

MAXIMUM BET:

A PRELIMINARY BLUEPRINT FOR CASINO GAMING & ECONOMIC DEVELOPMENT IN MASSACHUSETTS



Prepared

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PURPOSE OF THE BLUEPRINT

The purpose of this preliminary blueprint for casino gaming and economic development in Massachusetts is to offer recommendations for a statewide gaming policy that will maximize the economic impacts of expanded gambling in Massachusetts, while minimizing or mitigating its social impacts. The recommendations that follow are based on data generated by the New England Gaming Research Project, including its biennial *Gaming Behavior Survey* and its annual *New England Casino Gaming Update*. The blueprint takes account of public opinion on expanded gaming, existing proposals for expanded gaming, and data on casino patronage, expenditures, and market potential.

The Center for Policy Analysis Blueprint recognizes that *if* expanded gaming is approved in Massachusetts, there are still a multitude of details -- financial, political, legal, and regulatory -- that will need to be worked out among state officials, local officials, the residents of host communities, and potential casino operators over the next one to two years. Thus, the purpose of this document blueprint is to provide the outline of a possible gaming strategy that will achieve the following objectives:

- mitigate the structural municipal fiscal crisis in Massachusetts by providing a new revenue stream to fund increased local aid distributions for both operating and capital expenses,
- provide new employment opportunities to individuals at all levels of educational attainment, across a wide spectrum of occupations, and in multiple regions of the state.
- leverage at least \$500 million over the next years in state and local matching funds to finance a municipal building assistance program that will generate new construction jobs and assist in rebuilding the state's decaying municipal buildings,
- to provide an additional revenue stream to assist in funding existing state services,
- provide a new revenue stream that can be used to support workforce development initiatives from workforce literacy and English as a Second Language, to General Equivalency Diploma, to higher education opportunities for low- and moderate income students that are necessary to sustain the state's existing economic base.
- promote a statewide gaming policy that will support the tourism, leisure and hospitality, and convention and meetings sectors of the Massachusetts economy,

RECOMMENDATIONS FOR CASINO GAMING

1. Three Resort Casinos in Massachusetts.

If the Governor and state legislature approve expanded gaming in Massachusetts, the state should authorize three commercial resort casinos strategically located to maximize the recapture of revenues flowing to Connecticut and Rhode Island and to provide maximum economic development benefits, while minimizing and mitigating the social impacts.

A. Positions Allocation & Licenses

The casinos should be located at Suffolk Downs (Boston), southeastern Massachusetts, and western Massachusetts. The state should initially approve up to 5,000 slot machines and up to 200 table games at Suffolk Downs; up to 3,500 slot machines and up to 150 table games for a SEMass resort casino; and up to 2,000 slot machines and 100 table games for a WMass resort casino.

Licenses to operate commercial resort casinos should be awarded to Suffolk Downs in East Boston and to the Aquinnah Wampanoag Tribe (western Massachusetts) and the Mashpee Wampanoag Tribe (southeastern Massachusetts) in exchange for each tribe waiving all gaming-related rights under the Indian Gaming Regulatory Act (IGRA).

The Massachusetts Casino Control Commission should establish minimum requirements for awarding the casino licenses. These minimum requirements should include:

- documentation of sufficient financial resources to pay the initial license fee and fund the construction of a resort destination casino,
- minimum \$500 million capital investment, including land acquisition, casino, gaming equipment, hotel, and furnishings, but not including the purchase price of existing facilities,
- a fixed site sufficient to locate a resort destination casino that is owned or under option to the casino operator(s),
- establishment of a responsible gambling program, including training employees to recognize problem gamblers,
- a favorable vote by the proposed host community through local referendum, city council/mayor, or town meeting,
- a signed development impact agreement between the host community and the casino licensee that mitigates the costs of required local infrastructure improvements (e.g., water and sewer, roads and highways, signs and signals) and expansions of municipal services (e.g., fire, police, EMS),
- a casino must be operating within 24 months of the license award; otherwise, the license is revocable and transferable to another operator by a 2/3 vote of the Casino Control Commission.

B. Economic Impact

It is estimated that strategically located commercial resort casinos of this size will generate approximately \$1.5 billion in gross gaming revenues, while creating about 10,000 construction jobs and more than 10,000 jobs at the resort casinos. The casinos can also support growth in the state's tourism, hospitality and convention and meeting sectors and provide Massachusetts businesses the opportunity to compete annually for over \$400 million in casino-related goods and services contracts.

C. Fiscal Impact

Gaming Tax. The CFPA's preliminary analysis indicates that the three commercial resort casinos would generate over \$400 million in new gaming revenues for the state and cities and towns within the first full year of operation based on the assumption that the state will impose a 27% gaming tax on gross gaming revenues. This tax rate would allow the Massachusetts resort casinos to compete effectively against

Connecticut's casinos and Rhode Island's slot parlors, especially given Massachusetts resort casinos' proximity to New England's population and income centers (see Table 1).

Sales Taxes. Commercial casinos are also subject to state and local room occupancy, meals, sales and local property taxes. It is estimated that if each casino constructs a minimum 500-room hotel and achieves a 90% occupancy rate, it will generate an additional \$4.4 million in occupancy taxes for state and local governments, while retail, sales and meals taxes will generate another \$7.5 million in state tax revenue (see Table 1).

Positions Tax. The state should also impose an annual "positions tax" on slot machines and table games, as well as employee licensing fees, to defray the costs of gaming regulation and enforcement. An annual slot machine and table game licensing fee -- "a positions tax" -- of \$1,500 per slot machine and \$750 per table game, which is charged by many other states with commercial casinos, would yield approximately \$16.1 million per year, while an annual license fee for employees could yield another \$1.5 million per year (see Table 1).

Licensing Fee. The state should charge a tiered gaming license fee --- \$250 million for Suffolk Downs; \$200 million for a SEMass resort casino; and \$150 million for a WMass resort casino -- renewable every ten years, and subject to good behavior -- and payable to the state in equal installments over three years, beginning in the year each resort casino is awarded a gaming license. The licensing fees could be set aside to expand existing workforce development initiatives, provide college scholarships to low and moderate income students, and establish a new Municipal Building Assistance Program to be funded over a ten-year period (see below).

Host Community Allocation. The state should allocate annually 1% of the casino's gross gaming revenues (GGR) to each host community of a commercial resort casino. However, one condition for receiving a casino gaming license should be that the host community and casino developer successfully negotiate a local development impact agreement that defrays the cost of local infrastructure improvements, required capital equipment purchases (e.g., police cruisers, fire trucks), specialized employee training costs (e.g., fire, police), and other items. It is estimated that under this arrangement the city of Boston would receive about \$7.1 million annually in host community payments, while a host community in SEMass would receive \$5 million annually, and a WMass host community would receive \$2.8 million annually. The host communities would also receive an additional \$8 million to \$12 million each in local property tax payments depending on the assessed value of each gaming facility and the local commercial property tax rate (see Table 1 and Table 2).

Contiguous Community Allocation. The communities immediately contiguous to the host community should share equally in a 1% pool of the local casino's GGR to help bordering cities and towns address the local impacts arising from the nearby resort casino. Depending on the exact location of the casinos, and the GGR of individual casinos, contiguous communities could each receive annual payments of \$474,000 to \$647,000. The monies allocated to the host and contiguous communities could be distributed to municipalities as part of the state's annual local aid distribution (see Table 1 and Table 2).

Local Aid Distribution. The state should disperse one-half of the initial \$400 million in estimated gaming tax revenues by apportioning one-half (13.5% of GGR) of the new revenues to the state's general fund and one-half as new local aid to cities and towns. After subtracting the host and contiguous community allocations, it is estimated that every city and town in the commonwealth would receive at least a 10.4% increase in local aid, using the existing distribution formula, even after accounting for a worst-case 8% first-year reduction in lottery revenues (see Table 3).

(A complete list of the 351 cities and towns can be found at www.umassd.edu/cfpa where the amount of additional annual revenue to each community is illustrated using the state's existing lottery distribution formula).

2. Massachusetts Casino Control Commission

The CFPA recommends that the commonwealth establish a Massachusetts Casino Control Commission (MCCC) to license and regulate the operation of three commercial resort casinos and their employees.

The CFPA further recommends that the MCCC consist of nine members, to be appointed by the following elected officials as follows:

- the governor (4);
- the attorney general (1);
- the state treasurer (1);
- the state auditor (1)
- the speaker of the house (1); and
- the senate president (1).

The CFPA further recommends that of the nine MCCC members, at least one member should possess state law enforcement experience; one member should possess financial industry experience; one member should be an elected officer of the Massachusetts AFL-CIO or one of its affiliated unions; and one member should have experience in a non-gaming sector of the leisure and hospitality industry.

The members should serve six-year staggered terms with three members appointed every two years.

The operations of the MCCC should be fully funded by position taxes and employee licensing fees.

3. Division of Gaming Enforcement, Office of the Attorney General

The CFPA recommends that the commonwealth establish a division of gaming enforcement within the attorney general's office to enforce all gaming laws and regulations at the three commercial resort casinos and grant it the power to levy fines and penalties for violations of proscribed gaming laws and regulations.

The operations of the division should be fully funded by position taxes and employee licensing fees, while all fines and penalties should also be used to defray the costs of the enforcement division.

4. Massachusetts Tourism Development Fund

The CFPA recommends that a one-fourth of one percent (0.25%) of the commercial resort casinos' gross gaming revenues (GGR) be dedicated to increasing funding for marketing and tourism development initiatives administered by the state's tourism office, regional tourism councils and regional convention and visitors' bureaus.

It is estimated that this fund would generate an additional \$3.7 million annually to support state and regional marketing and tourism development initiatives. The state and the three regions with casinos should emulate the Connecticut model by developing mutually beneficial cross-marketing arrangements to market Massachusetts' tourism, leisure, and hospitality sectors.

5. Massachusetts Compulsive Gambling Prevention and Treatment Fund

The CFPA recommends that a one-fourth of one percent (0.25%) of the commercial resort casinos' GGR be dedicated to funding the prevention of problem gambling, responsible gambling education initiatives, and a problem gambling helpline.

It is estimated that the allocation would increase funding for problem gambling initiatives by \$3.7 million annually. These funds, if added to those currently disbursed by the Massachusetts State Lottery to the Massachusetts Commission on Compulsive Gambling (MCCG), would more than quadruple the MCCG's current budget allocation.

6. Massachusetts Thoroughbred and Harness Purse Fund

The CFPA recommends that one-eighth of one percent (0.125%) of the casinos' GGR be dedicated to the funding of purses for live thoroughbred and harness races at Suffolk Downs and Plainridge Racecourse.

It is estimated that this fund would generate nearly \$1.9 million annually for increasing the purses for live thoroughbred and harness racing in Massachusetts. A major rationale for "slots at the tracks" has always been that revenues could be earmarked to enhance purses and make the industry more competitive. A small allocation of the casinos' gross gaming revenues tax will yield almost \$1.9 million to support larger purses at the horse racing tracks.

7. Massachusetts Greyhound Purse Fund

The CFPA recommends one-eighth of one percent (0.125%) of the casinos' GGR be dedicated to funding purses for all live greyhound races at Raynham-Taunton Greyhound Park and Wonderland Greyhound Park.

It is estimated that this fund would generate nearly \$1.9 million annually for increasing the purses for live greyhound racing in Massachusetts. A major rationale for "slots at the tracks" has always been that revenues could be earmarked to enhance purses and make the industry more competitive. A small allocation of the casinos' gross gaming revenues tax will yield almost \$1.9 million to support larger purses at the horse racing tracks.

(In the event the commonwealth's voters approve a ballot question banning greyhound racing, the CFPA recommends that this tax be dedicated to the care, retirement and placement of greyhounds into adoption programs for the first two calendar years following the calendar year that the ballot referendum was approved and, beginning in calendar year three, the afore-mentioned tax assessment should be distributed, utilizing the state's lottery distribution formula, to support city and town animal shelters).

8. Municipal Building Assistance Fund

The CFPA recommends that the \$250 million gaming license fee for a Suffolk Downs commercial resort casino be set aside to capitalize a new Municipal Building Assistance Fund to provide matching grants or low-interest loans to municipalities to rebuild the state's aging municipal buildings. The Fund would provide assistance for the construction and rehabilitation of town and city halls, public safety facilities, and public works facilities (excluding water and wastewater facilities and improvements).

Note: The state already has funds that provide assistance to municipalities for the construction of public libraries, school buildings, and water and wastewater treatment facilities and the latter two, in particular, provides models for long-term self-sustaining revolving funds that support municipal infrastructure improvements.

9. Massachusetts Higher Education Opportunity Fund

The CFPA recommends that the \$200 million gaming license fee for a SEMass commercial resort casino be set aside over the next ten years (\$20 million per year) to increase funding for scholarship programs serving low and moderate income Massachusetts residents attending the commonwealth's public colleges and universities.

These scholarships would not only make higher education more affordable to the state's residents, but could also be targeted to students majoring in science, mathematics, engineering, nursing, and other fields, where there are critical labor shortages in key industries.

10. Workforce Investment Fund

The CFPA recommends that the \$150 million gaming license fee for a WMass commercial resort casino be set aside over the next ten years (\$15 million per year) to increase funding for the state's Workforce Investment Boards.

These funds could be targeted toward eliminating the backlog in demand for workplace literacy, adult basic education, English as a Second Language, citizenship training, and General Equivalency

Diploma (GED) classes, as well as specialized short-term education and training programs in areas with critical labor shortages (e.g., health care).

11. Massachusetts Vendor Preference Program

The CFPA recommends that MCCC require each commercial resort casino to adopt a state and local vendor preference program for Massachusetts businesses as part of its commitment to spread small business growth, job creation, and economic development. This program should also include a 5% set-aside for minority and women-owned businesses.

The resort casinos should also be required to submit annual economic impact data documenting the geographical distribution of their state and local expenditures and type of expenditures by industry sector, and types of ownership (see New Jersey Casino Control Commission, for example). Based on data from Foxwoods and Mohegan Sun, it is estimated that businesses in Massachusetts would be eligible to compete for up to \$400 million in contracts to supply goods and services to the casinos.

12. Massachusetts Employment Preference Program

The CFPA recommends that the three commercial resort casinos give hiring preference to legal residents of the commonwealth.

The resort casinos should also be required to submit annual employment impact data documenting the geographical distribution of their employees, occupational distribution, numbers of full-time and part-time employees, average wages by occupation, and percentage of employees receiving different types of fringe benefits (e.g., health insurance, retirement plans, etc.)

13. Massachusetts Hotel, Restaurant and Retail Benefits Program

The CFPA recommends that the three commercial resort casino, as a condition for receiving a gaming license, be required to adopt and administer a customer rewards program that will allow patrons to redeem accumulated player reward points at participating Massachusetts hotels, motels, restaurants and retail outlets.

This arrangement will facilitate the distribution of economic benefits related to casino expenditures to non-casino business establishments in the leisure, lodging, retail, and food and beverage sectors.

14. Casinos as Lottery Distribution Agents

The CFPA recommends that the three casinos be required to act as lottery agents as a condition of receiving a license, and to offer and advertise state lottery products on their premises, including instant scratch tickets, lotto games, and keno, to minimize any potential impact on lottery revenues.

This arrangement has proved particularly successful in New Jersey, where both casino and lottery revenues have consistently expanded since the opening of that state's first casinos in 1976.

Table 1

Estimated State Revenues from Three Commercial Resort Casinos		
Source of Revenue		Amount
Gaming Tax (27%)	\$	403,562,250
Room Occupancy Tax (4%)	\$	2,207,520
Meals and Retail Sales Taxes (5%)	\$	7,473,375
Position Taxes	\$	16,087,500
Employee Licenses	\$	1,500,000
	Sub-Total	\$ 430,830,645
Costs & Distributions		
State Regulatory & Enforcement Costs (1.3% of GGR)	\$	19,430,775
MA Council on Compulsive Gambling (0.25% of GGR)	\$	3,736,688
State Tourism & Marketing Fund (0.25% of GGR)	\$	3,736,688
Greyhound Purses (0.125% of GGR)	\$	1,868,344
Horse Racing Purses (0.125% of GGR)	\$	1,868,344
	Sub-Total	\$ 407,663,183
Gross Distribution to Towns/Cities (13.5% of GGR)	\$	201,781,125
	Net to General Fund	\$ 205,882,058
<p>Note: Figures do not include net new income and payroll taxes due to increased employment or social savings accrued by removing individuals from social welfare & unemployment rolls.</p>		

Table 2

Estimated Local Aid Distributions from Casino Revenues (does not include local property assessments)		
Gross Distribution to Towns/Cities (13.5% of GGR)	\$	201,781,125
Distribution to Host Communities (1% of GGR)	\$	14,946,750
Distribution Contiguous Communities (1% of GGR)	\$	14,946,750
Maximum Impact on Lottery (8%)	\$	74,802,263
Net for Additional Local Aid Distribution (formula)	\$	97,085,362
Percent Increase on FY 2008 Lottery Distribution		10.4%