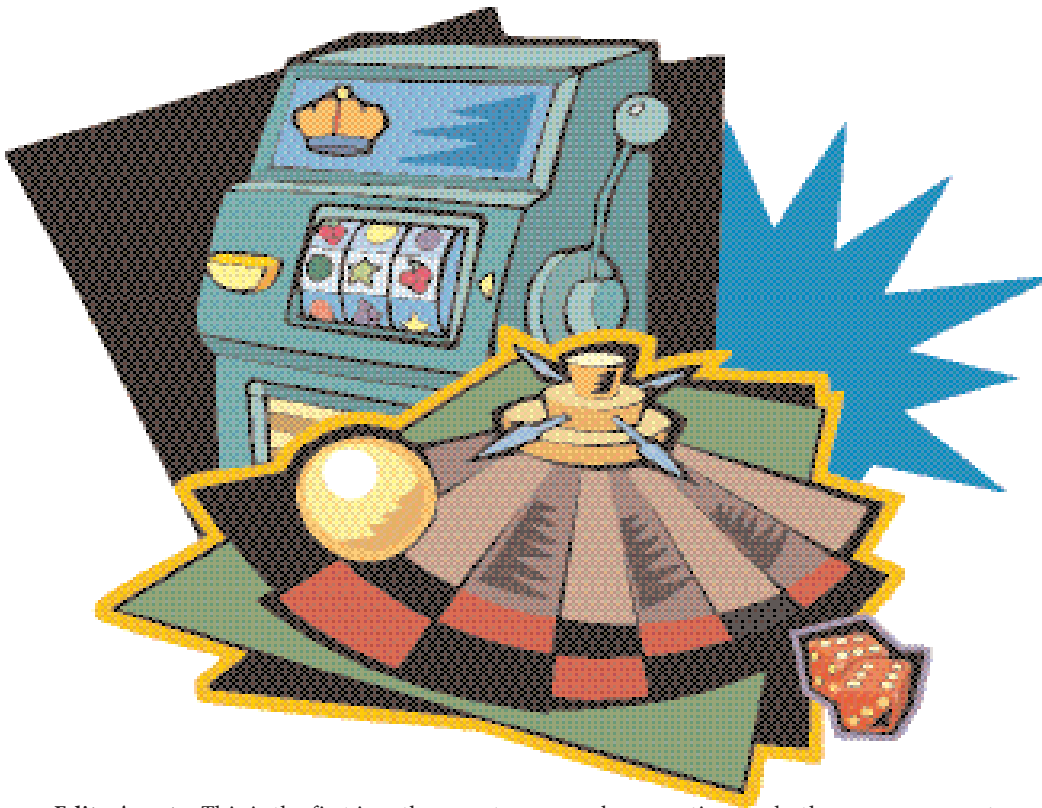


GAMBLING ON GAMING

Revenues from gambling are just too tempting for troubled state budgets.

By Mandy Rafool



Editor's note: This is the first in a three-part series on gambling. Watch for "Does Gaming Pay Off?" in February and "Indian Gaming Grows" in the March magazine.

What was once considered a vice has gone mainstream. As states continue to grapple with budget shortfalls, lawmakers have depended on gaming to generate new revenues and stimulate economic development. In fact, sometimes, it's hard to remember that gambling was once considered shady. Nearly every state has a lottery, newspapers print point spreads, senior groups schedule trips to casinos, and poker is booming—thanks to the seemingly endless supply of televised tournaments. Only two states—Hawaii and Utah—don't permit any type of gaming.

That's not to say gaming isn't controversial; it is. Public reaction varies widely. Many

people question whether government should profit from practices that many residents feel are morally wrong. Others question whether the benefits outweigh the social costs. Notwithstanding this debate, however, there does seem to be an increasing tolerance of gaming as an acceptable form of entertainment and source of state revenues. Public acceptance grows even more when the question is presented as a choice between gambling expansion or tax hikes. "Given the choice, people will take gambling over tax increases any day," said Representative John Rogers of Alabama who intro-



REPRESENTATIVE
JOHN ROGERS
ALABAMA

duced a constitutional amendment last session that would have allowed voters to repeal the state's ban on lotteries and casinos. The measure failed to pass the legislature.

Alabama was hardly alone. Gambling was big on the national legislative agenda in 2004, with 28 states considering more than 50 different measures.

THE RACE FOR RACINOS

The bid for racinos—racetracks that host electronic gaming machines—has become something of a horse race itself. It was the most popular gaming legislation considered last year, with at least 14 states looking at measures.

There are several reasons behind its popularity. Many policymakers like them because they don't require additional infrastructure. And, they can argue, these slot parlors aren't really more gambling, just a different variety added to a place where people already gather to wager on horses or dogs.

Additionally, racinos lend themselves nicely to video lotteries, which are attractive to states because most already have lotteries. Expansion into electronic lottery formats may not require changes to the state constitution like other gambling activities would. And for the consumer, there's no difference—the video lottery experience is similar to playing slots in a casino.

Finally, and possibly most important, in the quest for racinos is interstate competition. States compete for gambling revenues, just like they do with most other forms of commerce. In turn, gaming discussions have been particularly prevalent in states with gambling neighbors. The argument is simple: "Like it or not, our citizens are gambling. Right now they go across the state line to do it. Not only are we missing out on a significant revenue opportunity by not offering gambling in our state, the state treasury next door is being filled with our people's money." Perhaps this reasoning is best illustrated by recent activities along the Eastern Seaboard.

In two states—Maryland and Pennsylvania, which both border other gaming states—the racino issue dominated the legislative agenda for the second straight year. The outcomes varied. In Maryland, where the measure to bring more than 15,000 video gaming machines to the state failed,

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the old mare didn't give up easily. The gambling debate raged on well past the end of the legislative session and almost became a last minute November ballot item. However, the deal fell apart in what some insiders say is an all too familiar pattern of accusations and finger pointing. This issue has become a political football with the Democratic speaker of the House on one team and the Democratic Senate president lining up with Republican Governor Robert Ehrlich Jr.

For the past two years, the slot legislation has failed in the House, which has been a big blow to the governor, who has made gambling the centerpiece of his agenda. He said a slot machine proposal would return, but not until House leadership agrees to pass it.

Had the Maryland measure passed, it would have been dwarfed anyway by Pennsylvania. After more than a year of on-and-off negotiations, during the 2004 session's final hours, lawmakers in the Keystone state passed a racino bill that legalizes up to 61,000 slot machines at seven race tracks, five slot casinos and two resorts. This will give Pennsylvania more commercial machines than any other state except Nevada and is the most expansive measure to be enacted by a state in several years. Revenues are expected to finance up to \$1 billion annually in property tax cuts.

What does this mean for other states? Lost revenue. At least that's what state officials in the racino state of Delaware are bracing for. With all these slot parlors expected to open in Pennsylvania next year and discussions continuing in Maryland, Delaware gaming could lose big. More than 70 percent of Delaware's slot players come from outside the state—mostly from Pennsylvania and Maryland. Delaware currently receives approximately \$200 million a year in slot revenues. Officials estimate that state revenues will be cut by \$35 million annually when Pennsylvania racinos open. The loss could be up to \$130 million a year if Maryland follows suit.

"The joke around the legislature is that we should take some of our racino money and go to Maryland and lobby hard against the slot legislation," says Russ Larson, controller general of the Delaware General Assembly.

"Gaming is creeping in state by state by state. We know we'll take a hit in revenues, but not right away. Legislation just passed in Pennsylvania, but it takes a while to get up

and running—we've been there," he says.

As reported by Delaware Online.com, some gaming industry experts said immediate action was needed and the options were clear: Pennsylvania is offering only slots, so Delaware should offer table games. "While table gaming does not produce the revenue of slots, the different types of gambling drive up the 'attraction factor,'" says Sebastian Sinclair, president of Christiansen Capital Advisors, a gaming consultant company. This gives people a reason to come to Delaware. They point to Iowa as an example.

Iowa was the first state to expand gaming beyond Nevada and Atlantic City when it legalized riverboat gaming in 1989. After seeing Iowa hit the revenue jackpot, lawmakers

in neighboring Illinois and Missouri authorized riverboat casinos that had fewer restrictions and higher bet limits. They succeeded in luring people away, so Iowa responded by loosening its gambling restrictions. But that's not all: they expanded gaming beyond riverboats with the approval of racinos. It worked—gaming revenues went up. Hoping to repeat that success, lawmakers did it again in 2004. They approved a gaming expansion measure that makes Iowa the first state to add table games to racinos. It also loosens the restrictions on the number of casino licenses.

In New York it's become a question of how the racino money is spent. An interesting issue developed last summer when a state

PICK YOUR GAME

Legalized gambling in the United States has grown dramatically over the last 40 years. In 1964, New Hampshire became the first state in recent history to legalize a state lottery; 40 states have followed since. Other forms of gambling have also expanded at a considerable pace. Legalized gambling runs the gamut: Poker, lotteries, blackjack, craps, slot machines, video poker, horse racing and the list goes on. But what is allowed in one state may be very different from what is authorized in another. General categories of legalized gaming include:

Lotteries—state sponsored games of chance with cash prizes. The revenue generated helps pay for government operations.

Video Lottery Terminals (VLTs)—usually slot machines and video poker machines. Although still part of the state lottery system, the payout for video lottery is different from other lottery games. The state shares the profits with the machine operators and the establishments that host the machines.

Commercial Casinos—private facilities (both on land and riverboats) that house a variety of gaming activities including cards, table games and electronic gaming machines.

Indian Casinos—run by tribes and are different from commercial casinos because in many cases, states have no authority to regulate or profit from these casinos. The exceptions are states that have negotiated revenue sharing agreements with the tribes. For example, Connecticut has an agreement with two tribes in which the tribal casinos pay a combined total of 25 percent of their slot machine revenue or \$80 million, whichever is greater, to the state.

Electronic Gaming Devices—include slot machines along with other video games that might be considered armless cousins to the traditional one-armed bandit. These machines are located in casinos but also exist in states that don't have commercial casinos. In this case, they are usually found at racetracks (frequently called racinos) and bars. Video lottery is considered electronic gaming and falls into this category.

Racino—a relatively new term for racetracks that also host electronic gaming devices. Racinos include both video lottery and other electronic games.

Pari-Mutuel Wagering—gambling on an event, notably, horse and dog racing and jai-alai, in which participants finish in a ranked order. Pari-mutuel gambling is often also offered at "off track" facilities, where players may bet on the events without actually being present to observe them in person. Under pari-mutuel betting, all bets of a particular type are placed together in a pool and payoff odds are calculated by sharing the pool among all placed bets. The fewer correctly placed bets there are in relation to the entire pool, the greater the payoff. Unlike many forms of gambling, in pari-mutuel betting the gambler bets against other gamblers, not the house.

appellate court ruled against video lottery. The court found that the law authorizing the terminals was unconstitutional because it earmarks a portion of revenues to horse breeders and to larger racetrack purses. The lottery law requires that the money be allocated exclusively for education. The decision is not likely to have any immediate effect on existing racinos since the state is expected to appeal.

Lawmakers in Michigan considered two gaming measures, one to authorize racinos and another to raise the existing casino tax. The casino tax passed, which drastically reduced the likelihood of the racino bill passing as a budget fix. The sponsor of the



REPRESENTATIVE
LARRY JULIAN
MICHIGAN

bill, Representative Larry Julian fought hard to win approval for the legislation as a way to boost the struggling racing industry.

"Michigan's agriculture and horse racing industry will benefit tremendously from racinos," he says. Others saw the racino law as no longer needed to generate new revenues once the casino tax increase passed.

In Illinois, Indiana, Kansas, Kentucky, Minnesota, Ohio and Texas, lawmakers rejected a number of racino measures. As



SENATOR
LANA OLEEN
KANSAS

Kansas Senate Majority Leader Lana Oleen says, "We have dealt with this issue for years, and for years we have said no. Some people just aren't listening."

Racinos weren't the only gaming proposals discussed in statehouses across the country. All kinds of gambling issues dominated the legislative agenda in Kansas. In response to several gambling bills deemed unacceptable, Oleen—a consistent opponent of expanded gambling—offered her own, more detailed

measure that called for a constitutional amendment to permit just one large casino and four slot-machine parlors. Her proposal differed from other measures being circulated in that it was much smaller in scale and would require a statewide vote.

"My proposal was designed to let people know exactly what they were getting. I don't think I said what color the machines had to be, but otherwise, it was very prescriptive. I really just wanted to raise the policy issue of a statewide vote," says Senator Oleen. In the end, the gaming bills died, but the issue may not be dead yet.

LETTING VOTERS DECIDE

Slots or no slots, in November voters pulled the lever of another kind of machine in states with gaming measures on the ballot. Many policymakers like the less politically charged option of letting the voters decide. In other states, residents took the lead with citizen initiatives. However, across the country, voters defeated most of the gaming measures at the polls

In fact, Washington voters expressed their disapproval of gaming at the expense of lower taxes. They rejected Initiative 892, which would have allowed new slot machines and dedicated a portion of the proceeds to property tax relief.

Gaming was a big issue in California last year and voters convincingly rejected two ballot measures that represented part of a complex gaming puzzle. Proposition 70 was backed by a tribe and would have given the state 8.8 percent of Indian casino revenues in exchange for lifting the current cap of 2,000 slot machines per tribe. It would have also extended the tribes' gambling agreement with the state and remove limits on the kinds of games tribes can offer.

The competing measure (Proposition 68) was backed by a group of 16 privately owned racetracks and card clubs. It would have required the states' 53 gaming tribes to agree to share 25 percent of their revenues with the state, otherwise the 16 privately owned gambling businesses (five tracks and 11 card rooms) would be allowed to operate a total of 30,000 slot machines. Standing between those measures was the governor, who actively campaigned against both measures because of a deal he made with several tribes for giving the state money to ease the budget crunch. That agreement would have become

void if privately owned casinos were allowed to operate slot machines.

Hoping that large casinos would attract out-of-state dollars left by visitors driving on Interstate 80, the Nebraska Unicameral referred a casino measure to the November ballot. Also making their way to the ballot were three other citizen initiatives that would have expanded gambling. The result was a confusing array of gambling measures, which were all defeated.

In Michigan, voters approved a measure that now requires their approval for any future gaming expansion.

In Rhode Island the road to the ballot was a rocky one that ultimately proved to be a dead end. First Governor Don Carcieri vetoed legislation that would have allowed a statewide vote on a joint venture casino between Harrah's Entertainment and the Narragansett Indian tribe. But the legislature overrode that veto in late July and the issue was set to go to the voters in November. However, in the end, it was pulled from the ballot on a constitutional question.

"The feeling of my constituents," said



REPRESENTATIVE
PETER LEWISS
RHODE ISLAND

Representative Peter Lewiss when asked about the override, "is that regardless of the merits of the casino, they would like the opportunity to vote on it."

In Florida and Maine, the voters want local communities to have a say in gambling. A constitutional initiative on the Florida ballot passed that will allow Miami-Dade and Broward Counties to hold referenda to permit racinos in those counties.

Maine voters authorized slot machines at racetracks in November 2003 as long as local voters also approve them. So far, Bangor voters have given their approval but neighboring communities have said no. Legislation passed in 2004 provided for the implementation and regulation of slots as well as a revenue distribution formula.

Lotteries are in the news, too. North Dakota and Tennessee are in their first year of lottery operations and Oklahoma recently

became the 41st state (the District of Columbia and Puerto Rico also have lotteries) to adopt a lottery after voters gave the green light in November. The revenues will help fund education. North Carolina may be next. Governor Mike Easley wants one and made it a campaign issue during the last election.

A LONG SHOT?

Despite the level of interest in gambling, most of the proposed gaming measures in statehouses have remained just that—proposals. What’s behind the defeats? In many cases it’s the casino industry itself fighting against new competition. In some cases citizen groups have rallied the troops to oppose gambling. In Maine, for instance, a group of citizens successfully fought a proposed casino that lacked industry backing. According to a group spokesman, “for Maine residents it’s an issue of quality of life and image. We don’t want the state’s image to change from lighthouses, lobsters and woods to casinos, slot machines and dancing girls.”

Citizens in a number of states across the country are fed up with all the talk of gaming expansion, says Tom Grey, the executive director of the National Coalition Against Legalized Gambling. “They care about good public policy and they desire a better quality of life for their communities and their states. They are ready to fight back and declare, enough is enough!”

What are the odds that gaming will continue to expand? Revenues aside; gambling will always have a dark side. And some will always question whether government should profit from activities that many citizens feel are immoral. However, the fact remains that more and more states are rolling the dice and legalized gaming continues to expand.

“If Las Vegas was the only place in the United States where you could gamble,” said Pennsylvania Senator Vincent Fumo during last year’s slots debate. “I



SENATOR
VINCENT FUMO
PENNSYLVANIA

wouldn’t be pushing this slots measure. But we have to be realistic. Our people are going out of state to gamble. We would be foolish not to get some of that money back and use it to benefit our own people.”

At the same time, the goose cannot lay infinite numbers of golden eggs, and there are many who doubt the ability of legalized gambling to meet revenue expectations in the long run. ■

LEGALIZED GAMING IN THE STATES

Although this table includes the broad categories of gaming, it should not be considered exhaustive. For instance, North Carolina allows video poker machines in certain stores and arcades, but doesn’t appear in a table because operators are only supposed to pay winners up to \$10 in merchandise or replays. Other states, such as Oklahoma, permit only bingo. But just to be clear—it’s not your grandmother’s bingo. The new electronic bingo games have evolved into something more like slot machines and hardly resemble a group of people sitting around a social hall marking cards as someone calls out the numbers. Also, most states allow charitable gambling, some states permit sports betting and a number of states like California, Florida, Minnesota, Montana and Washington allow card rooms where players bet against one another, not the house.

STATE	LOTTERY	CASINOS	INDIAN CASINOS	RACINOS	ELECTRONIC GAMING*	PARI-MUTUEL
Alabama						X
Arizona	X		X			X
Arkansas						X
California	X		X			X
Colorado	X	X	X			X
Connecticut	X		X			X
Delaware	X			X		X
Florida	X		X			X
Georgia	X					
Idaho	X		X			X
Illinois	X	X				X
Indiana	X	X				X
Iowa	X	X	X	X		X
Kansas	X		X			X
Kentucky	X					X
Louisiana	X	X	X	X	X	X
Maine	X			A		X
Maryland	X				X	X
Massachusetts	X					X
Michigan	X	X	X			X
Minnesota	X		X			X
Mississippi		X	X			
Missouri	X	X				X
Montana	X		X		X	X
Nebraska	X		X			X
Nevada		X	X		X	X
New Hampshire	X					X
New Jersey	X	X				X
New Mexico	X		X	X		X
New York	X		X	X		X
North Carolina			X			
North Dakota	X		X			X
Ohio	X					X
Oklahoma	A		X			X
Oregon	X		X		X	X
Pennsylvania	X			A	A	X
Rhode Island	X			X		X
South Carolina	X					
South Dakota	X	X	X		X	X
Tennessee	X					X
Texas	X					X
Vermont	X					X
Virginia	X					X
Washington	X		X			X
West. Virginia	X			X	X	X
Wisconsin	X		X			X
Wyoming						X
District of Columbia	X					
Puerto Rico	X	X				X
TOTALS	43	12	24	9	8	44

A=Authorized

*Other than racetracks and casinos

Source: NCSL survey, 2004 and International Gaming and Wagering Business, 2003.