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Cc: Kate Brewster, Ellen Frank
From: Heather Brome, Policy Analyst
Date: September 14, 2006
Re: Economic impact of casino development

This memo summarizes data on state revenues from gaming in New England and provides a review of the literature on the potential secondary impacts of casinos on local economies. It is intended to inform the discussion of the proposed casino in West Warwick by offering a synopsis of the research evidence on the secondary impact of casinos on economic growth. It does not provide an extensive cost-benefit analysis of the Warwick proposal. Nor does it attempt to estimate the social costs or overall fiscal impacts of casino development.

We find that gaming revenues have stayed fairly constant as a share of overall general fund revenues in most New England states, with the exception of Rhode Island, where it has grown rapidly. Furthermore, the empirical evidence we reviewed suggests that, in most cases, large casinos in highly populated areas, such as the proposed West Warwick casino, have little secondary economic impact.

State revenues from gaming in New England

You asked what percentage of state revenues in New England come from gambling and how this has changed in the last decade.

The New England states have a variety of sources of gaming revenues. All six states in the region have state lotteries and, with the exception of Vermont, all have legalized horse or dog racing and simulcast wagering from other race-tracks. Rhode Island is the only state with “racinos” (race tracks with video lottery terminals), and only Connecticut has legalized casinos.

The following table summarizes the legalized forms of gaming in the New England states.

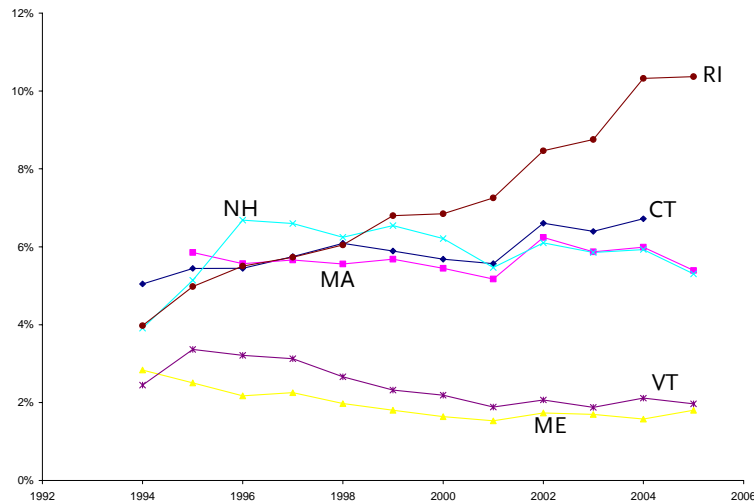
Legalized forms of gaming in New England states

	CT	ME	MA	NH	RI	VT
Dog racing	✓		✓	✓	✓	
Horse racing: harness	✓	✓	✓	✓	✓	
Horse racing: thoroughbred	✓	✓	✓	✓	✓	
Horse racing: quarter horse	✓		✓			
Race track simulcast wagering	✓	✓	✓	✓		
Off-track betting	✓	✓		✓	✓	
Charitable bingo	✓	✓	✓	✓	✓	✓
State lottery	✓	✓	✓	✓	✓	✓
Tribal casinos	✓					
Video lottery terminals					✓	
Keno			✓		✓	
Jai alai					✓	
Racinos					✓	

Source: National Conference of State Legislatures, 2003

With the exception of Rhode Island, New England states receive between 2 and 7 percent of their state revenues from gaming. By comparison, Nevada gets by far the largest portion of its revenues from gambling of any state, at 42.6 percent, according to research by William Thompson at the University of Nevada, Las Vegas. South Dakota is second at 13.2 percent. Three other states, including Rhode Island, receive more than 10 percent of revenues from various forms of gaming, and another five states receive close to 10 percent, according to a 2005 *New York Times* article. Unsurprisingly, gaming is a larger share of revenue in states that have more varied sources of gaming-related income, such as Connecticut and Rhode Island. Still, even as more gaming options have been legalized over the last decade, gaming has contributed a more or less steady, not increasing, proportion of general fund revenues in most New England states. Rhode Island is the only state in New England whose share of revenues from gaming has increased substantially during the period.

Gaming revenues as a share of general fund revenues in New England states



Sources: NEPPC analysis of state budget data.

Notes: New Hampshire transfers lottery profits to an education fund rather than the general fund. However, other gaming revenues are part of the general fund. As of FY 1999, Vermont transfers all lottery revenue to an education fund rather than the general fund.

Potential secondary economic impacts of casinos: A survey of the literature

You asked what secondary impacts a casino in West Warwick, RI might have on the local economy, particularly on the local entertainment and tourism industry. By secondary impacts, you meant not the jobs, tax revenues, or economic activity at the casino itself, but any ancillary economic impacts spurred by the casino's presence. These impacts on the local economy could be positive (such as increased tourism), neutral (such as no increase or decrease in spending at other entertainment facilities), or negative (such as diverting customers from Rhode Island's racinos, restaurants, movie theaters or other entertainment venues). We focus on impacts on private sector economic activity. We do not evaluate impacts on state and municipal budgets or the potential social costs of gambling, such as crime or compulsive gambling addiction. Much of the existing literature on the economic impacts of casino gaming do not apply to the specific casino proposal in West Warwick, and no study answers definitively what the ancillary impacts might be. However, some insights can be drawn from existing studies.

In general, whether a casino will benefit or harm a local economy hinges on whether the casino is likely to attract tourists to the region. Destination casinos, such as those in Las Vegas, essentially export casino services to tourists, bringing in new dollars to the local economy. A dollar spent by a tourist in a destination casino may fund a local supplier providing food and beverages to the casino, which then spends that income on other goods and services in the local economy, thus multiplying the effect of the first dollar spent. The tourist, however, does not generally spend much in the communities surrounding a resort-style casino. Steve Wynn, a major casino operator, expressed this point to local businessmen in Bridgeport which also considered a casino, in the 1990s: "There is no reason on earth for any of you to expect for more than a second that just because there are people here, they're going to run into your restaurants and stores just because we build this building [casino]"

here.” Therefore, the main ancillary benefits are from indirect spending in the local economy spurred by tourists to a casino, rather than direct spending by tourists at local restaurants or shops.

Casinos that cater to a local market generally do not bring outside money into the economy through the spending of their patrons. In fact, such casinos may have no net ancillary economic impacts. Residents patronizing such casinos may simply substitute gambling for other goods and services. The secondary impacts of spending on the foregone goods and services would therefore be lost, offsetting any ancillary benefits from gaming expenditures at the casino. However, if a casino attracts gamblers who otherwise would be gambling out-of state, it can have net positive ancillary economic effects.

Nevertheless, a new casino catering to a local market can generate positive secondary economic effects through its employees if it induces an increase in total employment in and around its host community. Such effects are greatest for new casinos in areas of high unemployment (for example, rural Mississippi). Under such conditions, the increased purchasing power of workers who otherwise would be unemployed or “underemployed” generates multiplier effects. However, at the other extreme, a new casino in a tight labor market may cause competition for service sector labor.

To understand the potential secondary economic effects of a casino on the local and state economy, then, one must consider the following questions:

- What kind of casino is proposed, and what other gaming options are there in the state and region?
- How many patrons from out of state might be expected?
- To what extent might local residents substitute gambling for other forms of entertainment?
- To what extent might a casino change the labor market?

What kind of casino is proposed, and what other gaming options are there in the state and region?

The proposal examined by the town of West Warwick is for a casino resort facility. The facility would have approximately 140,000 square feet of casino floor, including 150 gaming tables and 3,500 slot machines. It would also have 500 hotel rooms, five restaurants, and 55,000 square feet of meeting space. While not of the scale of Native American casinos in neighboring Connecticut, the proposed facility would still be sizable.

The market for resort casinos in New England may be such that even a large casino could serve a primarily local or regional market. The casino proposed for West Warwick would enter a market that already has two large existing casino facilities: Foxwoods and Mohegan Sun. Both of these Connecticut casinos are less than an hour’s drive from the proposed site of the West Warwick. Consequently, they may compete for the same local patrons. Foxwoods and Mohegan Sun are both substantially larger than the proposed West Warwick facility. Foxwoods has 340,000 square feet of gaming space, 350 gaming tables, 7,300 slot machines, 4 hotels with 1,400 rooms, 35 restaurants, and 55,000 square feet of meeting space. The casino is currently expanding all of its facilities, particularly meeting spaces. Mohegan Sun has more than 300,000 square feet of gaming space, 305 gaming tables, 6,200 slot machines, 1,200 hotel rooms, 30 restaurants, and more than 100,000 square feet of meeting and function space. Additionally, Mohegan Sun has a 10,000 seat arena, two smaller theaters, and a shopping mall.

There is also competition within the state from two existing racinos, Newport Grand and Lincoln Park both about a half hour's drive from West Warwick: Lincoln Park has greyhounds racing, as well as 2,400 video lottery terminals and simulcast wagering from thoroughbred and greyhound tracks throughout the U.S. Lincoln Park is currently expanding and updating its facilities. Newport Grand has more than 1,000 video lottery terminals as well as simulcast wagering from both horse tracks around the country and Lincoln Park.

Would the casino draw patrons from outside of Rhode Island?

William Eadington in a 1995 article predicted that if more locations offer casino gambling and, as a result, latent demand for gaming were met, each casino's profits would decline. Existing casinos would become casinos of convenience, serving the immediate surroundings rather than regional or national markets. Therefore, even a resort-style casino in Rhode Island could be a casino of convenience rather than a larger draw for tourism.

Adam Rose conducted an extensive review of the literature for the National Gambling Impact Study Commission, surveying approximately 100 papers on the economic impact of casinos. With respect to how a casino might affect the local or regional economy, the author has several findings from the literature that may shed light on how many patrons might be expected from outside the region as well as other potential economic impacts of the proposed casino in West Warwick, discussed below. First, he found evidence that even a casino that primarily serves local or regional patrons will still draw *some* patrons from outside the state. Studies of Illinois riverboats casinos and Minnesota's Native American casinos estimate that about 20 percent of patrons are from outside of the state. While these casinos are smaller and provide fewer amenities than the proposed West Warwick casino, this might serve as a lower bound estimate of the proportion of customers from out of state. A study of casinos in Atlantic City and Las Vegas estimates that 85 percent of patrons are from out of state. However, since these casinos draw patrons from all over the country, these results are unlikely to be repeated. So, even if a casino in West Warwick primarily catered to Rhode Island residents, it would be reasonable to expect that at least one in five customers would be from outside the region, whose spending could multiply through the local economy. Southeast Massachusetts would be an obvious source of potential out-of-state patrons.

Could the casino recapture Rhode Islanders leaving the state to gamble? How many Rhode Islanders gamble elsewhere?

Rose also found that the ability of a casino to keep customers from venturing to other casinos depends primarily on its characteristics and location. Casinos are best able to compete with alternatives in the same class in terms of size, gaming choices, amenities, and image. Moreover, casinos have a distinct advantage based on how far apart they are. The proximity of a casino in West Warwick to casinos in neighboring Connecticut would reduce the recapture rate. Rose reports that researchers have found recapture rates of just over 50 percent for Missouri.

The Center for Policy Analysis at the University of Massachusetts Dartmouth tracks New England casino gaming including where patrons of New England facilities are from. The most recent study finds that in 2004, 15.4 percent of Foxwoods patrons and 5.6 percent of Mohegan Sun patrons were

from Rhode Island. Surveys indicate that 30.9 percent of adult Rhode Island residents had gambled at Foxwoods in the previous 12 months, and 17.6 percent of adult Rhode Island residents had gambled at Mohegan Sun in the previous 12 months. The fact that Rhode Island residents were nearly twice as likely to gamble at Foxwoods as Mohegan Sun indicates that geographic proximity plays a strong role in casino choice. Additional evidence indicates that Rhode Island residents spent approximately \$322.5 million in 2005 at casinos in Connecticut.

To what extent might local residents substitute gambling for other forms of entertainment?

The **National Gambling Impact Study Commission Report** summarized evidence from across the country on the ancillary impacts of casinos on other forms of entertainment. Small business owners from Atlantic City, NJ testified that in 1978, the year that casinos opened, there were 311 taverns and restaurants in the city. Nineteen years later, only 66 remained. The survey of the literature by **Adam Rose** for the NGISC, noted above, found that estimates of the substitution effect ranged from 30 percent to 75 percent. With respect to other gambling activities, specifically horse and dog racing, Rose found a wide variety of evidence. One study estimated casino substitution for horse racing at 25 percent while another estimated a substitution of only 4 percent. Rose also discusses the dangers of inter-jurisdictional competition. He writes: "If every metropolitan area had a Las Vegas style hotel (and perhaps a small casino) ... no one would travel far to gamble, and the substitution effect would reach 100%." With more resort casinos in the region, the substitution effect is magnified. Some studies have indicated that casinos may cut into spending on state lotteries, while other studies have shown no effect.

Later research by **William Eadington** indicates that forms of gambling are proliferating as other forms of entertainment and communication proliferate. Consumers now have the technology to gamble over the Internet. Additionally the trend in casino-style gaming is moving from mega-resorts like Las Vegas and Monaco towards urban and suburban casinos that are differentiated and serve a local market. With the dispersion of the benefits of gaming comes a dispersion of the costs as well. The author predicts that if gaming becomes a more competitive market, each facility will have lower profits and therefore will have to compete more fully with other forms of entertainment such as restaurants, bars, or movie theaters. The data analyzed in this memo look at historical trends in casinos and gaming and therefore do not take into account these reported rapid changes in the gaming.

Additional surveys from the **Center for Policy Analysis** indicated that about half of the patrons of Lincoln Park and Newport Grand live within a thirty minute drive of the facility and more than 85 percent of patrons live within an hour's drive. The survey also finds that more than 80 percent of the patrons of Lincoln Park or Newport Grand also visited Foxwoods or Mohegan Sun in the past 12 months. Patrons of Rhode Island's racinos may favor convenience gambling because of proximity, but also enjoy resort-style gambling.

Another report prepared by the Center for Policy Analysis indicates that Rhode Island residents have the highest per capita spending at the four gaming sites studied of any state. On average, each adult in Rhode Island spent \$650 per year at these sites. The second highest was Connecticut at only \$345 per year. These relatively high spending levels indicate that Rhode Island gamblers may be

“saturated” with casino gambling. If so, the proposed West Warwick casino would have trouble drumming up business by getting Rhode Islanders to engage in more gambling. Rather, its success would depend crucially on its ability to recapture out-of-state gamers or to attract racino gamblers.

To what extent might a casino change the labor market?

Phineas Baxandall and Bruce Sacerdote examined the effects of Indian casinos on counties throughout the US. They pay particular attention to large casinos (those with more than 1,760 slot machines) and high population counties (those with at least 55,000 residents in 1990). This analysis is particularly informative for West Warwick since Kent County, where West Warwick is located, had an estimated population of 171,590 in 2005 and the proposed casino has approximately 3,500 slot machines. The authors find that the opening of a large casino was associated with a 0.6 percentage-point drop in the host county’s unemployment rate.¹ The authors’ analysis suggests that the Warwick casino could tighten the labor market in Kent County.

Sources

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¹ The authors do not report how the impact on the unemployment rate changes over time. It could reflect a large short-run impact, induced largely by the construction of the casino, followed by a gradual return to the pre-construction unemployment rate. Or, it could reflect a longer-lived reduction in the unemployment rate.