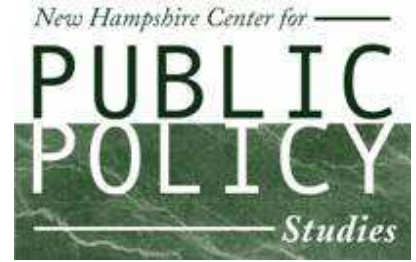


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Policy Notes
**Update on Expanded Gambling:
Movement in Massachusetts**

January 2012

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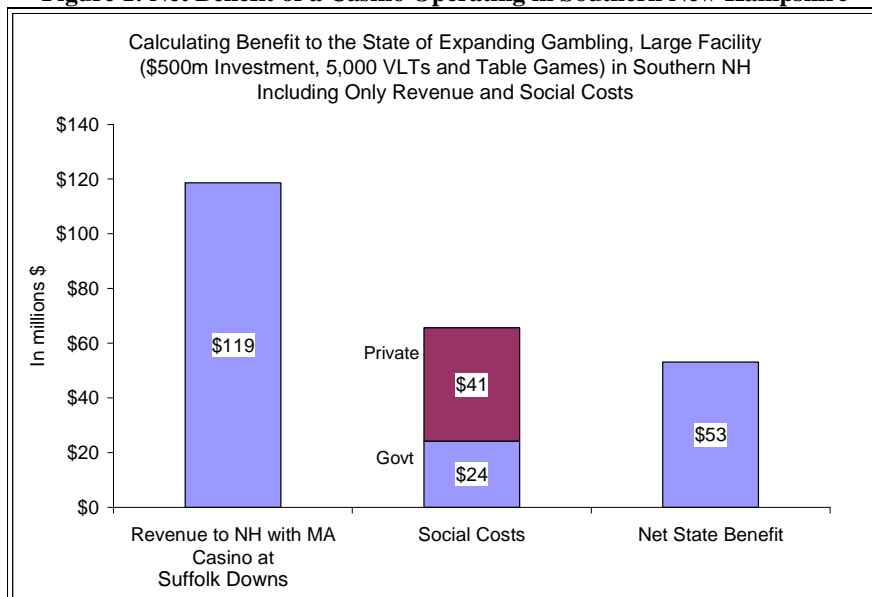
Executive Summary

This paper is an update to the Center’s May 2010 report, “Analyzing the Impact of Expanded Gambling on New Hampshire.” Our goal here is to provide insight into the potential implications for New Hampshire of new casinos in Massachusetts, partly in response to a request from the House subcommittee that reviewed gambling legislation. We have updated our model to reflect financial changes – inflation, reductions in lottery revenues, and other factors – as well as developments in New England’s gambling landscape over the past two years. Most specifically, recently passed legislation in Massachusetts allows for three casinos and a slot machine parlor.

Our models continue to suggest that expanded gambling in New Hampshire would bring a net economic benefit to the state – in terms of economic development and state revenues – even with new casinos in Massachusetts and after offsetting costs associated with pathological gambling. However, our model does not account for the potential negative effects of expanded gambling on New Hampshire’s “brand” and attractiveness as a destination for tourists and others, nor does it consider the question of the proliferation of gambling activities or any political concerns associated with a single industry or organization playing such a large role in financing the state’s activities.

As shown in Figure 1 below, New Hampshire gains as much as \$50 million per year in revenues under a scenario in which a large casino facility (\$500 million investment) opens in southern New Hampshire and a facility is built in Massachusetts (in this example, at Suffolk Downs). This model subtracts the social costs associated with pathological gambling – both those incurred by state government (\$24 million) and others (\$41 million) – from the overall state benefit.

Figure 1: Net Benefit of a Casino Operating in Southern New Hampshire



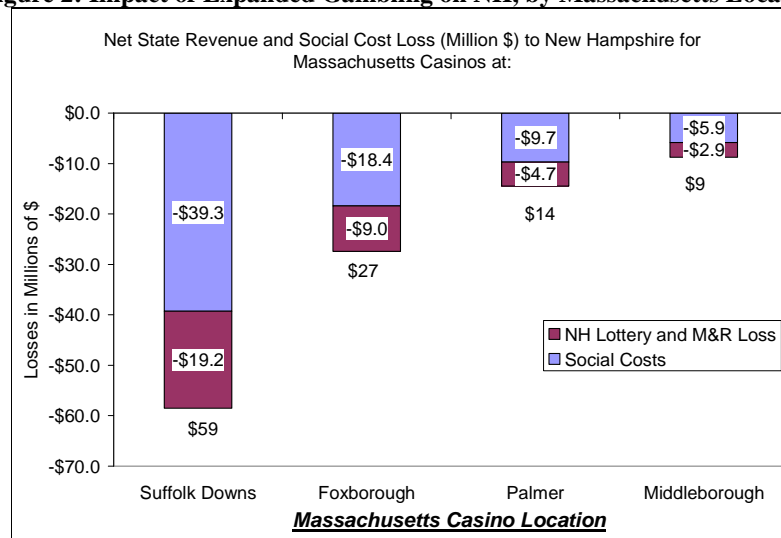
The benefit to New Hampshire would decline if a smaller facility were built in the state. This suggests that the Legislature, if it wishes to proceed with expanded gambling as a means of generating long-term state revenue, may want to consider whether current legislation should

require a minimum investment by potential casino developers, similar to policy in Massachusetts which requires a minimum \$500-million investment in a new gambling facility.

The Massachusetts law defines three regions for the purposes of casino development: the Boston area extending to Worcester; western Massachusetts; and southeastern Massachusetts. Only one casino will be approved for each region. At present, the most likely location for a facility in Massachusetts is the Suffolk Downs/Wonderland race track in East Boston. However, there are competing proposals in that region, in the communities of Foxborough, Milford and Charlton, all of which are further from the New Hampshire border than Suffolk Downs. The costs of a Massachusetts casino to New Hampshire will decrease as that casino moves further from New Hampshire’s major population centers.

Figure 2 shows our simulations of the sum of social costs associated with pathological gambling to New Hampshire communities and revenue loss due to the decline in lottery ticket sales and meals-and-rooms tax receipts as people spend their money on gambling rather than other activities. While a casino at Suffolk Downs would have a greater impact on New Hampshire than one in Foxborough, expansion in western Massachusetts (possibly in Palmer) or southeastern Massachusetts (possibly in Middleborough) would have only a marginal impact on New Hampshire.

Figure 2: Impact of Expanded Gambling on NH, by Massachusetts Location



Gambling developments in Massachusetts are not easy to predict, making it difficult to assess whether (or how) that state’s actions should influence New Hampshire’s legislative decision-making. Massachusetts has approved expanded gambling, but several factors could slow the groundbreaking of a new casino there. First, as mentioned, there are several competitors for casino development in each of the three regions. Second, before winning state approval for a new gambling facility, developers must first win local approval in a ballot referendum. As evidence of the difficulty of predicting the outcome of these efforts, note that the Foxborough board of

selectmen recently cast a non-binding vote against the development of a casino in that town.¹ And in Maine, ballot efforts to allow gambling in specific communities have failed several times.

What if New Hampshire also legalized expanded gambling? Allowing for recent declines in gambling revenue here and at facilities across the country, we estimate a large casino (\$500 million) in southern New Hampshire could potentially generate \$189 million in annual revenues to the state of New Hampshire, assuming a 40 percent tax rate. Casinos at Palmer and Suffolk Downs in Massachusetts would decrease potential New Hampshire revenues to \$119 million, implying that \$70 million in potential New Hampshire casino activity would be lost to Massachusetts. Private and public New Hampshire social costs would total about \$65 million, leaving a net annual gain to the state of \$53 million.

The state of gambling in New England

Declining revenues and a search for new jobs after the Great Depression have reignited the gambling debate in several New England states. In what follows, we provide an update on the status of expanded gambling in New Hampshire and neighboring states.

New Hampshire

HB593, as amended on November 2, 2011, will likely come to a vote in the New Hampshire House in early January 2012. The proposal, which is favored by the House Leadership, allows video lottery machines and table games at two locations, pursuant to a competitive application process.

The amendment² removes original language in HB593 which called for “construction and operation of two video lottery facilities in the state which are at least 100 miles apart.” In addition, the amended version of HB593:

- Distributes proceeds of video lottery machines and table games to the municipalities where the facility is located and abutting communities, and to the state general fund to offset business taxes;
- Establishes a gaming enforcement unit in the division of New Hampshire State Police;
- Requires the state Lottery Commission to regulate, license, and enforce the provisions for video lottery and table games operated at a gaming location;
- Establishes a tax rate of 40 percent on net machine income generated by video lottery machines operated by a gaming licensee, distributed to:
 - 35 percent of the net machine income goes to the state to cover the costs of regulation administration, enforcement, and the operation of the central computer system. The balance will be deposited in the state general fund and used first to offset reductions in the business profits tax and the business enterprise tax. (The amount of reduction to state business taxes is not specified in the amended bill);
 - 3 percent paid to the municipality in which the gaming licensee operates video lottery machines;

¹ http://www.bondbuyer.com/issues/121_5/northeast-gambling-casino-1034948-1.html

² <http://www.genccourt.state.nh.us/legislation/amendments/2011-2812H.html>

- 1 percent paid in equal portions to each of the New Hampshire municipalities abutting the municipality in which the casino is located
- 1 percent paid to the state treasurer and credited to the commissioner of the Department of Health and Human Services to support programs to treat problem gambling

A Senate bill which would allow gambling was tabled in mid-November 2011. The Senate Ways and Means Committee recommended sending its own slot machine bill (SB 182) for interim study next year.

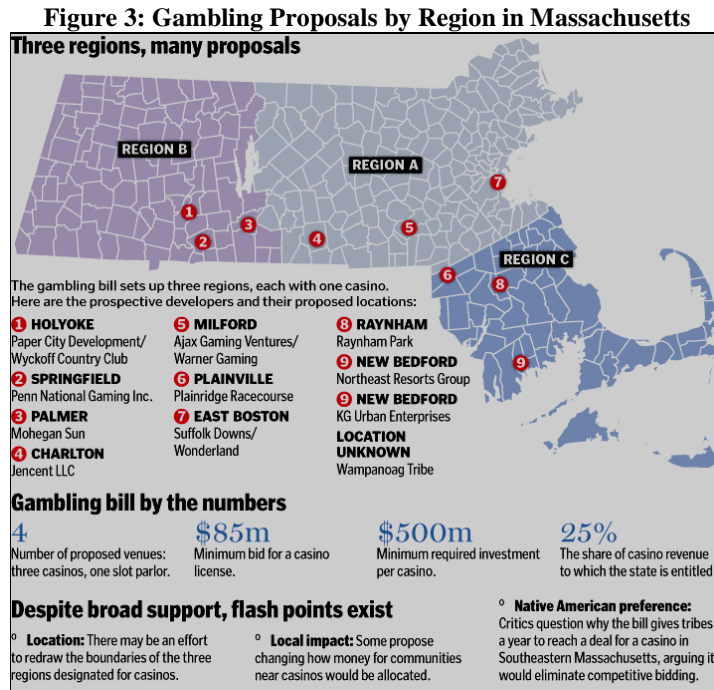
Massachusetts

In late November 2011, Massachusetts Governor Deval Patrick signed a bill authorizing up to three resort-style casinos and one slot machine parlor in Massachusetts. The bill allows one casino each in three regions of the state: one in the Boston area extending to Worcester; one in western Massachusetts; and a third in southeastern Massachusetts. The bill gives the Mashpee Wampanoag tribe preference in winning the right to operate in the southeastern part of the state. In addition to the three casinos, a slot machine parlor can open anywhere in Massachusetts. The location of each of the three casinos is not known, but likely sites include Palmer (in western Massachusetts), Suffolk Downs (just north of Boston), and a facility in the Fall River area south of Boston.

The above legislation also creates a Massachusetts gaming commission, which will regulate casinos and approve potential developers. It is within the gaming commission's discretion to approve fewer than three casinos. The commission will choose developers based on a number of factors, including a requirement that they win local approval in a ballot referendum to open a gambling facility.³ Given this regulatory framework and approval process, it could take as long as five years before a casino is fully operational in Massachusetts.

The following map, created by the Boston Globe, shows the regions and potential casino sites in Massachusetts, as of November 2011.

³ <http://bostonglobe.com/metro/2011/11/22/patrick-signs-casino-bill-into-law/03TbbgnhZqmCdxX9nrVOpK/story.html>



Source: Boston Globe online map, November 2011

Although details on each proposal are incomplete, the Boston Globe and other media sources have been following several leading contenders for a casino license in the Bay State.

- Owners of the **Suffolk Downs** race track unveiled their proposal for a resort-style casino at the East Boston facility. Suffolk Downs chief operating officer, Chip Tuttle, has said the casino could have as many as 5,000 slot machines, more than 200 table games, a 400-to-600-room hotel, and upscale restaurants and shops.
- A more recent proposal in **Foxborough** has Las Vegas casino owner Steve Wynn saying that he intended to pursue the rights to build a \$1 billion casino and hotel resort near Gillette Stadium. Wynn's plan would compete with a proposal at Suffolk Downs for the right to open a casino in the Greater Boston and Worcester area, which the state's new casino law defines to include Foxborough.
- The owners of Connecticut's Mohegan Sun have expressed a desire to build a \$700 million casino in the town of **Palmer**, in central Massachusetts. The proposed resort destination would include 3,000 slot machines, a 600-room hotel and convention center, and up to five restaurants. Of all the potential proposals, the Palmer casino is most likely to go forward, because Mohegan Sun has already purchased a suitable site in Palmer and has been working with local officials for more than two years to locate a facility in the area.
- The Wampanoag tribe is now interested in building an Indian casino at a 300-acre site in downtown **Fall River**, after abandoning plans to build in Middleboro. The Wampanoag have said that they can start building immediately if approved.⁴

⁴ <http://www.capecodonline.com/apps/pbcs.dll/article?AID=/20111211/NEWS/112110328/-1/special05>

- The town of **Milford** is in the mix for a proposed Las Vegas-style resort casino near Interstate 495. A developer has outlined plans for the Crossroads Casino, a \$600 million complex with up to 3,000 slot machines, five restaurants, and a 300-room hotel.
- Sheldon Adelson, a Dorchester native and chief executive of Las Vegas Sands Corp., has sought to develop land for a possible gambling destination near **Marlborough**.
- **Revere's** Wonderland Greyhound Park, which no longer has racing now that Massachusetts voters made dog racing illegal, could also get slots under the recent proposal.

In our simulations for the Governor's Gaming Study Commission, we estimated the impact on New Hampshire of casinos in Massachusetts at Suffolk Downs and Palmer. The Center believes that a third casino, likely located in the Fall River/Middleborough area, would not present a serious competitive challenge to a New Hampshire casino (no more than the existing casinos now in operation in Connecticut and the racino at Lincoln, R.I.).

However, the impact of a central Massachusetts facility (Region A in Figure 3) on New Hampshire will vary depending upon where that casino is placed within that region. A casino in East Boston, at Suffolk Downs, would have a greater impact on New Hampshire than a casino placed in Foxborough. A casino further away from New Hampshire's population centers, in the Southern Tier and the Seacoast, would have less of an impact on New Hampshire than a casino close to the border.

Maine

Maine voters rejected more expanded gambling in their state in a referendum on November 8, 2011. Question 2, allowing racinos in Biddeford and Washington County, was defeated with a vote of 55 percent to 44 percent in favor. Question 3, seeking a casino in Lewiston, failed soundly, with 36 percent in favor and 63 percent opposed.

That leaves only one existing racino, Hollywood Slots operating in Bangor, Maine, too far from New Hampshire to be a serious competitor. Total annual revenues for Hollywood Slots were estimated to be \$67.9 million in 2010.

However a new casino is under construction in Oxford County, in western Maine, which could compete for White Mountains-area gambling business. (The proposed site of the Oxford County casino is an hour-and-a-half drive from North Conway.)

The Center is in the process of simulating the impact of the Oxford County casino on New Hampshire tourism spending, and will publish those results when available. Preliminary analysis suggests that an Oxford County casino could attract New Hampshire residents, and more importantly tourists, who would otherwise spend money in the Granite State. One could imagine skiers at White Mountains resorts deciding to spend their evenings at the Oxford, Maine, casino, rather than at local entertainment in the Mount Washington Valley. Therefore, an operating Oxford County casino is expected to reduce tourism spending in the White Mountains region by an indeterminate amount.

Vermont

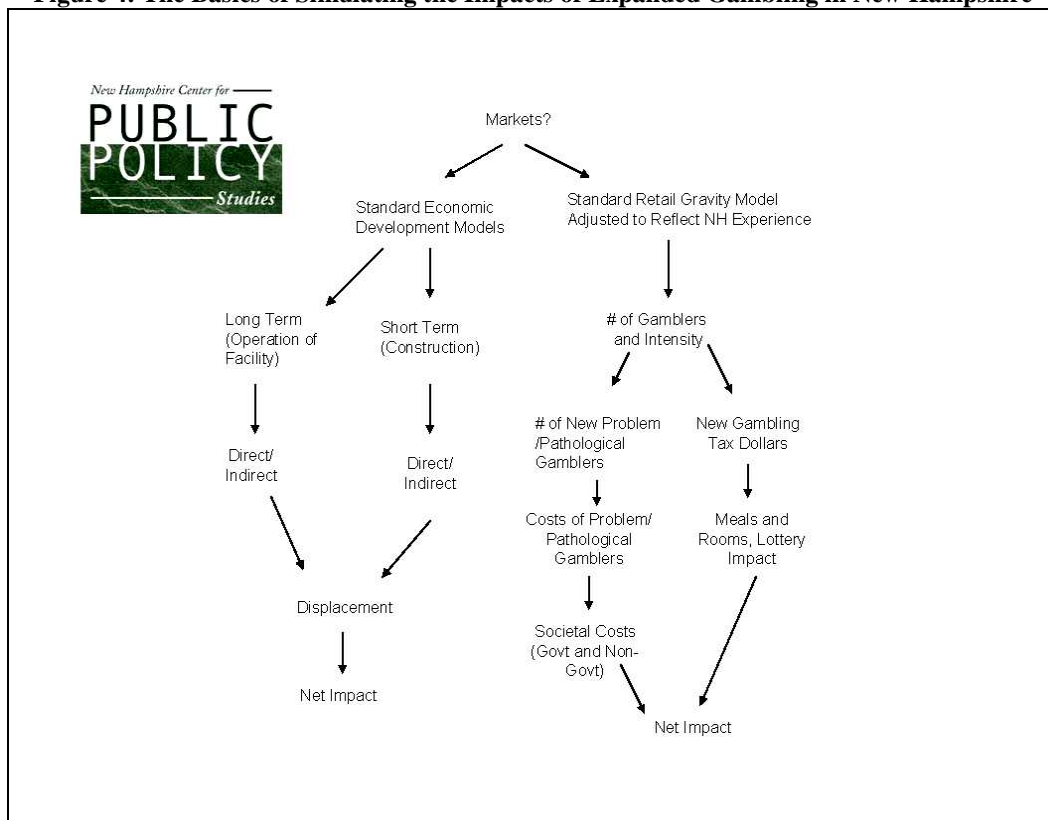
Vermont has no serious expanded gambling proposal at this time, and contacts in that state say expanded gambling is highly unlikely.

Simulating the impact of gambling on New Hampshire

The Center has developed a series of inter-related models that provide a means for simulating the economic and social impacts of expanded gambling on New Hampshire. These models take as inputs assumptions about the amount of capital investment, the size and type of facility, geography, population and income levels, and the potential action of nearby states. The model design is shown in Figure 4 below.

In these simulations, we use a gravity model to produce estimates of the number of individuals and income that might be spent on gambling. These estimates are used to drive our simulation of the economic impact of construction (short-term) and operations (long-term) of a gambling facility, the revenues created, the displacement of existing economic activity, and the social costs.

Figure 4: The Basics of Simulating the Impacts of Expanded Gambling in New Hampshire



More detail on the model structure and assumptions are available in the Center's May 2010 report⁵.

Model simulations

In order to update and resolve our model of expanded gambling in New Hampshire, we must re-examine four major assumptions embedded in our May 2010 report:

- Massachusetts has acted to expand gambling in the Commonwealth. Our modeling assumptions in the May 2010 report included an alternative scenario of two full casinos in Massachusetts at Palmer and Suffolk Downs, which will compete with a southern New Hampshire facility. We believe this remains a valid operating assumption for the purposes of this update.
- Gambling revenues have declined locally and nationally since the publication of our May 2010 report. That report used 2009 as a base year, and therefore we have reduced our revenue estimates to account for this decline. Gaming revenue dropped 15 percent, compared to our May 2010 report, based on Connecticut slot machine revenue and New Hampshire lottery experience.
- Inflation is likely to have increased the costs associated with managing the social costs of expanded gambling. Accordingly we have:
 - increased regulatory cost by 3 percent (to account for general inflation)
 - increased other social costs (related to crime and mental health issues) by 10 percent, based on the medical services inflation rate
- Economic impacts, relating to jobs and changes to gross state product, have been updated for a new economic impact model.

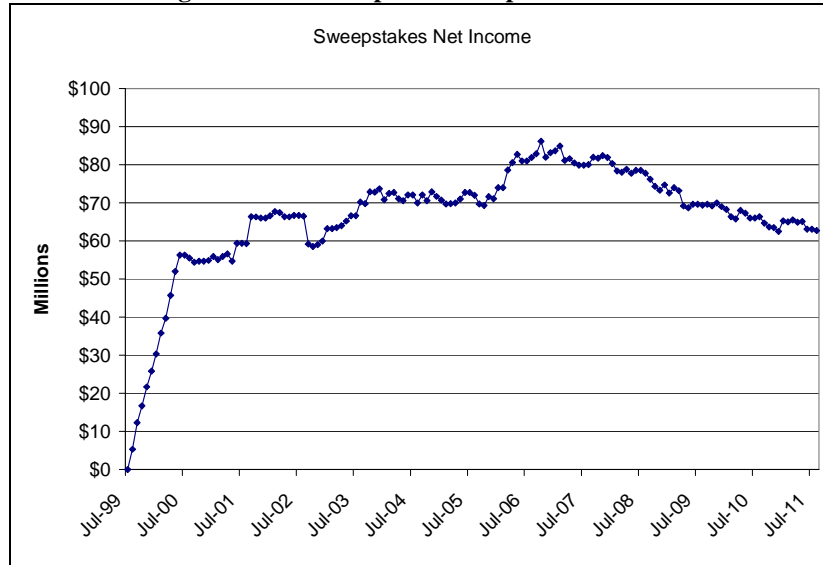
Recent declines in gambling revenues

Gambling revenues have declined as a result of the Great Recession. This is not surprising, because consumer spending declined rapidly in the last four years, and gaming is usually considered an entertainment expense.

Figure 5 shows the impact of the recession on New Hampshire sweepstakes net income. New Hampshire annual revenues from lottery sales has declined from about \$85 million in 2007 to just above \$60 million in 2011, a loss of almost 30 percent.

⁵ “Analyzing the Impact of Expanded Gambling on New Hampshire:
“<http://www.nhpolicy.org/report.php?report=236>

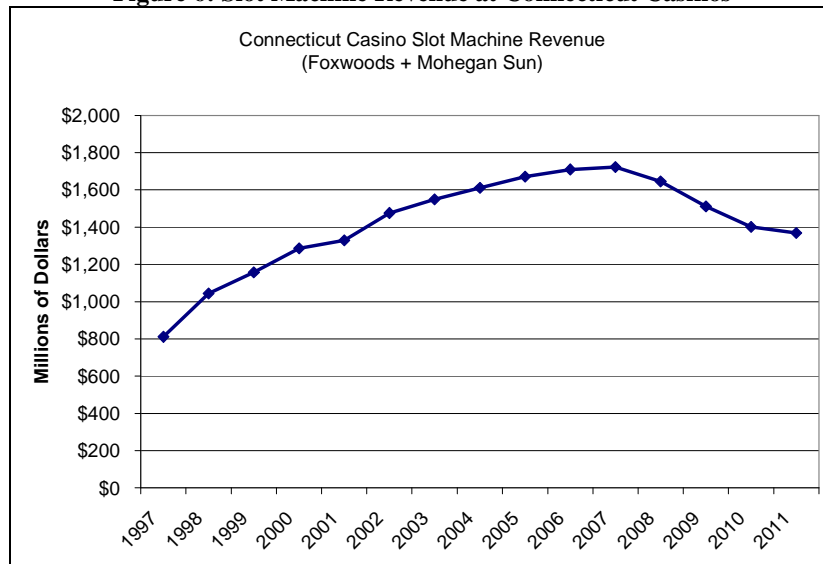
Figure 5: New Hampshire Sweepstakes Revenue



Source: New Hampshire Department of Administrative Services

There are also reports of declining revenues in major casino areas, including Las Vegas and Atlantic City. In addition, total state gambling receipts across the country in 2010 were lower than in 2008.⁶ As shown in Figure 6, slot machine revenues in Connecticut casinos (Foxwoods and Mohegan Sun) have suffered a decline of 20 percent in their revenues, from \$1.722 billion in 2007 to \$1.369 billion in 2011.

Figure 6: Slot Machine Revenue at Connecticut Casinos



Source: University of Nevada Las Vegas, Gaming Abstract

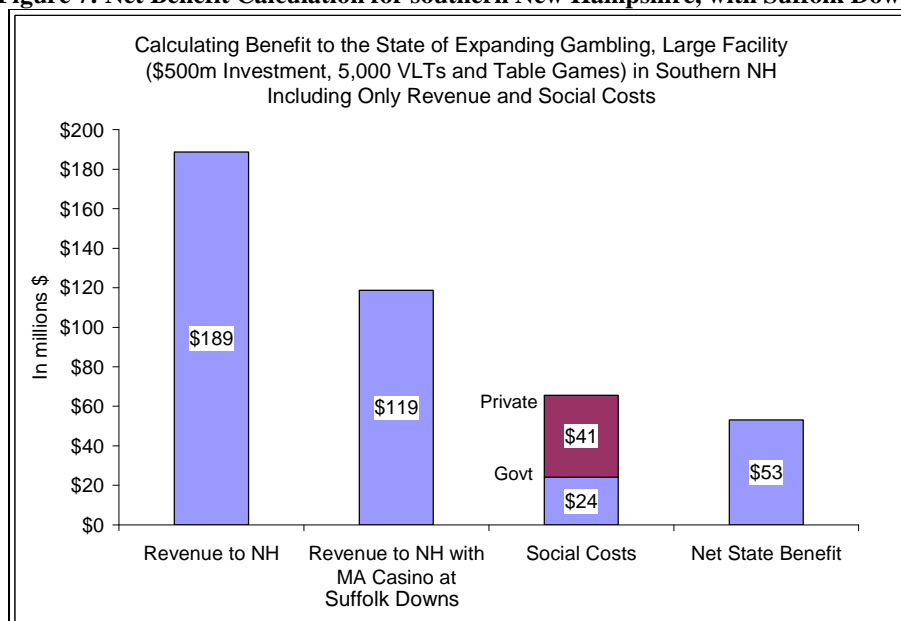
⁶ Recession drives more states to expand legal gambling; long-term revenue gains uncertain, Rockefeller Institute of Government, <http://archive.constantcontact.com/fs091/1104610489644/archive/1106179880802.html>

Gambling model results and analysis

The bill that will come before the New Hampshire House in January 2012 would allow two casinos in the state and has removed the requirement that those casinos be 100 miles apart. There are two current proposals for southern New Hampshire: one at Salem’s Rockingham Park and another at Green Meadow Golf Course in Hudson. For the purposes of this simulation, the Center has assumed one \$500 million casino, employing 2,400 people, will be created in southern New Hampshire.

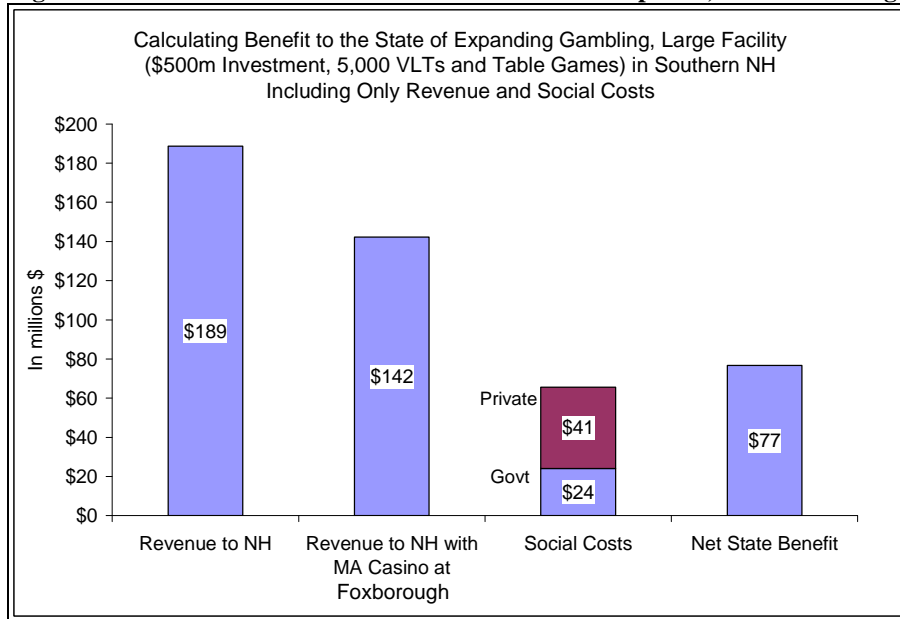
The following charts show the potential state revenue of one such facility in southern New Hampshire, the impact of expanding gambling in Massachusetts, additional social costs to New Hampshire, and the net state benefit after social costs are subtracted from potential revenue. Allowing for recent declines in gambling revenue in New Hampshire and at other facilities across the country, we estimate a large casino (\$500 million) in southern New Hampshire could potentially generate \$189 million in annual revenues to the state of New Hampshire, assuming a 40 percent tax rate. Casinos at Palmer and Suffolk Downs in Massachusetts would decrease potential revenues to \$119 million, implying that \$70 million in potential New Hampshire casino business would be lost to Massachusetts. Private and public New Hampshire social costs would total about \$65 million, leaving a net gain to the state of \$53 million.

Figure 7: Net Benefit Calculation for southern New Hampshire, with Suffolk Downs



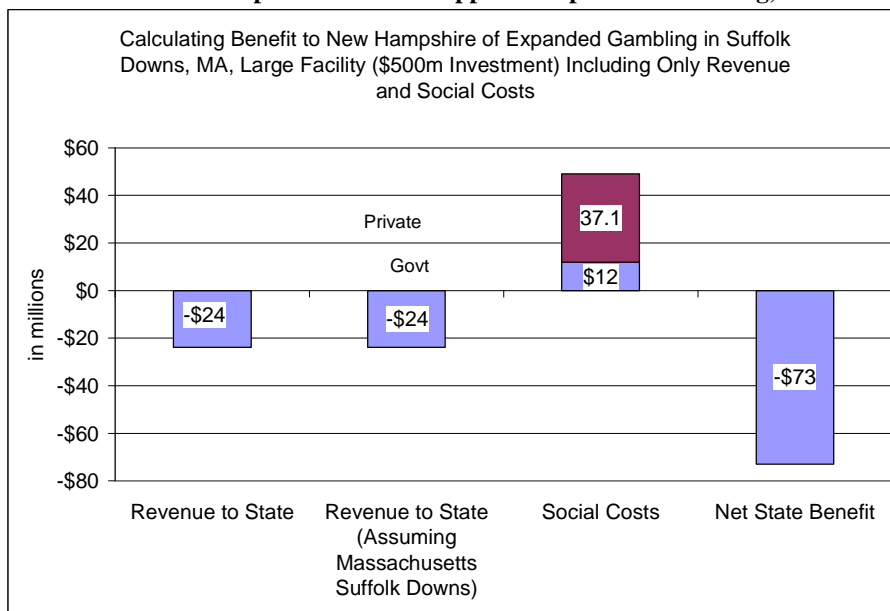
However, if the Massachusetts casino in Region A were built further south, the revenue loss to New Hampshire would be less, and the net state benefit would be greater. Operating casinos at Palmer and Foxborough in Massachusetts would decrease potential revenues to \$142 million, implying that \$45 million in potential New Hampshire casino business would be lost to Massachusetts. Private and public New Hampshire social costs would again total about \$65 million, leaving a net gain to the state of \$77 million.

Figure 8: Net Benefit Calculation for southern New Hampshire, with Foxborough



If, on the other hand, New Hampshire does not allow expanded gambling, and casinos in Massachusetts were located close to New Hampshire at Palmer and Suffolk Downs, New Hampshire would see a reduction in lottery revenues and increased social costs – an estimated net loss of \$73 million.

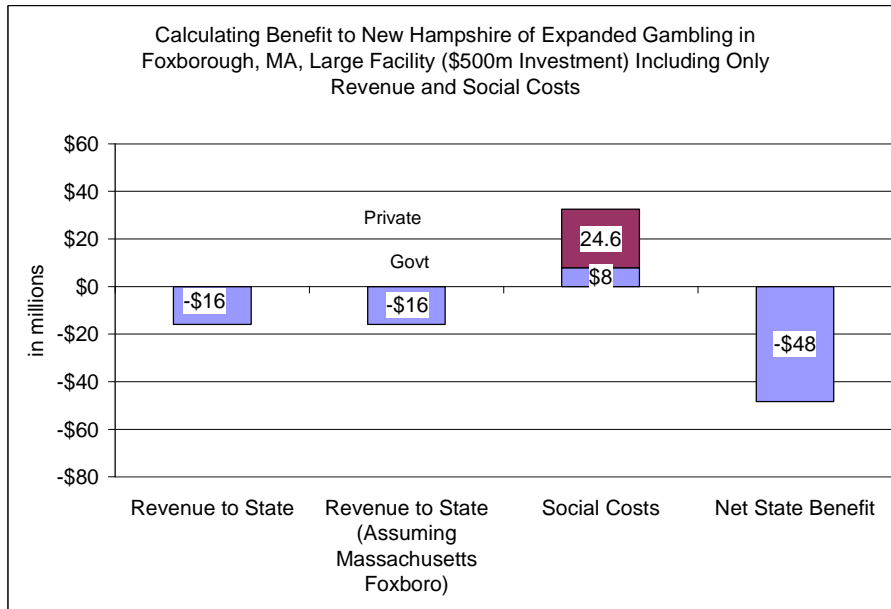
Figure 9: Net Cost if New Hampshire Does Not Approve Expanded Gambling, with Suffolk Downs



Again, a casino in Massachusetts’ Region A that is further from the New Hampshire border would have less of an impact on New Hampshire. If New Hampshire does not allow expanded

gambling, and casinos in Massachusetts were located at Palmer and Foxborough, New Hampshire would see a reduction in lottery revenues and increased social costs for a net loss of roughly \$48 million.

Figure 10: Net Cost if New Hampshire Does Not Approve Expanded Gambling, with Foxborough



Economic development impacts

For this analysis, we have replaced the RIMS II economic impact model, used in our May 2010 work, with the recently released Connect New England Economic Scenario Model, sponsored by Fairpoint Communications. The Center believes this new model is an improvement to our earlier analysis for two reasons.

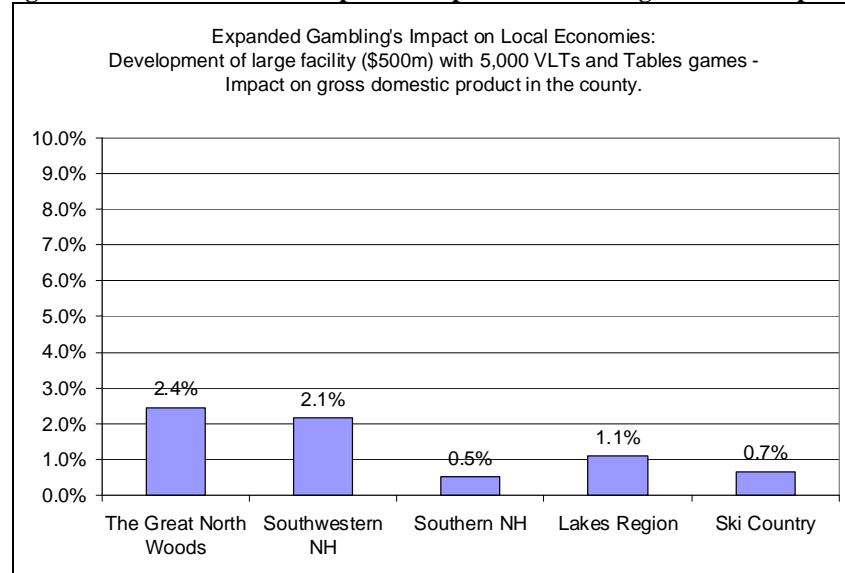
First, the baseline employment data in the new model have been updated to reflect the latest available information from the U.S. Bureau of Economic Analysis (BEA). This model uses 2009 data from BEA, which it obtains from the U.S. Bureau of Labor Statistics. Data for 2010 are not anticipated until April 2012. Total employment across Northern New England is lower by over 58,000 jobs (2.8 percent).

Second, the model also incorporates technical changes that reflect the revisions that BEA made in 2010 to its annual industry accounts based on the changing structure of the U.S. economy. As a result of those changes, BEA substantially revised the economic multipliers that drive the Model’s calculations. In general, the multipliers in the current model are lower than those from prior iterations. This will cause estimates of expected changes in employment, earnings, output, and GDP to be smaller than those in the RIMS II economic impact model used in our May 2010 analysis.

The following chart illustrates the different impacts that a large casino in New Hampshire would have on local economies. The economic development implications vary tremendously, in part due to the different sizes of local economies across the state. The chart shows the direct and

indirect impacts of the operations of a large facility (\$500 million) with VLTs⁷ and table games expressed as a percent of the local county gross domestic product.

Figure 11: Local Economic Impact of Expanded Gambling in New Hampshire



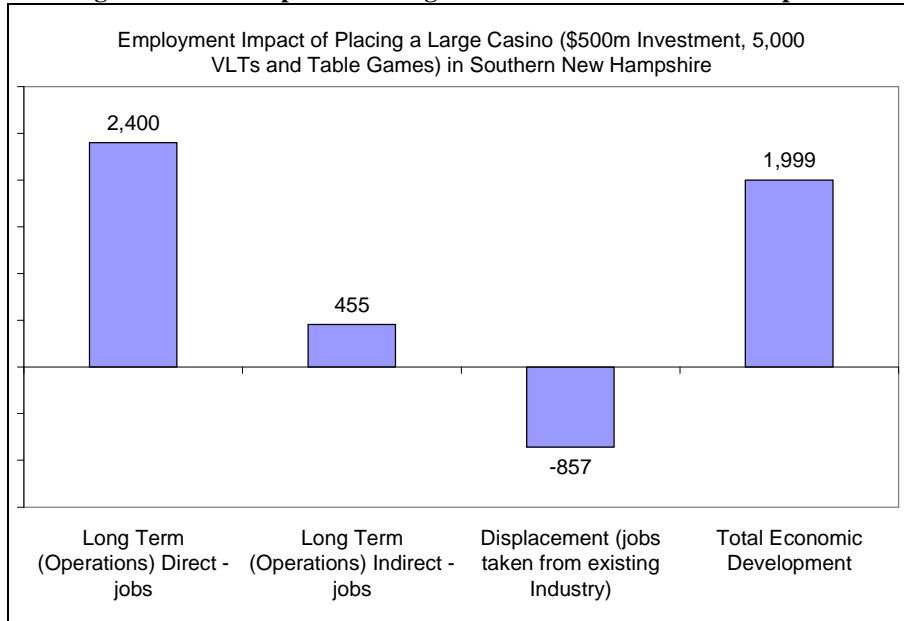
Whether looking at the creation of jobs or the impact on gross domestic product of expanded gambling, the economic development implications depend critically on the assumptions about the size of investment and type of facility.

One of the implications of our model is that the type of facility developed has a large impact on the ongoing economic development of a facility. As shown in the following figure, in southern New Hampshire, for example, the development of a large facility with 2,400 jobs with VLTs and table games in southern New Hampshire would result in a net gain of 1,999 jobs.

This result comes from including two consequences associated with the creation of a casino. First the Connect NNE Economic Scenario Model is designed to help planners predict what will happen to jobs and other economic aspects of the county or state if they do various actions, like attract a certain type of industry. The model is based on economic multipliers and labor employment data. The multipliers used reflect the direct, and indirect and induced impacts on earnings and jobs resulting from changes in output, jobs or direct earnings in a specific geographic region for various industry categories. In this case, as shown on the following chart, creating 2,400 casino jobs in southern NH will create 455 indirect and induced jobs in other parts of the regional economy.

⁷ VLTs are Video Lottery Terminals, which are essentially slot machines connected to a central computer.

Figure 12: Jobs Impact of a Large Casino in southern New Hampshire



Finally, our model suggests that displacement – or the substitution of existing spending for gambling – could have a considerable impact on economic development estimates. In our southern New Hampshire simulation, we expect that only 30 percent of the new casino jobs would replace existing jobs, because most of the visitors to southern New Hampshire casinos would be coming from out of state (primarily Massachusetts). Displacement means that 857 jobs would be taken from existing firms, so the total job gain becomes 1,999 jobs added to the economy.