internet cafes,” *Orlando Sentinel*, April 10, 2013 http://articles.orlandosentinel.com/2013-04-10/news/os-scott-signs-internet-cafe-ban-20130410_1_florida-arcade-association-group-allied-veterans-gale-fontaine.

legislation.²⁵⁷ So have trade associations for the restaurants, bowling alleys, skating rinks, etc., which also operate arcade style machines, sometimes using swipe cards. Companies such as Dave and Buster's and Chuck E. Cheese, which feature arcade-style games for youngsters, may also be affected under the new legislation by restrictions on prize value and requirements that arcade games not be games of chance.²⁵⁸

Internet café operators have previously sought injunctions to prevent local government bans prior to the enactment of HB 155, particularly the unsuccessful fight against the ban in Broward County. More recently, two arcade operators in Broward County, Boardwalk Brothers, Inc. and Play It Again Fla. LLC, filed for an injunction to HB 155, claiming that the law is "arbitrary, irrational, not reasonably related to a legitimate governmental purpose, and void for vagueness". This suit, filed in US District Court and naming Michael Satz, state attorney for Florida's 17th Judicial Circuit as defendant, saw the Seminole Tribe of Florida intervene as a defendant before U.S. District Judge James I. Cohn refused to grant the arcade plaintiffs an injunction against the law.²⁵⁹ Additional legal action is expected to be filed in Tallahassee on behalf of Internet café owners, gaming machine manufacturers, and software companies, according to persons involved in the industry.²⁶⁰ In addition, grass roots seniors groups, such as Seniors 4 Justice, are organizing in support of their local pastime, as well as legal teams from commercial restaurants with amusement arcades.²⁶¹

Amusement arcade slots have long been a feature of many East Coast beach resorts and can easily be found in states which already have legalized casino gambling, such as New Jersey, as well as those which currently have not, such as New Hampshire.²⁶² One primary issue affecting whether these types of establishments catering to children remain open in Florida is whether they increase the chance for kids to become gamblers when they reach adulthood. Many gambling opponents view youth arcades as a "slippery slope" leading directly to full-blown adult gambling behavior.

²⁵⁷Nick Sortal, "Seminoles also fighting suit filed by senior arcades," *Sun Sentinel*, May 17, 2013 http://articles.sun-sentinel.com/2013-05-17/business/fl-senior-arcade-appeal-051713-20130516_1_senior-arcades-arcade-association-florida-arcade.

²⁵⁸ Erin Sullivan, "Internet Café Law May Have Unintended Targets," *The Tampa Bay Times*, May 20, 2013 <http://www.tampabay.com/news/business/Internet-cafe-law-may-have-unintended-targets/2121416>.

²⁵⁹ Deshayla Strachan, "Arcades Fail in Challenge to Florida Gambling Law," *Courthouse News Service*, June 6, 2013 <http://www.courthousenews.com/2013/06/06/58300.htm>.

²⁶⁰ Ray Weiss, "Internet cafe fallout's 'personal side,'" *The Daytona Beach News Journal*, April 28, 2013 <http://www.news-journalonline.com/article/20130428/NEWS/304289997?p=2&tc=pg>.

²⁶¹ Glenn Garvin, "Despite law, cities quiet on kids' gaming machines," *Miami Herald*, May 13, 2013 <http://www.miamiherald.com/2013/05/12/3394108/despite-law-cities-quiet-on-kiddie.html>.

²⁶² Bob Sanders, "N.H. Already Has Slot Machines - And Lots of Them," *New Hampshire Business Review*, May 17, 2013 <http://www.nhbr.com/May-17-2013/NH-already-has-slot-machines-and-lots-of-them/>.

The bill clarified the illegality of “*maquinitas*,” gray market video gaming machines similar to arcade slots but also housed in gas stations, convenience stores, restaurants, cafeterias, and bars throughout the state. The new law caused a reversal of Miami Mayor Tomás Regalado’s attempted policy initiative to regulate the *maquinitas* through municipal licensing and permit fees.²⁶³ Apparently, Mayor Regalado’s efforts to regulate the *maquinitas* were not successful. Since adopting an ordinance more than two years ago requiring each establishment to register for a \$500 permit fee, not a single *maquinita* operator has applied for the license.²⁶⁴ The passage of HB 155 has emboldened local law enforcement authorities to take action against small-scale *maquinita* operations, which are numerous in Florida. While no one knows exactly how many actually exist and what revenue they produce, Miami Police Chief Manuel Orosa estimates that there are more than 1,000 *maquinitas* active in his city alone, and each is non-compliant with the city ordinance.²⁶⁵

On June 4, 2013, the US District Judge James I. Cohn for the Southern District of Florida denied a motion by Broward County adult arcades Boardwalk Brothers Inc. and Play It Again FLA LLC for an injunction against HB 155. The arcade owners argued that the law was unconstitutionally vague and violated their First Amendment right of association. Among Judge Cohn’s conclusions was that because gambling is a vice activity and can be banned altogether, “the State has a significant interest in proscribing the behavior regulated in the statute.” The judge further found that “it is doubtful that patrons who are unable to frequent the Plaintiff’s commercial establishments will suffer any First Amendment harm.” The judge also noted that the statute is not forcing the arcades out of business, just limiting the types of games offered.²⁶⁶

Although bingo for money is legal in Florida if operated by charitable organizations and veterans groups which qualify for 501(c) or 528 status, instant bingo games in the form of pull tabs (except for those sanctioned organizations) or electronic bingo in all forms are not sanctioned under Florida law.

Another prominent illegal gambling activity in Florida is *bolita*, a numbers game imported from Cuba in the 1920s. The name “*bolita*” literally means “little ball” in Spanish and refers to a lottery drawing which first became popular among Cuban immigrants in Ybor City, where originally players tossed a sack filled with numbered balls back and forth between them until the

²⁶³ Charles Rabin, “Miami Police Make Raid and Seize ‘Maquinitas’ as Mayor Does About Face,” *The Miami Herald*, April 18, 2013 <http://www.miamiherald.com/2013/04/18/3352109/miami-police-make-arrests-and.html>.

²⁶⁴ Charles Rabin and Melissa Sanchez, “Miami says video-gaming machines known as *maquinitas* are illegal,” March 21, 2013 <http://miamiherald.typepad.com/nakedpolitics/2013/03/miami-says-video-gaming-machines-known-as-maquinitas-are-illegal.html> .

²⁶⁵ Charles Rabin, “Miami Police Make Raid and Seize ‘Maquinitias’ as Mayor Does About Face,” *The Miami Herald*, April 18, 2013 <http://www.miamiherald.com/2013/04/18/3352109/miami-police-make-arrests-and.html>.

²⁶⁶ *Boardwalk Brothers Inc., a Florida corporation, and Play It Again FLA, LLC, a Florida limited liability company, vs, Michael Satz, State Attorney for the 17th Judicial Circuit, in and for the State of Florida*; entered June 3, 2013.

round was called and the last person holding the bag withdrew a single ball with the winning number. Bolita's peak popularity occurred in the Great Depression during the 1930s when it spread throughout the state. In 1938, Tampa featured approximately 125 bolita operations grossing as much as \$20,000 per day.²⁶⁷ The game spread with Cuban immigration to the north into New York and New Jersey, where "Spanish Raymond" Marquez built a bolita empire in the 1960s.²⁶⁸ Like all privately run numbers games in the United States, bolita gambling has been sidelined by the evolution of state sponsored lottery operations over the past 40 years. However, the prospect of superior relative odds, zero taxes, and cohesive immigrant community traditions have preserved bolita gambling, which still competes with the regulated Florida Lottery, and the game remains popular today across the straits in Havana.

Other forms of illicit and unregulated gambling in Florida include electronic bingo, cock fighting and dog fighting, betting on sporting events, and Internet gambling. Pitting animals against each other and wagering upon the outcome is an ancient human activity that is now so unacceptable to mainstream society that the practice, while still occurring frequently, is deeply underground and receives little public attention except for law-enforcement actions.

14. Conclusion

Gambling has evolved to become a major US industry, largely because it is popular and profitable – both for operators and for the states that tax and regulate it. All but two states (Hawaii and Utah) have some form of legalized gambling, although the size, scope, types, tax rates, and regulatory schemes vary by state. For reasons discussed in following chapters, the combination of consumer acceptance, technological advances (such as the Internet) and government desire for revenue will continue to cause further expansion. We return to the observation put forth by John Sowski of No Casinos: "The solution to having too much of it (gambling) is to have more of it."

Expansion comes at a cost, both internally to the industry and externally to society. Expansion runs the risk of cannibalizing certain types of gambling – notably the pari-mutuel industry, which has long been in decline both nationally and in Florida – and it will sharpen the debate about how much is too much. Importantly, expansion will further place a focus on assessing the societal and personal costs associated with gambling; we discuss this in general terms in Chapter II (G) below.

²⁶⁷ Schwartz, p. 381.

²⁶⁸ Ibid.

C. The New US Frontier: Internet Gambling

1. Nationally

Internet gambling has become a reality in the United States only within the past year. On December 23, 2011, the Department of Justice issued an opinion in response to inquiries from the Illinois and New York lotteries reversing its long-held position and declaring that the 1961 Wire Act applies only to sports betting. This reversal opened the door to state by state legislation to regulate Internet gambling and online lottery sales.

Since the beginning of 2012 three states have passed such enabling legislation and each one follows a different model. Delaware was the first state to pass enabling laws and will roll out Internet wagering through a platform controlled and maintained by the Delaware Lottery. The state's three licensed racetrack casinos will offer branded websites offering most casino games and the lottery will offer Internet lotto sales. Nevada is the first state to actually regulate gambling operations via the Internet on April 30, 2013, as Station Casinos opened online operations through its partner, Ultimate Poker. As of May 14, 2013, UltimatePoker.com had surpassed 1 million hands of online poker.²⁶⁹ New Jersey quickly followed Nevada into legalized Internet gambling, with Governor Chris Christie signing legislation only five days after Governor Brian Sandoval did.

At this time, state-legalized Internet wagering is available only to residents or visitors currently located within a state's borders, as verified by geo-location software. Interstate compacting is expected to follow suit similar to US lotteries constructing interstate compacts for multi-state lottery games (such as Powerball and Mega Millions). A summary of US legal Internet gambling jurisdictions is found in the following table. At least 10 states are considering enabling legislation in a variety of forms, including California, Pennsylvania, Michigan, New York, Illinois and Iowa.

Figure 31: Legal US jurisdictions for Internet gambling

State	Legalization Date	Operator	Games Offered	Actual or Target Implementation Date
Delaware	July 23, 2012	Delaware Lottery	Lottery Casino (some games)	September 30, 2013
Nevada	February 21, 2013	Nevada casinos and partners	Poker only	April 30, 2013
New Jersey	February 26, 2013	Atlantic City casinos	Casino (all games)	November 26, 2013

Sources: Delaware Lottery, Nevada Gaming Control Board, New Jersey Division of Gaming Enforcement

The Internet has revolutionized a wide variety of US economic sectors over the past decade and a half as e-commerce has become firmly established as a major sales channel. One segment of

²⁶⁹ Dan Wetzel, "Ultimate Poker's legal online betting foray could be a game changer in the U.S.," Yahoo Sports, May 15, 2013 <http://sports.yahoo.com/news/spt--ultimate-poker-s-legal-online-betting-foray-may-be-a-game-changer-in-the-u-s---010335301.html> .

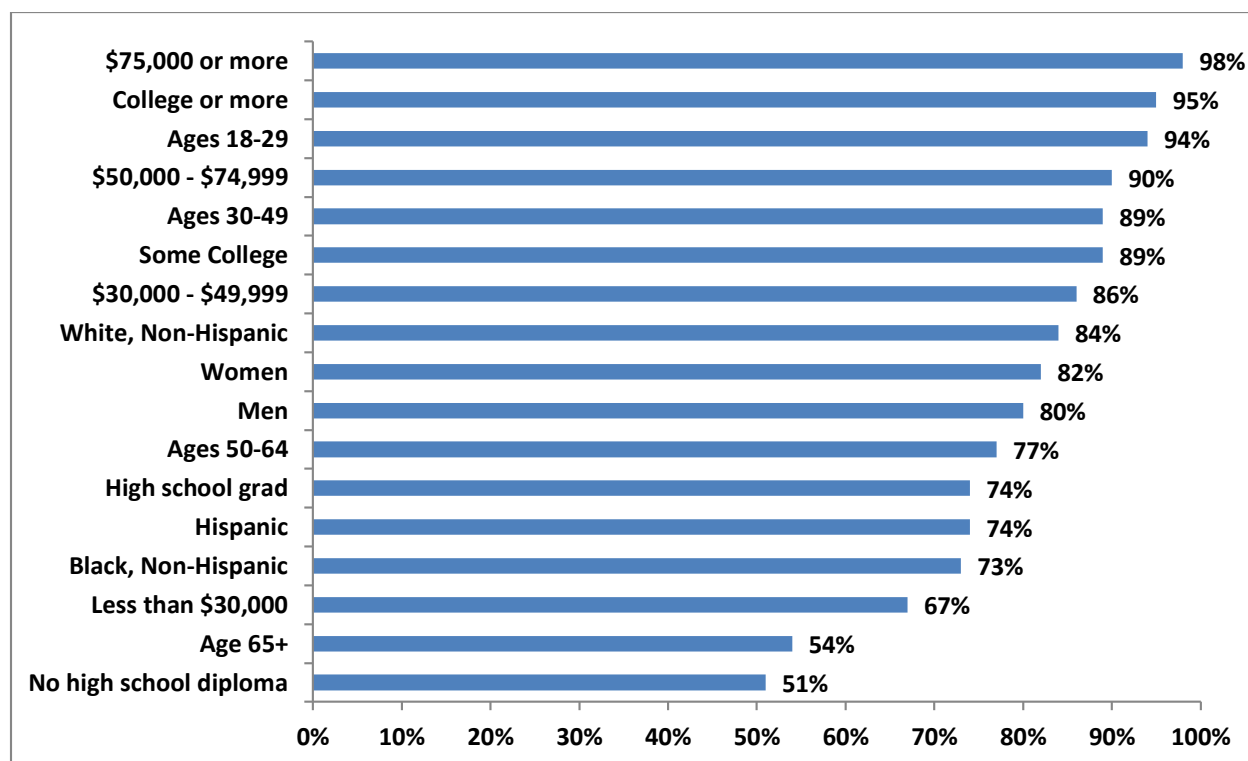
the domestic economy where the Internet and mobile connectivity have notably not been major factors is in the field of gambling. Both commercial and tribal casinos in the United States, as well as domestic lotteries find themselves in the same situation demographically. Their core player base is aging and not being fully replaced by a younger generation. In casinos this is particularly true of slot machine patrons. For lotteries it is most prevalent among weekly instant ticket customers. Moreover, both casinos and lotteries frequently evidence the 80/20 rule, or the “Pareto Principle,” that 80 percent of revenue often is derived from 20 percent of the customer base. For both of these gambling industries, the prevalent demographic of the Internet user is under-represented in their own player base, thus the Internet and mobile channels constitute an opportunity for engaging future customers. Also, with Internet distribution channels, the breadth and frequency of play will often increase, thereby spreading the generation of revenue across a broader spectrum of the player base.

A strong majority of Americans use the Internet regularly. According to the Pew Research Center, as of December 2012, 81 percent of US residents use the Internet and 65 percent have broadband access.²⁷⁰ Regular and frequent Internet users demonstrate the following demographic traits: they are usually younger, better educated, more affluent, more likely to be working full time, and more likely to be earning more income than the population as a whole. Frequency of Internet usage tends to be consistently higher among younger demographic ranges. A nationwide Gallup Poll conducted in December 2008 found that Americans below the age of 50 spend the most time online: 62 percent of those under 30 spend more than one hour online per day, as do 54 percent of those people 30 or older but under the age of 50.²⁷¹ A more recent Pew Post Election survey confirmed these demographic statistics and indicated that Internet usage is broadening among gender and racial demographics while remaining upscale in relation to income and educational demographics.²⁷²

²⁷⁰ Pew Internet & American Life Project, Pew Research Center, Internet Adoption 1995-2012 [http://pewInternet.org/Trend-Data-\(Adults\)/Internet-Adoption.aspx](http://pewInternet.org/Trend-Data-(Adults)/Internet-Adoption.aspx).

²⁷¹ Gallup Poll, 2008 <http://www.gallup.com/poll/113638/nearly-half-americans-frequent-Internet-users.aspx>.

²⁷² Pew Internet Post Election Survey, November 14 – December 9, 2012, Pew Internet & American Life Project, December 2012 [http://pewInternet.org/Trend-Data-\(Adults\)/Whos-Online.aspx](http://pewInternet.org/Trend-Data-(Adults)/Whos-Online.aspx).

Figure 32: Internet usage frequency by demographic group, 2012

Source: Pew Internet Post Election Survey, November 14 – December 9, 2012

Internet gambling also opens the door to new kinds of games not currently considered gambling, such as monetized social games and betting on the outcomes of peer-to-peer and massive multiplayer online games. Social games are generally played with others via a social network or on a social media platform. The potential size of this market is staggering. On October 4, 2012, Facebook reported that it had passed the 1 billion user threshold²⁷³ and half of these users are estimated to play some type of social game.²⁷⁴ The top five casino games played on Facebook are Double Down, Bingo Blitz, Best Casino, Slotomania, and Texas Hold'em. These five casino-style games on a single platform attract a total of 11,240,000 daily active users.²⁷⁵ Social casino sites throughout the United States attracted a total of 35.4 million monthly players in 2012.²⁷⁶

²⁷³ Somini Sengupta and Nick Bilton, "A Billion Users Raise Stakes at Facebook for Revenue," *The New York Times*, October 4, 2012 <http://bits.blogs.nytimes.com/2012/10/04/facebook-passes-1-billion-active-users/>.

²⁷⁴ Social Media Platforms for Gaming and Gambling, *Online Casino Reports*, October 13, 2012 <http://www.onlinecasinoreports.com/news/specialreports/2012/10/13/social-media-platforms-for-gaming-and-gambling.php>.

²⁷⁵ Ibid.

²⁷⁶ SuperData Research, "Social Casino Metrics: Industry Trends & Analyses," August 2012 <http://www.superdataresearch.com/social-casino-metrics/>.

The proportion of people who play for money on a social gaming site is fractional, usually in the low single digits, but multiplied by the total number of players on the site, the revenue quickly adds up. Monetized social gaming is estimated to have produced \$1.6 billion in revenue globally with \$660 million being generated in North America.²⁷⁷

While leveraging the Internet can deliver a broader audience to commercial gambling operations, the 24/7 access from the comfort of one's own home clearly increases the opportunity for problem gambling issues. Multiple studies show a potentially higher rate of problem gambling incidence for Internet gambling compared to land-based gambling, while multiple competing studies show identical problem gambling rates for both online and "offline" gambling. The Florida Council on Compulsive Gambling survey conducted in 2011 documented problem gambling prevalence within the state's general population at 2.1 percent for lifetime occurrence and 1.2 percent for past-year occurrence.²⁷⁸ These rates are generally consistent with the prevalence of problem gambling within land based gambling, benchmarked at 2.3 percent in 2008 according to the American Gaming Association,²⁷⁹ but should be carefully monitored if Internet gambling ever becomes legal in Florida.

2. Internet Poker Evolution

Poker was first introduced to the United States between 1810 and 1825 through New Orleans and originally developed from the German game *pochen* and its French derivative *poque*.²⁸⁰ This card game evolved to include draws and jackpots as it spread throughout the Mississippi valley and the American West during the second half of the 19th Century.²⁸¹ By the middle of the 20th Century poker games had become part of American culture and a frequent feature in residences. Due to its long history and wide popularity poker had come to represent the quintessentially American monetized social game.²⁸²

While poker enjoyed tremendous popularity among casual and social gamblers in homes and social clubs, it was not a popular casino game. In 1970 there were less than 50 poker tables in

²⁷⁷ SuperData Research, "Social Casino Metrics."

²⁷⁸ Robert J. Rotunda, Terry L. Schell, *Gambling and Problem Gambling Prevalence Among Adults in Florida: A 2011 Replication*, University of West Florida, January, 2012.

²⁷⁹ "Casino Expansion and Its Impact on Pathological and Problem Gambling Prevalence Rates," American Gaming Association, <http://www.americangaming.org/industry-resources/research/fact-sheets/history-problem-gambling-prevalence-rates>.

²⁸⁰ Schwartz, p. 249.

²⁸¹ Ibid.

²⁸² *Gambling Impact and Behavior Study*, Report to National Gambling Impact Study Commission, National Opinion Research Center at the University of Chicago, April 1, 1999.

the city of Las Vegas and less than 70 in the entire state of Nevada.²⁸³ The reason for this low importance of poker as a casino game was its lack of profitability. Poker tables must be staffed with dealers and supplied with chips and amenities by the casino, rounds take a relatively long time but the game is played in competition with the other players and usually for small stakes with the casino only earning a rake of approximately one-tenth of the pot at the conclusion of each round. In 1970 it seemed certain that poker would remain a social game played for small stakes in private homes around den or basement card tables.

All that changed with the convergence of three sequential events: the establishment of the World Series of Poker, the advent of television coverage, and the development of the Internet. In 1970 the first official World Series of Poker (“WSOP”) was played at Binion’s Horseshoe in Las Vegas, a casino which at the time did not even have a poker room.²⁸⁴ From humble beginnings this competition grew to include the most well-known poker players of the time and eventually featured a million dollar prize for the winner, prominently displayed in a glass case at Binion’s. In its second year the WSOP Jack Binion changed the tournament format from an election to a freeze-out competition²⁸⁵ where participants post an entry fee and losing players are eliminated until the winner takes all. As interest in the tournament grew, television coverage was initiated in 1973 by CBS Sports and commentary was provided by Jimmie “The Greek” Snyder, himself a participant in the 1969 forerunner of the WSOP. The game which was favored in this tournament was no-limit Texas Hold’Em, where the audience could watch the first three community cards dealt to the center of the table – the flop – and suspense would build along with the betting as the fourth card – the turn – and the last community card – the river – were dealt. This format was much more attractive for television audiences than draw games where inscrutable “poker faces” were the only indicators as to what was going on in the player’s heads. As TV technology continued to evolve, by 2000 the television audience could also view players’ two hole cards via miniature cameras in the table surface which added even more suspense to the televised games.

The advent of Internet technology revolutionized poker tournaments by allowing huge numbers of players to qualify for tournaments through the Internet via satellite rounds. The initial WSOP competitions involved a dozen players in total. In 1982 the tournament drew 52 players and by 2000 there were 450 players.²⁸⁶ In 2003, the worldwide popularity of poker in general and the WSOP in particular exploded when an unknown amateur with a suitably relevant moniker, Chris Moneymaker, won a seat at the tournament through a \$40 satellite round on PokerStars and

²⁸³ *World Series of Poker, A brief History, From Moss to Gold*, Nolan Dala
<http://www.wsop.com/wsop/history.asp>.

²⁸⁴ *Ibid.*

²⁸⁵ Schwartz, p. 413.

²⁸⁶ Schwartz, p. 477.

went on to beat out 838 other contestants and win \$2.5 million in the final round.²⁸⁷ One year later a total of 2,576 players contested for a \$5 million first prize. In 2006, the pinnacle of WSOP popularity, a total of 8,773 players participated,²⁸⁸ the vast majority entering the tournament through Internet satellite rounds.

This timely convergence of television and Internet technology had caused online poker to skyrocket in popularity over the early portion of the last decade. However, in 2006 Congress passed the Unlawful Internet Gambling Enforcement Act (“UIGEA”), which suppressed Internet wagering by making it illegal for payment processors to handle gaming transactions. Internet poker participation in the United States crashed after passage of this legislation and many of the more reputable offshore operators, including Party Poker and 888.com, voluntarily withdrew from the US market. Despite UIGEA, a number of offshore sites continued to take bets from US players until April 15, 2011, now known in the industry as “Black Friday,” when the US Department of Justice entered indictments against Full Tilt, Absolute Poker, and Poker Stars and seized their assets and domain names.²⁸⁹ The indictments alleged fraud and in the case of Full Tilt the creation of a Ponzi scheme where player deposits were used to fund operations and salaries paid to celebrity player spokespersons. After the Black Friday indictments, US Internet poker participation truly plunged as players lost confidence in many offshore sites and withdrew their deposits. Some committed or professional players even established foreign residences in order to continue playing poker online.²⁹⁰

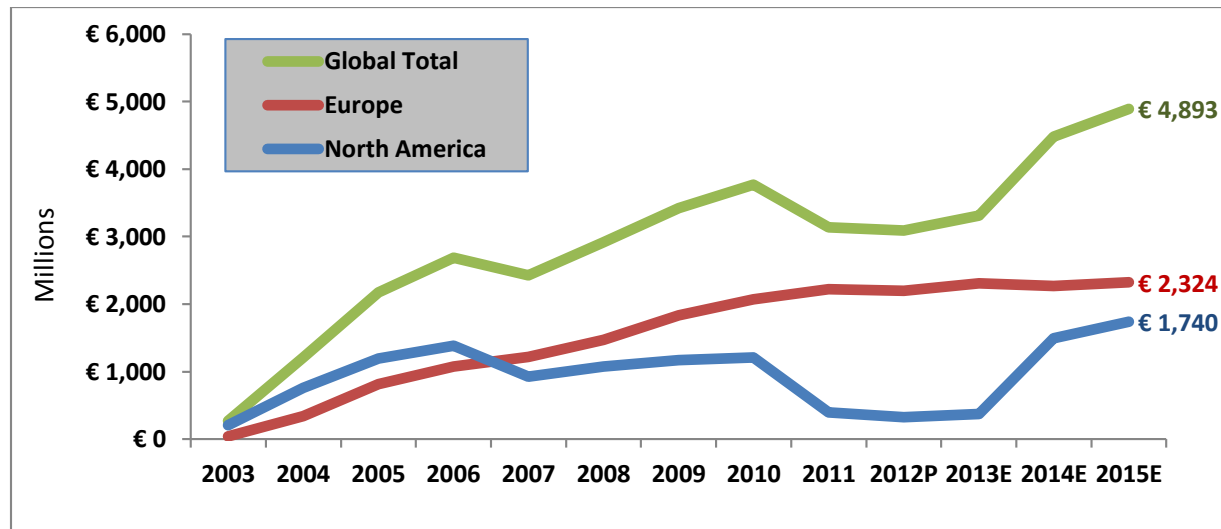
After UIGEA, most major Internet poker operators turned their sights away from the United States, a trend which accelerated after Black Friday, resulting in the development of a flourishing Internet poker in Europe. This market is dominated by Internet only operators based in offshore jurisdictions. It is also characterized by high volumes of players (liquidity), and intense competition among the top tier poker sites which results in low player retention, lucrative free play bonuses, celebrity player-sponsors, and due to all of the above, low operating profit margins. Since Black Friday, global Internet poker revenues have declined worldwide as the former boom continues to recede.

²⁸⁷ Toby Bochan, *The World Series of Poker Explodes in Popularity*, About.com
http://poker.about.com/od/tournaments/a/wsophistory_2.htm.

²⁸⁸ Ibid.

²⁸⁹ Chad Holloway, *The Black Friday Timeline: One Year Without Online Poker*, Pokernews, April 2012
<http://www.pokernews.com/news/2012/04/the-black-friday-timeline-one-year-without-online-poker-12445.htm>.

²⁹⁰ Bernard Lee, *One Year After the Black Friday Indictments*, ESPN.com
http://espn.go.com/poker/story/_/id/7816101/one-year-black-friday-indictments-steve-gboro780-gross-found-own-path.

Figure 33: Internet poker revenues globally, Europe and US

Source: H2 Gambling Capital

However, this decline in the popularity of poker is expected to reverse dramatically in the next few years as Internet gambling becomes legal on a state by state basis in the United States. On December 23, 2011, the US Department of Justice issued an opinion in response to a request by the New York and Illinois state lotteries, reversing their previous position held for more than a decade that the 1961 Wire Act prohibited Internet wagering. Since then three states have passed enabling legislation for Internet gambling in the United States and all three follow different models. Nevada will offer poker only gambling through commercial providers licensed by the state. Delaware will offer most games currently featured at the three racetrack casinos licensed by the state through a central platform controlled by the lottery. New Jersey will allow Atlantic City's commercial casino operators to offer all games currently approved by the Division of Gaming Enforcement over the Internet utilizing licensed providers. In addition, at the time of this writing, California has multiple bills legalizing Internet poker before the legislature and other states, including Illinois, Pennsylvania, Mississippi, Iowa, and New York have considered various bills to legalize Internet wagering.

3. Lotteries Online

Following the Department of Justice opinion of December 23, 2011, reversing its long held position that the 1961 Wire Act barred state lotteries from participating in online gambling, 13 states have introduced legislation regarding some form of Internet gambling. Illinois and Georgia quickly implemented legislation permitting online lottery ticket sales and are the only two US state lotteries currently leveraging the Internet sales channel.

Currently, lotteries in New York, Minnesota, New Hampshire, North Dakota, and Virginia offer some form of online subscription for lotto tickets. The Delaware State Lottery will begin selling tickets online as well as offering most casino games through a lottery controlled platform

in September, 2013. Massachusetts, the most successful lottery in the nation based on per-capita sales, commissioned Spectrum last year to examine the issue of Internet sales and develop a strategy for implementation. Early this year Massachusetts introduced legislation authorizing tickets sales via the Internet. Maine has altered its gaming statute in response to the federal ruling, and Vermont has commissioned a study of the potential impact if Internet ticket sales were implemented.²⁹¹

Florida has also introduced enabling legislation for Internet lottery sales. Senate Bill 266, sponsored by State Senator Gwen Margolis (D-Miami) and co-sponsored by Representative Joe Gibbons (D-Hallandale Beach) through HB 275, was filed on January 17, 2013, but never advanced and has since died.²⁹² If passed, this bill would have authorized ticket sales over the Internet “via a subscription mechanism.”²⁹³ In May 2013, Michigan, after defeating prohibitory legislation in 2012, announced that the Michigan Lottery will be offering online sales through a system titled “iLottery” as early as spring, 2014.²⁹⁴

4. Conclusion

The Internet offers great opportunities nationally and internationally for all gambling providers, be they commercial, tribal, state lottery, or illegal/non-regulated, to expand their reach to a new audience that is often younger and more affluent than their current customers. Internet access promises to take gambling beyond the casino floor and into the living rooms and bedrooms of Americans which opens a whole new range of opportunities as well as potential problems. For both the casino industry and state lotteries, Internet gambling and ticket sales represent the future of gaming, offering the means to broaden their appeal, widen their marketing footprint and engage the next generation of players in order to replace aging player bases. At the same time, the increased convenience of Internet play also poses the issue of cannibalization of brick and mortar sales for all gambling providers, while 24/7 access to gambling in the privacy of one’s home raises the specter of increased problem gambling.

The inability of the US Congress to debate and resolve the legality of Internet gambling left a vacuum over the past decade which was filled by offshore operators which now dominate a vibrant European Internet gambling market generating \$15 billion in 2012 and an expanding global

²⁹¹ 2012 Legislation Regarding Internet Gambling or Lotteries, National Conference of State Legislatures.

²⁹² Jessica Green, “Legislators file bill allowing online lottery in Fla.” WTXL News, January 30, 2013 http://www.wtxl.com/news/legislators-file-bill-allowing-online-lottery-in-fla-poll/article_eb5c9006-6aff-11e2-8c88-0019bb30f31a.html.

²⁹³ Ibid.

²⁹⁴ “Michigan Lottery Eyeing Internet Sales Launch in 2014,” *The Inquisitor*, April 30, 2013 <http://www.inquisitr.com/654782/michigan-lottery-eyeing-Internet-sales-launch-in-2014>.

industry estimated at \$34 billion last year.²⁹⁵ By 2015, Internet gambling is expected to represent 10 percent of all gambling revenue globally.²⁹⁶ Internet will likely continue to expand beyond the three states currently permitting the practice, absent passage of any federal legislation. A completely legalized US Internet gambling market would be estimated to generate \$7.1 billion after five years of operation. New York would be the largest market (\$1.02 billion), followed by California (\$984 million), Florida (\$786 million), Illinois (\$652 million), and New Jersey (\$570 million).²⁹⁷ Ranking as the third largest potential market in the United States, Florida would need to carefully consider the pros and cons of Internet wagering and develop an effective strategy for addressing the issue as more and more states can be expected to pass enabling legislation in the future

D. Overview of Gambling Regulatory Schemes

A general description of gambling regulatory schemes, including: State-operated, consolidated agency oversight, multi-agency oversight, and the use of local and state commissions; authorizing and revocation mechanisms; taxation schemes.

In this section we review the structure of the Florida gaming regulatory agencies as well as those of a number of other states and also address how each state addresses the most critical points of regulation.

1. Overview of Florida's Regulatory Structures

Preliminarily, we observe that each state has its own “personality” with regard to gaming venue, laws, history of gaming, priorities, etc., but there are also common themes that often, but not always, shine through regardless of differences. It is these themes of regulation that can be very instructive. Practices repeated are often in place for a good reason – because they have been considered important in many locations over long periods. This is not to say that they should not change if circumstances warrant, but it is important to understand the primary principles of gaming regulation.

The overriding regulatory interest that permeates all effective legislative schemes is the recognized need to engender public confidence and trust in the integrity of the regulatory process and gambling operations. To this end, regulatory agencies are charged with the responsibility of ensuring that unsavory and nefarious influences are prohibited from infiltrating the authorized gambling industry. This mandate is especially important for an industry that historically has been susceptible to corrupt influences. In Spectrum’s experience, the linchpin of effective regulation is

²⁹⁵ H2 Global Summary, H2 Gambling Capital, April 9, 2013.

²⁹⁶ Ibid.

²⁹⁷ US Regulated Internet Gaming Forecast, H2 Gambling Capital, April 9, 2013.

a comprehensive licensing process designed to ferret out unsuitable persons and entities from participating in this highly lucrative industry. In order for the regulatory apparatus to succeed, it is imperative that licensure be limited to those persons and entities that are able to demonstrate their good character, honesty and integrity.

There are also significant differences in the regulatory structures formulated to accomplish this laudatory objective of effective oversight. Of course, states have regulatory structures that are designed to account for their particular population, location and statutory requirements. For example, in Ohio the location and even the owners of the casino locations were part of the referendum initiative that was approved by the voters in 2010.²⁹⁸ Thus, the regulatory structure did not have a component for *selecting* an applicant, like Massachusetts, Maryland or Kansas. But the referendum did have a component for *evaluating* an applicant like virtually all states, which was tied to an affirmative showing of integrity and financial suitability.

In another example, many states, such as Pennsylvania, Kansas and Maryland, have a requirement for renewal of licenses, including the licenses of owners of casinos. Other states, such as Nevada and (at this time) New Jersey, have no such requirement, though both have a “call forward” provision which requires companies to provide additional information under certain conditions, with some discretion allowed by the persons in authority.

Many regulatory structures have been created and are almost unchanged from the original enabling legislation, some have had minor changes, and others have been radically altered since first implemented. Sometimes the length of time that a regulatory structure has been in existence has made a significant difference as to whether there have been changes. For example, one might expect New Jersey and Nevada to have made some changes to their regulatory structures because of how long the gaming industry has been operating in those states. Indeed, New Jersey has experienced radical changes just in the last few years to their regulatory agencies: the Casino Control Commission and the Division of Gaming Enforcement.²⁹⁹ On the other hand, Nevada has not had significant regulatory changes in many years.

Other regulatory structures have changed a moderate amount to accommodate the growth of their gaming industry but much of the regulatory apparatus has remained. For example, Iowa has changed primarily from a riverboat gambling state with considerable pari-mutuel gaming to a state that has mostly land-based casinos. Their regulatory structure has primarily expanded but not changed in form to take these changes into account.³⁰⁰ Maryland has reconstituted its Maryland Lottery to what is now the Maryland Lottery and Gaming Control Commission and Maryland

²⁹⁸ Ohio Ballot Board Final Language, Issue 3, 2009, p 9
http://www.sos.state.oh.us/sos/upload/publications/election/Issues_09.pdf.

²⁹⁹ New Jersey Senate Bill S12, signed into law on February 1, 2011
<http://openstates.org/nj/bills/214/S12/documents/NJD00021986/>.

³⁰⁰ See further discussion of Iowa’s regulatory structure in Chapter II(D)(2)(c).

Lottery and Gaming Control Agency and it now regulates casinos with slots and table games. Kansas at one time had a Racing Commission but now that agency has evolved into the Racing and Gaming Commission. Pari-mutuel gaming in Kansas has, at least for now, ceased.

a. Florida Regulation of Pari-Mutuel and Slot Machine Facilities

Chapter 849, Florida Statutes, generally prohibits the conduct of commercial gambling, unless expressly authorized by law. As an exception to the prohibitions in chapter 849, gaming is permitted at licensed pari-mutuel wagering tracks and frontons, pursuant to chapter 550, Florida Statutes, and also by the state operated lottery, pursuant to chapter 24, Florida Statutes. There are also Native American casinos in Florida and charitable bingo games. Free-standing, commercial casinos and slot parlors are not authorized in the state. The state earlier this year enacted amendments to chapter 849, Florida Statutes, that prohibit the operation of Internet/sweepstakes cafes.

Pari-mutuel wagering is authorized for horse racing, harness horse racing, quarter horse racing, greyhound racing, jai alai games and cardroom poker games. These forms of gaming activity are permissible only at a licensed pari-mutuel facility. In addition, slot machine gaming at pari-mutuel facilities is authorized in Broward and Miami-Dade counties. There are 27 pari-mutuel facilities located in Florida (plus inter-track at Ocala).

Chapter 550, Florida Statutes, provides for a comprehensive regulatory system with specific licensing and other regulatory requirements for the pari-mutuel industry. The Division of Pari-Mutuel Wagering (“PMW”) is the regulatory agency exclusively entrusted with oversight responsibility for these various authorized forms of gaming activity at pari-mutuel facilities. The PMW is a program area of the Department of Business and Professional Regulation within the Executive Branch of Florida’s government. (Annual Report of Division, 2011-2012) As detailed below, the Florida regulatory design empowers the regulatory agency with broad oversight and licensing responsibilities over all participants in the pari-mutuel gaming industry.

The Division has also been designated by the Florida Legislature as the State Compliance Agency with the authority to fulfill the state’s oversight responsibilities in accordance with the Gaming Compact between the Seminole Tribe of Florida and the State (section 285.710, Florida Statutes). The Seminole Tribe operates seven casinos in Broward, Hillsborough, Collier, Glades, and Hendry counties.

Notably, PMW has no authority to regulate other forms of gaming activity such as lottery, bingo or so-called cruises to nowhere. The Florida Lottery regulates lottery operations. Counties that permit bingo have their own individual ordinances which govern their operation. We also note that the Miccosukee Tribe does not have a gaming compact with the State and therefore operates exclusively under federal jurisdiction as a Class II gaming entity.

The Director of PMW is Leon M. Biegalski. The Office of the Director is responsible for such areas as budget planning; rule promulgation; policy development; legislative analysis of

proposed legislation; strategic planning; and enforcement of administrative actions. There are six functional units which operate under the management of the Office of the Director: Auditing; Investigations; Operations; Slot Operations; Revenue and Financial Analysis; and State Compliance Agency.

The Office of Investigations is responsible for conducting background investigations of applicants for permits and occupational licenses and the enforcement and investigation of suspected violations that occur in pari-mutuel wagering, cardroom and slot machine gaming facilities. PMW says typical investigative cases include falsified license applications, criminal history checks, animal cruelty, and the use of performance altering medications and/or illegal substances during races. The Office of Investigations also conducts inspections of all new pari-mutuel, cardroom and slot machine facilities prior to opening and all facilities are routinely monitored by investigators to ensure compliance with the gaming statute and applicable regulations.

The Office of Auditing performs annual compliance audits to verify that statutory accounting procedures are utilized and to identify any fraudulent activity. The auditors reconcile pari-mutuel wagering pools for more than 80,000 races and games annually to ensure integrity in the wagering activity.

The Office of Operations is responsible for ensuring that the day-to-day operation of races and games are conducted appropriately, consistent with the statute and regulations. It is also responsible for administering the licensing process. All individuals and businesses who work or conduct business at a racetrack, fronton, cardroom or slot machine facility or who have access to money wagered, restricted areas and/or racing animals, are required to obtain an occupational license issued by PMW. Slot facility occupations requiring a license include, but are not limited to: slot operations managers; slot shift managers; floor supervisors; slot tech supervisors; slot technicians; slot attendants; security and surveillance personnel; count room and cage personnel; information systems managers; systems analyst supervisors; operations analyst supervisors; and revenue audit managers and supervisors.

Every racing and cardroom occupational license applicant is fingerprinted, and then re-fingerprinted at the time of license renewal five years after initial licensure. Every slot machine occupational license applicant is fingerprinted and then again every three years at renewal. Slot machine licensees pay an annual license fee of \$2 million and a regulator fee of \$250,000.

A slot machine business entity occupational license for slot machine management companies, service companies, manufacturers, vendors, distributors and testing laboratories is \$1,000 for a one-year license and \$2,000 for a three-year license. All officers, directors and shareholders with 5 percent or more interest in the business entity are required to be fingerprinted. Those persons who need to have access to the slot machine facility are also required to obtain a Slot Machine Business Employee Occupational License.

Annual cardroom operator licenses are issued to permit holders who operate cardrooms, with a fee of \$1,000 per table. Cardroom business licenses are issued to any cardroom distributor, management company, supplier or vendor conducting business with a cardroom. In addition, cardroom employee occupational licenses are required for all cardroom employees except food service, security, maintenance and mutuel teller employees. Possession of this license does not allow access to any restricted area other than the cardroom. A pari-mutuel/cardroom supervisor license is necessary for supervisors of food service, security, maintenance and mutuel teller employees who require access to restricted areas of the track as well as the cardroom. Finally, a pari-mutuel/cardroom employee license is needed for food service, security, maintenance and mutuel teller employees who require access to restricted areas of the track as well as the cardroom.

The Office of Slot Operations oversees the pari-mutuel facilities that have slot machine gaming. A key element of that regulatory oversight is to ensure that every slot machine has been certified by an independent testing laboratory. The Office of Revenue and Financial Analysis is responsible for safeguarding and accounting for state revenues derived from authorized pari-mutuel gaming activity.

The State Compliance Agency conducts inspections of Indian gaming facilities.

Though it appears PMW addresses most areas of the regulatory process we note that full commercial casinos are not yet present in Florida, and the state's law and policy has not, as of yet, been designed to encompass all regulatory aspects of a casino gaming regulatory agency. Additional or more in-depth regulatory processes may be needed when and if commercial casinos are implemented.

Division Application Requirements

The following are the filing requirements of the Division:³⁰¹

- **License term:** Florida Slot Machine Business Licenses are valid for the fiscal year (three-year licenses are also available). The application fee is \$1,000 for a one-year license, \$2,000 for a three-year license.
- **Officers and directors:** No license is issued. All Officers, Directors, and Shareholders of 5 percent or more interest in the business entity who do not need access to a slot machine facility in Florida, must submit a fingerprint card and the \$40.50 fingerprint processing fee upon submission of the Slot Machine Business Entity Occupational License Application, and an Authorization for Release of Information form must be completed. Any Officer, Director, or Shareholder of five percent or more interest of a business entity who needs access to a slot machine facility in Florida, must obtain a Slot Machine Business Employee Occupational License. Officer/director/ shareholder(s)

³⁰¹ Filing requirements provided by PMW.

must submit fingerprint cards and pay \$40.50 fingerprint fee the first year and \$16.50 every three years thereafter.

- An Authorization for Release of Information form must be completed for the business.

Note: Any business employee who needs access to a slot machine facility in Florida must obtain a Slot Machine Business Employee Occupational License.

The following is a detailed list of application requirements for a Slot Machine Business Employee license:

- An Individual Slot Machine Occupational License Application form must be completed.
- **License term:** Florida Slot Machine Business Licenses are valid for the fiscal year. The application fee is \$50 for a one-year license, \$100 for a three-year license, plus a \$40.50 fingerprint processing fee. An Authorization for Release of Information form must be completed for each employee. Applicants for Slot Machine licensing must be 21 years of age or older. Applicants must submit his/her fingerprints for a criminal history background check and pay the \$40.50 fingerprint processing fee when submitting an initial application. Every three years after the initial fingerprint submission, upon renewal, the applicant must pay \$16.50,

The disclosure forms required for natural persons require disclosure of prior license and criminal history information among other things. Though the disclosure requirements are substantial the forms that are used by PMW do not include a document on the order of the multi-jurisdictional disclosure form provided by the International Association of Gaming Regulators,³⁰² which is utilized by many casino gaming regulatory agencies. While this specific form is not essential to the process the disclosure of information that is required on that form is critical to the process of investigations.

Some specific information such as a financial net worth statement for natural person qualifiers is not required by the forms now utilized by PMW.

Additional Functions of PMW

In addition to these functions of a typical gaming regulatory agency for slot machine facilities, PMW also has comparable responsibilities for pari-mutuel wagering. The regulation of pari-mutuel wagering also includes many other functions such as the collection of urine and blood samples. PMW utilizes a racing laboratory under contract that collected over 86,000 samples in FY 2012.

Florida thus has already adopted a “consolidated regulatory agency” model in which one agency addresses almost all the regulatory functions, including pari-mutuel wagering. (Later in

³⁰² The multi-jurisdictional form is available online at several locations, including: <http://iagr.org/wp-content/uploads/Multi-Jurisdictional-Application.pdf> (accessed May 28, 2013).

this report we will review a number of other states' regulatory agencies and address the best practices of regulatory models.)

Changes to the Division because of Slot Machine Licensing

The absorption by PMW of the licensing function has significantly added to its staff. Before the implementation of slot machine licensing, the agency had 62 full-time employees. In FY 2013 there were 115 appropriated employees, 50 of which were dedicated to slot machine licensing. Four full-time-equivalent positions were added for oversight of the compact between the State and the Seminole Tribe. There would be significantly more staff added if full casinos were implemented.

Even with this increase in the PMW budget it is apparent that the agency is still heavily dedicated, in staff, to the regulation of pari-mutuel operations rather than slot operations, even though the State's revenue comes by this time primarily from the operation of the slot machine operations. This is due to the numbers of facilities – 27 pari-mutuel operations vs. six slot operations.

b. Lottery

The Florida Lottery requires submission of a company application form and a host of other requirements for approval to be a lottery retailer.³⁰³ The application requires identification of the persons associated with the company who have a 10 percent holding and the identification of any criminal record for those persons. The disclosure form also requires a short explanation of the business operation.

Retailers must agree to a seven-page contract that addresses Public Entity Crime and the maintaining of certain bank accounts. Record-keeping and access to records by the Lottery is also required. The following is a description of the vendor registration process provided by the Lottery:

The Florida Lottery uses MyFloridaMarketPlace (the State of Florida's eProcurement system) which includes a statewide enterprise on-line vendor registration process. This system is designed to streamline interactions between vendors and state government entities that purchase goods and services, and provides a user-friendly Internet portal where vendors can register, receive information on upcoming bids, post information on products and services, and receive purchase orders electronically.

Section 24.103(6), Florida Statutes defines a "Vendor" as "a person who provides or proposes to provide goods or services to the department, but does not include an employee of the department, a retailer, or a state agency."³⁰⁴

³⁰³Florida Lottery <http://flalottery.com/howToApply.do> (accessed May 24, 2013).

³⁰⁴ Florida Department of Management Services
http://www.dms.myflorida.com/business_operations/state_purchasing/myfloridamarketplace.

c. Charitable Bingo

Section 849.0931, Florida Statutes, authorizes the conduct, permitted uses of proceeds and limitations of bingo games by “charitable organizations.” These are defined as charitable, non-profit and veterans' organizations engaged in charitable, civic, community, benevolent, efforts or scholastic works and other similar activities. All charitable organizations must be qualified for exemption from federal income tax as an exempt organization under the provisions of section 501(c) of the Internal Revenue Code.

The statute mandates that all proceeds resulting from the conduct of the bingo games are donated to charitable organizations, less actual business expenses for the operation, conduct and playing of bingo. The statute strictly prohibits the net proceeds from bingo games from being used for any other purpose.

Section 849.0931, Florida Statutes, contains various other provisions intended to assure that the primary benefactors of the authorized bingo games are actually the charitable, non-profit and veterans' organizations, and not private persons. These include requirements that the operators must be bona fide members of the organization conducting the bingo game, must not be compensated for the operation of the bingo game, and must be residents of the community where the organization is located. The protective statutory provisions also include requirements that the property upon which the bingo games are held must either be owned by the worthy organizations or leased by worthy organizations for not less than one year, provided that the rent is not unreasonable for the location.³⁰⁵

Bingo is not regulated by the State. However, municipalities and/or counties that permit bingo have their own local ordinances that govern its operation. Most municipalities require a business tax license, or occupational license, to conduct bingo. Some require a special exemption waiver for that activity (bingo) in order to qualify for a business tax license. The licenses are issued annually and require copies of IRS financial statements.

d. Native American Casinos

The gaming compact between the Seminole Tribe and the State (“Seminole Compact” or “Compact”) was executed by the Governor on April 27, 2010 and ratified by the US Department of the Interior on July 7, 2010.³⁰⁶ The Seminole Compact has a term of 20 years, expiring on July 31, 2030,³⁰⁷ although the expiration for house-banked card games (including blackjack, chemin de fer and baccarat) expires July 31, 2015, unless renewed.

³⁰⁵ Report of the Twelfth Statewide Grand Jury: The Operation of Commercial Bingo Halls in the State of Florida; October 25, 1995.

³⁰⁶ Department of the Interior News Release July 7, 2010.

³⁰⁷ Seminole Compact, p 49

The Seminole Compact authorized covers games at seven locations and also requires the tribe to regulate its casinos under specific internal control requirements.³⁰⁸ The Compact names the Seminole Tribal Gaming Commission (“Gaming Commission”) as the tribal governmental agency that has the authority to carry out the Tribe’s regulatory and oversight responsibilities.³⁰⁹ The Compact also provides for the monitoring of the tribal casinos by the State.³¹⁰ Licensing is also addressed in the Compact.³¹¹

The Gaming Commission has established a regulatory structure that Spectrum believes is thorough and substantial. Ed Jenkins is Director of Compliance and Regulations for Gaming and has significant experience with the FBI and with the gaming industry. He indicates he has worked for the tribe since 2001 and has established a regulatory agency that was designed to be independent and capable. Perhaps an example of this independence is the requirement that surveillance departments within the casinos are required to report to the Gaming Commission and not to operations.

The surveillance department is critical to internal controls because it is designed to be the eyes and ears to any crime that may be occurring at the casino floor. It is the last line of defense against crimes committed by any patron or employee, including management. In Spectrum’s experience, often casino management will balk at providing sufficient staff to the department and argue against creating a reporting line which establishes a point of view which is free from influence by casino management. Spectrum believes a reporting line that goes to casino operations leaves a casino vulnerable to a host of crimes, including collusion at the highest levels.

The fact that the Gaming Commission requires this independence is one sign that regulatory requirements are being taken seriously. There are other signs as well. Gaming Commission staff is present at the casinos 24 hours a day, seven days a week. The license process, including the licensing or registration of all employees, seems significant (though Spectrum notes there is no renewal to a license).³¹² The fact that someone of significant experience such as Ed Jenkins was hired is another indication of the significance that the Seminole Tribe has placed on regulation. It is also important that Jenkins’s reporting line appears also to be independent from casino management influence.

³⁰⁸ Ibid., p. 13 and 14.

³⁰⁹ Ibid., p. 3 and 23.

³¹⁰ Ibid., p. 25.

³¹¹ Ibid., p. 31.

³¹² Phone interview with Ed Jenkins May 17, 2013. Jenkins did note, however, that if an employee changes positions there is an additional investigation.

2. Regulation in Other States

Spectrum reviewed and analyzed gaming laws and interviewed representatives from several other states. In addition, we reviewed the Florida Senate interim report of October 2010, *Review of Casino Gaming in Other States*.³¹³ Based on our experience working for, with, and studying, state regulatory agencies across the country, we selected several gaming commissions for discussion in this report that we believe would be insightful into various regulatory models.

a. Introduction: Establishment of Standards

All states and many foreign jurisdictions require companies to apply to be a casino operator, and require companies to show qualification in such areas as good character, honesty, integrity, the absence of a criminal record, and financial stability. There are variations in the extent to which persons associated with the company and associated companies must file and establish these standards. Most, if not all, states that have implemented casino gaming, or are in the process of doing so, such as Massachusetts, Maryland, Kansas and Ohio, require parent companies as well as all those natural persons with an ownership interest beyond a certain percent (5 percent is often used) to file and establish these qualifications. In addition, those officers, board members and executives deemed to be qualifiers due to their prominence in the company must demonstrate these qualifications. Since these associated companies and natural persons can have an influence over the casino operator it is incumbent upon a state to require the establishment of such standards.

The selection of casino operators is the starting point of establishing public trust in the casino industry as one of integrity. It is critical that this step be completed carefully and thoroughly. Through this process the state is not only establishing that the gaming industry is one of integrity, but that the selection of who will be a casino operator has been done with integrity by the state. In cases where the selection process was called into question (see Chapter II[E][1]), the expense to the state of re-establishing that trust can be enormous.

b. Bid Process or Non-Competitive Application

Beyond requiring of the qualification standards noted above, licensing decisions depend on basic policy: The state must decide how and in what way it wishes to limit the numbers of operating casinos, or whether unlimited numbers of casinos may be issued. There are two primary methods for awarding licenses: competitive bidding and non-competitive applications. The former process occurs in situations where there are a finite number of licenses permitted in a particular region, while the latter method is utilized in instances where an infinite number of licensees are permitted by law. For both methods, there are still essential qualification requirements relating to a person's and an entity's showing of good character, honesty and integrity.

³¹³ Florida Senate, *Review of Casino Gaming in Other States*, October 2010
<http://www.flstate.gov/Committees/InterimReports/2011/2011-133ri.pdf>.

If a state determines the demand is great enough, an unlimited numbers of casinos may be appropriate, but the state must address if that level of competition would potentially saturate the market and negatively affect the financial viability of the businesses involved. Nevada allows unlimited numbers of casinos in unlimited locations; all other states have some limitations.

Limitation to a specific area of the state can create a destination area. For example, New Jersey's requirement that casinos be located in Atlantic City was intended to create just such an area. States such as Pennsylvania, Maryland, Kansas and Massachusetts limit the number and types of casinos that are permitted and their location. Within those limits these states required a competitive bid process that required applicants to show the value of their application in such areas as economic development and job creation in the area.

c. Regulatory Structures Consolidated or Separated Oversight

Although generalizations can be made about regulatory models, no two states have regulatory agencies that are truly comparable in all respects. There are simply too many unique forums, too many different types of gaming venues, and too many unique legal structures in every state. The states addressed below, while not intended to be a complete survey of every state, are illustrative of both the uniqueness of different states' regulatory structures and their similarities.

Massachusetts

The Massachusetts Gaming Commission ("MGC"), which has begun the process of awarding four casino licenses, was created by law in November 2011. That law provided for commercial casinos in the state, created a provision which could allow for an Indian casino, and brought the pari-mutuel industry under the auspices of the MGC.³¹⁴

This law also created one agency, whose five members serve full-time, and which consolidated responsibilities and authorities for investigations, prosecution of violations, policy formulation and decision making. With the exception of the Massachusetts Lottery, the MGC has wide reaching purview over gaming matters.

Thus the MGC is an example of an agency which has consolidated oversight. An important part of this consolidation is the Investigation and Enforcement Bureau ("IEB"), the "primary enforcement agent for regulatory matters."³¹⁵ The IEB has numerous responsibilities, including the authority to conduct or limit investigations,³¹⁶ the decision on certain license matters and the

³¹⁴ Massachusetts Expanded Gaming Act, Chapter 194 of the Acts of 2011
<http://massgaming.com/about/expanded-gaming-act/> (accessed May 28, 2013).

³¹⁵ Ibid, Section 6. Although the IEB is part of the MGC it is also required to work in conjunction with the Attorney General's Office on criminal matters, pursuant to Section 6.

³¹⁶ Ibid., Section 12b.

holding of relevant hearings.³¹⁷ The IEB is a law enforcement agency and works directly with and will include members of the Massachusetts State Police. Because of its designation as a law enforcement agency it can request fingerprint criminal records checks directly from the FBI. The Massachusetts Expanded Gaming Act takes measures to assure the independence of the IEB's investigations, specifying that the commission "shall not place any restriction upon the bureau's ability to investigate or prosecute violations of this chapter or the regulations adopted by the commission."³¹⁸

In many states, there are agencies or bureaus that have the responsibilities of the IEB but which are separate from the gaming commission/decision-making authority. Some of these agencies are part of or connected to the State Police and many times they report to the Attorney General of the state. In Massachusetts the IEB reports to the MGC, which has ultimate authority over license decisions and policy matters. And the IEB is only one of a wide range of consolidated responsibilities under the auspices of the MGC.

Another consolidation that has taken place in Massachusetts is the fiscal authority and responsibility which has been given to the MGC. The MGC is the trustee for the many funds created by the Expanded Gaming Act and for all revenue collected by from the commercial casinos.³¹⁹ In many other states trustee responsibilities are under the authority of the State Treasurer.

Still another responsibility under the MGC is that of the Racing Commission. The Racing Commission was a separate agency until passage of the Expanded Gaming Act, but now is under the authority of the MGC. Thus the MGC is a host racing commission and an off-track betting commission and also has responsibilities over simulcasting.³²⁰ Despite this, the MGC is primarily a gaming commission, with the majority of its resources and staff devoted to casino gaming.

In Massachusetts, the extensive responsibilities of the MGC can be represented in chart form, as indicated below. All functions, relating to gaming, with the exception of the lottery, are encompassed under the purview of the MGC, although the Attorney General also will have investigative authority into casino criminal activities.

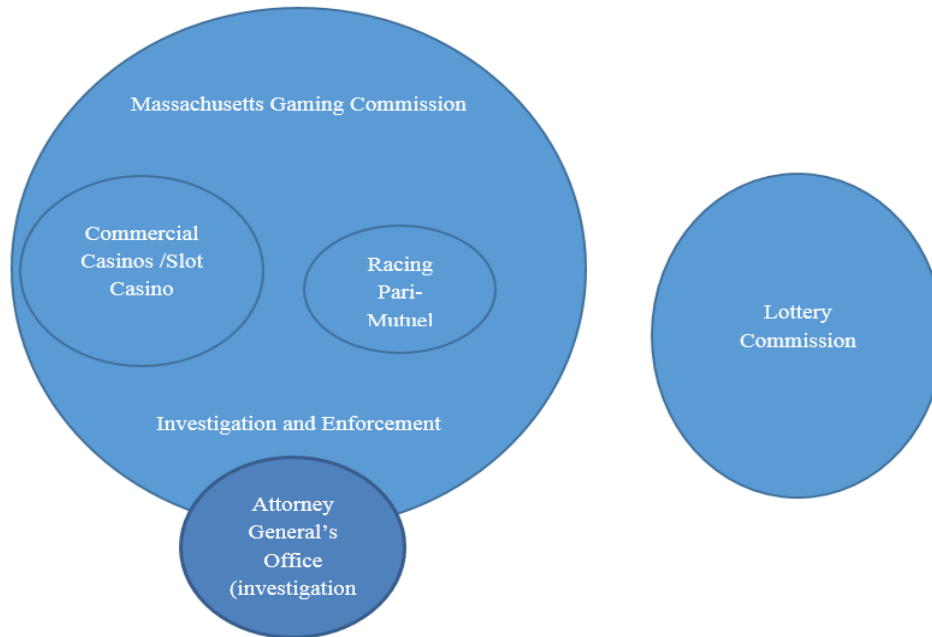
³¹⁷ Ibid., Sections 30 and 31.

³¹⁸ Ibid., Section 34.

³¹⁹ Ibid., Section 4.

³²⁰ Ibid., Section 7.

Figure 34: Massachusetts gaming regulatory structure



Source: Massachusetts state agencies, Spectrum Gaming Group

Ohio

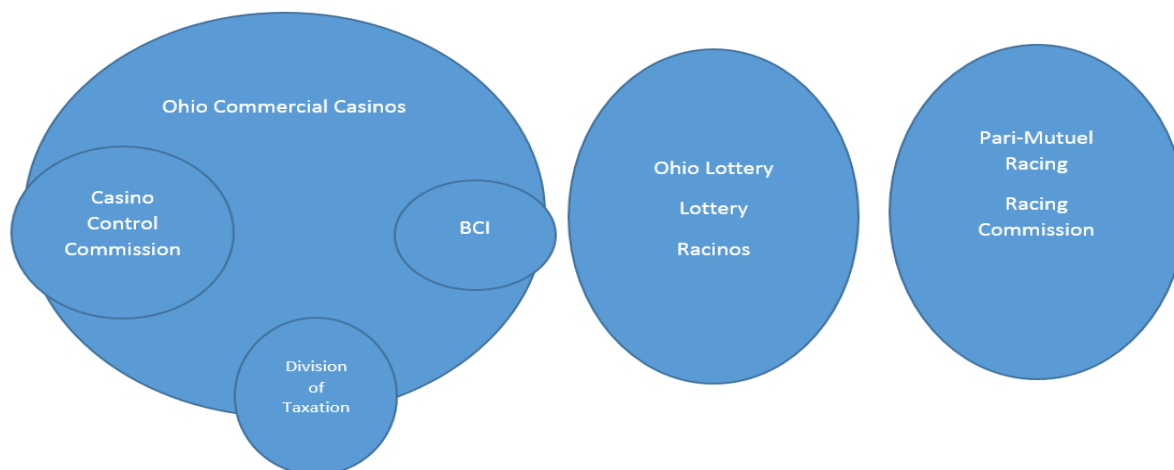
The State of Ohio is a contrast to Massachusetts in that there are several agencies involved in the regulation of gaming. The Ohio Casino Control Commission (“OCCC”) has the primary responsibility for regulating the four commercial casinos but other agencies are involved as well. The OCCC is comprised of seven members who serve as part-time officials.³²¹ The Ohio Bureau of Criminal Identification is involved in the license application process as the agency responsible for receiving reports from the FBI.³²² The Division of Taxation is responsible for collection of the gaming revenue.³²³ The Ohio Lottery is a separate agency that oversees the traditional lottery as well as racetrack VLTs. The Ohio State Racing Commission oversees Pari-mutuel gaming and Racing.

This separation of responsibilities is depicted in the following diagram:

³²¹ Ohio Revised Codes Chapter 3772 <http://codes.ohio.gov/orc/3772.02> (accessed May 25, 2013).

³²² Ibid., Section 3772.07.

³²³ Ohio Department of Taxation website, http://www.tax.ohio.gov/gross_casino_revenue.aspx (accessed May 20, 2013).

Figure 35: Ohio gaming regulatory structure

Source: Ohio state agencies, Spectrum Gaming Group

Maryland

In Maryland a 2012 referendum approved table games at the existing slots casinos.³²⁴ The change re-constituted the State Lottery as the State Lottery and Gaming Control Agency (“LGCA”).³²⁵ This agency now has regulatory responsibility and authority over the commercial casino industry as well as the Lottery. The change resulted in the addition, at one time, of 44 employees for the agency to handle the added responsibilities of table games.³²⁶ Maryland’s gaming industry evolved from the lottery and the regulatory agency has evolved to handle the significantly greater responsibilities of a gaming agency as well as the lottery program.

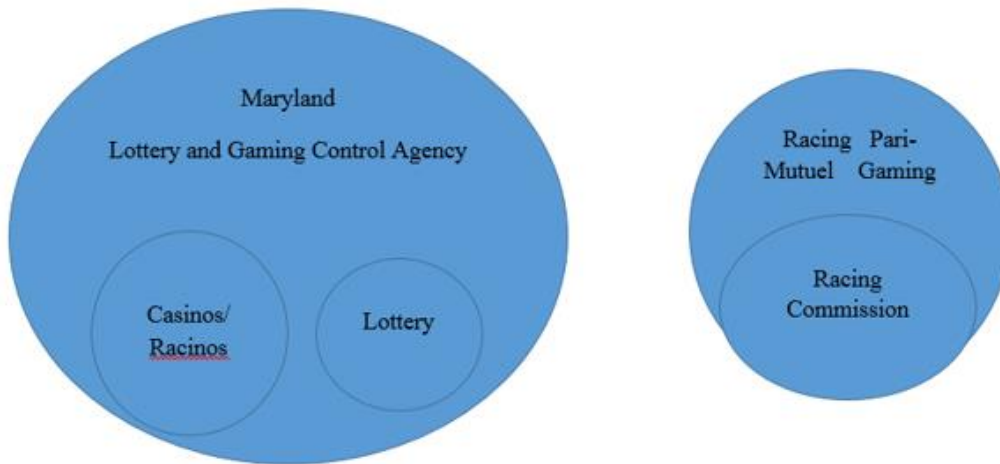
There is also a separate Racing Commission in Maryland within the Department of Labor, Licensing and Regulation which oversees the pari-mutuel industry. Maryland’s gaming structure is depicted below.

³²⁴ Maryland Gaming Expansion Question, Question 7 (2012)
http://www.elections.state.md.us/elections/2012/ballot_questions/Question_7_Summary.pdf (accessed May 25, 2013).

³²⁵ August 2012 Special Session on Gaming in Maryland from the Governor’s Website
<http://www.governor.maryland.gov/session.asp> (accessed May 24, 2013).

³²⁶ *Baltimore Business Journal*, November 15, 2012
<http://www.bizjournals.com/baltimore/news/2012/11/15/kirby-fowler-named-chair-of-maryland.html>.

Figure 36: Maryland gaming regulatory structure



Source: Maryland state agencies, Spectrum Gaming Group

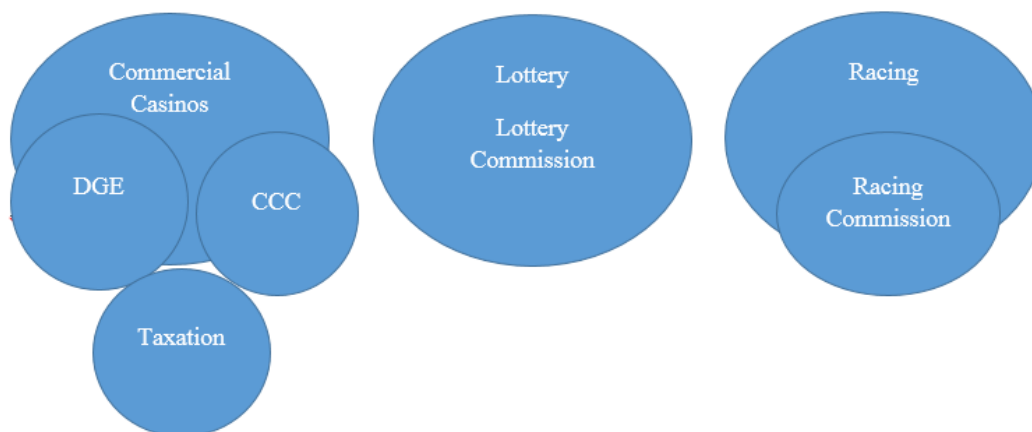
New Jersey

Until recently, the New Jersey Casino Control Commission was the agency responsible for the day-to-day oversight of operations, internal controls, regulations, licensing, financial analysis and auditing. The Division of Gaming Enforcement was responsible for investigations and enforcement. Those responsibilities have shifted and now the Division of Gaming Enforcement has more responsibilities in auditing, licensing and financial analysis. Much of the day-to-day oversight of operations and licensing requirements has been eliminated.³²⁷ The Division of Taxation took responsibility for the collection of several taxes previously collected by the Casino Control Commission, including the gross revenue tax.³²⁸

In New Jersey, the Lottery is regulated by a separate Lottery Commission and Racing is regulated by a separate Racing Commission.

³²⁷ Senate Bill S12 and New Jersey Casino Control Act.

³²⁸ New Jersey Division of Taxation website regarding New Legislation 2011 <http://www.state.nj.us/treasury/taxation/newlegislation2011.shtml> (accessed May 25, 2013).

Figure 37: New Jersey gaming regulatory structure

Source: New Jersey state agencies, Spectrum Gaming Group

Pennsylvania

Pennsylvania's dominant regulatory agency is the Pennsylvania Gaming Control Board ("PGCB"). The state has confronted issues regarding its regulatory structure, as a grand jury investigation and report cited initial structural weaknesses, which are useful for instructional purposes.³²⁹ That grand jury report is dealt with in significant detail later in this report.

Some of the changes that were implemented by the PGCB, such as the creation of an independent reporting line for the Bureau of Investigations and Enforcement ("BIE"), are valuable in illustrating the priorities that should exist for any regulatory agency. Since the grand jury report, there have been changes to the PGCB and the only link between the BIE and the PGCB now is for administrative functions.

Although the Pennsylvania statutes require approval by one of the two racing commissions (Horse or Harness) for a Category 1 (racino) license, as a practical matter the PGCB oversees and takes major responsibility for the regulation of gaming operations at racinos. The PGCB is fully responsible for the non-racino casinos in the state.

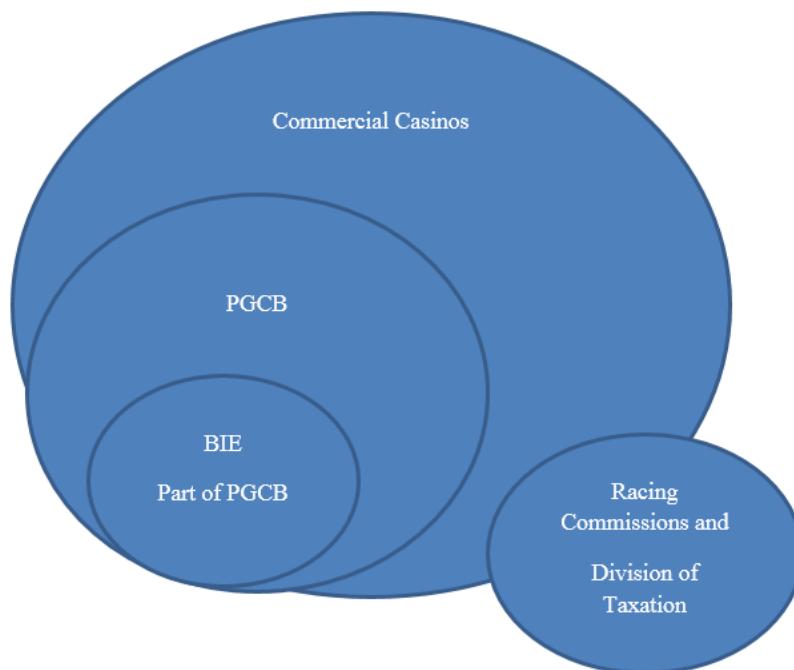
The PGCB is not a law enforcement agency but it works closely with the State Police in its investigations. The Department of Revenue is the trustee for the gaming revenue³³⁰ but the PGCB

³²⁹ Donald Gilliland, "Pennsylvania Gaming Control Board riddled with culture of 'noncriminal misconduct,' grand jury report says," *The Patriot-News*, June 12, 2011
http://www.pennlive.com/midstate/index.ssf/2011/06/grand_jury_report_describes_cu.html.

³³⁰ Pennsylvania Statutes Title 4 Chapter 14.

oversees the internal controls and the day-to-day operations of the casinos. The Pennsylvania model is illustrated below.

Figure 38: Pennsylvania gaming regulatory structure



Source: Pennsylvania state agencies, Spectrum Gaming Group

Kansas

Kansas has a unique organizational structure which involves two primary agencies. The Kansas Lottery technically owns the games in the casinos and the revenue that comes from those games.³³¹ The managers of the casino operations own the facilities and are “paid a fee.”³³² Though this is the legal wording in the Kansas Expanded Lottery Act, for practical purposes there are mainly only subtle differences in the collection of taxes from other states.

The Kansas Lottery, however, is responsible for the gaming revenue and conducts a regular reconciliation. A daily reconciliation through electronic means is done on slot revenue and a

³³¹ Kansas Expanded Lottery Act, for example New Sec. 3(a) indicates: “The Kansas Lottery may operate one lottery gaming facility in each gaming zone” http://krgc.ks.gov/images/stories/pdf/Statutes_and_Regulations/kansas_expanded_lottery_act.pdf (accessed May 25, 2013).

³³² Ibid., New Sec. 35.

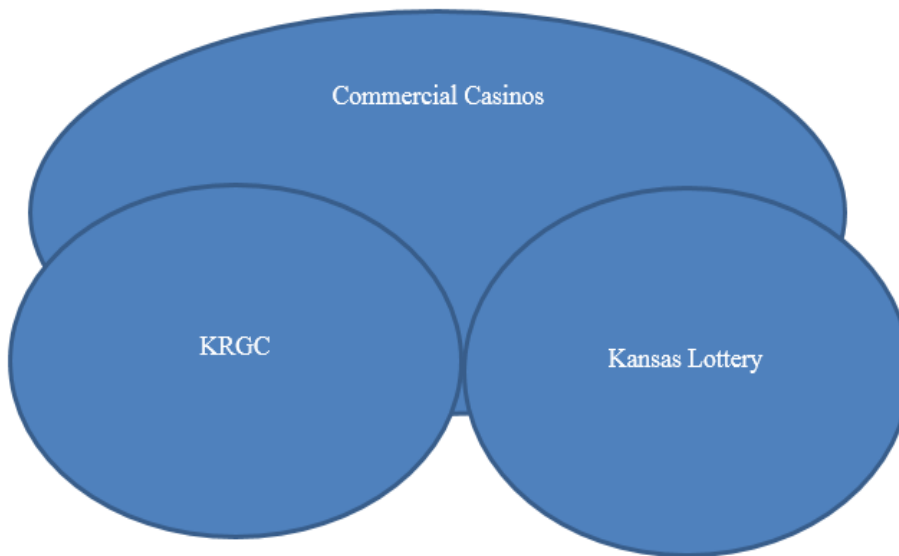
monthly reconciliation is done of the table game revenue.³³³ The Kansas Lottery is also responsible for the lottery program in the state.

It is the Kansas Racing and Gaming Commission (“KRGC”) that performs the bulk of the typical regulatory functions over the casinos, including oversight of casino operations, investigations and licensing. The KRGC also performs audits on casino revenue. This is an acknowledged though minor overlap of functions between the two agencies, but this redundancy is not considered a bad thing. According to representatives from both agencies, the system works well and helps to create a needed assurance of integrity.

Pari-mutuel gaming has become inactive in Kansas, without any performances since 2008.³³⁴ Thus the KRGC’s focus is on casino gaming.

The Kansas model is depicted below:

Figure 39: Kansas gaming regulatory structure



Source: Kansas state agencies, Spectrum Gaming Group

Iowa

Iowa has a primary agency that regulates the 18 commercial casinos in the state but other agencies are utilized in more minor roles. The Iowa Racing and Gaming Commission (“IRGC”) performs most typical functions including licensing and the oversight of daily operations. Employees and gaming related companies are licensed. Investigations, however, are primarily

³³³ Ibid.

³³⁴ Interview with representative of the KRGC.

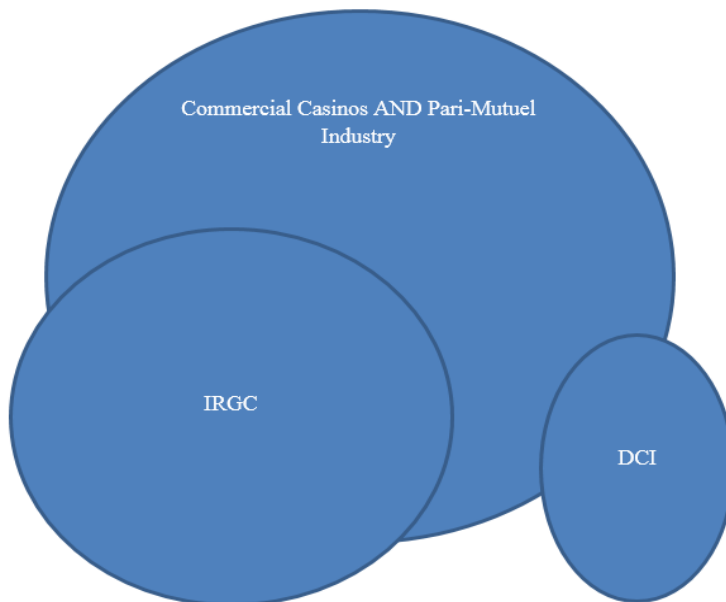
carried out by the Department of Criminal Investigations (“DCI”). The DCI is also present at each casino and play a major role in investigations of criminal activities and enforcement.³³⁵

The Department of Revenue is the trustee for the gaming revenue through the IRGC and takes responsibility for assuring the internal controls are followed and audited.³³⁶

The IRGC is similar to the Florida PMW in that it is also responsible for pari-mutuel wagering in the state. The IRGC is responsible for the presently operating pari-mutuel facilities of one horse track and two dog tracks in the state. Though this agency does have pari-mutuel wagering regulatory responsibilities, there are also considerable differences with the Florida PMW. The Iowa pari-mutuel industry has significantly fewer facilities than Florida and there is no requirement to limit casino gaming in pari-mutuel facilities.

The organization of the agencies involved in Iowa is depicted below:

Figure 40: Iowa gaming regulatory structure



Source: Iowa state agencies, Spectrum Gaming Group

d. Regulatory Oversight Critical Functions

Regulatory agencies that oversee commercial casinos have a number of typical functions. While there are variations in the details as to the depth of regulation and the specifics of procedures, the *types* of functions have become standard in almost all states.

³³⁵ Gathered from Interview with representative of the Iowa Racing and Gaming Commission 5-20-2013.

³³⁶ Ibid.

Some of the most critical of those functions include licensing, ongoing review of daily operations, internal control requirements, and auditing. Each of these is addressed below:

- **Licensing:** All regulatory agencies investigate and make a determination regarding the qualifications of companies and natural persons that apply to operate, work in or service casinos. Some states have more extensive requirements than others. All states require casino operators and companies that supply gaming related equipment or services, such as slot machines, to file for a license. Some states, such as Pennsylvania and Massachusetts, require companies that supply non-gaming goods or services to file for a license under certain conditions (in Pennsylvania a certification, which is similar to a license, is required). In Massachusetts, the MGC may require any vendor regularly conducting over \$250,000 of business with a gaming licensee within a 12-month period, or \$100,000 of business in a three-year period, to be licensed as a gaming vendor.³³⁷ The Pennsylvania Gaming Control Board requires companies that conduct over \$500,000 worth of business to be certified.³³⁸

Without having some mechanism for a regulatory agency to review all contracts with a casino operator, even those that relate to non-gaming companies, the regulatory agency may be unaware of the movement of large amounts of money or the infiltration of organized criminal elements. The need for close examination of non-gaming enterprises, such as construction companies, became evident in New Jersey in the Bayshore Rebar matter, among others.³³⁹

Similarly, almost all states require either licensing or registration of employees who work in the gaming areas. Some states, such as Massachusetts, also require employees who work in non-gaming positions to be registered.³⁴⁰ Spectrum has found that it is good policy to require licensing or registration of such persons because of the potential for such individuals to be involved directly or through collusion in theft or other crimes in a casino operation.

The attention to detail of this process is critical as it is the first step in assuring integrity of the casino industry in that state.

³³⁷ Massachusetts Expanded Gaming Act, Section 31 (d).

³³⁸ Pennsylvania Gaming Control Board <http://gamingcontrolboard.pa.gov/?p=75> (accessed May 29, 2013).

³³⁹ As indicated in the following article, which is a report of the final Bayshore Rebar hearing, the company was denied a license in 1989 and 1997. George Anastasia, "The other Joey Merlino' gets casino service license," *Philadelphia Inquirer*, May 6, 2010 http://articles.philly.com/2010-05-06/news/24958581_1_hearing-examiner-mob-ties-joe-merlino.

³⁴⁰ Massachusetts Expanded Gaming Act, Section 30(c).

- **Ongoing Review of Daily Operations:** Virtually all states also maintain a presence in the casino. The extent of this presence varies from a 24/7 inspector or agent at a publicly visible level, such as exists in Pennsylvania, Massachusetts and Ohio, to a limited law enforcement presence such as what now exists in New Jersey. The inspector or agent presence includes greater scrutiny of ongoing gaming operations and transactions. As happened in New Jersey, such requirements may be stringent in the early years and then relaxed somewhat as both the industry and regulatory system mature.³⁴¹
- **Internal control requirements:** Virtually all states have requirements that require the casino operation to address internal controls within their operations. Internal control requirements may mandate that certain departments, such as surveillance and internal audit, are created. Internal control requirements may also require separation of such duties as income control and table games to prevent incompatible functions.
- **Auditing:** Regulatory agencies have an audit function over the casino operations, though the extent and frequency of such audits may vary. At a minimum, best practices demonstrate that the casino regulatory agency must conduct random unscheduled audits relating to the collection of gaming revenue.
- **Underage gambling and problem gambling:** All jurisdictions are justifiably concerned with the problems associated with underage gambling and problem/compulsive gambling. Statutory schemes attempt to cope with such important public policy concerns. One such endeavor entails the formation of a self-exclusion list whereby self-proclaimed problem gamblers can voluntarily decide to be excluded from gambling activity. Once a person is placed on the self-exclusion list, the casino operator is obligated to take appropriate measures to enforce the exclusion from gaming activity, including a cessation of direct marketing to the individual. With respect to underage gambling, such activity is generally harshly punished, both as to the underage patron and the casino operator.

e. Table of Organization of Regulatory Agencies

Organizations of regulatory agencies are largely divided by the functions detailed above and by functions that allow for these actions, with some additional functions that are needed in most government agencies. In 2010, Spectrum did a review of gaming agencies that address the types of tables of organization. This report will borrow from that earlier research.³⁴²

The following are departments or offices that are typical in casino regulatory agencies:

³⁴¹ Spectrum Gaming Group, "Gaming Regulation: Overview, Primer," prepared for the State of New Hampshire, January 26, 2010 http://www.nh.gov/gsc/calendar/documents/20100216spectrum_regulatory.pdf.

³⁴² Ibid.

- **Investigations.** Casino regulatory agencies have staff devoted to investigations, though as detailed in Subsection C above, investigatory functions are often separated from those functions that decide licensing.
- **Licensing:** The license function often has its own staff because the specific activities of licensing are often most efficiently accomplished by those familiar with applications, the review of investigatory reports and data collection relevant to the process.
- **Operational Review of Casinos:** Casino regulatory agencies often have an inspection or agent staff that is devoted to the operations of casinos. In some cases there is both a law enforcement and civilian presence. A civilian presence in a casino operation can assist in the oversight of internal controls and is less expensive than a law enforcement presence. A law enforcement presence is necessary also for criminal purposes.
- **Internal Controls:** There is typically a group of staff devoted to the review of the casino's internal controls. Typically, especially in jurisdictions that involve larger casinos, the internal control plans of a casino are submitted for review and approval by this group
- **Financial Analysis:** Casino regulatory agencies are responsible for the collection of revenue, thus the analysis of trends in incoming revenue is useful and possibly critical.
- **Auditing:** Auditing of the considerable sums of revenue in a casino industry by the regulatory agency is especially critical. Nearly all agencies employ staff devoted to such functions.
- **Other functions:** Casino regulatory agencies are in great need of services in Information Technology since the management of revenue and license data is an ongoing, regular and challenging process. There is also a need for the accounting for and transfer of funds, as many regulatory agencies are the trustee of funds. There is also a need for typical services such as administration, human resources, and public information dissemination.

Regardless of the regulatory scheme employed, Spectrum has found that regulation is most effective when it provides the following, as noted in the aforementioned 2010 report:³⁴³

- Provides for sufficient regulatory oversight by creating a unit or team that is frequently on the casino floor, accessible to the public and visible to casino employees
- Creates a license structure that addresses all those that participate in the gaming industry, including the casino licensees, the companies that service those licensees and the employees. It is only by examining the background of all those who seek to participate in the industry that integrity can be assured.

³⁴³ Ibid., p. 19.

- Creates a decision-making structure that allows for independence from the investigatory branch of the regulatory structure. In addition, sufficiently staff the decision-making agency to ensure it has adequate resources to carry out its duties.

f. Full- and Part-Time Decision-Making Authorities

Agencies in all casino gaming states have full-time staff.³⁴⁴ However, as documented in Subsection C above, no two states are the same in the composition of the staff or even in the number of agencies that employ them. There is also a mixed bag regarding the decision making authorities (often called commissions) in each state.

The argument for a full time gaming commission can go back to the time of Abscam at the start of the New Jersey Casino Control Commission (Commission).³⁴⁵ At that time the Commission was part-time (except for the Chairman who was full-time). After Abscam, the law in New Jersey was changed to require full time commissioners. A full time commissioner, which is allowed no other occupation, is likely to be more focused on their positions. The tradeoff may be that full time commissioners should be paid a full time salary.

Two of the most recently formed commissions, the Ohio Casino Control Commission and the Massachusetts Gaming Commission, went in different directions when they formed their agencies.³⁴⁶ As is also documented in the aforementioned Spectrum report of 2010, there is no specific trend on this issue.³⁴⁷ The appropriate answer for a state forming a new gaming commission would depend in the size and complexity of the gaming industry. Surely the larger gaming industries would require more license making decisions and a full-time position may be more appropriate.

3. Application Forms

a. Form of Application and Background Investigations

The basic application form that is used by many casino regulatory agencies for natural persons is the multi-jurisdictional personal history disclosure form.³⁴⁸ This form is often supplemented with an additional form that is designed to take into account a state's specific

³⁴⁴ In addition to the information in this report also see *Ibid.*, p. 17.

³⁴⁵ The following is an article provides a summary of the Abscam sting:
<http://socyberty.com/government/abscam-operation/> (accessed May 29, 2013).

³⁴⁶ Ohio's Commission is part time, see 3772.02. Massachusetts' commissioners are full-time, see the Massachusetts Expanded Gaming Act, Section 3.

³⁴⁷ Spectrum New Hampshire report, p 17.

³⁴⁸ The multi-jurisdictional form is available on the web on several locations, such as at:
<http://iagr.org/wp-content/uploads/Multi-Jurisdictional-Application.pdf>.

requirements. The multi-jurisdictional form requires disclosure of information on family background, offices and positions, employment and licensing data, testimony before a license agency, company ownership information, civil and criminal arrest history, financial data, and a net worth statement.

Gaming agencies also often require a Business Entity Disclosure Form³⁴⁹ which typically requires information about the business, the directors and trustees, officers, voting owners, compensation, contracts, transactions, testimony, violations, bankruptcy proceedings and licenses,

Other forms are often used by casino regulatory agencies for other types of applications including for employees in lower level positions and companies that are not gaming related. Pari-mutuel agencies commonly use a smaller form than the multi-jurisdictional form.

It is a universally accepted practice for casino gaming regulatory agencies to conduct background investigations, either by its internal staff or by retaining the services of a third-party investigative firm, to evaluate an applicant's suitability for licensure. The licensing process for authorization to operate a casino facility or to be employed in a gambling establishment, commences with the filing of a license application by the applicant, to be followed by the requisite suitability background investigation.

The costs of the investigation are usually paid by the applicant. An application for a casino license will necessarily include individual applications filed by the company's owners, managers, officers, directors, parent companies and shareholders owning at least 5 percent of the company's equity securities.

b. Confidentiality of Information

When crafting a specific license application that requires certain background information to be provided by the applicant, in advance of the requisite suitability background investigation, an important consideration for any regulatory agency involves a determination of whether material provided in an application is to be treated as confidential or whether it would be made available upon request to the public. Generally, most gaming jurisdictions consider personal information contained in an application, especially financial data, to be confidential. Some jurisdictions, most notably Ohio and Massachusetts, which have broad right-to-know laws, have narrowly drawn rules governing confidentiality of material received. By contrast, New Jersey affords broad confidentiality protections for information submitted as part of the application process. The procedures that govern confidentiality usually coincide with the particular state's rules for public access to government agency documents.

³⁴⁹ An example are the Massachusetts forms listed on this website: <http://massgaming.com/licensing-regulations/applications/>.

4. Enforcement Proceedings

Casino regulatory agencies are empowered to oversee all aspects of the licensed entity's gaming operations. This regulatory oversight includes periodic on-site inspections, investigations of suspected wrongdoing, examination of internal control procedures to ensure compliance, and the imposition of disciplinary action for violations of applicable regulatory requirements. Sanctions vary from stern warning letters to the imposition of fines, to suspension of licenses for a finite term, and in the most egregious cases, to the revocation of licenses. Depending on the gravity of the accusation, there may be a disciplinary adjudicatory hearing to resolve the matter.

It is noteworthy that a gaming license is considered to be a revocable privilege, rather than a right of entitlement. Common violations applicable to the operating entity include the following:

- Impermissibly permitting underage gambling
- Failing to properly exclude a person who is on the agency's exclusion list
- Failing to adhere to internal control procedures governing the operations of the games and the movement of money
- Failing to notify the regulators about operational or organizational changes
- Failing to detect criminal conduct or to take appropriate action when learning of criminal activity on the casino premises
- Failing to provide adequate surveillance or security for casino operations.

a. Enforcement of Illegal Gambling

We spoke to officials in Florida, Iowa, Kansas, Maryland, Massachusetts, New Jersey and Pennsylvania and found that the investigation of illegal gambling is handled by law enforcement officers (as opposed to regulators). Whether the state gaming regulatory agency regulates illegal gambling or not depends primarily on whether they are authorized to do so based on whether they have law enforcement authority, in most cases. Even when the state gaming regulatory agency has such authority, the actual prosecution of such matters is normally referred to the county or local prosecuting authority.

Ohio is one such example. The Ohio Casino Control Commission has authority under the casino control act³⁵⁰ to levy and collect penalties for some noncriminal violations. Criminal violations are referred to the Attorney General's office or local prosecuting office. As a practical matter the casino control act is a fairly new law and the actual prosecution of criminal matters depends on the circumstances. Internet cafes have been of major concern in Ohio. The addressing

³⁵⁰ The Ohio Casino Control Act, 3772. 99 (e) (12).

of the legality of these cafes has been taken up by the General Assembly,³⁵¹ however we were informed that there was recently a further complication: Some Internet cafes, in addition to using the normal internet machines in the cafes, were employing the equivalent of slot machines. The Attorney General's office and the Ohio Casino Control Commission staff cooperated in the matter – which we found to be a common theme among states. Illegal gambling often comes in forms that are not completely anticipated. In this case, the Casino Control Commission staff was used to help determine the nature of the machines and whether they met the definition of slot machines.³⁵² There are law enforcement agents with the Casino Commission, but prosecution for criminal illegal gambling would come from other state offices. Internet cafes are a subject unto themselves.³⁵³

In Massachusetts the State Police handle illegal gambling investigations, but it is important to note that the Massachusetts Gaming Commission has a State Police unit assigned to it. Either the Gaming Commission unit of the State Police or another branch of the State takes responsibility for the matter, dependent on the nature of the type of illegal gambling.

New Jersey's model is somewhat different. There are two primary agencies in New Jersey: the Casino Control Commission and the Division of Gaming Enforcement. Gaming Enforcement is the prosecutorial arm for civil matters, and also has State Police assigned to it, under the purview of the Attorney General's Office. The State Police in Gaming Enforcement would be involved in investigating illegal gambling.

In Pennsylvania, the Gaming Control Board has no authority over illegal gambling. The State Police would take the lead on those matters and likely would work with local law enforcement and prosecuting authorities, depending on the nature of the illegal gambling.

In Maryland the Lottery and Gaming Control Agency has no authority over illegal gaming. Matters are turned over to the State's Attorneys. In Iowa, illegal gaming matters are not addressed by the Iowa and Racing Commission. Instead such matters are turned over to the Division of Criminal Investigation.

In Kansas, however, the Racing and Gaming Commission does take the lead on such matters. There are enforcement agents at the Racing and Gaming Commission that can make arrests on such issues. Prosecution, as is the case in many states, rests with the local prosecutors.

³⁵¹ See for example this article addressing the matter <http://www.wkbn.com/2013/06/04/ohio-governor-signs-internet-cafe-crackdown/>.

³⁵² See this article on the involvement of different offices:
<http://www.ohioattorneygeneral.gov/Media/News-Releases/June-2013/Search-Warrants-Served-at-Illegal-Casino-Locations>.

³⁵³ American Gaming Association <http://www.americangaming.org/government-affairs/priority-issues/internet-sweepstakes-cafes>.

Also in Kansas, controversy and court challenges surrounding “gray machines” further complicate matters.³⁵⁴

In Florida, the Department of Law Enforcement advised us that local or county law enforcement and prosecutors are assigned such matters. The Division of Pari-Mutuel Wagering does not have authority over illegal gaming, though as in other states it may obtain information on such matters. If such information is obtained, the Division of Pari-Mutuel Wagering would work with local officials and follow up as needed, though they would act more in an information sharing role than investigatory.

5. Costs: How Regulators are Addressing Expansion of Gaming

The regulatory model that has been accepted in many jurisdictions is that the cost of investigations should be paid for by applicants. As Spectrum noted in its 2010 report for the State of New Hampshire, “A subcomponent of this category is that those companies and individuals applying for a casino or vendor license should be required to pay for all costs associated with the conduct of their background investigations. This requirement allows the regulatory agency to undertake what are often complex and multi-faceted entity and other investigations without having the taxpayers of the state pay for these types of investigations.”³⁵⁵

6. Gaining an Expertise in Casino Gaming

The regulation of casino gambling is unique from other types of business activity because of the speed of the transactions, the amount of money that changes hands and the way in which transactions are completed. Unlike any other type of business money changes hands in some cases with no documentation. For example at table games the allocation of chips by the dealer to the customer after the playing of a hand, (or the throwing of dice, or the spinning of a wheel, etc.) permits no documentation.

The types of transactions at slot machines are comparable in some respects to transactions in other businesses but it too is challenging in a regulatory sense. There can be multiple transactions over short periods between a machine and a patron involving what might be a great deal of money. Jackpots worth seven figures can originate from the risking of a very small amount from the patron.

Because of the nature of the business there are unique types of crimes that will be attempted in the gaming industry. Criminals can be attracted simply because of the large amounts of money involved, but there are also ample unique ways to commit crimes in casinos. Two examples, of

³⁵⁴ See this article summarizing the gray machine issue: http://cjonline.com/news/local/2010-10-25/gray_machine_clarity_sought. Also the state Supreme Court ruling: <http://www.kscourts.org/cases-and-opinions/opinions/SupCt/2011/20110408/102786.pdf>.

³⁵⁵ Spectrum New Hampshire report, p. 4.

many, are card cheats at table games and attempts at altering the computer chips in the slot machines.

The regulatory structure that a state adopts, and all the functions involved in that structure, including investigations, audits, licensing, etc., are all ultimately designed with one purpose in mind: to create an appropriate gaming and business activity and to minimize any criminal activity. The states' collection of gaming revenue depends on the fulfillment of this purpose, but just as important is the public's perception of the integrity and fairness of the gaming industry.

While gaining an expertise in the types of transactions in casino gaming is critical to regulation of the gaming industry, so too is gaining an expertise in the types of investigations necessary in the examination of applicants for casino operators and the transparency of the licensing process. Casino gaming operators are sometimes parts of multinational companies. The awarding of a license to operate a casino can be lucrative for a company. Thus the investigation, the consideration of the investigatory findings by the licensing authority and the awarding of the license are regulatory matters that must be addressed with thorough understanding and considerable deliberation.

While it may be argued that there are many advantages and disadvantages to expanding gaming, we believe there is no valid argument for the expansion of gaming without taking the proper regulatory measures. While a strong regulatory structure may be expensive to implement, this expense is typically borne by the gaming industry and not taxpayers.³⁵⁶ On the other hand, a weak or flawed regulatory system will invite nefarious and criminal activity, will fail to assure integrity of operations, and will not maintain the public trust and confidence in the regulatory system. Weak or flawed regulations is neither a model which is acceptable to the state nor a model which is an acceptable business practice to the casino industry that is regulated.

7. Other Critical Factors in the Regulatory Structure

There are advantages to creating a consolidated gaming agency, such as the maximum use of resources and the prioritization of functions. The danger in a consolidated agency is illustrated in the early Pennsylvania model. As explained in the grand jury findings, there was a bias created in the agency toward the awarding of licenses and the minimizing of investigative findings that could delay such licenses. The present Pennsylvania model incorporates a more independent reporting line for the investigative functions.

Spectrum has found there can be advantages in separate agencies which have some built-in and intentional overlap of functions. In the Kansas model, for example, there is little if any expense in any overlapping functions, but there is a greater assurance of integrity in having more

³⁵⁶ The norm in the regulation of casino gaming is to require the payment for investigations and other regulatory functions through fees and billings paid by casino applicants and operators.

than one agency involved in the oversight of the state's revenue. Of course, any overlap should be clearly defined and be designed to complement the functions of each agency.

8. Conclusion

Regulatory structures are almost impossible to place into a few models, as each state has unique features relating to its gaming industry. Spectrum believes that a consolidated regulatory agency or a group of agencies which share responsibility can both complete their functions in a competent manner. However there are a number of important considerations. There are a number of themes of regulation which almost always shine through regardless of the state, the gaming venues, or the number of casinos or where they are located in the state. These are not themes of a consolidated model of all regulatory issues or a model that is divided between numerous agencies. The themes of regulatory models over casino gaming have to do with the types of regulation that casino gaming demands.

E. Trends and Best Practices in Governance and Regulation

A general description of trends and best practices in governance and regulation of gambling activities.

“Effective regulation” can be defined as regulation that advances a variety of public policies while protecting the overall public interest. While the entire scope of policies to be advanced will – and arguably should – vary from jurisdiction to jurisdiction, certain goals would be considered universal. Such goals would include:

- Promoting public confidence in gaming as both a leisure activity for the public, and as an investment opportunity that would generate interest from casino operators seeking an attractive return on invested capital.
- Fostering public confidence and trust in the integrity of the regulatory process and gaming operations
- Ensuring that individuals and business entities involved in gaming meet universally accepted standards of good character, honesty and integrity.
- Ensuring the prohibition of unsuitable persons and entities from participating in the gaming industry.
- Developing, overseeing and monitoring programs to address problem gambling, including reviewing responsible-gaming policies and practices, while maintaining and enforcing exclusion lists, including self-exclusion.
- Addressing other critical public policy concerns, such as underage gambling, or casino-related demands on law enforcement and other public services.

- Optimizing financial benefit to the jurisdiction from multiple revenue streams, including gaming taxes, employment taxes and tax revenue generated from other sources, such as expanded tourism and purchases of goods and services.
- Maintaining flexibility in writing the rules that govern gaming to make sure that regulators are able to adapt to changes in technology and to revise and reform regulations as circumstances change, and as regulators become more familiar and comfortable with evolving industry practices.

Individual states, as they develop and customize their own statutory and regulatory governing structures, can layer on additional goals that are specific to their own economic, political, demographic and competitive landscapes. Such ancillary goals can vary, but often include the following:

- Promoting tourism
- Reviving or improving urban areas
- Creating employment opportunities
- Enhancing the conventions and meetings business
- Creating opportunities for other businesses within the jurisdiction
- Attracting additional capital investment

Establishing such goals is relatively straightforward. Achieving them is often difficult for the following reasons:

- Once a license is issued, the power of regulators and lawmakers to effect change diminishes.
- Sometimes, goals can conflict with each other. For example, a goal of maximizing license fees can conflict with a goal of maximizing capital investment.
- The market does not always cooperate.

Still, jurisdictions that have the ability to establish a competitive bidding process would, with all else being equal, be more likely to achieve goals, since applicants for licensure have more incentive to establish ambitious plans to achieve goals.

We have witnessed that in various states with competitive processes, including Pennsylvania and Massachusetts. At this writing, Massachusetts is pursuing a competitive bidding process, and various applicants have made it clear that they are developing robust policies to achieve goals that range from promoting tourism to training existing Massachusetts adults for the jobs that will be created.

Absent a competitive bidding process, gaming tends to evolve either as a system in which pari-mutuel facilities are grandfathered in, sometimes with requirements for significant capital

investment, or with no statutory limit on the number of licenses in specific geographic regions such as the Gulf Coast of Mississippi, Las Vegas or Atlantic City.

Whether a licensing process is competitive or not, however, the ability of regulators to take action after a license is issued diminishes quickly and dramatically. Absent specific violations that would warrant fines or either the revocation or non-renewal of a license, regulators have a limited ability to prod operating licensees in specific policy directions. The larger goal then in the effective regulation of gaming is to align the goals of the public and private sectors.

Some of these goals noted above may seem to be contradictory. For example, a single licensing jurisdiction would be tasked with developing a positive investment climate while addressing serious policy issues, such as crime and problem gambling. Such seeming contradictions can be best addressed by adhering to what economists refer to as “goal congruence,” a system in which the interests of all stakeholders are parallel.

Such a system is quite achievable in gaming, but is by no means assured in all instances. For example, both the state and the casino operator have a stake in realizing an attractive return on investment. The state receives tax revenue, among other benefits, while investors are rewarded for the risks they have undertaken. Similarly, both the public and private sectors have an abiding interest in promoting public confidence, and in maintaining high standards for integrity. Operators, who are often licensed in multiple jurisdictions, would not want to risk their gaming license in *any* jurisdiction as that would put their licensure at risk in *every* jurisdiction.

Where goals are not congruent, legislators and regulators would have an obligation to ensure that the public’s goals are dominant. If handled effectively, such situations can turn disparate interests into parallel goals. The most illustrative example of this phenomenon can be traced back to 1982, when a bank clerk from Toronto, Brian Molony, was regularly embezzling funds from his employer and gambling with those dollars at Caesars in Atlantic City.

The Molony case – which was widely publicized and became the subject of both a 2002 book, *Stung: The Incredible Obsession of Brian Molony*, by Gary Ross, and a 2003 movie that was inspired by the events but changed the name of the chief subject, *Owning Mahowny* – was viewed by many, including regulators, as a story of greed run amok. Gaming operators were willing to bend rules and not ask questions about a bank clerk clearly gambling over his head, and without paying any heed to issues ranging from the potential of pathological gambling to the issue of gambling with stolen funds.

The New Jersey Division of Gaming Enforcement, the prosecutorial arm of the dual-agency regulatory structure in the state, negotiated a settlement with Caesars for various violations of regulations in the Molony matter, with the casino being required to close its doors – while still paying its staff – on the traditionally busy Friday following Thanksgiving, on November 30,

1985.³⁵⁷ The matter was summarized in *The New York Times* following a decision by the quasi-judicial agency of the state to approve the settlement:

The Casino Control Commission today ordered Caesars to close its Atlantic City casino for a day as a penalty for violating credit, deposit and reporting regulations to cater to a heavy gambler. The closing, the first ordered by the commission, could cost Caesars nearly \$1 million in lost revenues. Thomas R. O'Brien, director of the New Jersey Division of Gaming Enforcement, said it was the harshest penalty to be imposed in the seven-year history of the Atlantic City gaming industry.³⁵⁸

Nearly 30 years later, that penalty of shutting the casino down for a busy day remains as one of the harshest penalties imposed by regulators in that state (short of an outright license denial), and we are unaware of a similarly harsh penalty imposed in any other gaming jurisdiction.

Six months after that unprecedented closing, Caesars reached a settlement with Canadian bankers, who were the victims of Molony's crimes. That settlement prompted the following summary in the *Philadelphia Inquirer*:

Molony was arrested April 27, 1982, a day after he lost \$1 million gambling at Caesars. He got the gambling money by writing loans in the names of both real and fictitious companies.

In court papers filed in Canada, Caesars said it never asked Molony for credit information and had never asked what he did for a living. The papers said Caesars supplied Molony with tens of thousands of dollars in hotel rooms and airfare by private Lear jet.

Although he plunked down thousands at the gaming tables, Molony led a modest lifestyle in Toronto, where he wore inexpensive, ill-fitting clothes and left carefully calculated 7 percent tips in restaurants.

Court documents also show that Molony was able to transfer millions of dollars out of the Imperial Bank of Commerce through a company called California Clearing Corp., a wholly owned subsidiary of Desert Palace, a Las Vegas casino. The corporation's only purpose, according to records, was to let people deposit sums of money into a casino without detection.

As a result of Molony's activities at the casino, Caesars was forced to close for the day Nov. 30, the (Friday) after Thanksgiving, as a disciplinary measure for gambling-law violations. The closing was part of an agreement worked out between Caesars and the state Division of Gaming Enforcement.

³⁵⁷ Present-day Spectrum Gaming Group Managing Director Fredric Gushin, then New Jersey Assistant Attorney General and Deputy Director of the Division of Gaming Enforcement, participated in the settlement negotiations with Caesars.

³⁵⁸ Donald Janson, "Caesars Ordered To Close For Day For Violation Of Gambling Rules," *New York Times*, October 10, 1985 <http://www.nytimes.com/1985/10/10/nyregion/caesars-ordered-to-close-for-day-for-violations-of-gambling-rules.html?n=Top%2fReference%2fTimes%20Topics%2fSubjects%2fG%2fGambling>.

The Casino Control Commission approved the agreement and \$36,500 in fines against six Caesar's employees.

Industry analysts estimated that the casino stood to lose between \$700,000 and \$800,000 because of the shutdown.³⁵⁹

The Molony case offers the highest profile, but was hardly alone, as an example of casinos having goals that were not parallel with the goals of the state in which they operated. In Atlantic City alone, the record includes numerous matters in which casinos ignored policies ranging from preventing underage gambling to minimizing problem gambling. Notably, such violations have declined in recent years. While it may very well be that regulatory oversight has diminished, thus leading to fewer violations being revealed, our experience suggests that much of the decline in violations can be attributed to goal congruence: Casinos are increasingly adapting their policies to be more fully aligned with the goals of the states in which they operate.

1. Best Practices and the Political Process

The term “effective” is not synonymous with strict, but it should be synonymous with “understandable,” “comprehensive,” and “defensible.” In other words, every rule to be found in gaming statutes, regulations or policies should have a clear and legitimate purpose that can be readily communicated and understood. Indeed, while the perception of “strictness” will vary, depending on the vantage point, “strictness” is a relative term.

Typically, gaming regulation starts out strict and then allows for reforms as circumstances change, and as regulators become more comfortable with the processes involved in the governance of gaming. To move in the opposite direction – moving from a relatively relaxed regulatory regimen to a more restrictive one – would be difficult to implement practically and politically. In large measure, the inherent difficulty in moving toward a more strict regulatory system if one is needed can be attributed to the relationship between gaming and politics. By its nature, gaming is inextricably intertwined with the political process – a reiteration of one of this report’s core themes. Gaming’s very existence – as well as its ability to generate profits – depends on its ability to be in the good graces of elected and appointed officials, and to remain there.

In understanding and in governing the relationship between the gaming industry and politics, certain trends and observations should be considered, based on our experience in other markets:

- The ability of elected and appointed officials to shape and guide the policies that govern gaming, and that are designed to marshal the economic and social benefits of gaming, are at their zenith prior to the issuance of gaming licenses.

³⁵⁹ Jane M. Von Bergen, “Caesars Reaches Accord with Bank In Molony Case,” *Philadelphia Inquirer*, May 15, 1986 http://articles.philly.com/1986-05-15/news/26048451_1_gaming-tables-gaming-enforcement-caesars-officials.

- To whatever extent is reasonable and appropriate, steps should be taken to insulate gaming from politics, and to limit the ability of the gaming industry to directly influence the political process.
- Over time, regulators and the regulated are likely to grow closer to each other. Left unchecked, a real risk exists that regulators can become cheerleaders for the industry they govern.

Much of this can be described as common sense, and as recognition of reality. While public confidence in gaming demands that controls be put in place to restrict the ability of the industry to influence the political process, such controls are clearly limited, and gaming can never be fully insulated from politics, or vice versa.

Starting with New Jersey's enactment of the Casino Control Act in 1977, certain steps have been identified that establish some level of insulation. These include:

- Limiting, or eliminating, the ability of gaming licensees and their key employees and qualifiers³⁶⁰ from making political contributions at the state and/or local levels.
- Appointing regulators to fixed terms that are not tied to the terms of the elected officials who make such appointments.
- Establishing guidelines for regulators that limit their ability to participate in the political process.
- Limiting the ability of regulators to secure outside income.
- Establishing strict post-employment restrictions for regulators and top staff that limit their ability to work for the industry they govern once they leave public employment.

The presence of any or all of such policies can help establish and maintain public confidence and provide some level of independence for regulators, but true independence is clearly chimerical in established gaming jurisdictions.

While we can identify benefits for the public and private sectors to share common goals, the shared goal of a successful gaming industry can turn regulators into cheerleaders. This risk was identified quite early in modern gaming regulation by the late Martin Danziger, one of the first appointed full-time members of the New Jersey Casino Control Commission. In an interview conducted in 1982,³⁶¹ Danziger observed a number of industries that had been regulated in the 1970s, from securities to air transportation, and suggested that it is quite risky – and that public

³⁶⁰ "Qualifier" is a widely used term in gaming regulation that refers to individuals with the ability to influence a licensee's policies, such as owners, officers and directors. Typically, an entity cannot secure a gaming license unless all of its qualifiers are deemed to be licensable as well.

³⁶¹ Interview was conducted by Michael Pollock, researching his book, *Hostage to Fortune: Atlantic City and Casino Gambling*, 1987. That portion of the interview was not directly cited in the book but is relevant for purposes of this analysis.

policy might suffer as a result – if regulators get to the point where they are willing to overlook transgressions or endorse shortcuts as a means of advancing success.

In 1987, Spectrum Managing Director Michael Pollock wrote: “The problem, it should be noted, is not confined to the regulation of casinos. In the October 15, 1982 issue of *The New Yorker*, Daniel Ford wrote ... ‘Thus, the agency was to play the incompatible roles of coach and umpire, of partisan and judge – was supposed somehow to be both the champion and the disciplinarian of the industry. This dual mandate led to a continuing, unacknowledged conflict within the agency.’ Ford was not writing about the New Jersey Casino Control Commission. He was writing about the Atomic Energy Commission in the 1950s.”³⁶²

The problem of balancing dual roles remains, and is arguably a permanent concern that will require a permanent balancing act. In gaming, the issue of dual mandates specifically translates into a risk of sending a message to licensees that revenue maximization is a primary goal, often at the expense of such other policies as addressing problem gambling, or of maintaining standards of character, honesty and integrity.

This risk is exacerbated and enhanced by another very real phenomenon in gaming regulation: Once a casino is licensed and operating, the ability of regulators to change its course or, in the most extreme instance, remove its operating license is dramatically diminished. An operating casino is employing hundreds or, in many instances, thousands of employees and generating significant revenues for the state. This means that, on the very day it opens, a casino gains political stature, while the political will of regulators to enforce the rules declines.

This phenomenon is not uniform across states, and states have taken steps to address it. In states in which the number of licenses is not fixed – such as New Jersey, Mississippi or Nevada (which were the three earliest adopters of commercial gaming in the United States) – the risk is less severe, as other gaming properties can open, or expand, to address any unmet market demand and increase employment.

New Jersey law allows for “interim casino authorization” (“ICA”) in which an entity can purchase a casino prior to a full investigation and determination of suitability, based on the approval of regulators, by appointing a trustee entrusted with the preservation of the assets of the gaming operator. Such trustees – often retired judges, former casino gaming regulators, or other individuals who have the clear appearance of independence and integrity – have no responsibilities or role in the operation of the casino whatsoever, unless the New Jersey Casino Control Commission determines that the operator is not suitable for licensure.

At that point, a conservator is appointed, again usually a retired judge or government official, who assumes full control of the operation, including managing the property, with the goal of preparing the casino for sale to a third party. In the aforementioned case involving the license denial of the Tropicana, the trustee of the ICA was appointed to be the conservator. The

³⁶² *Hostage to Fortune*, p. 196.

conservator has a fiduciary responsibility to obtain the highest and best price for the property, although the original owner – the entity deemed not suitable for licensure – cannot be allowed to profit from such a sale. Any money paid for the property over and above the level of original investment goes to the state.

That process is far superior to one in which the state has limited abilities to fully distance an unsuitable owner from the operation. However, experience has shown that the concept of conservatorship can be less than perfect in practice.

A rare use of the conservatorship provision occurred in New Jersey in 2009, when the Commission determined that the new owner of the Tropicana was not fit for licensure. A pre-approved conservator immediately took control of the property with the intent of readying it for sale, as required by the ICA regulations. The conservator, however, raised questions and criticism by the fees he charged for his services. As the *Associated Press* reported at the time:

As many gamblers know, things can get expensive in a hurry in Atlantic City.

The latest proof is the Tropicana Casino and Resort, where the 20-month effort to sell the business has racked up nearly \$7.7 million in legal and consulting fees, with still more to come.

On Wednesday, the state Casino Control Commission will consider additional bills totaling nearly \$50,000.

Those fees, some billed at \$970 an hour, are paid by the casino. They represent more than nine full days' winnings for the Tropicana, which is struggling to regain market share while threatening to lay off employees because of economic pressures.

The Tropicana was sold last month for \$200 million to a group of investors led by billionaire Carl Icahn; the deal could close by year's end. When the casino-hotel first went on the market over a year and a half ago, it was expected to fetch about \$1 billion.

The mounting fees have prompted casino regulators and state lawmakers to consider limiting the time and cost of similar efforts in the future. And with several distressed casinos struggling to survive, one or more additional gambling houses could find themselves going the way of the Tropicana.³⁶³

The lesson here is that the best designed and crafted laws and regulations can still fail to meet expectations in practice. Perfection in gaming regulation will remain elusive, and no regulatory agency is immune from negative publicity, a decline in public confidence or, at worst, a scandal. The New Jersey Casino Control Commission endured a severe scandal of national proportions in its earliest years, when one of its first appointees was embroiled in the Abscam scandal, in which FBI agents established an elaborate scheme – including a phony Arab “sheik” –

³⁶³ Wayne Parry, “\$7.6 Million Later, Tropicana Casino Fees Still Rolling in,” *Associated Press*, July 15, 2009 <http://www.law.com/jsp/article.jsp?id=1202432256844&pos=atagance&slreturn=20130409215343>.

in a corruption investigation that snared a US senator, six members of Congress, several state and local officials and a gaming regulator.³⁶⁴

The most immediate result of that scandal was a decision by then-Gov. Brendan Byrne of New Jersey to dismiss the four part-time commissioners (including the indicted commissioner) and replace them with four full-time commissioners who joined the full-time chair, who had survived the scandal.³⁶⁵ That move proved to be an important means of saving – and ultimately restoring – public confidence and trust in the regulatory process.

As noted in the previous section, the Pennsylvania Gaming Control Board endured a scathing State Grand Jury report in 2011.³⁶⁶ Spectrum, which had been a consultant to the board, held a critical vantage point in observing that agency in action. The essence of that report, and its implications, were summarized in a column in the *Patriot-News* of Harrisburg:

A recent grand jury investigation into the creation and early decisions of the state’s Gaming Control Board ... details a culture of ‘noncriminal misconduct’ in which officials not only turned a blind eye to potentially criminal activity, but commanded investigators to do the same.

When they didn’t, administrators ‘scrubbed’ the negative information out of official reports before handing them to the board, the grand jury report states. The grand jury suggests the game was fixed before the gambling law was passed.

According to the 102-page report, ‘Even prior to the passage of the act, legislators began considering candidates’ to sit on the powerful board. ...

The grand jury’s report vividly illustrates how the public’s interest took a backseat to political considerations. ...

There was the sense inside the agency that every legislator was pushing to have someone hired. Lists of applicants, with the names of their sponsoring legislators, were compiled and passed around.

One Gaming Control Board administrator testified that ‘more times than not,’ these political favorites ‘fell on their face during the interview.’ But if they didn’t, they were given preference over qualified people who didn’t have a patron in the Legislature.

³⁶⁴ “The FBI Stings Congress,” *Time*, February 28, 1980
<http://www.time.com/time/magazine/printout/0,8816,921807,00.html> .

³⁶⁵ Martin Waldron, “A long and winding road to casino reform in NJ,” *New York Times*, April 27, 1980
<http://travel2.nytimes.com/top/reference/timestopics/subjects/g/gambling/index.ctx?offset=180&field=des&match=exact&query=POLITICS%20AND%20GOVERNMENT&>.

³⁶⁶ Pennsylvania grand jury report: <http://enews.attorneygeneral.gov/uploads/Gaming-Control-Board-Grand-Jury-Report.pdf>.

According to the grand jury, the hiring by patronage resulted in an inept administrative staff, lacking the qualifications to supervise a multibillion-dollar industry.³⁶⁷

The history of scandal and controversy in gaming regulation shows that agencies can survive, sometimes following dramatic steps, and sometimes simply by appointing new people over time who fully understand the delicate relationship between maintaining public confidence and advancing public policy.

Gaming, and its regulatory oversight, has been guided by certain principles and realities that we have observed in our work over the past several decades. In 2008, Spectrum wrote the following in a report for the Commonwealth of Massachusetts:

Our experience over the past decades has led us to develop certain cautionary notes to help ensure that expectations are realistic. While no two gaming markets can be precisely alike, there are some commonalities, including:

- Gaming should never be viewed as a panacea to cure social ills or solve fiscal problems. It is a tool that, if effectively managed, can generate capital investment, employment and visitation that in turn would provide resources that can help address a variety of other issues.
- Casinos, by themselves, cannot turn unattractive or unappealing neighborhoods or communities into attractive magnets. To effect such a potential change often requires significant amounts of planning, financial capital and political capital.
- Casinos, by themselves, cannot turn former industrial areas or other non-tourist sites into tourist attractions. That requires a concomitant investment in developing a necessary tourism infrastructure.
- Neither the challenges nor the opportunities created by a casino industry stop at municipal or even state boundaries.
- The heart of the competitive bidding process will be the establishment of guidelines that delineate the criteria for evaluating bids. (The state) needs to be as expansive and comprehensive as possible in its guidelines.

In our experience in various markets, including as participants and close observers in the 30-year history of casino regulation in New Jersey, we note the following:

- A regulatory system should start out strictly, and then be modified as circumstances change, and as the regulators become more comfortable and gain confidence that the process is moving in the right direction. In most cases, political and economic realities will be quickly established, making it difficult to move in the opposite direction, toward a system of stricter regulation and tighter controls. This would be particularly true in this instance, where the

³⁶⁷ Donald Gilliland "Pennsylvania Gaming Control Board riddled with culture of 'noncriminal misconduct,' grand jury report says," *The Patriot-News*, June 12, 2011.

http://www.pennlive.com/midstate/index.ssf/2011/06/grand_jury_report_describes_cu.html.

legislation contemplates a competitive bidding process. In such instances, the most important rules are the ones established at the outset to determine the successful bidders. Once those criteria have been established and a successful bidder has been named, the system would not allow lawmakers or regulators to go back and alter those initial criteria.

- (Once) a casino is established and is generating tax revenue, employing people and attracting visitors, it cannot be easily undone in any practical sense.
- The public sector ... has broad discretion and powerful leverage at the outset to ensure that the successful bidder takes whatever steps are necessary to advance the public interest on a wide variety of fronts. Such leverage would be at its zenith during the pre-licensing phase, in which applicants would recognize that they must compete against each other in their zeal and in their creativity in developing strategies to advance the public interest. Once licenses are issued, and casinos are operational, we caution that such leverage would largely disappear.
- Using that leverage to require that all bidders submit comprehensive, credible plans that are in congruence with public policies can be justified by the proposed legislation, which essentially creates ... regional monopolies. No other private businesses that targets consumer discretionary spending, from hotels to restaurants, could reasonably expect that (the state) would protect them from potential in-state competition. We suggest that such protection requires a corresponding commitment to ensure that marketing, human resources and other policies put forth are designed to promote the public interest.³⁶⁸

2. Conclusion

The modern history of efforts to establish effective gaming regulation – beginning with the adoption of the New Jersey Casino Control Act in 1977 – parallels the interest of Wall Street in gaming as an investment opportunity. In our experience, that is no coincidence. An absence of effective, stable regulation adds risk to investments, and risk translates into a higher cost of capital. The reverse is also true. Confidence lowers risk, which lowers the cost of capital – a necessary ingredient for the development of a successful gaming industry.

The ability of policymakers to push through changes and establish policies declines over time. With that in mind, policies can be established from the outset that are designed to ensure that both the state and the licensees share common goals.

³⁶⁸ Spectrum Gaming Group, *Comprehensive Analysis: Projecting and Preparing for Potential Impact of Expanded Gaming on Commonwealth of Massachusetts*, August 1, 2008, p. 21
<http://www.mass.gov/hed/docs/eohed/ma-gaming-analysis-final.pdf>.

F. Gambling as Public Funding Source

A general description of gambling as a public funding source, including: Comparison of states' reliance on and uses of gambling as a public funding source; reliability and predictability of gambling revenues; direct and indirect costs to the state.

1. States' Receipts from Gambling Revenue

States choose to legalize gambling to raise revenue for public programs or for economic development, or for both. The amount the states collect from gambling revenues is a function of several factors, including:

- The revenue performance of a state's various gambling sectors.
- The types of gambling allowed and their availability to key population centers.
- The tax rate on gambling revenue, or other fees and obligations.
- The public policy – or underlying purpose of why gambling was established. In Nevada, for example, the low casino-revenue tax rate has spawned the development of multibillion-dollar resorts, which in turn collect sales and lodging taxes that do not show up in gambling-specific revenue reports.

For data in this section, Spectrum relies on (and has the permission to use) reports by The Nelson A. Rockefeller Institute of Government at the University at Albany (NY), which annually tracks state receipts from gambling. Its most such recent report, *Back in the Black: States' Gambling Revenues Rose in 2010*,³⁶⁹ by Lucy Dadayan and Robert B. Ward, provides comprehensive data and analysis on this important subject.

For some states, gambling is an integral part of their fiscal health and hence their governments closely monitor the performance of their various gambling sectors – and may help explain the economic need by some states to expand to either sustain or grow revenues. As noted later in this section, gambling receipts accounted for more than 5 percent of own-source general revenue for five states in FY 2009.³⁷⁰

First, we present the dollar amounts that gambling in four primary sectors – casinos (commercial; i.e., non-Native American), racinos (racetrack casinos), lotteries and pari-mutuel – generated for its host states:

³⁶⁹ Lucy Dadayan and Robert B. Ward, *Back in the Black: States' Gambling Revenues Rose in 2010*, June 23, 2011 http://www.rockinst.org/pdf/government_finance/2011-06-23-Back_in_the_Black.pdf. The authors expect to release their updated version in mid-2013.

³⁷⁰ Ibid.

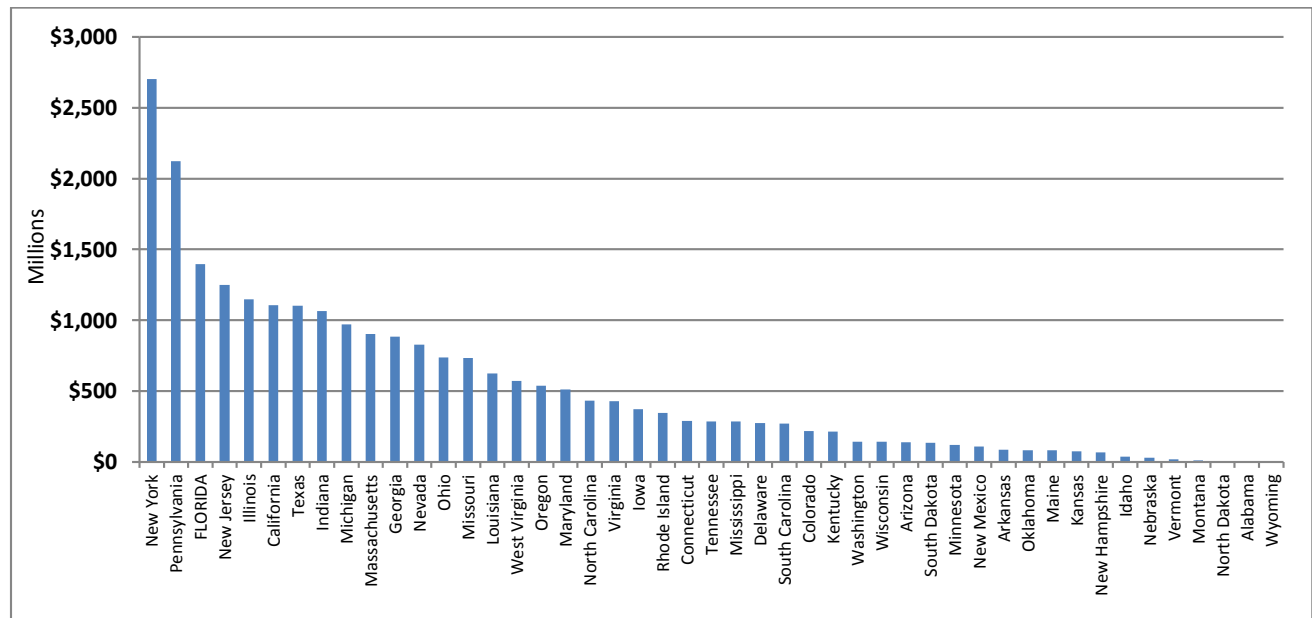
Figure 41: States' gambling revenue from lotteries, casinos, racinos and pari-mutuels, FY 2010

In \$ millions	Lottery	Casino	Racino	Pari-mutuel	Total
Alabama				2.1	2.1
Arizona	141.9			0.3	142.1
Arkansas	82.8			4.7	87.5
California	1,089.7			15.5	1,105.3
Colorado	112.9	107.7		0.5	221.1
Connecticut	285.5			7.1	292.6
Delaware	36.9		237.7	0.1	274.7
Florida	1,246.8		138.1	11.5	1,396.4
Georgia	883.9				883.9
Idaho	36.5			0.9	37.4
Illinois	657.9	483.0		7.0	1,147.9
Indiana	189.7	752.4	120.3	4.5	1,066.9
Iowa	57.9	209.8	100.8	3.9	372.4
Kansas	69.0	5.6		0.0	74.6
Kentucky	214.3			0.0	214.3
Louisiana	133.7	426.1	58.7	5.3	623.7
Maine	52.2		28.2	2.4	82.8
Maryland	510.6			1.5	512.1
Massachusetts	903.5			2.1	905.6
Michigan	713.7	250.8		6.7	971.1
Minnesota	122.2			0.6	122.9
Mississippi		287.0			287.0
Missouri	259.7	474.7			734.4
Montana	10.6			0.1	10.7
Nebraska	32.0			0.1	32.1
Nevada		829.3			829.3
New Hampshire	66.2			1.6	67.8
New Jersey	924.2	327.3			1,251.5
New Mexico	43.6		65.1	0.0	108.8
New York	2,214.7		464.0	22.5	2,701.1
North Carolina	432.2				432.2
North Dakota	5.7			0.3	6.0
Ohio	728.6			8.4	737.0
Oklahoma	70.0		13.9	1.3	85.1
Oregon	536.0			3.0	539.0
Pennsylvania	915.7	319.6	871.0	17.5	2,123.8
Rhode Island	55.6		289.1	1.5	346.1
South Carolina	272.4				272.4
South Dakota	119.8	17.0		0.4	137.2
Tennessee	288.9				288.9
Texas	1,094.6			10.3	1,104.9
Vermont	21.6				21.6
Virginia	430.3				430.3
Washington	142.5			2.0	144.5
West Virginia	39.8		529.2	3.3	572.3
Wisconsin	143.8			0.3	144.2
Wyoming				0.2	0.2
US Total	16,389.9	4,490.3	2,916.0	149.6	23,945.9

Source: The Nelson A. Rockefeller Institute of Government. Racino VLT revenues are included in Lottery.

Next, we rank the states by total gambling receipts for FY 2010. The states with the highest gambling revenues do not necessarily generate the highest state tax receipts because their tax rates may be lower and/or they may have fewer types of legalized gambling. Nevada generates more than three times the casino revenue than any other state, yet that state’s receipts from gambling ranked only 10th best – because it has the lowest casino-revenue tax in the country (6.75 percent) and because it has no lottery and no pari-mutuel. Note that Florida ranked third, behind New York and Pennsylvania.

Figure 42: States’ FY 2010 overall gambling revenue, by rank



Source: The Nelson A. Rockefeller Institute of Government

Comprehensive data for state receipts from Native American gaming operations are not available, either because they are not taxed or the data are proprietary. The Rockefeller Institute did collect data from nine states that have the largest collections of Indian gaming receipts:

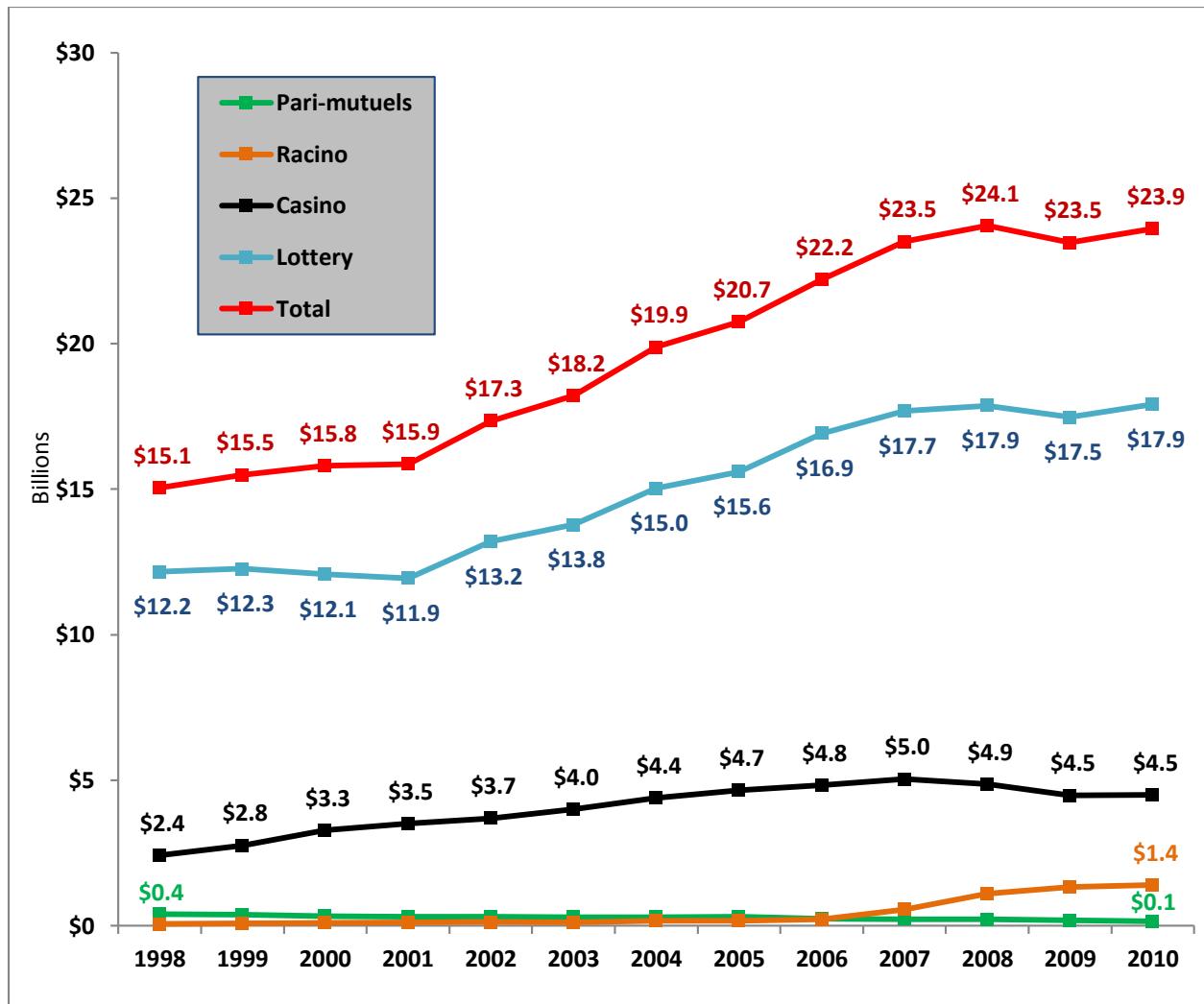
Figure 43: State receipts from largest Native American casino states

\$ millions	FY 2008	FY 2009	FY 2010
Arizona	111.2	97.5	89.0
California	244.7	408.8	411.0
Connecticut	411.4	377.8	359.3
Florida	n/a	n/a	287.5
Michigan	53.9	55.7	38.8
New Mexico	65.5	63.7	62.7
New York	148.0	70.4	129.6
Oklahoma	71.6	92.8	14.2
Wisconsin	45.1	121.8	52.2
Subtotal	1,151.3	1,288.7	1,444.2

Source: The Nelson A. Rockefeller Institute of Government

Now we look at the US trend in state receipts from gambling, by sector, from FY 1998 through 2010. Note in the following chart that receipts declined after the Great Recession began in 2007. The gambling industry had until that time proven to be resistant to economic downturns, but the two largest sectors – casinos and lotteries – experienced revenue declines coinciding with the recession. The racino industry was still very much undergoing widespread expansion and thus remained in a growth mode. Regarding racino revenue, it is important to note that The Rockefeller Institute groups VLT revenue from racetracks with lottery revenues, impacting the classification of racino receipts from Delaware, New York, Rhode Island and West Virginia (and, going forward, Ohio). The pari-mutuel industry continued its long, steady decline, with state revenues plunging from \$554 million in 1993 to \$150 million in 2010.

Figure 44: Trends in state gambling revenue, FY 1998-2010



Source: The Nelson A. Rockefeller Institute of Government, citing Census Bureau (lottery & pari-mutuels), Rockefeller Institute review of state gaming regulatory agencies' financial reports. Lottery data for FYs 2008-10 is based on Rockefeller Institute survey of state lotteries.

As noted previously, some states are more reliant on gambling receipts than others. Nevada, which has 265 casinos and in 2012 reported gross gaming revenue of \$10.9 billion, in FY 2009 relied on gambling receipts for 12.5 percent of its own-source general revenue. Rhode Island and West Virginia, whose lotteries operate racetrack casinos (with video lottery terminals in lieu of bona fide slot machines), each relied on gambling receipts for 8.4 percent of their FY 2009 own-source general revenue, as shown in the following table (on two pages). The total for all states was 2.4 percent.

Figure 45: States' reliance on gambling revenue

	Gambling revenue as share of share of own-source revenue, FY 2009	Percent change in gambling as share of own-source revenue, FY 1998-2009
Nevada	12.5	-3.3
Rhode Island	8.4	3.9
West Virginia	8.4	6.0
South Dakota	6.2	-1.9
Indiana	5.1	1.1
Oregon	4.9	-2.1
Delaware	4.9	-1.8
Missouri	4.8	1.1
Louisiana	4.6	0.9
Pennsylvania	4.5	1.9
Georgia	4.0	0.2
Mississippi	3.6	-1.0
Iowa	3.6	0.7
New Jersey	3.5	-1.1
Florida	3.3	0.3
Michigan	3.1	0.7
Illinois	3.0	-0.2
New York	3.0	-0.3
Massachusetts	3.0	-1.0
Maryland	2.4	-0.9
Ohio	2.0	-1.8
South Carolina	2.0	2.0
New Hampshire	1.9	-1.2
Tennessee	1.8	1.8
Connecticut	1.8	-0.6
Texas	1.8	-1.5
Virginia	1.6	-0.1
Maine	1.6	-0.1
Colorado	1.6	-0.5
North Carolina	1.5	1.5
Kentucky	1.5	-0.4
New Mexico	1.3	0.9
California	0.9	-0.2
Idaho	0.9	0.1
Arizona	0.8	-0.1
Oklahoma	0.7	0.6
Kansas	0.7	-0.3
Wisconsin	0.6	-0.3
Vermont	0.6	-0.9

	Gambling revenue as share of share of own-source revenue, FY 2009	Percent change in gambling as share of own-source revenue, FY 1998-2009
Minnesota	0.6	0.1
Washington	0.5	-0.3
Nebraska	0.5	0.0
Montana	0.3	-0.1
North Dakota	0.2	0.2
Arkansas	0.1	-0.1
Alabama	0.0	0.0
Wyoming	0.0	0.0

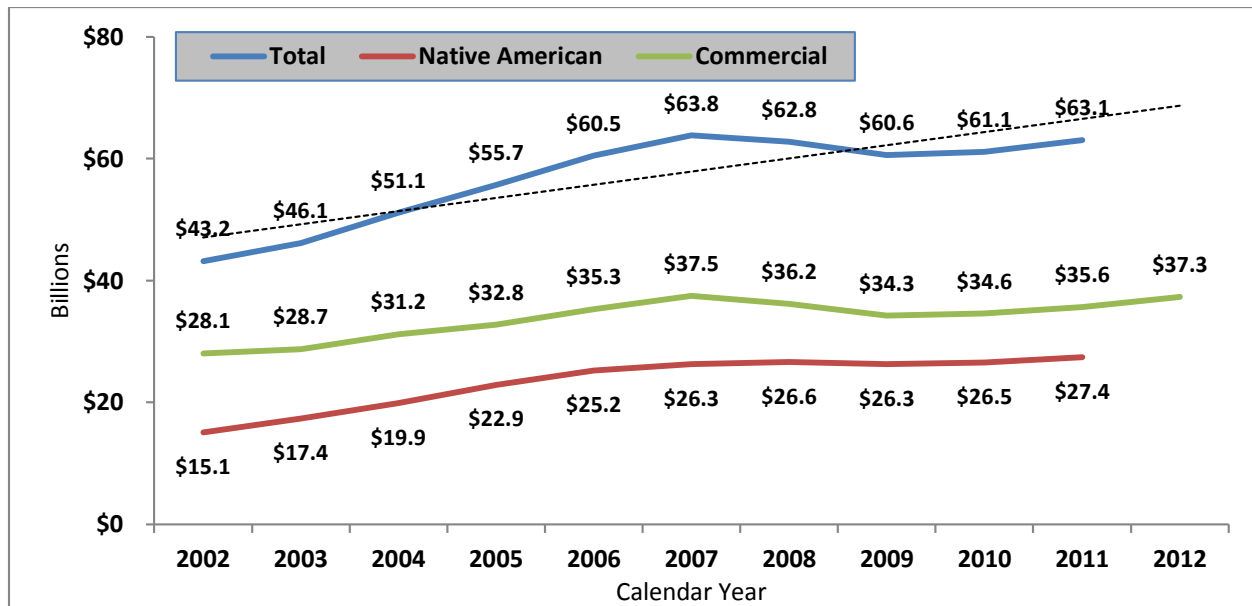
Source: The Nelson A. Rockefeller Institute of Government. Three states not listed: Utah and Hawaii have no legalized gambling, Alaska has only Class II Indian gaming, which is not taxed.

2. Reliability of Gambling Revenues

As shown in Figure 44, legalized gambling generally provides a reliable revenue stream for governments, on a holistic level, except in times of severe recession. At the individual state level, however, gambling-revenue receipts are subject to rapid – and sometimes dramatic – declines when a neighboring state introduces a competing product that is within easy reach. This is most notable in Delaware and New Jersey, where the introduction of competing casinos in neighboring states has caused casino-tax receipts to decline 6 percent and 45 percent, respectively, from their peak collection years of 2011 and 2006, respectively.

Nationally, in 2011 (the most recent period available for both sectors), commercial and Native American casinos (including VLT racinos, which in Figure 41 are instead grouped as Lottery revenue) throughout the United States generated \$63.1 billion of gross gaming revenue. This is depicted in the following chart (the dotted line indicates overall linear trend in US gross gaming revenue).

Figure 46: US GGR trend, 2002-2011



Source: American Gaming Association, Casino City’s Indian Gaming Industry Report, 2013 Edition

In total, over the 10-year period (ended 2011), year-over-year growth occurred in eight of the 10 years, with the Great Recession causing revenue declines in 2008 and 2009. The breadth and depth of the recession effectively shattered the truism that casino gambling was recession-resistant. Total growth in US gross gaming revenue (from 2002 to 2011) was 46 percent, or average annual growth of 4.3 percent. This growth was considerably greater than overall growth in the Consumer Price Index³⁷¹ – which grew by 25 percent over the entire period, or average annual growth of 2.5 percent.³⁷²

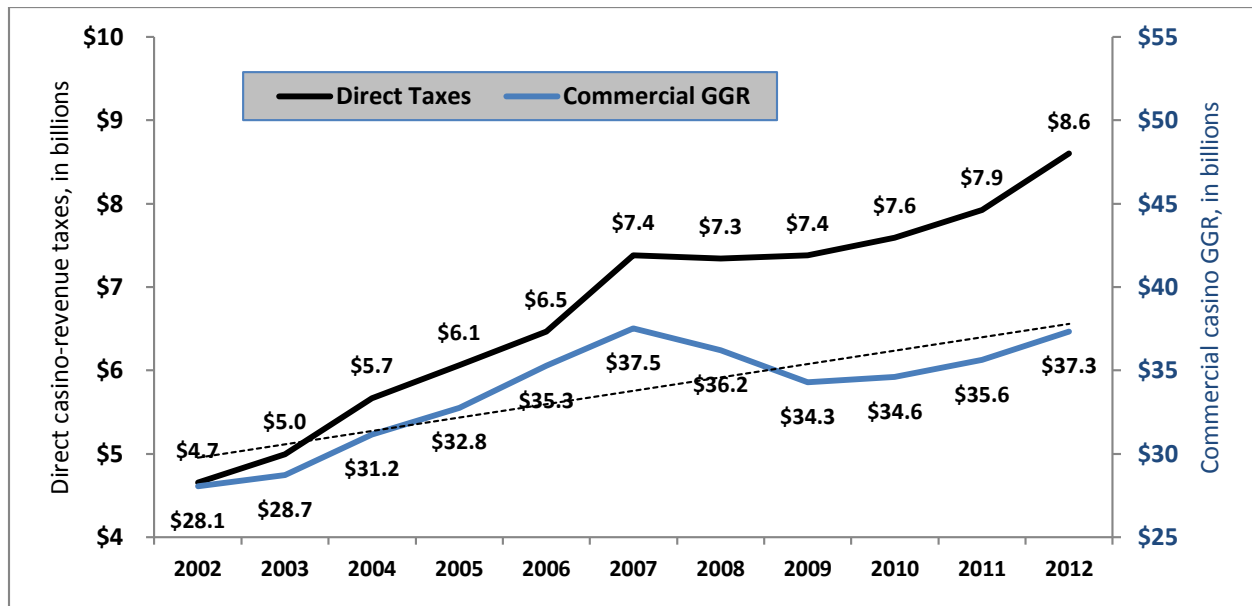
For 2012, as noted earlier, commercial casinos had gross gaming revenue of \$37.3 billion, a 4.8 percent increase over 2011 figures.³⁷³ Comparable data for Native American casinos will not be available until later this year; however, assuming there is no decrease in Native American gaming revenue (i.e., 2012 vs. 2011) will equate to total US gross gaming revenue posting at least a 2.7 percent year-over-year increase – marking the third consecutive year of revenue growth.

The following chart shows gross gaming revenue (and a dotted line indicating overall linear trend) from US casinos juxtaposed with the direct casino-revenue taxes paid from calendar year ended 2002 through 2012.

³⁷¹ These data represent changes in prices of all goods and services purchased for consumption by all US urban households.

³⁷² US Department of Labor, Bureau of Labor Statistics; http://www.bls.gov/data/inflation_calculator.htm.

³⁷³ 2013 State of the States, p. 5.

Figure 47: US GGR and direct taxes trend, 2002-2011

Source: American Gaming Association, UNLV Center for Gaming Research³⁷⁴

In total, over this 11-year period, year-over-year growth in direct taxes stemming from casino revenue occurred in 10 of the 11 years (as 2008 was down 0.6 percent versus prior year). Total growth in direct taxes stemming from US commercial gaming revenue (from 2002 to 2012) was 84.7 percent, or average annual growth of 6.3 percent. This growth was considerably greater than overall growth in the Consumer Price Index³⁷⁵ – which grew by 25 percent over the entire period, or average annual growth of 2.5 percent.³⁷⁶

The aforementioned direct taxes reflect results of commercial casino operations in 23 states. Importantly, netting out new casinos and/or jurisdictions (i.e., those not having casinos at start of the aforementioned period), of the 15 states that had casinos (and direct taxes) in both 2002 and 2011 the direct taxes stemming from casino revenue were up 19.9 percent, or average annual growth of 2 percent.

3. Direct and Indirect Costs to the State

The costs that legalized gambling may impose on state and local governments are both direct and indirect. Direct costs, such as specific transportation infrastructure improvements or the costs of additional law enforcement officers, are easy to identify and quantify. Indirect costs are

³⁷⁴ See http://gaming.unlv.edu/reports/direct_taxes_casino.pdf

³⁷⁵ These data represent changes in prices of all goods and services purchased for consumption by all US urban households.

³⁷⁶ United States Department of Labor, Bureau of Labor Statistics
http://www.bls.gov/data/inflation_calculator.htm

not. These costs may be somewhat removed and tangential to the precipitating cause. For example, consider an individual who loses his job due to problem-gambling-related behavior and goes on unemployment. The connection between this person's unemployment and problem gambling may not be readily established. It may remain "hidden" and simply be attributed to downsizing. Ascribing indirect costs to legalized gambling also presents another challenge. Where do you draw the line? Can anything that can even be remotely linked to gambling be considered an indirect cost?³⁷⁷

The proliferation of legalized gambling and the apparent strong public support for it may understandably lead one to believe that the social costs of gambling exist within an acceptable range or are sufficiently offset by its benefits. As recently as March 5, 2013, nearly 62 percent of the voters in Linn County, IA, an economically vibrant and white collar area, approved a new casino despite a strong opposition movement that emphasized the negative costs of gambling.³⁷⁸ Currently, all but two states, Hawaii and Utah, have some form of legalized gambling. However, opponents might argue that the proliferation of gambling is attributable to financially powerful, politically influential pro-gambling forces that have successfully defined and manipulated public understanding of the issue.

According to the American Gaming Association, a 2013 poll found public acceptance of gambling to be at the highest level of the past decade. Some 85 percent of Americans view casino gambling as an acceptable activity for themselves or others. Overall acceptability is above 80 percent for all age groups and is highest among younger individuals, those age 21 to 39, and lowest, 82 percent, among those age 60 and over.³⁷⁹

The national experience seems to indicate that while more accepting of legalized gambling, the public wants it to be contained within a strict regulatory framework. As the 1999 National Gambling Impact Study noted, "Governments determine which kinds of gambling will be permitted and which will not; the number, location, and size of establishments allowed; the condition under which they operate; who may utilize them and under what conditions; who may work for them; even who may own them. And because governments determine the level and type of competition to be permitted...they are also a key determinant of the industries' potential profit and losses."³⁸⁰

³⁷⁷ Douglas M. Walker, "Problems in Quantifying the Social Costs and Benefits of Gambling," *American Journal of Economics and Sociology*, July 2007, p. 615.

³⁷⁸ Rick Smith, "Linn County voters overwhelmingly approve Cedar Rapids casino," WCFCourier.com, March 5, 2013. http://wcfcourier.com/news/local/linn-county-voters-overwhelmingly-approve-cedar-rapids-casino/article_7759975e-8615-11e2-923f-0019bb2963f4.html13

³⁷⁹ *2013 State of the States*, p.2.

³⁸⁰ NGISC, p. 1-4.

Many state and local governments are in a conflicted position when it comes to legalized gambling. They are often the beneficiaries of increased tax revenues, but they must also bear the financial burden of any social dysfunction caused by gambling. States that operate lotteries are actually gambling providers and maintain an exclusive monopoly on that service.

No responsible public official wants to harm his community. The challenge public officials confront is knowing what gambling-related course of action will produce desired results given strong and conflicting public opinion and data.

Debate over the benefits and costs of legalized gambling starts with the definition of exactly what is a social “cost” and a “benefit.” Economist Douglas Walker³⁸¹ notes that researchers fail to agree on the appropriate way to conceptualize and quantify how gambling may affect society. He identified the need for a standardized methodology for measuring the costs and benefits of legalized gambling and believes that public policy debate is hampered by the lack of such a model.³⁸² Measuring and comparing “social costs” across governmental jurisdictions can also present challenges. For example, if one community elects to commit considerable funds to battle problem gambling and another similar community does not, is it reasonable to assume that problem gambling is greater in the former community?³⁸³

According to Walker, it is important to understand this distinction because the level of government expenditures may not necessarily reflect the magnitude of a social problem. Another aspect of this is that a well-funded, effective public program located in one community, may attract clients from outside that community and thereby inflate the local extent of the problem. A good example of this is services provided to homeless persons.

Economist Earl Grinols has written extensively on the benefits and costs of legalized gambling. According to Grinols, the social costs of gambling mainly fall into nine categories: crime costs, business and employment costs, bankruptcy, suicide, illness related to pathological gambling, social service costs, direct regulatory costs, family costs, and abused dollars.³⁸⁴

a. Crime

Of the costs associated with legalized gambling, crime is usually a foremost governmental concern. It has a direct impact on a community’s resources and quality of life. Any increase may require the allocation of additional resources that could offset the potential revenue benefits of

³⁸¹ Walker has worked on various Spectrum projects, and participated in the research and writing of this report. Walker is referenced as a third-party in this report in areas where we are citing his work that was performed independently of Spectrum.

³⁸² Walker, “Problems in Quantifying the Social Costs and Benefits of Gambling,” pp. 609 – 645.

³⁸³ Ibid. p. 617-618.

³⁸⁴ Earl L. Grinols, *The Hidden Social Costs of Gambling*, Center for Christian Ethics Baylor University, 2011, p. 21. <http://www.baylor.edu/content/services/document.php/144584.pdf>.

legalized gambling. Crime may also lower the quality of life in a given area, causing residents and businesses to leave and result in urban blight. Of all the arguments against legalized casino gambling, the concern that casinos will bring more crime into a community is among the most common. On the other hand, casino gambling is believed by some advocates to help reduce crime by providing good employment opportunities and reducing poverty.

In 2005, Maryland Attorney General J. Joseph Curran Jr. issued a report to a legislative committee on the potential impact of casino gambling in his state. He concluded, "It is simply a fiction to delude ourselves that it is possible to have casinos without more crime. Casinos would bring increases in every area of criminal activity."³⁸⁵ The types of crime he cited included violent crimes, crimes against property, insurance fraud, juvenile crime, drug and alcohol related crime, domestic violence and child abuse. These crimes are driven by pathological gambling and organized crime elements.³⁸⁶ According to Curran, this increased crime would impose "tremendous costs on Marylanders."³⁸⁷ He warned legislators that if they allowed themselves to become dependent on what he described as "a small percentage of casino profits," they would become "trapped."³⁸⁸

When the Massachusetts legislature was considering a casino proposal in 2008, the Massachusetts District Attorneys Association was more reserved and less strident. The group took no official position on the issue but made available a fact sheet that quoted a state legislative commission report. That report found that "... gambling expansion is likely to bring an attendant increase in crime volume, as is consistent with increases in visiting populations seen in other large developments across the country. There is no evidence conclusively pointing to an increase in crime rates from expanded gambling."³⁸⁹

The 1999 National Gambling Impact Study Commission took a similar position when examining the relationship between crime and gambling. Due to inconsistencies in the types of crimes studied, the Commission noted that it was not surprising that the proponents of both views are able to advance research to support their views. Therefore, the Commission found the reliability of such studies questionable. The Commission concluded, "Taken as a whole the

³⁸⁵ "Report of the Attorney General J. Joseph Curran on the Impact of Casino Gaming on Crime, Presented to the Joint Executive-Legislative Task Force to Study Commercial Gaming Activities in Maryland," October 16, 2005, p. E-2.

³⁸⁶ *Ibid.*, p. 1.

³⁸⁷ *Ibid.*, p. 3.

³⁸⁸ *Ibid.*, p. 3.

³⁸⁹ Report of the Massachusetts Commission to Study the Potential Expansion of Legalized Gaming, Prepared for Governor Jane Swift, 2002. Quoted in "Casino Gambling and Crime," Massachusetts District Attorney Association, March 12, 2008, p. 1.

literature shows that communities with casinos are just as safe as communities that do not have casinos.”³⁹⁰

In a 2005 study published in *The Review of Economics and Statistics*, Grinols and Mustard examined the relationship between casinos and crime using county-level data for the United States between 1977 and 1996. Their sample covered all 3,165 US counties and focused on the seven FBI indexed crimes: aggravated assault, rape, robbery, murder, larceny, burglary, and auto theft. They found that most factors that reduce crime occur before or shortly after a casino opens. Those that increase crime, such as problem and pathological gambling, occur over time. They concluded that the effect on crime is low shortly after a casino opens and escalates over time.³⁹¹ Although Grinols and Mustard considered their study to be one of the most comprehensive in terms of the counties covered and the variables used, it was not without its critics.

Walker faulted the Grinols and Mustard study for not adequately addressing the issue of causation: “Their results are invalid because of a variety of serious problems in their data and analysis. The authors simply compared casino to non-casino counties. But they did not control for the volume of tourists, so the crime effect they found may have been caused by tourism generally rather than casino tourism specifically. To show a valid link between crime and casinos, the authors would have needed to compare casino counties to other counties with non-casino tourism.”³⁹² Walker believes that since few, if any, of the researchers Grinols and Mustard cite acknowledge this issue or account for it, the result is an overstatement of the social costs of casino gambling on government and society.³⁹³

In a 2011 study, Grinols, Mustard and Staha studied the issue of how the type of visitors may affect crime. In an exhaustive study that analyzed data on National Park visitors between 1979 and 1998 in every county in the United States, they concluded that the type of visitor and the nature of the attraction have significantly different effects on crime rates.³⁹⁴

Obviously, conflicting studies and interpretations of data present a huge challenge to state and local policy makers attempting to accurately gauge how casino gambling related crime might

³⁹⁰ NGISC, p. 7-14.

³⁹¹ Earl L. Grinols and David B. Mustard, “Casinos, Crime and Community Costs,” *The Review of Economics and Statistics*, February, 2006, pp. 28-45.

³⁹² Douglas M. Walker, “Challenges that Confront Researchers on Estimating the Social Costs of Gambling,” American Gaming Association 10th Anniversary White Paper Series, January 2008. p. 8. See also Douglas M. Walker, “Problems in Quantifying the Social Costs and Benefits of Gambling,” *American Journal of Economics and Sociology*, July 2007, pp. 609-645.

³⁹³ Ibid. p. 9.

³⁹⁴ Earl L. Grinols, David B. Mustard and Melissa Staha, “How do Visitors affect Crime?” *Journal of Quantitative Criminology*, Vol. 27, 2011, pp. 363-378. Accessed at <http://files.campus.edublogs.org/blogs.baylor.edu/dist/0/221/files/2011/11/How-Do-Visitors-Affect-Crime-2011-1mb82v1.pdf>,

affect their communities. Another complication in analyzing the crime related costs of legalized gambling is that costs are often dispersed among various levels of government – federal, state, county and municipal. For example, the costs of criminal investigations and prosecution may be borne by county government and the costs of imprisonment by the state.

b. Public Health

Public health is another area in which state and local governments are both directly and indirectly impacted by legalized gambling. The World Health Organization, which established standardized definitions for community health care, broadly defines “health” as “The state of complete physical, mental, and social well-being and *not merely the absence of disease or infirmity*.”³⁹⁵ Advocates of casino gambling often cite its potential to improve the overall wellness of the community in many ways. Chief among these is the potential to create employment with tangible benefits such as good incomes, adequate health insurance, and access to quality health care. Such positive outcomes would improve the quality of life, vitality and overall well-being of a community.

Opponents are quick to point out that negative community health impacts may also accompany the advent of legalized gambling. Many of these would be related to pathological and problem gambling, which have been associated with unhealthy behaviors and outcomes such as drug and alcohol abuse, nicotine dependence, depression and insomnia. It has also been associated with higher rates of child abuse and neglect, domestic violence, unsafe sex and family break up. Such adverse outcomes weaken a community’s vitality and diminish its quality of life.

How effective the response to a public problem will be depends on how accurately the problem is understood. Addressing the challenge of problem and pathological gambling is difficult since an individual may be plagued by other pre-existing disorders such as drug and alcohol abuse or mental illness. Again, the question of causation must be addressed. Simply because certain types of behaviors are associated with gambling does not necessarily mean that gambling caused them. This condition is known as co-morbidity.

Co-morbidity was cited as a consideration by the 1999 National Gambling Impact study Commission. It noted: “Pathological gambling often occurs in conjunction with other psychological problems, including substance abuse, mood disorders, and personality disorders. The joint occurrence of two or more problems – termed co-morbidity – is an important, though complicating factor in studying this disorder. Is problem or pathological gambling a unique

³⁹⁵ “A Glossary of Terms for Community Health Care and Services for older Persons,” WHO Centre for Health Development Ageing and Health Technical Report Volume 5, 2004, http://www.who.int/kobe_centre/ageing/ahp_vol5_glossary.pdf. (Emphasis not in original.)

pathology that exists on its own or is it merely a symptom of a common predisposition, genetic or otherwise, that underlies all addictions?”³⁹⁶

Walker picks up on this point. “If gambling were not an option, a person who is predisposed to a pathological disorder may manifest his disorder in other unhealthy ways. Many pathological gamblers have other behavioral disorders. ... If pathological gambling is simply a symptom of some more basic disorder, then, it is the more basic disorder rather than gambling itself that is the underlying cause of the adverse consequences and social costs of the pathological gambling.”³⁹⁷ He notes that according to the DSM-IV criteria, a person coping with bipolar disorder, who may meet all of the criteria for pathological gambling, is not considered a pathological gambler if the individual also meets the criteria for a Manic Episode, and the Manic Episode is responsible for excessive gambling.³⁹⁸

Similar questions arise if an individual is both an alcoholic and a compulsive gambler who abuses and neglects his family. To what extent is his alcoholism responsible for the harm and distress he causes his wife and children as opposed to his compulsive gambling?

The data do suggest that individuals who are afflicted with these sorts of behavioral disorders may be more inclined to problem gambling. However, even if opportunities to gamble were not readily available, government would still need to cope with the various manifestations of these other problems. The failure of policy makers to take co-morbidity into account may lead one to overstate the negative impacts of legalized gambling and lead to sub optimal government policies and programs designed to respond to those impacts.

How to manage any negative health impacts of gambling is clearly a concern to many state and local officials. As with crime, they will find little definitive guidance in the literature, which is often conflicting and ambiguous. Framing the problem with adequate precision to shape and enable an effective public policy response may be difficult.

A further complication is that what is often perceived as benefit of casino gambling may have some inherent negative health aspects as well. For instance, family sustainable employment is good, but employment in a casino can expose workers to long periods of second-hand smoke, of which the adverse health effects are well known.³⁹⁹ Shift workers and those required to work long hours can experience considerable disruptions of family and social activities since many of these are day oriented. Weekend work schedules can impede involvement in family sporting events or religious activities and diminish supportive social connections with those whose daily schedules

³⁹⁶ NGISC, p. 4-3.

³⁹⁷ Walker, “Challenges that Confront Researchers on Estimating the Social Costs of Gambling,” p. 2.

³⁹⁸ Ibid.

³⁹⁹ “The Health Effects of Second Hand Smoke,” Centers for Disease Control and Prevention http://www.cdc.gov/tobacco/data_statistics/fact_sheets/secondhand_smoke/health_effects/ (accessed May 18, 2013).

are no longer similar. Family relationship strain can occur when one can no longer adequately assist with child care, shopping and housework. Many of these negative aspects may be ameliorated by a better understanding of them and adaptations and accommodations in the workplace.⁴⁰⁰

It is critical that state and local governments considering or already affected by legalized gambling evaluate and understand all its potential aspects. Many communities impacted by legalized gambling respond to public health concerns by conducting a community health impact assessment (“HIA”). An HIA is an informational tool designed and implemented by the local community to enable decision-makers to consider the health implications of proposed policies, especially policies that do not appear to have a direct health connection. It has three core functions: assessment, policy development and assurance.⁴⁰¹

An excellent example of a HIA for a community considering legalized gambling is the Kansas HIA Project.⁴⁰² It was conducted by the Kansas Health Institute, and funded in part with grants from the Health Impact Project, a collaborative effort by the Robert Wood Johnson Foundation and the Pew Charitable Trusts. The Kansas HIA Project thoroughly examined how the presence of a local casino could affect health, both positively and negatively. It examined potential risks, such as second-hand smoke exposure, traffic accidents, problem and pathological gambling, divorce and suicide. It also analyzed potential community benefits, such as job creation, increased tourism, increased state and local revenues, and health insurance. The goal of the assessment was to bring all health implications up for informed consideration and debate. The Kansas HIA believe they succeeded in that goal.⁴⁰³

c. Traffic and Transportation Infrastructure

There are several pathways through which casino gambling may impact the state and local government transportation infrastructure. The roadway system needed to support increased levels of traffic may already be old, at capacity, or inadequately designed to accommodate new traffic patterns. The cost to bring the infrastructure up to requisite standards can be hundreds of millions of dollars. Impacts may also extend to public transportation. State and local governments may see train, bus or subway traffic increase to uncomfortable levels on certain routes requiring that they

⁴⁰⁰ “Shiftwork: Health Effects & Solutions,” Occupational Health Clinics for Ontario Workers Inc., revised 2005 <http://www.nupge.ca/files/Shiftwork> (accessed May 18, 2013).

⁴⁰¹ “Community Health Assessment and Improvement Planning,” National Association of County & City Health Officials <http://www.naccho.org/topics/infrastructure/CHAIP/index.cfm> (accessed May 18, 2013).

⁴⁰² “Potential Health Effects of Casino Development in Southeast Kansas, Kansas Health Institute, October 2012 http://media.khi.org/news/documents/2012/10/23/Complete_HIA_Report.pdf.

⁴⁰³ *Ibid.*, p. 100.

increase service levels. They may also feel pressure to establish unprofitable routes in order to transport workers who might otherwise be unable to get to work.

In many cases, a casino developer may agree to share some of the estimated costs of improvement or public transportation service as part of his approval process. In other cases, government may assume a portion of these costs in order to get a casino project going to enjoy other economic benefits.

In New Jersey in the mid-1990s, under Governor Christie Whitman, the state agreed to fund \$275 million in major roadway improvements to facilitate the development of a new casino resort proposed by Mirage Resorts and its CEO, Steve Wynn. It is currently the site of the Borgata Casino Hotel & Spa in Atlantic City. Donald Trump, who owned a casino on an adjacent property, strongly fought against the proposal.⁴⁰⁴ He withdrew his opposition after the state included in the plan an access improvement to one of the casinos his company operated at the time.

One of the more immediate impacts state and local government may feel upon opening a new gaming facility is an increase in traffic on local roadways. The degree of the impact is subject to many of the aforementioned variables as well as the scale and location of the new facility. Sometimes, the impacts of traffic are felt regionally, in nearby communities that may have had no say in the development process. Connecticut was one of the first states to have Indian gaming, as it was forced upon it by a federal court decision. It can serve as an important example for two reasons. It demonstrates how the impact of a casino can transcend municipal boundaries and it shows how the lack of good regional planning can exacerbate their more challenging impacts.

Concerns regarding the impact of traffic were substantiated in an impact study Spectrum did for the State of Connecticut in 2009.⁴⁰⁵ Foxwoods opened its resort-casino in Ledyard in 1992 on Mashantucket Pequot Indian tribal land. According to Mayor John Rodolico, "The most immediate effect was the increase of traffic on roads," Rodolico stated. "They've had tens of thousands of people going there from the day they opened."⁴⁰⁶ Increased traffic volumes caused serious deterioration on old farm roads that were not up to handling the heavier traffic.

d. Law Enforcement and Emergency Services

Emergency services are those services provided by various levels of government such as police, fire and emergency medical responders that protect citizen lives and ensure public safety.

⁴⁰⁴ "Government support for Atlantic City casino raises eyebrows," CNN.Com, August 26, 1997 <http://www.cnn.com/US/9708/26/tunnel/>.

⁴⁰⁵ *Gambling in Connecticut*.

⁴⁰⁶ Lindsay Corcoran, "Lessons from Connecticut's casino experience," *The MetroWest Daily News*, March 24, 2013 http://www.metrowestdailynews.com/news/x1522344116/Lessons-from-Connecticuts-casino-experience?zc_p=0.

Collectively, they are often referred to as “first responders” since they are usually among the first to arrive at the scene of a crime, emergency or disaster.

The impact of *non-criminal* demands on local law enforcement and other first responders is often overlooked or given secondary consideration in gambling impact studies. What impact will an attraction that operates on a 24-hour basis, seven days a week have in terms of additional service calls to the local police department for 911 emergencies, motor vehicle breakdowns, traffic accidents, disorderly persons, lost or missing property, missing and dispute resolutions?

Within the first year after the Horseshoe Casino Cleveland opened in Ohio, the city incurred \$3.1 million in additional expenses related to the police department largely due to increased visitors and activity in its downtown area.⁴⁰⁷ According to the *Maryland Gazette*, the creation of a special county police unit for the area was necessary to keep a lid on problems in the vicinity of the new Maryland Live Casino in Hanover.

Spectrum’s Connecticut gambling impact study found that the City of Norwich felt significant impacts from Indian gaming casinos eight miles away. City officials estimated casino-related costs to be anywhere from \$1 million to \$2.5 million a year. They include: A 27 percent increase in motor vehicle accidents from 1991 to 2004. An increase in police overtime from \$85,000 in 1991 to more than \$280,000 in 2008. A 76 percent increase in calls for service from people needing police from 1992 to 2004.⁴⁰⁸

In some communities, local police and fire departments may be required to purchase additional equipment and provide specialized training for their workers. Government may reduce these costs by requiring gambling establishments to share the costs. To minimize the impact on local police, gambling establishments may be required to maintain certain levels of in house security personnel or establish a fee for service arrangement to cover when additional police service may be desired or required. Governments may impose additional tax assessments on gambling establishments to offset additional law enforcement costs.

e. Driving Under the Influence

Do casinos increase the number of drunk drivers on local roads? Earlier in this report, we noted that destination resorts can increase demands on law enforcement, a subject we will explore in more detail here. Casinos are known for their fast-paced environments where customers are encouraged to let loose and have a good time. This often means enjoying alcoholic beverages that may be provided complementarily to the customer while gambling or enjoyed at a casino lounge or restaurant. The anecdotal evidence would indicate a connection between an increase in drunk drivers and casinos. Drunken driving arrests were reported to have nearly doubled in Bethlehem,

⁴⁰⁷ Thomas Ott, “Cleveland casino short of revenue projections but draws praise,” *The Plain Dealer*, May 12, 2013 http://www.cleveland.com/metro/index.ssf/2013/05/cleveland_casino_short_of_reve.html.

⁴⁰⁸ *Gambling in Connecticut*, p. 13.

PA, after the Sands Casino Resort opened in 2009 while they have remained consistent in a nearby non-casino county.⁴⁰⁹

In 2009, Norwich, CT, located near two Indian gambling casinos, reported that DUI arrests had more than doubled since 1992. The towns of Montville and Ledyard also experienced significant increases. Roughly 20 percent of the motorists in Montville, Ledyard and North Stonington arrested for DUI acknowledged to police that their last drink was at a casino. One such motorist was charged with manslaughter in March 2009 for allegedly causing a fatal accident by driving the wrong way on I-395.⁴¹⁰

In what is considered one of the first empirical studies on the subject, Chad D. Cotti and Douglas M. Walker explored whether there is a link between casino expansion and alcohol-related fatal traffic accidents. They found that in urban areas, casinos actually reduce the rate of DUIs, while the rate for suburban and rural areas increases. They believe the difference may be that in urban areas the shorter driving distances, availability of public transportation, and substitution of gambling for bar-hopping might account for the decreased rate, while the rate increase in less populated areas is caused by the increase in distance driven by alcohol-impaired drivers.⁴¹¹

There are several ways in which governments respond to the problem of intoxicated driving. Public education campaigns can make people more aware of the dangers of drunk driving and the severe penalties for it. Strict enforcement and police tactics such as drunk driving check points are also effective. Ensuring that the proprietors of establishments that serve alcoholic beverage properly train their staff on how to detect and handle intoxicated patrons is also necessary to reduce the problem.

f. Social Service Costs

Legalized gambling is believed to impose higher costs on governments by attracting more people to the area who may sooner or later need assistance from government programs. These individuals may have come as patrons of the gaming facility or in search of work. The energy and 24-hour activity attendant with casinos is a special attraction for the homeless or otherwise financially destitute. It offers opportunities to panhandle and to seek temporary respite and accommodation in the public areas of facilities that may be open 24 hours daily.

A survey conducted by the International Union of Gospel Missions found what they called “compelling evidence of a link between gambling and homelessness.” According to their survey,

⁴⁰⁹ Zach Lindsey, “Sands Casino linked to increase in DUIs by Northampton County report,” *The Express-Times*, July 22, 2012
http://www.lehighvalleylive.com/bethlehem/index.ssf/2012/07/sands_casino_linked_to_increas.html.

⁴¹⁰ *Gambling in Connecticut*, p. 13.

⁴¹¹ Chad D. Cotti and Douglas M. Walker, “The impact of casinos on fatal alcohol-related traffic accidents in the United States,” *Journal of Health Economics*, 2010, pp. 788-796.

nearly 1 in 5 homeless men and women cited gambling as a cause of their condition.⁴¹² A 2005 study found clear links between gambling and homelessness but acknowledged that other factors such as mental illness and drug and alcohol abuse may also be factors.⁴¹³

The 1999 National Gambling Impact Study Commission found that individuals with gambling problems appeared to account for a higher percentage of the homeless population. The commission noted the Atlantic City Rescue Mission reported that 22 percent of its clients are homeless due to a gambling problem.⁴¹⁴ The Atlantic City Rescue Mission says that half the state's homeless population turns to it for services. The homeless problem in Atlantic City, received widespread attention recently when a mentally ill homeless woman randomly killed two Canadian tourists in the city's shopping district.⁴¹⁵

The presence of a greater number of homeless individuals who are either attracted by, or adversely impacted by, a gambling facility may impose additional public costs for psychiatric and mental health counseling, public welfare, food stamps, emergency shelter operations, traveler assistance and indigent medical care. These costs would be in addition to any increase in any related law enforcement costs. The impact on the quality of life in a given area caused by vagrancy and aggressive panhandling is not readily quantifiable.

Atlantic City has begun to address its substantial homeless problems by adopting a "Single Point of Entry" model. All agencies that serve the homeless population collaborate and refer new clients to a single point of entry where they are evaluated, assigned a case manager and if appropriate, returned to their point of origin.

g. Schools

To the extent that legalized gambling and related economic development attracts more workers with families to an area, an impact on local schools is to be expected. Casinos will mostly hire service workers who will be lower paid and ethnically diverse.

In its Connecticut study, Spectrum found that in Norwich, CT, public school administrators identified annual cost of nearly \$2 million related to casinos. In order to handle the influx of

⁴¹² Duncan R. Moon, "New Statistics Suggest Link Between Gambling, Homelessness," *Christian Science Monitor*, March 16, 1998 <http://www.csmonitor.com/1998/0316/031698.us.us.1.html>.

⁴¹³ "An Exploration of the Link between Gambling and Homelessness," Government of South Australia Department of Families and Communities, 2005. p. 2 <http://www.dcsi.sa.gov.au/pub/LinkClick.aspx?fileticket=aEsxvsvdVqsY%3D&tabid=607> (accessed May 19, 2013).

⁴¹⁴ NGISC, p. 7-27.

⁴¹⁵ Lynda Cohen, "Woman charged with two Atlantic City slayings had history of mental illness," *The Press of Atlantic City*, May 24, 2012 http://www.pressofatlanticcity.com/communities/atlantic-city-pleasantville-brigantine/woman-charged-with-two-atlantic-city-slayings-had-history-of/article_b009679e-a427-11e1-a010-0019bb2963f4.html.

immigrant workers attracted to casino jobs, the district had to create an “English for Speakers of Other Languages” program because students speak nearly 30 different languages. Students originated from Haiti, Peru, the Dominican Republic and Eastern Europe. In addition, thousands of Chinese-speaking workers were recruited from New York City in late 2001 to work at the casinos. Norwich Public Schools reported to Spectrum that in 1999 it enrolled 40 ESOL students.

Some jurisdictions address the impact on schools by requiring that a portion of casino revenues be dedicated to education. In 2009, Ohio voters amended the state constitution to allow casinos in Cleveland, Toledo, Columbus and Cincinnati. The state levies a 33 percent tax on adjusted gross gambling revenue. School districts in Ohio will share 34 percent of that tax revenue.⁴¹⁶ However, some Ohio education officials think that any casino related funding, while still desirable, would be too small to have any meaningful impact.⁴¹⁷

h. Workforce Training

The workforce required by a new gambling establishment may vary depending on its size, nature and amenities. Casino development may spur other nearby development and create even more employment opportunities. To the extent that the local latent workforce may adequately possess the skills and training necessary meet the new demand, the project can be easily assimilated into the community with little or no governmental assistance. If the local workforce is inadequate, then training and importation of workers may be necessary.

A report to the Massachusetts Gaming Commission estimates the cost of developing and training a workforce for its new casino industry at \$9 million dollars.⁴¹⁸ Responsibility for workforce training usually comes under the local Workforce Investment Board. These entities were established throughout the United States by the Workforce Investment Act of 1998. Their role is to coordinate and direct state, local and federal funding into appropriate employment training programs.

⁴¹⁶ Margo Rutledge Kissell, “Area schools to receive thousands in casino revenues,” *Dayton Daily News*, November 23, 2012 <http://www.daytondailynews.com/news/news/area-schools-to-receive-thousands-in-casino-revenu/nTCZd/>.

⁴¹⁷ Ida Lieszkovszky, “School Officials Warn Casino Funds Don’t Add Up to Much,” *StateImpact Ohio*, January 21, 2013 <http://stateimpact.npr.org/ohio/2013/01/21/school-officials-warn-casino-funds-dont-add-up-to-much/>.

⁴¹⁸ Paul Tuthill, “Casino Industry Workforce Development Cost Put At \$9 Million,” *WAMC Northeast Public Radio*, October 23, 2012 <http://wamc.org/post/casino-industry-workforce-development-cost-put-9-million>.

4. Conclusion

Gambling is a reliable and predictable funding source for governments, except in times of pronounced recession and when competition arises in neighboring states. Five states in FY 2010 relied on gambling receipts for more than 5 percent of their own-source state budget revenue.

Gambling, however, costs governments in both direct and indirect ways in such areas as crime, public health, infrastructure, law enforcement and emergency services, social services, schools (in those areas with large, high-employment casinos) and workforce training. Whether the economic benefits brought by gambling receipts outweigh its economic and social costs has been the subject of considerable research – and considerable debate.

G. Impacts of Gambling: Social, Criminal, Personal, Fiscal

A general description of gambling impacts, including: Social, criminal, and personal; short- and long-term fiscal.

Legalized gambling can affect society in a variety of different ways, positive and negative. Among the most common forms of legalized gambling, including lottery, pari-mutuels such as horse and greyhound racing, and casinos, the spread of legal commercial casinos has generated the most interest, concern, and debate during the past two decades. Indeed, the introduction of casinos has been a controversial subject in Florida for years; as a result, the State endeavored to study casinos back in 1995.⁴¹⁹

In this section, we provide a general description of impacts from gambling, including moral/ethical concerns; social, criminal, and personal impacts; as well as long- and short-term effects of casinos development. As commercial casinos are the most controversial form of gambling expansion currently being considered in Florida, our analysis focuses on the literature and evidence on the impacts of casinos.

The economic and social impacts of legalized gambling have been widely written about and studied. Studies generally focus on the effects of gambling as they relate to quantifiable metrics such as employment, crime, tax revenues, and problem gambling. Analyzed less are impacts that are somewhat subjective and not readily quantifiable.

1. Moral and Ethical Issues

Some people oppose gambling in all its forms, such as lotteries, race tracks, and casinos. According to a May 2013 Gallup Poll survey, 64 percent of Americans find gambling morally

⁴¹⁹ Florida Office of Planning and Budgeting, "Casinos in Florida," 1995.

acceptable.⁴²⁰ From these results one may infer that 36 percent of Americans do not. Those morally opposed cite its negative impacts on a person's character and values. In their view, to the extent that more people gamble more readily, society's strength and vitality are undermined and weakened.

Irving Kristol, a Professor of Urban Values at New York University, articulated this point of view at a time when legalized gambling was just beginning its national proliferation in America. In 1974, he wrote an op-ed piece for *The Wall Street Journal* opposing the spread of legalized gambling. At the time, a movement to legalize gambling was underway in New Jersey. Kristol wrote that in a gambling environment, a person often succumbs to "fantasies of getting something for nothing." He felt that gambling undermined classical social virtues such as moderation, self-reliance, self-discipline, thrift, and diligence. At the same time, it encouraged classical vices such as extravagance, avarice and the lack of social responsibility.⁴²¹ Kristol believed that state supported gambling was antithetical to a capitalist society. It subverted the values capitalism needed to thrive.

The same year that Kristol wrote his op-ed, Congress established the first Commission on the Review of National Policy Toward Gambling. The purpose of the Commission was to study all aspects of gambling that existed in America at the time and to develop recommendations for the states to follow when establishing policies. In its final report, the Commission began with a direct, straightforward observation: "Gambling is inevitable."⁴²² Inevitability, however, did not mean that the Commission was insensitive to what it called the "invidious and emotional aspects" of the moral debate. The Commission acknowledged that to a significant number of Americans, "gambling ... is absolutely wrong on both religious and secular moral grounds." They warned that in sanctioning gambling, "states may be intruding into areas of sincerely held theological and ethical convictions."⁴²³ However, moral concerns were "largely unsusceptible to objective analysis." Therefore, the Commission, while recognizing religious perspectives, considered such issues somewhat beyond their purview.⁴²⁴

⁴²⁰ Frank Newport and Igor Himelfarb, "In U.S., Record-High Say Gay, Lesbian Relations Morally," Gallup, May 20, 2013 <http://www.gallup.com/poll/162689/record-high-say-gay-lesbian-relations-morally.aspx>.

⁴²¹ Irving Kristol, "Vice and Virtue in Las Vegas," *The Wall Street Journal*, September 18, 1973, p. 20.

⁴²² Commission on the Review of the National Policy Toward Gambling Final Report, Washington, DC, 1976, p. 1.

⁴²³ Ibid.

⁴²⁴ Ibid.

Kristol expressed the secular moral arguments against gambling. In testimony submitted to the Commission, clerical leaders expressed the religious arguments.⁴²⁵ They held gambling was wrong because it encouraged sloth and an obsession with money over one's fellow man. It also fostered a desire to achieve wealth without work. It distracted one from pursuing activities that brought one closer to God.

As public acceptance of gambling as a leisure activity increased, arguments based on its moral costs lost ground. According to the Rev. Tom Grey, spokesman for the National Coalition Against Legalized Gambling, church opposition to gambling has not been widely effective. Grey, who railed against gambling for years as a United Methodist pastor, said the argument that gambling is sinful does not adequately counter strong public unwillingness to restrict certain personal freedoms. Consequently, Grey's anti-gambling coalition now avoids explicit mentions of religion, and presents more economically based arguments that focus on addiction, bankruptcy and crime.^{426,427}

Focus on the Family, a politically influential Christian organization dedicated to protecting and strengthening families, strongly opposes all forms of legalized gambling. In their official position statement they write: "Gambling is driven by and subsists on greed. For this reason, the activity is morally bankrupt from its very foundation. Gambling is also an activity which exploits the vulnerable – the young, the old and those susceptible to addictive behaviors. Further, gambling entices the financially disadvantaged classes with the unrealistic hope of escape from poverty through instant riches...gambling undermines the work ethic. It is based on the premise of 'something for nothing,' a concept that sanctions idleness rather than industriousness, slothfulness instead of initiative."⁴²⁸

In Florida, the Ethics and Religious Liberty Commission of the Southern Baptist Convention has been a leading voice in warning about the effects of widespread gambling. The commission notes on its website:

Among the arguments advanced to justify gambling is the one which says that all of life is a gamble or a risk. But risk-taking in gambling is different from the risks involved in the normal routine of life. The risks in gambling are artificially created. In other ventures, the risk is part of the creative process. For example, the contractor risks labor and capital to

⁴²⁵ For example see "Gambling in America: Appendix 1, Staff and Consultant Papers, Model Statutes, Bibliography, Correspondence," Committee on the Review of the National Policy Toward Gambling, Washington, D.C., 1976, pp. 208-210.

⁴²⁶ Greg Trotter, "Gambling Opponents Say Moral Argument No Longer a Trump," *Christianity Today*, March 18, 2008 <http://www.christianitytoday.com/ct/2008/marchweb-only/112-22.0.html>.

⁴²⁷ The National Coalition Against Legalized Gambling is now called Stop Predatory Gambling (<http://stoppredatorygambling.org/>).

⁴²⁸ "Our Position (Gambling)," Focus on the Family <http://www.focusonthefamily.com/socialissues/social-issues/gambling/our-position.aspx> (accessed May 23, 2013).

build a house and make a profit. Unlike the gambler, he assumes a risk that is necessary to society's economic life, and he relies on more than chance in seeking to make a profit.

It is also argued that some people like to spend their recreation money betting on horses or playing slot machines, just as others prefer to spend theirs for a round of golf or a movie. Gambling obviously provides a kind of recreational excitement for some, but the cost to individuals, families, the economy, and society is too high to justify it.

Seen in this light, gambling is personally selfish, morally irresponsible, and socially destructive. Therefore, gambling must be vigorously resisted. Such resistance requires an understanding of the problem, a workable plan of attack, and a personal commitment to work against gambling.

The gambling problem results from two interrelated factors: (1) Many people have a desire, often a compulsion, to gamble. (2) Most of these people have access to gambling opportunities. The ultimate goal of a plan of action is to control the desire to gamble and eliminate the access to gambling opportunities.

When the desire to get something for nothing and the opportunity to gamble go hand in hand, resistance to one requires resistance to the other. To attempt to eliminate the desire without abolishing the opportunity is to invite failure. It is a matter of record that as gambling becomes more accessible, more people gamble. Thus, legalization is not the answer to the gambling problem. Instead, it is one primary cause of the gambling problem.

Any adequate plan to deal with gambling must be both extensive and comprehensive. It must be extensive enough to include the spiritual, educational, and legal approaches. It must be comprehensive enough to incorporate the family, the world of work, community clubs and organizations, the church, and government.⁴²⁹

Moral opposition against gambling is not limited to the Christian community. In Maryland, both the Baltimore Jewish Council and the Baltimore Board of Rabbis officially came out against expanded gambling. Rabbi Gila Ruskin of the Harford Jewish Center and first vice president of the Baltimore Board of Rabbis stated she believes expanded gambling preys on the weak and encourages addiction. "You are exploiting people who don't have expendable income all in the name of raising money for causes like education. But what do you tell those kids about where the money for their school came from? That we raised the funds by preying on people's weaknesses and temptations."⁴³⁰

⁴²⁹ The Ethics and Religious Liberty Commission, "Issues and Answers: Gambling" <http://erlc.com/article/issues-answers-gambling/#sthash.2TB94gsl.dpuf> (accessed June 21, 2013).

⁴³⁰ Ron Synder, "Debate over casinos in Maryland continues," *Baltimore Jewish Times*, http://www.jewishtimes.com/index.php/jewishtimes/news/jt/local_news/debate_over_casinos_in_maryland_continues/35921 (accessed May 21, 2013).

The late William Eadington, who wrote extensively on the costs and benefits of gambling, noted that some opposition to legalized gambling is based on “straightforward moral disapproval” but does not examine that aspect further.⁴³¹

Notably, the successful 1976 campaign to legalize casinos in Atlantic City, NJ included religious leaders in its army of proponents. A local rabbi and the Monsignor of a parochial high school in the Atlantic City region were used in radio advertisements that claimed morality was on the side of increasing employment, reducing hunger and getting families off welfare. “Many religious leaders believe this is the real moral issue,” the two clergy leaders said in the radio ads.⁴³²

In sum, morality has historically been a factor in shaping public policy. Capital punishment, pornography and gay marriage are some examples where much weight is placed on moral perceptions and concerns when shaping policy. It is a challenging factor since it may be difficult to reach an agreement on what is “moral” and concepts of acceptable morality may change from one community to another, as well as over time.

2. Opportunity Costs

In economics, an opportunity cost is defined as the cost incurred in forgoing the benefits of one course of action while pursuing the benefits of another. For example, one might decide to take a job right out of high school rather than go to college. In the short term, one reaps the benefits of not paying tuition costs and losing four years’ worth of salary, but in the long term, one might pay the cost of earning less income over a period of many working years.

Those opposed to legalized gambling sometimes argue that it is pursued as an economic development policy because it is easier and its financial benefits are more immediate. However, they argue that those benefits are offset by its social costs and may not be sustainable in the long term. According to opponents, while casino gambling might make local sense, especially in financially distressed communities that have few, if any, viable alternatives, the collective long term costs of its proliferation are significant and have a national impact. Thousands of workers and billions of dollars in capital are directed into investments that, they argue, do little to increase America’s overall economic strength and competitiveness in a global economy. Casino opponents argue that casinos invest little, if anything, to improve worker skills and training and capital could arguably be better invested in more productive industries.

The problem with assessing opportunity costs is that knowing the outcome of any course of action with any degree of certainty is not possible. A high-tech startup company may fail and

⁴³¹ William R. Eadington, “The Economics of Casino Gambling,” *Journal of Economic Perspectives*, Vol. 13, No. 3, Summer 1999, p. 187.

⁴³² *Hostage to Fortune*, p. 15.

leave a community less well off than if it had a stable, profitable casino. Ironically, choosing the best path to achieve desired economic goals is itself basically a gamble.

3. Social, Criminal, Personal Impacts

a. Negative Impacts

We now turn to a discussion of specific negative impacts that are often thought to accompany legalized gambling. The goal in this section is to provide a brief review of those impacts that have been studied and quantified in the academic literature.

Disordered Gamblers

Most of the negative socioeconomic impacts often associated with gambling, and casino gambling in particular, are the result of problematic behaviors by “disordered gamblers.” These are people who gamble to an extent beyond recreational gambling such that it disrupts their career and/or personal/professional relationships.⁴³³ Psychologists estimate the prevalence rate of disordered gamblers to be between 0.4 percent and 2.0 percent of the general population.^{434, 435}

However, prevalence rates may be greater or lower in areas. In discussing this issue with representatives from the Florida Council on Compulsive Gambling (“FCCG”), it appears that the prevalence rate could be significantly higher, depending on where one attempts to identify problem gamblers. The 0.4 percent – 2.0 percent rate is based on the psychology literature, much of which is based on clinical diagnoses of problem gamblers. However, as noted by Laura Letson at the FCCG, “These questions should be asked at places other than the psychologist’s office.” One may see a much higher prevalence rate if the diagnosis was attempted at non-clinical settings, such as in homeless shelters, in social service environments, or at correctional facilities. Letson suggests that under the FCCG’s analysis, based on a preliminary, two-question problem gambling screen of the arrestee population, the prevalence rate may be over 15 percent. Other FCCG data indicate that prevalence rates for adults and adolescents may be in the same range (15 percent to 18 percent).⁴³⁶

Disordered gambling is a condition which is usually diagnosed in a clinical setting. The *Diagnostic and Statistical Manual* (“DSM”), published by the American Psychiatric Association, is the standard for the diagnosis of problem/disordered gambling. The DSM-IV (1994; 2000) lists

⁴³³ Walker, *Casinomics*, 2013, p. 111.

⁴³⁴ Ibid, p. 112.

⁴³⁵ Psychologists classify gambling problems into different categories, including problem gamblers, pathological gamblers, and the newest term, disordered gamblers. We do not differentiate among these different levels of severity in this overview of the impacts of gambling.

⁴³⁶ Laura Letson, Florida Council on Compulsive Gambling, phone interview, May 24, 2013.

a set of 10 criteria that are indicators of disordered gambling. A person may be diagnosed as a pathological gambler if they endorse at least five of the following indicators:⁴³⁷

1. Is preoccupied with gambling (e.g., preoccupied with reliving past gambling experiences, handicapping or planning the next venture, or thinking of ways to get money with which to gamble)
2. Needs to gamble with increasing amounts of money in order to achieve the desired excitement
3. Has repeated unsuccessful efforts to control, cut back, or stop gambling
4. Is restless or irritable when attempting to cut down or stop gambling
5. Gambles as a way of escaping from problems or of relieving a dysphoric mood (e.g., feelings of helplessness, guilt, anxiety, depression)
6. After losing money gambling, often returns another day to get even (“chasing” one’s losses)
7. Lies to family members, therapist, or others to conceal the extent of involvement with gambling
8. Has committed illegal acts such as forgery, fraud, theft, or embezzlement to finance gambling
9. Has jeopardized or lost a significant relationship, job, or educational or career opportunity because of gambling
10. Relies on others to provide money to relieve a desperate financial situation caused by gambling

In the new edition of the DSM (“DSM-5”), to be published in summer 2013, the terminology changes from “pathological gambler” to “disordered gambler,” and the eighth criterion – related to illegal acts to finance gambling – has been dropped. The diagnosis will require at least four of the nine remaining indicators.⁴³⁸

Disordered Gambling and the Proximity of Casinos

One important question for any government jurisdiction considering the expansion of legalized casinos is whether the prevalence of disordered gambling is related to the proximity of casinos. In other words, is the introduction of casinos to an area likely to increase the prevalence of disordered gambling? Several studies have examined this issue. While the odds of a person being a disordered gambler are about 1 percent, for people within 10 miles of a casino the odds

⁴³⁷ American Psychiatric Association, *Diagnostic and Statistical Manual*, 4th edition, 2000.

⁴³⁸ See Nancy M. Petry, “Editorial: Pathological Gambling and the DSM-V. *International Gambling Studies*, Volume 10, p. 113-115.

increase by 90 percent (to 1.9 percent), according to one study.⁴³⁹ However, it is unclear whether an increase in this risk is the result of new people in that area developing gambling problems, or whether a casino attracts existing disordered gamblers to the area. Another study on adolescents found that the number of different forms of legal gambling in a state is related to an increase in the proportion of problem gamblers in the state.⁴⁴⁰

Hence, the evidence suggests that the negative impacts from casinos that are associated with disordered gambling would likely be worse in Florida if casino gambling is expanded there. Indeed, representatives from the FCCG indicate that, since 2005, help-line calls in the state have increased over 50 percent. This is during a time period in which the amount and types of legalized gambling increased dramatically in the state – namely with the introduction of racetrack casinos in South Florida and the development of two Seminole Hard Rock destination resort casinos. FCCG Executive Director Pat Fowler notes, “More than 50 percent of help-line callers identify slot machines as their primary problem.” Another 30 percent identified cards as their main problem; this has increased as no-limit poker has increased in availability.⁴⁴¹

At the same time, however, psychologists have not found significant differences in prevalence rates across jurisdictions or across time. So, even though casinos have spread across the United States, the prevalence of disordered gambling has not increased at the same rate. Since Florida already has several legal types of gambling, including tribal casinos, it is unclear how the introduction of commercial casinos would affect the prevalence of problem gambling. But if help-line call data are an indication, gambling problems would likely increase with expanded gambling in Florida.

Negative Social Impacts Associated with Casinos (and Gambling)

Social scientists have been studying the economic and social impacts of legalized gambling, particularly casino gambling, since the early 1990s. Such research was frequently cited in debate over the expansion of casinos into new states, especially when the research offered a monetary estimate of the “social costs of gambling.” As an example of the importance of this area of research, the National Gambling Impact Study Commission discussed the various social costs of gambling, and the National Research Council’s *Pathological Gambling* discusses the academic research in detail, although these resources are somewhat dated now.⁴⁴²

⁴³⁹ John W. Welte, et al., “The Relationship of Ecological and Geographic Factors to Gambling Behavior and Pathology,” *Journal of Gambling Studies*, Volume 20, 2004, p. 418.

⁴⁴⁰ John W. Welte, et al., “Legal Gambling Availability and Problem Gambling Among Adolescents and Young Adults,” *International Gambling Studies*, Volume 9, 2009, p. 94.

⁴⁴¹ Pat Fowler, Florida Council on Compulsive Gambling, phone interview, May 24, 2013.

⁴⁴² National Research Council, *Pathological Gambling*, 1999.

Among the many studies that examine the negative social impacts that are often associated with gambling in general, and casino gambling in particular, the paper by Thompson, Gazel, and Rickman represents one of the most careful analyses.⁴⁴³ These authors surveyed Gamblers Anonymous members, people who might be expected to be more likely than the general public to be diagnosed as disordered gamblers. Based on the survey responses, Thompson et al. estimate the annual social costs per disordered gambler to be around \$9,500. This amount includes the following types of social cost: employment (including lost work hours, unemployment compensation, and lost productivity and unemployment; \$2,941), bad debts (\$1,487), civil court (\$848), criminal justice (including thefts, arrests and trials, and incarceration; \$3,498), therapy (\$361), and welfare (\$334).

There is no doubt that disordered gamblers sometimes engage in socially costly behaviors. However, such monetary social cost estimates have been criticized in the literature.⁴⁴⁴ One of the key problems with estimating the monetary value of social costs is that most disordered gamblers also have other behavioral problems, such as alcohol or drug use problems.⁴⁴⁵ Yet, most social cost studies simply attribute all of the social costs created by these individuals to the gambling problem. There is no research that successfully partitions the costs among the various behavior problems experienced by the individual.⁴⁴⁶

While it is not possible to offer an objective social cost monetary estimate without making a variety of arbitrary assumptions, it is informative to discuss the different types of problems that are most commonly associated with disordered gambling. In other words, a qualitative, rather than quantitative, discussion of social costs is more useful.

Casinos and Crime Rates

One of the most common concerns people have with the expansion of gambling is that it may cause an increase in crime rates. Such concerns are often voiced by members of the law enforcement community. For example, Sarrah Carroll of the Florida Sheriff's Association indicates that she believes there is a link between gambling and crime. Her organization is opposed to any expansion of gambling in Florida because of concerns that crime problems would be exacerbated.⁴⁴⁷ Certainly each community may have different experiences with gambling-related

⁴⁴³ William N. Thompson, Ricardo C. Gazel, and Dan Rickman, "The Social Costs of Gambling," *Gaming Law Review*, Volume 1, p. 81-89.

⁴⁴⁴ See, for example, Douglas M. Walker and A. H. Barnett, "The Social Costs of Gambling: An Economic Perspective," *Journal of Gambling Studies*, Volume 15, 1999, p. 181-212.

⁴⁴⁵ James R. Westphal and Lera Joyce Johnson, "Multiple Co-occurring Behaviours Among Gamblers in Treatment: Implications and Assessment," *International Gambling Studies*, Volume 7, 2007, p. 73-99.

⁴⁴⁶ Douglas M. Walker, *Casinomics*, 2013, p. 178-181.

⁴⁴⁷ Sarrah Carroll, Florida Sheriff's Association, phone interview, May 23, 2013.

crime, depending on the types of gambling available and other characteristics of the community in question.

Over the past three decades numerous researchers have examined the relationship between casino gambling and crime rates. One of the most commonly cited studies is the 2006 study by Grinols and Mustard.⁴⁴⁸ These authors examined county-level crime data from 1977 through 1996. As do most studies on the subject, Grinols and Mustard focus on the FBI's *Uniform Crime Reports* Index I crimes, which include "street crimes": aggravated assault, rape, robbery, murder, larceny, burglary, and auto theft. They argue that approximately 8 percent of casino county crime can be attributed to the existence of casinos. Several studies confirm the Grinols and Mustard results; yet others find no relationship between casinos and crime rates.

Although the Grinols and Mustard paper received a lot of attention, it has also received a significant amount of criticism because the authors calculated the crime rate in a way which overstates the impact of casinos. Crime rates should reflect the risk of an individual being victimized by crime.⁴⁴⁹ In a county with no tourism, for example, calculating the crime rate is simple; it is the number of crimes committed divided by the population at risk (or county residents). But if there is significant tourism in a county, then the crime rate should be calculated as the total number of crimes committed divided by county residents plus tourists. Since Grinols and Mustard divided crimes by county population only – and excluded tourists from their population measure – their calculations almost certainly overstate the effect of casinos on crime.

The 2010 study by Reece⁴⁵⁰ significantly improved on the Grinols and Mustard study, as Reece controlled for the number of tourists and also the number of casino customers – two critical adjustments absent in the Grinols and Mustard study. Although Reece's analysis is much more thorough than the Grinols and Mustard analysis, he examined only Indiana. Nevertheless, his findings are an important contribution to the overall understanding of casinos and crime. In summary, Reece finds that burglaries increase in a county a few years after a casino opens. However, car thefts and aggravated assaults decreased. Increased casino volume reduces larceny, car theft, aggravated assault, and robbery.⁴⁵¹

A recent, fairly comprehensive review of the casino-crime literature shows that almost all studies that find a relationship between casinos and crime calculate the crime rate by excluding the tourists from the population at risk. Those studies that do include the tourists in the population

⁴⁴⁸ Earl Grinols and David Mustard, "Casinos, Crime, and Community Costs," *Review of Economics and Statistics*, Volume 88, 2006, p. 28-45.

⁴⁴⁹ Jay S. Albanese, "Casino Gambling and Crime," testimony before the NGISC, September 10, 1998, p. 191-198. <http://govinfo.library.unt.edu/ngisc/meetings/10sept98/p230910.pdf>.

⁴⁵⁰ William S. Reece, "Casinos, Hotels, and Crime," *Contemporary Economic Policy*, Volume 28, 2010, p. 145-161.

⁴⁵¹ Reece (2010), quoted in Douglas M. Walker, *Casinomics*, 2013, p. 212.

measure find no casino effect on crime rates.⁴⁵² Given the best available evidence, it seems unlikely that the existence of casinos causes an increase in crime rates, properly calculated. There *may be* a relationship between casinos and crime, but there is no good evidence, as yet, to support such claims.

Problem Gambling and Crime

There is solid evidence that disordered gamblers are more likely than non-gamblers to engage in crime. This connection makes intuitive sense. For example, a person who has difficulty controlling his gambling may have to take drastic actions to obtain money to satisfy a gambling habit. A variety of studies that rely on Gamblers Anonymous members confirm that these individuals are more likely to commit crimes. For example, the study by Meyer and Stadler finds that 89 percent of their sample of pathological gamblers admitted to having committed at least one crime in their lifetime.⁴⁵³ This rate is much higher than for the general population.

Even when analyzing a sample of people from the general population, the link between gambling behaviors and crime seems to exist. In one study of adolescents, researchers found that individuals who indicated gambling behaviors consistent with those from the DSM were significantly more likely to indicate that they had also engaged in crime, compared to individuals who did not exhibit disordered gambling behaviors.⁴⁵⁴ However, the study also found that it was not casino gambling that is most linked to crime – rather, it was gambling on horse racing, sporting events, and card games that were found to have the link to crime.

It is difficult to predict whether or not the increased crime committed by disordered gamblers has a meaningful impact on overall crime rates, since disordered gamblers make up such a small portion of the population. Aside from that, as noted above, results from crime rate studies are inconclusive as a group. Nevertheless, the literature seems to confirm that problem gamblers are more likely to engage in crimes than non-problem gamblers.

Casinos and White-Collar Crime

Over the past two decades, there have been numerous suggestions in the academic literature and in political debate that gambling is associated with white-collar crimes, such as embezzlement, forgery and fraud. The motivation for such crimes, especially on the part of disordered gamblers,

⁴⁵² Douglas M. Walker, "Casinos and Crime in the U.S.A.," in Bruce Benson and Paul Zimmerman (editors), *Handbook on the Economics of Crime*, p. 488-517.

⁴⁵³ Gerhard Meyer and Michael A. Stadler, "Criminal Behaviour Associated With Pathological Gambling," *Journal of Gambling Studies*, Volume 15, 1999, p. 29-43.

⁴⁵⁴ Christopher Clark and Douglas M. Walker, "Are Gamblers More Likely to Commit Crimes? Evidence From a Nationally Representative Survey of U.S. Young Adults," *International Gambling Studies*, Volume 9, 2009, p. 119-134.

seems obvious. If one is accumulating significant losses at a casino, one way to finance such losses would be to use one's position of trust to commit a financial crime.

A link between casinos and gambling and white-collar crime has been cited in countless reports, newspaper articles, and even in the Congressional Record. A typical quotation is: "The American Insurance Institute estimates that 40 percent of white-collar crime has its root in gambling."⁴⁵⁵ The problem is, as explained by Joseph Kelly, the American Insurance Institute does not exist. The citation to this statistic often appears in anti-casino writings, some dating back to 1980, even though no one has apparently ever seen the report from which this statistic is said to come.⁴⁵⁶ Nevertheless, there is likely a motivation for individuals, particularly with gambling problems, to engage in white-collar crime to finance their gambling. The FCCG's Fowler suggests that white-collar crime is a problem associated with gambling in Florida, although it has not received adequate research attention to date.⁴⁵⁷

Indeed, there has been very limited research on a link between white-collar crime and casinos (or gambling, generally). A review of the literature finds one recent study. The 2008 study by Jay Albanese specifically examines the impact of the introduction of casinos on certain white-collar crime arrests. Albanese provides national arrest data for embezzlement, forgery, and fraud, between 1988 and 2005. (He excluded juvenile arrests from his data.) Embezzlement arrests increased by about 20 percent over the period, forgery arrests increased by 19 percent, and fraud arrests decreased by about 11 percent.⁴⁵⁸

Since casino gambling, particularly by disordered gamblers, may be a motivation to engage in white-collar crimes (for example, in order to gain money with which to gamble), Albanese also examines arrest rates before and after the introduction of casinos in several markets: Atlantic City, NJ; Connecticut; Detroit, MI, and St. Louis, MO. Albanese also considers Las Vegas; even though casino gambling has existed there since the 1930s, Las Vegas grew dramatically during the 1990s. Albanese summarizes his findings on these markets:

The pre- and post-casino arrest trends in these large casino jurisdictions were remarkably consistent, but unexpected. Embezzlement arrests increased in Connecticut (and nationwide), but declined in the other casino jurisdictions. Forgery arrests dropped in the casino jurisdictions despite a general increase in forgery arrests nationwide. Fraud arrests also dropped in casino jurisdictions, reflecting nationwide trends. These results indicate

⁴⁵⁵ Joseph M. Kelly, "The American Insurance Institute, Like THAT Bunny, Keeps Going and Going and Going ...," *Gaming Law Review*, Volume 1, 1997, p. 209-212.

⁴⁵⁶ *Ibid.*

⁴⁵⁷ Pat Fowler, Florida Council on Compulsive Gambling, phone interview, May 24, 2013.

⁴⁵⁸ Jay S. Albanese, "White Collar Crimes and Casino Gambling: Looking for Empirical Links to Forgery, Embezzlement, and Fraud," *Crime, Law and Social Change*, Volume 49, 2008, p. 339.

that there have been mostly net decreases in average annual arrests for these white collar offenses in these large casino jurisdictions.⁴⁵⁹

There are limitations to Albanese's data. For example, his data are presented as absolute arrest counts, not arrest rates (i.e., they are not per capita arrest rates). However, given the large number of tourists that visit casinos, this omission is likely to cause an overstatement of the crime rates in casino jurisdictions. In addition the picture may look different if convictions, rather than arrests, were considered. Finally, as Albanese notes (p. 342), it is impossible to determine whether gambling was the motivation for these crimes.

Albanese focuses his discussion of the causes of white-collar crime on embezzlement, since those arrest numbers increased nationwide during the period he studied. He cites evidence from interviews of prisoners who were convicted of embezzlement. Although there is a variety of stated causes for embezzlement, gambling is not one of the more common suggested causes. Rather, Albanese summarizes, "...females appear to embezzle primarily to keep a family or relationship together when threatened with financial problems, whereas men engage in status-seeking or status-maintaining behavior resulting in financial problems that they do not feel they can share with others."⁴⁶⁰

Although evidence from prisoner interviews may not seem entirely convincing, evidence that supports Albanese's doubt of a link between white-collar crime and casinos can be found in the fact that the DSM has dropped the diagnostic criterion that the person "has committed illegal acts such as forgery, fraud, theft, or embezzlement to finance gambling." This criterion is "rarely endorsed" in attempts to diagnose disordered gambling.⁴⁶¹

Political Corruption

Aside from crimes that may be committed by disordered gamblers, or others who may be seeking money to fund their gambling, historically there has been a concern about gambling and political corruption. The late US Senator Paul Simon wrote of gambling, "We have an industry ... that is growing rapidly. It is an industry...that [I think] has more of a history of involvement in corruption than any other industry."⁴⁶² Casinos may have a reputation for being "mob-run" because of Las Vegas in the early days. However, as most casinos in Las Vegas and elsewhere are now corporate owned and rigorously regulated at the state level, it raises doubt as to whether the mob

⁴⁵⁹ Ibid., p. 341-342.

⁴⁶⁰ Ibid., p. 344.

⁴⁶¹ Nancy N. Petry, "Editorial: Pathological gambling and the DSM-V," *International Gambling Studies*, p. 113, Volume 10, 2010.

⁴⁶² Paul Simon, testimony in "Charge to the Commission," *National Gambling Impact Study Commission*, 1997, p. 31 <http://govinfo.library.unt.edu/ngisc/meetings/june2097/june20con.html>.

has any involvement in the industry, and whether politicians systematically engage in corrupt activities with respect to the casino industry.

As with white-collar crime and street crime, there may seem to be an obvious motivation for corruption related to the gambling industry, and casinos in particular. First, the casino industry is growing very rapidly and is largely a cash business. Perhaps this would make it easier for the industry to corrupt the casino industry. More importantly, the casino industry needs politicians' consent to exist. Since state governments control almost every aspect of the casino industry perhaps the spread of casinos across the United States is due, in part, to corrupt politicians. Alternatively, there could be a link whereby, once casinos are legal and operating, they contribute to the corruption of politicians in an attempt to win favorable regulatory changes.

Spectrum has significant experience in New Jersey, where the possibility of political corruption was first addressed in the Casino Control Act of 1977, in which Sec. 138 includes the following language: "No applicant for or holder of a casino license, nor any holding, intermediary or subsidiary company thereof, nor any officer, director, casino key employee or principal employee of an applicant for or holder of a casino license or of any holding, intermediary or subsidiary company thereof nor any person or agent on behalf of any such applicant, holder, company or person, shall directly or indirectly, pay or contribute any money or thing of value to any candidate for nomination or election to any public office in this State, or to any committee of any political party in this State, or to any group, committee or association organized in support of any such candidate or political party."⁴⁶³

In our experience, that provision was designed to help ensure public confidence in the governance of gaming, and was not – nor could it have been – expected to hermetically seal the industry from politics, or vice versa. Indeed, as noted earlier, the provision did not prevent corruption, but it might have reduced it, and arguably achieved its principal goal of fostering confidence in the governance of gaming.

Since 2006, the casino/gambling industry has spent roughly \$30 million per year on lobbying federal politicians; it employs over 400 lobbyists.⁴⁶⁴ Of course, it is legal for individuals or groups to make contributions to politicians, but such figures raise questions about the industry's influence on the government that regulates it.

It would be incredibly time-consuming to analyze individual corruption arrests to determine whether they are directly linked to casinos. However, there have been some high-profile arrests that were linked to gambling. Former Illinois governor Rod Blagojevich was convicted for a variety of crimes; one was for wire fraud in an attempt to shake-down a racetrack owner in return

⁴⁶³ New Jersey Casino Control Act <http://www.state.nj.us/casinos/actreg/act/>.

⁴⁶⁴ Center for Responsive Politics <http://www.opensecrets.org/lobby/indusclient.php?id=N07&year=2012> (accessed May 10, 2013).

for the governor's support of a 2008 law that taxes casinos 3 percent to subsidize the racetracks.⁴⁶⁵ The paper by Martz provides a description of the anecdotal evidence that purports to show a link between casinos and corruption.⁴⁶⁶

We are aware of only one empirical analysis of the link between casinos and political corruption in the United States. The recent paper by Walker and Calcagno analyzes federal corruption convictions and casino adoptions/revenues using data from 1985 to 2000. Their statistical analysis focuses on whether changes in one variable (e.g., corruption convictions) improve the prediction of the other variable (e.g., casino revenues), and vice versa. If there is such a relationship, it is called "Granger causality" in the economics literature.⁴⁶⁷

The authors explain that their analysis lends little evidence to support a "culture of corruption" explanation whereby corruption leads to the introduction of casinos. Rather, they find evidence that predicted casino adoptions lead to corruption convictions. This suggests that casinos may be complicit in "regulatory capture" during the period studied. The implication is that regulators are "captured" by the industry they are supposed to regulate. Anecdotal evidence of regulatory capture by the casino industry can be seen in a variety of states. For example, several states that initially had casino loss limits (for example, \$500 per casino cruise) have since eliminated those limits. Some states which used to require casinos to be on boats no longer do.⁴⁶⁸

While such examples of regulatory changes favorable to the casino industry may be examples of regulatory capture, it should also be noted that the regulators themselves may benefit when regulations benefit the industry, as many state casino regulatory agencies are funded directly from taxes on casinos' operations. Although the study by Walker and Calcagno is the first empirical analysis to suggest a statistical link between casinos and corruption, one could criticize the study because it does not directly link casinos or the gambling industry to particular corruption convictions. In any case, a carefully designed regulatory framework for the casino industry can be the best way of preventing any corruption associated with casinos.

Bankruptcy

Non-business bankruptcy filings increased dramatically during the 1990s, doubling between 1990 and 1998.⁴⁶⁹ Yet, the US economy did relatively well throughout this period. The

⁴⁶⁵ Associated Press, "Blagojevich Verdict: The Breakdown," CBS Chicago.com, June 27, 2011. <http://chicago.cbslocal.com/2011/06/27/blagojevich-verdict-the-breakdown/>.

⁴⁶⁶ Stephanie A. Martz, "Legalized Gambling and Public Corruption: Removing the Incentive to Act Corruptly, or, Teaching an Old Dog New Tricks," *Journal of Law and Politics*, p. 453-492, Volume 13, 1997.

⁴⁶⁷ Douglas M. Walker and Peter T. Calcagno, "Casinos and Political Corruption in the United States: A Granger Causality Analysis, *Applied Economics*, in press.

⁴⁶⁸ Ibid, p. 25-26.

⁴⁶⁹ John M. Barron, Michael E. Staten, and Stephanie M. Wilshusen, "The Impact of Casino Gambling on Personal Bankruptcy Filing Rates," *Contemporary Economic Policy*, p. 441, Volume 20, 2002.

trend in bankruptcies coincided with the expansion of commercial casinos outside of Nevada and New Jersey during the early 1990s, so the increased availability of casinos and spike in bankruptcies could be related. Several studies have been published that examine this relationship. Key findings of these studies are described.

Nichols et al. studied bankruptcies from 1989 through 1998 in eight casino jurisdictions and control jurisdictions without casinos. They found that personal bankruptcy rates increased in seven of the eight casino communities they studied.⁴⁷⁰ The study by de la Viña and Bernstein examined 100 counties in 36 states, from 1989 through 1994; they did not find a relationship between the introduction of casinos and county bankruptcy rates.⁴⁷¹ However, their lack of results may be because their study only went to 1994, only five years after casinos began to spread outside of Nevada and New Jersey. A more recent study found that bankruptcy rates in casino counties are initially higher than non-casino counties, but then casino-county rates actually fall below non-casino counties four to eight years after casinos are introduced. But rates again start to rise, and thirteen years after the introduction of casinos, bankruptcy rates in casino counties are 15 percent higher than in non-casino counties.⁴⁷²

Barron et al. examined data for over 3,000 US counties. Their results suggest that bankruptcy rates are higher closer to casinos, and that if casinos were eliminated there would be a 5 percent decline in 1998 filing rates in casino counties.⁴⁷³ Finally, the study by Garrett and Nichols indicates that individuals who visit out-of-state casinos have a 10 percent higher chance of filing for bankruptcy back in their home states, compared to individuals who did not visit out-of-state casinos.⁴⁷⁴

There have been several other journal articles that examine bankruptcy rates and their relationship to casinos. Considering those studies discussed above and the others in the literature, the majority of the evidence suggests that the existence of casinos does cause an increase in personal bankruptcy rates, especially in close proximity to casinos. It is likely that disordered gamblers are disproportionately responsible for the bankruptcy effect, as they are more likely than others to experience financial problems because of their gambling.

⁴⁷⁰ Mark W. Nichols, B. Grant Stitt, and David Giacomassi, "Casino Gambling and Bankruptcy in new United States Casino Jurisdictions," *Journal of Socio-Economics*, p. 247-261, Volume 29, 2000.

⁴⁷¹ Lynda de la Viña and David Bernstein, "The Impact of Gambling on Personal Bankruptcy Rates," *Journal of Socio-Economics*, Volume 31, 2002, p. 503-509.

⁴⁷² Ernie Goss, Edward A. Morse, and John Deskins, "Have Casinos Contributed to Rising Bankruptcy Rates?" *International Advances in Economic Research*, Volume 15, 2009, p. 456-469.

⁴⁷³ John M. Barron, Michael E. Staten, and Stephanie M. Wilshusen, "The Impact of Casino Gambling on Personal Bankruptcy Filing Rates," *Contemporary Economic Policy*, Volume 20, 2002, p. 441.

⁴⁷⁴ Thomas A. Garrett and Mark W. Nichols, "Do Casinos Export Bankruptcy?" *Journal of Socio-Economics*, Volume 37, 2008, p. 1481-1494.

Drunk Driving Fatalities

Many casinos provide their patrons with free alcoholic beverages as long as they are gambling. Indeed, like bars, casinos represent an increasingly popular form of nighttime entertainment. To the extent that alcohol is relatively cheap at many casinos, then one might expect there to be a link between casinos and drunk driving.

There has not been published work that has studied the relationship between casinos and DUI arrests in the United States. However, one study examined casinos and alcohol-related traffic fatalities (“ARFAs”). The 2010 study by Cotti and Walker examined data from 1990 to 2000, a period that covers much of the recent US commercial casino expansion outside of Nevada and New Jersey. Their findings indicate that there is indeed a relationship between the existence of casinos and ARFAs.⁴⁷⁵ However, the relationship appears to be related to miles driven. In short, the study finds that ARFAs increase by 9.2 percent for casino counties with average population. However, the effect declines as county population increases. Specifically, they write:

[R]ural or moderately sized counties will likely see an increase in alcohol-related fatal traffic accidents when casinos are present, but urban or greater-than-average populous counties may be expected to see a decrease in alcohol-related fatal traffic accidents when casinos are present.

This relationship is explained to be the result of “miles driven.” That is, the reason drunk driving fatalities are likely to increase in rural casino counties is that the average patron must drive more miles to get to and from the casino. This increases the likelihood that an individual will be in a traffic accident. At the same time, in urban or more populated casino counties, patrons do not have to drive as far, and they often have alternatives to driving, such as taking a cab, bus, or other public transportation. In addition, the authors suggest that urban casinos may serve as a substitute for bars and nightclubs, at which the average patron may consume more alcohol than at casinos.⁴⁷⁶

Negative Personal/Professional Impacts from Gambling

Much of the discussion in this section thus far has focused on potential negative impacts associated with gambling for which there are solid, publicly available data. Such data facilitate academic studies on the effects. Yet, a variety of negative social impacts from problem gambling are not easily quantifiable as they often occur in a person’s career or personal life. Recall that the definition provided earlier of “disordered gambling” focuses on gambling having a negative impact on a person’s career, professional relationships, and/or personal relationships. Then there are a variety of potential professional and personal problems that may result from a gambling disorder which are not well-documented in public statistics.

⁴⁷⁵ Chad D. Cotti and Douglas M. Walker, “The Impact of Casinos on Fatal Alcohol-Related Traffic Accidents in the United States,” *Journal of Health Economics*, Volume 29, 2010, p. 788-796.

⁴⁷⁶ *Ibid*, p. 795.

Nevertheless, there is solid anecdotal evidence that such problems exist. For example, the National Gambling Impact Study Commission (“NGISC”) discusses suicide, divorce, and homelessness rates, among other social problems often attributed to gambling.⁴⁷⁷ The NGISC describes a variety of individuals who testified that their lives had been shattered because of their own gambling problem or because of a family member’s or spouse’s gambling problem. Earl Grinols dedicates 21 pages in his book to reproducing newspaper headlines and quotations that provide anecdotal evidence of social problems and gambling.⁴⁷⁸ However, such cases may grab the attention of newspaper reporters and readers precisely because they are unusual or extraordinary cases.

One must look at academic research to determine whether a statistical link between gambling problems and these other problems exists. The National Research Council provides a review of research, prior to 1999, on many of the social impacts of gambling.⁴⁷⁹ Even then, however, the research on these issues was still relatively sparse.

As with the crime discussion from above, there is quite likely to be a distinction between the results from research that examines individuals (such as through survey research on Gamblers Anonymous members) and research that examines aggregates (such as studies on divorce or crime rates at the county- or state-level). We review some of the evidence from each of these types of studies.

The study by Thompson et al. (1997) examined data collected from a survey of 98 Gamblers Anonymous members in Wisconsin.⁴⁸⁰ They report that 21 of their respondents indicated they had lost or quit their jobs, and attributed it to gambling. Of this group, 18 reported being unemployed for an average of over 12 months. Sixty-four of the respondents indicated missing work because of gambling. Thirty-eight of the respondents had been arrested, only 14 of which were attributed directly to gambling. Among the 98 respondents, 57 had sought professional help for their gambling problem; 15 had been hospitalized. Many of the survey respondents had other behavioral problems: 30 were alcoholics; 25 were compulsive shoppers; 22 compulsive overeaters; and 14 drug addicts.

Twelve of the respondents indicated they had marriage and family problems. Among the 30 respondents who were separated or divorced, 70 percent indicated that gambling was a cause. These effects of gambling are likely to have a significant impact on children. Problem gamblers are also probably more likely than the general population to consider or commit suicide. The

⁴⁷⁷ NGISC, p. 25-28.

⁴⁷⁸ Earl L. Grinols, *Gambling in America: Costs and Benefits*, p. 146-167.

⁴⁷⁹ National Research Council, *Pathological Gambling: A Critical Review*, 1999.

⁴⁸⁰ William N. Thompson, Ricardo C. Gazel, and Dan Rickman, “The Social Costs of Gambling,” *Gaming Law Review*, Volume 1, p. 81-89. Data reported in the following paragraphs are from p. 86-87.

survey of Gamblers Anonymous members indicated that 69 respondents had thought about suicide, 59 indicated they planned how they would commit suicide, and 23 had actually attempted suicide.

The survey statistics reported by Thompson et al. are indeed startling. However, as they represent GA members, they perhaps represent the extreme end of the distribution of individuals in society with the most serious gambling problems. A variety of other studies reports on similar social impacts of disordered gambling. The National Gambling Impact Study Commission and the National Research Council⁴⁸¹ provide comprehensive discussions of many of these social impacts. The following table illustrates some problems commonly associated with disordered gambling. The table indicates the percentage of individuals among those surveyed who experience such issues, sorted by their gambling classification.

Figure 48: Percentage of individuals reporting various problems associated with gambling

Problem	Non-Gamblers		Low-Risk Gamblers		At-Risk Gamblers		Problem Gamblers		Pathological Gamblers	
	Lifetime	Past Year	Lifetime	Past Year	Lifetime	Past Year	Lifetime	Past Year	Lifetime	Past Year
Health poor/fair, past year	22.8	21.0	14.0	12.3	15.7	13.2	16.3	22.6	31.1	29.6
Mentally troubled (currently) (RDD only)	10.7	14.6	15.9	17.1	26.5	28.5	42.3	24.2	41.9	66.5
Mental health tx, past year	5.1	6.9	6.8	6.3	6.4	10.1	12.8	5.4	13.3	12.9
Emotionally harmful family argument about gambling	NA	0.5	0.1	0.3	0.8	6.8	15.8	10.5	53.1	65.6
Manic symptoms, ever	NA	0.7	NA	1.6	11.3	17.6	16.8	13.4	32.5	40.1
Depressive episode (RDD only)	NA	0.1	NA	1.0	8.6	17.4	16.9	5.2	29.1	20.0
Alcohol/drug dependent, ever (RDD only)	1.1	0.9	1.3	1.8	5.6	13.3	12.4	13.9	9.9	20.0
Drug use 5+ days, past year	2.0	2.4	4.2	5.1	9.2	13.5	16.8	16.1	8.1	13.9
Any job loss, past year	2.6	4.8	3.9	3.6	5.5	2.1	10.8	0.0	13.8	25.0
Bankruptcy, ever	3.9	3.3	5.5	6.4	4.6	10.9	10.3	13.8	19.2	10.7
Arrested, ever	4.0	7.0	10.0	11.9	21.1	25.7	36.3	25.0	32.3	26.4
Incarcerated, ever (RDD only)	0.4	–	3.7	–	7.8	–	10.4	–	21.4	–

Source: National Gambling Impact Study Commission, Table 7-2, p. 7-21.

Other studies confirm the variety of personal, family, and career problems that often accompany a gambling problem. For example, the study by Shaw et al. (2007) discusses “collateral effects” of pathological gambling, including “divorce, domestic abuse, financial instability,

⁴⁸¹ National Research Council, *Pathological Gambling: A Critical Review*, 1999.

friendship/ family loss, and the psychological and educational development of the children included in those families.”⁴⁸²

Studies that focus on disordered gamblers find that such individuals often have other behavioral problems and issues. Similar results have been found with respect to crime, although there is not clear evidence that casinos affect crime rates. There is an important distinction between “micro” studies which examine problem gamblers specifically, and “macro” studies which look at aggregate statistics. Although the studies cited above point to a variety of problems experienced by disordered gamblers and their surrounding society, these results do not always hold at an aggregate level. For example, one study examined county-level rates of suicide and divorce in eight new casino jurisdictions, comparing them to similar non-casino control jurisdictions.⁴⁸³ The results are summarized:

Suicide rates are not statistically different between casino and control communities. Divorce rates are lower in three casino counties, higher in one, and not statistically different in four. Overall, the results suggest no widespread, statistically significant increase in either suicide or divorce.⁴⁸⁴

These results could be interpreted as meaning that casinos do not contribute to suicide and divorce. However, since the study relies on county-level data, one may not expect statistically significant results, especially since only about 1 percent of the population is likely to have a gambling disorder.⁴⁸⁵

Despite the lack of results in macro studies of the negative impacts of gambling, jurisdictions should be aware that such problems are likely to occur, even if they affect a relatively small number of people.

NIMBY

One general concern that many people have with respect to legal gambling (and expanded gambling) is that it changes a community’s “feel.” Many times a person’s opposition to gambling can simply be summarized as NIMBY (“not in my back yard”). For example, a casino brings with it more traffic, perhaps more crime, and a variety of other changes that may fundamentally change a community. A person may not necessarily be opposed to the activity of gambling, but they would prefer that it not be located near their home.

⁴⁸² Martha C. Shaw, et al., “The Effect of Pathological Gambling on Families, Marriages, and Children,” *CNS Spectrums: The International Journal of Neuropsychiatric Medicine*, Volume 12, 2007, p. 615-622.

⁴⁸³ Mark W. Nichols, B. Grant Stitt, and David Giacompassi, “Changes in Suicide and Divorce in New Casino Jurisdictions,” *Journal of Gambling Studies*, Volume 20, p. 391-404.

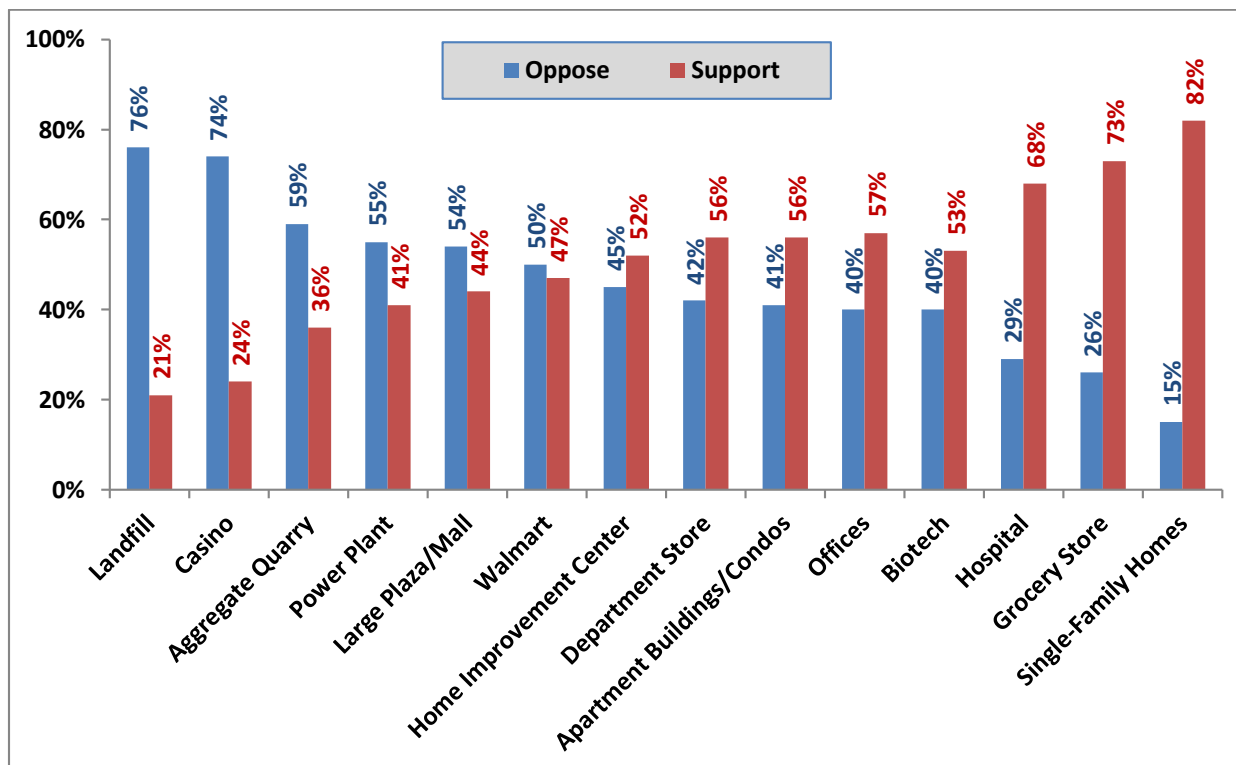
⁴⁸⁴ *Ibid*, p. 391.

⁴⁸⁵ However, this is not necessarily to say that divorce and suicide only happen among the population of disordered gamblers.

More generally, and with respect to Florida, as Bill Lupfer of the Florida Attractions Association noted earlier in the report, expanded gambling would damage “the Florida brand” of wholesome, family-oriented tourism.

According to one poll, most Americans do not support having a casino in their own community. The Saint Consulting Group, a Hingham, MA, consultancy that specializes in land-use politics, every year or two conducts a nationwide poll (The Saint Index) asking Americans whether they would support a certain type of facility or land use in their community. “Casino” routinely ranks among the second- or third-most opposed category. This stands in contrast to the American Gaming Association’s annual poll, which in 2012 showed that 85 percent of Americans say that casino gambling is acceptable for themselves or others⁴⁸⁶ – demonstrating the NIMBY factor. The following chart shows the results of the most recent Saint Index:

Figure 49: Saint Index 2011: Support and opposition to land use in respondent’s own community, nationwide



Source: The Saint Consulting Group

Florida Council on Compulsive Gambling: Overview of Issues, Concerns

As part of its research, Spectrum asked Pat Fowler, executive director of the Florida Council on Compulsive Gambling, to detail the issues that are of particular concern to her organization and to the constituents whom the council serves. Spectrum recognizes that the council

⁴⁸⁶ 2013 State of the States 2013, p. 32.

– like its counterparts in other states – provides a vital service that would largely go unattended if such a non-profit organization did not exist. As a resource, the council’s value will increase in tandem with any potential expansion of gaming. Fowler noted, in a memo to Spectrum, that:

In 2011, the State nearly eliminated all prevention, education and outreach monies for problem gambling related programming. Moreover, State government withheld monies collected from pari-mutuel facilities with slot machines (i.e. \$250,000 per facility), statutorily earmarked for compulsive gambling programming, which was competitively awarded (per an RFP) to the Florida Council on Compulsive Gambling.

Overall, the role of government within the gambling equation has grown exponentially, has significantly impacted upon expansion, has resulted in social impacts, and has affected the public’s perception of gambling, and associated challenges.

In-state research among adolescents, college-age students, adults and senior citizens all confirm that gambling is a problem for a significant percentage of these populations. They also confirm that problem gambling has social and legal consequences and exists in all groups of society, appears in all social strata and socio-economic levels, as well as across race and ethnic groups. The same is true for incarcerated juveniles in Florida, as well as among adult arrestees, in which a significant percentage suffering from gambling problems are engaging in illegal activities.⁴⁸⁷

In response to Spectrum’s request, the Council provided the following synopsis of issues that its leadership believes needs to be addressed. The following list of challenges and solutions is provided verbatim from Fowler’s memorandum:

Challenge:

Florida currently lacks a clear and consistent State policy on gambling that addresses both regulatory and public health issues.

Solutions:

Support legislation and other public policy initiatives that recognize gambling as a public health issue and respond to the link between problem gambling and comorbidity, as well as social impacts.

Design State policy that addresses the regulatory, public health and related aspects of gambling.

Influence public policy on the requirement for the gambling industry to more formally and consistently address responsible gambling.

Collect and share utilization of data across State and community-based organizations related to gambling.

Challenge:

Problem gambling is not currently viewed as a public health issue and is not overseen by a designated entity at the State level. Moreover, while the FCCG has served as the statewide advocate on issues related to problem gambling prevention, education,

⁴⁸⁷ Memorandum from Pat Fowler to Spectrum Gaming Group, June 27, 2013.

treatment, and research for nearly 15 years, the State Legislature has never authorized a governmental agency to address problem gambling from a public health and harm reduction perspective. Equally important, the two State agencies deemed responsible for oversight and regulatory issues relating to gambling operations in the State are also the designated entities to oversee initiatives and industry programming relating to problem gambling (i.e. Florida Lottery and the Florida Department of Business & Professional Regulation).

Solutions:

Explore the assignment of responsibility for problem gambling as a public health issue, and for comprehensive policy analysis related to problem gambling.

Provide ongoing information and support regarding the benefits of designating one organization with responsibility for problem gambling as a public health issue.

Challenge:

Although Florida State government has and continues to promote gambling expansion, at no time has it ever established a dedicated fund for problem and compulsive gambling prevention, education, research, and treatment.

(Note: Existing State funding to the FCCG is:

- Limited in scope,
- Substantially reduced from years past
- Was lowered despite enabling legislative requirements
- Provides no support for treatment.

In fact, this absence of State-funded treatment has necessitated that the FCCG identify another funding source willing to subsidize free treatment in instances when compulsive gamblers or concerned persons lack adequate insurance or haven't an ability to pay. However, if the State is going to promote and support gambling expansion, it needs to provide adequate supports for those negatively impacted.)

Solution:

Legislatively establish a dedicated fund for problem gambling prevention, education, research, and treatment, based upon a percentage of State revenues generated by Florida based gaming operations. This will resolve existing and longstanding voids within the problem gambling community and result in appropriate widespread awareness and treatment for Florida residents.

Challenge:

Currently, private and managed care providers do not furnish appropriate, consistent and/or comprehensive insurance coverage for pathological diagnoses in problem gamblers, or for persons adversely affected by gambling. They also do not facilitate treatment for problem gambling for persons presenting with co-morbid psychiatric illnesses.

Solution:

As the American Psychiatric Association's criteria for pathological gambling has been reclassified as an addictive disorder (i.e. DSM-V due to be issued shortly), the Legislature could take steps requiring insurance providers to furnish coverage for persons with positive diagnoses or for those adversely affected (e.g. family members and other loved ones).

Challenge:

Few substance abuse, mental health, medical, and other health care professionals ask clients about their gambling habits. As a result, the early signs of a gambling problem are overlooked, particularly in conjunction with other addictive, mental health or medical conditions. So, while nearly all patients presenting in medical offices, drug and treatment programs, mental health facilities, emergency rooms, and elsewhere are subject to screening for tobacco, alcohol and other substances, they are not preliminarily screened for gambling. Yet, more than one-third of compulsive gamblers in treatment experience other addictive or mental health disorders, and a significant percentage suffer from an array of medical conditions.

Solution:

Educate a broad array of existing health care professionals and institute programming within medical universities and other academic institutions to assure awareness and competency to systematically assess for gambling related difficulties.

Challenge:

Problem gamblers in Florida do not currently have access to therapeutic justice as is the case for those experiencing substance abuse, mental health and domestic violence difficulties. In particular, Florida does not currently have a system that identifies those with gambling problems at all levels within law enforcement and criminal justice facilities. As a result, problem gamblers are not identified nor are the protocols for sentencing, release or reintegration into communities considering the nuances directly impacting this population and/or the potential ramifications to families, communities and the State as a whole.

Solutions:

Develop screening mechanisms to identify problem gambling at appropriate points, from the initial investigation through arrest, booking to arraignment, and trial and sentencing.

Train law enforcement personnel, defense and prosecuting attorneys, and Judges on screening, identifying and responding to problem gamblers, both in traditional and therapeutic justice settings. (The FCCG's *A Chance for Change Program: A Guide for Legal, Criminal Justice and Court Professionals*, funded by Florida State government, has already been developed. Yet, these professionals and organizations are not required to utilize.)

Encourage existing drug, mental health and domestic violence courts to screen current participants for problem gambling and establish a process for those who fall outside the scope.

Develop gambling courts, like the model program in Amherst, New York, in jurisdictions where the level of problem gambling related cases warrant such specialized approach.

Develop statewide resource networks for Judges and probation officers to support offender access to education and treatment.

Establish Gamblers Anonymous groups in prisons and jails, and increase the number of certified gambling counselors who are available to work with the criminal justice system.

Utilize the Florida Council on Compulsive Gambling programs for the juvenile justice population and for the offending population in jails and prisons.

Build evaluation mechanisms into all programs and expansion efforts. (Even when the FCCG provides free training and programming within criminal justice facilities, and supplies self-help materials for inmates, requests for outcome data by these institutions is not forthcoming.)

Challenge:

Public school students are not being exposed to programming related to problem gambling despite research sponsored by the FCCG based upon the findings from the Florida Department of Children and Families' Youth Substance Abuse Survey, revealing that more than half the students reported gambling in the past year, 13% have done so once a month or more, and 4% bet weekly. In addition, 15 % admitted to having arguments with family or friends due to gambling (which is a problem gambling indicator). The FCCG's independent study, Gambling Among Florida Middle and High School Students, revealed (per the DCF Youth Survey) that gamblers are over two times more likely than non-gamblers to be drunk or high at school and nearly six times more likely to "carry a gun" during the past year.

Furthermore, although the Florida Departments of Lottery, Education, Health, Office of Drug Control, and Children and Families all supported the FCCG's curriculum for the public school system, to date, nothing has been required. (Note: A joint letter from these organizations were sent to every school superintendent but no action has been systematically taken. Since this time, the FCCG has also devised programming for elementary school (Smart Choices) and college students (SAGA – Students Against Gambling Addiction).

Solution:

Require the use of problem gambling programming as a natural extension to existing dialogue about tobacco, alcohol and substance use, abuse, prevention and treatment.

Challenge:

Responsible gaming programs by Florida gaming operators vary, as do practices regarding self-exclusion. Presently, not all gambling venues implement responsible gaming programs and in other instances where protocols are established, they often reflect bare minimum provisions which are deficient in providing necessary training to employees, safeguards to protect the patron population, and/or strategies for aiding a person in need of assistance for a gambling problem. And while there are establishments adhering to high standards, the State lacks consistency throughout the industry.

Further, self-exclusion is intended to preclude patrons from returning to a facility for a set period of time, up to a lifetime. However, it is not working effectively throughout the State, lacks uniformity statewide, allows excluded persons to return to excluded properties because facility employees are not enforcing provisions (which is also a liability for the gaming operator), and requires that these patrons travel to different gambling facilities to self-exclude versus implementing a statewide clearinghouse).

Solution:

Legislatively mandate implementation of a comprehensive responsible gaming program that requires minimum standards, assures adequate employee training, conspicuous disclosure of the statewide helpline, and develops and oversees a statewide self-exclusion registry that reflects the spirit of self-exclusion and serves as a disincentive for patrons to return to a property or to attempt to gamble elsewhere.⁴⁸⁸

b. Positive Impacts

Legalized gambling has expanded in the United States quite dramatically since the 1960s. The lottery was introduced in New Hampshire in 1964, and now 43 states have a state-operated lottery. Horse and greyhound racing are also very common. Casinos, which began to spread outside of Nevada and New Jersey in the late 1980s, are now legal in 42 states.

State governments and voters tend to approve the legalization of commercial casinos for economic reasons. That is they expect significant economic benefits from the introduction of casinos. These benefits may include increased employment and an increase in average wages, economic growth (i.e., increases in per capita income), and increased tax revenues. These effects are discussed in Chapter III; here we provide a brief introduction to the literature on these economic benefits, particularly from casinos.

Employment and Wages

The casino industry promotes itself by publicizing employment data. Casinos can generate employment through the construction of their facilities and then through their day-to-day operations. The casino industry is very labor-intensive. As an example of this, the American Gaming Association's *State of the State* annual report lists the number of casino employees in each state with commercial casinos.⁴⁸⁹ The report also lists "casino employee wages" as a state-level aggregate. There is certainly an effect on local labor markets when a new casino is built and operating. In general, one can think of the new casino as causing an increase in the demand for labor. As a result average wages should increase as employment increases.

However, casino critics often argue that casino jobs are low-quality, low-paying jobs. There are no academic studies of which we are aware that confirm this contention. Perhaps the

⁴⁸⁸ Ibid.

⁴⁸⁹ 2013 *State of the States*, p. 12-22.

most comprehensive, best analysis of the labor market effects of casinos was written by Chad Cotti in 2008.⁴⁹⁰ Cotti analyzes US county-level data, comparing counties with and without a casino. He finds that casino counties see an increase in employment after a casino opens. Further, his analysis shows that casinos create modest benefits to both employment and wages, but that the employment growth is negatively related to county population. (That is, there is a smaller impact on employment growth in more populous casino counties.)

Since Cotti's analysis compares all casino counties to all non-casino counties, and because he controls for other economic variables in his analysis, we can be confident that his analysis isolates the impact of casinos. What his analysis does not show is the net effect of casinos compared to some other specific non-casino industry. In order to analyze the effects of gambling in Florida, jurisdictions in which casinos or pari-mutuels are operating should be compared to other non-gaming jurisdictions, while controlling for other economic variables.

These results should not be surprising, as a casino represents new economic activity in a local economy. As with other new businesses, one should expect that a new casino will create jobs. However, measuring the impact of casinos on employment requires a consideration of the *net impact*. That is, simply because a casino employs 1,000 workers does not necessarily mean that the casino created 1,000 new jobs. Some jobs may have been lost in other competing industries. Nevertheless, the available empirical evidence suggests that casinos have a positive impact on the labor markets in which they operate.

Economic Growth⁴⁹¹

The casino industry does not typically promote itself as generating economic growth. This is probably because, as a political matter, how a casino would generate economic growth is a more abstract concept than, say, the creation of jobs. However, politicians often claim that casinos can be used as a tool for redevelopment.

Casinos can lead to economic growth simply because they represent new economic activity in a region. Joseph Schumpeter discussed "the introduction of a new good" as one possible source of economic development.⁴⁹² This proposition has been tested with respect to casinos.

The most recent evidence on the issue uses Granger causality analysis. Basically, what this statistical test does is determine whether the use of one variable (casino revenues) can improve the prediction of another variable (per capita income). If it can, then it is said to "Granger cause" the other variable. This is as close as economics can come to showing "causality" among two variables. The Granger causality analysis uses data from US states with commercial casinos, from

⁴⁹⁰ Chad D. Cotti, "The Effect of Casinos on Local Labor Markets: A County Level Analysis," *Journal of Gambling Business and Economics*, Volume 2, 2008, p. 17-41.

⁴⁹¹ This section draws from Douglas M. Walker, *Casinonomics*, 2013, chapters 2-6.

⁴⁹² Joseph A. Schumpeter, *The Theory of Economic Development*, 1993, p. 66.

1990 through 2010. The analysis indicates strong statistical evidence that casino revenues do Granger cause economic growth.⁴⁹³

If we step back and consider what causes economic growth (increases in per capita income) to occur, it boils down to mutually beneficial transactions. That is, whenever a market transaction occurs between buyer and seller, both parties are expecting to benefit as a result of the transaction; otherwise they would not agree to trade.

The benefits of such transactions can be easily seen, especially for the sellers. Profit is simply the difference between the selling price and cost of production. This is the net benefit to the seller, which is the amount of money that remains after paying for the inputs to production. On the buyer's side of the market, there is a similar benefit from the transaction, but it is a little more abstract. Consumers typically receive more in benefits from consumption than they had to pay for it. For example, if a person is so thirsty that he would be willing to pay \$5 for a soda, but he has to pay only \$2 at the neighborhood grocery, he receives a \$3 net benefit from the transaction. In a sense, the consumer has a "profit" analogous to the seller's profit.

Any business that provides a good or service for which people are willing to pay helps to foster this process of mutually beneficial exchange. This is simply economic activity, which is the basis of economic growth. It matters little what type of business it is, as long as the customers receive benefits from the product at least as great as the amount they must pay.

As new businesses are formed, workers must be hired to produce the goods and services. This creates increased competition for workers; that is, there is greater demand for workers, and wages are likely to be pushed up as a result. The new firm must offer a salary and/or benefits in excess of workers' next-best option; otherwise the new firm will not be able to find suitable employees. It is possible that the new firm would simply hire individuals who are currently unemployed. In this case, the new job still presumably represents an improvement over the unemployed worker's current situation.

Tax Revenues

Legalized gambling, in general, and casinos, in particular, can have a significant impact on state government budgets. Yet, the effect is not as large as many observers believe. In 2004, legalized gambling accounted for less than 2 percent of state revenues in most states. In Nevada, casino taxes represented 10.4 percent of state revenues. In Florida, the lottery represented about 1.7 percent of state government revenues during 2004.⁴⁹⁴ (We discuss this in more detail in Chapter III[A][2].)

⁴⁹³ Walker, *Casinomics*, 2013), p. 54-56. It should be noted that a similar study performed in 2007 did not find a Granger causal relationship between casinos and economic growth. However, as noted above, the most recent evidence suggests there is such a relationship.

⁴⁹⁴ *Ibid*, p. 68.

Although legalized gambling is usually taxed at relatively high rates, this does not necessarily mean that the existence of a gambling industry necessarily results in a net increase of state tax revenues. For example, if there is a large “substitution effect”⁴⁹⁵ away from other consumption, legalized gambling could actually result in a decrease in tax revenues. This result is unlikely in most jurisdictions, however, since tax rates on gambling are typically much higher than tax rates on other goods and services. For example, the “lottery tax” is about 40 percent. The effective tax rate on gross casino revenue ranges from 7 percent in Nevada to over 50 percent in several states.

Several researchers have examined the impact of legalized casinos and lotteries on state government revenues. For example, Siegel and Anders (1999) examine how Missouri county sales tax revenues were affected by the introduction of riverboat casinos.⁴⁹⁶ They studied 1994-96 data, and found that a 10 percent increase in gambling tax revenue leads to about a 4 percent decrease in taxes from other amusement and recreation sources. The study by Borg et al. (1993) found that \$1 in lottery revenue has a cost of 15-23 cents in other types of government revenue.⁴⁹⁷ However, the lottery still leads to a net increase in state tax receipts; the “substitution effect” from the lottery is not very great.

The study by Walker and Jackson (2011) is probably the most comprehensive tax study in the United States, to date.⁴⁹⁸ They found statistical evidence that lotteries do lead to an increase in state net tax receipts, but that the positive effect diminishes as sales increase. Their casino result was interesting, that casinos have a mildly negative impact on state tax receipts. However, their analysis also finds a positive impact on state tax revenues from increases in per capita income (i.e., economic growth) and hotel employees (as a proxy for tourism). If casinos generate economic growth and are a significant component of a state’s tourism sector, then casinos may still have a positive impact on state-level tax receipts. So, although their analysis suggests that the direct effect of casinos on taxes is probably not positive, the overall impact of casinos may be positive when the economic growth and tourism effects of casinos are accounted for.⁴⁹⁹

⁴⁹⁵ The substitution effect is discussed in more detail in Chapter II(G)(5).

⁴⁹⁶ Donald Siegel and Gary Anders, “Public Policy and the Displacement Effects of Casinos: A Case Study of Riverboat Gambling in Missouri, *Journal of Gambling Studies*, Volume 15, 1999, p. 105-121.

⁴⁹⁷ Mary Borg, Paul Mason, and Stephen Shapiro, “The Cross Effects of Lottery Taxes on Alternative State Tax Revenue,” *Public Finance Quarterly*, Volume 21, 1993, p. 123-140.

⁴⁹⁸ Douglas M. Walker and John D. Jackson, “The Effect of Legalized Gambling on State Government Revenue,” *Contemporary Economic Policy*, Volume 29, 2011, p. 101-114.

⁴⁹⁹ Walker, *Casinomics*, p. 84.

4. Gambling-Specific vs. Non-Gambling Impacts (Job Creation and Wage Changes)

For any of the impacts discussed in the previous section, understanding the specific effects of gambling is more complicated than it may initially seem. This is because the relevant comparison for understanding the changes in society caused by gambling is not just between the situations before and after gambling is introduced. Rather, the relevant comparison is between the situation with gambling and *what otherwise would have happened*, called the “counterfactual.”

Consider an example in which there is a single plot of vacant land in a city, and the land owner is deciding whether to allow a casino or a shopping mall to be built. Let’s suppose the casino is eventually built. Then there will be employment and wage effects, for example, resulting from the building and opening of the casino. The jobs created by the casino, the wages paid, and taxes paid will likely be reported as the effect of the casino on the local/regional economy. The reported benefits of the casino are those compared to the situation prior to the casino being built. But this assumes that if the casino had not been built, nothing else would have been. But in our scenario, a shopping mall would have been built. Then to determine the net impact of a new casino, the effects of the casino should be compared to what would have likely happened had the shopping mall been built instead.

For the practical analysis of the impacts of casinos, it is difficult to always know what would have otherwise happened. One way of isolating the impact of casinos is to compare the situation in casino communities with those in non-casino communities. As an analysis of aggregates, this type of analysis can isolate the marginal impact of casinos, as long as other variables are controlled for in the analysis.

Perhaps more importantly, in considering the impacts of casinos, it is important to distinguish those effects that are specific to the nature of gambling (such as crime committed by problem gamblers), and those that also result from a casino, but are simply economic impacts caused by a new firm/industry entering a local economy.

By way of example, if wages increase in a community because some of its previously unemployed and under-employed adults are working at a casino, that would increase spending power in that region. That increased spending power could potentially result in increased investment by non-gaming businesses.

Hypothetically, such investments could include, say, a regional supermarket chain or a national pharmacy outlet in an area that previously did not warrant such investments. This economic growth would be casino-related, but it is not the result of gaming, in particular. Alternatively, consider if a local food store or local pharmacy is adversely impacted and hypothetically goes out of business, it is clearly an impact of the casino. But it is not necessarily gaming-related, but is rather related to general economic growth. Moreover, such an impact is adverse to that pharmacy owner, but may not be adverse to the community.

Similarly, if a casino raises the prevailing wage in an area, particularly for unskilled or semi-skilled work, that could have an adverse impact on a number of small businesses, such as small hotels, restaurants or fast-food franchises. Some may find that they cannot afford to pay the prevailing wage rate and still be profitable. That is an impact of casinos, but is not related to the specific nature of gambling, nor is it clear whether that is adverse or beneficial to the larger community.

Historically, Atlantic City and the Miami region, particularly Miami Beach, have had much in common, starting with their histories as East Coast tourist destinations. At various times, both endured economic downturns and experienced rebounds – sometimes with the same results – but clearly the catalysts were different. Atlantic City’s economic catalyst was the legalization of casinos, while Miami’s rebound has had multiple catalysts. Still, some of the same effects can be detected, as noted in a 2012 blog:

There is a flip-side to Miami's rebound. While the super-rich are buying, locals continue to suffer. Wages and income levels are low, and the metro has a high level of income inequality. Miami's housing market and broader economy remains highly uneven and divided. While South Beach and the downtown corridor may be booming, the area inland is rife with housing misery, foreclosures and homelessness. The economic and social distance between the global super-rich and suffering locals is substantial and growing.⁵⁰⁰

Atlantic City clearly offers parallels, as noted in this excerpt from *Hostage to Fortune: Atlantic City and Casino Gambling*:

In the pre-casino world, Atlantic Avenue was Main Street USA, where the appliance dealer knew the insurance broker and both knew the barber and the shoe salesman. George Babbitt would have been quite at home in that Atlantic City.

What casino gambling did to that world was turn it upside down by injecting the world of Wharton econometrics and advanced marketing techniques into its major arteries.

Prior to casinos, the hotels and utilities, along with a few other companies ... were the only employers of more than a handful of people.

Before gambling became a component in the economy, all the workers in the region who bore the title of vice president could have squeezed into the laundry room of the Marlborough-Blenheim hotel.

Now, the Marlborough-Blenheim is gone, and Atlantic City has a banquet room full of vice presidents – real vice presidents who grew up in a world of competition. Now, they manage big banks and casino firms and national drug store chains, and they often outclass and outdistance their local counterparts.

Most of the fast-food outlets and the new drug stores and appliance dealers opened in the suburbs. To the city came new law offices and new bank branches and other businesses

⁵⁰⁰ Richard Florida, "Why Miami's Real Estate is Booming Again," *The Atlantic Cities*, March 6, 2012
<http://www.theatlanticcities.com/jobs-and-economy/2012/03/why-miamis-real-estate-booming-again/1396/>

that would likely not have considered Atlantic City as an ideal location in its pre-casino days have opened up. ...

There are only so many ways to spend or save a single dollar, and the brokerage firms and the banks, and the haberdasheries, and the restaurants are in competition with each other for that dollar.

The available outlets for the dollars, it seems, expanded as rapidly as the supply of dollars.⁵⁰¹

The economic patterns are the same, but the causes – and arguably any potential solutions – would be different, yet it must be noted that, while the presence of casinos was the proximate cause of Atlantic City’s disruption, the nature of this industry has no particular relevance to that disruption.

5. The Substitution Effect

The introduction or expansion of legalized gambling, in particular casino gambling, raises a variety of concerns. Although casinos are often introduced in order to raise tax revenues, create jobs, and spur economic development, many observers have a concern for the potential “substitution effect” of casinos. That is, they are concerned that the expenditures at the new casino(s) will be redirected from other local or regional businesses, with the end result that the casinos have no real net benefit on the local economy. As an example, a quick review of “Stop Predatory Gambling” shows a variety of concerns about the casino industry’s impacts on other industries.⁵⁰²

Fundamentally, the substitution effect is not unique to the casino industry. Indeed, anytime any new business opens, there is the potential that an addition to the local economy will be harmful to incumbent firms and industries. This is because the substitution effect is essentially synonymous with market competition. As such, from an economic perspective, the substitution effect is not necessarily a cause for concern. Casinos compete for a share of discretionary incomes within their respective markets, as would be expected from any segment of the entertainment or leisure industries. When adults elect to visit a casino, rather than the theater or a museum, the casino wins and the alternative loses. Quite often, however, the reverse is true – and the number of precise alternatives competing for a share of discretionary spending is so vast, even in smaller markets, that it would defy any efforts to track precise winners and losers.

Such efforts are further complicated because, not only are there many options for discretionary dollars, we point out that overall discretionary spending also competes against savings. A dollar saved is a dollar not spent, and vice versa.

⁵⁰¹ Michael Pollock, *Hostage to Fortune: Atlantic City and Casino Gambling*, 1987, p. 160-161.

⁵⁰² Stop Predatory Gambling <http://stoppredatorygambling.org/blog/category/research-center/economic-impacts/> (accessed June 13, 2013)

Notably, Spectrum suggests there is a potential negative correlation between the savings rate and gaming spending. For example, in 2006, a pre-recession period that was at or near the high-water mark for gaming revenue in both Atlantic City and Nevada, the national savings rate had sunk to a seven-decade low, as reported in early 2007 in *The New York Times*:

Americans once again spent everything they made and then some last year, pushing the personal savings rate to the lowest level since the Great Depression more than seven decades ago.

The Commerce Department reported ... that the savings rate for all of 2006 was a negative 1 percent, meaning that not only did people spend all the money they earned but they also dipped into savings or increased borrowing to pay for purchases.

The 2006 figure was lower than a negative 0.4 percent in 2005 and was the poorest showing since a negative 1.5 percent savings rate in 1933 during the Great Depression.⁵⁰³

Notably, that original estimate of a negative savings rate was since revised by the US Commerce Department, taking it out of negative territory. Yet the principle that low savings equates to increased disposable income, which benefits certain leisure industries, remains unchanged. The Federal Reserve Bank of New York published the following in 2007:

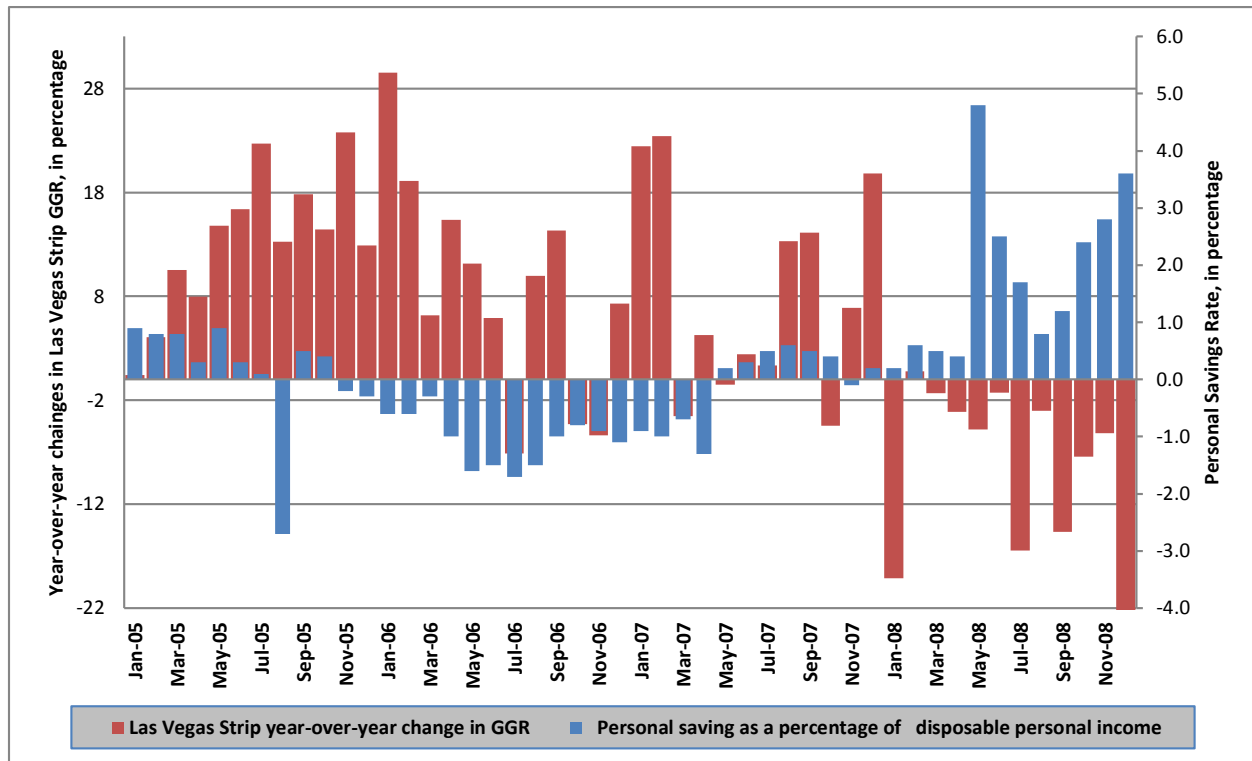
By definition, personal saving is the difference between actual current-dollar after-tax (disposable) income and current-dollar spending. Many have observed that increases in wealth (assets such as stocks and homes, less debt) relative to disposable income, both over the last generation and during the more recent rise, could have worked to boost spending relative to income and reduced the personal saving rate. This is especially true to the extent that these rises in wealth are linked to increases in expected future income, thus elevating permanent income relative to disposable income.⁵⁰⁴

Our analysis and experience suggests that the success of gaming in destination markets such as Las Vegas during periods of low savings is not coincidental. This was generally a period in which both the stock and housing markets were robust, creating a general feeling of well-being in which household net worth was increasing by itself, without the need for additional savings, and much of that increased spending – the flip side of decreased savings – benefited the casino industry, as evidenced in the following chart, which tracks data in Las Vegas through the period of low savings, right through the first, most traumatic months of the Great Recession:

⁵⁰³ "U.S. savings rate sinks to lowest since Great Depression," *New York Times*, February 1, 2007 <http://www.nytimes.com/2007/02/01/business/worldbusiness/01iht-save.4436274.html> .

⁵⁰⁴ Charles Steindel, "How Worrisome Is a Negative Savings Rate?" Federal Reserve Bank of New York, May 2007 http://www.newyorkfed.org/research/current_issues/ci13-4/ci13-4.html.

Figure 50: Personal saving as a percentage of disposable personal income vs. Las Vegas Strip Revenue



Source: Nevada Gaming Control Board, U.S. Department of Commerce

As the chart shows, an increase in the savings rate shrinks the pie of discretionary dollars, which affects the gaming industry and, presumably, other leisure industries as well, further complicating any analysis regarding substitution. Spectrum’s 2008 report for the Commonwealth of Massachusetts noted the following:

We note a very important point that was articulated rather well by Michael E. Porter who makes the point that substitution is an omnipresent issue that must be viewed in a much larger context:

‘Substitutes are always present, but they are easy to overlook because they may appear to be very different from the industry’s product: To someone searching for a Father’s Day gift, neckties and power tools may be substitutes. It is a substitute to do without, to purchase a used product rather than a new one, or to do it yourself (bring the service or product in-house).’⁵⁰⁵

With that in mind, we caution that any analysis of the substitution effect defies simplification. If a casual dining establishment loses customers to casino restaurants, it is easy to identify a competitive culprit. But what if patrons of high-end restaurants decide to alter their spending patterns, and shift more dollars to casual restaurants to free up more discretionary income to visit a spa at a destination casino. Who benefits? Who suffers?

⁵⁰⁵ “The Five Competitive Forces that Shape Strategy,” by Michael E. Porter, *Harvard Business Review*, January 2008, p. 84.

What if income levels rise in a community, thus allowing more households to spend less money at supermarkets to prepare home-cooked meals while they increase spending at area restaurants? Again, in such situations, it is difficult to identify the competition.⁵⁰⁶

Casino advocates might argue that casinos should not be treated differently than other businesses; as long as they generate a profit, it implies the casino is satisfying the wants of consumers and is a “productive” industry. Indeed, to the extent to which consumers redirect their expenditures away from other industries to casinos, this is an indication that the casino’s product is of higher value than alternative products; otherwise – according to such economic logic – consumers would not have changed their spending patterns. Two exceptions to this may be argued:

- To some extent, casinos derive a portion of their revenues from problem or disordered gamblers, who do not really exercise free choice if they have a gambling problem.
- Casino licensure is largely viewed as a privilege that often comes with some level of exclusivity. As such, casinos have a concomitant obligation to act in the public interest, which can translate into policies that minimize substitution and focus more on attracting business from outside the region or state.

There have been a few academic papers that have addressed the substitution effect, either directly or in a round-about way. Figure 51 summarizes some of these studies. Most of the studies examine data from the 1990s.

⁵⁰⁶ Spectrum Gaming Group, *Comprehensive Analysis: Projecting and Preparing for Potential Impact of Expanded Gaming on Commonwealth of Massachusetts*, p. 155, August 1, 2008
<http://www.mass.gov/hed/docs/eohed/ma-gaming-analysis-final.pdf>.

Figure 51: Review of literature on interindustry relationships

Paper	Years	States/ counties	Findings ^a
Anders, Siegel, and Yacoub ⁵⁰⁷	1990–96	1 county (AZ)	Indian casinos harm other entertainment
Elliot and Navin ⁵⁰⁸	1989–95	All states	Casinos and pari-mutuels harm lotteries
Kearney ⁵⁰⁹	1982–98	All states	Lotteries do not harm other forms of gambling
Mobilia ⁵¹⁰	1972–86	All racing states	Lotteries harm horse and dog racing
Popp and Stehwien ⁵¹¹	1990–97	33 counties (NM)	Indian casinos harm other entertainment
Ray ⁵¹²	1991–98	All dog racing states	Horse racing and casinos harm dog racing
Siegel and Anders ⁵¹³	1994–96	1 state (MO)	Casinos harm other entertainment
Siegel and Anders ⁵¹⁴	1993–98	1 state (AZ)	Slots harm the lottery; horse and dog racing do not affect the lottery
Thalheimer and Ali ⁵¹⁵	1960–87	3 tracks (OH,KY)	Lottery harms horse racing

Source: Douglas M. Walker, *Casinomics* (New York: Springer, 2013), p. 236.

Note: ^a “Other entertainment” refers to non-gambling industries, such as restaurants, hotels, and bars.

The 2008 paper by Walker and Jackson is the most comprehensive study to date on gambling inter-industry relationships.⁵¹⁶ They studied data on all states for 1985-2000. Their results indicate that casinos and lotteries are substitutes, that lotteries complement pari-mutuel racing (and vice-versa), and that horse racing and casinos are complementary. Their inter-industry

⁵⁰⁷ Gary Anders, Donald Siegel, and Munther Yacoub, “Does Indian Casino Gambling Reduce State Revenues? Evidence from Arizona,” *Contemporary Economic Policy*, Volume 16, 1998, p. 347-355.

⁵⁰⁸ Donald Elliott and John C. Navin, “Has Riverboat Gambling Reduced State Lottery Revenue?” *Public Finance Review*, Volume 30, 2002, p. 235-247.

⁵⁰⁹ Melissa S. Kearney, “State Lotteries and Consumer Behavior,” *Journal of Public Economics*, Volume 89, 2005, p. 2269-2299.

⁵¹⁰ Pamela Mobilia, “Trends in Gambling: The Pari-Mutuel Racing Industry and Effect of State Lotteries, a New Market Definition,” *Journal of Cultural Economics*, Volume 16, 1992, p. 51-62.

⁵¹¹ Anthony Popp and Charles Stehwien, “Indian Casino Gambling and State Revenue: Some Further Evidence,” *Public Finance Review*, Volume 30, 2002, p. 320-330.

⁵¹² Margaret Ray, “How Much on That Doggie at the Window? An Analysis of the Decline in Greyhound Racing Handle,” *Review of Regional Studies*, Volume 31, 2001, p. 165-176.

⁵¹³ Donald Siegel and Gary C. Anders, “Public Policy and the Displacement Effects of Casinos: A Case Study of Riverboat Gambling in Missouri,” *Journal of Gambling Studies*, Volume 15, 1999, p. 105-121.

⁵¹⁴ Donald Siegel and Gary C. Anders, “The Impact of Indian Casinos on State Lotteries: A Case Study of Arizona,” *Public Finance Review*, Volume 29, 2001, p. 139-147.

⁵¹⁵ Richard Thalheimer and Mukhtar M. Ali, “The Demand for Parimutuel Horse Race Wagering and Attendance,” *Management Science*, Volume 41, 1995, p. 129-143.

⁵¹⁶ Douglas M. Walker and John D. Jackson, “Do U.S. Gambling Industries Cannibalize Each Other?” *Public Finance Review*, Volume 36, 2008, p. 308-333.

(intrastate) results are summarized in Figure 52. For example, the “Casino” row indicates that increases in casino revenues within a state have a negative impact on dog racing and lottery revenues/handle within a state, but a positive impact on horse racing handle within the state. Since Indian casino revenue data are generally not public, Walker and Jackson instead use the square footage of Indian casinos in a state as a proxy for Indian casino revenues.

Figure 52: Summary of intrastate industry relationships in the United States

Model Variable	Casino	Dog racing	Horse racing	Lottery
Casino		-	+	-
Dog racing	(-)		-	+
Horse racing	+	-		+
Lottery	-	+	+	
Indian square footage	+	(+)	+	-

Source: Douglas M. Walker and John D. Jackson, “Do U.S. Gambling Industries Cannibalize Each Other?” *Public Finance Review*, Volume 36, p. 325.

Note: () indicates statistically insignificant at normal levels.

Walker and Jackson also examined the relationship between an industry in one state and the availability of gambling in neighboring states. Figure 53 illustrates these relationships. Figure 53 shows that, for example, the greater the availability of casinos in neighboring states, the lower the casino revenue and lottery revenue in the particular state.⁵¹⁷

Figure 53: Summary of adjacent-state competition

Model Variable	Casino	Dog racing	Horse racing	Lottery
Adjacent Casinos	-	(+)	+	-
Adjacent Dog racing	(-)	+	+	-
Adjacent Horse racing	+	-	+	+
Adjacent Lottery	(-)	-	+	-

Sources: Douglas M. Walker and John D. Jackson, “Do US Gambling Industries Cannibalize Each Other?” *Public Finance Review*, Volume 36, 2008, p. 322; Spectrum Gaming Group, “New York Gaming Analysis: Potential Impact of Commercial Casinos on New York Lottery Ticket Sales and Video Gaming Machine Revenues (Linwood, NJ, June 2013), p. 16.

Note: () indicates statistically insignificant.

As shown in the above table, not all industries appear to act as substitutes across state lines. However, the availability of casinos tends to harm casinos and lotteries in neighboring states. Lotteries also harm lotteries in neighboring states.

Three other studies offer some insight into the substitution effect. One is a county-level study that examines the labor market effects (employment and wages) of casinos. The 2008 study by Cotti analyzes the effects on labor of counties that have a casino (or casinos), relative to those

⁵¹⁷ “Availability of casinos” is measured as the percentage of neighboring states that allow casinos in a particular year. Hence, this measures the ease of access to casinos in nearby states, rather than the casino revenues in neighboring states.

that do not.⁵¹⁸ Cotti finds that, generally, casino counties fare better, in terms of employment and wages, relative to non-casino counties. Cotti summarizes his results, “On average, casinos play a significant role in increasing both employment, earnings, and promoting economic development in a county” (p. 15). The results are more significant in rural casinos, relative to urban ones, since a casino represents a relatively large business in a smaller community. The evidence suggests that, on net, there is no net negative impact of casinos on employment or wages. This is not to say, however, that some industries may not see a negative impact from the introduction of casinos.

Another study examines the effect of casinos on retail property values. In their 2011 paper, Wiley and Walker examine how casinos in Detroit have affected property values, based on commercial property sales data.⁵¹⁹ Their results suggest that the casinos tend to have a positive impact on property values, particularly for some sectors related to tourism (e.g., service stations, restaurants) and on “general freestanding” retail properties. This evidence from Detroit is one of the only published papers to directly examine the effect of casinos on other non-casino businesses. Of course, not every community will see the same relationship to casinos that Detroit does.

Finally, the 2007 paper by Wenz examined the impact of casinos on residential property values.⁵²⁰ Wenz found that casinos have a net positive impact on housing prices, of about 2 percent, in the same geographic area as a casino. At the same time, property values in bordering areas see an even greater effect, of about 6 percent. Notably, most of the casino areas analyzed are tribal casinos, so Wenz’s results may be due partially to the fact that tribal casinos may be more likely to be located in relatively depressed local economies. Indeed, Wenz finds that the positive impacts of casinos decline as population density increases.⁵²¹ Several other studies (one on Atlantic City, and one on Windsor, Ontario) suggest, when the effect of crime is considered, the net impact of casinos on property values may be negative.⁵²²

We caution that such studies, no matter how rigorous they may be in developing their models or assumptions, should never be taken at face value, particularly as authors rarely take into account the full complexity of issues. In Atlantic City, the notion that casinos had a negative effect on property values might comport within the parameters of a specific model, but we would

⁵¹⁸ Chad D. Cotti, “The Effect of Casinos on Local Labor Markets: A County Level Analysis,” *Journal of Gambling Business and Economics*, Volume 2, 2008, p. 17-41.

⁵¹⁹ Jon A. Wiley and Douglas M. Walker, “Casino Revenues and Retail Property Values: The Detroit Case,” *Journal of Real Estate Finance and Economics*, Volume 42, 2011, p. 99-114.

⁵²⁰ Michael Wenz, “The Impact of Casino Gambling on Housing Markets: A Hedonic Approach,” *Journal of Gambling Business and Economics*, Volume 1, 2007, p. 101-120.

⁵²¹ Douglas M. Walker, *Casinomics* (2013), p. 219. This discussion of Wenz’s study is based on Walker’s discussion.

⁵²² Andrew J. Buck, et al., “A Von Thünen Model of Crime, Casinos and Property Values in New Jersey,” *Urban Studies*, Volume 28, p. 673-683. Alan G. Phipps, “Crime and Disorder, and House Sales and Prices Around the Casino Sties in Windsor, Ontario, Canada,” *The Canadian Geographer*, Volume 48, 2004, p. 403-432.

respectfully point out that, in 1978 when the first casino opened, the entire assessed valuation of all property in Atlantic City was \$308 million, a number that actually had been declining in tandem with Atlantic City's downward spiral in the years preceding gambling.⁵²³ Within two years, the assessed valuation grew by more than 182 percent,⁵²⁴ a phenomenon that we would attribute almost entirely to the presence of this new industry. That growth, of course, did not dispel concerns about the impact of casinos, and created new sets of problems for those property owners that faced steeper tax bills.

When dealing with complex issues such as substitution, both facts and perceptions must be considered and addressed. In the case of casino gambling, it becomes an understandable concern for business owners, voters, politicians, and others because the introduction of casinos requires a positive act by government. Therefore, while there may be relatively little interest in, say, the economic impacts of opening a new restaurant in a particular neighborhood, that would not be the case with casinos.

Nevertheless, we can begin to identify the impacts of a new casino in Florida by considering the possible sources of spending at the new casino. Those revenues would come from a combination of these sources:

- New spending from Floridians
- New spending from out-of-state tourists
- Existing spending on other Florida non-gambling industries (by Floridians and tourists)
- Existing spending on other Florida gambling industries (by Floridians and tourists)
- Existing spending by Floridians on out-of-state purchases, including gambling

The evidence suggests that casinos are likely to have a negative impact on lotteries, and some other businesses may see decreased revenue as a result of a casino's opening. But this is no different from what happens when any other business opens. Certainly some of the revenues for a new casino would come at the expense of other, existing gambling firms in Florida. Revenues are likely to come from all five of the sources identified above, but it is very difficult to predict the exact percentage from each source. In any case, the substitution effect is relevant for any new business that opens.

a. Conclusion

To be sure, new casinos create a substitution effect, but it is much less clear what the significance of it will be and which industries would be most affected by it. The academic studies

⁵²³ George Sternlieb and James W. Hughes, *The Atlantic City Gamble*, Twentieth Century Fund, 1983, p. 97.

⁵²⁴ *Ibid.*

that have been performed suggest that, at least for non-gambling industries, casinos are more likely to act as complements than substitutes. This suggests that the concern over the substitution effect may be greater than is justified. After all, the casino industry has expanded across the United States over the past two decades, and there is no evidence to suggest that this expansion has led to any long-term negative economic impacts for casino-hosting regional economies.

Still, we do not discount the importance of concerns regarding substitution, nor do we dismiss the notion that casinos compete. Indeed, they compete against any other option that seeks a share of discretionary income. While it is difficult to determine with any level of precision which businesses will win and which will lose in such competitive battles, there is one over-arching certainty with respect to substitution, and that holds true for tourism in general, as well as for gaming: The dollar-for-dollar substitution with local businesses will be less pronounced and less impactful if new businesses – be they casinos or other attractions – help attract visitors and dollars from outside Florida.

6. Short- and Long-Term Fiscal Impacts of Government Policies

In an increasingly competitive global economy, casino gambling is seen as a quick and easy way to create jobs, increase convention and tourism business and stimulate development of additional visitor attractions and amenities. However, to maximize the economic benefits of casino development and to minimize any potential negative impacts, it is vital that state and local policy makers have a clear understanding of how different implementation scenarios and community variables may affect short and long term outcomes.

Land-use planning and zoning power is the most effective tool that state and local governments have to plan for and control development related impacts. Casinos are unlike other types of development projects such as an office park or a shopping center. Casino development may potentially have a greater impact on traffic, housing stock, the labor force and municipal services. Newer, more sophisticated planning tools such as geographic information systems and economic modeling enable government planning to have a better understanding of the potential impacts of projects and thereby plan more appropriately.

A study of the impact of casino gambling in Connecticut by Spectrum found that the absence of regional planning had significantly impeded state and local officials in their efforts to address the impact of two Indian casinos on traffic, public safety and education.⁵²⁵

Atlantic City is a classic example of how poor land use planning, particularly in the formative period immediately following the passage of casino gaming, greatly impeded orderly development and the city's potential.⁵²⁶ Rampant, unchecked real estate speculation became an

⁵²⁵ *Gambling in Connecticut*.

⁵²⁶ By D.W. Nauss, "Atlantic City Planning Does Not Pass Go," *New Jersey Reporter*, Volume 9, No. 10, 1981, p. 6-13.

immediate and enduring problem for the city. The phenomenal success of Atlantic City's first casino made potential casino developers willing to pay almost any price to get their projects started. Slum neighborhoods suddenly took on new value. To real estate speculators, only the land had value. Buildings and businesses did not. Thousands of lives were disrupted when buildings were sold and tenants evicted. Once-stable neighborhoods suddenly became vacant and desolate.

Atlantic City government did little to tame speculation and in many ways encouraged it. Its master plan was deemed unrealistic and local officials did little to adhere to whatever guidelines it did offer. Nearly everyone who applied for a variance got one. In effect, everywhere in the city was a potential casino site.⁵²⁷

The national experience with legalized gaming has matured to the point where policy makers have a much better idea of what may or may not work effectively in a particular community.

Prior to 1978, casino gambling was only legal in Nevada, where it was implemented in 1931. In 1976, New Jersey became the nation's second state to approve legalized gambling. In New Jersey, legalized gambling was specifically intended to be "a unique tool of urban redevelopment"⁵²⁸ According to its enabling legislation, "a limited number of casino rooms in major hotel convention complexes, permitted as an additional element in the hospitality industry of Atlantic City, will facilitate the redevelopment of existing blighted areas and the refurbishing and expansion of existing hotel, convention, tourist, and entertainment facilities."⁵²⁹ The state constitution limited casino gambling solely to Atlantic City, one of the state's most economically distressed communities.

For a number of years, Atlantic City was the only legal casino gaming venue in the eastern United States during a period when the public's interest in casino gambling was heightening. The spectacular profitability of Atlantic City's first casinos, their initial success in creating construction and permanent jobs that paid good salaries and provided good benefits, fostered widespread interest in casino gambling as an economic development tool. Although the urban redevelopment aspects of New Jersey's casino experiment were debatable, other states took note of casino gambling's economic impact and wanted to get in the game. In 1989, South Dakota and Iowa approved legalized gambling, initiating a new era of casino expansion. Currently, commercial casinos (non-Indian gaming) operate in 23 states.⁵³⁰

By 2008, Atlantic City's remarkable financial performance began to slip, due largely to the national recession and, more ominously, to growing competition from nearby states with new

⁵²⁷ Ibid.

⁵²⁸ New Jersey Casino Control Act, N.J.S.A. 5:12-1.

⁵²⁹ Ibid.

⁵³⁰ *2013 State of the States*, p.2.

casinos. In 2012, among all states with casino gaming, New Jersey experienced the largest drop in both gross gaming win and gaming tax revenue.⁵³¹ One of its newest and largest casinos, the \$2.4 billion resort, Revel, which opened in May 2012, filed for bankruptcy less than a year later.⁵³² As one recent observer noted, “The Revel is a hulking reminder of big dreams going wrong and gambles not paying out. ... City planners and state legislators looking to casinos as sure ways of generating revenue should take note of this cautionary tale.”⁵³³

The financially ailing Revel is not alone. The \$2.3 billion Foxwoods Casino Resort, owned by Mashantucket Pequot Tribal Nation in Connecticut, is also struggling financially.⁵³⁴ Like Atlantic City, with new competition coming on line in Massachusetts, Connecticut too can expect to see declining revenues and a more competitive gaming environment.

The dramatic rise and fall of Atlantic City’s casino industry holds important lessons for other jurisdictions considering casino gambling. Casinos must be right sized and properly integrated into their host communities. Neither exists in a vacuum and both must be able to respond quickly to changing consumer tastes and market conditions. By establishing itself largely as a convenience destination, failing to plan for gaming competition elsewhere, and failing to responsibly incorporate casinos into the social and economic fabric of the city, the prognosis for both Atlantic City and its casino industry is an open question.

Workforce development is another area where proper planning can have positive short- and long-term impacts. Casino resorts are labor intensive and require a variety of skill levels to operate efficiently and meet the expectations of their patrons. Depending on the magnitude of their workforce demands, a new casino could cause a major disruption in the regional labor market. Getting unskilled and low skilled workers into the workplace can be a challenge.

In Massachusetts, where casino development was recently enacted, it is anticipated that over 30,000 individuals will need to be considered for employment in order to fill the 10,000 jobs that are expected. To meet this objective, the state recently ramped up its workforce recruitment process and employment infrastructure. To accomplish this, a collaboration of workforce stakeholders joined together. These include one-stop career centers, community based

⁵³¹ Ibid.

⁵³² Donald Wittkowski, “Revel takes steps to restructure finances, ownership,” *The Press of Atlantic City*, May 8, 2013 http://www.pressofatlanticcity.com/business/revel-takes-steps-to-restructure-finances-ownership/article_8e43888d-9b71-5f9d-a2d8-f14fe62018e8.html.

⁵³³ Luke Barley, “Atlantic City's Incredibly Bad Gamble on the Revel Casino,” *The AtlanticCities.com*, May 9, 2013 <http://www.theatlanticcities.com/jobs-and-economy/2013/05/atlantic-citys-incredibly-bad-gamble-revel-casino/5541/>.

⁵³⁴ Michael Sokolove, “Foxwoods is fighting for its life,” *New York Times Magazine*, March 14, 2012 <http://www.nytimes.com/2012/03/18/magazine/mike-sokolove-foxwood-casinos.html?pagewanted=all&r=1&>.

organizations, organized labor, community colleges and other public and private educational entities.⁵³⁵

The past three decades provide policy makers with an abundance of data and first-hand examples of how casino gambling impacted a community and what the role of policy makers should be. However, a clear, compelling understanding of the costs and benefits remains elusive and the academic literature is contradictory.

The 1999 National Gambling Impact Study Commission Report noted that social and economic impacts are not as easily severable as those responsible for policy making would prefer.⁵³⁶ Quantifying gambling related social costs and benefits can be extremely difficult. The Commission went on to note that the economic benefits of casino gambling appeared most powerful in more financially distressed communities where economic development opportunities were fewer.

In a 2005 study, Phineas Baxandall and Bruce Sacerdote compared the experience of counties in the United States that have casinos with counties that do not. They found that casino development appears to produce both modest positive effects as well a modest negative effects as well no statistically significant effects at all in some areas. They analyze the effects of casinos at the county level rather than the state level because entire states are simply too large to discern a casino's influences on outcomes such as employment or crime.⁵³⁷ In *Gambling in America: Costs and Benefits*, Earl Grinols found that when all relevant factors were considered, the social benefits of casino gambling were outweighed by the social costs.⁵³⁸

The national experience with casino gambling has led policy makers, urban planners, social scientists and casino developers to recognize that a casino's chance of success increases if it is properly sized and blended into the host community. The type, scale and format of a casino will inevitably be a factor in what impact it has upon the community.

Iowa was an early adopter of casino gambling and Dubuque is often cited as a community where casino gambling has been a successful component of an overall economic development strategy. A 2011 report noted that one would be hard pressed to find someone opposed to casinos

⁵³⁵ Massachusetts Gaming Commission, "Workforce Development and Diversity," <http://massgaming.com/about/diversity/> (accessed May 20, 2013).

⁵³⁶ NGISC.

⁵³⁷ Phineas Braxandall and Bruce Sacerdote, "Betting on the Future: The Economic Impact of Legalized Gambling," *Rappaport Institute for Greater Boston- Policy Briefs*, January 13, 2005 http://www.hks.harvard.edu/var/ezp_site/storage/fckeditor/file/pdfs/centers-programs/centers/rappaport/policybriefs/betting_final.pdf.

⁵³⁸ Earl L. Grinols, *Gambling in America: Costs and Benefits*, 2004.

among local residents.⁵³⁹ Dubuque Assistant Chief of Police Terry Tobin noted that his department does not have any concerns about organized crime, prostitution, robbery or other predatory crimes. City Manager Michael Milligen stated that poverty was not a problem and that local wages have increased.⁵⁴⁰ Iowa is unique among states with casino gambling. In every county that has a casino, voters must pass a referendum approving casino gambling to continue.⁵⁴¹ In Dubuque, the last such referendum passed four years ago with 70 percent of county voters approving.⁵⁴²

David G. Schwartz, Director of the Center for Gaming Research at the University of Nevada, Las Vegas, notes how casino resorts have undergone significant transformations since they first appeared in Nevada in 1931. In their early form, they consisted of low-rise motel buildings with 200 to 800 rooms centered on a casino/theater/restaurant area. Other design elements included spacious grounds and swimming pools. Beginning in the mid-1950s, casino operators developed larger, thousand-plus room hotel towers atop vast, low-rise buildings containing the casino, lounges, theaters, convention facilities and restaurants. All the amenities were integrated into a casino resort complex. In the 1990s, casino operators took these design elements further by developing elegantly appointed 3,000-room plus hotel complexes. These facilities, often costing \$1 billion or more, had distinctive architectural designs, elegant spas and pool areas, gourmet restaurants associated with world recognized chefs and high-end retail. They also placed a greater emphasis on the non-gaming aspects of the facility.⁵⁴³

Eadington of University of Nevada, Reno wrote extensively on the social and economic impacts of casinos and is credited for almost singlehandedly establishing the economics of gambling as a field of study.⁵⁴⁴ He noted that it is commonplace in a community considering casino gambling that the forces for and against actively debate the pros and cons of the proposal by focusing on the impacts they believe it will have on the community. Such debates are usually extremely emotional and contentious. However, according to Eadington, such debates too often

⁵³⁹ "Casino Impact in Dubuque, Iowa," WFIR.com, posted June 9, 2011
http://www.wifr.com/home/headlines/Casino_Impact_in_Dubuque_Iowa_123594769.html

⁵⁴⁰ Ibid.

⁵⁴¹ Iowa Gaming Association, "Public Policy - Referendum Vote Process," IowaGaming.org,
<http://www.iowagaming.org/about-us/public-policy.aspx> (accessed May 6, 2013).

⁵⁴² Ibid.

⁵⁴³ David G. Schwartz, Ph.D., "Casino Resort Evolution: The four stages, 1941-2005," *UNLV Center for Gaming Research*, October 2005 http://gaming.unlv.edu/media/Casino_Resort_Evolution.pdf.

⁵⁴⁴ Kahlil S. Philander, Ph.D. and Douglas M. Walker, Ph.D., "William R. Eadington and the Economics of Gambling," *UNLV Gaming Research & Review Journal*, Volume 16 Issue 2, 2012, p. 9.

reflect little or no understanding of the different types of casinos models and legislative frameworks and how these factors may affect desired community outcomes.⁵⁴⁵

a. Different Casino Models

Eadington believed that in terms of increasing the economic potential of casino gaming while minimizing the costs, the modern integrated resort casino (another term for a destination casino resort) model offers the greatest potential. Many jurisdictions have “gaming centric” casinos. These are places where one mostly goes to play slot machines and table games. This type of facility generally will provide limited food and beverage options along with limited hotel accommodations, or none at all. Usually, 80 percent or more of their revenues come from gaming activities.⁵⁴⁶

Conversely, integrated resort casinos offer a wide variety of leisure and entertainment options other than just gambling. They all have iconic architecture and require significant capital investment. By offering superior dining, entertainment and shopping, they often become popular attractions that appeal to both domestic and international tourists. They appeal to a broader market and compete more effectively for the high-end visitor dollar than gambling-centric casinos. The employment potential of integrated resort casinos is also greater. Their 24-hour operations, diversity of offerings and specialized services, require that they employ substantially more highly skilled and professionally trained employees than gaming-centric casinos.⁵⁴⁷

Integrated resort casinos pose more potential for convention related growth. Convention and conference organizers prefer to have their event in a venue that attendees will find attractive and appealing in order to achieve maximum attendance. Convention goers often want adult forms of entertainment. Integrated casino resorts with their vibrant nightlife, ample room supply, conference facilities and host of amenities can help fulfill that need.

Gary Loveman, Caesars Chairman and CEO, identified a hybrid model. He contends that the conventional view of casinos being either convenient neighborhood based slot parlors or as integrated resort casino destinations is incomplete. He states that over the past decade another model has emerged for policy makers to consider which he calls “the city integrated model.”⁵⁴⁸ According to Loveman, its defining feature is integration with its community’s pre-existing businesses and attractions. In this model, the casino serves as a hub whose spokes extend out

⁵⁴⁵ William R. Eadington and Meighan R. Doyle, “Everything to Everyone,” *Global Gaming Business Magazine*, February 3, 2010. <http://ggbmagazine.com/issue/vol-9-no-2-february-2010/article/everything-to-everyone>.

⁵⁴⁶ Ibid.

⁵⁴⁷ Ibid.

⁵⁴⁸ Gary Loveman, “Heart of the City,” *Global Gaming Business Magazine*, April 30, 2013 <http://ggbmagazine.com/issue/vol-12-no-5-may-2013/article/heart-of-the-city1>.

beyond its own amenities to established restaurants, shops, hotels and cultural organizations in the adjoining area. Its outward, rather than inward, focus renders it distinct from the integrated resort casino model while capturing many of that model's benefits.

In May 2012, a city integrated-style casino, Horseshoe Casino Cleveland, opened in Cleveland, OH, and may offer helpful insights to policy makers. Financially, its first year has produced mixed results. Profits have been lower than anticipated and the city will only receive \$13.4 million in gaming taxes, well below earlier estimates that assumed additional construction and ranged as high as \$29 million. However, the city's share is offset by the \$3.1 million in additional expenses related to the police department, which had to triple staffing in its downtown unit. Overall the casino's impact on the downtown area is considered positive with business owners saying the area is far more active and livelier. Crime did not soar as some predicted and the casino did not cause any adverse impact on local bars and restaurants. The casino employs 1,600 locals.⁵⁴⁹

The new Horseshoe Casino in downtown Cincinnati, OH, is following the same model. The casino, which does not have its own hotel, has entered into partnership agreements with several nearby hotels and restaurants.⁵⁵⁰

7. Conclusion

The academic research reviewed here suggests that casinos can have a variety of significant social and economic impacts, both positive and negative. Perhaps the most important question is whether casinos generate more benefits than costs. Unfortunately, the answer to this question is not obvious, and probably depends on the jurisdiction under consideration. Certainly in some jurisdictions, casinos have had a large positive impact, such as in Las Vegas and in the Gulf Coast of Mississippi. But casinos may bring their own problems. Most of the negative social impacts studied in the literature come from "disordered gamblers," who psychologists estimate represent about 1 percent of the general population. These individuals experience a variety of problems, including marital and career problems. They also sometimes engage in crime in order to deal with the financial problems caused by their excessive gambling.

It is important that any jurisdiction carefully consider these possible impacts prior to introducing or expanding legalized gambling. Although there may be obvious benefits from casinos, such as job creation and a new source of tax revenues, research confirms that there are some social harms that accompany the economic benefits of casinos.

When considering the economic and social impacts of a casino, we must consider the effects of the casino relative to what otherwise would have happened (or what business might have

⁵⁴⁹ Thomas Ott, "Cleveland casino short of revenue projections but draws praise," *The Plain Dealer*, May 12, 2013 http://www.cleveland.com/metro/index.ssf/2013/05/cleveland_casino_short_of_reve.html.

⁵⁵⁰ Alexander Coolidge, "Cincinnati casino allies with 7 hotels," *Cincinnati Enquirer*, February 7, 2013 http://news.cincinnati.com/article/20130206/BIZ/302060087/Cincinnati-casino-allies-7-hotels?nclick_check=1.

otherwise opened). In addition, we must consider whether the observed effects are related to economic changes, in general, or are due to the nature of gaming specifically.

The experiences in a variety of casino jurisdictions confirm that careful planning is important for the success of the casino industry. Casinos should be integrated with their surrounding communities; they should be introduced in appropriate sizes and numbers for the current and potential future markets. The benefits of introducing casinos can be maximized, and the negative impacts minimized, if their development and regulation is carefully considered.

III. Economic Assessment of Florida's Existing Gambling Industry

As discussed throughout this report, Florida has an extensive gambling industry, principally through its state lottery, Native American casinos and pari-mutuel facilities. Each of these gambling sectors generates revenue that contributes to the Florida economy through tax payments, direct employment, indirect employment and induced employment. This chapter of the report quantifies the economic impact of the industry.

A. Gambling Sectors: Size and Importance

An analysis of gaming subsectors and their size and economic importance.

In Chapter II(B) we discuss the size and extent of Florida's primary gambling sectors, including the revenues. Here we provide more detail as to the revenue performance of each sector and, where available, the annual employment and wages, as well as purse, handle and attendance data for the pari-mutuel sectors. Spectrum endeavored to obtain, on a sector basis the desired data going back to 1990, but only the pari-mutuel performance data were available going back that far.

1. Pari-Mutuel

The Division of Pari-Mutuel Wagering does not collect the number of people employed at pari-mutuel facilities but upon request we did receive 2012 data showing that the industry's wages, exclusive of payroll taxes and benefits and compensation paid to directors, were \$148.8 million. Following are analyses of key performance and economic indicators for each pari-mutuel sector. It is important to note that wages and jobs for the racing sectors represent direct facility employment only; they do not account for the jockeys, trainers and others who provide economic impact but are not track employees.

a. Racetrack Slots

As of 2012, the six Florida racinos collectively had 3,319 employees – or an average of 553 employees per racino in both gaming-related and non-gaming capacities.⁵⁵¹ The following table shows slot-machine-related operating results for the six racinos for year ended 2012.

⁵⁵¹ 2013 State of the States.

Figure 54: Florida racino slot performance (2012)

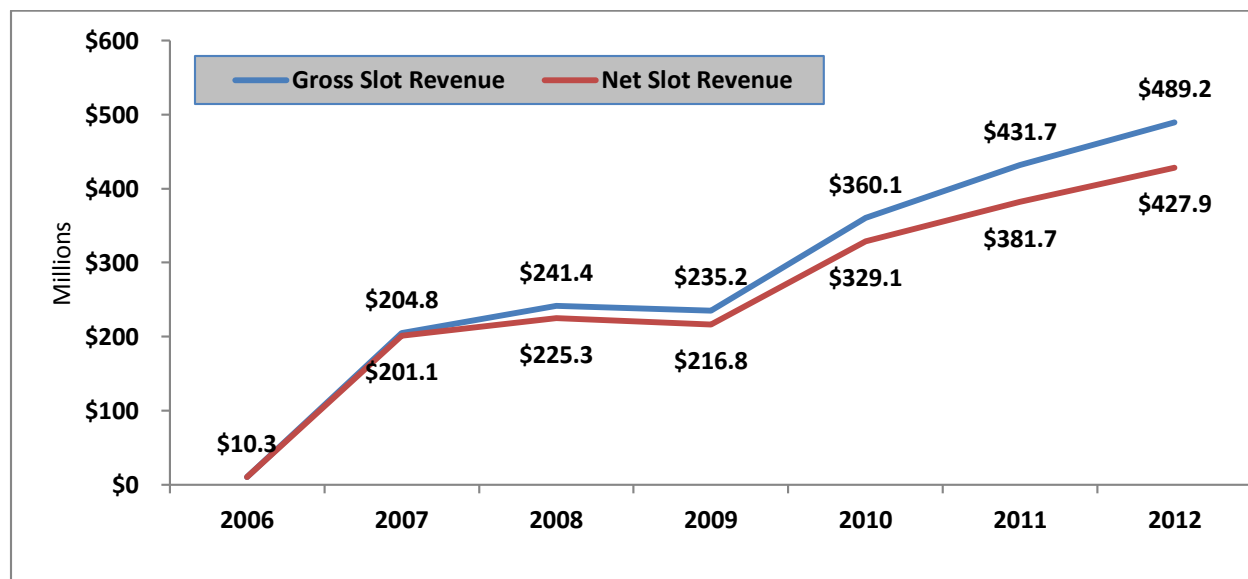
Racino	Casino Miami	Magic City	Calder	Gulfstream Park	Mardi Gras	Pompano Park	FL TOTAL
Slot Revenue	\$59.3	\$79.0	\$90.2	\$59.9	\$61.9	\$138.9	\$489.2
Promo Credits	(\$6.4)	(\$2.2)	(\$17.8)	(\$9.0)	(\$8.8)	(\$17.2)	(\$61.4)
Net Slot Revenue	\$53.0	\$76.8	\$72.4	\$50.9	\$53.1	\$121.7	\$427.9
Promo Credits, % of Slot Rev.	10.7%	2.7%	19.7%	15.0%	14.2%	12.4%	12.5%
Slot Rev. Unit / Day	\$165	\$273	\$204	\$194	\$161	\$261	\$211
Net Slot Rev. Unit / Day	\$147	\$266	\$164	\$165	\$138	\$229	\$185

Source: Florida Department of Business and Professional Regulation

As illustrated, Florida’s six racinos generated slot revenue of \$489.2 million in 2012. Net slot revenue for Florida’s six racinos was \$427.9 million in 2012, as \$61.4 million of revenue was in form of promotional credits. Promotional credits averaged 12.5 percent of slot revenue for the six racinos. The average daily win per slot was \$211; however, netting promotional credits reduced this average to \$185 over the annual period.

The following chart shows annual slot revenue (both gross and net) from inception through calendar year ended 2012.

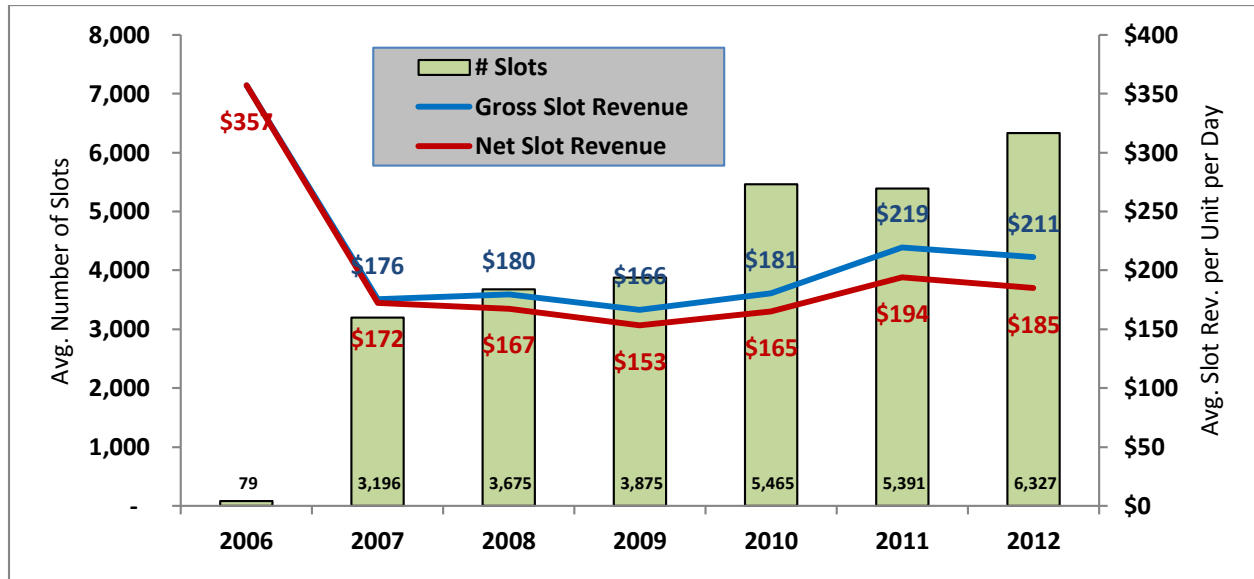
Figure 55: Florida racino slot performance, 2006-2012



Source: Florida Department of Business and Professional Regulation

From inception through 2012, Florida’s racinos have generated \$1.97 billion in gross slot revenue and \$1.79 billion in net slot revenue. The following chart shows annual average slot revenue per slot machine per day (both gross and net) through 2012, along with average number of slots in operation annually.

Figure 56: Florida racino slot revenue/machine/day and counts, 2006-2012



Source: Florida Department of Business and Professional Regulation

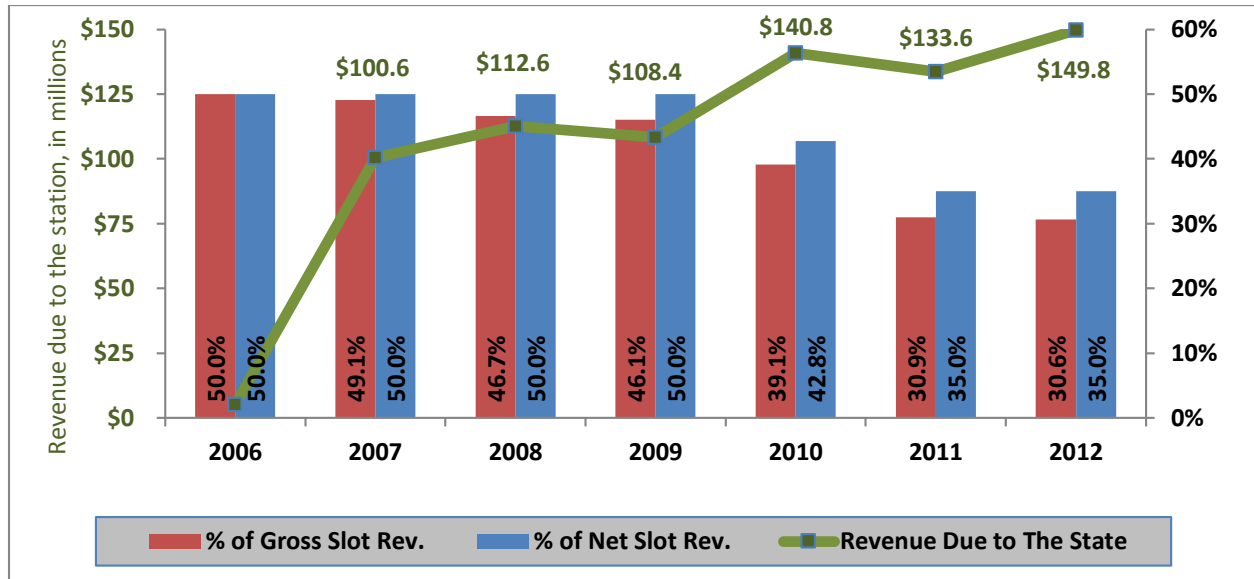
The current tax on slot revenue is 35 percent (or “revenue due to the state”), while this is imposed on net slot revenue (i.e., net of promotional credits and unclaimed tickets).⁵⁵² However, at inception the applicable tax rate was 50 percent and has since been reduced. In addition to the tax on slot revenue, each pari-mutuel location having slot machines is subject to \$2 million annual Slot License Fee, along with an annual \$250,000 Compulsive or Addictive Gambling Prevention Program Fee.⁵⁵³

The following chart shows annual revenue due to the state from inception through calendar year ended 2012, along with effective tax rate by year (expressed as a percentage of gross and net slot revenue).

⁵⁵² Florida Department of Business and Professional Regulation, Division of Pari-Mutuel Wagering, 81st Annual Report Fiscal Year 2011-2012.

⁵⁵³ Ibid.

Figure 57: Florida racino direct tax on slots, 2006-2012



Source: Florida Department of Business and Professional Regulation

From inception through calendar year ended 2012 Florida’s racinos have generated \$750.9 million in revenue due to the state, from the direct tax on slot revenue.

b. Greyhound

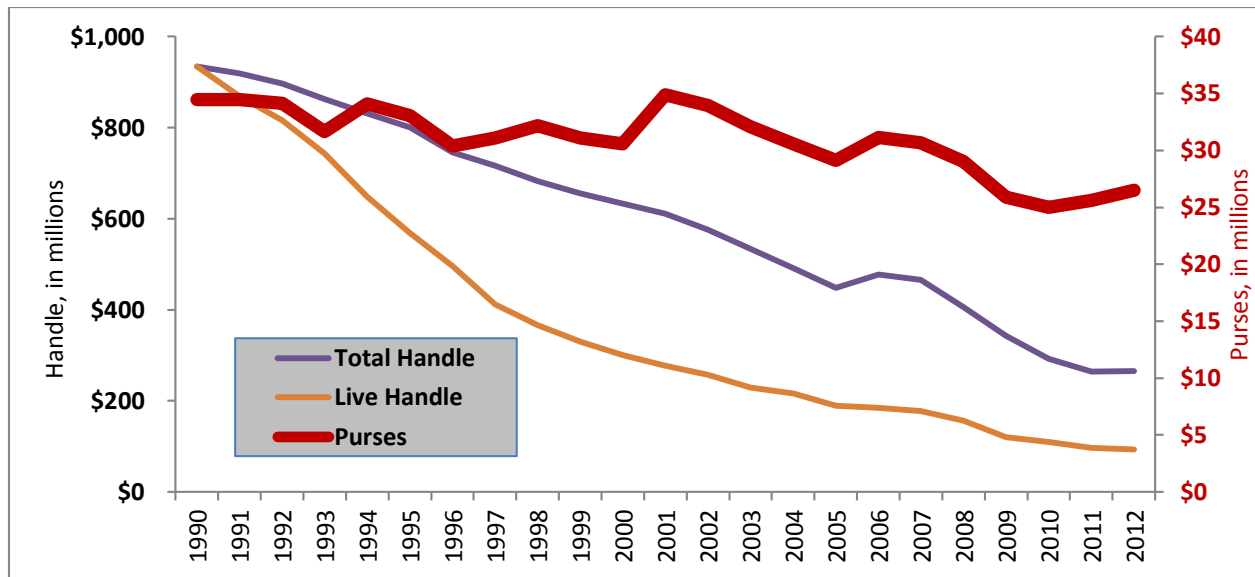
Greyhound racing, which is Florida’s most widespread form of pari-mutuel racing, is clearly in serious decline. In the following two charts, note that the numbers of performances and purses have held relatively steady despite dramatic decreases in handle and attendance. Also note that most tracks no longer charge for admission.

Nonetheless, the greyhound tracks spent more than \$70 million in 2009 on goods and services purchased and had more than 5,400 employees on their payroll that was in excess of \$98 million. They paid direct state taxes of more than \$26 million.⁵⁵⁴

Jack Cory, a lobbyist for the greyhound owners, told Spectrum that the greyhound industry has an estimated overall economic impact of more than \$50 million when the spinoff costs of caring for the dogs is included, a claim that Spectrum could not independently verify. Those spinoff costs would include veterinary care, transportation, and feeding the dogs.

⁵⁵⁴ Innovation Group, “Florida Pari-mutuel Gaming Venues Market Assessment,” p. 8, October 2009.

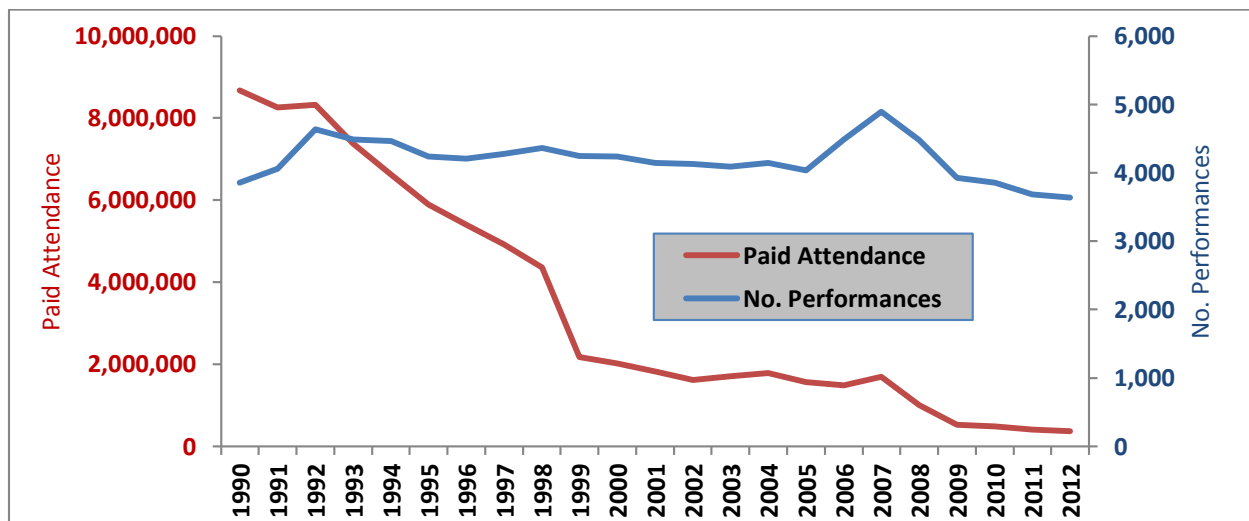
Figure 58: Florida greyhound purses and handle, 1990-2012



Source: Division of Pari-Mutuel Wagering

Note: Total handle numbers are understated as PMW does not collect data on out-of-state generated handle, which is the single largest component of handle.

Figure 59: Florida greyhound paid attendance and performances, 1990-2012



Source: Division of Pari-Mutuel Wagering.

Note: Most tracks no longer charge for admission.

c. Thoroughbred

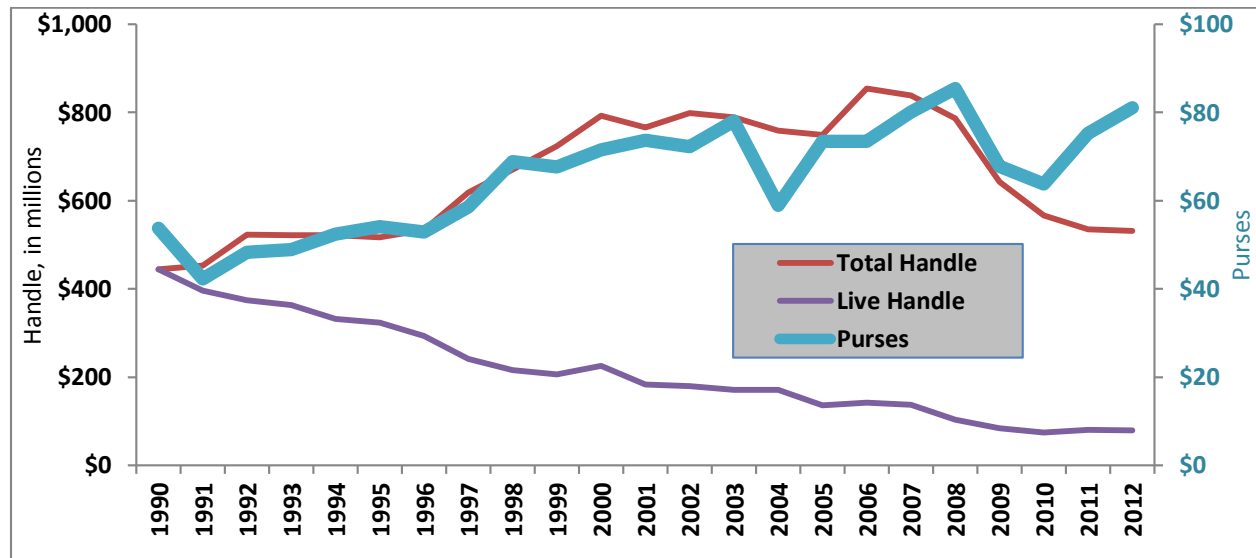
There were 6,487 Florida-licensed thoroughbred owners from 1,352 Florida-licensed stables that participated in Florida racing during 2012-2013. These owners employed more than 1,467 thoroughbred trainers at Florida’s three thoroughbred tracks. In turn, these trainers employed about 4,000 backside (stable) employees consisting of foremen, exercise people,

grooms, hot walkers and others. It is estimated that the equivalent of about 3,000 thoroughbred horses reside full-time in Florida and that each horse generates about \$25,000 in expenditures, resulting in an economic impact of \$75 million. Some of those costs include money spent on horse transport, stall bedding, grooming, and vet services.⁵⁵⁵

Florida is home to more than 600 thoroughbred farms and training centers covering 70,000 acres of land. More than 75 percent of the horse farms are located near Ocala in Marion County. Ocala is also home to the Ocala Breeders' Sales Company, which stages major bloodstock auctions for thoroughbreds throughout the year. It operates a training facility that includes a one-mile racetrack. It had net sales of \$14.8 million and a payroll of \$2.3 million in FY 2012.⁵⁵⁶ Ocala Breeders' also operates a simulcast parlor where patrons wager on horse and dog races. The Florida Thoroughbred Breeders' and Owners' Association found that economic impact of the thoroughbred industry in Marion County is more than \$1.3 billion, with an investment in operations is \$3.5 billion.⁵⁵⁷

For thoroughbred racing, note in the following charts that that the numbers of performances and purses have held relatively steady despite dramatic decreases in handle and attendance.

Figure 60: Florida thoroughbred racing handle and purses, 1990-2012



Source: Division of Pari-Mutuel Wagering.

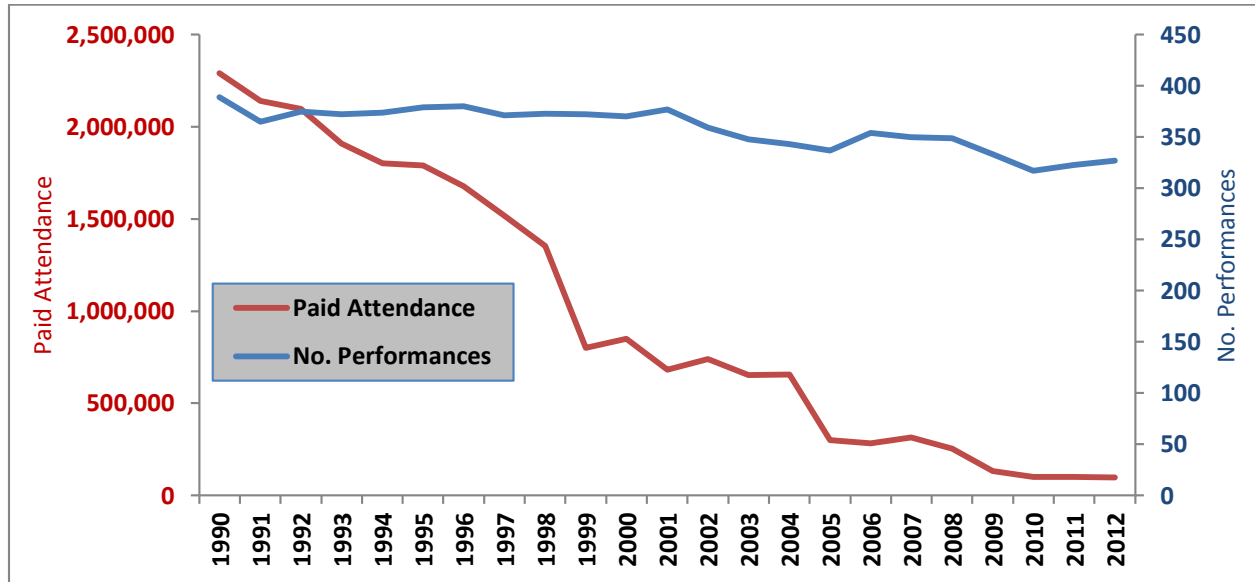
Note: Total handle may be understated as PMW does not collect data on out-of-track generated handle, the single largest component of handle.

⁵⁵⁵ Ibid.

⁵⁵⁶ Florida PMW, *Independent Auditor's Report for Pari-Mutuel Permitholders, FY 2012*.

⁵⁵⁷ Florida Thoroughbred Breeders' and Owners' Association <http://www.ftboa.com/about-us/why-florida-bred> (accessed May 23, 2013).

Figure 61: Florida thoroughbred paid attendance and performances, 1990-2012



Source: Division of Pari-Mutuel Wagering

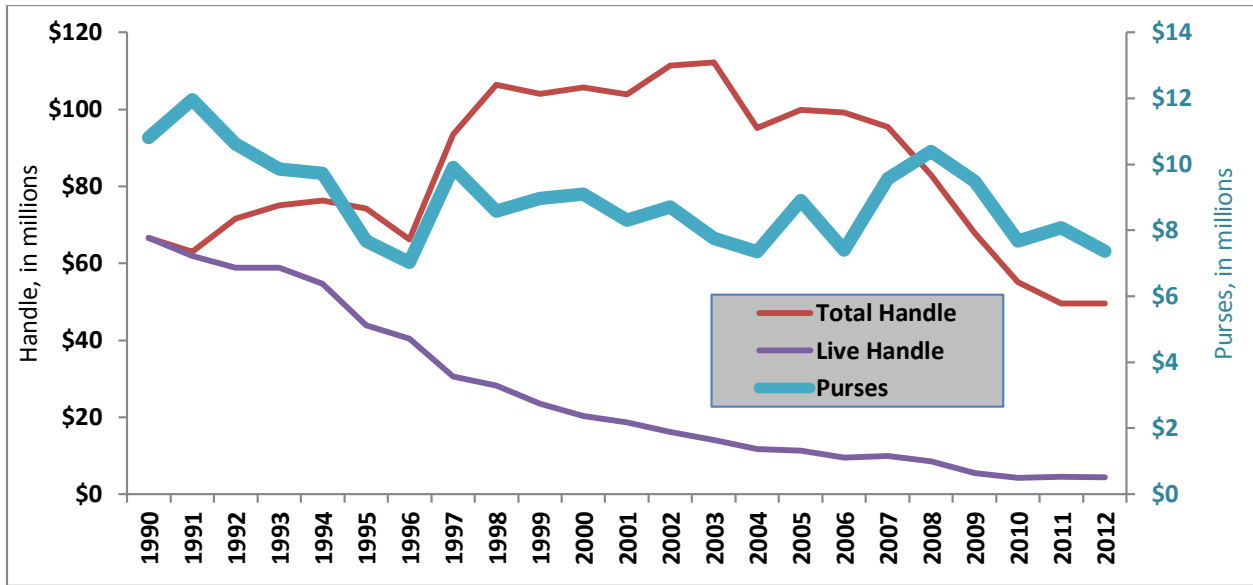
d. Harness

In harness (or standardbred) racing, as seen in the following charts, the purses and number of performances have been relatively steady while the live handle has declined. Isle Casino at Pompano Park, the only track where harness racing takes place, has stopped charging for admission. Its 2012 payroll was \$19.1 million. Pompano had a payroll of \$19.1 million in FY 2012. It had an operating profit of \$1.9 million but sustained a loss of \$2.4 million from its pari-mutuel operations while it had an operating profit of \$4.3 million from slot machines and \$90,000 from cardroom operations.⁵⁵⁸

Purses have declined slightly, by 0.5 percent, from FY 2006 (the last full fiscal year that Pompano did not have a casino) to FY 2012. The failure to increase purses has put Pompano in a position where it is not competitive with other racino states, Pennachio said, noting that breeding has seen a significant reduction in activity. In 2011, there were 40 foals. In 2006, there were 163, according to Joseph Pennachio, president of the Standardbred Breeders and Owners Association.

⁵⁵⁸ Florida PMW, *Independent Auditor's Report for Pari-Mutuel Permitholders, FY 2012*.

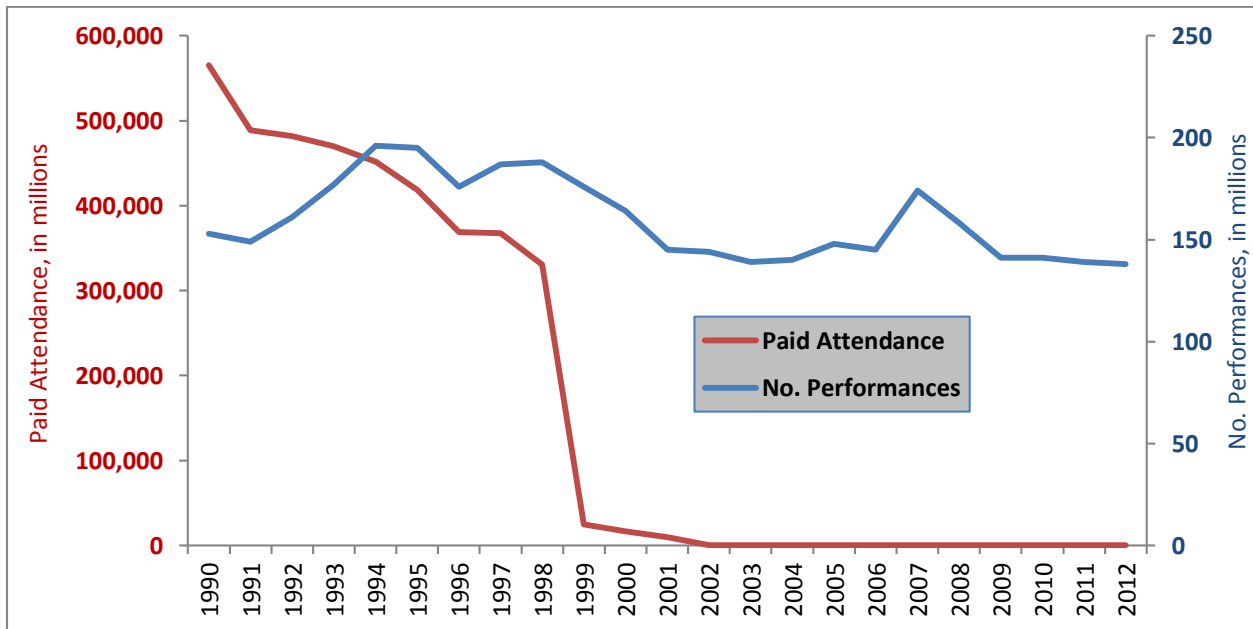
Figure 62: Florida harness racing handle and purses, 1990-2012



Source: Division of Pari-Mutuel Wagering.

Note: Total handle may be understated as PMW does not collect data on out-of-track generated handle, the single largest component of handle.

Figure 63: Florida harness paid attendance and performances, 1990-2012



Source: Division of Pari-Mutuel Wagering.

Note: Pompano has not charged an admission fee since 2002.

e. Quarter Horse

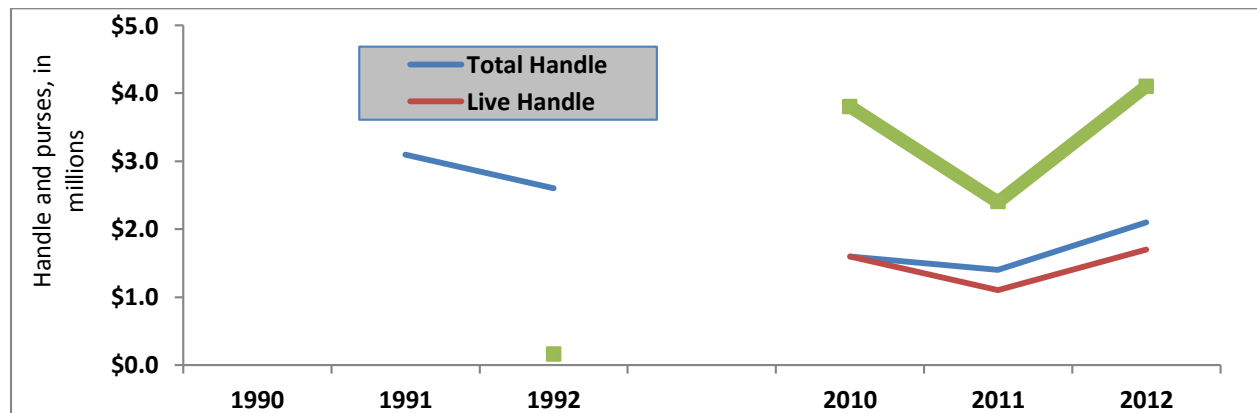
Steve Fisch, president of the Florida Quarter Horse Racing Association, reported that more than 2,300 horses have raced at Hialeah since it reopened as a quarter horse track in 1992. Fisch's organization has set up an accredited breeding program with the state Department of Agriculture, which rewards Florida-bred quarter horses with additional purse awards for finishing anywhere from first through fourth in races.

Already, Florida has seen some significant impact in breeding activity from the return of quarter horse racing. The number of starters foaled in the state in 2008 was 24. In 2012, the number increased to 96. During the same period, the number of owners of starters who reside in Florida increased from 68 to 247.⁵⁵⁹ Each horse contributes nearly \$35,000 to the GDP in Florida, according to Fisch. Eventually, Fisch expects quarter horse racing to expand to other tracks. The result would be year-round racing. When and if that happens, he envisions a significant increase in breeding activity, handle and purses. Florida, he said, will become one of the top breeding states of quarter horses in the country. The number of starters foaled could exceed more than 2,000, he said.

Fisch noted that in just a few years, the Florida quarter horse industry has gained a reputation for quality race horses and breeding stock, so much so that owners have begun to export mares and stallions to Brazil and Australia. He expects that with the expansion of quarter horse racing to other tracks, the export of quarter horses to foreign countries will become a major industry.

Quarter horse racing returned to Florida in 2010 after a 17-year absence. There are limited data points from 1991-92, as seen in the following chart, which is inclusive of barrel racing:

Figure 64: Florida quarter horse racing handle and purses, 1990-2012



Source: Division of Pari-Mutuel Wagering.

Note: Quarter horse racing was halted in 1992 and returned to Hialeah in 2009 after it received permission to open a slot machine casino.

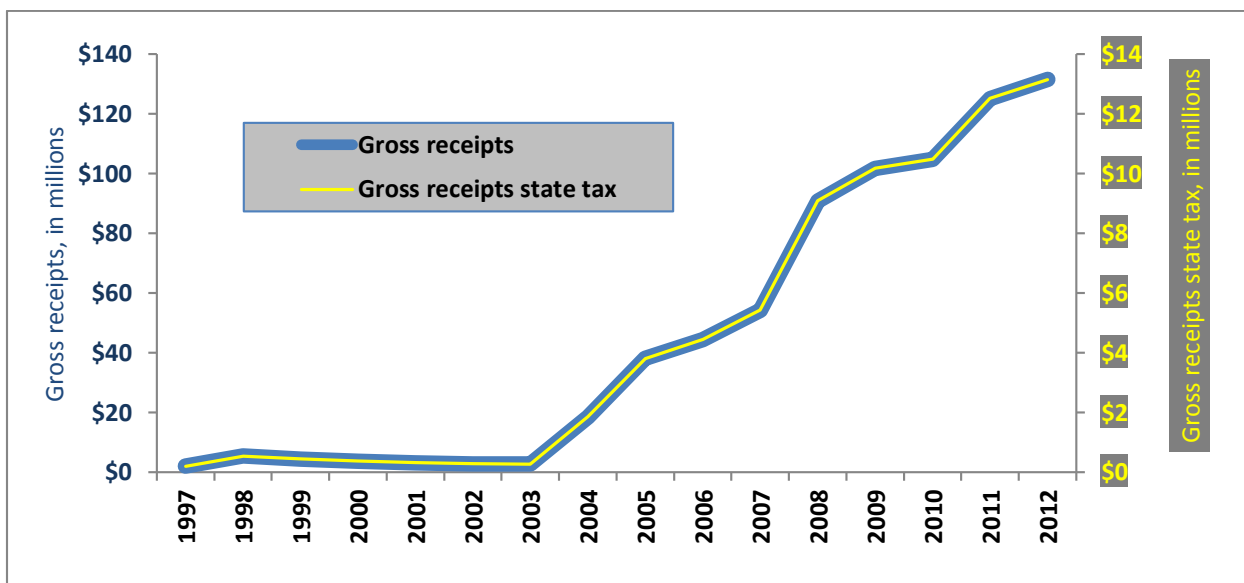
⁵⁵⁹ American Quarter Horse Association, custom report, May 21, 2013.

Quarter horse racing attracted paid attendance of nearly 36,000 in each of 1991 and 1992, but upon its return in 2010 did not charge for admission. The number of performances statewide for the last three years were 40 in 2010, 24 in 2011, and 76 in 2012.

f. Cardrooms

The following chart shows cardroom receipts, along with the state’s share from the 10 percent tax. Cardroom laws were changed in 2003 and then again in 2010 that encouraged professional poker players to play in Florida. The result, as the table shows, was a significant increase in gross receipts and tax revenue. Note that the revenue and tax lines follow identical paths, as the tax rate has stayed the same since inception.

Figure 65: Florida cardroom receipts and state tax, 1997-2012

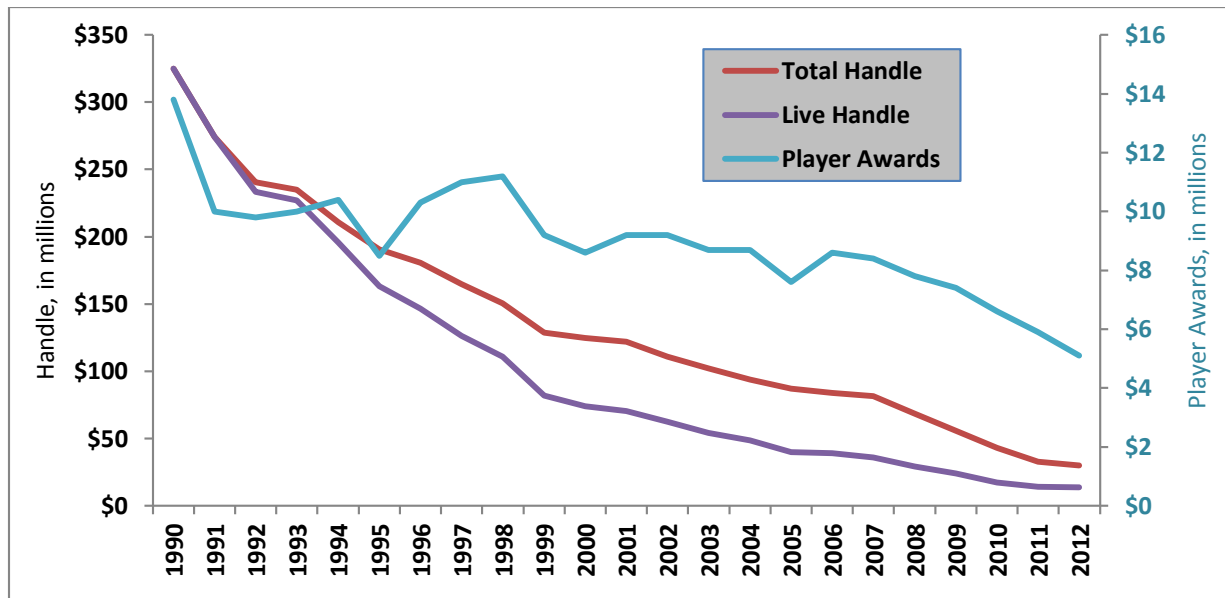


Source: Division of Pari-Mutuel Wagering

g. Jai Alai

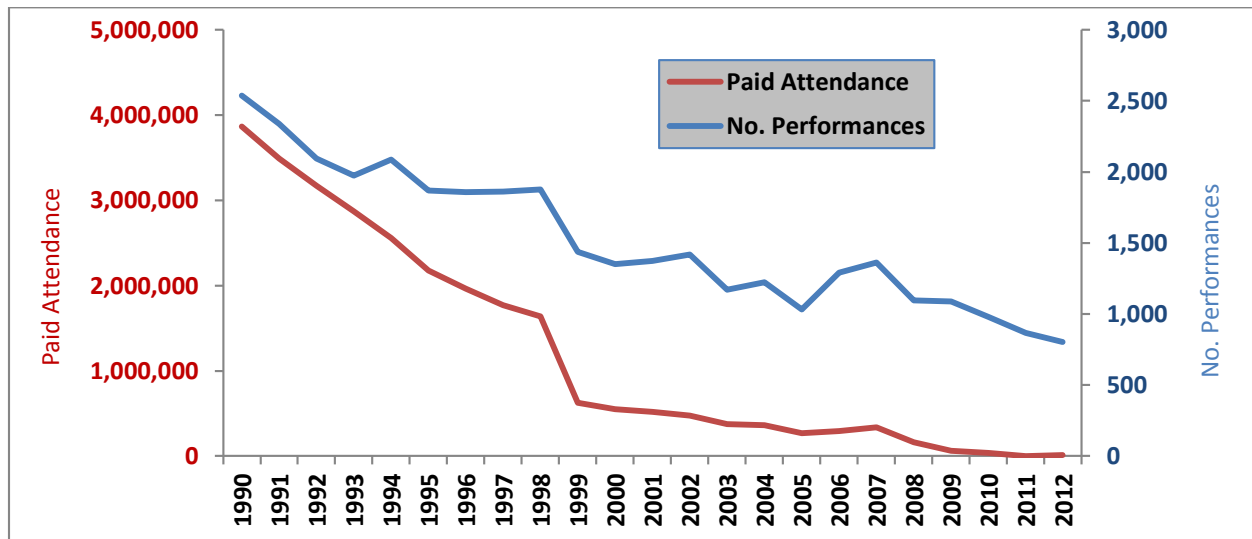
Jai alai is in rapid decline and, effective in 2012, stopped counting admissions. Its 2012 payroll was \$14.2 million, with 70 percent of it at two frontons, Fort Pierce and Miami.

Figure 66: Florida jai alai handle and player awards, 1990-2012



Source: Division of Pari-Mutuel Wagering

Figure 67: Florida jai alai paid attendance and performances, 1990-2012



Source: Division of Pari-Mutuel Wagering

2. Indian Casinos

Through 2011, the Native American casinos collectively had approximately 8,358 employees in both gaming-related and non-gaming capacities – or an average of nearly 1,200 employees per location.⁵⁶⁰ This estimate was reported by a third party, although we know this

⁵⁶⁰ Alan Meister, *Casino City's Indian Gaming Industry Report*, 2012 Edition.

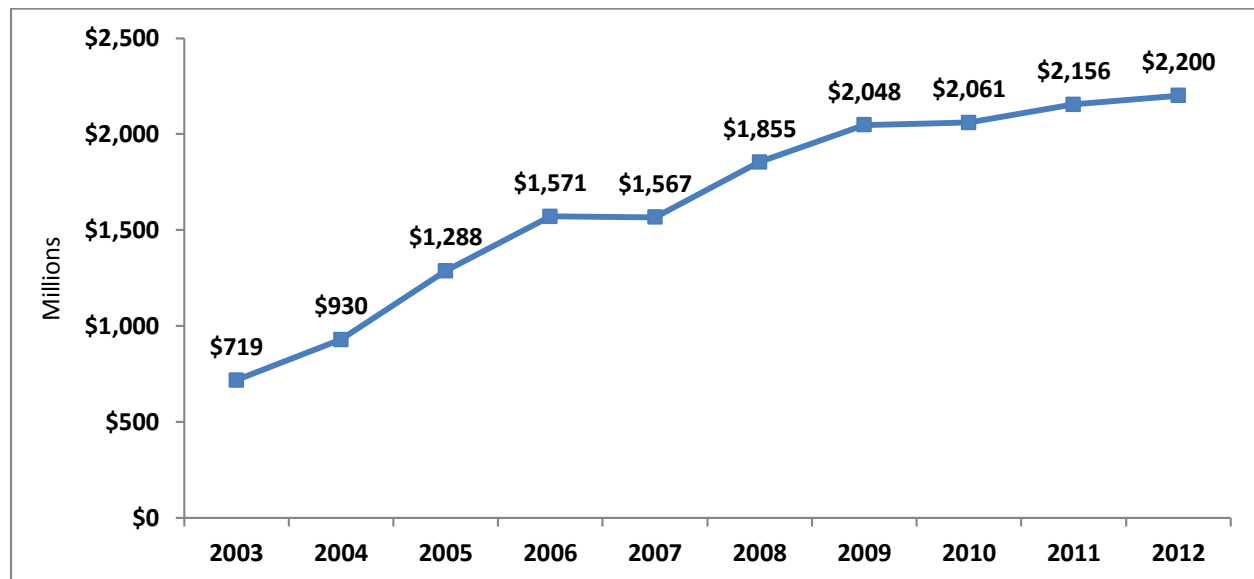
figure may be considerably greater today due to various facility-related expansion activities that have occurred since 2011. In fact, the Seminole Tribe of Florida advised Spectrum that in 2012 its gaming facilities employed 9,562, or 7,725 full-time-equivalent employees. Another 4,000 are employed by Seminole casino tenants, such as retailers who operate on-site outlets.⁵⁶¹ The operator of Florida's other Native American casino, the Miccosukee Tribe, declined to cooperate with this study, though an employee there advised us that the Miccosukee casino resort employs "over 800."

We estimate that Native American casinos in Florida had \$2.2 billion of GGR in calendar year ended 2012. We estimate GGR comprised approximately 94.8 percent of total revenue; therefore, we estimate total non-gaming revenue of \$120 million in 2012.⁵⁶²

We note that the Seminole Gaming enterprise, which operates six Florida casinos, generated \$1.96 billion in GGR⁵⁶³ and, based on Spectrum's estimates, more than \$1.1 billion in EBITDA annually, an estimate that was confirmed in our interviews with management.

The following table shows estimated GGR results for Native American casinos in Florida over the last 10 calendar years, through 2012.

Figure 68: Florida Native American casino GGR, 2003-2012



Source: Casino City's *Indian Gaming Industry Report*, 2013 Edition

Over this 10-year span, Native American casinos in Florida have generated nearly \$16.4 billion of GGR.⁵⁶⁴ Additionally, and even with the emergence of racinos in South Florida, year-

⁵⁶¹ Interview with Seminole Gaming CEO James Allen, May 1, 2013.

⁵⁶² The average from 2009-2011, as reported in *Casino City's Indian Gaming Industry Report*, 2013 Edition.

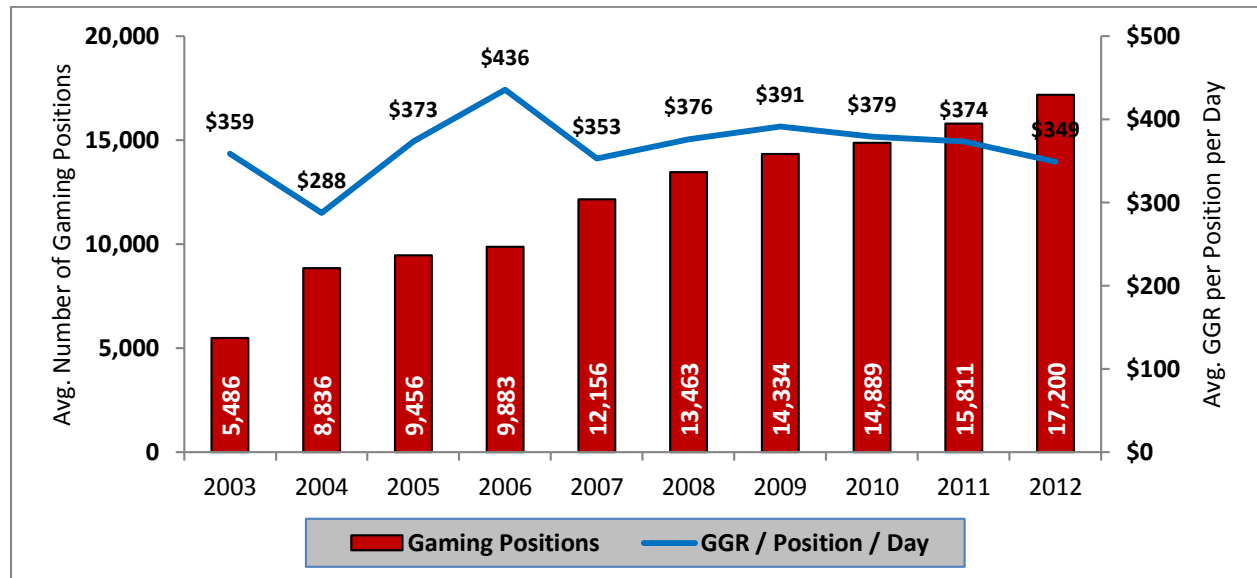
⁵⁶³ Figure provided by Seminole Gaming.

⁵⁶⁴ Alan Meister, *Casino City's Indian Gaming Industry Report*, 2012 Edition.

over-year GGR growth occurred in nine of the 10 periods illustrated (with exception of 2007 when GGR was down 0.3 percent).

The following chart shows annual average GGR per gaming position per day (estimated) from calendar year ended 2003 through calendar year ended 2012, along with an estimated average number of gaming positions in operation annually.

Figure 69: Florida Native American casino GGR/position/day and counts, 2003-2012



Source: Casino City's *Indian Gaming Industry Report*, 2013 Edition

The following is excerpted from Casino City's *Indian Gaming Industry Report*, 2013 Edition, and provides an explanation of the taxes and/or payments associated with Native American casinos in Florida:

In November 2007, the Seminole Tribe and the Governor of Florida entered into a tribal-state gaming compact. Upon federal approval in January 2008, the Tribe began making required compact payment to the State. However, the compact was challenged by the State Legislature, and in July 2008, the Florida Supreme Court ruled that the Governor did not have the authority to enter into the Seminole gaming compact without the ratification of the State. Following this ruling, the Tribe entered into a new gaming compact with the State on April 7, 2010. This compact was ratified by the State Legislature, and became effective when published in the Federal Register on July 6, 2010. The 2010 compact calls for several types of payments by the Tribe to the State (note that the State also kept all payments the Tribe made under the original 2007 compact). The new payments consist of (i) annual revenue sharing payments, 97 percent of which goes to the State and 3 percent goes to local governments; (ii) an annual oversight assessment not to exceed \$250,000 per year (indexed for inflation); and (iii) an annual donation to the Florida Council on Compulsive Gambling in the amount of not less than \$250,000 for each of its seven gaming facilities. The revenue sharing payments, which are made in exchange for exclusivity within the local region, are as follows in the first five years: Years 1 and 2 – \$150 million per year; Years 3 and 4 – the greater of \$233 million per year or a percentage payment

based on Class III net win (i.e., amounts wagered minus prizes/payouts and free play/promotional credits); and Year 5 – \$234 million or a percentage payment based on Class III net win. Percentage payments are based on a sliding scale: 12 percent on net win up to \$2 billion; 15 percent on net win over \$2 billion and up to \$3 billion; 17.5 percent on net win over \$3 billion and up to \$3.5 billion; 20 percent on net win over \$3.5 billion and up to \$4 billion; 22.5 percent on net win over \$4 billion and up to \$4.5 billion; and 25 percent on net win over \$4.5 billion. The Seminole Tribe also makes fixed annual local revenue sharing payments to the City of Coconut Creek.

The same report indicated total direct payments in 2011 (from the Seminole Tribe) were \$154.4 million, of which \$147.3 million (or 95.4 percent) was for state revenue sharing.⁵⁶⁵ We note for the most recent fiscal year (ended June 2012) the state collected \$150 million in revenue sharing from the Seminole Tribe, of which \$3.75 million was distributed to local governments, including both counties and municipalities.⁵⁶⁶ The State subsequently collected \$163.8 million from the Seminole Tribe in FY 2012 and for FY 2013 through June 15, 2013, collected \$174.8 million.

Any assessment of the economic impact of Indian gaming should also consider the alternative: In the absence of this revenue stream, how would tribes such as the Seminoles be able to provide necessary services and funding for their families? Seminole General Counsel Jim Shore told Spectrum that the 3,800 members of his tribe would be living in abject poverty with little hope of escape.⁵⁶⁷

3. Lottery

The Florida Lottery supplies substantial economic benefits and is dedicated to providing assistance to education throughout Florida. The Lottery's mission, as defined in the 2012 annual report, is "To maximize funding for the Educational Enhancement Trust Fund by responsibly providing innovative and entertaining Lottery products and promotions to Florida's citizens and visitors." The Florida Lottery has also been remarkably successful as a gambling business. In 2012 the Lottery's sales totaled \$4.45 billion, surpassing the previous year by 11 percent,⁵⁶⁸ and ranking the Florida Lottery third in the nation in total sales revenue (FY 2011), behind New York and Massachusetts.⁵⁶⁹ This record beating performance enabled the Lottery to transfer \$1.32 billion to

⁵⁶⁵ Meister.

⁵⁶⁶ Florida Department of Business and Professional Regulation, Division of Pari-Mutuel Wagering, 81st Annual Report Fiscal Year 2011-2012, p. 5
<http://www.myfloridalicense.com/dbpr/pmw/documents/AnnualReport2011-2012--81st--revised2013-03-29.pdf>.

⁵⁶⁷ Interview with Jim Shore, May 1, 2013.

⁵⁶⁸ Florida Lottery, "Brighter Than Ever," Annual Report, 2011-2012
<http://www.flalottery.com/exptkt/annualreport11-12.pdf>.

⁵⁶⁹ Teresa Markle La Fleur, Byron la Fleur, *La Fleur's 2012 World Lottery Almanac*, p. 259.

the Educational Enhancement Trust Fund (“EETF”). The Florida Lottery is also one of the more efficient state lotteries in the United States, ranking consistently in the top quartile by the measurement ratio of administration as a percentage of ticket sales.⁵⁷⁰

The Florida Lottery’s contributions to education are considerable. Since its inception, the Lottery has provided a total of \$24 billion to the EETF.⁵⁷¹ In the past fiscal year the EETF has allocated \$317 million for construction bonds, provided \$271 million for public school finding, \$130 million for state colleges, and \$254 million for state universities.⁵⁷² Since 1997 the Florida Lottery has also provided scholarships to more than 600,000 students through the Bright Futures Scholarship Program, funded primarily through Lottery financial transfers. These contributions yield subsequent results, tangible and intangible, in the quality of Floridian’s lives which are impossible to fully quantify yet undeniable nonetheless.

Beyond sales revenue, and transfers to educational assistance the economic impact of the Lottery within the state of Florida is substantial. The Florida Lottery directly employs 420 full-time-equivalent employees. The Lottery is a critical partner to the widespread sales network of 13,300 lottery retailers. Most of these retailers are small independent businesses employing thousands of Florida citizens and providing essential goods and services to local communities. As part of its recent work with the Massachusetts State Lottery, Spectrum conducted a survey among lottery retailers which showed that, on average, each of the 7,400 retailers in the Commonwealth employs two or three people, often at the entry level, in a very wide range of small business enterprises.⁵⁷³ From an economic perspective, lottery revenue was estimated by retail sales agents to account for a median 25 percent of total business revenues.⁵⁷⁴ In Florida, retail lottery sales are generated primarily from convenience stores with gas pumps (48 percent), supermarkets (27 percent), convenience stores without gas pumps (17 percent), package liquor stores (3 percent), small grocery markets (1.5 percent), dollar/discount stores (1 percent), and newsstand/tobacconist/sundries (1 percent).⁵⁷⁵ With the exception of supermarkets, the great majority of these establishments are local small business enterprises.

⁵⁷⁰ Lottery Revenue and Design by State, National Conference of State Legislatures, 2006, <http://www.ncsl.org/issues-research/econ/lottery-payouts-and-state-revenue.aspx>.

⁵⁷¹ Florida Lottery, “Brighter Than Ever,” Annual Report, 2011-2012 <http://www.flalottery.com/exptkt/annualreport11-12.pdf>.

⁵⁷² Ibid.

⁵⁷³ Spectrum Gaming Group, *Facing The Lottery’s Future*, December 4, 2012, Amended January 8, 2013 <http://www.masslottery.com/lib/downloads/leadership/pdfs/SpectrumGamingGroupFinalReport12-4-12Ammended.pdf>.

⁵⁷⁴ Ibid.

⁵⁷⁵ Florida Lottery, “Brighter Than Ever.”

4. Charitable Bingo

As discussed in Chapter II (B)(9), bingo conducted for charitable purposes is regulated at the county or municipal level and no state agency or organization aggregates the gross or net bingo revenue. Spectrum is unaware of even credible estimates as to the dollar size of the Florida charitable bingo market. As noted, there is no direct employment associated with charitable bingo, as the activity is operated by volunteers who are members of the recipient charity. In the bingo halls we observed, the facility's owner/operator and any other compensated employees are paid by revenues derived from facility's food concessions. Thus charitable bingo is captured in the fundraising and grant-making activities of the recipient charities, which is outside of our gaming-impact analysis model.

5. Assessing Florida's Existing Economic Base, Now and Future

As noted in the Introduction, Spectrum works with Regional Economic Models Inc. ("REMI") to calculate the economic impacts of Florida's gambling industry. The existing gambling industry spans across three sectors within the REMI model: Amusement, Gambling, and Recreation Industries (North American Industry Classification System, or "NAICS," 713), Accommodation (NAICS 721), and Retail Trade (NAICS 44-45). The following tables show five main economic indicators of these three aggregate sectors from calendar years 2000 through 2060, in five-year increments.

Figure 70: Past, present, future economic indicators of Amusement, Gambling, and Recreation Industries (including racinos, pari-mutuel, lottery)

NAICS 713	Units	2000	2005	2012	2015	2020	2025	
Employment	Thousands (Jobs)	139.944	157.519	175.462	184.931	198.716	208.514	
Output	Billions of Fixed (2012) Dollars	11.993	11.779	12.028	12.824	14.077	15.257	
Value Added	Billions of Fixed (2012) Dollars	8.071	7.576	7.596	8.089	8.946	9.805	
Wage & Salary	Billions of Current Dollars	3.14	4.078	5.269	6.129	7.763	9.967	
Compensation	Billions of Current Dollars	3.617	4.69	6.019	7.014	8.982	11.559	
NAICS 713	Units	2030	2035	2040	2045	2050	2055	2060
Employment	Thousands (Jobs)	216.153	221.982	224.191	224.105	221.768	218.112	213.268
Output	Billions of Fixed (2012) Dollars	16.338	17.332	18.078	18.659	19.057	19.331	19.48
Value Added	Billions of Fixed (2012) Dollars	10.497	11.052	11.433	11.697	11.834	11.886	11.853
Wage & Salary	Billions of Current Dollars	12.374	15.118	18.125	21.485	25.124	29.193	33.655
Compensation	Billions of Current Dollars	14.377	17.59	21.111	25.041	29.288	34.028	39.218

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 71: Past, present, future economic indicators of Accommodation (including Indian casinos)

NAICS 721	Units	2000	2005	2012	2015	2020	2025	
Employment	Thousands (Jobs)	162.766	167.140	177.415	184.386	189.593	191.554	
Output	Billions of Fixed (2012) Dollars	15.755	18.85	22.056	24.01	26.708	29.508	
Value Added	Billions of Fixed (2012) Dollars	9.465	11.064	14.686	15.988	17.954	20.079	
Wage & Salary	Billions of Current Dollars	3.566	4.585	5.382	6.156	7.431	9.158	
Compensation	Billions of Current Dollars	4.078	5.312	6.273	7.186	8.767	10.828	
NAICS 721	Units	2030	2035	2040	2045	2050	2055	2060
Employment	Thousands (Jobs)	195.676	200.905	203.795	205.729	207.060	208.440	210.048
Output	Billions of Fixed (2012) Dollars	32.977	37.06	41.156	45.487	50.112	55.192	60.811
Value Added	Billions of Fixed (2012) Dollars	22.425	24.99	27.482	30.041	32.702	35.556	38.637
Wage & Salary	Billions of Current Dollars	11.176	13.623	16.372	19.561	23.22	27.566	32.695
Compensation	Billions of Current Dollars	13.236	16.155	19.433	23.23	27.577	32.732	38.806

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 72: Past, present, future economic indicators of Retail Trade (including retail lottery)

NAICS 44-45	Units	2000	2005	2012	2015	2020	2025	
Employment	Thousands (Jobs)	1,071.790	1,149.132	1,153.883	1,199.357	1,244.712	1,228.356	
Output	Billions of Fixed (2012) Dollars	65.668	83.901	85.927	95.702	111.673	125.167	
Value Added	Billions of Fixed (2012) Dollars	44.918	57.692	62.064	69.026	81.117	91.933	
Wage & Salary	Billions of Current Dollars	21.183	27.006	29.526	33.752	41.068	49.285	
Compensation	Billions of Current Dollars	24.856	32.663	35.253	40.358	49.633	59.681	
NAICS 44-45	Units	2030	2035	2040	2045	2050	2055	2060
Employment	Thousands (Jobs)	1,204.670	1,174.574	1,123.288	1,060.127	990.560	920.639	848.663
Output	Billions of Fixed (2012) Dollars	139.374	154.272	167.443	179.274	189.930	200.043	208.829
Value Added	Billions of Fixed (2012) Dollars	102.344	112.439	121.063	128.511	134.910	140.717	145.392
Wage & Salary	Billions of Current Dollars	57.483	66.200	74.607	82.881	90.824	98.982	106.767
Compensation	Billions of Current Dollars	69.704	80.353	90.608	100.668	110.283	120.119	129.465

Source: Regional Economic Models Inc., Spectrum Gaming Group

Combined with data from the County Business Patterns (“CBP”) by the US Census Bureau and an assessment of the gambling industry in Florida by Spectrum, REMI was able to estimate the historical and current share of the gambling industry within the three aggregate sectors. The CBP publishes paid-employees and payroll data for both Gambling Industries (NAICS 7132), Casino Hotels (NAICS 72112), Food and Beverage Stores and Convenience Stores (NAICS 445 and NAICS 445120, respectively), which we categorized as subsectors of Amusement, Gambling, and Recreation Industries, Accommodation, and Retail Trade, respectively. REMI and Spectrum divided the casino gaming industry into four main groups: racinos/pari-mutuels, lottery, retail lottery, and Native American casinos. *The racinos/pari-mutuels and lottery⁵⁷⁶ have been assigned*

⁵⁷⁶ The “Lottery” in this report represents the Florida Lottery.

to the Amusement, Gambling, and Recreation Industries, the Native American casinos to Accommodation, and retail lottery⁵⁷⁷ to Retail Trade, based on the nature of the subsectors.

The Census Bureau withholds data for certain industries to avoid disclosing data for individual companies; casino hotels in Florida comprise one of the industries heavily affected by nondisclosure. The following tables show historical data for the gaming industries.

Figure 73: Historical data for Gambling Industries (including racinos, pari-mutuel, lottery)

NAICS 7132	Units	2000	2001	2002	2003	2004	2005
Employment	Thousands (Jobs)	3.582	4.474	4.861	5.079	5.754	6.691
Payroll (Wage and Salary)	Thousands of Current Dollars	72,448	99,951	98,203	108,508	140,762	166,403
NAICS 7132	Units	2006	2007	2008	2009	2010	2011
Employment	Thousands (Jobs)	6.286	6.134	4.284	3.984	3.271	3.071
Payroll (Wage and Salary)	Thousands of Current Dollars	182,141	185,584	109,674	106,806	88,094	95,493

Source: Regional Economic Models Inc., Spectrum Gaming Group, US Census Bureau, County Business Patterns (NAICS) 2000-2011

Figure 74: Historical data for Casino Hotels (including Indian casinos)

NAICS 72112	Units	2000	2001	2002	2003	2004	2005
Employment	Thousands (Jobs)	0.004	a	a	b	c	g
Payroll (Wage and Salary)	Thousands of Current Dollars	114	D	D	D	D	D
NAICS 72112	Units	2006	2007	2008	2009	2010	2011
Employment	Thousands (Jobs)	g	g	4.392	6.374	i	i
Payroll (Wage and Salary)	Thousands of Current Dollars	D	D	174,224	249,294	D	D

Source: Regional Economic Models Inc., Spectrum Gaming Group, United States Census Bureau, County Business Patterns (NAICS) 2000-2011.

Note: D: Withheld to avoid disclosing data for individual companies; data are included in higher level totals. a: 0-19 employees; b: 20-99 employees; c:100-249 employees; f: 500-999 employees; g: 1,000-2,499 employees; i: 5,000-9,999 employees

Figure 75: Historical data for Food & Beverage Stores and Convenience Stores (including retail lottery)

NAICS 445 and NAICS 447110	Units	2000	2001	2002	2003	2004	2005
Employment	Thousands (Jobs)	248.085	243.538	236.07	240.927	238.916	242.212
Payroll (Wage and Salary)	Thousands of Current Dollars	3,618,168	3,715,863	3,711,384	3,893,294	4,088,928	4,484,231
NAICS 445 and NAICS 447110	Units	2006	2007	2008	2009	2010	2011
Employment	Thousands (Jobs)	245.601	232.16	224.011	214.701	215.802	217.032
Payroll (Wage and Salary)	Thousands of Current Dollars	4,549,470	4,379,388	4,434,397	4,401,704	4,359,217	4,326,674

Source: Regional Economic Models Inc., Spectrum Gaming Group, United States Census Bureau, County Business Patterns (NAICS) 2000-2011.

The Spectrum casino gaming assessment provides payroll data and gross gaming revenues at racinos/pari-mutuels in 2012; payroll data, gross gaming revenues and employees are available for Native American casinos in 2012; and payroll, revenue, and employee data for the lottery are available for 2012, as are the estimated employment and revenue data for retail lottery in 2012. The Florida Department of Business & Professional Regulation also provided the FY 2012

⁵⁷⁷ The "Retail Lottery" in this report refers to the retailers selling lottery tickets.

regulatory costs (in total) for pari-mutuels (includes pari-mutuel racing, cardrooms, slots, and gaming compact oversight expenditures).

We estimated the number of employees in racinos/pari-mutuels by dividing the total payroll amount by the average annual wage and salary in the Amusement, Gambling, and Recreation Industries. Having both the gross gaming revenue and employee number allows us to calculate a baseline for the labor productivity (output per employee) for racinos, lottery, retail lottery, and Native American casinos. The following tables show the various data collected and estimated for the gaming industry in 2012.

Figure 76: Racino employees, gross gaming revenue, wage and salary, and regulatory costs 2012

Racinos/Pari-Mutuels (NAICS 713290)	Units	2012
Racinos/Pari-Mutuels Employees	Thousands (Jobs)	4.954
Racinos/Pari-Mutuels Gross Gaming Revenue	Millions of Fixed (2012) Dollars	527.6
Racinos/Pari-Mutuels Wage & Salary	Millions of Fixed (2012) Dollars	148.777
Racinos/Pari-Mutuels Regulatory Costs (FY 2012)	Millions of Fixed (2012) Dollars	17.927

Source: Regional Economic Models Inc., Spectrum Gaming Group, Florida Department of Business Professional Regulation.

Note: Wage and salary is exclusive of payroll taxes, benefits, etc.

Figure 77: Lottery employees, gross gaming revenue, and compensation, 2012

Lottery (NAICS 713290)	Units	2012
Lottery Employees	Thousands (Jobs)	0.408
Lottery Gross Ticket Sales ⁵⁷⁸	Millions of Fixed (2012) Dollars	4449.896
Lottery Compensation	Millions of Fixed (2012) Dollars	25.164

Source: Regional Economic Models Inc., Spectrum Gaming Group.

Note: Compensation is inclusive of payroll taxes, benefits, etc.

Figure 78: Retail lottery employees and revenue, 2012

Retail Lottery (NAICS 445 & NAICS 447110)	Units	2012
Retail Lottery Employees	Thousands (Jobs)	39.900*
Retail Lottery Revenue	Millions of Fixed (2012) Dollars	247.690

Source: Regional Economic Models Inc., Spectrum Gaming Group.

*Note: The Florida Lottery retail network totals 13,300 establishments. We assumed an average of three employees per lottery retailer who were hired as a result of the establishment selling lottery tickets, based on our 2012 Massachusetts retailer survey (n=3,976).

Figure 79: Native American casino employees, gross gaming revenue and compensation, 2012

Native American Casinos (NAICS 72112)	Units	2012
Native American Casinos Employees	Thousands (Jobs)	10.387
Native American Casinos Gross Gaming Revenue	Millions of Fixed (2012) Dollars	2,200
Native American Casinos Compensation	Millions of Fixed (2012) Dollars	348.986

Source: Regional Economic Models Inc., Spectrum Gaming Group

⁵⁷⁸ Lottery gross ticket sales shown in this table is the dollar value of tickets sold; the lottery revenue used in Tax-PI for this study represent the net sales (after prizes are paid out)

With this information, we were able to establish the gambling industry's share within the three aggregate sectors. This information is essential to the following section as we carry out a counterfactual analysis that involves removing the employment and its associated wages and output to determine the total economic and fiscal contribution of the gambling industry. The gambling industry is unique because it typically has higher labor productivity than its aggregate sector. This is evident in the following table, showing the Racinos/Pari-mutuels employment is approximately 2.8 percent of the total employment and wage and salary in the Amusement, Gambling, and Recreation Industries. However, the Racinos/Pari-mutuels output is 4.4 percent of the total Amusement, Gambling, and Recreation Industries output. We have to take into account this higher labor productivity of the gaming subsectors when we do the counterfactual analysis.

The Casino Hotels shows a similar pattern, in which the employment and associated compensation make up about 5.5 percent of the Accommodation sector, but its output is over 10 percent of the Accommodation output.

The Lottery sector (excluding retailers) has uniquely high labor productivity due to its operation design. Lottery revenues make up nearly 38 percent of the Amusement, Gambling, and Recreation Industries' total output but less than 1 percent of employment and compensation of the Amusement, Gambling, and Recreation Industries. Typically, a lottery control board oversees the operation and sells lottery tickets through sales agents (retailers). Once the lottery operation is established, the administrative cost remains largely the same. The marginal cost for producing an additional dollar of lottery sales is very low compared to other goods and services, hence the high productivity. That being said, in this report we do not adjust for labor productivity in the Lottery sector because the entirety of lottery sales (after prize payouts) transfers to state revenues. Instead, we remove the net lottery sales through the revenue module in Tax-PI to perform the counterfactual analysis for the Lottery sector.

Spectrum has studied the lottery business model in multiple states, including its retail distribution model. We noted the following in a 2012 report for the Massachusetts State Lottery:

Many sales agents are first-generation immigrants to the United States. They view retailing in general, and the Lottery in particular, as important rungs on the ladder toward economic success and independence. ... While we suspect that the present Lottery distribution system was not designed as an economic ladder for retailers and their families, it has nonetheless evolved into precisely that.⁵⁷⁹

The Retail Lottery sector, on the other hand, behaves differently than the Lottery sector. According to *La Fleur's 2012 Lottery Almanac*,⁵⁸⁰ over 95 percent of the lottery sales occur at gas stations with convenience stores, standalone convenience stores, supermarkets, and liquor stores. These businesses primarily engage in providing other goods and services aside from the lottery. Lottery sales are a supplement to these businesses, and commission on lottery ticket sales makes

⁵⁷⁹ Spectrum Gaming Group, *Facing The Lottery's Future*, p. 75.

⁵⁸⁰ *La Fleur's 2012 World Lottery Almanac*, p. 66.

up only a fraction of their total revenue, which would explain why lottery sales make up just 0.3 percent of the output of the Retail Trade industry.

Figure 80: Subsectors as percentages of respective aggregate sectors

	2012
Racinos/Pari-mutuels Employment as Percentage of NAICS 713 Employment	2.82%
Racinos/Pari-mutuels Wage and Salary as Percentage of NAICS 713 Wage and Salary	2.82%
Racinos/Pari-mutuels Output as Percentage of NAICS 713 Output	4.39%
Lottery Employment as Percentage of NAICS 713 Employment	0.23%
Lottery Compensation as Percentage of NAICS 713 Compensation	0.42%
Lottery Output as Percentage of NAICS 713 Output	37.00%
Retail Lottery Employment as Percentage of NAICS 44-45 Employment	3.46%
Retail Lottery Compensation as Percentage of NAICS 44-45 Compensation	3.46%
Retail Lottery Output as Percentage of NAICS 44-45 Output	0.29%
Native American Casinos Employment as Percentage of NAICS 721 Employment	5.85%
Native American Casinos Compensation as Percentage of NAICS 721 Compensation	5.56%
Native American Casinos Output as Percentage of NAICS 721 Output	9.97%

Source: Regional Economic Models Inc., Spectrum Gaming Group

a. Historical Tax Revenue by Gaming Sectors

The Office of Economic and Demographic Research (“EDR”) of the Florida Legislature provided REMI with historical tax revenue information, allowing us to examine the historical trend of tax revenue collection from each of the gaming sectors. The following table displays the tax collection, dating from FY 2000.

	Units	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06
Indian Gaming	Millions of Current Dollars	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pari-mutuel Fees, Licenses, Taxes Total	Millions of Current Dollars	57.5	34.7	35.1	32.4	32.1	32.0	33.6
Slot Machine Total	Millions of Current Dollars	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Lottery Total	Millions of Current Dollars	1,159.5	1,157.3	1,181.0	1,327.6	1,361.9	1,393.4	1,639.3
	Units	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	
Indian Gaming	Millions of Current Dollars	0.0	0.0	0.0	287.5	140.4	150.0	
Pari-mutuel Fees, Licenses, Taxes Total	Millions of Current Dollars	33.9	33.8	29.2	26.6	26.0	26.9	
Slot Machine Total	Millions of Current Dollars	61.6	132.3	114.0	153.0	149.4	156.5	
Lottery Total	Millions of Current Dollars	1,681.0	1,602.5	1,590.8	1,550.7	1,506.9	1,671.3	

Source: The Office of Economic and Demographic Research of the Florida Legislature

Note: The Lottery Total excludes lottery prizes, which is consistent with the calibrated budget used within Tax-PI.

B. Discussion of Components of Economic and Fiscal Impacts

A description of the direct, indirect, and induced components of the economic and fiscal impact of each of the subsectors. Impacts associated with facility construction should be distinguished from impacts associated with ongoing operation of a facility.

Using the employment, output, wage and salary, tax revenue, and regulatory costs data from Chapter III(A) above, we performed a counterfactual analysis using the REMI Tax-PI model to evaluate the contribution of the gambling industry as it existed in Florida in 2012. For this modeling effort, the Legislature's EDR provided REMI with a national benchmark based upon Global Insight June 2013 Control Forecast, a state benchmark based upon population estimates from Florida's February 2013 Economic Estimating Conference, and employment estimates from September 2012 US BEA historical ES-202 data in order to correctly calibrate model baseline. EDR also provided REMI its latest customized budget for Tax-PI to ensure the fiscal module of the Tax-PI is properly calibrated.

To create a customized budget in Tax-PI, a user begins by including at least one year of revenue and expenditure into the budget. EDR included its FY 2013 budget data for its current Tax-PI model. Next, each revenue item must be assigned an economic indicator. For Indian Gaming revenue, EDR established a time series forecasting the growth of the revenue. For pari-mutuel fees, licenses, and taxes, EDR elected to drive the revenue forecast by the demand of the Amusement, Gambling, and Recreation Industries. The slot machine fees, licenses, and taxes revenue forecast is also driven the by the demand of the Amusement, Gambling, and Recreation Industries. Lastly, EDR chose to use personal consumption expenditure on gambling to drive the lottery revenue forecast.

The user can choose whether the expenditures will be determined by revenues or demand. Florida has a balanced budget requirement and thus EDR selected the "Expenditures Determined by Revenues" option in its budget. EDR then created a mapping from each of the revenue categories to each of the expenditure categories. It specified the percentage of each revenue source that is associated with each expenditure category. For example, EDR has 77.8 percent of the lottery revenue mapped to education expenditures and the remaining 22.2 percent is mapped to general government spending. All revenue sources must be mapped to expenditure categories, so by definition the sum of all expenditures will equal the sum of all revenues. (For further information about the methodology of the Tax-PI model, please see Appendix II.)

The REMI model forecasts the economy out to 2060 to allow analysts to evaluate any changes to the baseline. The gambling industry is already presented in the baseline forecast because it is a component in the current Florida economy. In this study, we are not trying to measure the contribution of the gambling industry *on top of* the existing gambling activities in the Florida baseline. Rather, the objective is to understand the impacts of the gambling *as it exists currently*. In other words, what are the impacts to Florida if the gambling industry did not exist? Employing the counterfactual requires that we *remove the employment, associated output, wage*

& salary, tax revenue, as well as Floridians' out-of-state gaming spending to simulate the loss of the gambling industry in Florida. This approach allows us to measure the direct, indirect, and induced contribution of the existing gambling industry to the overall economy in 2012.

It is also important to consider the substitution effect of gaming spending in this counterfactual analysis. If households did not spend on gambling-related expenses, this spending would not simply disappear from the economy. Rather, we assume these consumers would have spent those dollars on other goods and services. In this analysis, we assume 95 percent of the GGR to the pari-mutuel casinos was from Florida residents, 85 percent of Native American casino GGR was from Florida residents, and 98 percent of total lottery sales were from Florida residents. The full amount of GGR attributable to Florida residents is available for redistribution to various consumption categories. However, some of this money will also leak out of the state due to residents' continued desire to partake in gambling activities. The following few pages outline the methodology used to account for the substitution effects.

To estimate how much Floridians would be spending in other gaming markets were casinos not available in Florida, we look back to data from 2005, prior to the authorization of racinos and Class III gaming. According to *Profile of the American Casino Gambler: Harrah's Survey 2006*, the percentage of adults who gambled at least once in a casino in the previous 12 months (or in 2005) was approximately 25.2 percent.⁵⁸¹ Importantly, this figure includes all of the US adult population – those who lived nearby to casinos, as well as those who did not.

According to the *Harrah's Survey*, of the top 20 largest feeder markets (to casinos) in the US, three were in Florida: Miami-Ft. Lauderdale, Tampa-St. Petersburg-Sarasota, and Orlando-Daytona Beach-Melbourne.⁵⁸² These three areas were aggregated by Designated Market Area ("DMA"), a term that generally refers to media markets, and included 22 of Florida's 67 counties, and approximately two-thirds of Florida's population. Based on the data compiled, the casino participation rate in Florida for these three DMAs, and aggregated, was approximately 23.1 percent in 2005 – as illustrated in the following table.

Figure 81: Florida 2005 casino participation rate in three largest designated market areas

2005 Population & Casino Participation figures, by DMA	Population	Adults (21+)	Casino Participation Rate	Casino Participants
Miami-Ft. Lauderdale	4,214,836	3,073,237	30.0%	921,971
Tampa-St. Petersburg-Sarasota	4,108,872	3,047,370	17.0%	518,053
Orlando-Daytona Beach-Melbourne	3,405,849	2,451,383	22.0%	539,304
Total (the three DMAs):	11,729,557	8,571,990	23.1%	1,979,328

Source: Harrah's Entertainment, U.S. Census Bureau

⁵⁸¹ Harrah's Entertainment Inc., *Profile of the American Casino Gambler: Harrah's Survey 2006*.

⁵⁸² *Ibid.*

Importantly, although this period was before the expansion of casinos in Florida, we do see that the Miami-Ft. Lauderdale DMA had a much higher casino participation rate than the other two DMAs in Florida, as well as a rate higher than the national average.

According to the *Harrah's Survey*, the Atlanta DMA (Georgia) was one of the nation's top feeder markets and had a casino participation rate of 15 percent.⁵⁸³ There were no casinos operating in Georgia (and still are not). The closest casinos to the Atlanta DMA at the time were well beyond a two-hour drive – the most recognizable being Harrah's Cherokee in North Carolina (and with Class II gaming). Similarly, the Washington, DC, DMA was one of the nation's top feeder markets and had a casino participation rate of 17 percent.⁵⁸⁴ The closest casino to the Washington DMA at the time was beyond a one-hour drive from the bulk of the Washington DMA (in West Virginia), while there were no other casinos operating within a reasonable three-hour drive at that time.

Using the Atlanta and Washington DC DMAs as a benchmark, we assume the remainder of Florida's adults (those outside of the Miami-Ft. Lauderdale, Tampa-St. Petersburg-Sarasota, and Orlando-Daytona Beach-Melbourne DMAs) had a casino participation rate of 15 percent in 2005. Combining this population, and casino participation data, with the actual casino participation rates for the Miami-Ft. Lauderdale, Tampa-St. Petersburg-Sarasota, and Orlando-Daytona Beach-Melbourne DMAs yields an overall casino participation rate for Florida of approximately 20.3 percent in 2005, as shown in following table.

Figure 82: Florida 2005 casino participation rate in three largest designated market areas and statewide

2005 Population & Casino Participation figures, by DMA	Population	Adults (21+)	Casino Participation Rate	Casino Participants
Miami-Ft. Lauderdale	4,214,836	3,073,237	30.0%	921,971
Tampa-St. Petersburg-Sarasota	4,108,872	3,047,370	17.0%	518,053
Orlando-Daytona Beach-Melbourne	3,405,849	2,451,383	22.0%	539,304
Total (DMAs - 22 counties):	11,729,557	8,571,990	23.1%	1,979,328
Balance of FL (45 counties)	6,048,599	4,609,766	15.0%	691,465
Grand Total - Florida	17,778,156	13,181,756	20.3%	2,670,793

Source: Harrah's Entertainment, US Census Bureau, University of Florida, Bureau of Economic and Business Research (May 2011), Florida Demographic Estimating Conference (November 2011)

Note: Florida's adult population (21+) percentage estimated for 2005 as mid-point between 2000 and 2010 US Census Bureau data.

Florida's Native American casinos in 2005 had estimated GGR of \$1.29 billion; all were Class II operations at the time.⁵⁸⁵ We assume that 90 percent of this GGR came from Florida residents, or \$1.16 billion.

⁵⁸³ Ibid.

⁵⁸⁴ Ibid.

⁵⁸⁵ Alan Meister, *Casino City's Indian Gaming Industry Report*, 2013 Edition.

Fast forward to 2012, by which time the US casino landscape had expanded considerably. The reported US casino participation rate was 32 percent and overall GGR at casinos (both commercial and Native American) was approximately \$65 billion.⁵⁸⁶ This total GGR divided by number of adults who were active gamblers translates into average annual GGR of \$904 per casino gambler in 2012.

If we assume that slots at Florida pari-mutuels would not exist today, and that Florida's Native American casinos remained limited to Class II operations, and we apply the 2005 casino participation rate to the estimated 2012 number of adults in Florida, this would translate into approximately 2.96 million active casino gamblers in Florida in 2012. Further applying the US average GGR per casino gambler (of \$904 in 2012) to Florida gamblers yields \$2.67 billion of GGR (casino only) that we believe could have been reasonably generated by Florida adults in 2012. Assuming the status quo for Native American casinos in Florida (i.e., GGR remains at 2005 level for 2012), this translates into \$1.514 billion of potential GGR that we assume would have been exported out of state in the absence of Florida racinos or Class III casinos.

We estimated that approximately \$500 million of GGR is already being exported to other states by Floridians (see Chapter III[B][1]), so we can assume that \$1 billion in additional out-of-state gambling by Florida adults would occur annually in the absence of racinos or Class III casinos.

We believe it is reasonable that casinos along the Gulf Coast of Mississippi, as well as those in Las Vegas, Atlantic City, and the Bahamas/Caribbean, would be the primary beneficiaries of this GGR stream from Florida adults.

In addition to out-of-state gambling spending, residents would have other gambling-trip-related spending as well. If we assume that Floridians would be gambling more out of state in the absence of Florida casinos, we can also assume that the overwhelming majority would be flying to distant destinations. (For the Floridians who drive to casinos in nearby states, those out of state casinos would largely still be the most convenient option.)

With that in mind, we suggest the following would account for additional non-gaming spending that would accompany such visits by air. These estimates are based on the most recent visitor profile published by the Las Vegas Convention & Visitors Authority,⁵⁸⁷ which we suggest would reflect spending patterns in other distant locales as well. These would be, in addition to gambling budgets, dollars that would not be spent in Florida:

⁵⁸⁶ *2013 State of the States.*

⁵⁸⁷ *Las Vegas Visitor Profile 2012* http://www.lvcva.com/includes/content/images/media/docs/2012-Las_Vegas_Visitor_Profile.pdf.

Figure 83: Estimated non-gaming trip expenditures by Floridians in absence of in-state casinos

	Average spend (2012)
Air/lodging package	\$743.65
Shopping, shows, sightseeing	\$175.52
Food and beverage	\$323.05
Local transportation	\$223.05
Total	\$1,465.27

Source: Las Vegas Visitor Profile 2012

Of our estimated GGR for Florida in 2012 (assuming there were no casinos in Florida aside from limited Class II gaming at Native American casinos), if we assume 56.6 percent left Florida's border (based on our aforementioned in-state vs. out-of-state split) and further apportion our estimated 2.96 million Florida gamblers accordingly, we would yield 1.675 million gamblers who would have gambled outside of Florida. Assuming one-half of these Florida adults who gambled out of state would have mimicked the non-gaming spending as indicated (based on Las Vegas in 2012), we would yield \$1.227 billion of non-gaming spending – this is spending associated with the \$1 billion of GGR that would have been exported from Florida in the absence of racinos or Class III casinos. The non-gaming spending exceeds the gaming spending in this scenario largely because of the additional cost of airfare, lodging, meals and other attractions that would occur under such a scenario.

From the above sections, we find that the total amount of money that would leave Florida in the absence of Class III and racino gambling opportunities is \$2.227 billion. This total amount is then split in two for the purposes of entry into Tax-PI. Since pari-mutuels and racinos are modeled separately from Native American casinos, the out-of-state spending must be apportioned appropriately among the two sectors. We used the proportion of GGR of each sector to allocate the total spending. This spending is then used to offset the reallocation of consumer dollars that would be freed in the absence of gaming. More specifically, if gambling opportunities were no longer available, then the money that Floridians spent on those activities would become available for other purposes. One of those purposes is out-of-state gambling and related expenditures. The remainder is assumed to be spent on the normal basket of goods and services of a Florida resident.

It is worth noting that the lottery scenario does not receive an allocation of the out-of-state spending. This assumption is based on the nature of participating in lottery gambling in one's own state compared to traveling to popular gambling destination and participating in all the activities available. In short, in the absence of a state lottery program we do not assume that significant numbers of Floridians would travel out-of-state to participate in other lotteries, so in this scenario the consumption reallocation goes entirely to other in-state spending.

We selected five policy variables for the counterfactual simulations: Industry Employment; Industry Sales without Employment, Investment, and Compensation; Wage Bill; Compensation; and Consumption Reallocation.

The Industry Employment variable allows us to remove the total number of direct jobs in the gambling industry (recall that this is a *counterfactual* analysis, so we reduce the amount of

employment instead of adding to it); the Industry Sales without Employment, Investment, and Compensation variable is used to account for the higher labor productivity in the gambling industry in comparison to the Amusement, Gambling, and Recreation Industries and Accommodation sectors; the Wage Bill variable is used to adjust the wage & salary differences between the gambling industry and its aggregate sectors; and the Compensation variable is used to adjust the compensation differences between the gambling industry and its aggregate sectors; and the Consumption Reallocation variable is used to capture the spending of Floridians on gambling outside of Florida and to capture the substitution effect of gaming spending within Florida.

The tax revenue of each gaming subsector is taken out directly through the revenue module in Tax-PI. Regulatory costs for pari-mutuels are not explicitly modeled in Tax-PI because the fees paid by pari-mutuels fund the costs. When we eliminate the direct tax revenue and fees collected from pari-mutuels, we also eliminate the expenditure (e.g., regulatory costs) associated with the revenue.

Note in the following tables that the values for employment, wage, compensation, and productivity adjustments are *negative* because this is what we are removing from the economy; the reallocation amount is positive because it represents the substitution effect of money spent on other goods and services if it were not spent on gambling:

Figure 84: Inputs for Racinos/Pari-Mutuels

Amusement, Gambling, and Recreation Industries - Racinos/Pari-Mutuels		2012
Industry Employment (Industry Sales / Exogenous Production) (number)	Thousands (Jobs)	-4.954
Industry Sales / Exogenous Production without Employment, Investment, and Compensation (amount)	Billions of Fixed (2012) Dollars	-0.188
Consumption Reallocation (amount)	Billions of Fixed (2012) Dollars	0.070

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 85: Inputs for Lottery

Amusement, Gambling, and Recreation Industries - Lottery		2012
Industry Employment (Industry Sales / Exogenous Production) (number)	Thousands (Jobs)	-0.408
Compensation (amount)	Billions of Current Dollars	-0.011
Consumption Reallocation (amount)	Billions of Fixed (2012) Dollars	0.861

Source: Regional Economic Models, Inc., Spectrum Gaming Group

Figure 86: Inputs for Retail Lottery

Retail Trade - Retail Lottery		2012
Industry Employment (Industry Sales / Exogenous Production) (number)	Thousands (Jobs)	-39.900
Industry Sales / Exogenous Production without Employment, Investment, and Compensation (amount)	Billions of Fixed (2012) Dollars	2.489

Source: Regional Economic Models, Inc., Spectrum Gaming Group

Figure 87: Inputs for Native American Casinos

Accommodation - Native American Casinos		2012
Industry Employment (Industry Sales / Exogenous Production) (number)	Thousands (Jobs)	-10.387
Industry Sales / Exogenous Production without Employment, Investment, and Compensation (amount)	Billions of Fixed (2012) Dollars	-1.397
Compensation (amount)	Billions of Current Dollars	-0.102
Consumption Reallocation	Billions of Fixed (2012) Dollars	0.074

Source: Regional Economic Models Inc., Spectrum Gaming Group

Each gambling subsector was modeled as a discrete simulation to determine the economic and fiscal impact of each subsector. The inputs from Figure 84 to Figure 87 provided the following results:

Figure 88: Economic and fiscal impacts of Florida pari-mutuel sector in 2012

Summary	Units	2012
Total Employment ⁵⁸⁸	Thousands (Jobs)	9.488
Population	Thousands	2.621
Gross State Product (GSP)	Billions of Fixed (2012) Dollars	0.683
Personal Income	Billions of Fixed (2012) Dollars	0.397
State Tax Revenues (fiscal year 2013)	Billions of Fixed (2012) Dollars	0.207

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 88 exhibits the total economic and fiscal impacts generated from the existence of the pari-mutuel sector in 2012. The pari-mutuel sector supports a total of 9,488 jobs in Florida. The associated gross state product (“GSP”) is \$683 million and it generated \$397 million in personal income. The tax revenue generated from the direct, indirect, and induced impacts of the pari-mutuel industry in FY 2013 is \$207 million.

Figure 89: Top 12 Florida industries with largest employment impact from pari-mutuels in 2012

Industry category, with NAICS code	Units	2012
Amusement, gambling, and recreation industries (713)	Thousands (Jobs)	5.003
Construction (23)	Thousands (Jobs)	0.402
Retail trade (44-45)	Thousands (Jobs)	0.358
Services to buildings and dwellings (5617)	Thousands (Jobs)	0.2
Real estate (531)	Thousands (Jobs)	0.164
Food services and drinking places (722)	Thousands (Jobs)	0.162
Offices of health practitioners (6211-6213)	Thousands (Jobs)	0.128
Wholesale trade (42)	Thousands (Jobs)	0.12
Business support services; Investigation and security services; Other support services (5614, 5616, 5619)	Thousands (Jobs)	0.11
Employment services (5613)	Thousands (Jobs)	0.074
Monetary authorities, credit intermediation, and related activities (521, 522)	Thousands (Jobs)	0.07
Accounting, tax preparation, bookkeeping, and payroll services (5412)	Thousands (Jobs)	0.062

Source: Regional Economic Models Inc.

⁵⁸⁸ Total Employment includes private non-farm employment, government employment, and farm employment.

Figure 89 shows the private non-farm industries that are dependent on the pari-mutuel sector (Amusement, Gambling, and Recreation Industries). Many of these industries, such as Services to Buildings and Dwellings, Business Support Services, and Legal services, are intermediate input suppliers to the gaming industry.

Figure 90: Employment by demand source from pari-mutuels in 2012

Breakdown of Direct, Indirect, and Induced Employment	Units	2012
Private Non-Farm Employment	Thousands (Jobs)	7.922
Intermediate Demand Employment	Thousands (Jobs)	1.659
Local Consumption Demand Employment	Thousands (Jobs)	0.880
Government Demand Employment	Thousands (Jobs)	0.179
Investment Activity Demand Employment	Thousands (Jobs)	0.208
Exports Employment	Thousands (Jobs)	0.042
Exogenous Industry Sales Employment	Thousands (Jobs)	4.953

Source: Regional Economic Models Inc.

Notes: Direct Employment = direct amount of employment entered into the model; Intermediate Demand Employment = employment needed to satisfy demand for material inputs to the production of final goods; Local Consumption Employment = Employment needed to satisfy demand for consumer goods; Government Demand Employment = Employment needed to satisfy demand for goods and services by government expenditures; Investment Activity Demand Employment = Employment needed to satisfy demand for residential and non-residential capital goods; Export Demand Employment = Employment needed to satisfy demand for a region's good and services from outside Florida.

Figure 90 above provides a breakdown of private non-farm employment by demand source. The Exogenous Industry Sales Employment represents the direct pari-mutuel employment. It can also be interpreted as the direct input we entered into the model. The direct pari-mutuel employment impact is 4,953 jobs in 2012 and the indirect employment (Intermediate Demand Employment) supported by the pari-mutuel sector is 1,659. The induced employment (sum of Local Consumption Demand, Government Demand, Investment Activity Demand, and Exports Demand Employment) impact as a result of the pari-mutuel industry is 1,309.⁵⁸⁹ The sum of the direct, indirect, and induced employment is 7,922.

Figure 91: Economic and fiscal impacts of Florida lottery sector in 2012

Summary	Units	2012
Total Employment	Thousands (Jobs)	12.490
Population	Thousands	2.926
Gross State Product (GSP)	Billions of Fixed (2012) Dollars	0.860
Personal Income	Billions of Fixed (2012) Dollars	0.727
State Tax Revenues (fiscal year 2013)	Billions of Fixed (2012) Dollars	1.882
Government Employment	Thousands (Jobs)	9.926

Source: Regional Economic Models Inc., Spectrum Gaming Group.

⁵⁸⁹ Where negative induced-job figures are noted throughout this economic analysis (i.e., in the average annual Local Consumption Demand Employment, which is the main component of induced employment), this is primarily because for every dollar Floridians spend on a gambling sector, it means a dollar less they can spend elsewhere. Households have a fixed amount of disposable income and this negative number represents the jobs their spending could have supported if it were not for the relevant gambling sector.

Figure 91 exhibits the total economic and fiscal impacts generated from the existence of the lottery sector in 2012. The lottery sector (excluding retailers) supports a total of 12,490 jobs in Florida. The associated GSP is \$860 million and it generated \$727 million in personal income. The tax revenue generated from the direct, indirect, and induced impacts of the lottery in FY 2013 is \$1.88 billion. As mentioned previously, the lottery revenue is linked to education expenditures, thus any changes to the lottery revenue will affect government jobs in Florida. Out of the total 12,490 jobs, 9,926 of them are government employment in 2012.

Figure 92: Top 12 Florida industries with largest employment impact from lottery in 2012

Industry category, with NAICS code	Units	2012
Construction (23)	Thousands (Jobs)	1.464
Amusement, gambling, and recreation industries (713)	Thousands (Jobs)	0.401
Services to buildings and dwellings (5617)	Thousands (Jobs)	0.219
Business support services; Investigation and security services; Other support services (5614, 5616, 5619)	Thousands (Jobs)	0.161
Architectural, engineering, and related services (5413)	Thousands (Jobs)	0.133
Wholesale trade (42)	Thousands (Jobs)	0.094
Food services and drinking places (722)	Thousands (Jobs)	0.084
Management, scientific, and technical consulting services (5416)	Thousands (Jobs)	0.078
Employment services (5613)	Thousands (Jobs)	0.063
Real estate (531)	Thousands (Jobs)	0.063
Accounting, tax preparation, bookkeeping, and payroll services (5412)	Thousands (Jobs)	0.061
Legal services (5411)	Thousands (Jobs)	0.059

Source: Regional Economic Models Inc.

Figure 92 shows the private non-farm industries that are dependent on the lottery sector (Amusement, Gambling, and Recreation Industries) and the reallocation of consumer spending. Many of these industries, such as Services to Buildings and Dwellings, Business Support Services, and Legal services, are intermediate input suppliers to the gaming industry. Others, such as Food Services and Drinking Places, provide goods and services to consumers whose income is dependent on the direct or indirect jobs.

Figure 93: Employment by demand source from lottery in 2012

Breakdown of Direct, Indirect, and Induced Employment	Units	2012
Private Non-Farm Employment	Thousands (Jobs)	2.564
Intermediate Demand (indirect) Employment	Thousands (Jobs)	2.267
Local Consumption Demand (induced) Employment	Thousands (Jobs)	-1.462
Government Demand (induced) Employment	Thousands (Jobs)	1.154
Investment Activity Demand (induced) Employment	Thousands (Jobs)	0.262
Exports Demand (induced) Employment	Thousands (Jobs)	-0.065
Exogenous Industry Sales (direct) Employment	Thousands (Jobs)	0.408

Source: Regional Economic Models Inc.

Notes: Direct Employment = direct amount of employment entered into the model; Intermediate Demand Employment = employment needed to satisfy demand for material inputs to the production of final goods; Local Consumption Employment = Employment needed to satisfy demand for consumer goods; Government Demand Employment = Employment needed to satisfy demand for goods and services by government expenditures; Investment Activity Demand Employment = Employment needed to satisfy demand for residential and non-residential capital goods; Export Demand Employment = Employment needed to satisfy demand for a region's good services from outside Florida.

Figure 93 above provides a breakdown of private non-farm employment by demand source. The Exogenous Industry Sales Employment represents the direct lottery employment. It can also be interpreted as the direct input we entered into the model. The direct lottery employment impact is 408 jobs in 2012 and the indirect employment (Intermediate Demand Employment) supported by the lottery is 2,267. The induced employment (sum of Local Consumption Demand, Government Demand, Investment Activity Demand, and Exports Demand Employment) impact as a result of the lottery is minus 111. The sum of the direct, indirect, and induced employment is 2,564.

Figure 94: Economic and fiscal impacts of Florida retail lottery sector in 2012

Summary	Units	2012
Total Employment	Thousands (Jobs)	59.959
Population	Thousands	15.875
Gross State Product (GSP)	Billions of Fixed (2012) Dollars	1.922
Personal Income	Billions of Fixed (2012) Dollars	2.258
State Tax Revenues (fiscal year 2013)	Billions of Fixed (2012) Dollars	0.124

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 94 exhibits the total economic and fiscal impacts generated from the existence of the retail lottery sector in 2012. The retail lottery supports a total of 59,959 jobs in Florida. The associated GSP is \$1.92 billion and it generated \$2.26 billion in personal income. The tax revenue generated from the indirect and induced impacts of the retail lottery industry in FY 2013 is \$124 million.

Figure 95: Top 12 Florida industries with largest employment impact from retail lottery in 2012

Industry category, with NAICS code	Units	2012
Retail trade (44-45)	Thousands (Jobs)	42.361
Construction (23)	Thousands (Jobs)	5.673
Offices of health practitioners (6211-6213)	Thousands (Jobs)	1.000
Food services and drinking places (722)	Thousands (Jobs)	0.892
Real estate (531)	Thousands (Jobs)	0.673
Wholesale trade (42)	Thousands (Jobs)	0.595
Private households (814)	Thousands (Jobs)	0.502
Services to buildings and dwellings (5617)	Thousands (Jobs)	0.442
Hospitals (622)	Thousands (Jobs)	0.347
Business support services; Investigation and security services; Other support services (5614, 5616, 5619)	Thousands (Jobs)	0.343
Personal care services (8121)	Thousands (Jobs)	0.319
Architectural, engineering, and related services (5413)	Thousands (Jobs)	0.307

Source: Regional Economic Models Inc.

Figure 95 shows the private non-farm industries that are dependent on the retail lottery sector (Retail Trade). Some of these, such as Wholesale Trade and Business Support Services, are intermediate input suppliers to the gaming industry. Others, such as Food Services and Drinking Places, provide goods and services to consumers whose income is dependent on the direct (retail lottery) or indirect jobs.

Figure 96: Employment by demand source from retail lottery in 2012

Breakdown of Direct, Indirect, and Induced Employment	Units	2012
Private Non-Farm Employment	Thousands (Jobs)	58.146
Intermediate Demand (indirect) Employment	Thousands (Jobs)	4.206
Local Consumption Demand (induced) Employment	Thousands (Jobs)	8.085
Government Demand (induced) Employment	Thousands (Jobs)	0.188
Investment Activity Demand (induced) Employment	Thousands (Jobs)	6.381
Exports Demand (induced) Employment	Thousands (Jobs)	-0.612
Exogenous Industry Sales (direct) Employment	Thousands (Jobs)	39.900

Source: Regional Economic Models Inc.

Notes: Direct Employment = direct amount of employment entered into the model; Intermediate Demand Employment = employment needed to satisfy demand for material inputs to the production of final goods; Local Consumption Employment = Employment needed to satisfy demand for consumer goods; Government Demand Employment = Employment needed to satisfy demand for goods and services by government expenditures; Investment Activity Demand Employment = Employment needed to satisfy demand for residential and non-residential capital goods; Export Demand Employment = Employment needed to satisfy demand for a region's good services from outside Florida

Figure 96 above provides a breakdown of private non-farm employment by demand source. The Exogenous Industry Sales Employment represents the direct retail lottery employment. It can also be interpreted as the direct input we entered into the model. The direct retail lottery employment impact is 39,900 jobs in 2012, and the indirect employment (Intermediate Demand Employment) supported by the retail lottery sector is 4,206. The induced employment (sum of Local Consumption Demand, Government Demand, Investment Activity Demand, and Exports Demand Employment) impact as a result of the retail lottery industry is 14,042. Income created through both direct and indirect employment is spent on consumer goods, which supports employment in industries providing these goods and services (typically retail and restaurants). These jobs are referred to as Local Consumption Demand Employment in the REMI model. The sum of the direct, indirect, and induced employment is 58,146.

Figure 97: Economic and fiscal impacts of Florida Native American casinos sector in 2012

Summary	Units	2012
Total Employment	Thousands (Jobs)	23.736
Population	Thousands	5.773
Gross State Product (GSP)	Billions of Fixed (2012) Dollars	2.555
Personal Income	Billions of Fixed (2012) Dollars	1.123
State Tax Revenues (fiscal year 2013)	Billions of Fixed (2012) Dollars	0.293

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 97 provides the total economic and fiscal impacts generated from the existence of the Native American casinos in 2012. The Native American casinos support a total of 23,736 jobs in Florida. The associated GSP is \$2.56 billion and it generated \$1.12 billion in personal income. The tax revenue generated from the direct, indirect, and induced impacts of the Native American casinos in FY 2013 is \$293 million.

Figure 98: Top 12 Florida industries with largest employment impact from Native American casinos in 2012

Industry category, with NAICS code	Units	2012
Accommodation (721)	Thousands (Jobs)	10.144
Retail trade (44-45)	Thousands (Jobs)	1.241
Construction (23)	Thousands (Jobs)	1.142
Services to buildings and dwellings (5617)	Thousands (Jobs)	0.952
Food services and drinking places (722)	Thousands (Jobs)	0.905
Offices of health practitioners (6211-6213)	Thousands (Jobs)	0.49
Real estate (531)	Thousands (Jobs)	0.414
Wholesale trade (42)	Thousands (Jobs)	0.361
Business support services; Investigation and security services; Other support services (5614, 5616, 5619)	Thousands (Jobs)	0.338
Employment services (5613)	Thousands (Jobs)	0.242
Private households (814)	Thousands (Jobs)	0.227
Management, scientific, and technical consulting services (5416)	Thousands (Jobs)	0.217

Source: Regional Economic Models Inc.

Figure 98 shows the private non-farm industries that are dependent on the Native American casinos industry (Accommodation). Some of these, such as Services to Buildings and Dwellings and Business Support Services, are intermediate input suppliers to the gaming industry. Others, such as Food Services and Drinking Places, provide goods and services to consumers whose income is dependent on the direct (Native American casinos) or indirect jobs.

Figure 99: Employment by demand source from Native American casinos in 2012

Breakdown of Direct, Indirect, and Induced Employment	Units	2012
Private Non-Farm Employment	Thousands (Jobs)	20.308
Intermediate Demand (indirect) Employment	Thousands (Jobs)	6.137
Local Consumption Demand (induced) Employment	Thousands (Jobs)	3.573
Government Demand (induced) Employment	Thousands (Jobs)	0.386
Investment Activity Demand (induced) Employment	Thousands (Jobs)	0.668
Exports Demand (induced) Employment	Thousands (Jobs)	-0.842
Exogenous Industry Sales (direct) Employment	Thousands (Jobs)	10.387

Source: Regional Economic Models Inc.

Notes: Direct Employment = direct amount of employment entered into the model; Intermediate Demand Employment = employment needed to satisfy demand for material inputs to the production of final goods; Local Consumption Employment = Employment needed to satisfy demand for consumer goods; Government Demand Employment = Employment needed to satisfy demand for goods and services by government expenditures; Investment Activity Demand Employment = Employment needed to satisfy demand for residential and non-residential capital goods; Export Demand Employment = Employment needed to satisfy demand for a region's good services from outside Florida.

Figure 99 above provides a breakdown of private non-farm employment by demand source. The Exogenous Industry Sales Employment represents the direct Native American casinos employment. It can also be interpreted as the direct input we entered into the model. The direct Native American casinos employment impact is 10,387 jobs in 2012, and the indirect employment (Intermediate Demand Employment) supported by the Native American casinos sector is 6,137. The induced employment (sum of Local Consumption Demand, Government Demand, Investment

Activity Demand, and Exports Demand Employment) impact as a result of the Native American casinos industry is 3,785. The sum of the direct, indirect, and induced employment is 20,308.

1. Floridians' Out-of-State Gaming Spending

Spectrum estimates that casinos along the Gulf Coast of Mississippi and in Alabama, as well as those in Las Vegas and Atlantic City, are generating at least \$411 million of GGR from Florida residents annually. Additionally, there are hundreds of other casinos in the US and a short distance away in the Bahamas and Caribbean islands that Florida residents are visiting (and exporting GGR during such visits). Therefore, we believe it is well within reason that at least \$500 million of GGR annually is being generated at casinos outside of Florida by Florida residents.

Figure 100: Economic and fiscal impacts of Floridians' out-of-state gaming spending in 2012

Summary	Units	2012
Total Employment	Thousands (Jobs)	4.116
Population	Thousands	1.012
Gross State Product (GSP)	Billions of Fixed (2012) Dollars	0.313
Personal Income	Billions of Fixed (2012) Dollars	0.18
State Tax Revenues (fiscal year 2013)	Millions of Fixed (2012) Dollars	15.406

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 100 exhibits the total economic and fiscal impacts that would have been generated if Floridians' out-of-state gaming spending were brought back to Florida in 2012. The total employment impact is 4,116 additional jobs in Florida. The associated GSP is \$313 million and it would have generated \$180 million in personal income. The tax revenue generated from the indirect and induced impacts of the out-of-state gaming spending in FY 2013 is \$15.4 million.

Figure 101: Top 12 Florida industries with largest employment impact from Floridians' out-of-state gaming in 2012

Industry category, with NAICS code	Units	2012
Retail trade (44-45)	Thousands (Jobs)	0.858
Offices of health practitioners (6211-6213)	Thousands (Jobs)	0.439
Food services and drinking places (722)	Thousands (Jobs)	0.235
Private households (814)	Thousands (Jobs)	0.221
Construction (23)	Thousands (Jobs)	0.215
Wholesale trade (42)	Thousands (Jobs)	0.167
Personal care services (8121)	Thousands (Jobs)	0.136
Real estate (531)	Thousands (Jobs)	0.135
Hospitals (622)	Thousands (Jobs)	0.105
Services to buildings and dwellings (5617)	Thousands (Jobs)	0.101
Monetary authorities, credit intermediation, and related activities (521, 522)	Thousands (Jobs)	0.085
Securities, commodity contracts, and other financial investments and related activities (523)	Thousands (Jobs)	0.082

Source: Regional Economic Models Inc.

Figure 101 shows the private non-farm industries that would have been impacted if Floridians' out-of-state gaming spending were brought back to Florida. Many of these industries,

such as Retail Trade, Food Services and Drinking Places, and Private Households, are supported by local spending.

Figure 102: Employment by demand source from Floridians' out-of-state gaming spending in 2012

Breakdown of Direct, Indirect, and Induced Employment	Units	2012
Private Non-Farm Employment	Thousands (Jobs)	3.836
Intermediate Demand (indirect) Employment	Thousands (Jobs)	0.693
Local Consumption Demand (induced) Employment	Thousands (Jobs)	3.033
Government Demand (induced) Employment	Thousands (Jobs)	0.031
Investment Activity Demand (induced) Employment	Thousands (Jobs)	0.193
Exports Demand (induced) Employment	Thousands (Jobs)	-0.114
Exogenous Industry Sales (direct) Employment	Thousands (Jobs)	0.000

Source: Regional Economic Models Inc.

Notes: Direct Employment = direct amount of employment entered into the model; Intermediate Demand Employment = employment needed to satisfy demand for material inputs to the production of final goods; Local Consumption Employment = Employment needed to satisfy demand for consumer goods; Government Demand Employment = Employment needed to satisfy demand for goods and services by government expenditures; Investment Activity Demand Employment = Employment needed to satisfy demand for residential and non-residential capital goods; Export Demand Employment = Employment needed to satisfy demand for a region's good services from outside Florida.

Figure 102 above provides a breakdown of private non-farm employment by demand source. The Exogenous Industry Sales Employment represents the direct employment. It can also be interpreted as the direct input we entered into the model. The direct employment impact is 0 in 2012 because we did not use any employment policy variables to model this consumption reallocation of Floridians' out-of-state gaming spending. The indirect employment (Intermediate Demand Employment) is 693. The induced employment (sum of Local Consumption Demand, Government Demand, Investment Activity Demand, and Exports Demand Employment) impact is 3,143. The sum of the direct, indirect, and induced employment is 3,836.

2. Impact of Hialeah Park Construction (2012)

Construction of Hialeah Park in 2012 was modeled separately from all of the gambling subsector economic impact assessments. The total cost of construction for Hialeah Park is \$63.36 million, with an average annual construction employment of 210. The construction duration was estimated to be 24 months starting in summer of 2011.

Figure 103: Economic and fiscal impacts of Hialeah Park construction in 2012

Summary	Units	2012
Total Employment	Jobs	364
Population	Individuals	125
Gross State Product (GSP)	Millions of Fixed (2012) Dollars	29.602
Personal Income	Millions of Fixed (2012) Dollars	18.311
State Tax Revenues (fiscal year 2013)	Millions of Fixed (2012) Dollars	0.9219

Source: Regional Economic Models Inc., Spectrum Gaming Group

The construction activity in 2012 generates a total 364 jobs, \$29.6 million in GSP, and \$18.3 million in personal income. It also induces \$0.92 million in state tax revenue for FY 2013.

C. Assessment of Economic, Fiscal Impacts over Time

An assessment of the changes in those impacts over time until the present day, historically, and projections for the future.

For this section, we employed the same policy variables as in Chapter III(B) above and ran a counterfactual analysis for years 2012 through 2060 to observe the impacts of the *existing* gambling industry over time. In addition, we established two alternative national forecasts: one with 5 percent slower economic growth and the other with 5 percent stronger economic growth, relative to the state benchmark baseline in the model. The new national forecasts generated new regional forecasts for Florida. We then ran the same set of inputs against the three regional forecasts to quantify the impacts of the gambling industry under different economic trajectories.

REMI and Spectrum assume that, over time, the employment in the overall existing gambling industry will expand at half the growth rate of its aggregate sectors in the REMI model. Given the regulations and restrictions imposed on the gambling industry, it is difficult to justify that the industry can expand at the same rate as a typical entertainment/recreation, retail trade, or accommodation industry. On the other hand, assuming no growth in the next 50 years is an excessively conservative assumption. We believe it is reasonable to choose a growth rate in between the two extremes. We assume wages and labor productivity will both grow at the same rate as the respective aggregate sector.

The following are tables showing the forecasted employment, output, wage and salary/compensation, and consumption reallocation for each of the gambling subsectors.

Figure 104: Racinos, pari-mutuels forecast

Racinos/Pari-mutuels	Units	2012	2015	2020	2025	2030	
Employment	Thousands (Jobs)	4.954	5.086	5.273	5.402	5.500	
Output	Billions of Fixed (2012) Dollars	0.528	0.548	0.580	0.614	0.646	
Wage & Salary Disbursements	Billions of Current Dollars	0.149	0.173	0.219	0.281	0.349	
Consumption Reallocation	Billions of Fixed (2012) Dollars	0.070	0.099	0.142	0.187	0.233	
Racinos/Pari-mutuels	Units	2035	2040	2045	2050	2055	2060
Employment	Thousands (Jobs)	5.574	5.602	5.601	5.571	5.525	5.464
Output	Billions of Fixed (2012) Dollars	0.676	0.702	0.724	0.744	0.761	0.775
Wage & Salary Disbursements	Billions of Current Dollars	0.427	0.512	0.607	0.709	0.824	0.950
Consumption Reallocation	Billions of Fixed (2012) Dollars	0.280	0.322	0.362	0.398	0.433	0.465

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 105: Lottery forecast

Lottery	Units	2012	2015	2020	2025	2030	
Employment	Thousands (Jobs)	0.408	0.419	0.434	0.445	0.453	
Net Revenue	Billions of Current Dollars	0.861	1.755	1.876	2.332	4.199	
Compensation	Billions of Current Dollars	0.025	0.029	0.038	0.048	0.060	
Consumption Reallocation	Billions of Fixed (2012) Dollars	4.361	4.529	4.797	5.076	5.339	
Lottery	Units	2035	2040	2045	2050	2055	2060
Employment	Thousands (Jobs)	0.459	0.461	0.461	0.459	0.455	0.450
Net Revenue	Billions of Fixed (2012) Dollars	5.118	6.343	7.772	9.187	10.665	6.058
Compensation	Billions of Current Dollars	0.074	0.088	0.105	0.122	0.142	0.164
Consumption Reallocation	Billions of Fixed (2012) Dollars	5.589	5.801	5.988	6.148	6.288	6.409

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 106: Retail Lottery forecast

Retail Lottery	Units	2012	2015	2020	2025	2030	
Employment	Thousands (Jobs)	39.900	40.681	41.445	41.172	40.774	
Output	Billions of Fixed (2012) Dollars	0.248	0.271	0.310	0.350	0.393	
Retail Lottery	Units	2035	2040	2045	2050	2055	2060
Employment	Thousands (Jobs)	40.262	39.375	38.255	36.983	35.659	34.242
Output	Billions of Fixed (2012) Dollars	0.441	0.489	0.539	0.591	0.646	0.702

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 107: Casino Hotels forecast (including Native American casinos)

Native American Casinos	Units	2012	2015	2020	2025	2030	
Employment	Thousands (Jobs)	10.387	10.590	10.710	10.794	10.910	
Output	Billions of Fixed (2012) Dollars	2.200	2.350	2.530	2.833	3.133	
Compensation	Billions of Current Dollars	0.349	0.400	0.468	0.602	0.736	
Consumption Reallocation	Billions of Fixed (2012) Dollars	0.074	0.191	0.373	0.578	0.816	
Native American Casinos	Units	2035	2040	2045	2050	2055	2060
Employment	Thousands (Jobs)	11.055	11.134	11.187	11.223	11.260	11.304
Output	Billions of Fixed (2012) Dollars	3.474	3.831	4.214	4.628	5.080	5.576
Compensation	Billions of Current Dollars	0.899	1.081	1.292	1.534	1.821	2.159
Consumption Reallocation	Billions of Fixed (2012) Dollars	1.089	1.374	1.682	2.015	2.381	2.784

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 108: Floridians' out-of-state gaming spending forecast

FL Resident Out-of-State Gaming Spending	Units	2012	2015	2020	2025	2030	
Consumption Reallocation	Billions of Fixed (2012) Dollars	0.500	0.500	0.500	0.500	0.500	
FL Resident Out-of-State Gaming Spending	Units	2035	2040	2045	2050	2055	2060
Consumption Reallocation	Billions of Fixed (2012) Dollars	0.500	0.500	0.500	0.500	0.500	0.500

Source: Regional Economic Models Inc., Spectrum Gaming Group

1. Results – Slow Economic Growth (2012-2060)

Figure 109: Economic and fiscal impacts of pari-mutuel sector, 2012-2060, slow growth

Summary	Units	2012-2060
Average Annual Employment	Thousands (Jobs)	9.804
Average Annual Population	Thousands	13.132
Cumulative Gross State Product	Billions of Fixed (2012) Dollars	47.939
Cumulative Personal Income	Billions of Fixed (2012) Dollars	49.26
Average Annual State Tax Revenues (fiscal year 2013 to 2060)	Billions of Fixed (2012) Dollars	0.587

Source: Regional Economic Models Inc., Spectrum Gaming Group

Between 2012 and 2060, the pari-mutuel sector is projected to support an annual average of 9,804 jobs in Florida under slow economic growth assumptions. The cumulative GSP is \$47.9 billion and personal income is \$49.3 billion. The average annual tax revenues generated from the direct, indirect, and induced impacts of the pari-mutuel industry between FY 2013 and FY 2060 are \$587 million.

Figure 110: Top 12 Florida industries with largest average employment impact from pari-mutuel, 2012-2060, slow growth

Industry category, with NAICS code	Units	2012-2060
Amusement, gambling, and recreation industries (713)	Thousands (Jobs)	3.009
Construction (23)	Thousands (Jobs)	0.596
Retail trade (44-45)	Thousands (Jobs)	0.299
Nursing and residential care facilities (623)	Thousands (Jobs)	0.197
Offices of health practitioners (6211-6213)	Thousands (Jobs)	0.167
Services to buildings and dwellings (5617)	Thousands (Jobs)	0.150
Food services and drinking places (722)	Thousands (Jobs)	0.137
Hospitals (622)	Thousands (Jobs)	0.126
Wholesale trade (42)	Thousands (Jobs)	0.124
Business support services; Investigation and security services; Other support services (5614, 5616, 5619)	Thousands (Jobs)	0.096
Real estate (531)	Thousands (Jobs)	0.093
Home health care services (6216)	Thousands (Jobs)	0.085

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 110 shows the private non-farm industries with the largest average annual employment impact. Aside from the Amusement, Gambling, and Recreation Industries, which is the direct impact for this subsector, the rest are the top industries that are reliant on the pari-mutuel industry in Florida. Many of these industries, such as Business Support Services and Services to Buildings and Dwellings are intermediate input suppliers to the pari-mutuel industry.

Figure 111: Average annual employment by demand source from pari-mutuel, 2012-2060, slow growth

Breakdown of Direct, Indirect, and Induced Employment	Units	2012-2060 Average
Private Non-Farm Employment	Thousands (Jobs)	5.907
Intermediate Demand Employment	Thousands (Jobs)	1.757
Local Consumption Demand Employment	Thousands (Jobs)	0.483
Government Demand Employment	Thousands (Jobs)	0.398
Investment Activity Demand Employment	Thousands (Jobs)	0.289
Exports Employment	Thousands (Jobs)	-2.469
Exogenous Industry Sales Employment	Thousands (Jobs)	5.449

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 111 is a breakdown of private non-farm employment by demand source. The Exogenous Industry Sales Employment represents the direct pari-mutuel employment. It can also be interpreted as the direct input we entered into the model. The average annual direct pari-mutuel employment impact is 5,449 jobs and the average annual indirect employment (Intermediate Demand Employment) supported by the pari-mutuel sector is 1,757. The average annual induced employment (sum of Local Consumption Demand, Government Demand, Investment Activity Demand, and Exports Demand Employment) impact as a result of the pari-mutuel industry is minus 1,298. The sum of the average annual direct, indirect, and induced employment is 5,907.

Figure 112: Economic and fiscal impacts of lottery industry, 2012-2060, slow growth

Summary	Units	2012-2060
Average Annual Employment	Thousands (Jobs)	28.205
Average Annual Population	Thousands	39.044
Cumulative Gross State Product	Billions of Fixed (2012) Dollars	117.801
Cumulative Personal Income	Billions of Fixed (2012) Dollars	156.939
Average Annual State Tax Revenues (fiscal year)	Billions of Fixed (2012) Dollars	3.452
Average Annual Government Employment	Thousands (Jobs)	23.430

Source: Regional Economic Models Inc., Spectrum Gaming Group

Between 2012 and 2060, the lottery sector (excluding retailers) is projected to support an annual average of 28,205 jobs in Florida under slow economic growth assumptions. The cumulative GSP is \$117.8 billion and personal income is \$156.9 billion. The average annual tax revenues generated from the direct, indirect, and induced impacts of the lottery industry between FY 2013 and FY 2060 are \$3.45 billion. As mentioned previously, the lottery revenues are linked to education expenditures, thus any changes to the lottery revenues will affect government jobs in Florida. Out of the average annual 28,205 jobs between 2012 and 2060, 23,430 of them are government employment.

Figure 113: Top 12 Florida industries with largest average employment impact from lottery, 2012-2060, slow growth

Industry category, with NAICS code	Units	2012-2060
Construction (23)	Thousands (Jobs)	2.865
Amusement, gambling, and recreation industries (713)	Thousands (Jobs)	0.561
Services to buildings and dwellings (5617)	Thousands (Jobs)	0.478
Business support services; Investigation and security services; Other support services (5614, 5616, 5619)	Thousands (Jobs)	0.390
Architectural, engineering, and related services (5413)	Thousands (Jobs)	0.338
Wholesale trade (42)	Thousands (Jobs)	0.336
Food services and drinking places (722)	Thousands (Jobs)	0.294
Management, scientific, and technical consulting services (5416)	Thousands (Jobs)	0.259
Real estate (531)	Thousands (Jobs)	0.182
Employment services (5613)	Thousands (Jobs)	0.173
Accounting, tax preparation, bookkeeping, and payroll services (5412)	Thousands (Jobs)	0.145
Legal services (5411)	Thousands (Jobs)	0.134

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 113 shows the private non-farm industries with largest average annual employment impact. Aside from the Amusement, Gambling, and Recreation Industries, which is the direct impact for this subsector, the rest are the top industries that are reliant on the lottery industry in Florida. Many of these industries, such as Services to Buildings and Dwellings, Business Support Services, and Management Consulting, are intermediate input suppliers to the lottery industry.

Figure 114: Average annual employment by demand source from lottery, 2012-2060, slow growth

Breakdown of Direct, Indirect, and Induced Employment	Units	2012-2060 Average
Private Non-Farm Employment	Thousands (Jobs)	4.775
Intermediate Demand Employment	Thousands (Jobs)	5.295
Local Consumption Demand Employment	Thousands (Jobs)	-2.053
Government Demand Employment	Thousands (Jobs)	2.425
Investment Activity Demand Employment	Thousands (Jobs)	0.479
Exports Employment	Thousands (Jobs)	-1.820
Exogenous Industry Sales Employment	Thousands (Jobs)	0.449

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 114 is a breakdown of private non-farm employment by demand source. The Exogenous Industry Sales Employment represents the direct lottery employment. It can also be interpreted as the direct input we entered into the model. The average annual direct lottery employment impact is 449 jobs and the average annual indirect employment (Intermediate Demand Employment) supported by the lottery sector is 5,295. The average annual induced employment (sum of Local Consumption Demand, Government Demand, Investment Activity Demand, and Exports Demand Employment) impact as a result of the lottery industry is minus 969. The sum of the average annual direct, indirect, and induced employment is 4,775.

Figure 115: Economic and fiscal impacts of retail lottery industry, 2012-2060, slow growth

Summary	Units	2012-2060
Average Annual Employment	Thousands (Jobs)	78.073
Average Annual Population	Thousands	128.361
Cumulative Gross State Product	Billions of Fixed (2012) Dollars	368.241
Cumulative Personal Income	Billions of Fixed (2012) Dollars	358.951
Average Annual State Tax Revenues (fiscal year 2013 to 2060)	Billions of Fixed (2012) Dollars	0.581

Source: Regional Economic Models Inc., Spectrum Gaming Group

Between 2012 and 2060, the retail lottery industry is projected to support an annual average of 78,073 jobs in Florida under slow economic growth assumptions. The cumulative GSP is \$368.2 billion and personal income is personal income is \$359 billion. The average annual tax revenues generated from the indirect and induced impacts of the retail lottery industry between FY 2013 and FY 2060 are \$581 million.

Figure 116: Top 12 Florida industries with largest average employment impact from retail lottery, 2012-2060, slow growth

Industry category, with NAICS code	Units	2012-2060
Retail trade (44-45)	Thousands (Jobs)	42.780
Construction (23)	Thousands (Jobs)	9.373
Food services and drinking places (722)	Thousands (Jobs)	2.283
Computer systems design and related services (5415)	Thousands (Jobs)	2.255
Offices of health practitioners (6211-6213)	Thousands (Jobs)	1.677
Architectural, engineering, and related services (5413)	Thousands (Jobs)	1.540
Nursing and residential care facilities (623)	Thousands (Jobs)	1.453
Hospitals (622)	Thousands (Jobs)	1.204
Educational services (61)	Thousands (Jobs)	1.186
Wholesale trade (42)	Thousands (Jobs)	1.179
Home health care services (6216)	Thousands (Jobs)	1.026
Real estate (531)	Thousands (Jobs)	1.011

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 116 shows the private non-farm industries with largest average annual employment impact. Aside from Retail Trade, which is the direct impact for retail lottery, the rest are the top industries that are reliant on the retail lottery industry in Florida. Some of these, such as Wholesale Trade and Computer Systems Design Services, are intermediate input suppliers to the gaming industry. Others, such as Food Services and Drinking Places, provide goods and services to consumers whose income is dependent on the direct (retail lottery) or indirect jobs.

Figure 117: Average annual employment by demand source from retail lottery, 2012-2060, slow growth

Breakdown of Direct, Indirect, and Induced Employment	Units	2012-2060 Average
Private Non-Farm Employment	Thousands (Jobs)	78.164
Intermediate Demand Employment	Thousands (Jobs)	10.148
Local Consumption Demand Employment	Thousands (Jobs)	16.625
Government Demand Employment	Thousands (Jobs)	0.032
Investment Activity Demand Employment	Thousands (Jobs)	17.612
Exports Employment	Thousands (Jobs)	-5.351
Exogenous Industry Sales Employment	Thousands (Jobs)	39.099

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 117 provides a breakdown of private non-farm employment by demand source. The Exogenous Industry Sales Employment represents the direct retail lottery employment. It can also be interpreted as the direct input we entered into the model. The average annual direct retail lottery employment impact is 39,099 jobs and the average annual indirect employment (Intermediate Demand Employment) supported by the retail lottery sector is 10,148. The average annual induced employment (sum of Local Consumption Demand, Government Demand, Investment Activity Demand, and Exports Demand Employment) impact as a result of the retail lottery industry is 27,674. The sum of the average annual direct, indirect, and induced employment is 78,164.

Figure 118: Economic and fiscal impacts of Native American casinos industry, 2012-2060, slow growth

Summary	Units	2012-2060
Average Annual Employment	Thousands (Jobs)	21.123
Average Annual Population	Thousands	32.394
Cumulative Gross State Product	Billions of Fixed (2012) Dollars	185.557
Cumulative Personal Income	Billions of Fixed (2012) Dollars	112.21
Average Annual State Tax Revenues (fiscal year 2013 to 2060)	Billions of Fixed (2012) Dollars	0.401

Source: Regional Economic Models Inc., Spectrum Gaming Group

Between 2012 and 2060, the Native American casinos industry is projected to support an annual average of 21,123 jobs in Florida under slow economic growth assumptions. The cumulative GSP is \$185.6 billion and personal income is \$112.2 billion. The average annual tax revenues generated from the direct, indirect, and induced impacts of the Native American casinos industry between FY 2013 and FY 2060 are \$401 million.

Figure 119: Top 12 Florida industries with largest average employment impact from Native American casinos, 2012-2060, slow growth

Industry category, with NAICS code	Units	2012-2060
Accommodation (721)	Thousands (Jobs)	11.463
Food services and drinking places (722)	Thousands (Jobs)	1.028
Construction (23)	Thousands (Jobs)	0.974
Services to buildings and dwellings (5617)	Thousands (Jobs)	0.869
Retail trade (44-45)	Thousands (Jobs)	0.510
Management, scientific, and technical consulting services (5416)	Thousands (Jobs)	0.333
Nursing and residential care facilities (623)	Thousands (Jobs)	0.296
Business support services; Investigation and security services; Other support services (5614, 5616, 5619)	Thousands (Jobs)	0.262
Employment services (5613)	Thousands (Jobs)	0.260
Hospitals (622)	Thousands (Jobs)	0.238
Wholesale trade (42)	Thousands (Jobs)	0.220
Real estate (531)	Thousands (Jobs)	0.197

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 119 shows the private non-farm industries with largest average annual employment impact. Aside from Accommodation, which is the direct impact for this analysis, the rest are the top industries that are reliant on the Native American casinos industry in Florida. Some of these, such as Services to Buildings and Dwellings and Business Support Services, are intermediate input suppliers to the Native American casinos industry. Others, such as Food Services and Drinking Places, provide goods and services to consumers whose income is dependent on the direct (Native American casinos) or indirect jobs.

Figure 120: Average annual employment by demand source from Native American casinos, 2012-2060, slow growth

Breakdown of Direct, Indirect, and Induced Employment	Units	2012-2060 Average
Private Non-Farm Employment	Thousands (Jobs)	18.008
Intermediate Demand Employment	Thousands (Jobs)	6.246
Local Consumption Demand Employment	Thousands (Jobs)	1.840
Government Demand Employment	Thousands (Jobs)	0.306
Investment Activity Demand Employment	Thousands (Jobs)	0.848
Exports Employment	Thousands (Jobs)	-2.225
Exogenous Industry Sales Employment	Thousands (Jobs)	10.993

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 120 provides a breakdown of private non-farm employment by demand source. The Exogenous Industry Sales Employment represents the direct Native American casinos employment. It can also be interpreted as the direct input we entered into the model. The average annual direct Native American casinos employment impact is 10,993 jobs and the average annual indirect employment (Intermediate Demand Employment) supported by the gaming sector is 6,246. The average annual induced employment (sum of Local Consumption Demand, Government Demand, Investment Activity Demand, and Exports Demand Employment) impact as a result of the Native American casinos industry is 769. The sum of the average annual direct, indirect, and induced employment is 18,008.

Figure 121: Economic and fiscal impacts of Floridians' out-of-state gaming spending, 2012-2060, slow growth

Summary	Units	2012-2060
Average Annual Employment	Thousands (Jobs)	2,889
Average Annual Population	Thousands	4,946
Cumulative Gross State Product	Billions of Fixed (2012) Dollars	15,599
Cumulative Personal Income	Billions of Fixed (2012) Dollars	14,357
Average Annual State Tax Revenues (fiscal year 2013 to 2060)	Millions of Fixed (2012) Dollars	28,583

Source: Regional Economic Models Inc., Spectrum Gaming Group

Between 2012 and 2060, if out-of-state gambling dollars by Florida residents were to instead remain in Florida, this spending would support an annual average of 2,889 jobs in Florida under slow economic growth assumptions. The cumulative GSP is \$15.6 billion and personal income is \$14.4 billion. The average annual tax revenues generated from the indirect and induced impacts of the out-of-state gaming spending between FY 2013 and FY 2060 are \$28.6 million.

Figure 122: Top 12 Florida industries with largest average employment impact from Floridians' out-of-state gaming spending, 2012-2060, slow growth

Industry category, with NAICS code	Units	2012-2060
Retail trade (44-45)	Thousands (Jobs)	0.511
Offices of health practitioners (6211-6213)	Thousands (Jobs)	0.398
Food services and drinking places (722)	Thousands (Jobs)	0.174
Construction (23)	Thousands (Jobs)	0.157
Private households (814)	Thousands (Jobs)	0.128
Nursing and residential care facilities (623)	Thousands (Jobs)	0.103
Wholesale trade (42)	Thousands (Jobs)	0.103
Hospitals (622)	Thousands (Jobs)	0.096
Real estate (531)	Thousands (Jobs)	0.087
Educational services (61)	Thousands (Jobs)	0.072
Home health care services (6216)	Thousands (Jobs)	0.069
Personal care services (8121)	Thousands (Jobs)	0.068

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 122 shows the private non-farm industries that would have been impacted if Floridians' out-of-state gaming spending were brought back to Florida. Many of these industries, such as Retail Trade, Food Services and Drinking Places, and Private Households, are commonly supported by local spending.

Figure 123: Average annual employment by demand source from Floridians' out-of-state gaming spending, 2012-2060, slow growth

Breakdown of Direct, Indirect, and Induced Employment	Units	2012-2060 Average
Private Non-Farm Employment	Thousands (Jobs)	2.822
Intermediate Demand Employment	Thousands (Jobs)	0.488
Local Consumption Demand Employment	Thousands (Jobs)	2.352
Government Demand Employment	Thousands (Jobs)	0.010
Investment Activity Demand Employment	Thousands (Jobs)	0.251
Exports Employment	Thousands (Jobs)	-0.280
Exogenous Industry Sales Employment	Thousands (Jobs)	0.000

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 123 is a breakdown of private non-farm employment by demand source. The Exogenous Industry Sales Employment represents direct employment. It can also be interpreted as the direct input we entered into the model. The average annual direct employment impact is 0 jobs because we did not use any employment policy variables to model this consumption reallocation of Floridians' out-of-state gaming spending. The average annual indirect employment (Intermediate Demand Employment) is 488. The average annual induced employment (sum of Local Consumption Demand, Government Demand, Investment Activity Demand, and Exports Demand Employment) impact is 2,334. The sum of the average annual direct, indirect, and induced employment is 2,822.

2. Results – Normal Economic Growth (2012-2060)

Figure 124: Economic and fiscal impacts of pari-mutuel sector, 2012-2060, normal growth

Summary	Units	2012-2060
Average Annual Employment	Thousands (Jobs)	9.001
Average Annual Population	Thousands	11.237
Cumulative Gross State Product	Billions of Fixed (2012) Dollars	44.132
Cumulative Personal Income	Billions of Fixed (2012) Dollars	45.554
Average Annual State Tax Revenues (fiscal year 2013 to 2060)	Billions of Fixed (2012) Dollars	0.581

Source: Regional Economic Models Inc., Spectrum Gaming Group

Between 2012 and 2060, the pari-mutuel sector is projected to support an annual average of 9,001 jobs⁵⁹⁰ in Florida under normal economic growth assumptions. The cumulative GSP is \$44.1 billion and personal income is \$45.6 billion. The average annual tax revenues generated from the direct, indirect, and induced impacts of the pari-mutuel industry between FY 2013 and FY 2060 are \$581 million.

⁵⁹⁰ The job numbers in REMI are not cumulative. If the job impact is 5,000 in 2012 and 4,000 in 2013, we cannot conclude that the total job impact in 2012 and 2013 is 9,000 because the 4,000 jobs in 2013 can be the same jobs from 2012. Therefore, we compute an annual average when we evaluate long-term job impacts. In the above example, the average annual employment in 2012 and 2013 is 4,500 jobs.

Figure 125: Top 12 Florida industries with largest average employment impact from pari-mutuel, 2012-2060, normal growth

Industry category, with NAICS code	Units	2012-2060
Amusement, gambling, and recreation industries (713)	Thousands (Jobs)	2.577
Construction (23)	Thousands (Jobs)	0.576
Retail trade (44-45)	Thousands (Jobs)	0.258
Nursing and residential care facilities (623)	Thousands (Jobs)	0.177
Offices of health practitioners (6211-6213)	Thousands (Jobs)	0.149
Services to buildings and dwellings (5617)	Thousands (Jobs)	0.134
Wholesale trade (42)	Thousands (Jobs)	0.111
Hospitals (622)	Thousands (Jobs)	0.110
Food services and drinking places (722)	Thousands (Jobs)	0.106
Business support services; Investigation and security services; Other support services (5614, 5616, 5619)	Thousands (Jobs)	0.086
Architectural, engineering, and related services (5413)	Thousands (Jobs)	0.075
Home health care services (6216)	Thousands (Jobs)	0.072

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 125 shows the private non-farm industries with largest average annual employment impact. Aside from the Amusement, Gambling, and Recreation Industries, which is the direct impact for this subsector, the rest are the top industries that are reliant on the pari-mutuel industry in Florida. Many of these industries, such as Business Support Services and Services to Buildings and Dwellings are intermediate input suppliers to the pari-mutuel industry.

Figure 126: Average annual employment by demand source from pari-mutuel, 2012-2060, normal growth

Breakdown of Direct, Indirect, and Induced Employment	Units	2012-2060 Average
Private Non-Farm Employment	Thousands (Jobs)	5.116
Intermediate Demand Employment	Thousands (Jobs)	1.607
Local Consumption Demand Employment	Thousands (Jobs)	0.283
Government Demand Employment	Thousands (Jobs)	0.405
Investment Activity Demand Employment	Thousands (Jobs)	0.250
Exports Employment	Thousands (Jobs)	-2.876
Exogenous Industry Sales Employment	Thousands (Jobs)	5.449

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 126 is a breakdown of private non-farm employment by demand source. The Exogenous Industry Sales Employment represents the direct pari-mutuel employment. It can also be interpreted as the direct input we entered into the model. The average annual direct pari-mutuel employment impact is 5,449 jobs and the average annual indirect employment (Intermediate Demand Employment) supported by the pari-mutuel sector is 1,607. The average annual induced employment (sum of Local Consumption Demand, Government Demand, Investment Activity Demand, and Exports Demand Employment) impact as a result of the pari-mutuel industry is minus 1,939. The sum of the average annual direct, indirect, and induced employment is 5,116.

Figure 127: Economic and fiscal impacts of lottery industry, 2012-2060, normal growth

Summary	Units	2012-2060
Average Annual Employment	Thousands (Jobs)	28.690
Average Annual Population	Thousands	38.370
Cumulative Gross State Product	Billions of Fixed (2012) Dollars	119.307
Cumulative Personal Income	Billions of Fixed (2012) Dollars	159.575
Average Annual State Tax Revenues (fiscal year 2013 to 2060)	Billions of Fixed (2012) Dollars	3.561
Average Annual Government Employment	Thousands (Jobs)	24.058

Source: Regional Economic Models Inc., Spectrum Gaming Group

Between 2012 and 2060, the lottery sector (excluding retailers) is projected to support an annual average of 28,690 jobs in Florida under normal economic growth assumptions. The cumulative GSP is \$119.3 billion and personal income is \$159.6 billion. The average annual tax revenues generated from the direct, indirect, and induced impacts of the lottery industry between FY 2013 and FY 2060 are \$3.56 billion. As mentioned previously, the lottery revenues are linked to education expenditures, thus any changes to the lottery revenues will affect government jobs in Florida. Therefore, the lottery sector also supports an average annual of 23,501 government jobs between 2012 and 2060. Out of the average annual 28,690 jobs between 2012 and 2060, 24,058 of them are government employment.

Figure 128: Top 12 Florida industries with largest average employment impact from lottery, 2012-2060, normal growth

Industry category, with NAICS code	Units	2012-2060
Construction (23)	Thousands (Jobs)	2.988
Nursing and residential care facilities (623)	Thousands (Jobs)	0.554
Food services and drinking places (722)	Thousands (Jobs)	0.461
Amusement, gambling, and recreation industries (713)	Thousands (Jobs)	0.368
Architectural, engineering, and related services (5413)	Thousands (Jobs)	0.342
Services to buildings and dwellings (5617)	Thousands (Jobs)	0.328
Individual and family services; Community and vocational rehabilitation services (6241-6243)	Thousands (Jobs)	0.291
Business support services; Investigation and security services; Other support services (5614, 5616, 5619)	Thousands (Jobs)	0.253
Wholesale trade (42)	Thousands (Jobs)	0.177
Management, scientific, and technical consulting services (5416)	Thousands (Jobs)	0.173
Hospitals (622)	Thousands (Jobs)	0.140
Waste management and remediation services (562)	Thousands (Jobs)	0.136

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 128 shows the private non-farm industries with largest average annual employment impact. Aside from the Amusement, Gambling, and Recreation Industries, which is the direct impact for this subsector, the rest are the top industries that are reliant on the lottery industry in Florida. Many of these industries, such as Services to Buildings and Dwellings, Business Support Services, and Management Consulting, are intermediate input suppliers to the lottery industry.

Figure 129: Average annual employment by demand source from lottery, 2012-2060, normal growth

Breakdown of Direct, Indirect, and Induced Employment	Units	2012-2060 Average
Private Non-Farm Employment	Thousands (Jobs)	4.631
Intermediate Demand (indirect) Employment	Thousands (Jobs)	5.288
Local Consumption Demand (induced) Employment	Thousands (Jobs)	-2.227
Government Demand (induced) Employment	Thousands (Jobs)	2.535
Investment Activity Demand (induced) Employment	Thousands (Jobs)	0.489
Exports Demand (induced) Employment	Thousands (Jobs)	-1.903
Exogenous Industry Sales (direct) Employment	Thousands (Jobs)	0.449

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 129 is a breakdown of private non-farm employment by demand source. The Exogenous Industry Sales Employment represents the direct lottery employment. It can also be interpreted as the direct input we entered into the model. The average annual direct lottery employment impact is 449 jobs and the average annual indirect employment (Intermediate Demand Employment) supported by the lottery sector is 5,288. The average annual induced employment (sum of Local Consumption Demand, Government Demand, Investment Activity Demand, and Exports Demand Employment) impact as a result of the lottery industry is minus 1,106. The sum of the average annual direct, indirect, and induced employment is 4,631.

Figure 130: Economic and fiscal impacts of retail lottery industry, 2012-2060, normal growth

Summary	Units	2012-2060
Average Annual Employment	Thousands (Jobs)	76.616
Average Annual Population	Thousands	122.954
Cumulative Gross State Product	Billions of Fixed (2012) Dollars	358.902
Cumulative Personal Income	Billions of Fixed (2012) Dollars	354.081
Average Annual State Tax Revenues (fiscal year 2013 to 2060)	Billions of Fixed (2012) Dollars	0.590

Source: Regional Economic Models Inc., Spectrum Gaming Group

Between 2012 and 2060, the retail lottery industry is projected to support an annual average of 76,616 jobs in Florida under normal economic growth assumptions. The cumulative GSP is \$358.9 billion and personal income is \$354.1 billion. The average annual tax revenues generated from the indirect and induced impacts of the retail lottery industry between FY 2013 and FY 2060 are \$590 million.

Figure 131: Top 12 Florida industries with largest average annual employment impact from retail lottery, 2012-2060, normal growth

Industry category, with NAICS code	Units	2012-2060
Retail trade (44-45)	Thousands (Jobs)	42.152
Construction (23)	Thousands (Jobs)	9.292
Food services and drinking places (722)	Thousands (Jobs)	2.196
Computer systems design and related services (5415)	Thousands (Jobs)	2.155
Offices of health practitioners (6211-6213)	Thousands (Jobs)	1.654
Architectural, engineering, and related services (5413)	Thousands (Jobs)	1.487
Nursing and residential care facilities (623)	Thousands (Jobs)	1.407
Hospitals (622)	Thousands (Jobs)	1.168
Wholesale trade (42)	Thousands (Jobs)	1.145
Educational services (61)	Thousands (Jobs)	1.142
Home health care services (6216)	Thousands (Jobs)	0.986
Real estate (531)	Thousands (Jobs)	0.938

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 131 shows the private non-farm industries with largest average annual employment impact. Aside from Retail Trade, which is the direct impact for retail lottery, the rest are the top industries that are reliant on the retail lottery industry in Florida. Some of these, such as Wholesale Trade and Computer Systems Design Services, are intermediate input suppliers to the gaming industry. Others, such as Food Services and Drinking Places, provide goods and services to consumers whose income is dependent on the direct (retail lottery) or indirect jobs.

Figure 132: Average annual employment by demand source from retail lottery, 2012-2060, normal growth

Breakdown of Direct, Indirect, and Induced Employment	Units	2012-2060 Average
Private Non-Farm Employment	Thousands (Jobs)	76.548
Intermediate Demand (indirect) Employment	Thousands (Jobs)	9.775
Local Consumption Demand (induced) Employment	Thousands (Jobs)	16.159
Government Demand (induced) Employment	Thousands (Jobs)	0.051
Investment Activity Demand (induced) Employment	Thousands (Jobs)	17.146
Exports Demand (induced) Employment	Thousands (Jobs)	-5.682
Exogenous Industry Sales (direct) Employment	Thousands (Jobs)	39.099

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 132 is a breakdown of private non-farm employment by demand source. The Exogenous Industry Sales Employment represents the direct retail lottery employment. It can also be interpreted as the direct input we entered into the model. The average annual direct retail lottery employment impact is 39,099 jobs and the average annual indirect employment (Intermediate Demand Employment) supported by the retail lottery sector is 9,775. The average annual induced employment (sum of Local Consumption Demand, Government Demand, Investment Activity Demand, and Exports Demand Employment) impact as a result of the retail lottery industry is 27,674. The sum of the average annual direct, indirect, and induced employment is 76,548.

Figure 133: Economic and fiscal impacts of Native American casinos industry, 2012-2060, normal growth

Summary	Units	2012-2060
Average Annual Employment	Thousands (Jobs)	19.201
Average Annual Population	Thousands	28.555
Cumulative Gross State Product	Billions of Fixed (2012) Dollars	170.630
Cumulative Personal Income	Billions of Fixed (2012) Dollars	103.717
Average Annual State Tax Revenues (fiscal year 2013 to 2060)	Billions of Fixed (2012) Dollars	0.374

Source: Regional Economic Models Inc., Spectrum Gaming Group

Between 2012 and 2060, the Native American casinos industry is projected to support an annual average of 19,201 jobs in Florida under normal economic growth assumptions. The cumulative GSP is \$170.6 billion and personal income is \$103.7 billion. The average annual tax revenues generated from the direct, indirect, and induced impacts of the Native American casinos industry between FY 2013 and FY 2060 are \$374 million.

Figure 134: Top 12 Florida industries with largest average employment impact from Native American casinos, 2012-2060, normal growth

Industry category, with NAICS code	Units	2012-2060
Accommodation (721)	Thousands (Jobs)	10.648
Construction (23)	Thousands (Jobs)	0.912
Food services and drinking places (722)	Thousands (Jobs)	0.904
Services to buildings and dwellings (5617)	Thousands (Jobs)	0.787
Retail trade (44-45)	Thousands (Jobs)	0.415
Management, scientific, and technical consulting services (5416)	Thousands (Jobs)	0.304
Nursing and residential care facilities (623)	Thousands (Jobs)	0.259
Employment services (5613)	Thousands (Jobs)	0.236
Business support services; Investigation and security services; Other support services (5614, 5616, 5619)	Thousands (Jobs)	0.232
Hospitals (622)	Thousands (Jobs)	0.208
Wholesale trade (42)	Thousands (Jobs)	0.191
Advertising and related services (5418)	Thousands (Jobs)	0.162

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 134 shows the private non-farm industries with largest average annual employment impact. Aside from Accommodation, which is the direct impact for this analysis, the rest are the top industries that are reliant on the Native American casinos industry in Florida. Some of these, such as Services to Buildings and Dwellings and Business Support Services, are intermediate input suppliers to the gaming industry. Others, such as Food Services and Drinking Places, provide goods and services to consumers whose income is dependent on the direct (Native American casinos) or indirect jobs.

Figure 135: Average annual employment by demand source from Native American casinos, 2012-2060, normal growth

Breakdown of Direct, Indirect, and Induced Employment	Units	2012-2060 Average
Private Non-Farm Employment	Thousands (Jobs)	16.179
Intermediate Demand (indirect) Employment	Thousands (Jobs)	5.660
Local Consumption Demand (induced) Employment	Thousands (Jobs)	1.397
Government Demand (induced) Employment	Thousands (Jobs)	0.303
Investment Activity Demand (induced) Employment	Thousands (Jobs)	0.757
Exports Demand (induced) Employment	Thousands (Jobs)	-2.930
Exogenous Industry Sales (direct) Employment	Thousands (Jobs)	10.993

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 135 is a breakdown of private non-farm employment by demand source. The Exogenous Industry Sales Employment represents the direct Native American casinos employment. It can also be interpreted as the direct input we entered into the model. The average annual direct Native American casinos employment impact is 10,993 jobs and the average annual indirect employment (Intermediate Demand Employment) supported by the gaming sector is 5,660. The average annual induced employment (sum of Local Consumption Demand, Government Demand, Investment Activity Demand, and Exports Demand Employment) impact as a result of the Native American casinos industry is minus 473. The sum of the average annual direct, indirect, and induced employment is 16,179.

Figure 136: Economic and fiscal impacts of Floridians' out-of-state gaming spending, 2012-2060, normal growth

Summary	Units	2012-2060
Average Annual Employment	Thousands (Jobs)	2.764
Average Annual Population	Thousands	4.563
Cumulative Gross State Product	Billions of Fixed (2012) Dollars	14.813
Cumulative Personal Income	Billions of Fixed (2012) Dollars	13.792
Average Annual State Tax Revenues (fiscal year 2013 to 2060)	Millions of Fixed (2012) Dollars	27.060

Source: Regional Economic Models Inc., Spectrum Gaming Group

Between 2012 and 2060, if out-of-state gambling dollars by Florida residents were to instead remain in Florida, this spending would support an annual average of 2,764 jobs in Florida under normal economic growth assumptions. The cumulative GSP is \$14.8 billion and personal income is \$13.8 billion. The average annual tax revenues generated from the indirect and induced impacts of the out-of-state gaming spending between FY 2013 and FY 2060 are \$27.1 million.

Figure 137: Top 12 Florida industries with largest average employment impact from Floridians' out-of-state gaming spending, 2012-2060, normal growth

Industry category, with NAICS code	Units	2012-2060
Retail trade (44-45)	Thousands (Jobs)	0.488
Offices of health practitioners (6211-6213)	Thousands (Jobs)	0.390
Food services and drinking places (722)	Thousands (Jobs)	0.165
Construction (23)	Thousands (Jobs)	0.152
Private households (814)	Thousands (Jobs)	0.124
Wholesale trade (42)	Thousands (Jobs)	0.099
Nursing and residential care facilities (623)	Thousands (Jobs)	0.098
Hospitals (622)	Thousands (Jobs)	0.091
Real estate (531)	Thousands (Jobs)	0.080
Educational services (61)	Thousands (Jobs)	0.068
Personal care services (8121)	Thousands (Jobs)	0.066
Home health care services (6216)	Thousands (Jobs)	0.065

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 137 shows the private non-farm industries that would have been impacted if Floridians' out-of-state gaming spending were brought back to Florida. Many of these industries, such as Retail Trade, Food Services and Drinking Places, and Private Households, are commonly supported by local spending.

Figure 138: Average annual employment by demand source from Floridians' out-of-state gaming spending, 2012-2060, normal growth

Breakdown of Direct, Indirect, and Induced Employment	Units	2012-2060 Average
Private Non-Farm Employment	Thousands (Jobs)	2.695
Intermediate Demand (indirect) Employment	Thousands (Jobs)	0.455
Local Consumption Demand (induced) Employment	Thousands (Jobs)	2.261
Government Demand (induced) Employment	Thousands (Jobs)	0.011
Investment Activity Demand (induced) Employment	Thousands (Jobs)	0.238
Exports Demand (induced) Employment	Thousands (Jobs)	-0.271
Exogenous Industry Sales (direct) Employment	Thousands (Jobs)	0.000

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 138 is a breakdown of private non-farm employment by demand source. The Exogenous Industry Sales Employment represents direct employment. It can also be interpreted as the direct input we entered into the model. The average annual direct employment impact is 0 jobs because we did not use any employment policy variables to model this consumption reallocation of Floridians' out-of-state gambling spending. The average annual indirect employment (Intermediate Demand Employment) is 455. The average annual induced employment (sum of Local Consumption Demand, Government Demand, Investment Activity Demand, and Exports Demand Employment) impact is 2,239. The sum of the average annual direct, indirect, and induced employment is 2,695.

3. Results – Strong Economic Growth (2012-2060)

Figure 139: Economic and fiscal impacts of pari-mutuel sector, 2012-2060, strong growth

Summary	Units	2012-2060
Average Annual Employment	Thousands (Jobs)	8.294
Average Annual Population	Thousands	9.678
Cumulative Gross State Product	Billions of Fixed (2012) Dollars	40.817
Cumulative Personal Income	Billions of Fixed (2012) Dollars	42.215
Average Annual State Tax Revenues (fiscal year 2013 to 2060)	Millions of Fixed (2012) Dollars	0.575

Source: Regional Economic Models Inc., Spectrum Gaming Group

Between 2012 and 2060, the pari-mutuel sector is projected to support an annual average of 8,294 jobs in Florida under strong economic growth assumptions. The cumulative GSP is \$40.8 billion and personal income is \$42.2 billion. The average annual tax revenues generated from the direct, indirect, and induced impacts of the pari-mutuel industry between FY 2013 and FY 2060 are \$575 million.

Figure 140: Top 12 Florida industries with largest average employment impact from pari-mutuel, 2012-2060, strong growth

Industry category, with NAICS code	Units	2012-2060
Amusement, gambling, and recreation industries (713)	Thousands (Jobs)	2.191
Construction (23)	Thousands (Jobs)	0.558
Retail trade (44-45)	Thousands (Jobs)	0.223
Nursing and residential care facilities (623)	Thousands (Jobs)	0.159
Offices of health practitioners (6211-6213)	Thousands (Jobs)	0.131
Services to buildings and dwellings (5617)	Thousands (Jobs)	0.121
Wholesale trade (42)	Thousands (Jobs)	0.100
Hospitals (622)	Thousands (Jobs)	0.097
Food services and drinking places (722)	Thousands (Jobs)	0.080
Business support services; Investigation and security services; Other support services (5614, 5616, 5619)	Thousands (Jobs)	0.078
Architectural, engineering, and related services (5413)	Thousands (Jobs)	0.070
Home health care services (6216)	Thousands (Jobs)	0.061

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 140 shows the private non-farm industries with largest average annual employment impact. Aside from the Amusement, Gambling, and Recreation Industries, which is the direct impact for this subsector, the rest are the top industries that are reliant on the pari-mutuel industry in Florida. Many of these industries, such as Business Support Services and Services to Buildings and Dwellings are intermediate input suppliers to the pari-mutuel industry.

Figure 141: Average annual employment by demand source from pari-mutuel, 2012-2060, strong growth

Breakdown of Direct, Indirect, and Induced Employment	Units	2012-2060 Average
Private Non-Farm Employment	Thousands (Jobs)	4.420
Intermediate Demand Employment	Thousands (Jobs)	1.478
Local Consumption Demand Employment	Thousands (Jobs)	0.111
Government Demand Employment	Thousands (Jobs)	0.410
Investment Activity Demand Employment	Thousands (Jobs)	0.215
Exports Employment	Thousands (Jobs)	-3.243
Exogenous Industry Sales Employment	Thousands (Jobs)	5.449

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 141 is a breakdown of private non-farm employment by demand source. The Exogenous Industry Sales Employment represents the direct pari-mutuel employment. It can also be interpreted as the direct input we entered into the model. The average annual direct pari-mutuel employment impact is 5,449 jobs and the average annual indirect employment (Intermediate Demand Employment) supported by the pari-mutuel sector is 1,478. The average annual induced employment (sum of Local Consumption Demand, Government Demand, Investment Activity Demand, and Exports Demand Employment) impact as a result of the pari-mutuel industry is minus 2,506. The sum of the average annual direct, indirect, and induced employment is 4,420.

Figure 142: Economic and fiscal impacts of lottery industry, 2012-2060, strong growth

Summary	Units	2012-2060
Average Annual Employment	Thousands (Jobs)	29.025
Average Annual Population	Thousands	37.633
Cumulative Gross State Product	Billions of Fixed (2012) Dollars	120.089
Cumulative Personal Income	Billions of Fixed (2012) Dollars	160.987
Average Annual State Tax Revenues (fiscal year 2013 to 2060)	Billions of Fixed (2012) Dollars	3.645
Average Annual Government Employment	Thousands (Jobs)	24.559

Source: Regional Economic Models Inc., Spectrum Gaming Group

Between 2012 and 2060, the lottery sector (excluding retailers) is projected to support an annual average of 29,025 jobs in Florida under strong economic growth assumptions. The cumulative GSP is \$120.1 billion and personal income is \$161 billion. The average annual tax revenues generated from the direct, indirect, and induced impacts of the lottery industry between FY 2013 and FY 2060 are \$3.65 billion. As mentioned previously, the lottery revenues is linked to education expenditures, thus any changes to the lottery revenues will affect government jobs in Florida. Out of the average annual 29,025 jobs between 2012 and 2060, 24,559 of them are government employment.

Figure 143: Top 12 Florida industries with largest average employment impact from lottery, 2012-2060, strong growth

Industry category, with NAICS code	Units	2012-2060
Construction (23)	Thousands (Jobs)	3.088
Nursing and residential care facilities (623)	Thousands (Jobs)	0.544
Food services and drinking places (722)	Thousands (Jobs)	0.444
Amusement, gambling, and recreation industries (713)	Thousands (Jobs)	0.348
Architectural, engineering, and related services (5413)	Thousands (Jobs)	0.344
Services to buildings and dwellings (5617)	Thousands (Jobs)	0.318
Individual and family services; Community and vocational rehabilitation services (6241-6243)	Thousands (Jobs)	0.287
Business support services; Investigation and security services; Other support services (5614, 5616, 5619)	Thousands (Jobs)	0.245
Management, scientific, and technical consulting services (5416)	Thousands (Jobs)	0.174
Wholesale trade (42)	Thousands (Jobs)	0.170
Waste management and remediation services (562)	Thousands (Jobs)	0.138
Hospitals (622)	Thousands (Jobs)	0.136

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 143 shows the private non-farm industries with largest average annual employment impact. Aside from the Amusement, Gambling, and Recreation Industries, which is the direct impact for this subsector, the rest are the top industries that are reliant on the lottery industry in Florida. Many of these industries, such as Services to Buildings and Dwellings, Business Support Services, and Management Consulting, are intermediate input suppliers to the lottery industry.

Figure 144: Average annual employment by demand source from lottery, 2012-2060, strong growth

Breakdown of Direct, Indirect, and Induced Employment	Units	2012-2060 Average
Private Non-Farm Employment	Thousands (Jobs)	4.466
Intermediate Demand Employment	Thousands (Jobs)	5.256
Local Consumption Demand Employment	Thousands (Jobs)	-2.384
Government Demand Employment	Thousands (Jobs)	2.625
Investment Activity Demand Employment	Thousands (Jobs)	0.496
Exports Employment	Thousands (Jobs)	-1.976
Exogenous Industry Sales Employment	Thousands (Jobs)	0.449

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 144 provides a breakdown of private non-farm employment by demand source. The Exogenous Industry Sales Employment represents the direct lottery employment. It can also be interpreted as the direct input we entered into the model. The average annual direct lottery employment impact is 449 jobs and the average annual indirect employment (Intermediate Demand Employment) supported by the lottery sector is 5,256. The average annual induced employment (sum of Local Consumption Demand, Government Demand, Investment Activity Demand, and Exports Demand Employment) impact as a result of the lottery industry is minus 1,239. The sum of the average annual direct, indirect, and induced employment is 4,466.

Figure 145: Economic and fiscal impacts of retail lottery industry, 2012-2060, strong growth

Summary	Units	2012-2060
Average Annual Employment	Thousands (Jobs)	75.060
Average Annual Population	Thousands	117.469
Cumulative Gross State Product	Billions of Fixed (2012) Dollars	349.330
Cumulative Personal Income	Billions of Fixed (2012) Dollars	347.93
Average Annual State Tax Revenues (fiscal year 2013 to 2060)	Billions of Fixed (2012) Dollars	0.551

Source: Regional Economic Models Inc., Spectrum Gaming Group

Between 2012 and 2060, the retail lottery industry is projected to support an annual average of 75,060 jobs in Florida under strong economic growth assumptions. The cumulative GSP is \$349.3 billion and personal income is \$347.9 billion. The average annual tax revenues generated from the indirect and induced impacts of the retail lottery industry between FY 2013 and FY 2060 are \$551 million.

Figure 146: Top 12 Florida industries with largest average employment impact from retail lottery, 2012-2060, strong growth

Industry category, with NAICS code	Units	2012-2060
Retail trade (44-45)	Thousands (Jobs)	41.473
Construction (23)	Thousands (Jobs)	9.160
Food services and drinking places (722)	Thousands (Jobs)	2.111
Computer systems design and related services (5415)	Thousands (Jobs)	2.058
Offices of health practitioners (6211-6213)	Thousands (Jobs)	1.618
Architectural, engineering, and related services (5413)	Thousands (Jobs)	1.433
Nursing and residential care facilities (623)	Thousands (Jobs)	1.362
Hospitals (622)	Thousands (Jobs)	1.132
Wholesale trade (42)	Thousands (Jobs)	1.112
Educational services (61)	Thousands (Jobs)	1.098
Home health care services (6216)	Thousands (Jobs)	0.948
Real estate (531)	Thousands (Jobs)	0.866

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 146 shows the private non-farm industries with largest average annual employment impact. Aside from Retail Trade, which is the direct impact for retail lottery, the rest are the top industries that are reliant on the retail lottery industry in Florida. Some of these, such as Wholesale Trade and Computer Systems Design Services, are intermediate input suppliers to the retail lottery industry. Others, such as Food Services and Drinking Places, provide goods and services to consumers whose income is dependent on the direct (retail lottery) or indirect jobs.

Figure 147: Average annual employment by demand source from retail lottery, 2012-2060, strong growth

Breakdown of Direct, Indirect, and Induced Employment	Units	2012-2060 Average
Private Non-Farm Employment	Thousands (Jobs)	74.847
Intermediate Demand Employment	Thousands (Jobs)	9.418
Local Consumption Demand Employment	Thousands (Jobs)	15.671
Government Demand Employment	Thousands (Jobs)	0.070
Investment Activity Demand Employment	Thousands (Jobs)	16.645
Exports Employment	Thousands (Jobs)	-6.055
Exogenous Industry Sales Employment	Thousands (Jobs)	39.099

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 147 is a breakdown of private non-farm employment by demand source. The Exogenous Industry Sales Employment represents the direct retail lottery employment. It can also be interpreted as the direct input we entered into the model. The average annual direct retail lottery employment impact is 39,099 jobs and the average annual indirect employment (Intermediate Demand Employment) supported by the retail lottery sector is 9,418. The average annual induced employment (sum of Local Consumption Demand, Government Demand, Investment Activity Demand, and Exports Demand Employment) impact as a result of the retail lottery industry is 26,330. The sum of the average annual direct, indirect, and induced employment is 74,847.

Figure 148: Economic and fiscal impacts of Native American casinos industry, 2012-2060, strong growth

Summary	Units	2012-2060
Average Annual Employment	Thousands (Jobs)	17.468
Average Annual Population	Thousands	24.983
Cumulative Gross State Product	Billions of Fixed (2012) Dollars	157.289
Cumulative Personal Income	Billions of Fixed (2012) Dollars	95.689
Average Annual State Tax Revenues (fiscal year 2013 to 2060)	Billions of Fixed (2012) Dollars	0.364

Source: Regional Economic Models Inc., Spectrum Gaming Group

Between 2012 and 2060, the Native American casinos industry is projected to support an annual average of 17,468 jobs in Florida under strong economic growth assumptions. The cumulative GSP is \$157.3 billion and personal income is \$95.7 billion. The average annual tax revenues generated from the direct, indirect, and induced impacts of the Native American casinos industry between FY 2013 and FY 2060 are \$364 million.

Figure 149: Top 12 Florida industries with largest average employment impact from Native American casinos, 2012-2060, strong growth

Industry category, with NAICS code	Units	2012-2060
Accommodation (721)	Thousands (Jobs)	9.918
Construction (23)	Thousands (Jobs)	0.851
Food services and drinking places (722)	Thousands (Jobs)	0.792
Services to buildings and dwellings (5617)	Thousands (Jobs)	0.713
Retail trade (44-45)	Thousands (Jobs)	0.330
Management, scientific, and technical consulting services (5416)	Thousands (Jobs)	0.281
Nursing and residential care facilities (623)	Thousands (Jobs)	0.224
Employment services (5613)	Thousands (Jobs)	0.215
Business support services; Investigation and security services; Other support services (5614, 5616, 5619)	Thousands (Jobs)	0.205
Hospitals (622)	Thousands (Jobs)	0.180
Wholesale trade (42)	Thousands (Jobs)	0.164
Advertising and related services (5418)	Thousands (Jobs)	0.151

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 149 shows the private non-farm industries with largest average annual employment impact. Aside from Accommodation, which is the direct impact for this analysis, the rest are the top industries that are reliant on the Native American casinos industry in Florida. Some of these, such as Services to Buildings and Dwellings and Business Support Services, are intermediate input suppliers to the gaming industry. Others, such as Food Services and Drinking Places, provide goods and services to consumers whose income is dependent on the direct (Native American casinos) or indirect jobs.

Figure 150: Average annual employment by demand source from Native American casinos, 2012-2060, strong growth

Breakdown of Direct, Indirect, and Induced Employment	Units	2012-2060 Average
Private Non-Farm Employment	Thousands (Jobs)	14.533
Intermediate Demand Employment	Thousands (Jobs)	5.145
Local Consumption Demand Employment	Thousands (Jobs)	0.987
Government Demand Employment	Thousands (Jobs)	0.300
Investment Activity Demand Employment	Thousands (Jobs)	0.672
Exports Employment	Thousands (Jobs)	-3.563
Exogenous Industry Sales Employment	Thousands (Jobs)	10.993

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 150 provides a breakdown of private non-farm employment by demand source. The Exogenous Industry Sales Employment represents the direct Native American casinos employment. It can also be interpreted as the direct input we entered into the model. The average annual direct Native American casinos employment impact is 10,993 jobs and the average annual indirect employment (Intermediate Demand Employment) supported by the gaming sector is 5,145. The average annual induced employment (sum of Local Consumption Demand, Government Demand, Investment Activity Demand, and Exports Demand Employment) impact as a result of the Native American casinos industry is minus 1,605. The sum of the average annual direct, indirect, and induced employment is 14,533.

Figure 151: Economic and fiscal impacts of Floridians' out-of-state gaming spending, 2012-2060, strong growth

Summary	Units	2012-2060
Average Annual Employment	Thousands (Jobs)	2.655
Average Annual Population	Thousands	4.263
Cumulative Gross State Product	Billions of Fixed (2012) Dollars	14.138
Cumulative Personal Income	Billions of Fixed (2012) Dollars	13.334
Average Annual State Tax Revenues (fiscal year 2013 to 2060)	Millions of Fixed (2012) Dollars	24.474

Source: Regional Economic Models Inc., Spectrum Gaming Group

Between 2012 and 2060, if out-of-state gambling dollars by Florida residents were to instead remain in Florida, this spending would support an annual average of 2,655 jobs in Florida under strong economic growth assumptions. The cumulative GSP is \$14.1 billion and personal income is \$13.3 billion. The average annual tax revenues generated from the indirect and induced impacts of the out-of-state gaming spending between FY 2013 and FY 2060 are \$24.5 million.

Figure 152: Top 12 Florida industries with largest average employment impact from Floridians' out-of-state gaming spending, 2012-2060, strong growth

Industry category, with NAICS code	Units	2012-2060
Retail trade (44-45)	Thousands (Jobs)	0.467
Offices of health practitioners (6211-6213)	Thousands (Jobs)	0.383
Food services and drinking places (722)	Thousands (Jobs)	0.157
Construction (23)	Thousands (Jobs)	0.145
Private households (814)	Thousands (Jobs)	0.120
Nursing and residential care facilities (623)	Thousands (Jobs)	0.094
Wholesale trade (42)	Thousands (Jobs)	0.094
Hospitals (622)	Thousands (Jobs)	0.088
Real estate (531)	Thousands (Jobs)	0.075
Educational services (61)	Thousands (Jobs)	0.065
Personal care services (8121)	Thousands (Jobs)	0.064
Home health care services (6216)	Thousands (Jobs)	0.062

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 152 shows the private non-farm industries that would have been impacted if Floridians' out-of-state gaming spending were brought back to Florida. Many of these industries, such as Retail Trade, Food Services and Drinking Places, and Private Households, are commonly supported by local spending.

Figure 153: Average annual employment by demand source from Floridians' out-of-state gaming spending, 2012-2060, strong growth

Breakdown of Direct, Indirect, and Induced Employment	Units	2012-2060 Average
Private Non-Farm Employment	Thousands (Jobs)	2.585
Intermediate Demand Employment	Thousands (Jobs)	0.428
Local Consumption Demand Employment	Thousands (Jobs)	2.185
Government Demand Employment	Thousands (Jobs)	0.011
Investment Activity Demand Employment	Thousands (Jobs)	0.224
Exports Employment	Thousands (Jobs)	-0.262
Exogenous Industry Sales Employment	Thousands (Jobs)	0.000

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 153 provides a breakdown of private non-farm employment by demand source. The Exogenous Industry Sales Employment represents direct employment. It can also be interpreted as the direct input we entered into the model. The average annual direct employment impact is 0 jobs because we did not use any employment policy variables to model this consumption reallocation of Floridians' out-of-state gaming spending. The average annual indirect employment (Intermediate Demand Employment) is 428. The average annual induced employment (sum of Local Consumption Demand, Government Demand, Investment Activity Demand, and Exports Demand Employment) impact is 2,157. The sum of the average annual direct, indirect, and induced employment is 2,585.

4. Out-of-State Gambling Spending Contribution

While the previous section evaluates the impacts of the total Florida gaming sector as well as the substitution effects of Floridians' gambling spending, we carried out another simulation to specifically assess at the contribution of gambling spending from out of state (non-Florida residents). For this simulation, we assume 5 percent of the GGR to the pari-mutuel was from out of state, 2 percent of the net lottery sales to the lottery (excluding retailers) was from out of state, and 15 percent of the GGR to Native American casinos as from out of state.

Figure 154: Economic and fiscal impacts from non-resident gambling spending in Florida in 2012

Summary	Units	2012
Total Employment	Thousands (Jobs)	3.857
Population	Thousands	0.943
Gross State Product (GSP)	Billions of Fixed (2012) Dollars	0.379
Personal Income	Billions of Fixed (2012) Dollars	0.183
State Tax Revenues (fiscal year 2013)	Millions of Fixed (2012) Dollars	92.188

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 154 exhibits the total economic and fiscal impacts generated from non-Florida residents' gambling spending in 2012. The total non-resident gambling spending supports a total of 3,857 jobs in Florida. The associated GSP is \$379 million and it generated \$183 million in personal income. The tax revenue generated from the direct, indirect, and induced impacts of the non-resident gambling spending in FY 2013 is \$92.2 million.

Figure 155: Top 12 Florida industries with largest employment impact from non-resident gambling spending in 2012

Industry category, with NAICS code	Units	2012
Accommodation (721)	Thousands (Jobs)	1.209
Amusement, gambling, and recreation industries (713)	Thousands (Jobs)	0.224
Retail trade (44-45)	Thousands (Jobs)	0.216
Construction (23)	Thousands (Jobs)	0.204
Services to buildings and dwellings (5617)	Thousands (Jobs)	0.135
Food services and drinking places (722)	Thousands (Jobs)	0.132
Offices of health practitioners (6211-6213)	Thousands (Jobs)	0.088
Real estate (531)	Thousands (Jobs)	0.068
Wholesale trade (42)	Thousands (Jobs)	0.062
Business support services; Investigation and security services; Other support services (5614, 5616, 5619)	Thousands (Jobs)	0.054
Private households (814)	Thousands (Jobs)	0.041
Employment services (5613)	Thousands (Jobs)	0.037

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 155 shows the private non-farm industries that are dependent on the gaming industry (Accommodation and Amusement, Gambling, and Recreation Industries). Some of these, such as Services to Buildings and Dwellings and Business Support Services, are intermediate input suppliers to the gaming industry. Others, such as Retail Trade and Food Services and Drinking Places, provide goods and services to consumers whose income is dependent on the direct (gaming) or indirect jobs.

Figure 156: Employment by demand source from non-resident gambling spending in 2012

Breakdown of Direct, Indirect, and Induced Employment	Units	2012
Private Non-Farm Employment	Thousands (Jobs)	3.114
Intermediate Demand Employment	Thousands (Jobs)	0.912
Local Consumption Demand Employment	Thousands (Jobs)	0.630
Government Demand Employment	Thousands (Jobs)	0.084
Investment Activity Demand Employment	Thousands (Jobs)	0.108
Exports Employment	Thousands (Jobs)	-0.113
Exogenous Industry Sales Employment	Thousands (Jobs)	1.492

Source: Regional Economic Models Inc.

Notes: Direct Employment = direct amount of employment entered into the model; Intermediate Demand Employment = employment needed to satisfy demand for material inputs to the production of final goods; Local Consumption Employment = Employment needed to satisfy demand for consumer goods; Government Demand Employment = Employment needed to satisfy demand for goods and services by government expenditures; Investment Activity Demand Employment = Employment needed to satisfy demand for residential and non-residential capital goods; Export Demand Employment = Employment needed to satisfy demand for a region's good services from outside Florida

Figure 156 above provides a breakdown of private non-farm employment by demand source. The Exogenous Industry Sales Employment represents the direct pari-mutuel, lottery, and Native American casinos employment. It can also be interpreted as the direct input we entered into the model. The direct employment impact is 1,492 jobs in 2012, and the indirect employment (Intermediate Demand Employment) supported by non-resident gambling spending is 912. The induced employment (sum of Local Consumption Demand, Government Demand, Investment

Activity Demand, and Exports Demand Employment) impact as a result of the non-resident gambling spending is 709. The sum of the direct, indirect, and induced employment is 3,114.

Figure 157: Economic and fiscal impacts from non-resident gambling spending, 2012-2060

Summary	Units	2012-2060
Average Annual Employment	Thousands (Jobs)	5.024
Average Annual Population	Thousands	7.239
Cumulative Gross State Product	Billions of Fixed (2012) Dollars	36.513
Cumulative Personal Income	Billions of Fixed (2012) Dollars	25.409
Average Annual State Tax Revenues (fiscal year 2013 to 2060)	Millions of Fixed (2012) Dollars	167.445

Source: Regional Economic Models Inc., Spectrum Gaming Group

Between 2012 and 2060, the total non-Florida residents gambling spending support an annual average of 5,024 jobs in Florida. The cumulative GSP is \$36.5 billion and personal income is \$25.4 billion. The average annual tax revenues generated from the direct, indirect, and induced impacts of between FY 2013 and 2060 are \$167.4 million.

Figure 158: Top 12 Florida industries with largest employment impact from non-resident gambling spending, 2012-2060

Industry category, with NAICS code	Units	2012-2060
Accommodation (721)	Thousands (Jobs)	1.561
Construction (23)	Thousands (Jobs)	0.288
Retail trade (44-45)	Thousands (Jobs)	0.246
Food services and drinking places (722)	Thousands (Jobs)	0.209
Offices of health practitioners (6211-6213)	Thousands (Jobs)	0.156
Services to buildings and dwellings (5617)	Thousands (Jobs)	0.155
Nursing and residential care facilities (623)	Thousands (Jobs)	0.101
Wholesale trade (42)	Thousands (Jobs)	0.075
Hospitals (622)	Thousands (Jobs)	0.074
Management, scientific, and technical consulting services (5416)	Thousands (Jobs)	0.064
Business support services; Investigation and security services; Other support services (5614, 5616, 5619)	Thousands (Jobs)	0.063
Home health care services (6216)	Thousands (Jobs)	0.060

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 158 shows the private non-farm industries that are dependent on the gaming industry (Accommodation and Amusement, Gambling, and Recreation Industries). Some of these, such as Services to Buildings and Dwellings and Business Support Services, are intermediate input suppliers to the gaming industry. Others, such as Retail Trade and Food Services and Drinking Places, provide goods and services to consumers whose income is dependent on the direct (gaming) or indirect jobs.

Figure 159: Employment by demand source from non-resident gambling spending, 2012-2060

Breakdown of Direct, Indirect, and Induced Employment	Units	2012-2060 Average
Private Non-Farm Employment	Thousands (Jobs)	3.851
Intermediate Demand Employment	Thousands (Jobs)	1.212
Local Consumption Demand Employment	Thousands (Jobs)	1.112
Government Demand Employment	Thousands (Jobs)	0.120
Investment Activity Demand Employment	Thousands (Jobs)	0.232
Exports Employment	Thousands (Jobs)	-0.718
Exogenous Industry Sales Employment	Thousands (Jobs)	1.893

Source: Regional Economic Models Inc.

Notes: Direct Employment = direct amount of employment entered into the model; Intermediate Demand Employment = employment needed to satisfy demand for material inputs to the production of final goods; Local Consumption Employment = Employment needed to satisfy demand for consumer goods; Government Demand Employment = Employment needed to satisfy demand for goods and services by government expenditures; Investment Activity Demand Employment = Employment needed to satisfy demand for residential and non-residential capital goods; Export Demand Employment = Employment needed to satisfy demand for a region's good services from outside Florida

Figure 159 above provides a breakdown of private non-farm employment by demand source. The Exogenous Industry Sales Employment represents the direct pari-mutuel, lottery, and Native American casinos employment. It can also be interpreted as the direct input we entered into the model. The average annual direct employment impact is 1,893 jobs, and the average annual indirect employment (Intermediate Demand Employment) supported by non-resident gambling spending is 1,212. The average annual induced employment (sum of Local Consumption Demand, Government Demand, Investment Activity Demand, and Exports Demand Employment) impact as a result of the non-resident gambling spending is 746. The sum of the direct, indirect, and induced employment is 3,851.

5. Hialeah Park Construction Impacts, 2011-2013

Similar to the previous section, we modeled the construction of Hialeah Park separately from the gambling industry assessment. Instead of modeling the impact of construction for only 2012, however, we modeled the construction activity in its entirety, starting in 2011 and ending in 2013, under the assumption that the construction duration is 24 months starting in summer of 2011. The total cost of construction for Hialeah Park is \$63.36 million, with an average annual construction employment of 210.

Figure 160: Economic and fiscal impacts of Hialeah Park construction, 2011-2013

Summary	Units	2011-2013
Average Annual Employment	Jobs	248
Average Annual Population	Individuals	107
Cumulative Gross State Product	Millions of Fixed (2012) Dollars	60.730
Cumulative Personal Income	Millions of Fixed (2012) Dollars	38.513
Cumulative State Tax Revenues (fiscal year 2013 to 2014)	Millions of Fixed (2012) Dollars	1.445

Source: Regional Economic Models Inc., Spectrum Gaming Group

The construction activity from 2011 to 2013 generates an annual average of 248 jobs, a total of \$60.7 million in GSP, and \$38.5 million in personal income in Florida. It also induces \$1.45 million in state tax revenue from FY 2013 to FY 2014.

D. Conclusion

This analysis examines the gambling industry and its economic and fiscal contribution to Florida. The first part of the REMI economic impact analysis (“Assessing the Florida’s Existing Economic Base, Now and Future”) illustrates that although the various gambling subsectors (racinos/pari-mutuels, lottery, and Native American casinos) account for only a fraction of employment and wages within its respective aggregate sector, they are highly productive industries and generate a considerable amount of direct economic output to Florida.

In addition, the gaming industry has consistently brought revenue for the State of Florida historically. Below is tax collection information from FY 2000:

Figure 161: FY 2000 to FY 2012 tax revenue by gaming sectors

	Units	FY 00	FY 01	FY 02	FY 03	FY 04	FY 05	FY 06
Indian Gaming	Millions of Current Dollars	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pari-mutuel Fees, Licenses, Taxes Total	Millions of Current Dollars	57.5	34.7	35.1	32.4	32.1	32.0	33.6
Slot Machine Total	Millions of Current Dollars	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Lottery Total	Millions of Current Dollars	1,159.5	1,157.3	1,181.0	1,327.6	1,361.9	1,393.4	1,639.3
	Units	FY 07	FY 08	FY 09	FY 10	FY 11	FY 12	
Indian Gaming	Millions of Current Dollars	0.0	0.0	0.0	287.5	140.4	150.0	
Pari-mutuel Fees, Licenses, Taxes Total	Millions of Current Dollars	33.9	33.8	29.2	26.6	26.0	26.9	
Slot Machine Total	Millions of Current Dollars	61.6	132.3	114.0	153.0	149.4	156.5	
Lottery Total	Millions of Current Dollars	1,681.0	1,602.5	1,590.8	1,550.7	1,506.9	1,671.3	

Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 162: Summary of employment; tax revenue results dollars in fixed 2012 millions

2012	Direct Employment	Indirect Employment	Induced Employment	State Tax Revenues (FY 2013) (M)
Pari-mutuel	4,953	1,659	1,309	\$206.6
Lottery	408	2,267	-111	\$1,882.0
Retail Lottery	39,900	4,206	14,042	\$123.7
Native American Casinos	10,387	6,137	3,785	\$293.3
Floridians' Out-of-State Gaming Spending	0	693	3,143	\$15.4
2012-2060 Slow Growth	Average Annual Direct Employment	Average Annual Indirect Employment	Average Annual Induced Employment	Average Annual State Tax Revenues (FY2013-2060) (M)
Pari-mutuel	5,449	1,757	-1,298	\$587
Lottery	449	5,295	969	\$3,452
Retail Lottery	39,099	10,148	28,918	\$581
Native American Casinos	10,933	6,246	769	\$401
Floridians' Out-of-State Gaming Spending	0	488	2,334	\$28.6
2012-2060 Normal Growth	Average Annual Direct Employment	Average Annual Indirect Employment	Average Annual Induced Employment	Average Annual State Tax Revenues (FY 2013-2060) (M)
Pari-mutuel	5,449	1,607	-1,939	\$581
Lottery	449	5,288	-1,106	\$3,561
Retail Lottery	39,099	9,775	27,674	\$590
Native American Casinos	10,933	5,660	-473	\$374
Floridians' Out-of-State Gaming Spending	0	455	2,239	\$27
2012-2060 Strong Growth	Average Annual Direct Employment	Average Annual Indirect Employment	Average Annual Induced Employment	Average Annual State Tax Revenues (FY 2013-2060) (M)
Pari-mutuel	5,449	1,478	-2,506	\$575
Lottery	449	5,256	-1,239	\$3,645
Retail Lottery	39,099	9,418	26,330	\$551
Native American Casinos	10,933	5,145	-1,605	\$364
Floridians' Out-of-State Gaming Spending	0	428	2,157	\$25

Source: Regional Economic Models Inc., Spectrum Gaming Group

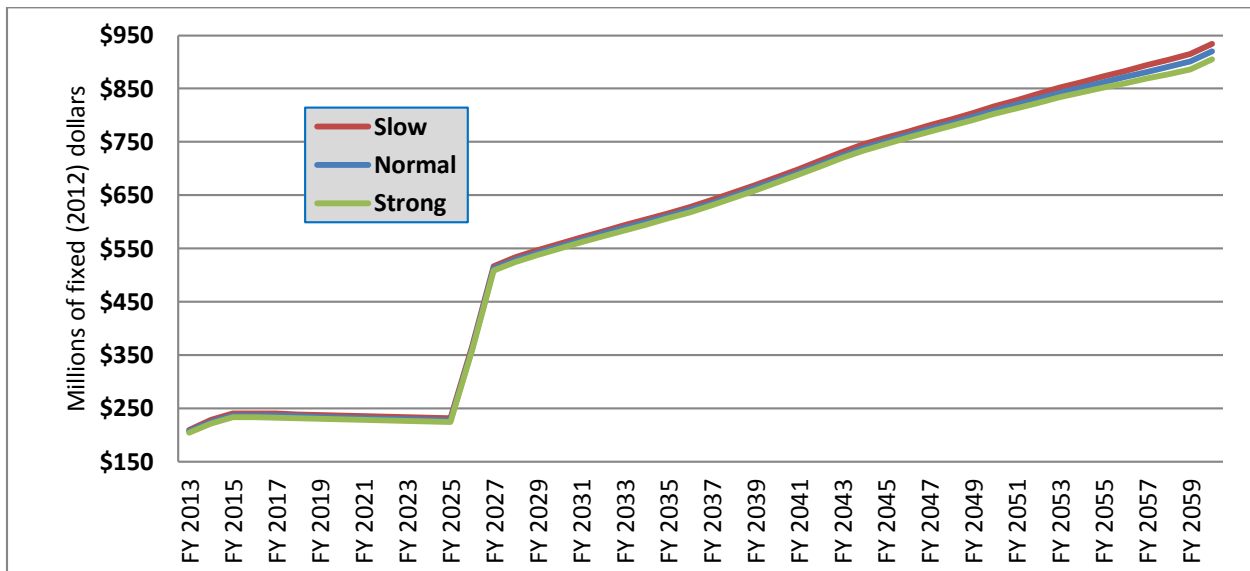
The second section (“B. Discussion of Components of Economic and Fiscal Impacts”) examines the total economic and fiscal impacts of the gambling industry by subsector in 2012. The analysis of the existing gambling industry reveals the nature of each of the subsectors in a snapshot in time. This snapshot tells us how many jobs exist in each subsector, how it uses intermediate inputs, and how the reallocation of consumer dollars toward it impacts the economy. The direct jobs show the employment in each subsector. The indirect jobs are those that result from business-to-business sales. In other words, the indirect jobs show us the total supply chain impacts of the change in business activity.

Finally, perhaps the one result that stands out the most is in induced employment. It mainly shows the change in the number of jobs supported by local consumption. We know that households

have a fixed budget, so every consumption decision implies the foregoing of an alternative purchase. Specifically in this case, if households allocate part of their budget toward gambling then they must forego other consumption. Much of the foregone spending is assumed to be from gambling out of state. The negative induced employment numbers mainly represent jobs that household spending could have supported if spending on gambling were not available. It should be noted that induced employment includes other categories which are noted in the body of the report but in these simulations are quite small in relation to local consumption demand.

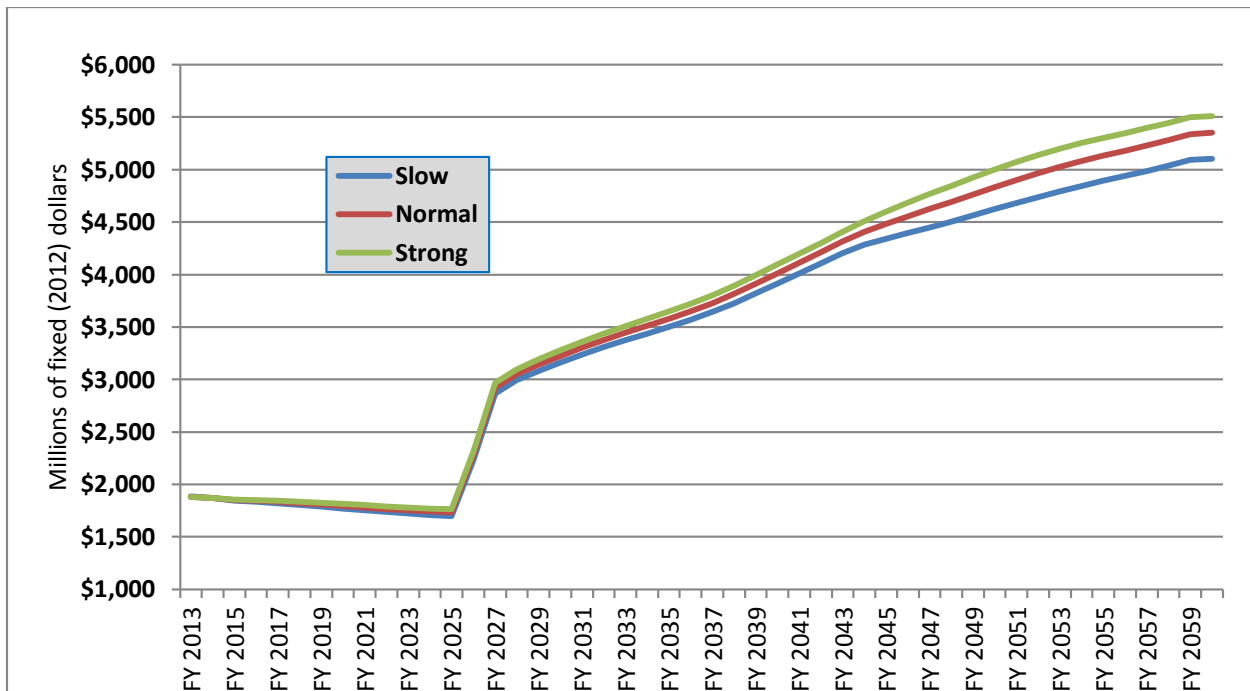
The next five charts show the changes in tax revenue resulting from the counterfactual scenarios that REMI ran under the three different growth scenarios. All scenarios, except Retail Lottery, display a similar shape due to the calibration of the underlying tax module of Tax-PI. As stated earlier, REMI used the budget provided by EDR in order to be consistent with the work already being done in Florida. EDR forecasted the state’s revenue out to 2025 using its internal expertise and Florida’s Long-Term Revenue Analysis. That forecast is driving the results up to that date. After 2025, EDR’s calibration of the drivers of tax revenue drives the forecast for the remainder of the analysis period. The change between the different methods employed by EDR can be seen in the graphs in the transitional year of 2025-2026. EDR also built in the revenue effects of the expiration of the gaming compact with the Seminole Tribe in 2015. Lastly, the reason that the Retail Lottery scenario does not have the bump in 2025 is that there are no direct tax revenue changes as part of the simulation inputs unlike in the other four sectors.

Figure 163: Summary of state tax revenue growth scenarios – pari-mutuel



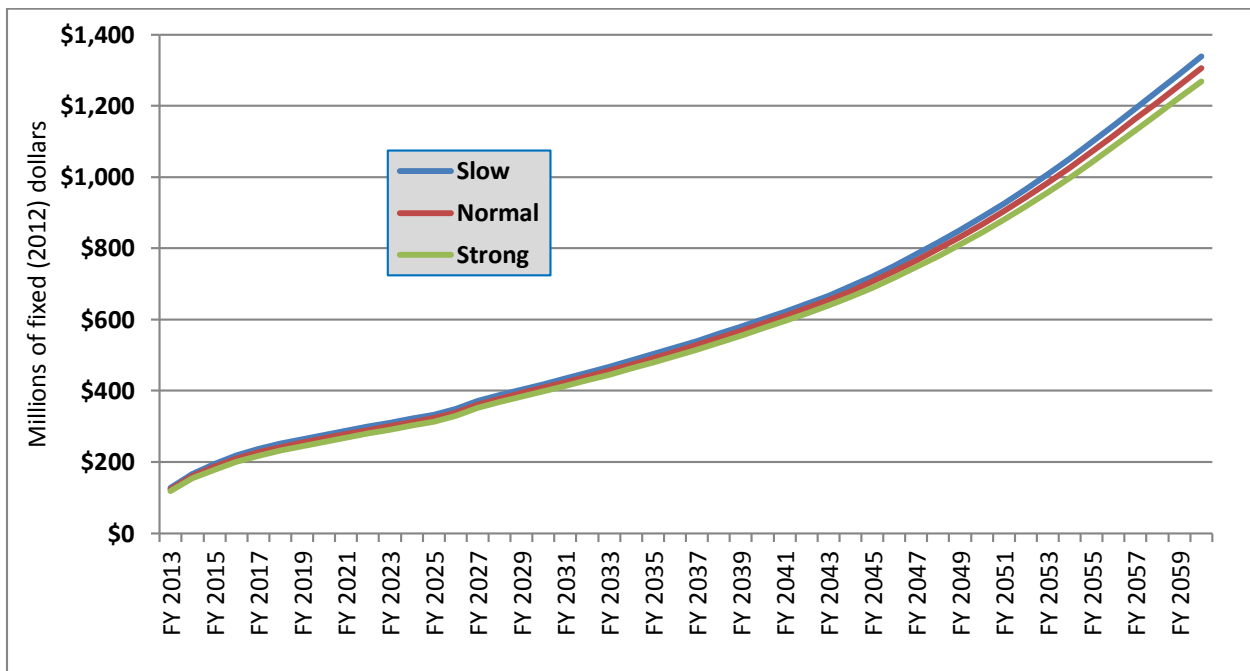
Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 164: Summary of state tax revenue growth scenarios – lottery



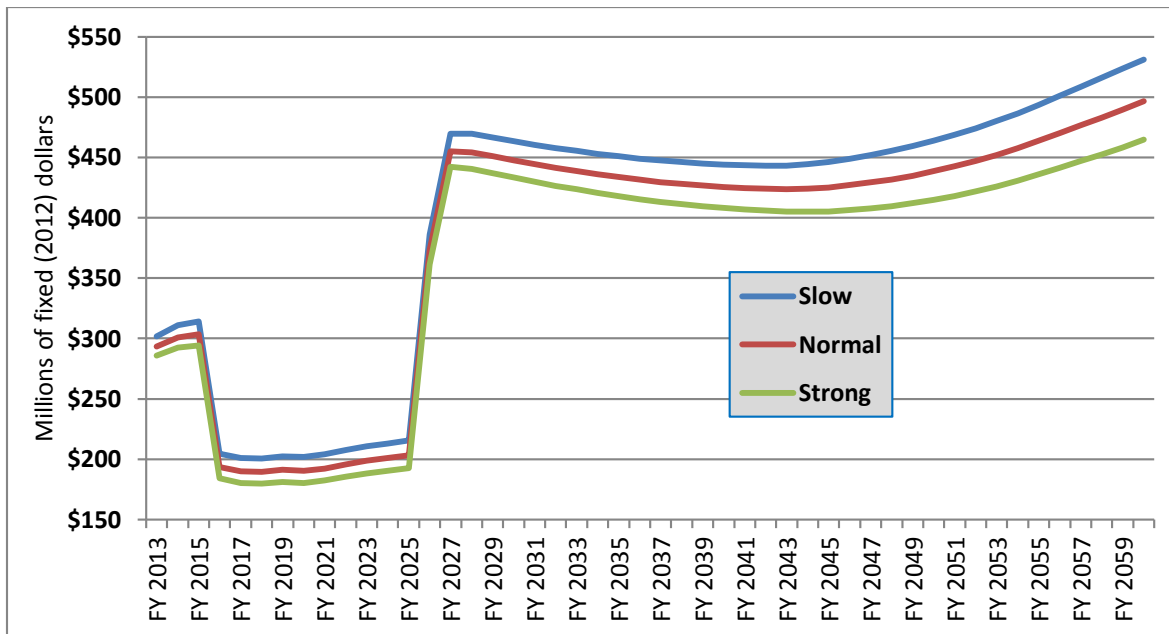
Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 165: Summary of state tax revenues – retail lottery



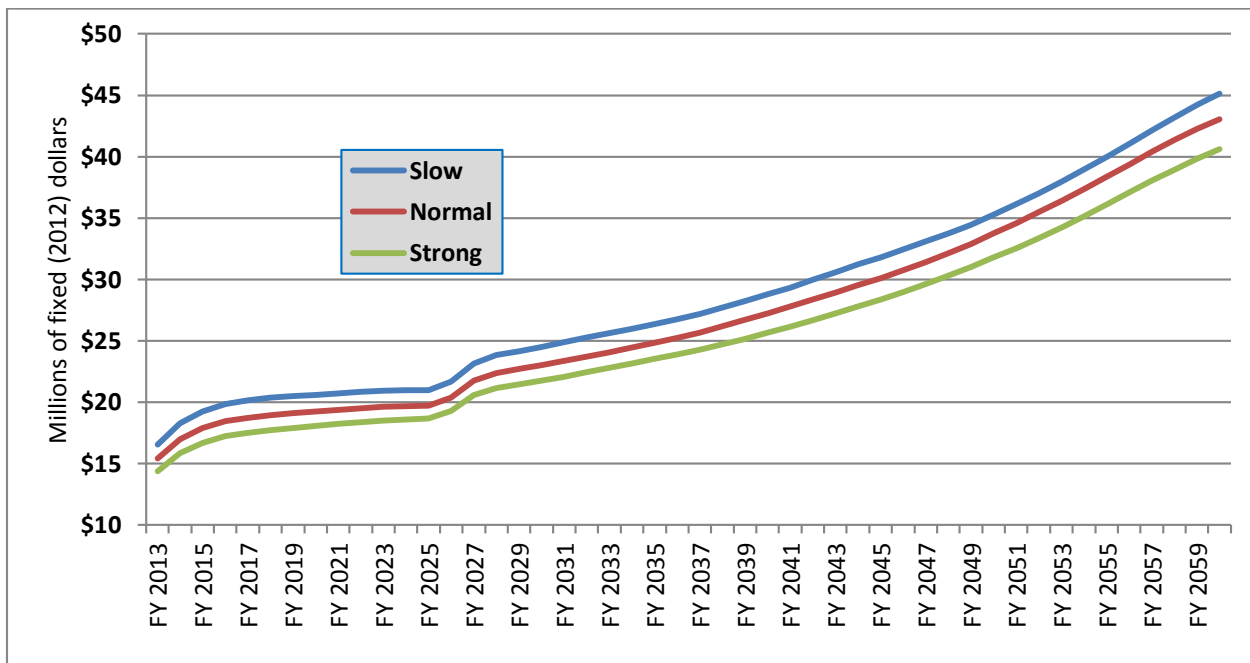
Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 166: Summary of state tax revenues – Native American casinos



Source: Regional Economic Models Inc., Spectrum Gaming Group

Figure 167: Summary of state tax revenues – Floridians’ out-of-state gaming spending



Source: Regional Economic Models Inc., Spectrum Gaming Group

The third section (“C. Assessment of Economic, Fiscal Impacts over Time”) evaluates the total economic and fiscal impacts of the gambling industry by subsector from 2012 through 2060 under three different economic growth assumptions: 5 percent slower, normal (per EDR benchmark), and 5 percent stronger. A cursory examination of the results under the three scenarios

reveals them to be largely the same, which is due to the nature of the simulations. A key point to remember is that the simulation inputs do not change under the various growth assumptions, meaning that we are applying the same shock to three different national economic bases. Any divergence in the results is due to differences in how the same shock ripples through the three economies.

Structurally, we notice that the average results over the 49-year period resemble the snapshot in 2012. The fundamental makeup of these sectors is not expected to change significantly over the forecast horizon. Therefore, we do not expect to see large variations in the relationship between direct, indirect, and induced employment. We see more negative induced employment numbers than in the 2012 snapshot. That difference is due to the growth of in-state gambling spending relative to out-of-state spending.

An interesting result is seen in the comparison of the same result over the three growth scenarios. We can see that the results tend to be biggest in the slow scenario and smallest in the strong scenario. This can seem counter-intuitive. We have previously established that the inputs are the same in each simulation and, so, any differences are due to ripple effects, not direct inputs. So why would the ripple effects be smaller in the strong growth case? The answer boils down to the available slack in the economy. In a slower economy, additional labor is more readily available and costs and prices are lower. These factors mean that the same shock in a slightly weaker economy will have greater job, income, consumption, and business activity impacts, as there would be fewer constraints to growth.

About This Report

This report was prepared by Spectrum Gaming Group, an independent research and professional services firm founded in 1993 that serves private- and public-sector clients worldwide. Our professionals have backgrounds in regulation, economic and financial analysis, law enforcement, gaming operations, market research and journalism.

Spectrum neither supports nor opposes legalized gambling or the expansion of it. Neither the company nor its employees hold a beneficial interest in any casino operating companies or gaming equipment manufacturers or suppliers. We employ only senior-level executives and associates who have earned reputations for honesty, integrity and the highest standards of professional conduct. Our work is never influenced by the interests of past or potentially future clients.

Each Spectrum project is customized to our client's specific requirements and developed from the ground up. Our findings and conclusions are based solely on our research, analysis and experience. Our mandate is not to tell clients what they want to hear; we tell them what they need to know. We will not accept, and have never accepted, engagements that seek a preferred result.

Spectrum's public-sector clients have included agencies or branches for 14 US state or territory governments and several international government agencies. Our private-sector clients have included most major casino companies, as well as investment firms, developers, law firms and architects. Our past clients in Florida, which have been disclosed to the Legislature in connection with this engagement, include Genting, Hialeah Park, the Seminole Tribe of Florida, and Sunrise Sports & Entertainment.

Spectrum executives have testified before the following government bodies:

- Georgia Joint Committee on Economic Development and Tourism
- Illinois Gaming Board
- Indiana Horse Racing Commission
- Indiana Gaming Study Commission
- International Tribunal, The Hague
- Massachusetts Gaming Commission
- Massachusetts Joint Committee on Bonding, Capital Expenditures, and State Assets
- New Hampshire Gaming Study Commission
- National Gambling Impact Study Commission
- New Jersey Assembly Tourism and Gaming Committee
- New Jersey Senate Legislative Oversight Committee
- New Jersey Senate Wagering, Tourism & Historic Preservation Committee
- Ohio Casino Control Commission
- Ohio House Economic Development Committee

- Ohio Senate Oversight Committee
- Pennsylvania Gaming Control Board
- US House Congressional Gaming Caucus
- US Senate Indian Affairs Committee
- US Senate Select Committee on Indian Gaming
- US Senate Subcommittee on Organized Crime

Disclaimer

Spectrum has made every reasonable effort to ensure that the data and information in this study reflect the most accurate and timely information possible. The data are believed to be generally reliable. This study is based on estimates, assumptions, and other information developed by Spectrum from its independent research efforts, general knowledge of the gaming industry, and secondary research. Spectrum shall not be responsible for any inaccuracies in reporting by the Client or its agents and representatives, or any other data source used in preparing or presenting this study. The data presented in this study were collected through the cover date of this report. Spectrum has not undertaken any effort to update this information since this time.

Some significant factors that are unquantifiable and unpredictable – including, but not limited to, economic, governmental, managerial and regulatory changes; and acts of nature – are qualitative by nature, and cannot be readily used in any quantitative projections.

No warranty or representation is made by Spectrum that any of the projected values or results contained in this study will actually be achieved. We shall not be responsible for any deviations in the project's actual performance from any predictions, estimates, or conclusions contained in this study.

This study is qualified in its entirety by, and should be considered in light of, these limitations, conditions and considerations.

Appendix I: Research Interviews

Spectrum Gaming Group staff and associates have interviewed the following through June 28, 2013, as part of our research for the Florida Gaming Study. The interviews were conducted in person, by telephone and/or by email. The purpose of some of the interviews may have been primarily for Part 1-B or Part II, which are being submitted to the State on or before October 1, 2013.

Last	First	Affiliation	Title	Date
Acosta	David	Ohio Casino Control Commission	Director of Licensing	May 20, 2013
Adams	Maureen	Calder Casino & Race Course	Senior Director of Finance	May 2, 2013
Adkins	Dan	Mardi Gras Casino	COO	May 1, 9, 2013
Allen	James	Seminole Gaming	CEO	May 1, 2013
Appleton	Doreen	Pennsylvania Gaming Control Board	Special Assistant, Communications	May 20, 2013
Barnes	Connie	Florida Lottery	Director of Communications	May 17, 2013
Bartek	David	Loews Hotels at Universal Orlando	Area Managing Director	May 29, 2013
Biegalski	Leon	Division of Pari-Mutuel Wagering	Director	May 8, May 22, 2012
Bissett	William	Daytona Greyhound Track	Adviser	May 23, 2013
Brower	Chaz	Hamilton Jai Alai and Poker	Jai Alai player	May 10, 2013
Brunetti	John	Hialeah Park	Chairman of the Board	May 9, June 4, 2013
Calabro	Steve	Hialeah Park	Vice President, General Manager Gaming	May 9, 2013
Carbone	Noah	Palm Beach Kennel Club	Cardroom Manager	May 15, 2013
Carroll	Sarra	Florida Sheriff's Association	Assistant Executive Director of Operations	May 23, 2013
Cebbalos	Orlando	Link Construction	Project Manager	May 21, 2013
Cliburn	Tom	Hialeah Race Track Casino	Comptroller	June 4, 2013
Collett	William	Casino Miami Jai Alai	President & CEO	May 2, 2013
Combest	Phil	Florida Horsemen's Benevolent & Protective Association	President	May 2, 2013
Connors	Brian	Massachusetts Gaming Commission	Detective Lieutenant	June 14, 2013
Conroy	Dennis	<i>Bingo Bugle Magazine</i>	Publisher	May 19, 2013
Cory	Jack	Florida Greyhound Association	Lobbyist	May 10, 2013
Couch	Michael	Gulfstream Race Course	Gaming Director	May 12, 2013
Cox	Wesley	North Florida Horsemen's Association	Chairman	May 12, 2013
Davis	Tama	Ohio Casino Control Commission	Director of Communications	June 17, 2013
Deluca	Mike	Mardi Gras Casino	Slot Director	May 9, 2013
Dissinger	Donald	Ewing Cole Architect	Senior Vice President	May 20-28, 2013
Dunbar	Marc	Jones Walker	Partner	May 2, 2013
Fisch	Steve	Florida Quarter Horse Breeders' and Owners Association	President	May 13, 2013
Fontaine	Gale	Florida Arcade and Bingo Association	President	May 21, 2013
Forrest	Mat	Palm Beach Kennel Club	Adviser	May 15, 2013

Last	First	Affiliation	Title	Date
Fowler	Pat	Florida Council on Compulsive Gambling	Exec. Dir.	May 24, 2013
Giery	Adam	Florida Chamber of Commerce	Director of Talent, Education and Quality of Life	May 23, 2013
Glenn	Michael	Palm Beach Kennel Club	General Manager	May 15, 2013
Harbach	Doug	Pennsylvania Gaming Control Board	Director of Communications	May 21, 2013
Harris	Glenda	4 Star Bingo	Owner/Operator	May 22, 2013
Havenick	Alexander	Magic City Casino	VP, Operations and Legal	May 8, 2013
Havenick	Isadore	Magic City Casino	VP, Director of Governmental Affairs	April 26, 2013
Hellkamp	Erin	Central Florida Hotel & Lodging Association	Public Policy Director	May 29, 2013
Heneghan	Dan	New Jersey Casino Control Commission	Public Information Officer	May 20, 2013
Hogenmuller	John	Florida Prosecuting Attorneys Association	Executive Director	May 20, 2013
Hudson	Ian	Iowa Racing and Gaming Commission	Executive Office	May 21, 2013
Huscroft	Sonya	VKGS LLC, d/b/a Video King	Director of Compliance	May 22, 2013
Jenkins	Ed	Seminole Tribal Gaming Commission	Director of Compliance and Regulations	May 20, 2013
Jonas	Dave	Phoenix Gaming & Entertainment	President	May 2, 2013
Jones	Carol	Iowa Racing and Gaming	Director of Operations	June 17, 2013
Keith	Kocher	Kansas Lottery	Director of Gaming Facilities	May 20, 2013
Lawson	Kent	Department of Business & Professional Regulation	Secretary	April 30, 2013
Letson	Laura	Florida Council on Compulsive Gambling	Corporate Consultant	May 8, 13, 24, 2013
Licciardi	Daniel	Casino Miami Jai Alai	Chief Operating Officer	May 2, 2013
Love	Joe	Palm Beach Kennel Club	Director of Governmental Affairs	May 14, 15, 2013
Lupfer	Bill	Florida Attractions Association	President	May 23, 2013
Maladecki	Rich	Central Florida Hotel & Lodging Association	President/CEO	May 29, 2013
Manley	Mike	Florida Lottery	Director of Legislative Affairs	May 22, 2013
Martin	Jim	Florida Department of Law Enforcement	Attorney	June 17, 2013
Martinez	Felix	Link Construction	Chief Estimator	May 21, 2013
May	Steve	Association of Racing Commissioners International	Vice-President	May 29, 2013
McGarvey	Richard	Pennsylvania Gaming Control Board	Public Information Officer	June 14, 2013
McGee	Gene	Jacksonville Greyhound Racing Inc.	Adviser	May 30, 2013
McGregor	James	The Southern Economist LLC	Principal	May 20, 2013
McIntosh	Jeff	VKGS LLC d/b/a Video King	General Manager	May 22, 2013
McReynolds	John	Universal Parks & Resorts	Sr. Vice President of External Affairs	May 29, 2013
Miskell	Bill	Kansas Racing and Gaming Commission	Public Information Officer	May 20, June 17, 2013
Mitchell	Donn	Isle of Capri	Sr. Vice President	May 28, 2013
Ossip	Alon	Stronach Group	CEO	May 2, 2013
Peeples	Jack	Hialeah Park Casino	General Counsel	May 9, 2013
Pennachio	Joseph	Florida Standardbred Breeder's & Owner's Association	President	April 25, 2013

Last	First	Affiliation	Title	Date
Peoples	Jack	Hialeah Race Track Casino	Adviser	June 4, 2013
Pierce	Jennifer	Florida Horsemen's Benevolent and Protective Association	Adviser	May 12, 2013
Pottinga	Jetse	Melia Hotels	General Manager	May 29, 2013
Powell	Lonnie	Florida Thoroughbred Breeders' and Owners' Association	CEO	May 10, 2013
Quilty	Jim	Iowa Greyhound Owners' Association	Lawyer	May 13, 2013
Reside	Catherine	Mardi Gras Casino	Chief Operating Executive	May 9, 2013
Richards	Glenn	Hamilton Jai Alai and Poker	General Manager	May 9, 2013
Ridge	Doug	Orlando World Center Marriott Resort & Convention Center	General Manager	May 29, 2013
Ritvo	Tim	Stronach Group	Chief Operating Officer	May 2, 2013
Robinson	Mary Ann	Mardi Gras Casino	Chief Financial Officer	May 9, 2013
Sargent	Thea	Disney's Contemporary Resort	General Manager	May 29, 2013
Savin	Scott	Magic City Casino	CFO	April 26, May 8, 2013
Schmitzer	Miriam	Florida Lottery	Executive Assistant to the Secretary	May 23, 2013
Searcy	Brenda	Bingo at Four Corners	General Manager	May 21, 2013
Shelton	Jamie	Jacksonville Greyhound Racing Inc.	CFO	May 30, 2013
Shore	Jim	Seminole Tribe	General Counsel	May 1, 2013
Smoley	Sharon	Walt Disney Parks and Resorts U.S.	Government Relations Manager	May 29, 2013
Sowinski	John	No Casinos, Inc.	President	May 29, 2013
Spengler	Lisa	New Jersey Division of Gaming Enforcement	Public Information Officer	June 14, 2013
Stewart	Tim	VKGS LLC d/b/a Video King	President/CEO	May 22, 2013
Stirling	Kent	Florida Horsemen's Benevolent and Protective Association	Executive Director	May 2, 11, 2013
Tanner	Michael	US Trotting Association	Executive Director	May 24, 2013
Testa	Dan	Hialeah Park	Construction & Design	May 20, 2013
Theil	Carey	Grey2 K USA	Executive Director	May 17, 2013
Thomas	Chris	Bingo Magic of Lake Worth	Owner/Operator	May 21, 2013
Ventura	Tom	Ocala Breeders' Sales Company	President	May 20, 2013
Verghese	Sam	Department of Business & Professional Regulation	Legislative Affairs Director	April 30, 2013
Vincent	Jackie	Maryland Lottery and Gaming Control Agency	Chief of Staff	June 17, 2013
Warfield	Cindy	VKGS LLC d/b/a Video King	General Manager	May 22, 2013
Wolf	Michael	Florida Arcade and Bingo Association	General Counsel	May 21, 2013
Woodburn	Jeffrey	Executive Office of the Governor	Deputy Policy Director	May 5-28, 2013
Wyre	Rob	Isle Casino Racing Pompano Park	General Manager	May 1, 13, 2013

Source: Spectrum Gaming Group

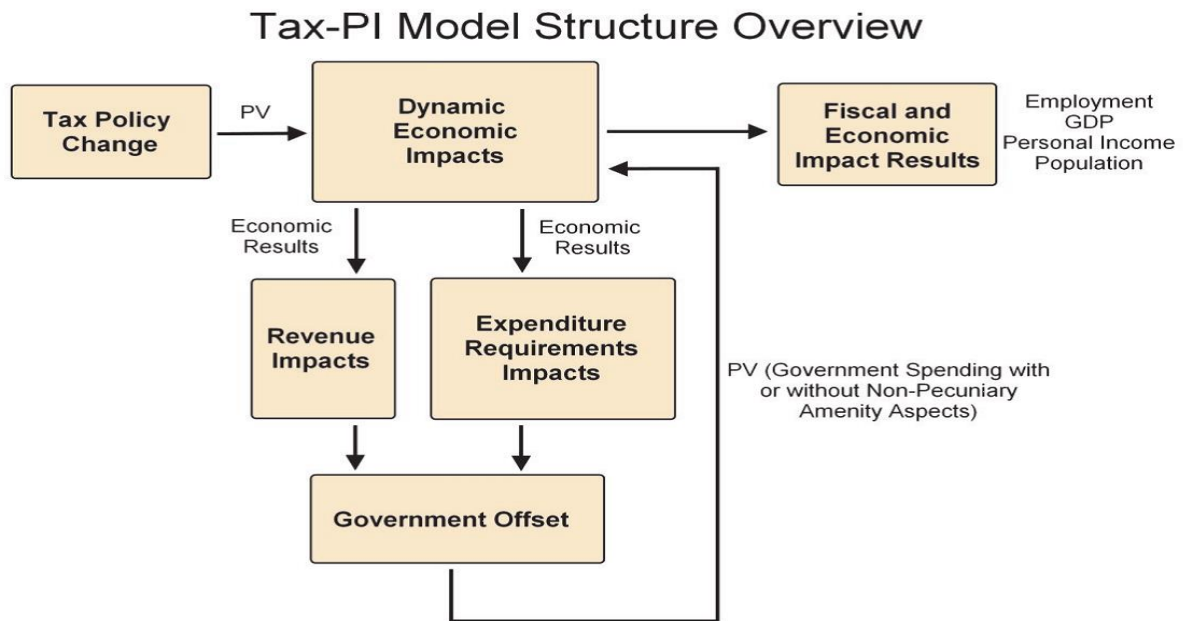
Appendix II: REMI Tax-PI Fiscal and Economic Analysis Tool

REMI's Tax-PI is a new tool for evaluating the total fiscal and economic effects of tax policy changes. Tax-PI is based on over 30 years of experience in modeling the economic effects of tax policy changes. As states begin to demand better methods for estimating the economic and fiscal impacts of alternative tax scenarios, they look to experts to respond with sophisticated, flexible and relevant tools that can meet their needs.

Tax-PI is a dynamic fiscal and economic impact model that captures the direct, indirect and induced fiscal and economic effects of taxation and other policy changes over multiple years (up to 2060). It can model the complete dynamic economic and demographic impacts of any manner of tax policy change. States need to thoroughly evaluate both the short- and long-term effects of any tax changes in order to best serve the needs of the people. Tax-PI allows state agencies to do this with a model backed by years of dependability and experience. Highlights include

- **Budget Editor:** Customizable table that users calibrate to reflect actual or projected revenue and expenditure details for the current, past or future fiscal years.
- **Taxes:** Dynamic capability to adjust state-specific tax revenues. Users assign tax-specific variables to each of the custom revenue categories in order to track the fiscal effects of policy changes along with the economic effects. There is also a built-in feedback mechanism that automatically feeds revenue impacts back into the model to account for price and disposable income changes, therefore adjusting government spending accordingly.

Figure 168: Tax-PI Structure



As Figure 168 shows, the methodology of Tax-PI revolves around the estimation of dynamic economic impacts. These impacts serve as the basis for the estimation of budgetary changes through the calibration done by REMI's economists and clients. For this analysis, REMI used a budget calibrated by Tax-PI users at the Office of Economic and Demographic Research. Prior to running simulations, the newest available year of revenue data is used to calibrate the budget. Each category is individually entered into Tax-PI. Then each revenue source is assigned an economic driver from the dynamic impact model that will form the basis of future estimates of the amount of revenue gained from that particular source. For example, the amount of sales tax revenue collected is connected to the amount of consumption in taxable categories in the state in that year as given by Tax-PI's baseline economic and demographic forecast. Using these two pieces of information (collections and driver), Tax-PI creates a quantified relationship between the two that can then predict changes in the future. A similar process is carried out for each revenue source. In Florida, the expenditures are mapped to specific revenue categories so the amount of government spending is tied to the availability of applicable revenues.

Detailed Model Methodology

Tax-PI is a structural economic forecasting and policy analysis model. It integrates input-output, computable general equilibrium, econometric and economic geography methodologies. The model is dynamic, with forecasts and simulations generated on an annual basis and behavioral responses to compensation, price, and other economic factors.

The model consists of thousands of simultaneous equations with a structure that is relatively straightforward. The exact number of equations used varies depending on the extent of

industry, demographic, demand, and other detail in the specific model being used. The overall structure of the model can be summarized in five major blocks: (1) Output and Demand, (2) Labor and Capital Demand, (3) Population and Labor Supply, (4) Compensation, Prices, and Costs, and (5) Market Shares. The blocks and their key interactions are shown in Figures 168 and 169.

Figure 169: Model Linkages

REMI Model Linkages (Excluding Economic Geography Linkages)

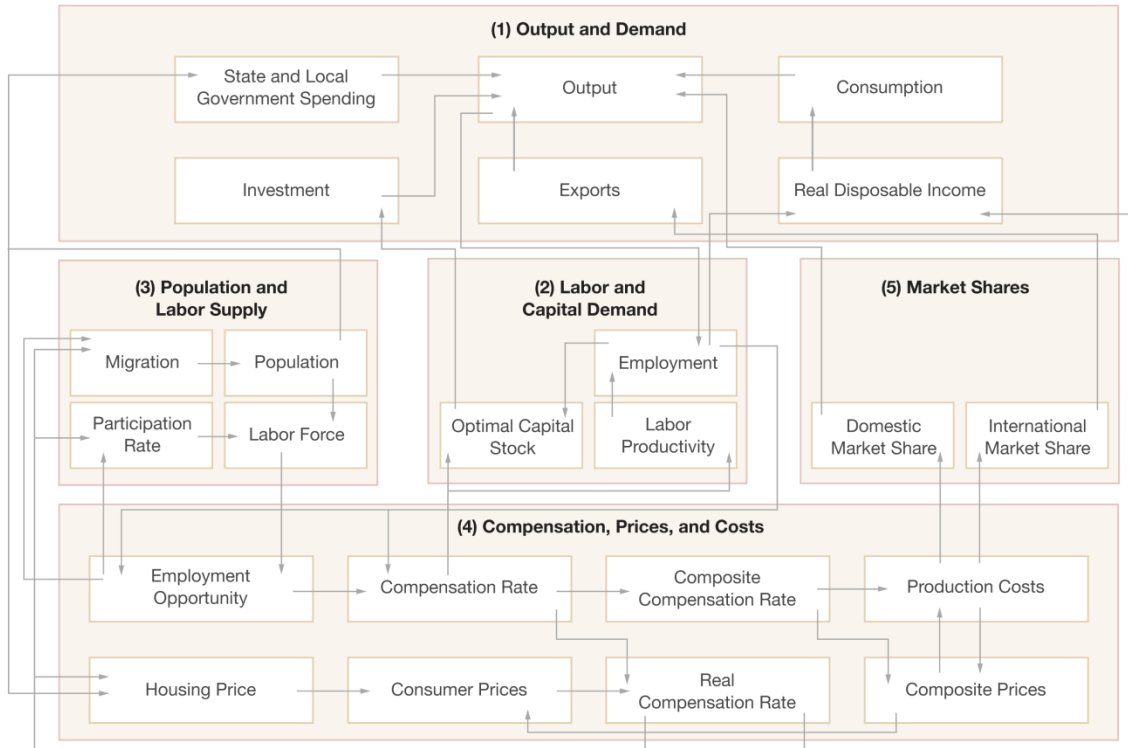
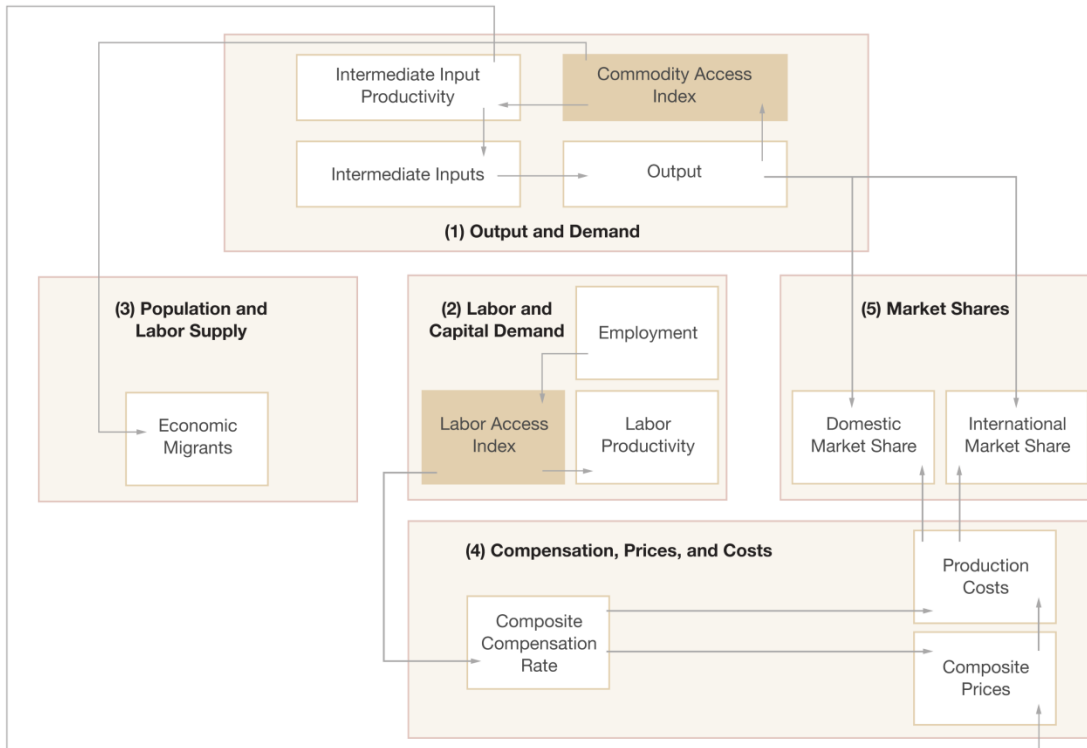


Figure 170: Economic Geography Linkages

Economic Geography Linkages



The Output and Demand block consists of output, demand, consumption, investment, government spending, exports, and imports, as well as feedback from output change due to the change in the productivity of intermediate inputs. The Labor and Capital Demand block includes labor intensity and productivity as well as demand for labor and capital. Labor force participation rate and migration equations are in the Population and Labor Supply block. The Compensation, Prices, and Costs block includes composite prices, determinants of production costs, the consumption price deflator, housing prices, and the compensation equations. The proportion of local, inter-regional, and export markets captured by each region is included in the Market Shares block.

Single-region models consist of an individual region, called the home region. The rest of the nation is also represented in the model. However, since the home region is only a small part of the total nation, the changes in the region do not have an endogenous effect on the variables in the rest of the nation.

Block 1. Output and Demand

This block includes output, demand, consumption, investment, government spending, import, commodity access, and export concepts. Output for each industry in the home region is determined by industry demand in all regions in the nation, the home region's share of each market, and international exports from the region.

For each industry, demand is determined by the amount of output, consumption, investment, and capital demand on that industry. Consumption depends on real disposable income per capita, relative prices, differential income elasticities, and population. Input productivity depends on access to inputs because a larger choice set of inputs means it is more likely that the input with the specific characteristics required for the job will be found. In the capital stock adjustment process, investment occurs to fill the difference between optimal and actual capital stock for residential, non-residential, and equipment investment. Government spending changes are determined by changes in the population.

Block 2. Labor and Capital Demand

The Labor and Capital Demand block includes the determination of labor productivity, labor intensity, and the optimal capital stocks. Industry-specific labor productivity depends on the availability of workers with differentiated skills for the occupations used in each industry. The occupational labor supply and commuting costs determine firms' access to a specialized labor force.

Labor intensity is determined by the cost of labor relative to the other factor inputs, capital and fuel. Demand for capital is driven by the optimal capital stock equation for both non-residential capital and equipment. Optimal capital stock for each industry depends on the relative cost of labor and capital, and the employment weighted by capital use for each industry. Employment in private industries is determined by the value added and employment per unit of value added in each industry.

Block 3. Population and Labor Supply

The Population and Labor Supply block includes detailed demographic information about the region. Population data is given for age, gender, and race, with birth and survival rates for each group. The size and labor force participation rate of each group determines the labor supply. These participation rates respond to changes in employment relative to the potential labor force and to changes in the real after-tax compensation rate. Migration includes retirement, military, international, and economic migration. Economic migration is determined by the relative real after-tax compensation rate, relative employment opportunity, and consumer access to variety.

Block 4. Compensation, Prices and Costs

This block includes delivered prices, production costs, equipment cost, the consumption deflator, consumer prices, the price of housing, and the compensation equation. Economic geography concepts account for the productivity and price effects of access to specialized labor, goods, and services.

These prices measure the price of the industry output, taking into account the access to production locations. This access is important due to the specialization of production that takes place within each industry, and because transportation and transaction costs of distance are significant. Composite prices for each industry are then calculated based on the production costs of supplying regions, the effective distance to these regions, and the index of access to the variety of outputs in the industry relative to the access by other uses of the product.

The cost of production for each industry is determined by the cost of labor, capital, fuel, and intermediate inputs. Labor costs reflect a productivity adjustment to account for access to specialized labor, as well as underlying compensation rates. Capital costs include costs of non-residential structures and equipment, while fuel costs incorporate electricity, natural gas, and residual fuels.

The consumption deflator converts industry prices to prices for consumption commodities. For potential migrants, the consumer price is additionally calculated to include housing prices. Housing prices change from their initial level depending on changes in income and population density.

Compensation changes are due to changes in labor demand and supply conditions and changes in the national compensation rate. Changes in employment opportunities relative to the labor force and occupational demand change determine compensation rates by industry.

Block 5. Market Shares

The market shares equations measure the proportion of local and export markets that are captured by each industry. These depend on relative production costs, the estimated price elasticity of demand, and the effective distance between the home region and each of the other regions. The change in share of a specific area in any region depends on changes in its delivered price and the quantity it produces compared with the same factors for competitors in that market. The share of local and external markets then drives the exports from and imports to the home economy.

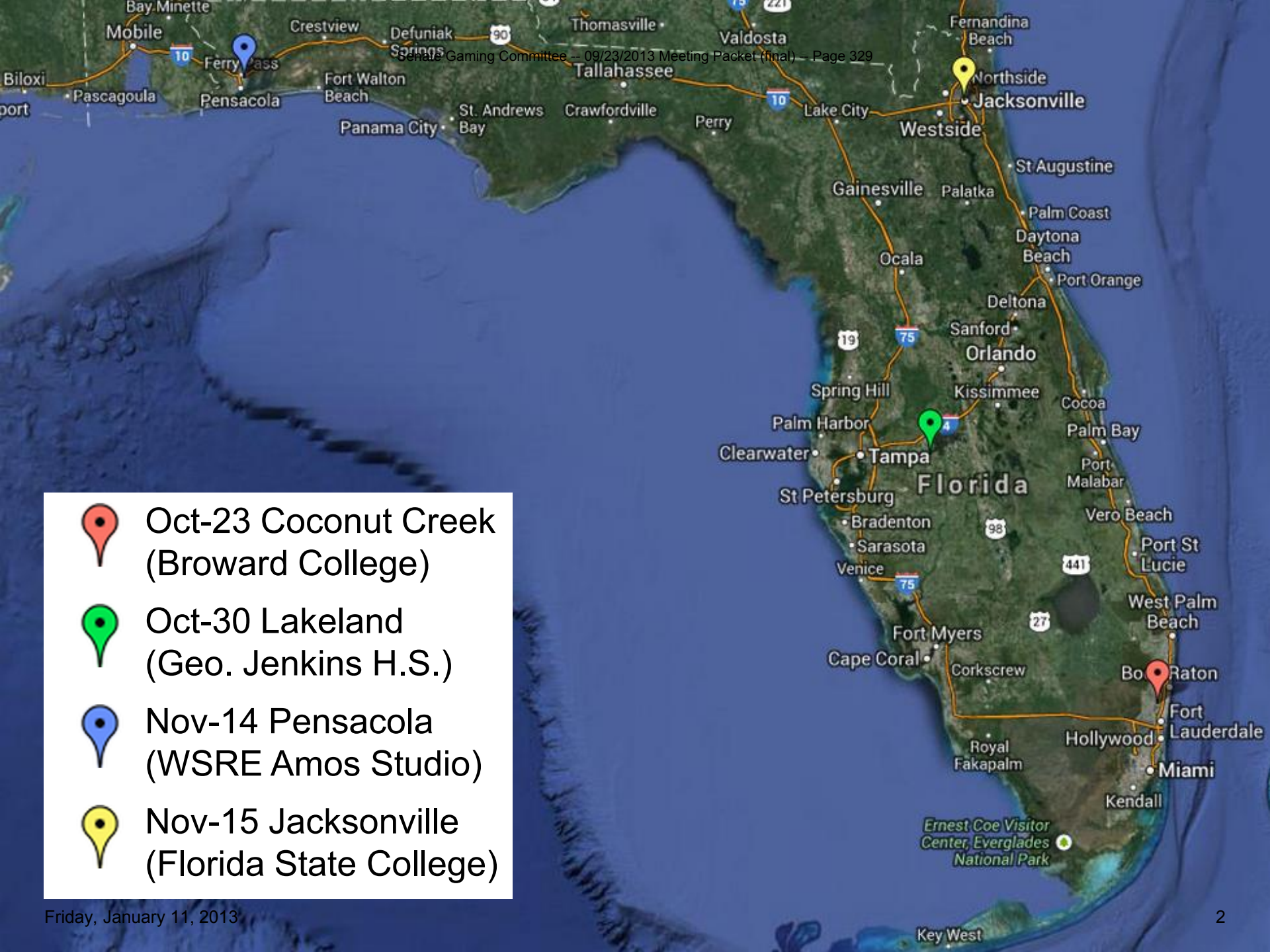


Senate Gaming Committee

Monday, September 23, 2013, 1:00 — 3:00 P.M.

Toni Jennings Committee Room, 110 Senate Office Building

Tallahassee, Florida



-  Oct-23 Coconut Creek (Broward College)
-  Oct-30 Lakeland (Geo. Jenkins H.S.)
-  Nov-14 Pensacola (WSRE Amos Studio)
-  Nov-15 Jacksonville (Florida State College)

Although popular, gambling remains controversial'

“On the one hand, regulated gambling can provide substantial revenues to governments and, in many markets, a substantial number of direct, indirect and induced jobs; on the other hand, it can lead to compulsions that result in financial, familial and mental-health costs, as well as governmental costs ranging from gambling-addiction treatment centers to additional law enforcement. The arguments on both sides are strong – and usually impassioned.”

Gambling Impact Study—Part 1A, p. 1.

Florida is not an emerging gambling state.

“In terms of revenue, employment, number of gaming locations and other important measures, [Florida] already is a major gambling state, with a wide array of options. Florida is arguably a microcosm of US gaming, with all of the forces that are shaping the industry in other states at play here. Absent a plan for growth, these forces will continue unabated in shaping the industry in both Florida and elsewhere.”

Gambling Impact Study—Part 1A, p. 5.

Legalized gambling is growing – in dollars, in locations and in options

“Many states are clamoring to either legalize a new form of gambling or expand what they already have – and these debates are a regular occurrence in statehouses across the country....”

“Florida is among the more gambling-rich states, as measured by number and types of options [8 Indian casinos, state lottery, 27 pari-mutual facilities, and charitable bingo].”

Gambling Impact Study—Part 1A, p. 30.

The Internet offers opportunities for all gambling providers

“Internet access promises to take gambling beyond the casino floor and into the living rooms and bedrooms of Americans which opens a whole new range of opportunities as well as potential problems.”

Gambling Impact Study—Part 1A, p. 120.

Weak or flawed regulation is unacceptable to the state and industry

“While it may be argued that there are many advantages and disadvantages to expanding gaming, we believe there is no valid argument for the expansion of gaming without taking the proper regulatory measures. While a strong regulatory structure may be expensive to implement...a weak or flawed regulatory system will invite nefarious and criminal activity, will fail to assure integrity of operations, and will not maintain the public trust and confidence in the regulatory system.”

Gambling Impact Study—Part 1A, p. 148.

Gambling as a public funding source

“Gambling is a reliable and predictable funding source for governments, except in times of pronounced recession and when competition arises in neighboring states....”

“Gambling, however, costs governments in both direct and indirect ways in such areas as crime, public health, infrastructure, law enforcement and emergency services, social services, schools (in those areas with large, high-employment casinos) and workforce training.”

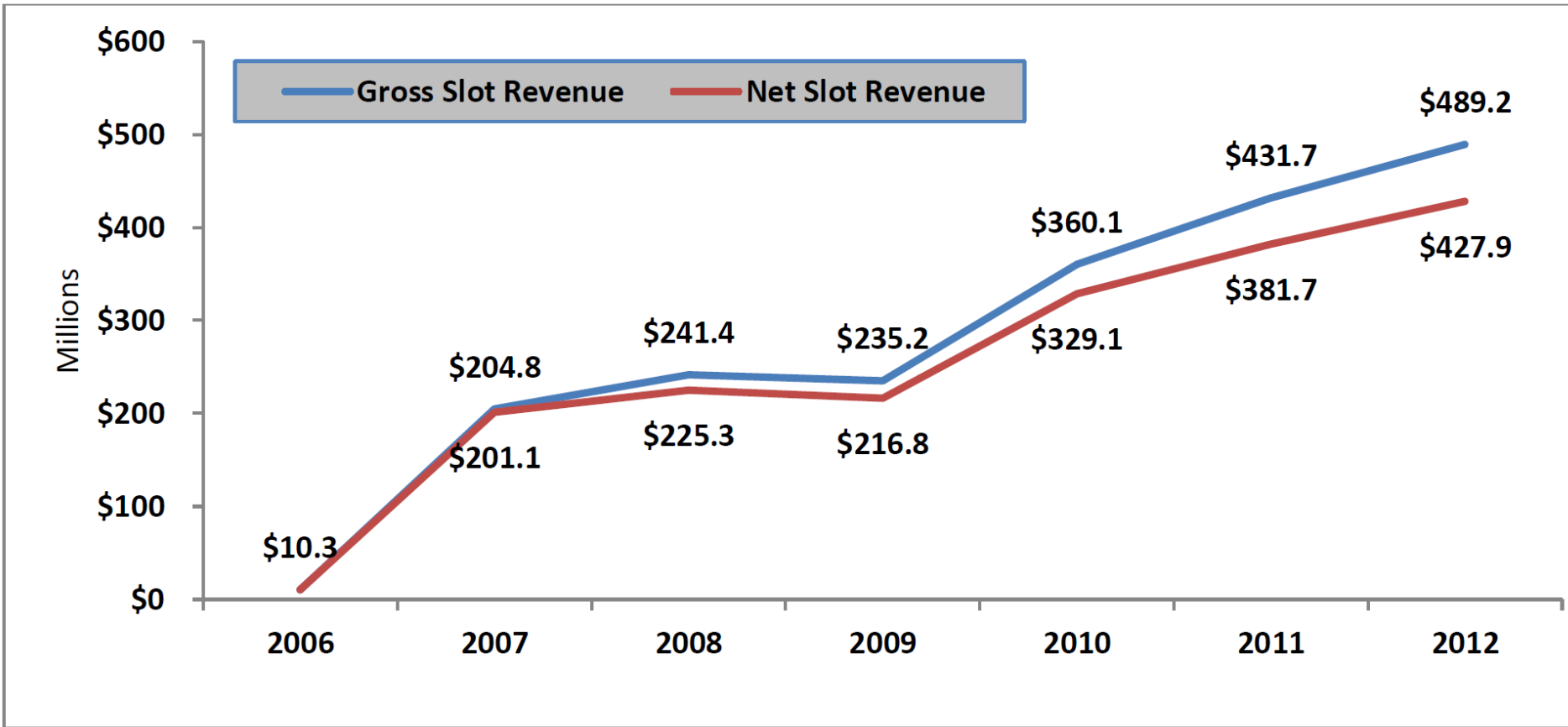
Gambling Impact Study—Part 1A, p. 181.

Social, criminal, personal, and fiscal impacts of gambling

“The experiences in a variety of casino jurisdictions confirm that careful planning is important for the success of the casino industry. Casinos should be integrated with their surrounding communities; they should be introduced in appropriate sizes and numbers for the current and potential future markets. The benefits of introducing casinos can be maximized, and the negative impacts minimized, if their development and regulation is carefully considered.”

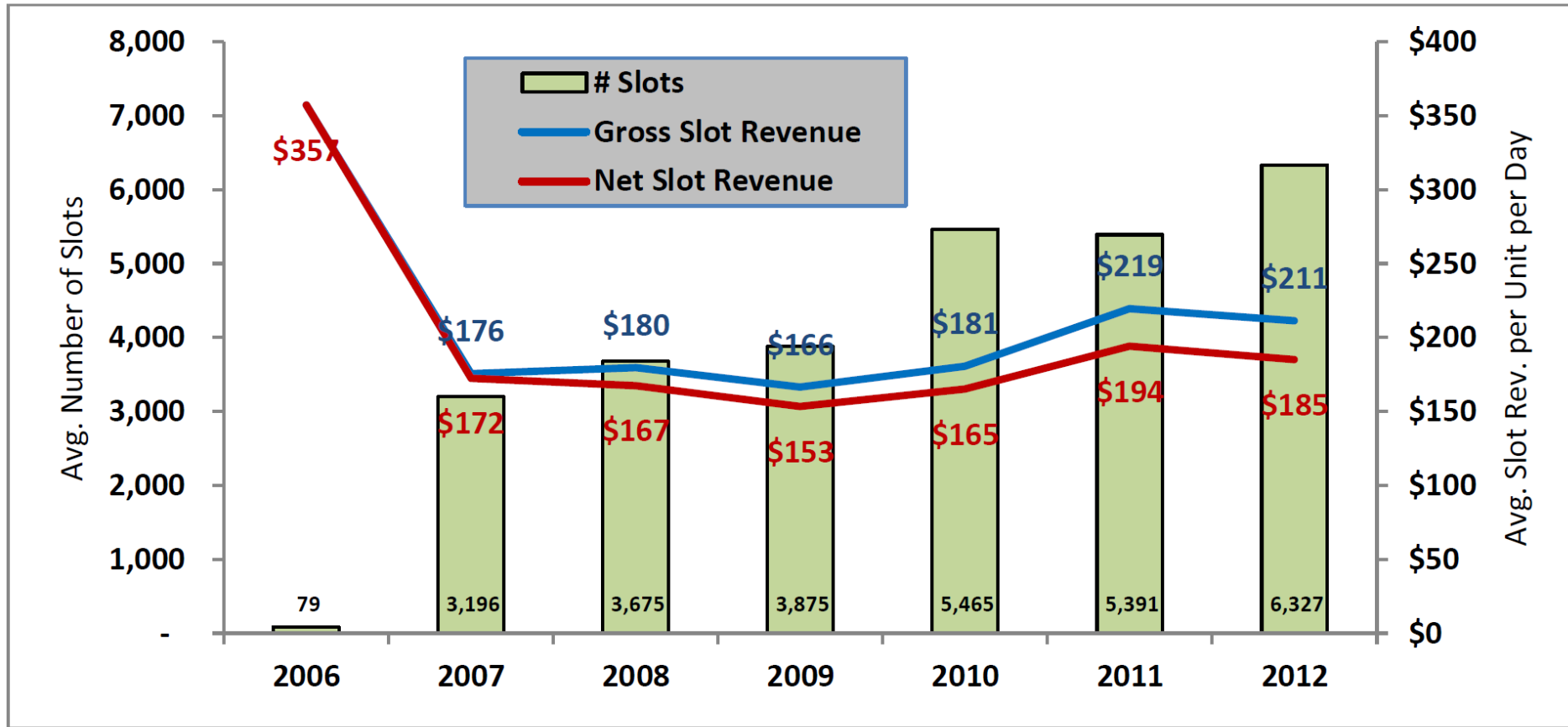
Gambling Impact Study—Part 1A, p. 227.

Figure 55: Florida racino slot performance, 2006-2012



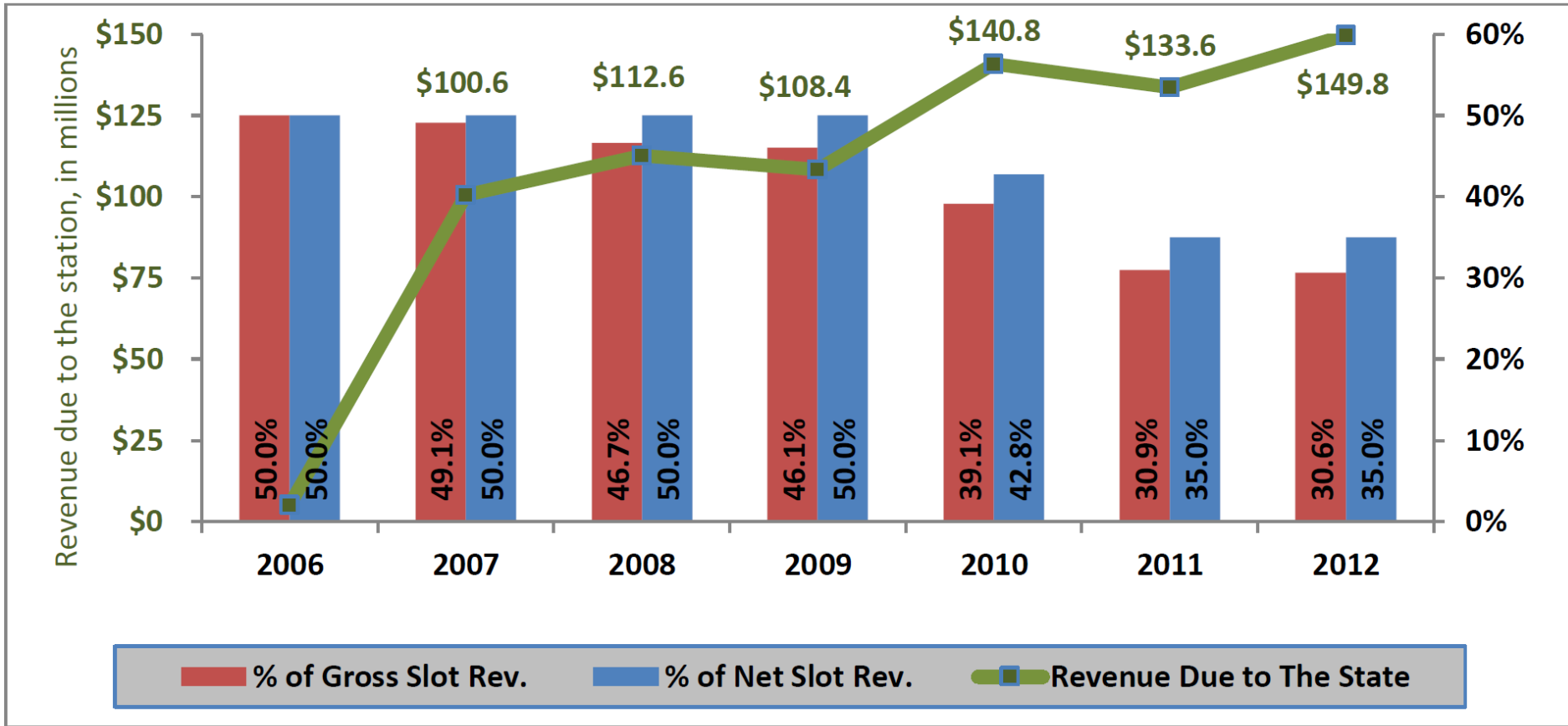
Source: Florida Department of Business and Professional Regulation

Figure 56: Florida racino slot revenue/machine/day and counts, 2006-2012



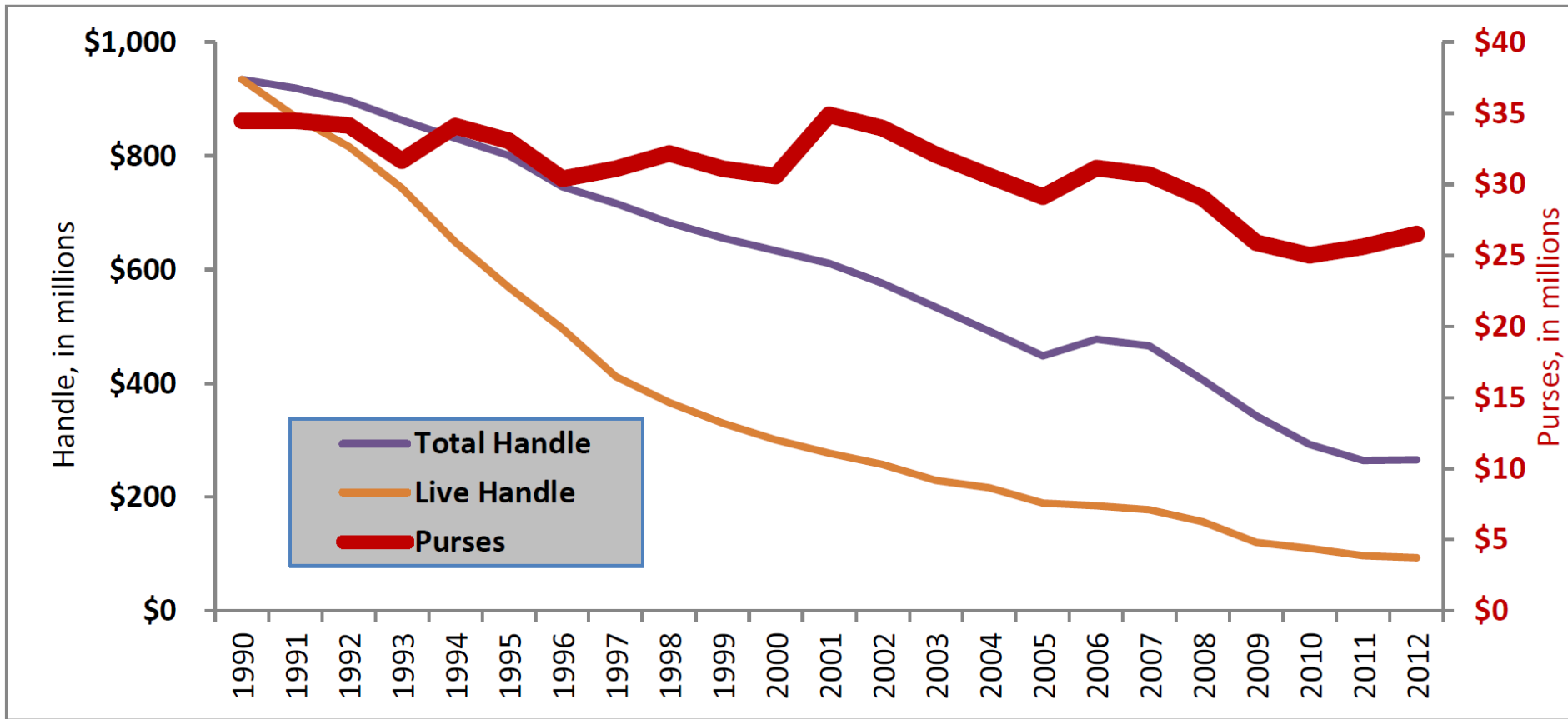
Source: Florida Department of Business and Professional Regulation

Figure 57: Florida racino direct tax on slots, 2006-2012



Source: Florida Department of Business and Professional Regulation

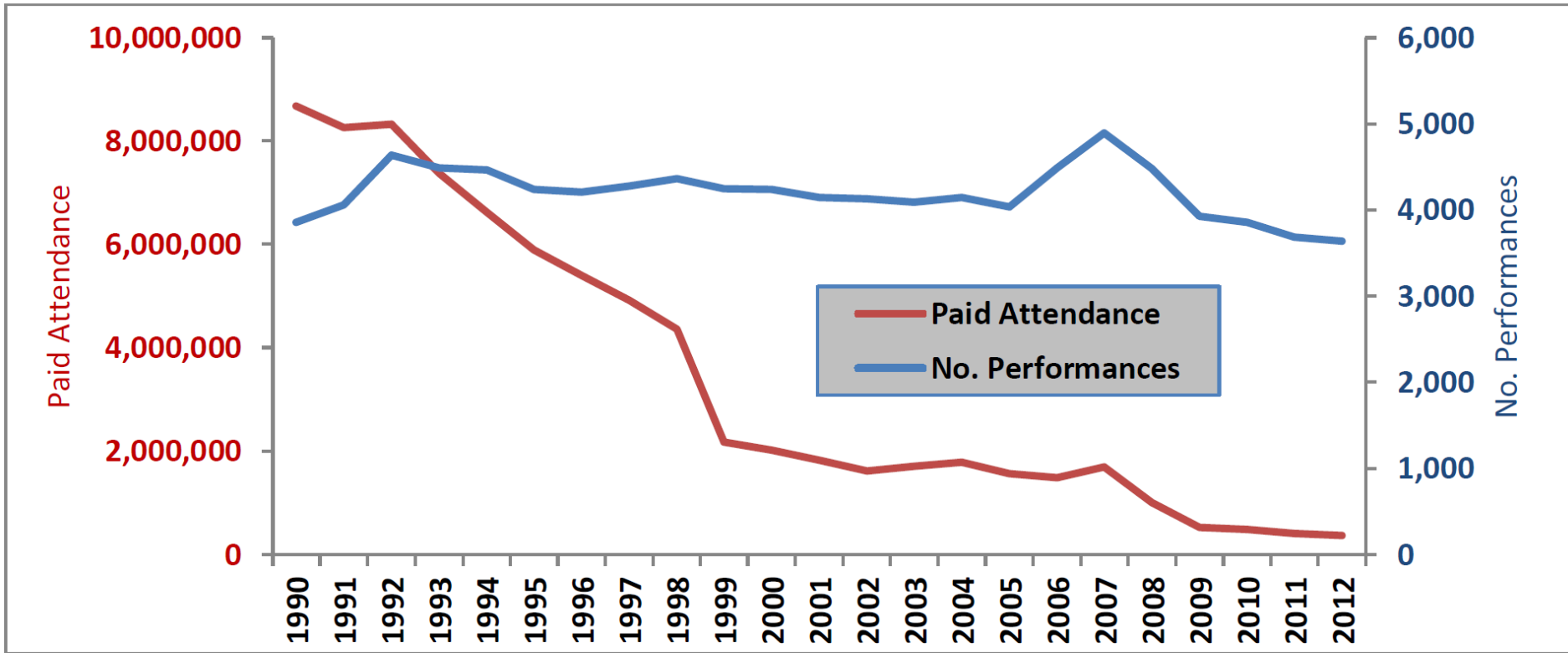
Figure 58: Florida greyhound purses and handle, 1990-2012



Source: Division of Pari-Mutuel Wagering

Note: Total handle numbers are understated as PMW does not collect data on out-of-state generated handle, which is the single largest component of handle.

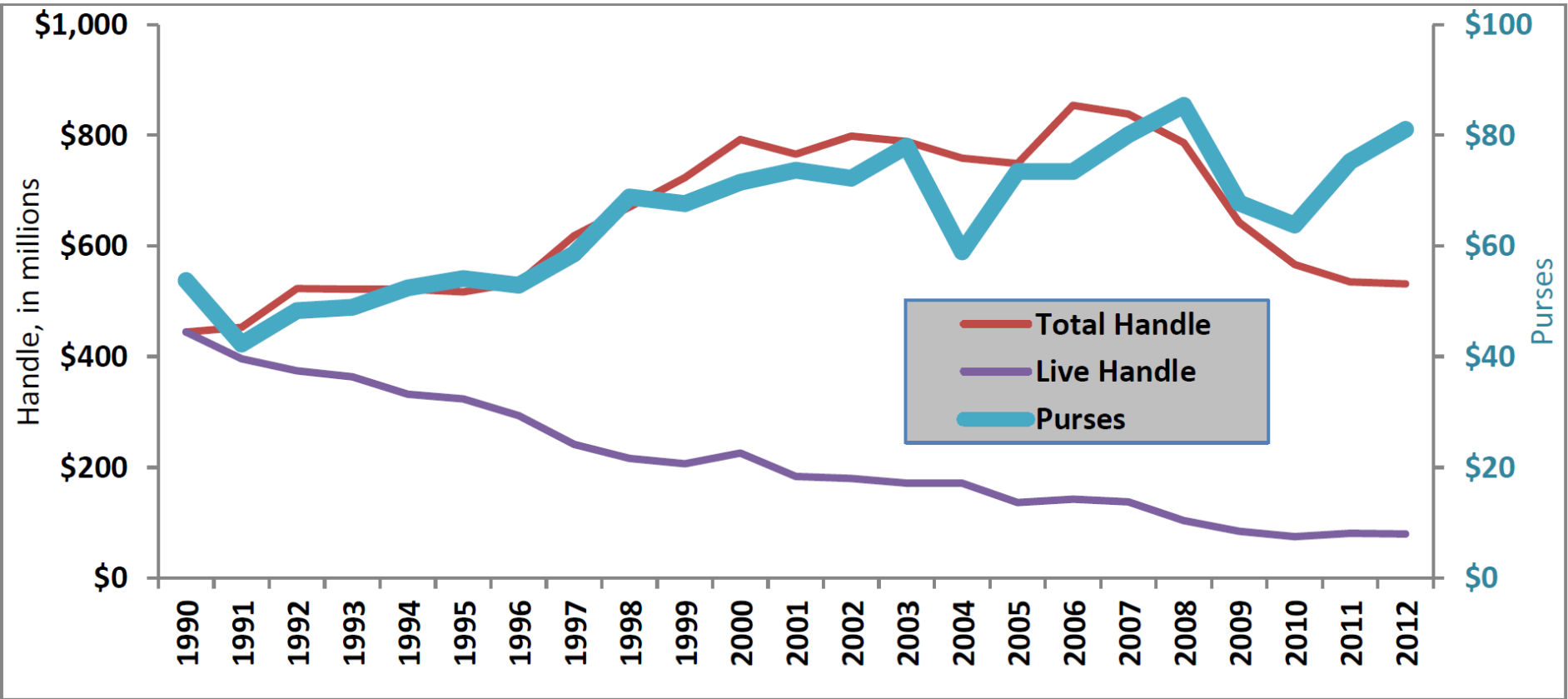
Figure 59: Florida greyhound paid attendance and performances, 1990-2012



Source: Division of Pari-Mutuel Wagering.

Note: Most tracks no longer charge for admission.

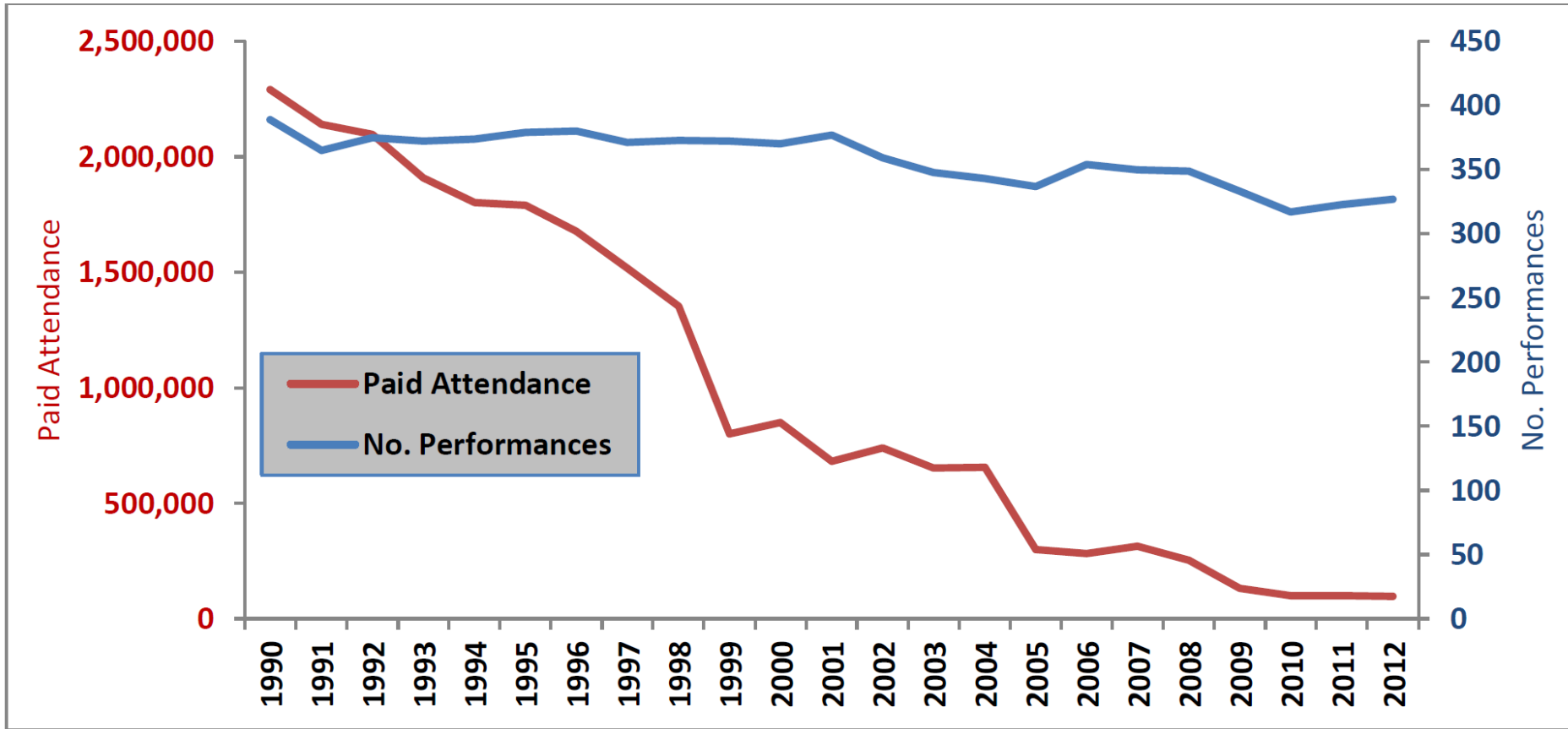
Figure 60: Florida thoroughbred racing handle and purses, 1990-2012



Source: Division of Pari-Mutuel Wagering.

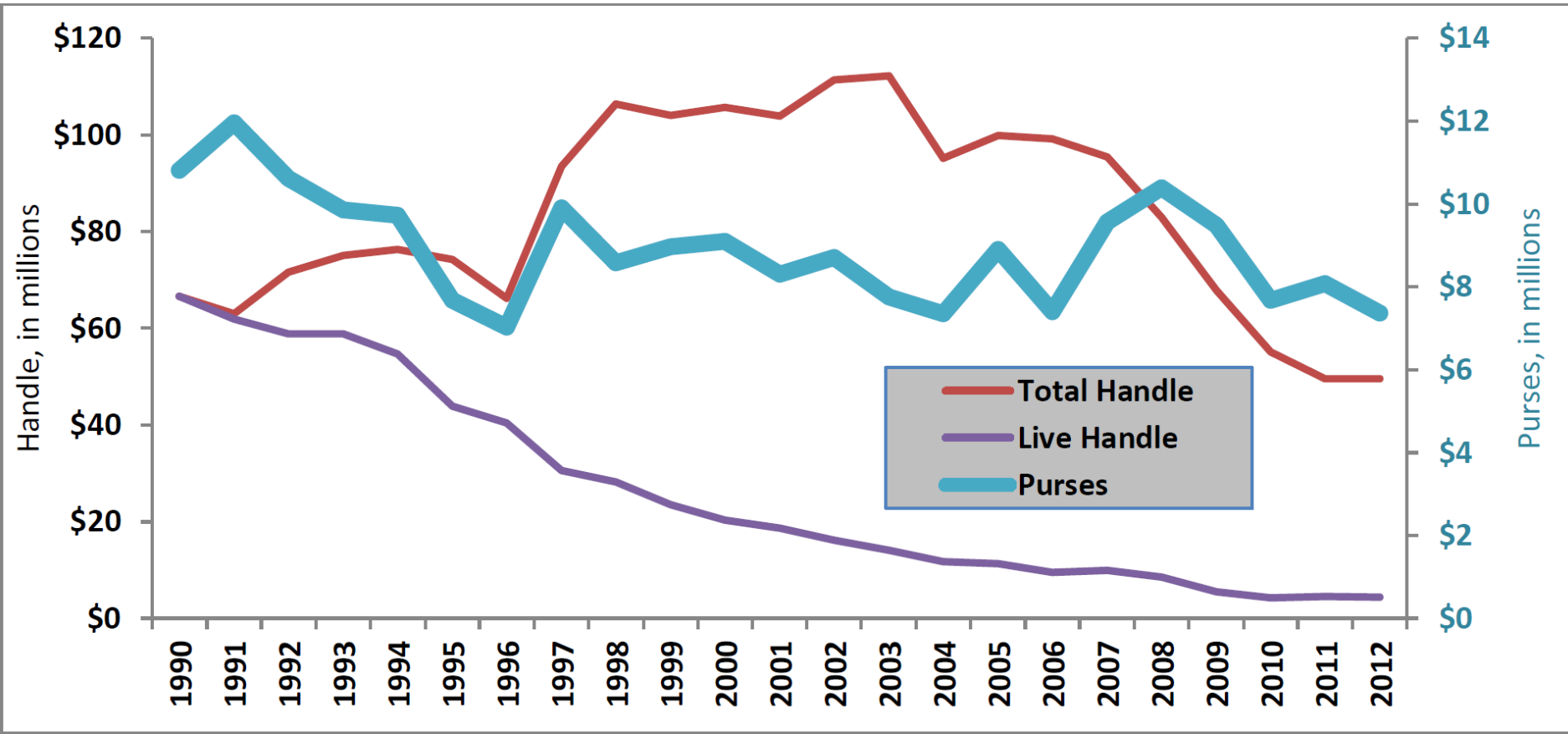
Note: Total handle may be understated as PMW does not collect data on out-of-track generated handle, the single largest component of handle.

Figure 61: Florida thoroughbred paid attendance and performances, 1990-2012



Source: Division of Pari-Mutuel Wagering

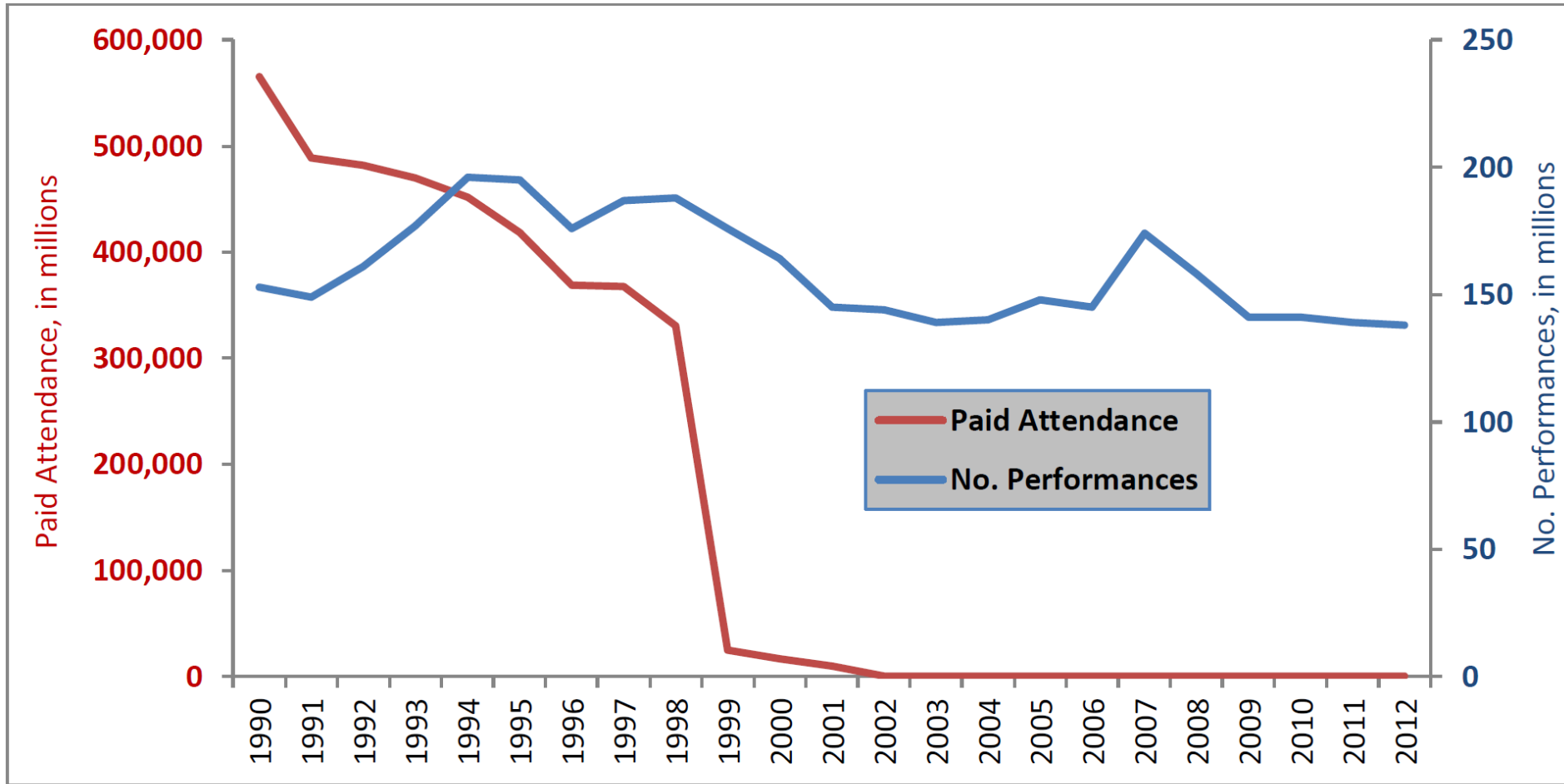
Figure 62: Florida harness racing handle and purses, 1990-2012



Source: Division of Pari-Mutuel Wagering.

Note: Total handle may be understated as PMW does not collect data on out-of-track generated handle, the single largest component of handle.

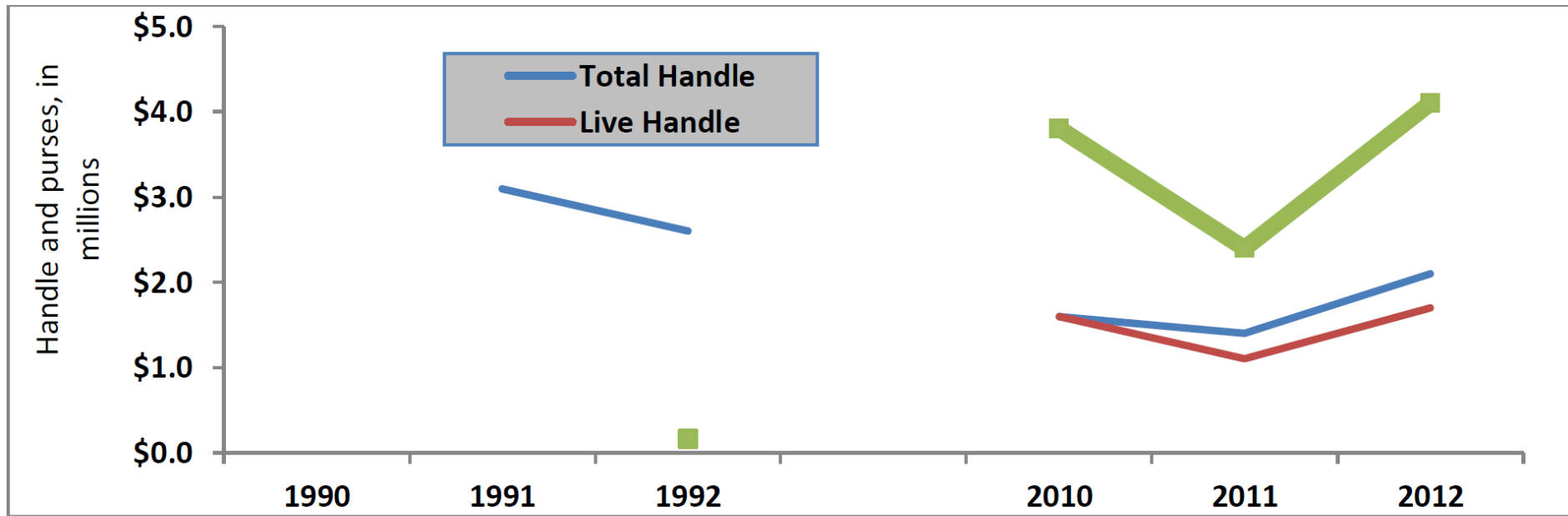
Figure 63: Florida harness paid attendance and performances, 1990-2012



Source: Division of Pari-Mutuel Wagering.

Note: Pompano has not charged an admission fee since 2002.

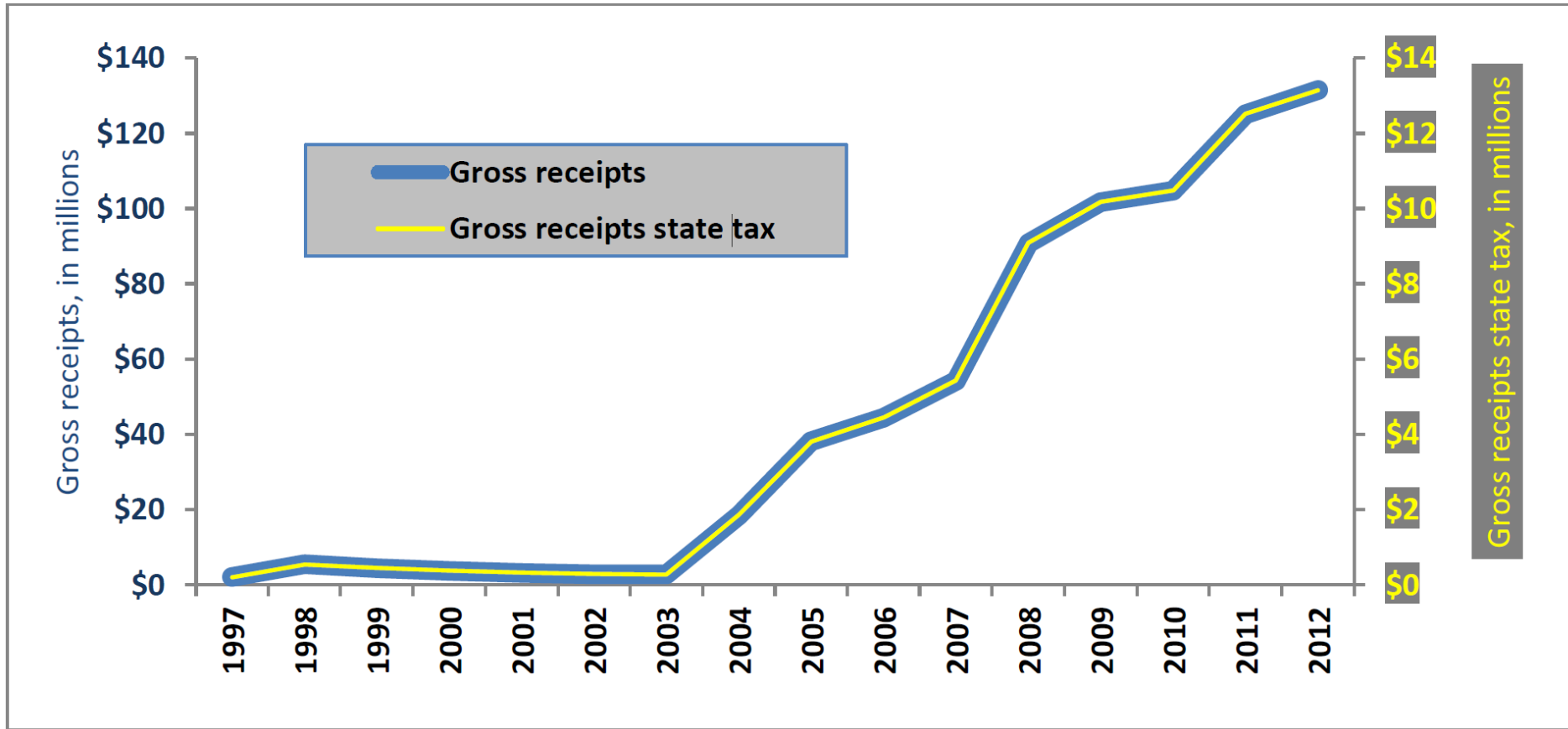
Figure 64: Florida quarter horse racing handle and purses, 1990-2012



Source: Division of Pari-Mutuel Wagering.

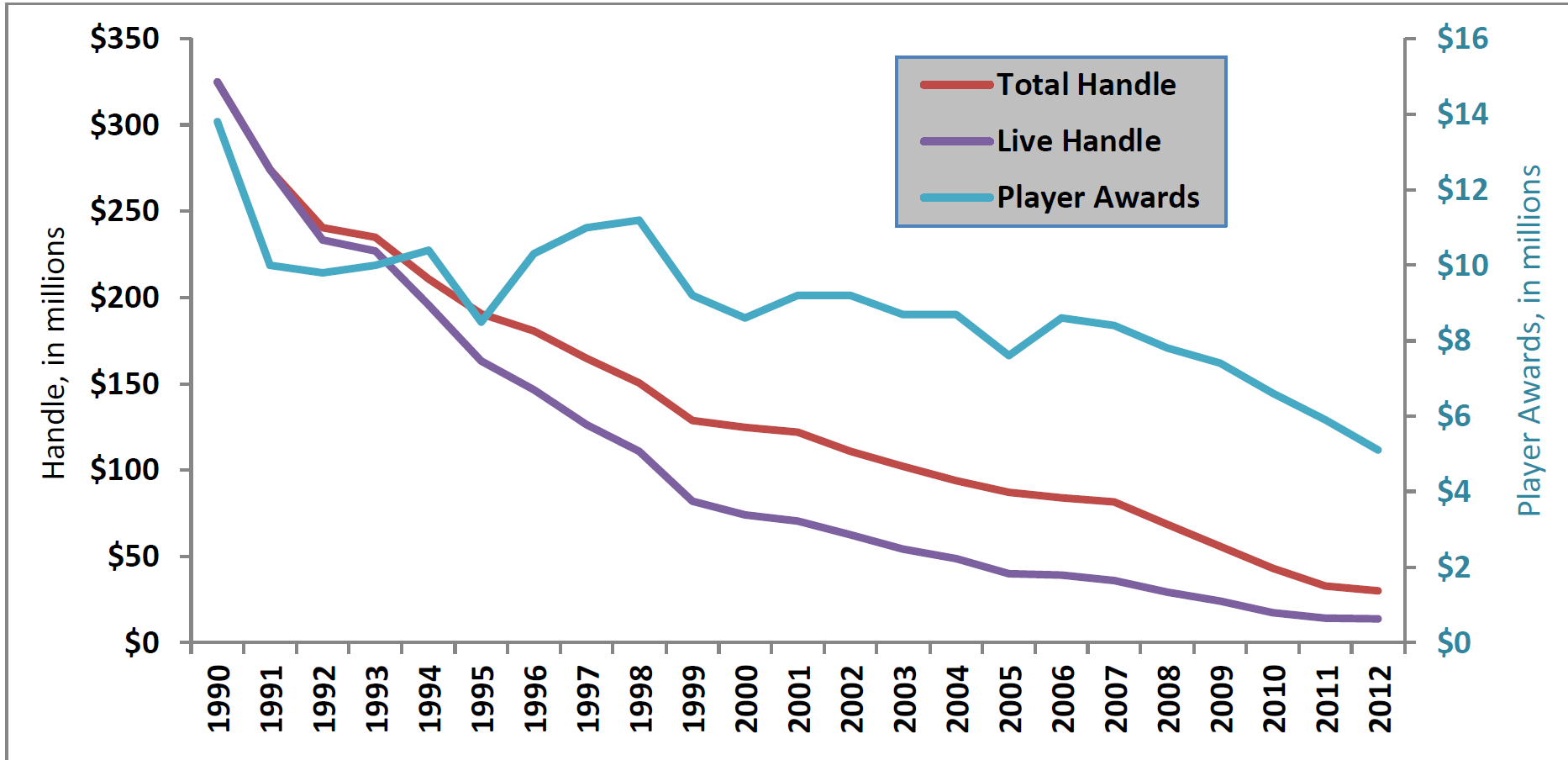
Note: Quarter horse racing was halted in 1992 and returned to Hialeah in 2009 after it received permission to open a slot machine casino.

Figure 65: Florida cardroom receipts and state tax, 1997-2012



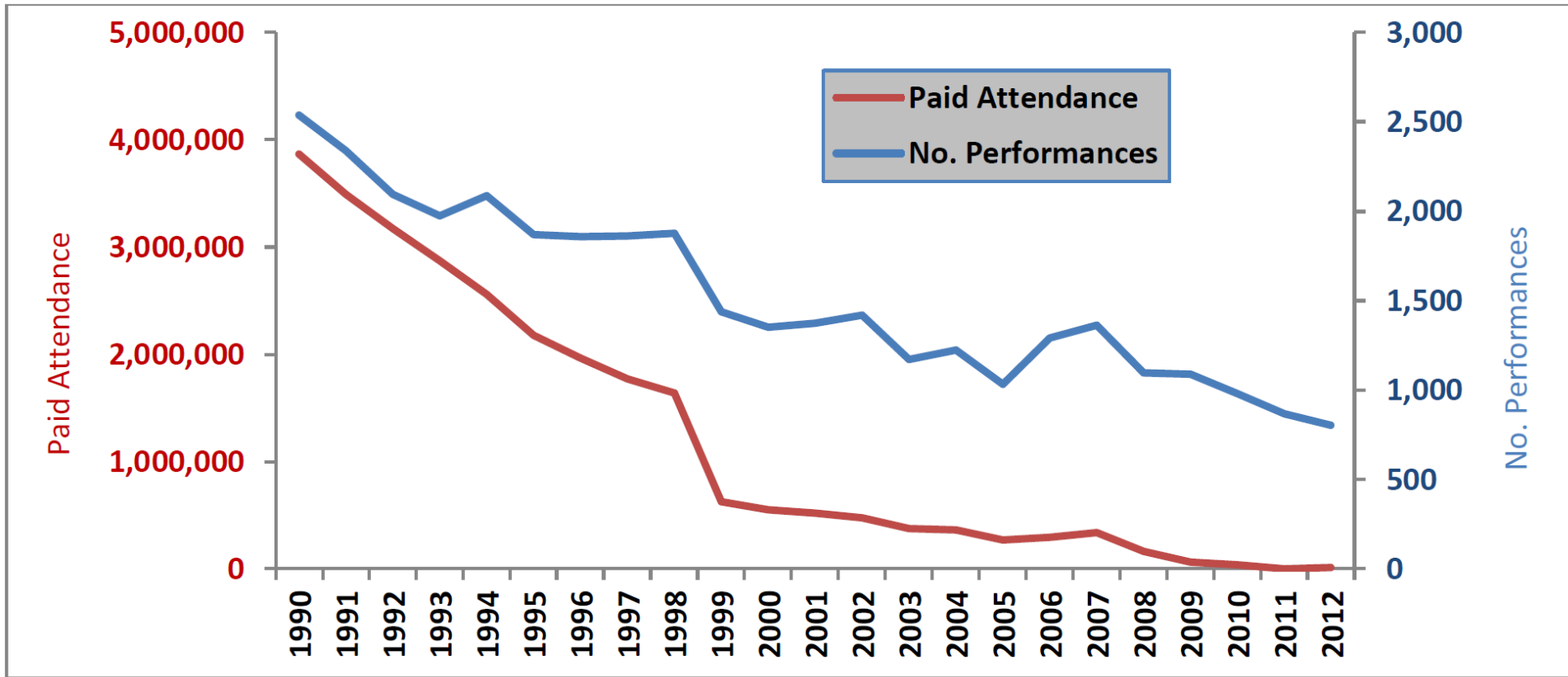
Source: Division of Pari-Mutuel Wagering

Figure 66: Florida jai alai handle and player awards, 1990-2012



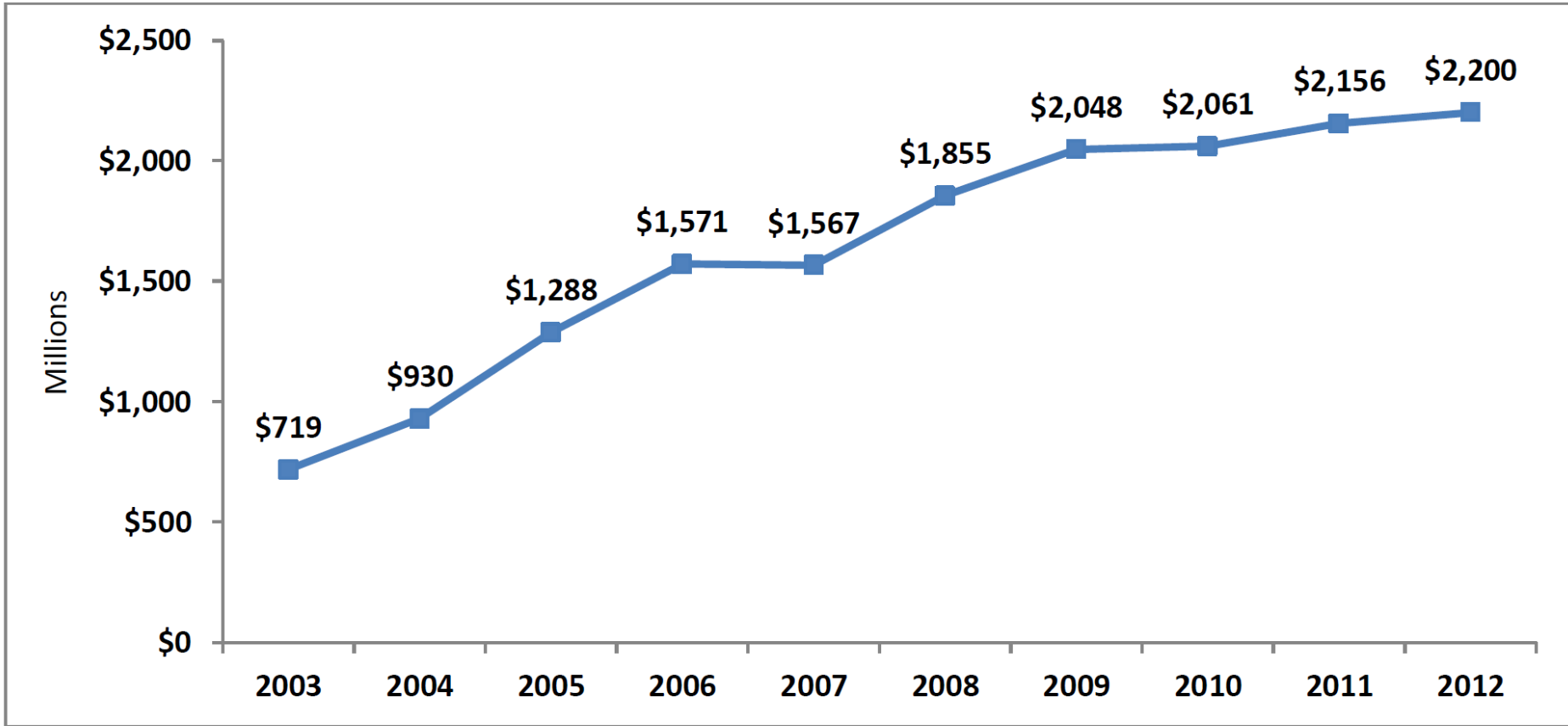
Source: Division of Pari-Mutuel Wagering

Figure 67: Florida jai alai paid attendance and performances, 1990-2012



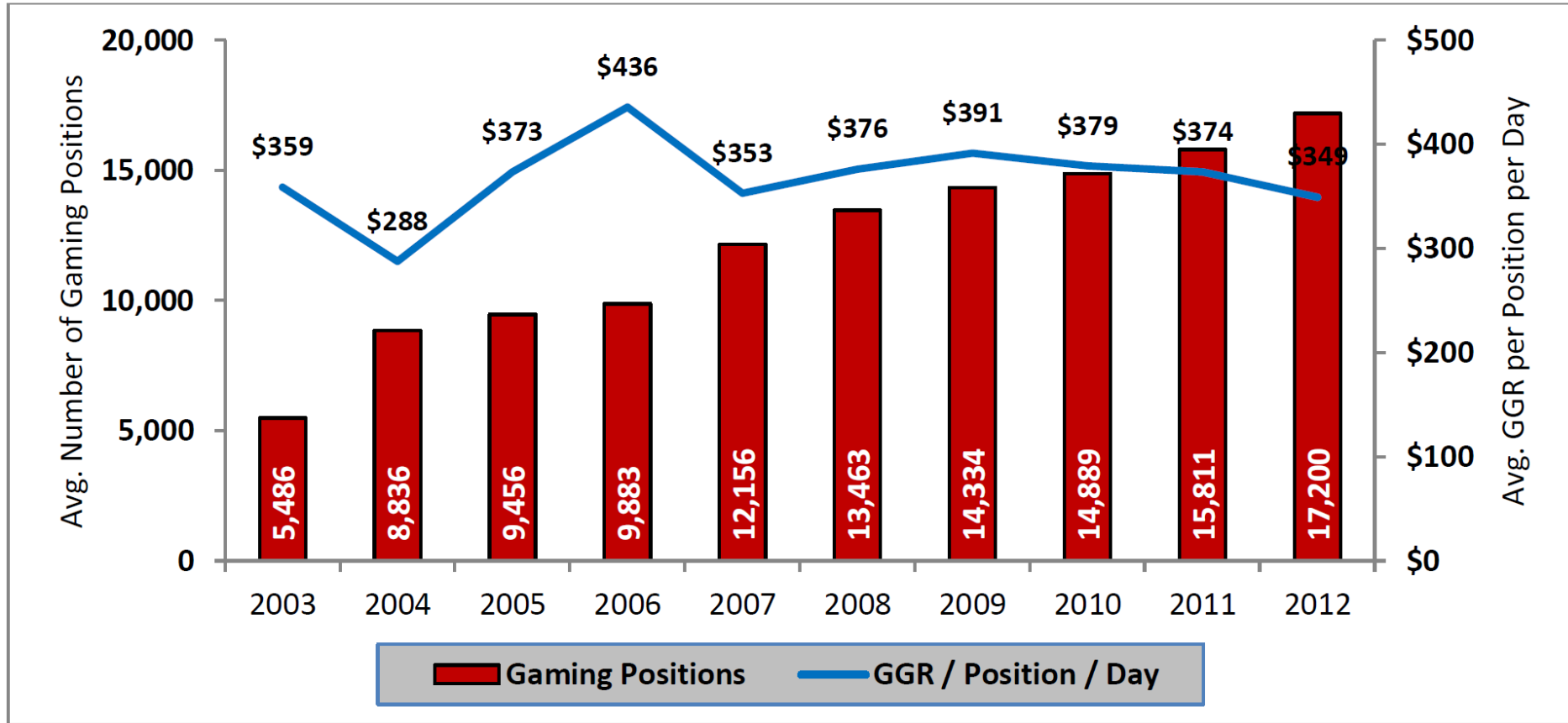
Source: Division of Pari-Mutuel Wagering

Figure 68: Florida Native American casino GGR, 2003-2012



Source: Casino City's *Indian Gaming Industry Report*, 2013 Edition

Figure 69: Florida Native American casino GGR/position/day and counts, 2003-2012



Source: Casino City's Indian Gaming Industry Report, 2013 Edition

	Units	<u>FY 00</u>	<u>FY 01</u>	<u>FY 02</u>	<u>FY 03</u>	<u>FY 04</u>	<u>FY 05</u>	<u>FY 06</u>
Indian Gaming	Millions of Current Dollars	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Pari-mutuel Fees, Licenses, Taxes Total	Millions of Current Dollars	57.5	34.7	35.1	32.4	32.1	32.0	33.6
Slot Machine Total	Millions of Current Dollars	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Lottery Total	Millions of Current Dollars	1,159.5	1,157.3	1,181.0	1,327.6	1,361.9	1,393.4	1,639.3
	Units	<u>FY 07</u>	<u>FY 08</u>	<u>FY 09</u>	<u>FY 10</u>	<u>FY 11</u>	<u>FY 12</u>	
Indian Gaming	Millions of Current Dollars	0.0	0.0	0.0	287.5	140.4	150.0	
Pari-mutuel Fees, Licenses, Taxes Total	Millions of Current Dollars	33.9	33.8	29.2	26.6	26.0	26.9	
Slot Machine Total	Millions of Current Dollars	61.6	132.3	114.0	153.0	149.4	156.5	
Lottery Total	Millions of Current Dollars	1,681.0	1,602.5	1,590.8	1,550.7	1,506.9	1,671.3	

Source: The Office of Economic and Demographic Research of the Florida Legislature

Note: The Lottery Total excludes lottery prizes, which is consistent with the calibrated budget used within Tax-PI.

2012	Direct Employment	Indirect Employment	Induced Employment	State Tax Revenues (FY 2013) (M)
Pari-mutuel	4,953	1,659	1,309	\$206.6
Lottery	408	2,267	-111	\$1,882.0
Retail Lottery	39,900	4,206	14,042	\$123.7
Native American Casinos	10,387	6,137	3,785	\$293.3
Floridians' Out-of-State Gaming Spending	0	693	3,143	\$15.4
2012-2060 Slow Growth	Average Annual Direct Employment	Average Annual Indirect Employment	Average Annual Induced Employment	Average Annual State Tax Revenues (FY2013-2060) (M)
Pari-mutuel	5,449	1,757	-1,298	\$587
Lottery	449	5,295	969	\$3,452
Retail Lottery	39,099	10,148	28,918	\$581
Native American Casinos	10,933	6,246	769	\$401
Floridians' Out-of-State Gaming Spending	0	488	2,334	\$28.6
2012-2060 Normal Growth	Average Annual Direct Employment	Average Annual Indirect Employment	Average Annual Induced Employment	Average Annual State Tax Revenues (FY 2013-2060) (M)
Pari-mutuel	5,449	1,607	-1,939	\$581
Lottery	449	5,288	-1,106	\$3,561
Retail Lottery	39,099	9,775	27,674	\$590
Native American Casinos	10,933	5,660	-473	\$374
Floridians' Out-of-State Gaming Spending	0	455	2,239	\$27
2012-2060 Strong Growth	Average Annual Direct Employment	Average Annual Indirect Employment	Average Annual Induced Employment	Average Annual State Tax Revenues (FY 2013- 2060) (M)
Pari-mutuel	5,449	1,478	-2,506	\$575
Lottery	449	5,256	-1,239	\$3,645
Retail Lottery	39,099	9,418	26,330	\$551
Native American Casinos	10,933	5,145	-1,605	\$364
Floridians' Out-of-State Gaming Spending	0	428	2,157	\$25

Figure 162: Summary of employment; tax revenue results dollars in fixed 2012 millions

Source: Regional Economic Models Inc., Spectrum Gaming Group

CourtSmart Tag Report

Room: EL 110

Case:

Type:

Caption: Senate Gaming Committee

Judge:

Started: 9/23/2013 2:00:20 PM

Ends: 9/23/2013 2:59:31 PM

Length: 00:59:12

2:00:24 PM Call to Order
 2:00:34 PM Chair remarks
 2:05:41 PM Tab 1 - List of workshops out of Tallahassee
 2:06:46 PM Chair remarks concerning upcoming meetings
 2:07:53 PM Plan for the upcoming session
 2:08:10 PM Tab 2 - John Guthrie update on the Spectrum Report
 2:09:08 PM Senator Margolis for a comment
 2:11:27 PM Senator Sachs for comments
 2:13:14 PM Senator Latvala for comments
 2:13:48 PM John Guthrie is recognized to continue
 2:16:30 PM Part 1a
 2:16:47 PM Part 1A-is packed with facts
 2:17:07 PM Parts II and III will be due next week
 2:18:12 PM Questions?
 2:18:17 PM Senator Margolis for a question
 2:20:09 PM John Guthrie for a response
 2:21:54 PM Senator Richter for a response
 2:22:07 PM John Guthrie to continue the brief overview of Part 1
 2:22:27 PM John Guthrie for a brief overview of Part 1A of the Spectrum Report
 2:33:21 PM The report also explores direct and indirect costs of gambling
 2:34:32 PM Pages 181-227 major academic findings of gambling
 2:37:50 PM On pages 228-297 revenue performance of all paramutuals
 2:39:00 PM In closing, what you can expect in reports II and III
 2:41:26 PM The report contains information on effects of expanding gaming in Florida
 2:42:11 PM The report also contains expanding the Seminole Tribes gaming in Florida
 2:43:33 PM Overview of the different scenarios that the report will address
 2:47:28 PM Conclusion of the presentation of the report
 2:47:42 PM Chair Richter for comments
 2:48:43 PM Questions?
 2:48:51 PM Senator Brannon for a question
 2:49:12 PM John Guthrie for a response
 2:50:13 PM Senator Richter for follow-up
 2:50:21 PM Senator Sachs for a question
 2:50:55 PM John Guthrie for response
 2:51:04 PM Senator Sachs for a follow-up
 2:51:36 PM Chair Richter for follow-up
 2:52:08 PM John Guthrie for comment
 2:53:15 PM Senator Richter for comments regarding the report
 2:53:46 PM Senator Latvala for comments
 2:56:06 PM Chair Richter for comments
 2:56:34 PM Senator Gardiner for questions
 2:57:04 PM John Guthrie for response
 2:58:04 PM Senator Richter for follow up
 2:58:39 PM Senator Margolis comments
 2:59:09 PM Chair Montford moves we rise