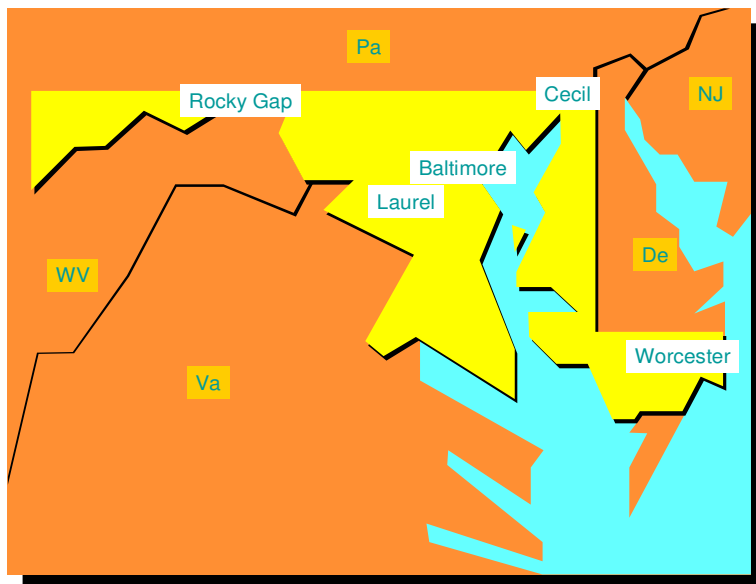




THE REGULAR PERSON'S GUIDE TO THE MARYLAND SLOT MACHINE REFERENDUM



MARYLAND BUDGET & TAX POLICY INSTITUTE

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THE REGULAR PERSON'S GUIDE TO THE MARYLAND SLOT MACHINE REFERENDUM

Introduction

On November 4, 2008, Marylanders will vote on a state constitutional amendment to allow slot machine gaming at five locations across the state. If approved, the state would license 15,000 slot machines, with projected revenue to the state of \$660 million annually when fully implemented. The Governor and legislative leaders are relying on this revenue in their plans to balance Maryland's budget over the long term.

Regular persons face a barrage of conflicting and confusing messages from proponents and opponents. Many of these claims are exaggerated, presented in misleading ways, or taken out of context.

In this guide, the Maryland Budget and Tax Policy Institute helps regular persons to cut through the confusion. We have not taken a position for or against the referendum. We describe in plain language the specifics of the proposal, and how it fits into the state's financial picture. We critically examine each of the major issues in the public debate. In each case, the claims of both sides will be summarized. The issue will be framed in the context of Maryland's particular situation. The evidence for all the competing claims will be summarized, drawing on the research literature and on the experience of other jurisdictions.

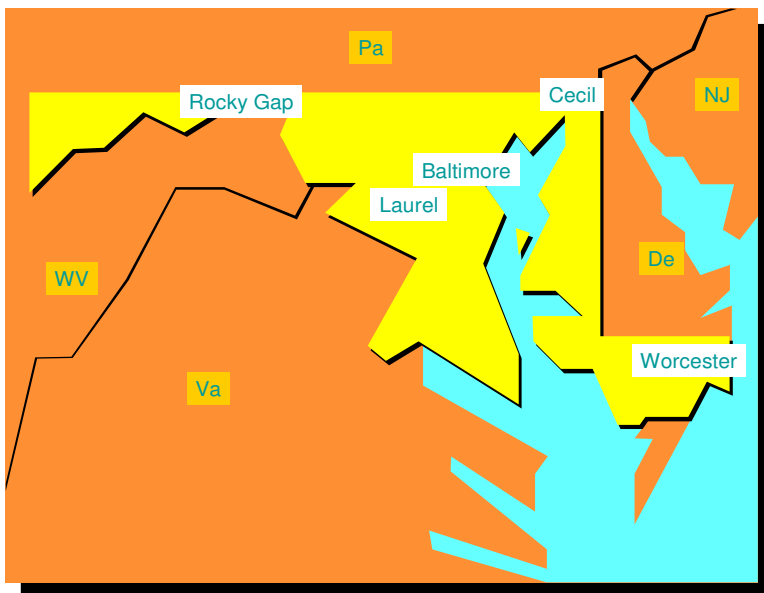
DETAILS OF THE MARYLAND SLOT MACHINE PROPOSAL

Proposed Slots Locations

15,000 slot machines or video lottery terminals (VLTs) will be produced in five locations:

- 4,750 VLTs at a location in Anne Arundel County within two miles of Route 295 (an area including Laurel Race Course);
- 3,750 VLTs in Baltimore City, in a nonresidential area within one-half mile of Interstate 95 and Route 295, on city-owned land that is not adjacent to or within one-quarter mile of residential property;
- 2,500 VLTs at a location in Worcester County within one mile of the intersection of Route 50 and Route 589 (an area including Ocean Downs race course);
- 2,500 VLTs at a location in Cecil County within two miles of Interstate 95; and
- 1,500 VLTs on State property in Allegany County associated with the Rocky Gap State Park in a building physically separate from the Rocky Gap Lodge and Golf Resort.

***VLT Facility Location Commission may alter allocations if warranted by an evaluation of market and other factors; however, no more than 4,750 VLTs may be placed at any one location.



Slots Operations

The State Lottery Commission would be the authority to regulate the operation of video lottery terminals (slots) for commercial gaming. The bill also establishes a Video Lottery Facility Location Commission. The Commission would be authorized to limit the number of operation licenses and number of terminals.

As indicated, in the “Proposed Slots Locations” section of this Regular Person’s Guide to the Slot Machine Referendum, the VLT Facility Location Commission may alter allocations if warranted by an evaluation of market and other factors; however, no more than 4,750 VLTs or slots may be placed at any one location.¹

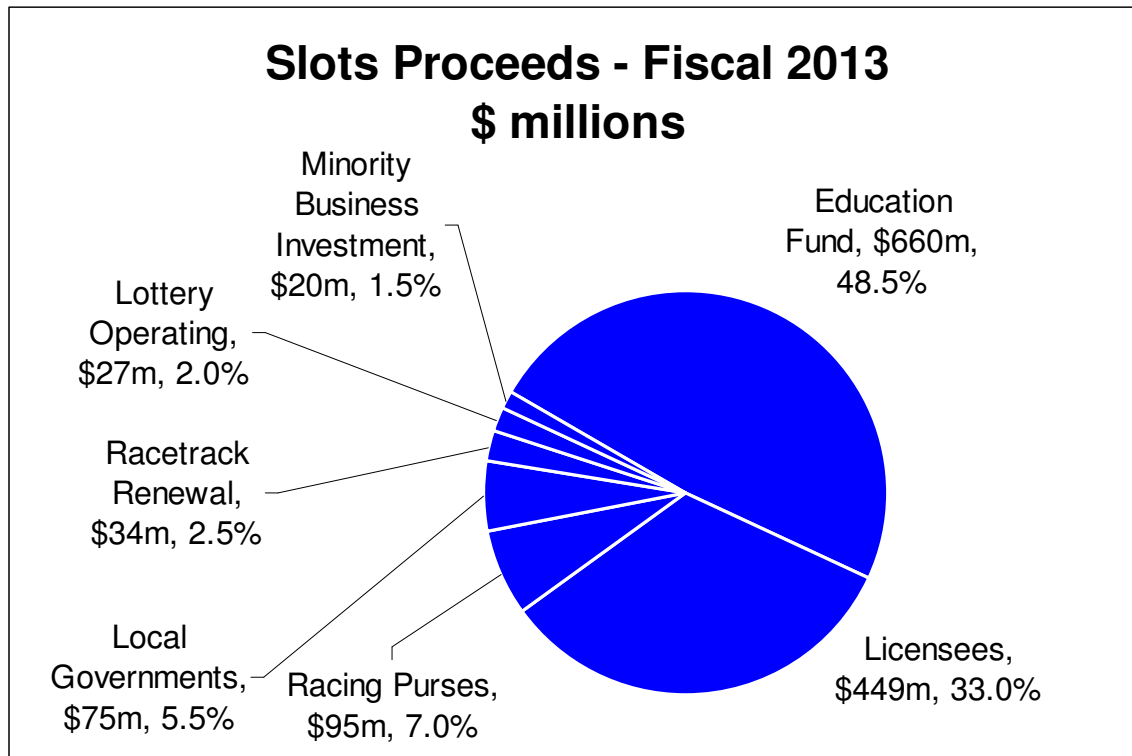
- The State Lottery Commission determines the percentage of video lottery terminal payouts.
- The Maryland State Lottery Agency will provide assistance to the Commission.
- The operation of video lottery terminals owned or leased (or on lease) by the state will be connected to a central monitor and control system. This will allow the Commission to monitor a video lottery terminal.
- The Commission will provide and operate a single monitor and control system in order to connect all licensed video lottery terminals. The central monitor and control system will be capable of:
 1. Continuously monitoring, retrieving, and auditing the operations, financial data, and program information of all video lottery terminals;
 2. Allowing the Commission to account for all money inserted in and payouts made from any video lottery terminal;
 3. Disabling from operation or play any slot machine as the Commission deems necessary; and
 4. Supporting and monitoring a progressive jackpot system capable of operating one or more progressive jackpots, among other functions that the Commission considers relevant.
- The central monitor and control system will be able to employ a widely accepted gaming industry communications protocol to facilitate the ability of slot machine manufacturers to communicate with the statewide system.²

¹ Maryland Department of Legislative Services. Maryland Education Trust Fund - Video Lottery Terminals: Fiscal and Policy Note. 2007. 21 August 2008 http://mlis.state.md.us/2007s1/fnotes/bil_0003/sb0003.pdf.

² Maryland Department of Legislative Services. Maryland Education Trust Fund – Video Lottery Terminals: Bill Text. 2007. 27 August 2008. http://mlis.state.md.us/2007s1/chapters_noln/Ch_4_sb0003E.pdf

Proposed Allocation of Funds

If slot machines are approved by voters, funding distributions are as follows:



Education Fund	\$660m	48.50%
Licensees	\$449m	33%
Racing Purses	\$95m	7%
Local Governments	\$75m	5.50%
Racetrack Renewal	\$34m	2.50%
Lottery Operating	\$27m	2%
Minority Business Investment	\$20m	1.50%

Further detail of funding for select items

- The purse dedication account for horse racing purses and the horse breeding industry
 - 7 percent - not to exceed \$100 million annually
- The funding for local governments where a slot machine facility is operating (5.5percent)
 - Eighteen percent of which will go for 15 years (beginning in 2012) to Baltimore City via the Pimlico Development Authority and to Prince George's County for the community surrounding Rosecroft (\$1 million yearly)

Note: Fiscal Year 2013 projections are shown to reflect full implementation of the slots proposal

Source: Figures and projections are from Maryland Department of Legislative Services (DLS) Fiscal and Policy Note of SB 3. Access the entire document here: http://mlis.state.md.us/2007s1/fnotes/bil_0003/sb0003.pdf

Timetable

November 4, 2008 – Maryland General Election – Voters approve or disapprove slots proposal

If slot proposal is approved,

January 1, 2009 – On or before this day, the State Racing Commission will submit a report to the General Assembly regarding any necessary statutory changes.

July 1, 2009 – Problem and pathological gambling prevalence study to be completed by the Secretary of the Department of Health and Mental Hygiene (DHMH). Replication studies to be conducted no less than every five years.

February 1, 2009 – Bid process begins for slot facilities or VLTs (\$3 million license fee required for each 500 VLTs). All initial license fees submitted accrue to the Education Trust Fund (ETF). Each bid for a license to operate VLT's must include a commitment of at least \$25 million for construction and related cost for each 500 VLTs.

December 15, 2010 – Minority Business Enterprise (MBE) study to Legislative Policy Committee.

February 2011 – Anne Arundel & Worcester Counties' locations begin operation (locations with existing facilities).

August 2011 – Baltimore City, Cecil & Allegany Counties' (Rocky Gap) locations begin operation (locations without existing facilities).

September 30, 2013 – Minority Business Enterprise (MBE) to report second study to Legislative Policy Committee (approximate cost = \$50,000).

Source: Maryland Department of Legislative Services Fiscal Note and Bill Text of SB 3

http://mlis.state.md.us/2007s1/fnotes/bil_0003/sb0003.pdf and

http://mlis.state.md.us/2007s1/chapters_noln/Ch_4_sb0003E.pdf

INFORMATION ABOUT THE REFERENDUM

The vote on November 4, 2008 will determine whether the Maryland Constitution is amended to authorize 15,000 slot machines at five specified locations and to prohibit further expansion of legal gambling without another referendum.

If the referendum passes, enabling legislation adopted at the 2007 Special Legislative Session will automatically take effect. This legislation sets out the number of machines at each site, the licensing and regulatory framework for the slot machine operators, the allocation of proceeds and other details.

These provisions can be changed by a vote of the legislature.

Ballot Language

QUESTION 2: AUTHORIZING VIDEO LOTTERY TERMINALS (SLOT MACHINES) TO FUND EDUCATION

Authorizes the state to issue up to five video lottery licenses for the purpose of raising revenue for education of children in public schools, prekindergarten through grade 12, public school construction and improvements, and construction of capital projects at community colleges and higher education institutions. No more than a total number of 15,000 video lottery terminals may be authorized in the state, and only one license may be issued for each specified location in Anne Arundel, Cecil, Worcester, and Allegany Counties and Baltimore City. Any additional forms or expansion of commercial gaming in Maryland is prohibited, unless approved by a voter referendum.

Description of the Constitutional Amendment

The constitutional amendment (House Bill 4/Chapter 5) adds a new article to the Maryland State Constitution to authorize slot machine or video lottery terminal gambling in the State. The main purpose of the authorization of slots is to provide funding for public education, setting limits as to how many licenses the State can issue for operating slot machine gambling, and prohibiting the expansion of commercial gambling in the State.

In order for this constitutional amendment to take effect, it must be approved by voters via ballot on November 4, 2008. The requirements set out in this constitutional amendment cannot be adjusted without another constitutional amendment via three-fifths vote of the Legislature and ratification by the voters.

Access the legislation at <http://mlis.state.md.us/2007s1/bills/hb/hb0004t.pdf>

Description of the Enabling Legislation

The enabling legislation (House Bill 3/Senate Bill 3) sets out the number of video lottery terminals (VLTs) or slot machines at each location throughout the state of Maryland, the manner for selecting the licensees, the manner for regulating and administering slot machine facilities, the specific allocation of the proceeds, and other details of implementation set out in the legislation.

The enabling legislation (House Bill 3/Senate Bill 3) is contingent on the passage of a constitutional amendment (House Bill 4) through approval of voters come November 4, 2008. It must be emphasized that the enabling legislation, if approved by the voters, is subject to change by future Maryland State Legislatures.

Access the legislation at <http://mlis.state.md.us/2007s1/billfile/sb0003.htm>

ASSESSMENT OF PROPONENTS' AND OPPONENTS' CLAIMS

Summary

Proponents	Opponents
1: In order for Maryland to balance its budget, slot machine revenue is necessary. ASSESSMENT: TRUE, with qualifications	7: Slots in Maryland will increase the prevalence of gambling problems. ASSESSMENT: TRUE
2: All the money the state gets from slot machines will be used for education. ASSESSMENT: FALSE	8: Slot machines will increase crime. ASSESSMENT: MIXED
3: Slots in Maryland will keep Marylanders' gambling dollars from going out of state. ASSESSMENT: TRUE, with qualifications	9: Bringing slot machine gambling to Maryland will increase social harms such as depression, suicide, bankruptcy, domestic abuse, and divorce. ASSESSMENT: MIXED
4: Slot machines are necessary for the survival of Maryland's horse and racing industries. ASSESSMENT: TRUE, with qualifications	10: Slot machine revenues will disproportionately benefit a few individuals. ASSESSMENT: TRUE
5: Slot machines in Maryland will create more jobs for Marylanders. ASSESSMENT: TRUE	11: Slot machines will be the equivalent of a regressive tax on the poor. ASSESSMENT: MIXED
6: Slots will help protect the environment, by preserving Maryland's horse farms as open space. ASSESSMENT: UNSUBSTANTIATED	

Detail

Claim 1: In order for Maryland to balance its budget, slot machine revenue is necessary.

ASSESSMENT: TRUE, with qualifications

The state's financial plan depends significantly on slot machine revenue – up to \$660 million in fiscal year 2013. These proceeds would be legally dedicated to education, but have the practical effect of supporting the state's overall budget (see claim 2). Without slots revenue, additional tax increases or difficult spending cuts will be needed. Any cuts would be likely to affect education and health programs. Tax options could include extending the surtax on incomes over \$1 million, raising the gasoline tax, raising the alcohol tax, or extending the sales tax to more services.

The revenue estimates are reasonable. But, the estimates may not adequately consider risks from a slowdown in gambling industry revenues, competition from Pennsylvania, and the “substitution effect” whereby dollars spent on gambling take away from dollars spent on other goods and services. Meaning that even with slots, some additional revenues or cuts will be needed.

Also, the slot machine revenue will not arrive in large amounts until fiscal year 2012. Spending cuts or other revenues will still be needed to balance budgets until then.

Once slots are in place, they will not inoculate the state from future budget shortfalls. In 2007, the percentage of slot machine states with budget shortfalls is virtually the same as no-slot machine states; about 60 percent.

Claim 2: All the money the state gets from slot machines will be used for education.

ASSESSMENT: FALSE

Legally, the state's share of slot machine revenue would mostly be dedicated to education. But that's an accounting gimmick. The state's annual budget for public school funding exceeds \$5.4 BILLION – much more than the \$660 million from slots that is “earmarked” for education. The amount depends on formulas that involve enrollment, inflation, and other objective factors: not on the amount of revenue available. The use of slot machine revenue to fund a portion of projected education costs will mean other revenues are available to fund growth in health, public safety, and other state programs.

In fact, the continued expansion of Medicaid coverage is scheduled for review by the legislature based on revenue trends, suggesting that if slot machine revenue is not forthcoming, health care expansion (instead of or in addition to education) could be at risk.

In addition, there are some relatively small amounts, apart from the \$660 million education fund, that would go to other purposes.

- Local governments where the slot facilities (plus Pimlico and Rosecroft race tracks) will get 5-1/2 to offset negative impacts and finance community development. This amounts to \$75 million when fully operational.

- A minority business development program will get 1.5 percent of the proceeds, \$20 million when fully phased in.
- In addition to the state's share of the slot machine proceeds, the slot operators will pay \$425 per slot machine annually (total up to \$6.4 million) for the State health Department to fund programs to address compulsive gambling.

Altogether, these uses are about 15 percent of the amount to be dedicated for education.³

Claim 3: Slots in Maryland will keep Marylanders' gambling dollars from going out of state.

ASSESSMENT: TRUE, with qualifications

No one knows for sure how much is gambled by Marylanders in other states. \$400 million is considered a good guess. The availability of slot machine venues in Maryland will recoup some, but not all, of the out-of-state gambling expenditures. It will also capture some gambling expenditures from other states' residents.

Robert E. Carpenter, Associate Professor of Economics at University of Maryland Baltimore County states that it is true that Marylanders travel to nearby states to play slots, but the estimates of how many Marylanders go to out-of-state for slot playing aren't very accurate.⁴

Whatever the amount, it's a tiny share of the state's overall economy. The most recent estimate of the Maryland gambling dollars leaving the state comes from a study conducted by the Innovation Group for the Magna Corporation (not a disinterested source). If the 2003 estimate that the Innovation Group uses (\$484 million gambling dollars leave Maryland each year) is correct, that means that for each \$100 of output produced in Maryland each year, we take 20 cents out of the state to gamble (0.2 percent of state output).

Claim 4: Slot machines are necessary for the survival of Maryland's horse and racing industries.

ASSESSMENT: TRUE, with qualifications

Slot machine revenue may be the racing industry's best chance for survival, but even with slot machines the industry's ability to survive and prosper is not assured.

Some reports suggest that slot machine gambling has increased revenue at horse race tracks in Delaware, Pennsylvania and West Virginia. Others suggest that slots compete with horse racing for gambling dollars.

³ There is also 2 percent (27 million when fully phased in) that will go to the State Lottery Agency for administration of the slot machine program. It's reasonable to consider this to be a cost of the program, rather than a dedicated use of revenues.

⁴ Carpenter, Robert E. "The Concerned Citizen's Guide to Slot Machine Gambling and Horse Racing in Maryland." University of Maryland Baltimore County Policy Brief (Mar 2007). 11 July 2008 http://www.umbc.edu/mipar/documents/policy_brief_4.pdf.

The horse racing and breeding industry in Maryland accounts for over 9,000 jobs, and has an economic impact of more than \$600 million.⁵ While these are large numbers, they are modest in comparison to the state's overall economy: 2/10 of 1 percent of the state's overall economy,⁶ and less than 1/10 of 1 percent of jobs.⁷

Slot machines are supposed to help racetracks in two ways.

First, they attract patrons who will play slot machines at the track, bringing in revenue and possibly increasing wagering on horse races. Anecdotal evidence suggests that few slots players cross over to become horseplayers. In addition, at least two of Maryland's horse racing tracks will not receive slots because they are outside the boundaries specified for slot machine licenses (Pimlico Race Course in Baltimore and Rosecroft Race Course in Prince George's County).

Second, the proceeds of slot machines can be used to increase prize money for horse races, attracting more and better horses to Maryland tracks, increasing fan interest and increasing wagering. Seven percent of gross slots revenue (\$95 million estimated in 2013) will be slated to go to a purse dedication account to enhance horse racing purses and funds for the horse breeding industry⁸. Another 2.5 percent (\$34 million in 2013) is dedicated to facility renewal at the racetracks. Improving facilities should also help attract more visitors.

The Maryland Budget and Tax Policy Institute judges that this additional revenue will not by any means assure the survival of horse racing in Maryland. However, without this type of infusion the industry's prospects are very poor. In particular, the tracks that do not become slots locations will need very strong marketing strategies.

Claim 5: Slot machines in Maryland will create more jobs for Marylanders.

ASSESSMENT: TRUE.

Like any new enterprise, the new slot machine locations will create jobs. The Maryland Budget and Tax Policy Institute has not seen any specific estimates of the numbers of jobs that will be created. Based on American Gaming Association data on comparable states, it could be in the range of 3,000 to 6,000 ongoing jobs at the slot machine locations.⁹ Construction will generate more jobs on a short-term basis.

With any economic development project, you have to think about substitution effects and multiplier effects. Some of the spending at slot locations will displace other spending. This could result in

⁵ Maryland Department of Labor, Licensing, and Regulations. A Report to Governor Martin O'Malley, Slot Machines and the Racing Industry: A Review of Existing Data in Maryland and Neighboring States. 2007. 9 July 2008 <http://www.dllr.state.md.us/whatsnews/slotsreport2007.pdf>.

⁶ Based on Maryland gross domestic product of \$268,685 million in 2007. US Bureau of Economic Analysis.

⁷ Based on total average non-farm employment of 2.6 million in 2007. US Bureau of Labor statistics.

⁸ Maryland Department of Legislative Services. Maryland Education Trust Fund - Video Lottery Terminals: Fiscal and Policy Note. 2007. 30 May 2008 http://mlis.state.md.us/2007s1/fnotes/bil_0003/sb0003.pdf.

⁹ Pennsylvania, with 5 locations operating in 2007, employed 3,753. West Virginia, with 4 locations, employed 5,275. Each had gross revenues for the year of about \$1 billion – close to but below the amount projected for Maryland at full operation.

losses of jobs in other businesses – perhaps restaurants, movie theaters, nightclubs and other leisure-time businesses. To the extent new slot-machine jobs substitute for existing jobs, the net increase in jobs will diminish.

There is concern in some communities that competition from slot machine facilities will significantly hurt existing businesses in the areas where the facilities will be located.

On the other hand, to the extent slot machine operations do create net additional jobs; those employees will spend their incomes on goods and services, which can spin off additional job growth in the economy. This is called the multiplier effect.

Claim 6: Slots will help protect the environment, by preserving Maryland’s horse farms as open space.

ASSESSMENT: UNSUBSTANTIATED

Proponents have claimed that without viable racetracks, vibrant horse breeding will move to other states and horse farms will be sold and developed.¹⁰

This claim is a stretch.

According to the 2002 Maryland Equine Census, there were a total of 87,100 horses, mules, donkeys, and burros in the State of Maryland. Thoroughbreds and standardbreds (the breeds involved in racing at tracks) accounted for about 40 percent. Horse farms and other horse-related operations account for 206,000 acres which were used “primarily” for horse related purposes.¹¹

Overall, farmland in Maryland has declined by 413,000 acres from 1987 to 2002, from 2.4 million acres to 2.1 million.¹² So horse farms are a relatively small share of the total.

While slot supporters believe that slots will retain open spaces and note declines in acres of farmland over the past 30 plus years, it takes a lot of unproven connections to assert that establishing slots at horse racing tracks will solve the problem. You would have to substantiate that (1) the slot machines will stem declines in the state’s racing industry; (2) that further declines in the racing industry will significantly reduce the demand for horse breeding in Maryland, and (3) that the salutary impact of slot machine patrons and revenue will keep the horse farms in operation, (4) that if sold, the farms will be developed, rather than remaining in some agricultural use and (5) that this chain of events will apply to enough acres of horse farms to make a material difference in environmental quality.

¹⁰ Perez, Thomas E., *Slot Machines and the Racing Industry: A Review of Existing Data in Maryland and Neighboring States*, August, 2007, pp. 5-6.

¹¹ Maryland Horse Council, *MARYLAND EQUINE Results of the 2002 Maryland Equine Census*, <http://marylandhorseindustry.org/census2.htm>

¹² Maryland Department of Planning, Maryland Data Center, *2002 Census of Agriculture for Maryland and its Jurisdictions (7/04)*, http://www.mdp.state.md.us/msdc/dw_census_agriculture.htm.

In the Maryland Budget and Tax Policy Institute's judgment, the link is tenuous, and any effect on the preservation of open space will be very small. Other policies besides the introduction of slot machines are more likely to be effective in preserving open space and agricultural land.

Conversely, opponents of slots believe that building gambling facilities would have a negative impact on the environment, by taking away the character of rural communities, as well as increasing traffic congestion in both urban and rural areas.

Claim 7: Slots in Maryland will increase the prevalence of gambling problems.**ASSESSMENT: TRUE**

The existence of "pathological gambling" and "problem gambling" are well recognized and well documented. It is pretty clear that gambling problems increase when gambling opportunities are brought closer.

Problem gambling is less severe than pathological gambling, but still can cause problems for the individual and his or her family. The essential features of problem gambling are increasing preoccupation with gambling, a need to bet more money more frequently, restlessness or irritability when attempting to stop, "chasing" losses, and loss of control manifested by continuation of the gambling behavior in spite of mounting, serious, negative consequences. In extreme cases, pathological and problem gambling can result in financial ruin, legal problems, loss of career and family, or even suicide.¹³ Estimates of problem gambling range from approximately 1.0 to 1.5 percent of the population on the low end, to 6.5 to 9 percent on the high side and appear to depend on whether or not pathological gambling is separated from problem gambling.^{14 15}

Pathological gamblers have a hard time resisting or controlling the impulse to gamble. In people who develop pathological gambling, occasional gambling leads to a gambling habit. Stressful situations can worsen gambling problems.¹⁶

Slot machine gambling is a particularly "addictive" form of gambling. The design of the game play, the ability to place numerous bets in a short time, and the design of the venues are all calculated to encourage the gambler to keep playing. An Australian study found table games, lotteries, or racing to be "more addictive" than slot machines using selected measures¹⁷, so it's not clear we can rightly call slots "the most addictive form of gambling."

¹³ National Council on Problem Gambling. FAQ: What is problem gambling? n.d. 24 July 2008 <http://www.ncpgambling.org/i4a/pages/Index.cfm?pageID=3314>.

¹⁴ Hemphill, Thomas. 2003 Video slot gaming in Maryland: weighing the costs and benefits. The Maryland Public Policy Institute.

¹⁵ Volberg, Rachel A. 2001. When the chips are down: problem gambling in America. Century Foundation Press.

¹⁶ U.S. National Library of Medicine. National Institute of Health. MedlinePlus. definition of pathological gambling. n.d. 24 July 2008 <http://www.nlm.nih.gov/medlineplus/aboutmedlineplus.html>.

¹⁷ Dowling, N., Smith, D., & Thomas, T. (2005). Electronic gaming machines: Are they the 'crack cocaine' of gambling? *Addiction*, 100, 33-45.

The policy question for voters is not whether problem gambling exists, but whether adding the five slot machine sites in Maryland will increase problem gambling in Maryland. After all, problem gamblers in Maryland already have opportunities to gamble legally and illegally, in state and out-of-state. Several studies identify a correlation between proximity to a gambling venue and problem gambling, although the causal link has not been rigorously established.

The Maryland Budget and Tax Policy Institute judges that the establishment of slot locations in Maryland would increase the incidence of problem gambling. It is important to note that the enabling legislation requires the operators to pay up to \$6.4 million to the state annually for programs to address compulsive gambling.

Claim 8: Slot Machines will increase crime.

ASSESSMENT: MIXED

Evidence suggests that casinos lead to negative social costs for surrounding communities, especially an increase in property and violent crimes.¹⁸ A 2002 study of Indian gaming locations found a 10 percent increase in crime in the region surrounding a new gambling venue in the first three years. Size matters.¹⁹ One study found that “It is reasonable to expect that a very large casino, such as Foxwoods in Connecticut, might increase both crime and employment in the county, while a small riverboat casino with less of a tourist draw might lead to no change in aggregate crime rates....”²⁰ A 1998 Socioeconomic Impact Analysis found that each additional \$1 million in Montana gambling tax revenue accounts for 172 additional crimes.²¹

However, Maryland isn’t proposing the creation of casinos. Because Maryland is only receiving slot machines, crime may not be as much of a problem. According to the Maryland State Department of Labor, Licensing, and Regulations (DLLR) (2007) it is difficult to determine the direct consequences of slots parlors on neighborhoods and communities. Slots in neighboring jurisdictions do not appear to have instigated an increase in crime in Delaware and West Virginia.²²

These studies generally focus on crime in the area of gambling locations. They do not factor in any increase in crimes such as fraud, theft, or embezzlement committed by problem gamblers to support their habits.

¹⁸ Kearney, Melissa S., "The Economic Winners and Losers of Legalized Gambling" (March 2005). NBER Working Paper No. W11234. Available at SSRN: <http://ssrn.com/abstract=693095>

¹⁹ Evans, William and Julie Topoleski, 2002, "The Social and Economic Impact of Native American Casinos." NBER Working paper No. 9198. Cambridge MA: National Bureau of Economic Research.

²⁰ Kearney, Melissa S., "The Economic Winners and Losers of Legalized Gambling" (March 2005). NBER Working Paper No. W11234. Available at SSRN: <http://ssrn.com/abstract=693095>.

²¹ Socioeconomic Impact Analysis: "Imperatives for Responsible Gambling," Chapter 5, A Report Assessing Socioeconomic Factors Associated with Rhode Island's Gambling Expansion [citing research by P. E. Polzin, et al., "Final Report to the Montana Gambling Study Commission on the Economic and Social Impacts of Legal Gambling in Montana," Helena, Montana Legislative Services Division, 1998] (11 November 2003). Also see: <http://www.citizenlink.org/FOSI/gambling/lottery/A000002194.cfm>

²² Maryland Department of Labor, Licensing, and Regulations. A Report to Governor Martin O'Malley, Slot Machines and the Racing Industry: A Review of Existing Data in Maryland and Neighboring States. 2007. 30 May 2008 <http://www.dllr.state.md.us/whatsnews/slotsreport2007.pdf>.

Claim 9: Bringing slot machine gambling to Maryland will cause an increase in social harms such as depression, suicide, bankruptcy, domestic abuse, and divorce.

ASSESSMENT: MIXED

Anecdotal connections between social harms and gambling have been found. However, there's no evidence that definitively correlates the two.

Many interested policymakers, analysts and researchers have attempted to connect social costs to gambling. Quantifying the social costs and benefits of gambling in any reliable way is probably beyond the capacity of modern social science.

A 2000 U.S. Government Accountability Office (GAO) study suggests that though data on family problems, crime and suicide are available, tracking systems generally do not collect data on the causes of these incidents, so they cannot be linked to gambling. It is particularly difficult to identify a causal link between gambling and other problems, as pathological gamblers often have other behavioral disorders.²³

The National Gambling Impact Study Commission (NGISC) and GAO conducted a case study in Atlantic City which found some testimonial evidence that gambling, particularly pathological gambling, has resulted in increased family problems (such as domestic violence, child abuse, and divorce), crime, and suicides. NGISC reached no conclusions on whether gambling increased family problems, crime, or suicide for the general population²⁴.

The key question is not whether gambling produced social harms, but how much worse these problems would become after legalizing slots²⁵. Some states that acknowledge social costs come with establishing legalized gambling allocate some proceeds from gambling to research, prevention (i.e. substance abuse and mental health treatment), and education, as it relates to problem gambling. Maryland's proposal sets aside up to \$6.4 million annually to establish a Problem Gambling Fund to be administered by the Maryland Department of Health and Mental Hygiene²⁶.

Claim 10: Slot machine revenues will disproportionately benefit a few individuals.

ASSESSMENT: TRUE

The five successful licensees will have exclusive rights to operate slot machine locations in their areas. They will be allocated 33 percent of the net proceeds to cover operations and profits (estimated at \$449 million annually once all slots are in full operation). This, however, will be among

²³ U.S. Government Accounting Office. Impact of Gambling: Economic Effects More Measurable Than Social Effects. April 2000. 10 July 2008 <http://www.gao.gov/new.items/gg00078.pdf>.

²⁴ Ibid.

²⁵ Carpenter, Robert E. "The Concerned Citizen's Guide to Slot Machine Gambling and Horse Racing in Maryland." University of Maryland Baltimore County Policy Brief (Mar 2007). 31 July 2008 http://www.umbc.edu/mipar/documents/policy_brief_4.pdf.

²⁶ Maryland Department of Legislative Services. Maryland Education Trust Fund - Video Lottery Terminals: Fiscal and Policy Note. 2007. 31 July 2008 http://mlis.state.md.us/2007s1/fnotes/bil_0003/sb0003.pdf.

the lowest percentages of revenues retained by gaming operators in the U.S.²⁷ Also; these operators will pay up-front license fees of \$90 million in total.

Because the number of licenses and the number of machines are limited, competition will not hold down profits. State regulations will limit profits. For example, the licensees will be required to pay out at least 87 percent of the amount bet, and will be required to invest a total of \$750 million in construction and related costs.

Horse racing interests will also benefit from the slot machine revenue, regardless of whether slots are located at any particular track. Seven percent of proceeds will be channeled into race prize money (\$95 million when fully phased in), which is supposed to attract more horses and more bettors to Maryland tracks. An additional 2-1/2 percent (\$34 million annually when fully phased in) will be dedicated to racetrack renewal projects for the first eight years.

Claim 11: Slot machines will be the equivalent of a regressive tax on the poor.

ASSESSMENT: MIXED

There is ample evidence that lotteries have a regressive effect.²⁸ On average, low-income residents contribute more to lottery revenues as a percent of income than high-income residents.

There is less evidence regarding the effects of casino and slot machine spending on different income categories. One 1977 study found Las Vegas casino revenues to be progressive (a higher percentage of income for wealthier people). The American Gaming Association (obviously not an objective source) reports that the average income of casino customers was 16 percent above the average income of all Americans.²⁹ However, a 1998 Mississippi study found casino revenues to be regressive both for players who live in the county of the casino and those who travel across county lines to gamble.³⁰

²⁷ American Gaming Association, 2008 State of the States: The AGA Survey of Casino Entertainment, 2008, pp. 12-28. New York's (29.7 percent) and Rhode Island's (27.4 percent) operator percentages are lower.

²⁸ Brunori, David. State Tax Policy; A Political Perspective. Urban Institute Press: Washington (2005), p. 118. Anderson, John E., Casino Taxation in the United States, National Tax Journal (58, 2) June 2005, p. 320. Oster, Emily F., Are All Lotteries Regressive? Evidence from the Powerball, (January 5, 2004). National Tax Journal, June 2004 Available at SSRN: <http://ssrn.com/abstract=522742>.

²⁹ American Gaming Association, p. 39.

³⁰ Anderson, p. 320.

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The Regular Person's Guide to the Maryland Slot Machine Referendum was researched and written by Branden McLeod and Neil Bergsman.