

SLOT MACHINES AT RACETRACKS WILL NOT SAVE HORSE RACING IN TEXAS AND IS NOT A PRO-AGRICULTURE, PRO-HORSE POLICY

The proponents of VLTs at horse tracks would have you believe that the horse industry is a major economic generator in our state. However, the category "Horse/Mule" does not even rank in the top 25 commodities in Texas according to the US Department of Agriculture. Instead of investing advertising to lure Texans to the track, the horse and track owners are looking to Austin for a **BAILOUT**. A lack of public interest and a punitive business model that penalizes out of state breeders is the real culprit for their downturn. The state should not be in the business of introducing and promoting a new regressive form of gambling in order to further enrich horse owners.

SHOULD TOUGH ECONOMIC TIMES CALL FOR GAMBLING?

Income should be saved or reinvested in the Texas economy not dropped down the black hole of a slot machine. It is unthinkable that lawmakers with the best interests of the citizens of Texas at heart would want to build casinos and encourage Texas families to gamble away their money. Casinos are based upon a predatory business model that reinforces the debt and bet culture that led to our current recession.

NATION-WIDE DOWNTURN FOR CASINOS AND GAMBLING INDUSTRY

As the headlines below testify, the casino business is in big trouble. The gambling industry is looking to Texas for a **BAILOUT**. Why would Texas invest in a business model that is on the decline nation-wide?

Expert: Now's not the time for 'racinos,' Analyst believes all bets are off during hard times—The Houston Chronicle—3/5/2009

Lone Star Park's operating company files for bankruptcy protection—Dallas Morning News —3/5/ 2009

Trump casinos file for bankruptcy a third time—The Associated Press—2/17/2009

Buyer's Remorse: Faster than you can say boondoggle, Maryland slots fail to live up to the hype—Washington Post, Editorial—2/8/2009

Tribal slots deal no jackpot for California—The Sacramento Bee—1/21/2009

Will Gambling Continue to Grow? All Bets Are Off—The Wall Street Journal—1/2/2009

Casinos rolling snake eyes in bad economy—MSNBC.com—12/15/2008

Economy no winning hand for state, U.S. gaming industry—The Capital-Journal—11/28/2008

Gambling Expansion: A Bad Bet for Texas

Casino slot machine style gambling is an inefficient, unreliable and regressive form of revenue generation that preys upon the poor, relies upon addiction for profit and cannibalizes the local economy. Any expansion of gambling in this state will subject Texas to the same forces of Native American Tribal casino proliferation that have plagued other states. Casinos represent the worst of a predatory business model that is failing nationwide. The state has no business encouraging and profiting from the lost wagers of its own citizens.

Casino proponents would have you believe that the very small percentage of wagers that trickle down to the state coffers would amount to \$2 billion in revenue. Contrary to their claims, the money is not falling from the sky; it is being sucked out of the pockets of Texans. These losses have a devastating effect not only on those who choose to gamble but also on the local economy where that money is no longer being spent. The entire state of Nevada generates only about \$1 billion in gambling tax revenue a year; current proposals would make Texas "Vegas on steroids!"

A VOTE TO PUT A CONSTITUTIONAL AMENDMENT ON THE BALLOT IS A VOTE FOR GAMBLING.

Legislators are elected to make hard decisions, not to pass them on to their constituents.

A HISTORY OF FAILED PROMISES

Texans were told that the lottery would solve education funding problems. Today the lottery pays for only 2.9% of the state's share of education funding which amounts to about 10 days of school per year.

Like the lottery, pari-mutuel horse and dog racing were introduced with promises of unlimited jobs due to increased tourism and \$100s of millions in revenue to the State that have since proven empty. **Live racing actually contributes \$0 in tax revenue for the state.**

Video Lottery Terminal (VLT)/Slot Machine projections are often WAY off. New Yorkers were promised \$400 million a year in tax revenue. The actual net revenue was \$187 million.

California has seen an explosion in tribal gambling operations. Tribal-State revenue sharing compacts are a constant political fight. Actual state revenue generated this year from tribal casinos will be 25.3% less than what was promised and likely down 32.9% for next year.

CURRENT LOSSES IN NEIGHBORING STATES ARE ONLY A FRACTION OF WHAT TEXANS WOULD LOSE IN TEXAS CASINOS

Proponents argue that Texans LOSE \$1 billion out of our state economy each year. Let's take a closer look at that number and compare it to what Texans would lose to casinos in their own state.

Based on the mathematical equations used in a typical slot machine revenue formula, the state would only lose \$19.6 million in tax revenue if \$1 billion is an accurate figure for amount wagered in other states. Unless proponents attempt to prevent gambling by Texans traveling to other states, Texas will still lose money to folks who prefer Las Vegas or to make a vacation out of gambling.

Casinos in Texas would cause an increase in the number of problem and pathological gamblers, especially among those who cannot afford to travel out of state to gamble, those for whom gambling would be the most costly. Destination gambling is intermittent gambling, not daily gambling, and does not lead as quickly to pathological gambling.

CASINOS WILL PICK THE POCKETS OF THOSE WITHIN REACH

An April 2003 report presented to the Texas Legislature by the Texas Racing Agri-industry Council clearly showed that VLTs at race tracks rely on the local population for the majority of gambling dollars. The report by those in favor of VLTs projected that of the \$2.960 billion in revenue generated from the slot machines, \$2.913 billion or 98.42% of it would come from the local market.

Depending on what percentage of casino profits are reinvested in the community, one recent study found that a casino must receive anywhere from 49–77% of its revenue from gamblers outside the region in order to increase net economic activity in that region. This means that not only would Texas have to keep all of its own gamblers, but lure 50% of the clientele from other states, almost all of whom already have casino gambling.

In Illinois, studies show that 70–80% of gamblers live within 35 miles of the casino.

"If you had a house with a nice lawn and you had a neighbor and they had a Chihuahua and that dog occasionally strayed over to your lawn and fouled the lawn, your reaction would not be to go out and buy a Saint Bernard. You don't need more of it!"
— Warren Buffett, commenting on the high costs of bringing casino gambling into your own state

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"I think it's cynical on the part of the state to raise money from people who basically can't afford it by promising them a dream that is not going to come true for any but the tiniest fraction of the people who participate, and that causes people to get into the kind of trouble I hear about every day."
— Warren Buffett

THE WILD CARD = NATIVE AMERICAN GAMBLING

Texas currently has three recognized Indian tribes. The state has only been able to prevent all three tribes from operating Las Vegas style casinos due to our strong constitutional prohibition on slot machines and casino style gambling. If at any point the state allows Class III games such as slot machines, VLTs, keno or video poker anywhere in the state, these three tribes will be able to open casinos. The experience of other states like California, New York and Illinois clearly shows that **once**

gambling is introduced, out of state tribes often seek and gain federal recognition and Indian gambling activities are not confined to current reservations. Federal procedures exist that allow tribes to build casinos on non-reservation land, including in urban areas. There are currently letters of intent to petition for recognition on file with the Bureau of Indian Affairs from 10 tribes seeking recognition in Texas.

Tribes can only legally conduct Class III casino gambling in this state by **passage of a constitutional amendment.** Once that step is taken **the state loses control** and a tribe with historic ties to Texas that wishes to open a casino will directly petition the federal government. **Texas should learn from other states and avoid all the many problems associated with Native American casinos.**

INEFFICIENT REVENUE

The typical casino/slot machine/VLT tax rate demands huge wagers in order to generate significant state revenues.

Typically 93% of each dollar wagered in a machine is placed in the prize pool to be redistributed to only a handful of players or re-wagered in the same machine. Only 7%, or 7 cents of every dollar, becomes "net terminal income." The state then taxes only 7cents of every dollar. At a 28% tax rate, the state earns 1.96 cents for every dollar wagered.

In order to generate \$ 1.016 billion in state tax revenue, \$51.83 billion must be dropped in the machine and out of the pockets of Texans.

For comparison purposes the lottery is a much more efficient tax. Twenty-eight cents of every dollar wagered on the lottery is gained by the state as tax revenue. In fiscal year 2005, \$3.66 billion was wagered on the lottery in order to generate the same \$1.016 billion in state revenue.

UNRELIABLE AND STAGNANT

In fiscal year 2008, Texas Lottery revenues plummeted by \$45.1 million, a decline of 4% in one year. In September of 2008, the monthly contribution to education was down \$5 million from September 2007.

Lottery revenue has never kept up with rising costs in education or even inflation.

According to the State of Nevada Gaming Control Board, gross Casino revenue has fallen 22.3 % since October 2007. The souring economy is to blame for some of the decline, but tribal gaming in northern California has cannibalized visitors to Reno, Nevada casinos.

INTRODUCES A NEW FORM OF ADDICTION TO TEXAS RESIDENTS

Slot Machines and VLTs are rightly called the "crack cocaine of gambling."

Addiction is not an unfortunate side effect of slot machines. They are designed to create addiction. The goal of slot machine designers is for each player to "play to extinction"—until all of their available money is gone.

About 10% of the population gambles regularly and accounts for up to 80% of casino wagers. **Gambling industry's profits rely on a relatively small number of addicted gamblers** who run up huge costs to themselves, their families and society.

30–50% of casino revenues come from problem and pathological gamblers.

Legal experts indicate that gambling is the new tobacco, an addictive product that subjects those who promote it to liability.

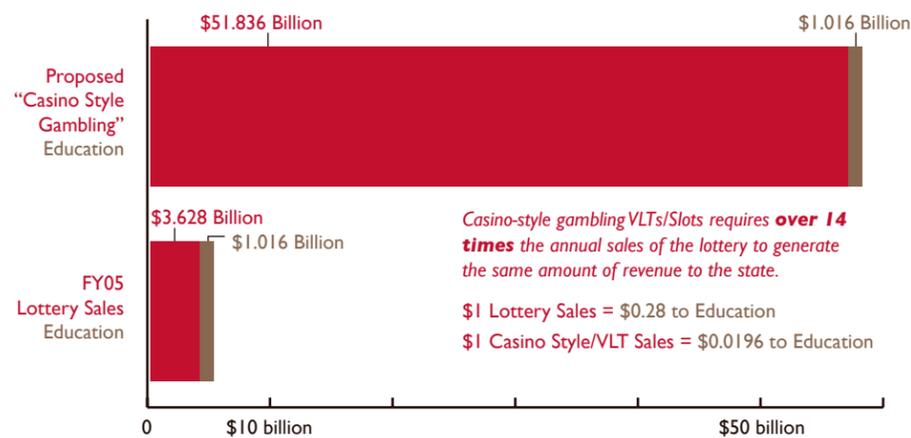
A 1999 report in *The Economist* indicated that "there might be a lot of money to be made by suing the entities that knowingly get people addicted to gambling."

NOT JUST HARMLESS ENTERTAINMENT

Movie theaters, bowling allies, restaurants and bars and other popular entertainment venues do not have departments dedicated to liquidating the assets of their patrons. Casinos DO. According to the last National Gambling Impact Study, **1–2% of the population exposed to casino style gambling will become pathological gamblers.**

If casinos are opened in Dallas, Ft. Worth, San Antonio, Houston, and Austin, it would expose approximately 6.2 million citizens to this form of predatory gambling. If only 1% of the population become pathological gamblers, city and county governments, businesses and families in these cities will be forced to absorb to costs estimated at \$815.4 million (1% of population x \$13,586).

HOW MUCH MONEY MUST BE WAGERED IN CASINO-STYLE GAMBLING VLTs/SLOTS?



Assumptions – 93% prize pool, 7% Net Terminal Income, 28% tax rate
Formula – \$1.016 Billion is 28% of \$3.628 (Net Terminal Income) which is 7% of \$51.836 Billion

A REGRESSIVE, PREDATORY BUSINESS MODEL

Examining the current most popular form of state sponsored gambling in Texas can help us understand the impact of possible expansion.

The Texas Lottery Commission's own demographic study concludes that Texans that can least afford it are disproportionately playing the lottery.

The Texas legislative district that spent the most on the lottery in 2007 is Rep. Garnett Coleman where the annual per capita income is only \$15,900.

TOP "5" LOTTERY SALES LEGISLATIVE DISTRICTS (FISCAL YEAR 2007)*

REPRESENTATIVE	INCOME (Per Capita)	LOTTERY SALES (FY07)	% OF INCOME
Rep. Coleman (D)	\$15,900	\$ 45.7 million	2.86 %
Rep. T. Kleinschmidt (D)	\$17,364	\$ 42.0 million	2.32 %
Rep. Merritt (R)	\$17,786	\$ 40.7 million	2.19 %
Rep. Dunnam (D)	\$13,170	\$ 40.3 million	3.08 %
Rep. Morrison (R)	\$18,589	\$ 38.9 million	2.13 %

* Source—2000 Census & Texas Lottery Commission FY07 Sales Data

TOP "5" PER CAPITA INCOME LEGISLATIVE DISTRICTS (FISCAL YEAR 2007)*

REPRESENTATIVE	INCOME (Per Capita)	LOTTERY SALES (FY07)	% OF INCOME
Rep. Cohen (R)	\$ 51,730	\$19.1 million	0.34 %
Rep. Woolley (R)	\$ 46,562	\$17.2 million	0.35 %
Rep. McCall (R)	\$ 42,308	\$10.6 million	0.26 %
Rep. Howard (R)	\$ 41,573	\$10.2 million	0.24 %
Rep. Branch (R)	\$ 40,829	\$ 24.1 million	0.53 %

* Source—2000 Census & Texas Lottery Commission FY07 Sales Data

LITTLE JOB CREATION AND AN EVENTUAL ECONOMIC NET LOSS*

Costs eventually outweigh any economic benefit. They include 1) a reduction of 10% in lottery revenues 2) an investment of approximately 10% of revenue back into regulatory costs 3) criminal justice costs seen with an 8–13% rise in crime 4) lost state and local revenue resulting from diversion of spending from goods and services to gambling and 5) lost jobs resulting from decreased spending on non-gambling goods and services.

- 24 out of 57 counties in the U.S. experienced job losses
- Sales declined 10–20% among local businesses in Natchez, MS after riverboat gambling was introduced
- 50% of Atlantic City's retail businesses and restaurants closed within 10 years of the legalization of gambling
- The American Insurance Institute identifies \$1.3 billion in annual costs related to gambling and insurance fraud

* From TX Pub. Pol. Fnd. Report.

CASINOS WOULD STEAL MONEY FROM PROFITABLE, FAMILY-FRIENDLY TOURISM

Paseo del Rio Association of The San Antonio River Walk, recognizes the importance of a consumer economy, and how it drives economic development.

In the long term, promises of economic development from casino style gambling advocates will prove empty. Without a doubt, the economic activity that would result from the construction of casinos is real and similar to any other large multi-million dollar development in a community. However, once the concrete is dry, and the final palm tree is planted, the casinos' business model is not a productive participant in a local based consumer economy. **In other words, casinos are businesses that does not share their customers or their customers' dollars with the surrounding economy.**

If casinos are brought to Texas, and put at the door step of all Texans, folks who would not otherwise participate in this aggressive type of gambling will. Very simply, your current customer's money will be diluted, redirected, and in some instances, made extinct. In the beginning, casino advocacy is all about tourism. In the long-run, it will be about taking your customers away.

THE COSTS OF GAMBLING

There is no disputing that there are social costs associated with casinos but these costs are never mentioned in pro-gambling economic impact studies. The true impact of casinos on a community cannot be assessed without a cost-benefit analysis. An economic study on the local costs created by pathological gamblers conducted by Dr. Earl Grinols and Dr. David Mustard in 7 states where casinos were introduced, projected a cost of \$13,586 per occurrence.*

CRIME	
Apprehension & Increased Police Costs	\$257
Adjudication (Criminal and Civil Justice Court)	\$676
Incarceration and Supervision Costs	\$3,065
BUSINESS AND EMPLOYMENT COSTS	
Lost Productivity on job	\$1,082
Lost Time & Unemployment	\$2,913
BANKRUPTCY	\$316
SUICIDE	—
ILLNESS	\$700
SOCIAL SERVICE COSTS	
Therapy/Treatment Costs	\$189
Unemployment & Other Social Services (Welfare and Food Stamps)	\$442
GOVERNMENT DIRECT REGULATORY COSTS	
FAMILY COSTS (Divorce, Separation)	\$111
ABUSED DOLLARS	\$3,834

TOTAL COST per pathological gambler **\$13,586**

*Average costs based on data from 7 States