
Casino Gambling: Should Baltimore Roll the Dice?

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INTRODUCTION

As gambling grows in popularity, income-hungry jurisdictions across America are increasingly viewing casino gambling as a panacea: a way to boost tax revenues, to reverse downward job trends, and to attract tourism.

For all of the growing presence of casino gambling nationally, Baltimore City has no policy on the issue. It needs one now. In response to this changing environment, the city's leadership and electorate need to come together and decide in what ways the presence or absence of casino gambling helps or hurts the city, to set appropriate objectives, and to develop programming to meet those objectives. Specific points need to be recognized.

1) Maryland's neighboring states to the north and south are seriously considering gambling and/or riverboat gambling.

2) Many cities with which Baltimore competes for convention business have already approved casino gambling (New Orleans) or are considering it (Pittsburgh, Chicago, Boston, Philadelphia, Washington, Detroit).

3) Thousands of Marylanders annually leave Maryland to gamble in Atlantic City and Nevada, thus taking money out of the State. If gambling is legalized in adjoining states this phenomenon will increase.

4) Baltimore has an increasingly unmet need for public funding in certain key sectors, e.g. education and police. The likelihood of sufficient additional state or federal funding to meet this need is dim. Gambling revenue, conceivably, could make a meaningful contribution in support of the City's unmet needs. The city also has a stagnant job base while employment in the surrounding suburbs is growing. Here, too, gambling might help redress this imbalance.

5) Legal gambling already exists throughout Maryland via lottery tickets, charitable casino nights, slot machines, bingo, and horse racing but little of the proceeds from such gambling benefits Baltimore City.

6) The horse-racing industry in Maryland has recently called for the introduction of video slots and/or casinos at the race tracks; this would have direct impact on Baltimore City.

7) Public officials in Maryland are being lobbied by casino advocates to establish casino gambling somewhere within the state.

8) Baltimore City has no public position on the issue of whether or where to permit casino gambling.

However, any deliberation about gambling as a legitimate enterprise in a jurisdiction must address these questions:

1) What will be the impact of casino gambling on the local crime rate?

2) How many people might be expected to be employed as a result of legalized casino gambling and at what wages?

3) How many jobs, if any, would be lost if casino gambling were approved, as a consequence of diversion of revenues to gambling from existing economic activity?

- 4) How much casino gambling could be absorbed by the market?
- 5) What will be the effect of the presence or absence of casino gambling on the city's tourism and convention business?
- 6) If a casino is located in Baltimore, how much public revenue would be generated and how much of this revenue would go to the city and the state?
- 7) What additional public costs would casino gambling generate?
- 8) Is it possible to mitigate the negative effects of casinos, such as increased traffic, bus fumes, gambling addiction?
- 9) Is casino gambling morally offensive to our community?
- 10) How much of the casino gambling income would come from out-of-state and out-of-city customers?
- 11) Which games are most or least desirable (i.e. slot machines, table games)?
- 12) Is it possible or beneficial to impose restrictions or limitations on gambling operations in order to address legitimate concerns? Can these restrictions be enforced and maintained over time?
- 13) What would be the impact of casino gambling on the lottery, charitable gaming, horse racing and illegal gambling?
- 14) Would the precise location of a casino within the City have any bearing on its success or failure and on the redevelopment of the City?
- 15) If casino gambling were to be legalized in the state, should casino gambling be limited to Baltimore City?
- 16) What would be the impact on Maryland in general and Baltimore specifically if adjoining states legalized casino gambling and Maryland did not; and the impact if these states legalized gambling and Baltimore did also?
- 17) What would be the potential effect of "virtual gambling" (gambling at home over an electronic network) on the future of casino gambling?
- 18) How great are the benefits and costs of casino gambling and who are the real winners and losers?

These and other issues need to be addressed so that the city can form a thoughtful policy on the overall issue of legalizing gambling casinos within its jurisdiction. This report purports to make an objective presentation of the (potential) benefits and (potential) costs. When discussions began on casino gambling in other cities, they were initiated by potential operators and/or public sector advocates; the consultants hired to study the impact were paid by those advocates rather than by neutral parties. In the end, this report will recommend that Baltimore City appoint a committee of objective observers to study the background issues, and that they, in turn, make recommendations as to what strategies Baltimore City should pursue or not pursue.

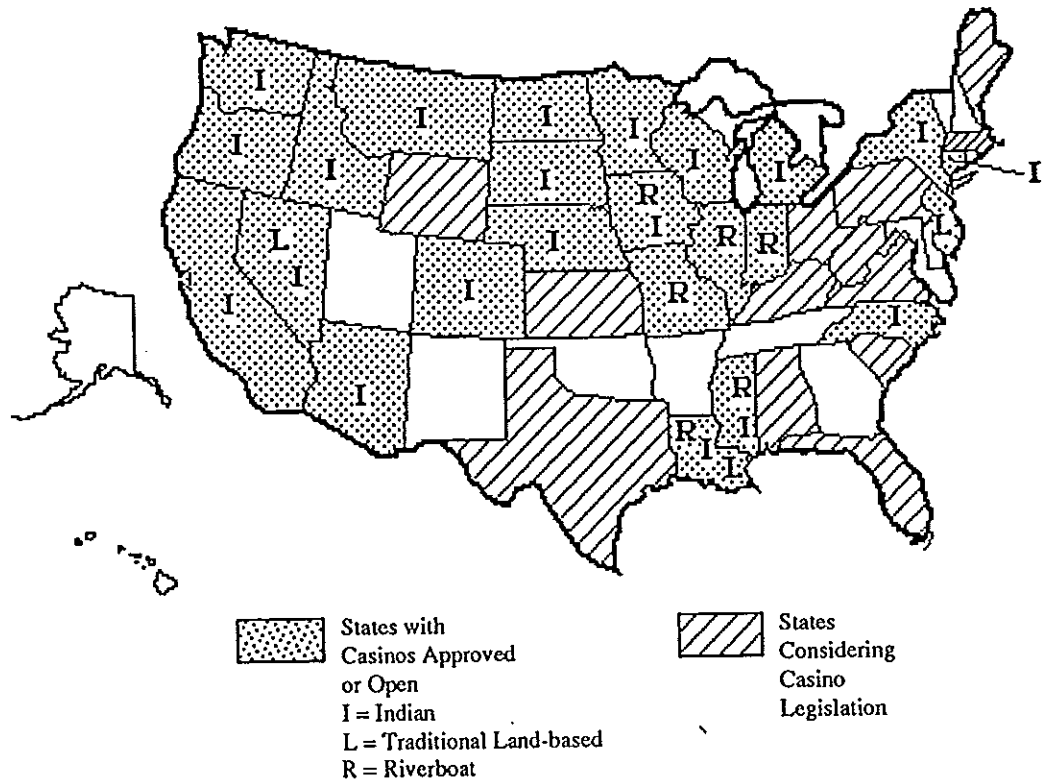
BACKGROUND

Although more and more cities and states are considering or have already decided to legalize casino gambling, the question is only beginning to surface publicly in Baltimore City. Mounting pressure by casino advocates in competing municipalities is forcing citizens and public officials in Maryland to confront the

issues. Already, the state's ailing horse racing industry has raised the question of whether other forms of gambling (including casinos) might be permitted at the race tracks in order to attract a wider range of customers.¹

Currently, 24 states have approved some form of legalized casino gambling (i.e. land-based casinos, riverboats, or Indian Reservation casinos), while another 14 have legislation pending.² Some industry experts predict that casino gambling will be legal in nearly every state in the next ten to 15 years. According to investment analysts Wertheim Schroder, "...Gaming is expected to be considered for approval over the next two years in states that contain nearly half the country's people."³

Casino Gambling Throughout the U.S.



Map produced by Paul Lande, Institute for Policy Studies,
 Johns Hopkins University, Baltimore, Maryland

Although the majority of casinos are located in rural areas (with the exception of Las Vegas and Atlantic City), the trend towards urban-based casinos is growing. In August, Detroit voters approved casino gambling by a referendum, after previously voting it down three times, primarily because a casino had

recently opened earlier in Windsor, Ontario, just across the border from Detroit. The Windsor casino draws as much as 80 percent of its daily 19,000 visitors (and their income) from the neighboring Detroit metropolitan area.⁴ New Orleans is in the process of developing a casino; Chicagoans are debating the issue.

The trend can be observed closer to home. In Washington, D.C., casino advocates vowed that they would return after an effort in August failed to secure a special vote on the issue of legalization. Their effort was thwarted, despite the group's ability to turn in the appropriate number of signatures, because they failed to produce the required number of valid signatures. In Delaware, the state legislature passed a bill to allow slot machines at race tracks and in off-track betting halls, while Virginia is likely to reconsider or to re-introduce legal gambling initiatives.⁵ In Philadelphia, six gaming interests have purchased options on waterfront land in anticipation of legalized riverboat gambling in Pennsylvania.⁶

Clearly, gambling is popular. Between 1982 and 1990 legal gambling by Americans grew at almost twice the rate of personal incomes. An average of more than \$100 per person was wagered⁷ in 1993 bringing gross revenues from legal gaming operations to nearly \$31 billion, a 16 percent increase over 1992 revenues.⁸ Revenues in the gaming business (which includes lotteries, bingo, pari-mutuel betting, charitable gaming, and casinos) climbed nearly two and a half times faster than that of the nation's manufacturing industries⁹. In Maryland, it is estimated that more than \$500 million is wagered annually through lottery tickets, pari-mutuel wagering (horse racing), and charitable gaming.¹⁰

Within the gaming industry, casino-type gaming (which includes land-based, small-stakes, Indian and riverboat casinos, as well as video lottery terminals), has produced the most impressive growth.¹¹ In fact, as reported in an article in the *U.S. News and World Report*, "In 1993 Americans for the first time made more trips to casinos than they did to Major League ballparks--some 92 million trips..."¹² In 1993, this segment of the industry posted a 23 percent gain in revenues to \$13.9 billion.¹³ According to Wertheim Schroder, the casino industry will continue to grow through the year 2000, when casino gaming revenue is expected to reach \$33 billion in annual revenue, a 14 percent compounded annual growth rate.¹⁴ Growth in the industry will be the result of casino gaming reaching the most populous areas of the country.¹⁵

Three major events occurred in 1988 that spurred the growth of casino gambling in the United States: enactment of the Indian Gaming Regulatory Act of 1988; state-wide approval of gambling in the town of Deadwood, South Dakota; and legislative approval of riverboat gambling in Iowa.¹⁶ As the population ages and society looks for more activities that do not involve children, casino gambling becomes more appealing, according to David Weiss of DRI/McGraw Hill, (as quoted in the *Wall Street Journal*). He adds, "People are looking for participatory amusements that are not so strenuous."¹⁷ Casinos have been called amusement parks for adults.

Supporting nationwide expansion of casino gambling are public officials; they have embraced the development of this new growth industry because they are anxious to balance budgets and are searching for new sources of tax dollars and jobs.

THE POSSIBLE BENEFITS

For citizens and public officials considering the legalization and establishment of casino gambling, the benefits can be significant. The promise of these benefits is the primary reason the industry has expanded so rapidly. The following section offers a brief synopsis of some of the benefits that a city or state might enjoy from the development of a casino.

Special license/tax revenue

States that have legalized casino gambling receive special taxes and license fees from the casino operators, above and beyond the taxes which corporations must pay in the normal course of doing business in the state (i.e. property taxes, income taxes, etc.). In all cases, this is revenue for the state and locality (depending upon who benefits) that would otherwise not exist and it would be difficult to imagine another industry willing to pay such a levy. An example of the special revenues collected from casinos in various states is summarized in Table 1.

Table 1

Annual tax and license revenue to state governments from casino operations.

Colorado ¹⁸	\$ 35,546,314	1993
Illinois ¹⁹	\$ 76,700,000	FY94 (less June, 1994) ²⁰
Iowa ²¹	\$ 6,200,000	1993
Louisiana ²²	\$ 26,000,000	1993/94 (October 1993 through June 1994)
Mississippi ²³	\$ 55,700,000	FY94 (less June, 1994) ²⁴
New Jersey ²⁵	\$255,000,000	1992
Connecticut ²⁶	\$160,000,000	annual minimum payment from 2 casinos

For many public officials this revenue source is enticing because new revenue sources are difficult to come by and few other opportunities are available. Indeed, many economic development officials have to give away land or forego tax revenues just to attract companies. Casinos do not look for abatements, and are significant contributors to the public tax base. While these special revenues may represent a small percentage of a state budget (i.e. in New Jersey the casino gaming tax represents 2.5 percent of the state budget²⁷), they are still critical in an era of dwindling resources and increasing demand for services. The revenues generated from casino gambling are particularly beneficial if they are paid to a distressed community within the state. For example, the town of Joliet, Illinois expects to collect more than \$20 million in taxes in 1994 from its four riverboats which amounts to 20% of its budget.²⁸

Like lottery revenues, casino revenues represent a windfall to government. In reality, however, both forms of revenue are really a tax on the patrons. This is partly why public officials are eager to attract out-of-state visitors to support a casino. Nonetheless, taxes on casino gambling are considered by some to be more socially acceptable than are other types of taxes, because casino patrons have a higher disposable income than the average population. For example, the median income of casino players is \$38,600 per year vs. \$29,000 for the U.S. population.²⁹

Who Benefits From Special Revenues?

As part of a casino strategy, the state and local governments need to determine in advance which political jurisdiction might benefit from the special revenues generated through a casino and how (or whether) that special revenue will be utilized. In the majority of cases throughout the country, the state is the primary beneficiary. For example, in Atlantic City the special gaming tax goes primarily to the state to subsidize programs that benefit senior citizens and the disabled.³⁰ Only a small percentage actually accrues to the city. Similarly, the state of Connecticut is the primary beneficiary of the Foxwoods Casino revenues. However, in Illinois, 25 percent of the state tax receipts are given back to the local jurisdiction.³¹

The issue of who benefits has the potential to become political. In legalizing casino gambling, some public officials are solely concerned with developing (or retaining) a tourism industry, while others are concerned with ways to benefit the disadvantaged regions of the state. If Baltimore City decides to permit casino gambling it should be clear about its priorities. For example, in order to win approval from state legislators, the following questions need to be addressed: should a Baltimore casino be established with the special revenue targeted to equalize school funding in Baltimore City and include other underfunded jurisdictions? Or would Baltimore City benefit more from a casino developed in Prince George's County or in Ocean City with revenues targeted to the same purpose? Baltimore City would certainly not want to have casino gambling approved for the city with the revenues produced by that gambling dedicated to the state.

In discussing special revenues, it should be determined how the casinos will be taxed. Table 2 lists some of the gaming taxes charged.

One proposed casino owner in Detroit's Greektown proposes to pay 5 percent of its gross revenue to the city plus an additional 2.5 percent to help minorities to develop businesses.³²

Governor Weld of Massachusetts recently signed an agreement with the Wampanoag Indian tribe in New Bedford which offered them an exclusive license in return for a dedicated percentage of annual revenues, but quickly came under fire by state legislators, the Attorney General and other local jurisdictions because he did not negotiate a minimum payment with the tribe. As a result, if the tribe's gross revenues fall below \$60 million, the state would receive nothing but would still be responsible for absorbing the costs of regulatory functions and other social costs.³³

Table 2
Tax structure on Casino Operations

Colorado ³⁴	2-18 percent of gross revenues on a graduated scale plus a device fee of \$100 for the state and \$800-\$1,200 for the municipalities.
Illinois ³⁵	20 percent of adjusted gross revenues plus an application fee of \$50,000 and license fee of \$25,000 for the first year (\$5,000 per year thereafter) plus an admission tax of \$2/person.
Iowa ³⁶	5-20 percent on revenues plus an admission fees of \$.50/person charged by municipalities.
Louisiana ³⁷	18.5 percent of net gaming revenues plus an application fee of \$50,000 plus an annual license of \$100,000 per boat plus localities may charge an admission fee of up to \$2.50 per passenger.
Mississippi ³⁸	up to 8 percent of gross revenue plus an application fee of \$5,000 plus annual license fee of \$5,000 plus license fee on the number of annual games up (on average \$50/game). In addition, localities impose their own license fee and taxes.
New Jersey ³⁹	8 percent of casino winnings plus regulatory fees and reinvestment obligations of 1.2 percent.
Connecticut ⁴⁰	Each of 2 Indian casinos will contribute a minimum of \$80 million per year to the state if further casino expansion is prohibited.

Structuring A Deal

Developing a formula for sharing of revenue is often a matter of negotiation. Unfortunately, states and cities may have less control than they think. For example, riverboat casinos in Iowa moved to Mississippi, Illinois and Missouri when those states offered more competitive tax rates and fewer operating restrictions. The ease with which a riverboat can be moved to jurisdictions with more favorable regulations is an argument in favor of requiring the construction of a permanent structure if gambling is to be permitted.

Determining the rate to charge is a function of a combination of factors including competition, market strength, and timing (i.e. is the window of opportunity for exacting a good deal closing as more states legalize gambling?) For example, New Jersey officials were able to structure a favorable deal when competition was less severe; now that casino gambling is anticipated in Philadelphia, officials in New Jersey may consider the possibility of lowering their tax on the Atlantic City casinos to help them remain competitive.

Operating Restrictions: The Effect on Revenue

Public revenues are also a function of a casino's profitability, which may be a function of other operating procedures. Imposed limitations on operating procedures and restrictions on the number of casinos permitted in a market area also have direct bearing on expected revenues. Industry proponents would argue that limits on the number of and types of games (i.e. tables vs. slot machines), wager limits, restrictions on ancillary activities (such as retail, restaurants, bars, amusements, shows, and parking), restrictive admission policies, and reduced operating hours, have a detrimental effect on gross revenues and profitability.

Often, however, such operating restrictions are difficult to maintain. For example, Atlantic City casinos were successful in achieving all-night gambling when business stagnated.⁴¹ Increased competition in the midwest has some local public officials in Iowa reconsidering their policy of wager limits. Although they are often difficult to maintain, such restrictions may be beneficial to the community.

What is less clear, but equally important is the question of whether restrictions on the number of casinos in a state or market area is detrimental or beneficial to revenue. For example, how many casinos will be permitted in the state, and where will they be located, so as to maximize the revenue stream while not saturating the market? This debate is currently occurring in Illinois, where the towns of Joliet and Aurora are threatened with losing their riverboats because of the prospect of legalized casinos in Chicago. More than 30 casinos have opened in Mississippi since August 1992 and the *Wall Street Journal* recently reported that one has filed for bankruptcy, one left town and others have begun to layoff employees.⁴² In New Jersey, meanwhile, thirteen casinos are thriving. How many is too many or not enough?

In summary, the benefits derived from taxes and license fee can be significant, but how they are allocated and generated requires careful planning and thoughtful negotiating.

Urban Redevelopment

In many cities there are areas where land and property is under-utilized, if not vacant. Proposals to redevelop derelict property are rare and often expensive, since many projects require public subsidy to become financially viable. Nonetheless, cities are often willing to undertake these projects because the activity generated is critical to the vitality of the city. Casinos require no public subsidy, which is another reason why they are so appealing to cities. In some cases, casinos represent an investment of up to \$300 million. A casino could be situated where it would have the effect of redeveloping vacant or under-utilized properties or neighborhoods. Officials should consider how a casino will impact its neighbors. Would some neighbors perceive the casino to be offensive and choose to vacate? On the other hand, would there be others who would choose to relocate near the casino?

In Atlantic City, casinos are confined to two zones comprising approximately 15 blocks each. In Philadelphia and Pittsburgh riverboat casinos have been proposed for under-utilized downtown waterfront areas. Would a casino in Baltimore be preferable to slot machine gambling at Pimlico (which has been mentioned), or riverboats, each of which might equally benefit the city in terms of revenue generation, but have a dramatically different impact on redevelopment? The location preferences for any casino development should be determined and articulated in advance, so as to ensure maximum positive impact on redevelopment.

However, redevelopment benefits should not be overestimated. While Mississippi towns have witnessed a boom in commercial activity following the legalization of casinos, the towns of Joliet and Aurora have experienced very little commercial development spin-off.⁴³ Thirteen years later, Atlantic City has only begun to revitalize areas adjacent to the casinos.

Direct Jobs

In general, there are two levels of jobs created by casinos:

Construction Jobs. Although construction jobs are often minimized because they are temporary, they are critical to the construction industry whose lifeblood is found in the finite, yet "temporary," nature of building. Currently in Baltimore, there are few other urban development projects in the construction pipeline. Riverboats have less construction impact on the jurisdictions in which they are based.

Operations Jobs. Atlantic City's 12 casinos employ more than 40,000 individuals while a proposed casino in Chicago is expected to employ 7,000-8,000 individuals.⁴⁴ A brief summary of casino jobs in other places is found in Table 3.

Table 3
The Number of
Casino-Related Jobs
Throughout the U.S.

Aurora, Ill. ⁴⁵	1,500
Joliet, Ill. ⁴⁶	4,000
Foxwoods, Ct. ⁴⁷	9,200
Tunica, Miss. ⁴⁸	9,000
Windsor, Canada ⁴⁹	1,700
Vicksburg, Miss. ⁵⁰	4,000

While it may be argued that casino jobs are low-wage (the average casino worker in Joliet, Illinois makes \$23,000 per year)⁵¹ and offer little opportunity for advancement, there are currently few other job-generating alternatives proposed in areas of high unemployment in Baltimore City, or in the state. In developing a casino strategy, public officials need to consider the following: How many employees are brought in from other places? Are there compacts that can be made with the casinos to be sure that city residents are given first priority in hiring? How will training be provided?

Direct Taxes

In the normal course of operating a casino, the operators must pay taxes, including: property, corporate income, sales taxes on the purchase and sale of goods and services (such as food, alcohol, entertainment, and retail products), and unemployment. The individuals employed by the casino must also pay income taxes. All of these taxes feed the city and state tax rolls and help to offset the expenses required to support a casino, namely, police and fire protection, street maintenance, and water, sewer and waste collection. For example, in 1992 the 12 casinos in Atlantic City paid \$106 million in local property taxes alone which represented 70 percent of all city property taxes paid.⁵² Another \$92 million was collected by the state in luxury taxes, regulatory fees, corporate taxes and unemployment taxes.⁵³ Of course, it is unlikely that anyone would propose twelve casinos for Baltimore.

Indirect Taxes

Beyond the direct taxes, the state and city coffers will benefit through revenues generated by the casino industry from highway tolls, parking taxes, hotel taxes and airport taxes, if more people travel to and stay in the city. These taxes are likely to be net additions to the state and city revenues since they are unlikely to displace other visitors who are already planning to visit the city. However, they are also needed to cover (at least partially) the extra services and/or wear and tear associated with more visitors.

Spin-off Activities/Multipliers

In addition to the taxes and jobs created by the casino itself, other businesses and industries stand to benefit: electric and gas utilities, hoteliers, the transportation industry (i.e. airlines, buses, trains, taxis, limousines, boats, gasoline, service stations), some local food and retail establishments, the convention center and its related businesses, and other tourist attractions. Each of these entities pays taxes and employs people in its own right and stands to gain from the development of a casino. The construction associated with the casino may also help other businesses including those providing carpeting, fixtures, furnishings and lighting, among others.

Additionally, each employee of the casino spends money in the local economy, further stimulating economic activity, creating what is termed a multiplier effect. In assessing the benefits of casinos, as with many public projects, the multipliers and spin-off activities are often overstated and usually difficult to measure. While there will be indirect benefits, caution should be used in evaluating them so that they not be overstated.

Expanding the Tourism Industry

In order for a city's tourism industry to remain healthy, the city needs to host a variety of attractions in order to attract a larger audience and to encourage tourists to stay longer and visit more often. A casino is likely to add to the overall tourism industry in a city, rather than take attendance away from any existing tourist facility. And because a casino is a for-profit entity it is not dependent upon the corporate and philanthropic community for scarce charitable funding, as occurs when a non-profit entity is developed (such as a museum or theater).

A successful casino depends on a large market from which to draw its patronage. As a result, a tourist destination is considered superior as a site for a casino. Baltimore City, which is such a destination, suffers from a lack of downtown evening adult attractions, a circumstance that makes the idea of establishing a casino within the boundaries of its downtown particularly attractive. And because of its already built-in tourism industry, Baltimore City is positioned advantageously to benefit from the development of a casino.

Retaining Gambling Dollars

Currently, it is estimated that thousands of Marylanders travel to Atlantic City and other destinations to entertain themselves by gambling. Unfortunately, neither Maryland enterprises nor state and local governments benefit from these out-of-state transactions. As a result, millions of dollars in potential revenue are lost to other states. By one estimate, the Detroit metropolitan area loses \$1 million/day from gamblers travelling across the river to gamble in Windsor.⁵⁴

In addition to the foregone revenues from legal gambling, it is difficult to estimate how many illegal gambling transactions that are already taking place within the state could be turned into legal, regulated gambling. Maryland State Police estimate that \$1 billion is wagered illegally in the state every year.⁵⁵ The establishment of a casino legitimizes gambling already pursued by many. As neighboring jurisdictions such as like Pennsylvania and the District of Columbia contemplate casino gambling, Maryland is likely to lose more dollars from its own residents to neighboring jurisdictions.

According to Robert Goodman, author of *Legalized Gambling as a Strategy for Economic Development*, cities should also be cautious about overestimating the benefits of retaining gambling dollars. He predicts that while gambling dollars may be retained, the presence of a casino will also create a population of new local gamblers, which will add to the social costs and take dollars away from existing businesses.⁵⁶

Retaining Convention and Tourism Business

In the end, as more and more cities legalize gambling, some cities may conclude that they must legalize gambling in order to maintain their existing level of tourism and convention activity. If tourists and conventioners would rather visit and hold meetings in cities with gambling facilities, such locations will

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become easier and easier to find, putting cities without casinos at a disadvantage. Some may feel that legalizing gambling is a defensive move for Baltimore, a necessary one to retain its existing tourism industry. Other citizens may take an opposite view and ask whether there is some measurable benefit in being the only city without a casino.

THE POSSIBLE COSTS

Despite the significant potential benefits associated with the presence of casinos, there are costs to be considered in developing a casino strategy. While some of these costs may outweigh the benefits, others might be easily mitigated or alleviated. The following section provides some examples.

The "Moral Issue"

Notwithstanding its increasing popularity, casino gambling is still considered distasteful, if not immoral, to many. Indeed, it is a form of "entertainment" that has been illegal in most states for decades. There are groups of residents and visitors alike who may find the concept of casino gambling an affront. Would they choose to move out of the city? Would they decide to stop visiting the city? How would a casino in Baltimore City impact the city's image?

Recently, Pennsylvania's Catholic bishops announced that they would oppose the legalization of riverboat gambling "unless they can be assured it won't damage moral values" including gambling addiction, organized crime, and law enforcement issues.⁵⁷

According to Robert Goodman, the moral question is sometimes minimized over economics. "Because moral concerns are difficult to measure," he points out "they can become quickly dismissed in favor of quantifiable goals and objectives, which are often perceived as more persuasive arguments."⁵⁸

Impact on Existing Forms of Gaming

While casinos may work to put a dent in illegal gambling activities they could also hurt legal forms of gambling such as charity games, horse racing, and the lottery. In a study of casino gambling for Canada, Coopers and Lybrand predicted that charitable gaming and bingo would experience the most competition from casinos; horse racing would be second and state lotteries should be minimally affected by casino gambling⁵⁹.

Horse Racing May Come in Last

The Coopers and Lybrand study concluded that in Ontario the horse racing industry could be negatively impacted by a proposed casino because as many as 23 percent of horse racing patrons surveyed suggested that they would decrease their horse wagering if permanent casinos were introduced. At the same time, however, 70 percent of the respondents indicated that casino gambling was "less satisfying" than going to a racetrack. Other studies have predicted horse racing industry losses of as much as 60 percent following the introduction of casinos.⁶⁰

Because the horse racing industry in Maryland (and nationally) is struggling with stagnant or declining revenues, the topic of increased competition needs to be addressed before a jurisdiction embarks on casino development. In Ontario, the horse racing industry employs between 18,000 and 50,000 people and so the impact of casino gambling on this industry is significant. Coopers and Lybrand suggests that a casino strategy consider ways to help the horse racing industry expand its market and appeal. Other questions to consider include: Should other forms of gambling also be legalized at race tracks if casinos are permitted? Should casinos be built at the race tracks? Should casinos be prohibited from undertaking sporting wagers?

Lottery Could Be a Loser

While the Coopers and Lybrand study for Ontario indicates that the effects of casino gambling on the lottery could be minimal, the city and state must determine whether and how much revenues might be lost in lottery sales. Wertheim Schroder has reported that "...lotteries in or near states where casinos exist struggled last year."⁶¹ As reported in *The Boston Globe*, in Illinois, the arrival of nine riverboat casinos coincided with a drop of about three to four percent in lottery revenues in each of the past two years.⁶² Another study by Harrah's Casinos found that lottery revenues have gone up, not down, since the introduction of gambling in Colorado, Illinois, Iowa, New Jersey and South Dakota. According to the Harrah's study, casinos and lotteries serve two different markets; casino customers are, on average, wealthier, more likely to hold white collar jobs, and better educated than the general population.⁶³

It is important to keep in mind that in most states the lottery benefits the state primarily, and the local jurisdictions secondarily. Casino gambling may simply represent a shift of public revenues from one source to another if in fact gamblers choose the casino over the lottery. Viewed differently, this shift, if it occurred, could represent a decrease in state revenue and an increase in city revenue.

Charitable Gaming Could Be Hurt

In Maryland, 54 clubs and organizations on the Eastern Shore are operating up to five slot machines each which in 1993 generated \$36.7 million in wagers.⁶⁴ While half of the proceeds go to charity, a recent *Washington Times* article found that the activities of these clubs were sporadically regulated. In Prince George's County another 17 charity casinos operated 1,800 casino nights in 1993 and reported gross revenues of \$19.4 million. Of this \$5.8 million went to charitable organizations such as the Jaycees, Volunteer Fire Department, Philippine American Association and Boys and Girls Club to purchase equipment, run programs, and develop facilities. Finally, charitable bingo is permitted in all 23 counties in the state, subject to local regulations. Bingo games, according to the state Comptroller's Office, generated an estimated \$13.26 million in revenue during the 1993-94 fiscal year, excluding those games where all proceeds go to tax-exempt religious, charitable, veterans, education and service organizations which are tax exempt.

The effect of casino gambling on charitable gaming is unclear. On one hand, charitable casinos are largely unregulated which represents an unaccounted for cost to consumers. There have been questions about skimming; there are no background checks on employees; and there are questions about how much is dedicated to charities and how a charity is defined. On the other hand, charitable gaming activities do provide millions of dollars a year to support needy causes. Would a casino diminish charitable gaming? If so, which games and to what extent? Would the public revenue generated from a casino go to support the same causes that would suffer from the loss in charitable gaming? Would needy causes in Baltimore be supported at the expense of needy causes on the Eastern Shore? Or would there be enough money generated from the casino to support the needy causes elsewhere and in Baltimore?

“Cannibalization” of Local Businesses

Since much of the criticism about casinos centers around the topic of “cannibalization,” it is important to include a discussion of the impact of a casino on local businesses despite a lack of available data. In essence, cannibalization refers to the concept that if money is spent at the casino it will not be spent on other local enterprises; therefore, the establishment of a casino may represent a threat to local businesses and a cost to the public sector in foregone taxes and jobs. Unfortunately, evidence regarding local economic impact has only begun to trickle in from other localities and it is still too early to know the scope and range of the impact of cannibalization.

One early study of South Dakota indicated that taxable retail sales among clothing stores, recreation services, business services, auto dealers and services stations declined within the one year period following the introduction of electronic gambling in the state.⁶⁵ The loss in these industries was offset by the state with gains found in the sale of liquor. Robert Goodman has reported that in Atlantic City between 100-250 restaurants have closed since 1978 (though it is unclear how many of these were actually established in response to the announcement of legalized gambling, anticipating profits that never materialized).

Anecdotally, newspapers have reported that some local restaurants and retail establishments have suffered in some of the states where riverboat gambling has been recently established, although formal surveys and analysis has not been concluded, and the scope and range of such loss is undocumented. Other newspapers have reported that businesses have simply not gained from the establishment of casino gambling, as was predicted, while others report some gains and some losses. Information about the businesses that may have benefitted from casino gambling is equally elusive.

The extent of cannibalization is largely a function of the number and share of local residents that gamble at the casino. Ideally, if all of the casino patrons were new out-of-region visitors, local establishments would be virtually unaffected by a casino development, or might benefit from the infusion of capital into the region. However, if the casino patrons are primarily local residents, other forms of local entertainment will be affected as discretionary dollars flow to the casino.

Is the gambling dollar elastic, or fixed?

There is the possibility that people will not give up other forms of entertainment in order to go to the local casino, but will, instead, forego trips to other places (keeping dollars in the state), spend more of their savings, or spend less on other forms of gambling (both legal and illegal) representing a shift of dollars. Even if it were true that all local residents who gamble at the casino would give up one or two movies per year and a dinner at a local restaurant, it could be argued that the loss to any one establishment would be minimal because this economic diversion would be spread throughout the entire region of several million people. As the regional population and economy grows, the effect of the casino on any one business would also be negligible. Finally, the earnings of another 1,000 casino workers (or more) in the region (and more if spin-off activity is considered) would mitigate any proposed loss.

One of the flaws in the argument about cannibalization is that it assumes that the regional economy, population growth, and tourism are stagnant. As a result, adding more recreational activities simply takes away from others. In reality, growth in population, income and tourism fuels the expansion and growth of new enterprises.

Another flaw in the argument pertains to individual spending patterns. Cannibalization assumes that consumers spend a set amount of their income on recreation and entertainment. In fact, since 1991, consumers have increased spending on entertainment and recreation by 13 percent (adjusted for inflation) more than twice the growth rate of overall spending. Whether consumers decide to spend their discretionary income on more tickets to the baseball game or a trip to the casino, advocates argue, should be their choice, but in neither event, should it impact existing enterprises.

But even assuming the worst case scenario, that the economy and population growth in the region were to stagnate, that local residents would spend their discretionary dollars at the casino to the detriment of local establishments and that they would represent the majority of casino patrons, would the same "cannibalization" accusation be made of other entertainment projects? For example, if the city were proposing to build a theme park, a golf course, a ski slope, baseball stadium, movie theater or another museum, wouldn't each of them have the same effect of diverting local dollars from one leisure activity to another? In addition, and unlike casino gambling, other entertainment projects often require public subsidy, and they do not add to the public revenue stream. Every new restaurant, bar, movie theater and country club, in essence, moves dollars from one leisure activity to another.

One might also ask whether \$50 spent at the casino is more beneficial to the local economy than \$50 spent to purchase a shirt made in China from the local branch of a national chain headquartered in another city. Under which scenario would the local economy benefit most?

Casino advocates argue that the government should let the market decide how people will choose to spend their discretionary money. If local residents choose gambling over movie theaters or museums, then the government should not interfere. Where the government might play a role is in helping to minimize

any negative effects, if possible, through efforts such as: the relocation of businesses; limitations on casinos regarding food, hotels, and other services; creating joint ventures between the casinos and local establishments; developing packages to include coupons and enticements to visit other attractions; dedicating some of the special taxes to assisting local enterprises that might be hurt from gambling.

In conclusion, William Thompson of the University of Nevada, Las Vegas stated in a recent New York Times article that "when more than 50 percent of gambling is by locals it is a loser."⁶⁶ He points out that Las Vegas residents represent only 20 percent of gamblers there, while more than half come from California.⁶⁷ While it is preferable to attract gamblers from out of state it is unclear what the precise formula is. In effect, cannibalization is a function of a number of variables including: who casino patrons are and where they come from; the size of the casino; ancillary activities permitted within the casino; the growth of the regional economy; and the growth of local incomes. To measure the impact of cannibalization, it is important to consider all of these elements.

Infrastructure Demands

More people visiting the city means more wear and tear on the roads, parking problems, congestion, police and fire protection, trash, sewer services, and noise and fumes associated with increased bus and auto traffic. These demands are important to consider when establishing a casino (as with any new development) to make sure that solutions are planned and budgeted. As one example, Foxwoods Casino in Connecticut attracts 60 buses a day while Atlantic City attracts more than 1,000 buses per day!⁶⁸ All development requires proper planning, whether it is a manufacturing facility, an aquarium or a housing development. Such demands should not prevent growth from occurring in the city (which is more than equipped to handle high density development) if the benefits outweigh the costs and potential problems are adequately addressed.

Gambling Addiction

Gambling addiction and its related problems of job loss, productivity, and dependence on public assistance are real and must be considered as part of a casino strategy. The problem is as real to the casino industry as alcoholism is to the liquor industry. According to one report, at any given moment in time, between one percent and five percent of Americans have a serious gambling problem.⁶⁹

The city and the state are already steeped in gambling and adding one casino may have little impact on the problem. Instant lottery tickets are available at the check-out stands of grocery stores and the majority of gamblers have demonstrated the capacity to exercise moderation; those who gamble responsibly could argue that they not be punished because a small percentage of the population cannot gamble responsibly. In reality, while shifting an existing gambler from lottery terminals to a casino would not appear to make a difference, there is evidence that it does. According to Robert Goodman, a new casino brings out more of the gambling spirit and a result, increases the incidence of gambling addiction.

According to Goodman, gambling problems have increased with the legalization of gambling; compulsive gambling is considered the fastest growing addiction among teenagers and the incidence of gambling related problems is highest among the poor and minorities.⁷⁰ By one estimate, addictive gambling costs society \$80 billion per year; alcohol abuse and alcoholism \$120 billion per year; and other substance abuse costs \$60 billion a year.⁷¹ Treating and handling the side effects of gambling addictions are important costs to consider in designing a casino strategy.

In 1990, the Maryland Task Force on Gambling Addiction found that there are 50,000 pathological gamblers in Maryland (1.5 percent of the population). Their addiction, collectively, costs the state approximately \$1.5 billion annually in lost productivity and dollars gambled.⁷² This cost breaks down to approximately \$30,000 per year for every pathological gambler in the state. Not included in this number are the costs to society and the state associated with court proceedings and incarceration, tax delinquency, neglected family obligations resulting in increased public assistance, physical ailments, automobile accidents, divorce, and suicide attempts, each of which is highly prevalent among addicted gamblers. Despite these statistics, the results of the Task Force's study have gone largely ignored.

Crime

Crime is clearly an issue that must be explored in contemplating a casino development. Little evidence exists about the effect of casinos on crime, because many of the casinos are still new. While crime statistics in Atlantic City are not encouraging (the crime rate and number of police officers more than tripled over the first five years of casino operations⁷³), it is important to point out that the situation there is unique and may have little application to Baltimore. In addition, more than \$500 million is already wagered every year in Maryland, with little known impact on crime.

A study conducted by the Illinois Criminal Justice Information Authority predicted that "index crimes" would increase by as much as 3.4 percent as a result of a proposed casino complex in Chicago and generate an additional \$58 million in justice system expenditures just to respond to the increases.⁷⁴ This excludes the costs associated with any potential increase in non-index crimes (such as drunk driving, fraud, extortion, embezzlement, prostitution, and drug offenses) and organized crime. Also excluded are the costs to victims and the capital costs which might be necessary to expand justice system facilities to accommodate increased case flows.

In contrast, the same organization studied the effect of riverboat gambling on crime in smaller towns and cities within Illinois and found that, "The presence of riverboats in a [small] city do not appear to have any substantial negative impact on overall criminal activity or calls for service in the host jurisdiction."⁷⁵ The report speculates that criminal activity is minimal because "riverboat casino enterprises afford a highly controlled and secure setting for legalized gambling." The effect of riverboat gambling on crime in larger cities was not studied and could yield different results.

In other parts of the gambling country, anecdotal reports of increased crime have appeared, although the scope and scale is unclear (Black Hawk, Colorado reported an increase in public urination offenses while Tunica, Mississippi reported a 500 percent increase in drunk driving arrests). Windsor recently reported no increase in crime (other than prostitution and white collar offenses such as fraud and embezzlement) following the opening of its casino.⁷⁶

Organized Crime

The presence of organized crime appears to have diminished in Nevada and New Jersey largely due to active regulatory agencies in those states. Because many casino operators are large, publicly traded corporations, they support regulations to protect their money and the industry's reputation. However, because regulatory activities throughout the rest of the country are mixed, the opportunities for organized crime appear to be real.

Criminal cases involving Indian casinos in San Diego, Palm Springs, and elsewhere in California have been brought against members of known organized crime families. Charges include: profit skimming, machine tampering, illegal gambling, and racketeering.⁷⁷ Casinos in New York, Minnesota, Louisiana, and Mississippi have been linked either directly or indirectly with known organized crime families and suspected Asian Mafia members.⁷⁸ Congressional amendments to the Indian Gaming Act of 1988 have been proposed to establish minimum standards for regulation, because it is widely viewed that strong regulation is the best defense against organized crime.

Overall, law enforcement officials remain the most vocal opponents of legalized gambling. In undertaking a casino strategy, a more thorough investigation of the impact of crime needs to be included; that impact will have a direct bearing on the budgets of law enforcement and rehabilitation agencies.

Aesthetics

Casinos are, for many, exciting places to visit because the interiors are brightly lit and adorned with mirrors and gleaming fixtures. From the outside, they may be considered less appealing because more often than not, in order to create an ambience of time suspended, they are built without windows. Neon lights are used to attract visitors, and often the designs of the buildings themselves are an attempt to hype the theme of the casino, rather than to complement the local landscape. A poorly planned and designed land-based or riverboat casino can be a visual affront to visitors and citizens. In Baltimore, a city that takes pride in its design achievements, the issue of zoning and design in constructing a casino is a serious one. The city might even want to impose design guidelines or limitations above and beyond what may be found in local zoning laws, and to address other related issues such as parking and open space.

Zoning Laws and Controls

Similarly, Baltimore City must consider how local zoning and liquor laws will impact the development and success of the casino. Casinos are often 24-hour operations, but in Baltimore City, bars must close at 2:00 a.m.. Will the laws be waived for casinos? In Puerto Rico, casinos are restricted in their operations to 8:00 p.m. to 2:00 a.m.; but in Atlantic City, similar restrictions on operating hours were repealed only a few years after they were enacted because, predictably, casinos claimed to be suffering. Currently, in Maryland, charitable slot machines in Maryland are not permitted to open until noon: Will casinos be subject to the same restrictions?

The tone of some types of entertainment in some casinos in other parts of the country may be offensive locally. Would such an ambience, commonplace in casinos elsewhere, violate here in Maryland and in Baltimore City what the courts call "local community standards?"

Regulatory Agencies

Casinos are unique in that they require special regulatory bodies to examine and monitor their operations. This arrangement costs money (although it also provides employment). In Atlantic City, New Jersey has a commission of a few hundred staff members responsible for this function, but their annual budget of \$57 million per year is fully subsidized by a special fee imposed on the casinos above and beyond the taxes and special taxes.⁷⁹ In Massachusetts, regulatory functions have not been absorbed by the proposed new local casino in New Bedford and could amount to \$10 million per year. Clearly, regulation of gambling is a cost that must be considered in any cost-benefit analysis.

Indirect Taxation

All revenue generated from casino gambling comes directly from the consumer. To the extent that a portion of these revenues go to the public sector, the arrangement represents a form of indirect taxation. As a result, states and cities are anxious to see that casino revenues come from out of state residents, or from in-state residents with a larger disposable income. To the extent that casino revenue is generated from in-state residents, it is viewed as an indirect tax and if it is levied primarily on those with limited or fixed incomes it can be considered regressive. *Warfield's Business Record* recently stated that the state should seek to retract gambling in the state, including lottery tickets, because all are a form of indirect tax.

In some parts of the world, admissions policies, or restrictions and limitations on operations, have been imposed on casinos in order to target a specific clientele. For example, in Europe, entry into a casino is restricted to tourists. In other areas, only table games are permitted so as to attract a higher-income patron. Whether these restrictions are effective, desirable, or legal in the U.S., enters the discussion.

Changing Market Trends

Although casinos have been increasing in popularity over a period of several years, some industry analysts question whether casinos will begin to lose popularity. If so, what is to become of vacated casino real estate and thousands of unemployed individuals? In addition, market saturation is an important consideration. For example, Bear Stearns estimates that \$225-250 million of Mississippi revenue will be diverted to Louisiana riverboats (30 percent of the total market). More than 1,000 jobs in Iowa are threatened from the legalization of gambling in Illinois and Mississippi.⁸⁰ Two-thirds of the 80 casinos in Deadwood South Dakota are in bankruptcy or dead.⁸¹ *Forbes Magazine* reported that 33 of Colorado's 100 casinos had been purchased by competitors or closed down while the remaining 50% are losing money.⁸²

There are other trends that pose a threat to casino gambling, such as video lottery terminals, widespread use of slot machines, and virtual gambling. Virtual gambling involves the concept of gambling by computer, perhaps by setting up a monthly pre-paid account or through a special machine that acts as a money card. According to Michael Schrage of MIT, the market potential of virtual gambling is \$10 billion and has an added benefit of helping localities to upgrade their information technology infrastructure.⁸³ Other trends include cable gambling, and gambling in airplanes.

As part of a casino strategy, a statewide commission separate from a state-wide regulatory body might need to be established to periodically examine how market trends will impact the various gaming outlets in the state and to recommend strategies. To mitigate the loss threatened by changing market trends, cities might need to require casino companies to sign contracts compensating them if the respective gaming interest moves to another city, says Robert Goodman. Accommodating casinos in facilities that have a multiple purpose would also be advisable.

Public Dependency on Revenues

Warfield's Business Record recently stated that the state has become dependent upon revenues from gambling activities and faces a serious deficit a few years down the road if and when revenues dry up.⁸⁴ When the public sector utilizes casino revenues to support the general fund activities, or to establish more programs, then they become dependent upon these revenues. When the revenues decline, the public sector and the constituency directly dependent upon casino revenues for its livelihood feels it first. According to Goodman, this puts the public sector in a precarious situation because it becomes even more of a promoter in order to save its revenue. Can a public sector be both promoter and regulator? Can this public promotion lead eventually to public subsidy in order to save jobs and revenues?

In addition, once casino gambling is legalized, the constituency expands significantly and this makes controls and limitations more difficult to enforce. For example, when a casino opens, its constituency expands to include the employees of the casino, related businesses and the public sector, casino patrons, and the tourism industry representatives and businesses. If the casino were to

threaten the city with abandonment unless controls were relaxed or tax rates reduced, the city would find itself in a difficult situation. In a sense, says Goodman, cities, if they are truly dependent upon the revenues, are held hostage the moment casinos open their doors.

To mitigate these effects, Goodman recommends that cities utilize casino revenues for long-term capital projects that promise to their further economic development. Also, utilizing the funds for activities directly related to the impact of the casino will help to ensure that if the casino folds, other programs will not be jeopardized.

THE QUESTIONS FOR DEBATE

In the end, those charged with making policy need to consider the following:

1. What are the reasons for Baltimore City to support or to reject casino gambling within its jurisdiction? The answer to this question may play an important role in how the commission conducts its analysis. For example, is the city interested in casino gambling as a defensive measure to retain its tourism industry or as a pre-emptive strike to expand the tourism industry before other cities catch-up? Is the purpose to increase public revenues? If so, for what purpose? Is the goal to balance the regional equation by providing another family-oriented, adult amenity in the city to attract more suburban visitors to the city? Is the goal to redevelop a parcel of land or neighborhood? Is it to save or expand the activities at Pimlico race track? Is the goal to create jobs or is it to retain dollars leaving the community? Or both?

2. What are the true costs and benefits to the city? Robert Goodman reported that the majority of economic impact studies are one-sided and unbalanced. He could only find two that discussed the costs associated with a proposed casino. In addition, the benefits were often overstated. This report has helped to outline some of the questions that should be asked to ensure a more balanced study.

3. Who are the constituencies for and against gambling and do they have hidden agendas? It is important for the commission to understand who is for and against a proposed casino and why. Some groups who claim to be opposed to casino gambling may actually be beneficiaries of another form of gaming and are simply protecting their interests. Proponents may be overselling the benefits because they stand to gain.

4. Who are the winners and losers? Some people who are proponents of gambling might actually be losers in the end and vice versa. As part of a cost-benefit analysis for the city, it is also important to know how the state and constituencies throughout the region will be impacted.

SUMMARY

Casino gambling offers job-generating and revenue-producing activity possibilities for Baltimore City. These benefits, however, are not without costs and implications which could outweigh the benefits. According to Earl Grinols of the University of Illinois, on a per capita basis, the city wins \$40 but loses \$200 through the legalization of casino gambling. Can such an equation be defended?

The need is now and time is right for Baltimore City to examine what the impact of casino gambling might be if it adopts it and what the impact might be if it does not. Second, Baltimore City must develop a strategy to promote the City's interests--in whichever direction the leadership concludes they lie. The study must be an independent one, beyond the influence of casino advocates and interests, and of groups that have an adversarial position.

In anticipation of mounting pressure from advocates of legalized gambling, the time is propitious. As more and more localities adopt casino gambling and as Maryland public officials begin to grapple with the issue, the window of opportunity for thoughtful choice is closing.

If the study concludes that Baltimore City should not pursue casino gambling, then the city should determine how its tourism industry will deal with increasing competition from other cities. If the study concludes that Baltimore City should pursue a casino gambling operation, then the city should embark on an effort to develop a world-class facility and strive to mitigate and ameliorate in advance the costs that a casino will inevitably create.

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