

ECONOMIC DEVELOPMENT FORUM
SPONSORED BY
THE MASSACHUSETTS GAMING COMMISSION

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QUINSIGAMOND COMMUNITY COLLEGE
Herbert Auditorium - Suprenant Building
Worcester, Massachusetts 01606

P A R T I C I P A N T S

Massachusetts Gaming Commission:

Stephen Crosby, Chairman

Gayle Cameron, Commissioner

Enrique Zuniga, Commissioner

James F. McHugh, Commissioner

Bruce Stebbins, Commissioner

HOST:

Gail Carberry, President, Quinsigamond
Community College

PANELISTS:

Clyde Barrow, PhD, Director, Center for Policy
Analysis, UMass Dartmouth

Michael Pollock, Managing Director, Spectrum
Gaming Group

Carl F. Jenkins, Managing Director, CBIZ Tofias

Steven Szapor, President, The Innovation Group

Martin Romitti, PhD, Director of Economic and
Public Policy Research, UMass - Amherst Donahue
Institute

Stephen Norton, Executive Director, New
Hampshire Center for Public Policy

Doug Walker, PhD, Associate Professor of
Economics, College of Charleston

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MORNING SESSION
9:00 a.m.

MS. CARBERRY: Good morning and welcome. I'm Gail Carberry, president of Quinsigamond Community College, and it's always my pleasure to welcome people to our campus. We thank you for choosing Quinsigamond as a site for this important conversation.

Quinsigamond is one of 15 community colleges in the Massachusetts community college system. We serve the Greater Worcester area from just about the Princeton/Sterling area to a little higher straight on down to the Connecticut/Rhode Island area and across as far as Brimfield.

We go as far east as the Marlborough area, and we have campuses located both here and in Southbridge and in five other satellites throughout Central Massachusetts.

We are the fastest growing community college in Massachusetts for our size, those being under 10,000; last year we enrolled 9,100 and a few more students.

1 We have grown 55 percent in just the
2 last six years, so that the success of casinos in
3 Massachusetts, given the way the law has been
4 written, will apportion funds that support our
5 educational institutions such as Quinsigamond
6 Community College is not lost on us.

7 It's clearly important to us that
8 this industry succeed in Massachusetts. It's
9 important for jobs, and it's important for revenue.

10 And I want you to know that the 15
11 community colleges have come together, and working
12 with an outside group from Atlantic City that has a
13 strong track record in training for casinos, we're
14 ready -- we're ready to prepare to work for it; to
15 support the industries of the casino and gaming
16 sides.

17 So I want to, again, thank you for
18 being here. I'm also honored to be able to
19 introduce a long-standing friend, a respected
20 colleague, who has recently been appointed to the
21 Casino Commission.

22 Bruce Stebbins and I go back to a
23 point in time where he shared the Board of Trustees
24 at Quinsigamond Community College, and I was on the

1 Executive Team there.

2 So he and I have worked well on a
3 number of interesting projects, and I hope that he
4 will continue to stay in touch with the community
5 colleges from that side of his experience as this
6 particular initiative gets listed.

7 But let me give you a few points
8 about Bruce. He is a native of Western
9 Massachusetts and most recently has served as
10 Business Development Administrator for the City of
11 Springfield. He also served two terms on the
12 Springfield City Council from 2006 through the end
13 of 2009.

14 Prior to joining the City's Economic
15 Development Office, Bruce served as senior regional
16 manager for the National Association of
17 Manufacturers in the New England region from 1999 to
18 2010.

19 Earlier in his career Bruce served
20 as the -- in the administrations of both Governors
21 Weld and Paul Celluci and was eventually promoted to
22 the head of the Massachusetts Office of Business
23 Development after serving as deputy director and
24 regional director.

1 His government experience included
2 working in the office of political affairs at the
3 White House for President George H.W. Bush.

4 And his commitment to his community
5 has also included serving on an elected school
6 committee in East Lawnmeadow for seven years and
7 chairmanship, of course, of the Board of Trustees at
8 Springfield Technical Community College as well as
9 other nonprofit community organizations.

10 He is a graduate of the George
11 Washington University in Washington, D.C. where he
12 received a Bachelor of Arts degree in political
13 science, so without further adieu.

14 (Applause.)

15 COMMISSIONER STEBBINS: Thank you.
16 Good morning. On behalf of the Massachusetts Gaming
17 Commission, I want to thank President Gail Carberry
18 and her team here from Quinsigamond Community
19 College; Gail Allen and the technical crew that's
20 been running around here this morning to help us
21 host this meeting this morning. Her support is
22 greatly appreciated.

23 Secondly, I want to thank all of you
24 for joining us this morning and to our panelists for

1 their commitment and time to discuss some of the
2 pressing issues; the questions before this
3 Commission.

4 As a reminder, this education forum,
5 similar to the one that we hosted in Boston back in
6 early May, and two additional forums that we have
7 coming up with respect to community mitigation as
8 well as problem gambling, are being held so that
9 you, the public, can hear the same information we
10 are as the Commission begins to build this
11 organizational structure.

12 Today's forum is to assist the
13 Commission with learning about the New England
14 gaming market in light of the bill's final passage
15 late last year; what has changed since several of
16 the key studies you are going to hear about this
17 morning were published; what information should we
18 focus on as we begin the application process.

19 Secondly, the Commission is looking
20 to understand what resources we need to affectively
21 and fairly evaluate the information that will be
22 forthcoming from the gaming license applicant with
23 respect to the information they will provide.

24 How can we assess the validity of

1 their economic impact and make any revenue
2 projections.

3 Finally, this Commission is required
4 to conduct some baseline research to find the social
5 and economic impact research.

6 Since we have a unique opportunity
7 to establish some landmark research results to help
8 us understand the policy and economic impacts of
9 gaming in the years ahead, what information is key
10 to measuring our success in creating a vibrant
11 gaming industry; create jobs; generate revenue, as
12 well as minimize some of the unintended
13 consequences.

14 These two panels -- the first panel
15 here this morning -- bring together the architects
16 of the key studies that were the impetus behind the
17 bill's passage as well as additional policy and
18 academic experts to help us answer these questions.

19 I do want to note that, you know,
20 our interest in gaming input on this topic is not
21 limited to this one forum.

22 Certainly there are comments,
23 feedback, that we would welcome that you can
24 easily send to the Commission via our website,

1 mass.gov/gaming.

2 In addition, there were some
3 speakers and experts who were interested in talking
4 to the Commission at this forum but whose schedules
5 did not allow them to join us. We are going to
6 invite them to join us at our regularly weekly
7 Tuesday business meetings in the weeks ahead.

8 It's now my pleasure to introduce
9 our moderator for the first panel, Steve Norton,
10 who is the executive director of the New Hampshire
11 Center for Public Policy. Steve.

12 MR. NORTON: Good morning, and thank
13 you very much for this opportunity to facilitate
14 this panel. And thank you for the name plate.

15 We've got a great panel here. I'm
16 just going to introduce them briefly and get it out
17 of the way.

18 To my left is Clyde Barrow, who has
19 done a significant amount of work understanding the
20 market for gambling in the Northeast; and sitting
21 next to him are three gentlemen who were the
22 architects of the studies that helped inform the
23 legislative process that resulted in the extension
24 of gambling in Massachusetts.

1 Michael Pollock from Spectrum Group;
2 Carl, who produced a report for the Boston Chamber
3 of Commerce on the implications of casino gambling
4 in Massachusetts, and then Steve, also from The
5 Innovation Group, who has done extensive work in
6 evaluating expanding gambling across the country.

7 So with that I am going to step
8 aside and allow Clyde to jump up; and we will run
9 through each of the presentations and then give the
10 commissioners an opportunity to ask questions at the
11 end.

12 MR. BARROW: My presentation
13 probably will be a little bit different than the
14 other three. As it was pointed out, they actually
15 authored several of the studies that informed the
16 thinking of the governor; the House, and the Senate.

17 I wanted to address head on an issue
18 that I've been asked to address several times over
19 the last two to three weeks.

20 It seems that every day I get a
21 phone call from another medical outlet addressing
22 this thing called saturation.

23 And one of the things that puzzles
24 me about those questions is that each one who calls

1 me assumes that saturation is a problem.

2 By which they mean: Is there
3 actually a demand for three resort casinos and a
4 slot parlor in Massachusetts? Although I can assure
5 you the legislature and the governor did examine
6 that question quite extensively over the last five
7 years, I just wanted to briefly take my opportunity
8 to address this particular issue.

9 First, when I talk about casinos you
10 will notice I talk about the casino industry, and I
11 do that for a very specific reason.

12 We all know by this point that it
13 has been a very lengthy debate in Massachusetts; a
14 heated and controversial debate.

15 And one of the things I like to do
16 is to any extent that we can calm that debate is
17 back up and say, Wait a minute, this is an industry
18 because there are a lot of things that get discussed
19 as if they were somehow peculiar to the casino
20 industry when, in fact, most of the issues that we
21 face are very similar to any other large scale
22 economic development, whether it be traffic; water
23 and sewer; police and fire protection;
24 transportation improvements, and so forth.

1 And so really just to give you the
2 example, you may know that the U.S. Federal
3 Government maintains the North American Industrial
4 Classification System where every business
5 enterprise in the country is assigned a six-digit
6 code.

7 And the government uses that for
8 purposes of tracking the number of establishments;
9 total employment; total wages paid in various
10 industries in the United States.

11 Now, as you can see, that casinos,
12 or gambling, actually has its own code Subsector
13 713; and it's right there along 11 and 12 with
14 performing arts, spectator sports, and museums.

15 And you might ask yourself: What
16 could a casino possibly have in common with the New
17 England Patriots and the Boston Museum of Science?

18 And if you actually go read the
19 classification manual, their answer to that is that
20 they all produce a thing called entertainment or
21 recreation.

22 An intangible service for which you
23 pay, and when you leave, what you leave with is,
24 hopefully, a feeling of excitement overall, or as my

1 friends who paid \$2,400 for a Super Bowl tickets
2 learned, a considerable amount of disappointment if
3 your team loses.

4 So if we start from that perspective
5 that it's a business, I think we can then start to
6 address these issues from that perspective.

7 Now the casino industry in terms of
8 Class III gaming, right now in the United States 34
9 states have Class III gaming; it will be 36 with
10 Ohio and Massachusetts, has gross gaming revenues of
11 over 62 billion dollars per year, that includes both
12 commercial and Indian casino; 75 billion in total
13 revenues if you include the nongaming amenities such
14 as hotels, and it employs over 640,000 people in the
15 United States as of 2011. So, as you can see, it is
16 a big industry to say the least.

17 Now, a lot of attention has been
18 focused, of course, on declining revenues in
19 Atlantic City; the declining revenues on the Las
20 Vegas strip, and it's certainly the first time that
21 the casino industry suffered a downturn in the
22 recession that we now know as the Great Recession,
23 but paradoxically over the time there was a lot of
24 activity going on in the Northeast.

1 If we start the recession, which it
2 did begin in 2007, during that period, West Virginia
3 added table games at its four racetrack casinos;
4 Delaware authorized table games at its three
5 racetrack casinos as well as a sports lottery;
6 Pennsylvania opened nine slot parlors during that
7 period and then added table games; Rhode Island went
8 24 hours; Maryland opened a racetrack casino, which
9 is now two; and New York added three more casinos
10 including Empire City, which is the largest
11 racetrack casino in the United States today in terms
12 of gaming positions.

13 And even since that time we've seen
14 Resorts World open in Queens; the Revel open in
15 Atlantic City; that's the picture of it in the
16 corner; Valley Forge in Pennsylvania; the Horseshoe
17 in Cleveland, and Oxford Casino in Maine.

18 So there has been an enormous amount
19 of expansion right through the recession and its
20 aftermath, which my estimate is about 3.4 billion
21 dollars in new capital investments in the Northeast
22 in the industry during that period of time.

23 But, of course, what that's lead to
24 is a map which looks like this, which, as you can

1 see, there are a lot of gaming venues in the
2 Northeast, although, as you can see, there's this
3 kind of blank spot right there. Massachusetts,
4 Vermont, and New Hampshire.

5 But when people look at this map, a
6 lot of them say, Can there possibly be demand for
7 any more casinos? Surely the market is saturated.

8 Well, first off I want to ask: What
9 does "saturation" mean? Well, according to the
10 Dictionary of Economics, it's the point of a product
11 life cycle when the market has been completely
12 filled so that no more sales for goods and services
13 can be taken up.

14 Another word for that in economics
15 is equilibrium; when all the demand for particular
16 good or service has been met by the existing supply,
17 and so some people have been asking me the question:
18 Is there any unmet demand that Massachusetts could
19 possibly satisfy that would justify the building of
20 these three resort casinos and a slot parlor?

21 Well, the first way to address that
22 is: How many casinos is too many? And the first
23 thing I want to point out to you, I know you
24 probably can't read this slide, it's too small, but

1 the sheer number of casinos in itself is not the
2 issue.

3 You can divide up the market in a
4 lot of ways, and there are some states that choose
5 to go with smaller venues and other states that go
6 with much larger ones; but if you were to look at
7 South Dakota it has 35 casinos; Mississippi has 30
8 casinos; Iowa, 18 casinos; Louisiana, 18 casinos;
9 Missouri, 12; Indiana, 13.

10 So there are clearly states with
11 comparable populations, or even much smaller
12 populations, that have a large number of casinos in
13 them, so it only puzzles me when we agonize over is
14 three too many.

15 Now, another way to look at that
16 then, as I said, is you can break that market up in
17 a lot of different ways, and then you ask yourself,
18 Well, how do we distribute these slot machines
19 around the different facilities?

20 And one of the ways we look at this
21 is per capita population per number of slot
22 machines; and this is just sort of a sampling of
23 markets where we've looked at the population age 21
24 plus by select markets.

1 And, as you can see, sort of going
2 across the middle of that chart, places like
3 Michigan; Wisconsin; Missouri; Colorado; Indiana;
4 Minnesota, anywhere from about 200 to 250 adults per
5 slot machine in those markets; and where they have
6 both Indian and commercial casinos we have combined
7 those numbers to measure the total number of slot
8 machines in that particular market.

9 In New England right now we have 537
10 adult residents per slot machine within the existing
11 market, which means clearly we have people there in
12 much larger numbers than we do in other markets.

13 If we add machines, our estimate is
14 that that falls to about 377 adults per slot
15 machine, but that's still well above what you find
16 in existing markets, which it may surprise you to
17 know they generate over a billion dollar per year in
18 gross gaming revenues right now. A small farm
19 state.

20 So, clearly, there's the population
21 to support the level of machines that we're talking
22 about. And this estimate, of course, assumes that
23 Connecticut and Rhode Island will probably reduce
24 their number of machines as they lose business that

1 gets redistributed to Massachusetts.

2 It also includes the new casino that
3 just opened in Maine; that we incorporate its
4 expansion into that estimate, and we're taking,
5 essentially, an estimate that there would be 10,000
6 slot machines in Massachusetts.

7 It could go up or down a little bit
8 depending on the operators; but clearly we are not
9 out of line with other markets in terms of the
10 number of machines that are being proposed by the
11 existing competitors.

12 Now, Massachusetts is also in a
13 somewhat unique place within the context of the New
14 England market. First of all, it's where the people
15 live. We are almost half the population of New
16 England.

17 And if you look at this map,
18 obviously, the darker the blue the more densely
19 concentrated the population.

20 And, essentially, you can see that
21 area around Boston, the 495 loop, is the most
22 densely concentrated part of New England other than
23 the I84 strip running from Hartford to Stanford,
24 Connecticut. So this is where the people live and,

1 not coincidentally, it's also where the money is.

2 If you look at the distribution of
3 disposal personal income and how it's concentrated,
4 you can see the dark areas there concentrated in
5 that loop around 495, a very dense concentration of
6 income. The most dense concentration of disposable
7 income in New England.

8 In fact, in some of my testimony in
9 New Hampshire I refer to it as the Comstock Lode of
10 New England gaming; that there is money there to be
11 spent.

12 Now, how much money is there to be
13 spent? Well, this is sort of a very simplified
14 gravity model, if you will, that we would do it in
15 much greater detail if we were doing it for a
16 particular facility.

17 But if you look at disposable
18 personal income and the propensity to gamble in New
19 England right now, you can see that in New England
20 there are 641 billion dollars in disposable personal
21 income, and that number increases by 3 to 5 percent
22 every year, so we are adding upwards of 18 billion
23 dollars a year in new disposable income every year,
24 and that largely held true through the recession as

1 well.

2 Massachusetts alone, over 300
3 billion dollars. We account for 48 percent of all
4 of the disposable income in the New England region.

5 And if you look at what percentage
6 of money people spend just on casino gambling,
7 nationally last year residents spent about one half
8 a percent, .53 percent, of their disposable personal
9 income on casino gambling. It doesn't include other
10 forms of gambling.

11 And as you look at the different --
12 and that's down from .0061 throughout most of the
13 2000 during the economic recovery so it's a flexible
14 number, so if we use .53, half a percent, that's a
15 recessionary level of spending on casino gambling.

16 But you can also see, and the reason
17 I've ordered the states of New England in this way,
18 is you can see that the closer you get to a casino,
19 the higher that percentage goes.

20 In Rhode Island it's almost 1 percent
21 of disposable personal income, and that's down from
22 1.4 percent in 2006.

23 In Connecticut it's about at the
24 national average; Massachusetts half the national

1 average, and so forth as we go down through Maine,
2 New Hampshire, and Vermont. The further you get,
3 obviously, the less available product, the less you
4 will spend on it.

5 So how would that translate into a
6 New England gaming market? Well, if we use the
7 recessionary number for your wager .00532, it
8 generates an estimated gaming market of about 3.4
9 billion dollars just in New England. I'm not
10 counting what might be drawn in from tourists from
11 New York or other places.

12 If we subtract from that what is
13 already going to be captured by Maine, Connecticut,
14 and Rhode Island, that would leave an unmet demand
15 of about 1.1 billion dollars for Massachusetts.

16 However, we also know that we are
17 going to recapture some of what Massachusetts
18 residents spend in Connecticut and Rhode Island
19 right now.

20 Our survey research indicates that
21 67 percent of the State's gamblers tell us they will
22 repatriate that money within the first year of
23 opening casinos in Massachusetts. We've used a much
24 more conservative number of 60 percent.

1 We know that we will recapture
2 traffic that is leaving Maine, Vermont, and New
3 Hampshire because these are closer to them and we
4 know these gamblers would prefer the closest
5 comparable casino.

6 I'm going to argue that we are going
7 to capture new traffic from Connecticut, Rhode
8 Island, and New York for a couple of reasons.
9 Hartford is closer to Palmer than it is to Mohegan
10 Sun. And 77 percent of adults in New England do not
11 smoke.

12 And we are going to have the only
13 100 percent nonsmoking casino in New England, and
14 I'm going to argue that's going to be a positive for
15 this market that will attract people given that
16 opportunity.

17 That gives us a demand of 1.8
18 billion dollars. If we capture even a few tourists,
19 I am going to say 250,000 spending an average
20 amount, that's going to add to the market; and we're
21 a state that generates millions of tourist visits
22 every year.

23 So the demand, in my view, could go
24 as high as 2 billion dollars. If it returns to

1 .61, as it was during most of the 2000s, it could go
2 as high as 2.6, 2.7 billion as we build these out
3 over the next three to five years.

4 So I think there's plenty of market
5 demand to support the types of facilities that were
6 proposed in the legislation.

7 And they are going to end this by
8 responding to one thing because somebody is going
9 to say, Well, yeah, but you're a professor and
10 Sheldon Adelson said there's not enough demand to
11 support casinos and surely he knows more about it
12 than you -- knows more about that than you.

13 Well, actually, that's not what
14 Sheldon Adelson says. And if I quote him as he was
15 quoted in the newspaper, both here and in Las Vegas,
16 what he said was that the State's plan to license
17 three casinos and a slot parlor would dilute the
18 market. And that it was -- the multiple facility
19 didn't sync with his business model.

20 Well, first, dilution is a different
21 financial concept than saturation. It refers to the
22 amount of income that each equity holder would
23 receive, and, obviously, the more facilities you
24 have, the less income you are going to generate for

1 that particular stakeholder.

2 But what is his business model?

3 Well, not counting the casinos he's already built,
4 just looking at the ones that he's developing right
5 now, there has been a 4.4 billion dollars in the
6 Central Cotai development in Macao; 20 to 35 billion
7 dollars to create, essentially, the Atlantic City of
8 the Mediterranean; 4 billion to New York City,
9 potentially. They're talking about 3 billion in
10 Miami.

11 So, obviously, if you are going to
12 build a facility of that magnitude, you would need a
13 monopoly over the State of Massachusetts, which is
14 exactly what he said to the legislature as I was
15 sitting three feet from him in March of 2007.

16 In other words, it's not that there
17 isn't demand, it's that there isn't sufficient
18 demand to justify a 3 billion dollar facility unless
19 you have a monopoly on the Massachusetts market,
20 which we chose not to do.

21 And by comparison, as you can see
22 based on the current proposals, the mandatory
23 minimum in Massachusetts would be 1.6 billion in
24 investment divided among the four facilities

1 combined.

2 Given the current proposals, it
3 might go as high as 2.3 billion, but even all four
4 facilities combined wouldn't be equal to the
5 smallest thing being considered by Sheldon Adelson
6 at the current time.

7 So what he did say, it's like,
8 there's just not enough to justify a 20 percent
9 return on the money we need to build the kind of
10 integrated resort we're specialists at.

11 So I would just caution you that
12 that's what Ed (sic) Sheldon really says. Thank
13 you.

14 MR. POLLOCK: Thank you, Steve. And
15 it's nice to follow Clyde; whose had a lot of
16 experience in doing that.

17 I'm Mike Pollock, managing director
18 of Spectrum Gaming Group; and I do want to state at
19 the outset that we are currently engaged by the
20 Massachusetts Gaming Commission. We're also engaged
21 by the Massachusetts State Lottery Commission. Most
22 of our work is for government.

23 We do research with respect to
24 gaming. We're not pro-gaming; we're not

1 anti-gaming. We simply do research that focuses on
2 gaming.

3 Does that mean we do not have a
4 bias? I think if we had a bias it would be -- we
5 would consider ourselves to be pro-regulation,
6 pro-effective regulation, because in our experience
7 that makes all the difference.

8 Now, we did work in 2008 for the
9 governor's office, and we followed that up in 2010
10 doing work for the legislature.

11 And this slide essentially shows
12 where we were in 2010, which was an update of our
13 2008 study.

14 And what we did in both of those
15 studies, to avoid any appearance of favoring any
16 potential applicant over another, was to take the
17 three regions as defined; take the geographic center
18 of each one and assume a destination casino in each
19 of those.

20 Now, I do want to point out one of
21 the essential differences between 2008 and 2010 and
22 where we are in 2012 is that we did not anticipate,
23 nor did we model in, a Class II slots facility into
24 this. This is three destination casinos as Class I

1 facilities.

2 What these lines show, I don't know
3 how clearly you can distinguish them, but they are
4 two-hour drive times from these hypothetical
5 facilities.

6 And you can see there's some
7 significant overlap in those drive times. So
8 what -- we compare the 2008, 2010, and essentially
9 adjusted for inflation and put them all in, at this
10 time, 2010 dollars to get apples to apples.

11 Bear in mind, when we did our
12 projections we do not take, nor would we suggest
13 anyone take, the first year revenue as we are
14 looking at.

15 We looked at what we term year
16 three, so the third year of a casino's operation,
17 which is the year in which they have effectively
18 ramped up their marketing; they've got their
19 database in place; they know who their customers
20 are, and it's a much more reliable measure as to
21 what they can do.

22 And you can see that there really
23 wasn't much difference. We're looking at
24 essentially, based on that modeling as done, about a

1 1.5 billion dollar market. And I think that fairly
2 well conforms with what Clyde had just done.

3 And we anticipated that that would
4 repatriate. Again, we're fairly close to his 60
5 percent mark; but we have a higher number of about
6 600 million in dollars currently being spent by
7 Massachusetts residents at casinos elsewhere. We
8 define "elsewhere" as not just in the region but
9 going to Atlantic City; going to Las Vegas, and
10 elsewhere.

11 Now, this slide shows the growth in
12 the -- the Northeast market is the top left -- most
13 of that growth is attributable to, essentially, the
14 addition of new properties.

15 We defined the Massachusetts
16 competitors in this context; essentially it's
17 Connecticut, Rhode Island, and Saratoga in New York.

18 And this is a very interesting
19 slide, and it does show a toboggan ride for Atlantic
20 City. And you can see the growth in Eastern
21 Pennsylvania.

22 And while they do conform with each
23 other, it's not necessarily one is rising at the
24 expense of the other, that is a critical factor, it

1 also reflects to a great degree the impacts of this
2 major recession over the last several years, which
3 probably accounted for, in the studies we have done,
4 about half of the decline in Atlantic City.

5 The other half of the decline was
6 for gambling in other communities, mostly Eastern
7 Pennsylvania, but increasingly New York and in other
8 markets.

9 Aside from the economic projections,
10 the 2008 report that we did for the Commonwealth,
11 there are several themes that I think are just as
12 valid as we sit here today as they were in 2008.

13 Public policy -- the goal -- one of
14 the critical goals of public policy should be to
15 maximize the capital investment in those facilities
16 and, two, that a robust, comprehensive bidding
17 process be established.

18 And that is essentially -- not every
19 state does that, and we think that that's an
20 essential step in the process towards making sure
21 that casinos work in the public interest as much as
22 possible.

23 We also noted in that report, and
24 it's certainly true today, that when you are

1 granting a fixed number of licenses, you are
2 essentially telling these private industries that,
3 We will give you a regional monopoly.

4 And to quote that report, when you
5 give someone a regional monopoly, they have a
6 condominant responsibility to make sure that they
7 are acting in the public interest.

8 But having said that, it works best
9 when you define and look for areas where -- when
10 they are acting in the public interest but also
11 acting in their own interests. In other words, they
12 are not necessarily contradictory to each other.

13 When an operator maximizes capital
14 investment but they get a return on that investment,
15 that can be structured, it should be structured, to
16 work in the public interest.

17 Now, there are several universal
18 truths as I termed them in gaming. I have been
19 studying gaming markets, multiple gaming markets,
20 for 34 years now; and one of the things that I've
21 learned is that there is limited value in studying
22 multiple gaming markets because they are all
23 different.

24 The political considerations are

1 different. The competitive landscape is different.
2 The regulations are different. The demographics are
3 going to be different. So you have to keep that in
4 mind.

5 Having said that, another universal
6 truth is that it requires a significant community
7 commitment in every aspect, however you define that.

8 And it does work best when there's
9 an existing tourism infrastructure. If you look at
10 a market like Atlantic City, for example, where
11 there's a beach and so forth, it would work better
12 than many of the properties in Indiana where the
13 infrastructure is abandoned steel mills.

14 Inevitably it fosters unrealistic
15 expectations in both directions. People don't know
16 what to expect, so consequently what they tend to
17 expect often tends to be unrealistic.

18 And it could be unrealistically
19 optimistic; it could be unrealistically pessimistic.
20 But quite often they're unrealistic.

21 Another important point is that the
22 impacts of gaming, particularly if it's successful,
23 if it meets your goals and it's operating
24 efficiently, by definition the impacts are going to

1 extend far beyond the immediate area; far beyond the
2 host communities, and that is often overlooked.

3 So what is the formula for success?
4 Again, effective regulation; planning; free market
5 forces, and keeping your expectations realistic.

6 Effective -- I want to point out
7 this slide has probably been constructed 15 years
8 now, 15 plus years now, long before Massachusetts
9 was even contemplating, seriously contemplating,
10 casinos.

11 And I will state that I think the
12 process as unfolding in Massachusetts clearly does
13 reflect this, and I don't say that because they're
14 our client, I say that because it's the truth; that
15 there is a sharp and unwavering focus on integrity.
16 Everything else stems from that.

17 The confidence of the capital
18 market; the confidence that the gaming public has in
19 the industry requires that.

20 You start strict and over time as
21 you gain confidence you can peel away regulations.
22 It doesn't work very well in the opposite direction.

23 So the challenge to the public
24 sector in general: You can set rules that encourage

1 investment by maximizing the potential return. You
2 can set rules that protect existing small
3 businesses. You can set the tax rate at the highest
4 possible level. But there's no way you can do them
5 all.

6 And I think that's clearly a lesson
7 that Massachusetts has learned because the tax
8 rate -- if you look at how tax rates have trended
9 over the years in multiple states, they've gotten
10 the message.

11 And the tax rate here is much more
12 conducive to effective capital investment --
13 effective levels of capital investment.

14 So you have to establish your
15 priorities. So, again, gaming has to be part of the
16 tourism infrastructure. It should work in tandem
17 with other businesses.

18 Not because that's good public
19 policy, which it is, but also because it's good
20 business.

21 Whatever those other industries
22 might be, be they restaurants; be they hotels; be
23 they other facilities dependent on conventions and
24 meetings and other -- or spending of discretionary

1 income, and it requires effectively proper planning
2 because gaming should serve as a catalyst for
3 tourism, and that -- I'm not focused here on so much
4 on saturation; but, clearly, there's two ways that
5 you can effectively deal with saturation, and I
6 think this compliments what Clyde said.

7 One is that you want a business
8 model that goes beyond the core gaming central
9 customer because in addition to looking at slot
10 machines per population, you have to look at the
11 type of facilities that host these slot machines.

12 The core gaming center population
13 maybe represents about 20 percent of the adults in
14 any given area.

15 And when you put more capital
16 investment in, you can go beyond that 20 percent to
17 the 80 percent.

18 And you also -- one way to deal with
19 saturation, or the concerns about saturation, is to
20 endeavor as best as you can to bring in tourists and
21 gamblers from other areas.

22 So the unrealistic expectation that
23 gaming can miraculously solve everything just by
24 legalizing it, and that the government's job is

1 finished after the legalization of casinos, and
2 we've seen this and I've documented this in multiple
3 data; I have seen it the hard way. The government's
4 job is effectively just beginning once you legalize
5 casinos.

6 And the notion that an existing
7 local population has an automatic edge, again, what
8 do I mean by that?

9 What I mean by that is that you're a
10 community that expects, or hopes, to get a casino.
11 You may say, This is going to be good for me for any
12 number of reasons; and it may very well prove to be
13 true.

14 Tomorrow I decide to move into that
15 community and I decide I want to compete against
16 you, I may compete against you for a job, and I may
17 have more relevant skills. I may compete against
18 you in business. You might be a pharmacist. You
19 may be a law firm; a shoe store, whatever it might
20 be.

21 And I come in -- a restaurant. I
22 come in and I've got a better brand; better capital
23 investment; better business plan. You can't
24 necessarily assume that just by being there in a

1 community today automatically gives you an edge.
2 That's what I mean by that.

3 So, essentially, keep the
4 expectations realistic. By definition if you have a
5 successful casino, there's going to be traffic. You
6 can't have it both ways.

7 And both winners and losers will be
8 created. You're creating a competitive situation.
9 You're enhancing the competitiveness in multiple
10 industries, and you have to expect that and prepare
11 for that.

12 And I do want to point out in
13 closing that I am familiar with the people from
14 Atlantic Cape Community College who are coming here
15 to help train and plan an event, and that's
16 precisely what you need to do.

17 If you do want to give your local
18 population an advantage -- your existing local
19 population an advantage, one critical way of doing
20 that is to make sure that they are trained in
21 advance for the jobs that will be created. And with
22 that I thank you.

23 (Applause.)

24 MR. JENKINS: Good morning, my name

1 is Carl Jenkins. First of all, I would like to
2 thank the Commission for inviting me to speak today.

3 I was a co-author of the Boston
4 Chamber of Commerce's report back in 2008, and I
5 testified several times in front of the various
6 committees at the State House; but I haven't been
7 asked a lot since then.

8 And this is a great opportunity to
9 take a look at what I had done and see how much of
10 it still relates to what happened after going
11 through one of the larger recessions that we've had
12 and do some of the assumptions still hold. And I
13 will get to that in a second.

14 One of the things I want to start
15 off with, though, is I am a CPA, and I'm going to
16 let you make the determination whether that's good
17 or bad as far as this presentation goes.

18 But I do look at things maybe a
19 little bit differently than others do. I did look
20 at this -- actually, as Professor Barrow has pointed
21 out, I look at this as a business plan.

22 The fact that it was a casino was
23 not really the overriding issue. What the issue was
24 in putting together any business plan: Can you

1 identify and tie down as many assumptions as
2 possible in making a set of projections?

3 And, of course, the problem with any
4 set of projections, the minute you change any of the
5 underlying assumptions, those projections will most
6 likely change, so we have to keep that in mind.

7 So a couple things that we looked
8 at, we looked at the demand for casino -- actually,
9 in any business plan, you look at the demand for
10 casino gaming, or business gaming. We looked at the
11 potential gaming revenue.

12 And, in this case, when you look at
13 that, typically you will be looking at it from the
14 investor's perspective. We considered the
15 Commonwealth to be the investor.

16 So when we are talking about
17 potential gaming revenue we are actually in the end
18 sort of figuring out what the Commonwealth could get
19 from that revenue, and then we did look at, to the
20 extent possible, the socioeconomic effects.

21 Things we looked at at the time
22 since we didn't have casinos in Massachusetts -- and
23 one of the best ways for any business to make a
24 determination on what the possible projections would

1 be is to take a look at what new businesses like it
2 are doing in other places.

3 And as we just heard, the definition
4 of "similar" or "the same" is very difficult to tie
5 when you are looking at different geographic
6 regions; obviously different investment levels;
7 different designs; different assumptions, and going
8 into the specific location.

9 So it is not a perfect analysis, but
10 it's the best we could do. And what we determined
11 in taking a look at what we consider to be
12 comparables is that for the most part we focused on
13 Connecticut, and there were a lot of reasons.

14 Connecticut has similar
15 socioeconomic factors as Massachusetts does. It has
16 very similar average income; average home prices;
17 average levels of education.

18 It actually ended up, I think, as
19 good a model as you are going to be able to get.
20 Also, it's roughly in the same geographic region,
21 which, obviously, is important.

22 So we also did some other things.
23 We actually did interviews with policyholders,
24 policymakers, and stakeholders. We actually did

1 talk to quite a number of people in Massachusetts to
2 get their take on what it would mean both from an
3 economic, political, and a socio -- sociological
4 perspective.

5 And then, of course, we put together
6 our forecasts and projections. And, again, you
7 change any assumptions in a forecast or projection
8 and you are going to see a change in the end result.

9 So sort of an obvious conclusion is
10 the revenue will be dependent on the specific
11 circumstances of the particular region and the type
12 of development. That is a huge statement.

13 Basically what we are saying is that
14 you're not going to be able to make a final
15 determination as to what your revenue is going to be
16 until you make a determination about where it's
17 going to be and what type of development it's going
18 to be.

19 And I think this is an assumption
20 that I've been reading about, a lot of people don't
21 quite get, is that if we are changing the type of
22 development, you can't expect the same type of
23 revenue assumptions that any of us are talking
24 about.

1 And so when we -- when decisions are
2 made about the type of development and its location,
3 you've got to carry that out and look at the five
4 assumptions about what the expected revenue would be
5 from those changes.

6 And I will give you a couple --
7 the -- these are -- the fundamentals of the analysis
8 focused on the origins of revenue.

9 And so far what we have heard, and I
10 think everybody is saying the same thing, which is
11 that the destination affect -- and that is bringing
12 revenue to the region from other places that we
13 would not have already had.

14 This is obviously the best type of
15 revenue that we could expect; that any investment
16 could expect. And this is new revenue. We wouldn't
17 have had it before.

18 And often this is considered to be,
19 for example, people that are just coming from either
20 on vacation; from out of state; out of country.

21 The recapture effect is what we've
22 been talking, a little bit what we have heard about,
23 and that is bringing current levels of spending from
24 out of state back into Massachusetts.

1 Now, that's obviously very good
2 revenue, too. It's a revenue that is actually --
3 it's money that's actually already being spent in
4 other locations, and we are just simply saying, We
5 want it back here.

6 That probably is some of the safest
7 level assumption because we already know that money
8 is being spent.

9 We can argue about what the amounts
10 are. We can argue about what the final amounts that
11 are going to come back are going to be, but I think
12 it's safe to say we've got a pretty high level of
13 confidence that some of that money is going to come
14 back to Massachusetts if we have casinos here.

15 The third is the substitution
16 effect, and this is the least beneficial source of
17 revenue.

18 This is -- what this is saying is I
19 could go to, for example, a slot parlor or I can go
20 to a movie. In the end, we are not producing any
21 new revenue. We're just simply changing where the
22 revenue is being spent; where the money is being
23 spent.

24 Instead of one source of

1 entertainment, it's now going to be at, for example,
2 a slot parlor. That doesn't add any new --
3 necessarily any new revenue to the economy, and
4 that's the area that most people have a problem with
5 because somebody is going to suffer from that.

6 So let's talk about destination
7 casinos. We are hearing that all the time. People
8 are talking about it. What does it mean?

9 Let me tell you what it meant to me.
10 A destination casino, the model that we were looking
11 at, is what we have in Connecticut.

12 It's -- we're talking about golf
13 courses; spas; restaurants; shops; lots and lots of
14 amenities; shows, and obviously gambling.

15 All destination casinos are not the
16 same. If we start changing the model about what a
17 destination casino would look like, for example,
18 it's not going to have a large hotel; it's not going
19 to have golf; it's not going to have many of the
20 amenities that we are looking at in Connecticut,
21 then it's not the same destination casino that we
22 were thinking about when we did our report.

23 And if it's not the same type of
24 destination casino, then our assumptions regarding

1 potential revenue are going to change.

2 We talked about three destination
3 casinos in different regions, and we also did not
4 consider tribal casinos.

5 I think we are hearing that others
6 did not consider the impact of tribal casinos. And
7 part of that is because we wouldn't have information
8 from the tribal casinos. We don't know where
9 they're going be. We don't know their sizes.

10 They don't have to necessarily be as
11 communicative as other investors might be in their
12 own types of casinos, so in -- even Connecticut,
13 sources of tribal revenue are not necessarily
14 publicized, so it's not -- it's very difficult to
15 determine what the impact would be on the tribal
16 casinos other than that they had the potential to be
17 more than three.

18 We also did not include the slot
19 parlor, which is the Category II. We just
20 considered the three destination casinos.

21 From my perspective, the slot
22 parlor -- it probably had the greatest propensity to
23 come up with the substitution of revenue.

24 In other words, instead of going

1 here we're going to go to a slot parlor.

2 One of the slot parlors do exist in
3 Rhode Island. They are somewhat stand-alone. They
4 are not considered to be destination casinos. And
5 we actually have some; we did use some of that as
6 modeling.

7 And the concern that I have, of
8 course, is if you put a slot parlor anywhere near a
9 destination casino, we're actually going to be
10 actually competing against ourselves in some degree,
11 so I think that's something that needs to be
12 considered.

13 One of the things that I looked at
14 to see what has changed in the report, and sort of
15 very happy to note, to see, that some of the major
16 assumptions actually are still very supportable.

17 One of the things that we looked at
18 was what Massachusetts residents were spending in
19 Connecticut; Maine, or Rhode Island back in 2008.
20 And it was roughly 800 million. Current reports put
21 it over 900 million.

22 So even though we went through a
23 recession, we are actually seeing even more spending
24 from Massachusetts residents at out-of-state

1 casinos.

2 On the other side of the coin, our
3 report assumed that there was going to be an initial
4 license fee of 200 million dollars.

5 And it's important to note that
6 that's the initial license fee. It doesn't mean
7 that will be the final license fee.

8 But the actual -- we are looking now
9 at 85 million for Category I and 25 for Category II.
10 Now, obviously, that's less than the 200 million
11 that we had put in the report, but it doesn't mean
12 that that's going to be the final number.

13 On the other hand, there was
14 significant debate about asking for too much money
15 as an initial fee because that would put a pressure
16 along with the gaming tax on possibly making it more
17 difficult for owners to put capital improvements
18 back into their facilities; to expand them when
19 needed; keep them updated and so forth.

20 Obviously, the more money that goes
21 out, the less money that's available for
22 reinvestment, so -- which brings us to another point
23 which is that when we are looking at locations for
24 casinos, I don't think anybody would assume that the

1 day the casino opens that it's going to meet its
2 ultimate revenue goals and that there needs to be
3 some consideration for both capital improvements and
4 expansion.

5 And I would argue that depending
6 upon where they go, room for expansion should be
7 considered, or else potentially we are going to put
8 a cap on the revenue that could be earned in any
9 given location.

10 The gaming tax, we had assumed 27
11 percent. We see that it's a little lower for the
12 Category I, which is the destination, and there's 40
13 percent for Category II, which is the slots.

14 I don't see that as a huge -- as a
15 huge problem. That actually -- that 25 percent puts
16 us somewhere right in the middle of sort of the
17 reasonable area nationwide as far as what gaming
18 taxes look like.

19 The argument is, again, if the
20 gaming tax is too high, there's less money available
21 for reinvestment.

22 It goes without saying that the
23 combination of the gaming tax and the estimated
24 revenue from gross gaming revenues from the casinos

1 is the basis by which the Commonwealth is going to
2 make a determination on how much they are going to
3 get on an annual basis.

4 The projected revenue, I'm
5 actually -- I'm sticking by my number. I used a
6 number of 2.15 billion.

7 Based on what I heard from,
8 actually, the two gentlemen before me, I think not
9 only does it fall right between the two of them, I
10 don't see any reason why it could be -- it's going
11 to be significantly different.

12 It may be a little less; it may be a
13 little more, but I think we can agree that it's
14 somewhere in that range, and that is certainly a
15 market big enough to be able to make an attempt to
16 capture some of it for the benefit of the
17 Commonwealth and the citizens.

18 One of the things that we looked at
19 was employment, and we hear a lot about that. And
20 the only thing I've got to go by and what the real
21 numbers of what it could be is what the proposal was
22 for the Revere casino.

23 And their estimates were 4,000 for
24 the casino and 2,500 for construction jobs. Now, at

1 first glance was, oh boy, that's way off on what we
2 had estimated.

3 On the other hand, we were
4 estimating a billion dollar investment in the
5 first -- in the first casino, and I believe the
6 estimate is 500 million.

7 So the actual investment is somewhat
8 less than what we had anticipated it was going to
9 be; and if it's less, the assumption is going to
10 be that it will take less people to build it and it
11 will be -- and it's going to be a smaller facility
12 so there will be less people working there.

13 And, actually, when I did the math
14 it works out; that that's actually almost exactly
15 using the same estimates that I did. It's just a
16 smaller -- a smaller entity.

17 And then, finally, we tried to look
18 at many of the social impacts as we could. It's
19 sort of a moot point at this point because the law
20 has passed. I think we've heard it before. There
21 are going to be problems and there are going to be
22 benefits.

23 I think in any of these
24 considerations the effort is going to be to just

1 making the problems as minimal as possible and
2 addressing them; and that's what I believe is part
3 of the law, what it includes. So that's me and
4 that's it. Thank you.

5 (Applause.)

6 MR. SZAPOR: Good morning. I would
7 like to thank the Commission for the opportunity of
8 being a part of this panel.

9 In going fourth, you always worry
10 that your presentation is going to come up and be
11 materially different from the other three
12 presentations; but you'll see our numbers and the
13 process we took are a little bit different; but our
14 numbers, both in terms of potential revenue and job
15 creation, are very consistent with the other studies
16 that you've heard this morning.

17 A little bit, my name is Steve
18 Szapor. I am president of The Innovation Group.
19 We're actually a group of companies that include a
20 full-scale investment bank; venture capital;
21 construction management company, Innovation Project
22 Development.

23 And we do a variety of work for
24 government; public and private companies; financial

1 institutions in the gaming and resort industries.

2 I want to talk a little bit about
3 our engagement and compare that to what -- the final
4 bill and show a little bit of similarities and
5 differences; but we were engaged by the
6 Massachusetts Senate in 2002 to evaluate the
7 opportunity here in Massachusetts and really our
8 scope of work included a couple of things.

9 Evaluate state-wide revenue
10 estimates under seven different scenarios. And,
11 again, the modeling process we took are very
12 consistent with some of the other processes you have
13 heard here. Excuse me (clears throat.)

14 But we also engaged to take a look
15 at the tax and regulatory review really from the
16 perspective of tax structures and what type of
17 upfront fees and tax structures might be appropriate
18 to attract the kind of capital to build a
19 destination type of resort, and then, two, eliminate
20 economic impact analysis.

21 And, really, that was focused on
22 direct and indirect job creation; the fiscal impact
23 to proposed licensing fees and gaming taxes, as I
24 mentioned, and, lastly, evaluation of the potential

1 impact that gaming might have on the Massachusetts
2 Lottery.

3 Obviously the Commonwealth has a
4 very successful lottery program, and so we took a
5 look at other jurisdictions and the impact that
6 gaming has had on their lottery component.

7 I believe they got the key
8 assumptions that we used in our report and spoke --
9 and request -- and actually we got to see how they
10 compare, but, you know, we assume that the regional
11 competition would continue to evolve.

12 Yes, it is competitive and there's
13 more opportunities here, but I think our conclusions
14 are very consistent with what you've heard this
15 morning; that there still is an unfilled demand up
16 here in New England given the amount of population.

17 We assumed that the Aqueduct would
18 be open; Oxford, Maine would open and, actually,
19 table games would be introduced in Rhode Island.

20 We also assumed that the economy was
21 slowly recovering through the projection period; and
22 I think one of the most important aspects was the
23 tax rates established are conducive to attracting
24 capital investment for gaming facilities.

1 And so, therefore, we used a flat 27
2 percent tax rate and that basically a 32 percent
3 overall effective tax rate when you take into
4 account levies to fund other programs.

5 And so I think as Mr. Pollock said
6 before, you know, that, basically, a 30 to 32
7 percent effective tax rate is a lot lower than some
8 other recent states have implemented, but it really
9 is important to be able to provide potential
10 developers and operators the appropriate return and,
11 therefore, set tax rates that can attract the
12 capital they need.

13 We also suggested up-front license
14 fees or assumed up-front license fees of 75 million
15 depending on -- for a Western Massachusetts license
16 and, again, this is based upon the revenue forecast
17 we came up with and the impact on the development
18 cost and the ability to raise capital again.

19 You know, those up-front fees go
20 into the overall cost of the project and financing
21 sources are going to look at them as the cost of the
22 project.

23 We also assumed smoking would be
24 allowed on 25 percent of the casino floor. I think

1 our firm differs a little bit with one of the other
2 conclusions made here this morning that in a totally
3 nonfree -- a nonsmoking casino, that there will
4 be some impact, although we don't think it will
5 be -- we think that impact would be modest.

6 But given the fact that you have
7 competitors in the region that do offer that, there
8 will be some impact.

9 We also assumed that there would be
10 only one destination resort license per region. I
11 think, again, this reduces a competitive risk and
12 would encourage investment.

13 And in terms of -- since we did not
14 have a specific place in mind or a place that was
15 developed, we had to develop a range of estimates
16 for each scenario we did.

17 And we did that by selecting
18 plausible locations, and there were no specific
19 locations in mind. We just picked geographic areas
20 that we thought had reasonable access to
21 interchanges and things of that nature and came up
22 with a low and high range.

23 And, again, I think our sources of
24 visitation and revenues are consistent with what

1 you've heard here today.

2 You know, we took a look at the
3 local market, both what would be induced by new
4 gaming -- casino gaming here in Massachusetts, and
5 then, also, what would be recaptured from
6 surrounding states and then, again, the tourist
7 market.

8 One of the assumptions we made is
9 that the facilities would be opened by January of
10 2014, but really the first stabilized year would be
11 2016.

12 And I think of the seven scenarios
13 we analyzed, and, again, the different scenarios
14 were based upon number of licenses; would tracks
15 have slots or not.

16 We did have, actually, a couple of
17 scenarios that were very close to what the bill came
18 out to be and that was our scenario 4A and 5B, which
19 was one destination resort in each of the three
20 regions and then a number of lots with a couple
21 different tracks.

22 Our scenarios did not exactly line
23 up to what was eventually passed but came very
24 close.

1 And I think from the gaming revenue
2 perspective you can see we came up with a low range;
3 again, "low range" being, you know, a location that
4 is not very conducive, or top of the line, I guess
5 you could say, to about 2.1 billion, again, assuming
6 an optimal location for those -- that destination
7 resort.

8 We also came up with total direct
9 and indirect job creation of between 15,000 and
10 20,000, again, is pretty consistent with what you've
11 heard here this morning.

12 I think we -- again, comparing our
13 engagement and our outcome to the final bill, I
14 think the key aspects regarding effective tax rate,
15 the geographical regions, and the limits and the
16 license are generally consistent.

17 Competition in the region continues
18 to evolve as expected. New Hampshire is a wild
19 card. We know that there has been a lot of I-gaming
20 initiatives out there.

21 We don't believe that that impacts
22 this situation here as the I-gamers and social
23 impact -- social gamers, both generally will be
24 added, but we think the process -- so I don't think

1 that impacts our conclusions here.

2 The industry overall continues to
3 rebound. I think given the delay in what our report
4 assumed, the facilities are not likely to be open by
5 2014, although I think that doesn't skew our
6 numbers, it just pushes it out a year.

7 And then, obviously, what came out
8 of the bill was a Class II RFP process and potential
9 location.

10 Yes, that could impact destination
11 resort applications and the scope of the planned
12 projects depends on where that is.

13 You know, I think the financing
14 market specifically will view that slot/track, while
15 having a limited number of licenses, they are going
16 to look at other jurisdictions and say, That's only
17 a start.

18 You know, slots at racetracks have
19 expanded, they have grown to table games, so I think
20 where that license is put could have some potential
21 impact on the other destination resorts and the
22 applicants for that given that consideration.

23 I know this is probably the next
24 panel; but we were asked to give our general

1 thoughts on this and that is: How should the
2 Massachusetts Gaming Commission prepare for the next
3 step?

4 And I think -- you know, you
5 obviously have heard this morning the Commission is
6 going to have a meeting to develop the appropriate
7 resources to evaluate the candidates and award
8 licenses.

9 And there are plenty of benchmarks
10 and best practices out there in the industry to
11 insure a strict yet efficient system for a
12 reasonable turnaround in a license application.

13 I think the Commission is going to
14 have to evaluate in-house -- building an in-house
15 infrastructure; use third-party industry support
16 because they are going to need expertise in
17 construction; expertise in operations; financing;
18 traffic as well as economic analysis to really
19 evaluate these situations.

20 The RFP process is important. I
21 think it's -- the right information needs to be
22 requested and it needs to be fair and comprehensive.

23 The Commission is going to have to
24 evaluate market assessments. You know, are the

1 revenue assumptions and estimates that they are
2 providing achievable and based upon reasonable
3 assumptions.

4 You've heard four different firms
5 here give our thoughts on the marketplace and
6 assumptions, and the Commission is going to have to
7 evaluate all the candidates' responses and,
8 especially, specifically regarding location and
9 their suggestions and their -- and the presence of
10 their facilities.

11 Are the operating cost estimates in
12 line with industry standards and dynamics of the
13 office. And that comes down to everything like
14 wages and benefits. Excuse me (coughing.)

15 Economic impact analyses, are their
16 input/output models sound? You know, you have to
17 evaluate direct and indirect employment both during
18 construction and ongoing operations.

19 I am going to run through these
20 quickly because my voice is giving out. Municipal
21 local impact and the substitution impact, you have
22 heard some of that; traffic studies and impact;
23 social impact.

24 You know, crime. How are you going

1 to evaluate that as well as the problem gaming
2 initiatives. Our programs -- they put programs in
3 place to lessen the impact.

4 Really, I think one of the thoughts
5 right now is for the Commission to establish those
6 baselines today so that they can evaluate going
7 forward what those impacts would be and agree on the
8 formulas, the models, and the process to ensure good
9 data comparison so you can really evaluate the
10 impact that is going forward.

11 Environmental impacts. I think on a
12 development construction job it is very important.
13 I have seen in the industry where a lot of projects
14 have gotten themselves into trouble by being
15 overbudget or timelines for construction being
16 unrealistic, so the Commission is going to have to
17 evaluate whether the described projects can be
18 delivered within the proposed budgets. Can they be
19 delivered within the timeline?

20 On the financing side of being able
21 to evaluate the financial strength, you know, of
22 these applicants; their balance sheet. More
23 importantly, their ability to raise funds in today's
24 marketplace, you know, based upon either their

1 financing history or their capital structure.

2 And then is the equity capital
3 commitment available and the debt financing sources
4 and assumptions that they use in their applications,
5 are they reasonable and achievable in today's
6 marketplace.

7 And, finally, I think management and
8 marketing plan. Most of the people who are
9 applying, I assume, are going to have experience in
10 operating casinos; but really do their marketing
11 plans articulate a sound strategy that is predicated
12 upon creating a destination resort and not just
13 marching to the global market, but being able to
14 attract tourists and conferences and attendees from
15 outside the area.

16 And, finally, do the plans
17 adequately describe the cross-marketing efforts with
18 lottery and tourism that the bill prescribed?

19 So, again, there is going to be a
20 lot of issues that the Commission is going to have
21 to evaluate in this process and a lot of resources
22 they are going to have to apply against it.

23 And that's it. I apologize for my
24 voice just running right down there at the end.

1 MR. NORTON: Thank you.

2 (Applause.)

3 MR. NORTON: Thank you, panelists.

4 We are going to take a few questions. Oops. Take
5 your notes.

6 I am just going to take a moment to
7 highlight while the commissioners get their thoughts
8 together about questions that they might have; just
9 to feedback what I think we heard.

10 Economists, and I'm not really
11 trained as an economist, but I pretend to be one at
12 times, tend to think in these very complicated ways;
13 but, really, what we are hearing is very simple and
14 that is that -- and you can trace it back to the map
15 Professor Barrow brought, which I'm trying to find
16 which I cannot now, showing no casinos within the
17 boundaries of Massachusetts, Vermont, and New
18 Hampshire; being a blank hole.

19 And that there's a market there and
20 it's critically dependent on three factors. One,
21 your ability to bring people back into your
22 communities to gamble; two, increasing the
23 propensity of gambling through those people in your
24 communities; two, minimizing -- three, minimizing

1 the substitution effect, and, four, bringing people
2 from outside our existing concept of the market here
3 into Massachusetts.

4 At a very simple level that's how
5 each of these individuals and how we, in my own
6 work, define markets.

7 And so as the Commission looks at
8 markets, those are the critical assumptions that
9 they're going to have to evaluate going forward, I
10 think.

11 Do you have a specific question that
12 you would like to raise, or shall I -- I'll ask one
13 first.

14 What strikes me about the work that
15 you've all done is that it hasn't changed so much
16 from 2008 but there a lot of afters and changes
17 which could occur which would then surely impact on
18 an untested market.

19 No. 1, it's probably difficult for
20 me to imagine a scenario in which Connecticut does
21 not respond to an expansion in Massachusetts.

22 It's difficult for me to imagine
23 that New Hampshire will not try and respond in a
24 situation in which Massachusetts creates something

1 in the Northeastern part of Massachusetts.

2 Could you respond to how that might
3 affect your understanding of markets for
4 Massachusetts? Please jump in. Anyone.

5 MR. POLLOCK: I'll start.

6 MR. NORTON: Actually, the
7 microphone is not on.

8 MR. POLLOCK: We are happy to note
9 that we were the lowest in the estimates, which is
10 the reason we are doing our job correctly. You try
11 to be conservative, but there --

12 COMMISSIONER ZUNIGA: The mike is
13 not on.

14 MR. POLLOCK: The mike is not on.
15 How's that? Okay. Again, that we were the lowest
16 in the estimates, which I take as a point of pride
17 that you try to be conservative.

18 But it would be foolhardy not to
19 take into account the possibilities -- we don't know
20 what they are going to be, but you have to assume
21 the possibilities of expansion elsewhere, and it's
22 simply not good public policy from a public sector
23 or a private sector to have your fingers crossed and
24 say, I hope they don't expand elsewhere or that I

1 hope they don't respond.

2 But the best way to respond, the
3 best way to anticipate, is to compete on the basis
4 of the quality of the facility and the quality of
5 the amenities rather than competing on who's got the
6 cheapest buffet and things like that because to get
7 to your point, Steve, that the best way to deal with
8 the potential saturation effect and the best way to
9 deal with substitution and all of the other issues
10 you've raised is to focus on the benefits of the
11 destination model, which does attract a broader
12 demographic; it's more likely to attract visitors
13 from elsewhere; it's more likely to withstand
14 competition from elsewhere.

15 MR. NORTON: Anyone else?

16 MR. SZAPOR: Yes. I would concur
17 with that comment, especially because you have an
18 opportunity to attract tourists from outside the
19 area.

20 Our actual report did assume that,
21 for example, the Connecticut casinos would be more
22 aggressive in their marketing efforts, and so we
23 took that into account in our modeling process.

24 They already have databases. They

1 already have people embedded in their programs from
2 up here.

3 You know, we made the assumption
4 that they would continue to be aggressive there, so
5 I think our numbers took into account at least that
6 aspect of the competition reaction.

7 MR. BARROW: Yeah, I'll agree with
8 both of those points; but I also would reveal a
9 different perspective in term of politics of this.

10 One is I don't see how Connecticut
11 can respond. They have contracts with two Indian
12 tribes and if they were to authorize commercial
13 facilities at any time those contracts are
14 nullified.

15 That's what happened in New York.
16 And all of a sudden the 25 percent in slot revenue
17 disappears. They don't have to pay it anymore.
18 That's exactly what happened in New York. So I
19 don't think Connecticut has a response.

20 Rhode Island, of course, had on its
21 ballot initiative the prospect of table games at
22 both of its facilities.

23 What most people are missing is that
24 those referenda passed. They don't have to just

1 pass the state level; they have to pass in each of
2 the towns where those facilities are located, and I
3 don't think they will pass in either of those
4 communities.

5 And then the debate in Maine at this
6 point is about comprehensive legislation that would
7 limit the number of facilities in Maine, possibly
8 not only two, but I think if any others are added it
9 will be more towards the Canadian border to get some
10 of the traffic going back and forth there.

11 So I think Massachusetts is
12 positioned not only demographically but politically
13 in a very favorable position, and if they compete on
14 the quality they will compete successfully.

15 MR. JENKINS: Going West. Of
16 course, I agree with everything that was just said.
17 I also want to point out that there are certain
18 things that Connecticut can't change.

19 It can't change its geography. It
20 can't change its location in Southern New England.
21 And Maine, for that matter, can't change its
22 location.

23 Given the fact that it's in Northern
24 New England, neither one of them have the attraction

1 that both -- that Massachusetts has is, both
2 population center and economic center; already a
3 tourist destination.

4 I mean, I forget what the number
5 was, but we have something, like, you know, five,
6 six times the number of people coming to
7 Massachusetts than the next New England state
8 already, so I'm not so sure what either Connecticut
9 or Maine, for example, can do that's going to change
10 some of those basic geographic and economic
11 conditions.

12 MR. NORTON: Commissioner.

13 CHAIRMAN CROSBY: I'm sure we all
14 have a lot of questions. I'll start and maybe we'll
15 just take turns.

16 Professor Barrow, you talked
17 about -- a lot about the percent of disposable
18 income that is put into casino gambling.

19 I gather that does not include the
20 percent of disposable income that goes into the
21 lottery; is that right?

22 MR. BARROW: That's correct.

23 CHAIRMAN CROSBY: So although we are
24 very low at the percent of disposable income in

1 casino gambling, we are probably very, very high if
2 you added in the lottery percent.

3 How does that cut? I know each of
4 you have talked about the lottery to a certain
5 extent; but as I've read the various reports, nobody
6 has really talked about what a huge penetration rate
7 we have here with our lottery and how that might be
8 affected, so just maybe starting with you since you
9 relied on that so much.

10 MR. BARROW: Depending on the year,
11 Massachusetts residents spend one billion dollars
12 per year in casino gambling in other states, not
13 counting Las Vegas.

14 They spend about one billion dollars
15 a year on the lottery, so those two combined, they
16 are spending 1 percent of their disposable income on
17 those two forms of gambling.

18 CHAIRMAN CROSBY: Well, I think
19 about it 4.6 --

20 MR. BARROW: Well, those are sales;
21 but in terms of the amount that is actually kept by
22 the State, that would be the equivalent of gross
23 gaming revenues in terms of the lottery, so it's a
24 valuable amount that is lost by the players. So

1 it's about equal.

2 We have a penetration rate of about
3 54 percent. You know, we do this survey every two
4 years where we ask people what games they play and
5 how often.

6 About 54 percent of residents play
7 the lottery right now in some form with the scratch
8 tickets or Lotto games; but what we've also found is
9 that casino players are also lottery players.

10 They are not substituting one form
11 of gaming for the other. Now, there probably will
12 be some substitution as a consequence of moving
13 casinos into Massachusetts.

14 We have, twice before, done studies
15 looking at what happened in states with mature
16 lotteries after casino gaming was introduced, and
17 frankly it's a mixed bag. We get every possible
18 scenario.

19 In places like Connecticut and New
20 Jersey, the lottery has been very robust and it has
21 continued to grow after the introduction of casino
22 gambling.

23 In some states you have seen the
24 rate of growth slowed down, but it still grew. In

1 others you've seen it decline temporarily for two or
2 three years and then it rebounds back to its
3 previous growth rate.

4 So I think most people are
5 estimating you will see some impact on the lottery,
6 possibly 8 percent, but that's why the legislature,
7 in its wisdom, allocated a share of the gaming taxes
8 to the local Aid Fund to insure that towns and
9 cities don't suffer a reduction in revenues.

10 CHAIRMAN CROSBY: To clarify one
11 thing, sir, you're -- more or less the billion
12 dollars that goes to Connecticut, that's gross
13 gaming revenue; that's not gambled dollars?

14 MR. BARROW: Right.

15 CHAIRMAN CROSBY: Okay.

16 MR. BARROW: Right. The handle
17 would be about nine times bigger than that. It
18 would be more like 9 billion, which would be the
19 equivalent of lottery sales.

20 MR. POLLOCK: What do you think of
21 that?

22 COMMISSIONER STEBBINS: In our 2008
23 report we were charged with dealing among a number
24 of issues; specifically, with the potential impact

1 on the lottery.

2 And I also want to point out that
3 Doug Walker, who is on our next panel, and I worked
4 on that section of the 2008 report.

5 And two of the principal findings,
6 it certainly echoed what Clyde said, and a lot of
7 the casinos have different experiences, but there
8 are opportunities in states -- and what we've seen
9 is they could have both.

10 If handled correctly, that the
11 lotteries can continue to grow even with casinos in
12 the same state.

13 And one of the things that we
14 suggested in that 2008 report was that the -- one of
15 the issues that bidders and, ultimately, licensees
16 have to deal with here is what plans do they have to
17 work with the lottery.

18 What we have seen in other states is
19 that casinos can act as lottery agents, casinos are
20 often lottery agents in the states in which they
21 operate.

22 And often to no one's surprise are
23 often among the most productive and biggest sellers
24 for lotteries in those states. They have them near

1 the parking garage and so forth.

2 But what we suggest is using some
3 creativity to find joint marketing efforts; joint
4 opportunities in which they can work together to
5 actually enhance sales, to potentially, through the
6 right system, with some creativity, actually
7 increase lottery sales to many of the out-of-state
8 customers who are coming to Massachusetts.

9 One of the things we saw in
10 Connecticut -- we did a study in Connecticut in
11 2009, and that the lottery viewed casinos solely as
12 competition and not as a potential complimentary
13 partner.

14 We saw that as a lost opportunity;
15 that if they were able to figure out ways to work
16 together, because if people are going to come to
17 Connecticut in that case to buy -- to gamble, they
18 are more likely to go to the two casinos from out of
19 state than they are to buy a lottery ticket, which
20 represented an opportunity in our view of the fact
21 that they'd viewed themselves solely as competition
22 and did not explore the potential for complimentary
23 relationships, it was a lost opportunity.

24 MR. BARROW: I will make one

1 correction. I misspoke on one thing, which is that
2 Massachusetts residents are actually right now
3 spending about one half a percent of the disposable
4 income on the lottery and casinos combined. By
5 "spending" I mean losing.

6 MR. SZAPOR: And I would just add to
7 that comment. The last slide I had was when these
8 applicants put forth their, you know, their
9 responses in their application and their marketing
10 plans, you know, will they have suggestions; will
11 they have plans in there for working with the
12 lottery to grow that as Mr. Pollock said, you know,
13 it hasn't been done all that great in the business
14 before, but there's a real opportunity here, and
15 they could bring some real creative minds together
16 working with the lottery to help mitigate that
17 impact, so the onus, I think, will be on applicants
18 to put forth some of their plans with that regard.

19 MR. SZAPOR: Is this on? Can you
20 hear us?

21 COMMISSIONER STEBBINS: Yes.

22 MR. JENKINS: It's your voice.

23 MR. SZAPOR: We actually did
24 look -- in our 2008 study we actually did account

1 for the effects on -- possible effects on the
2 lottery.

3 And one of the things that we
4 noticed is in states that did bring gambling and
5 that did have a lottery is without a doubt there was
6 an initial decrease in lottery spending, and I think
7 that's exactly why there is mitigation built into
8 the law.

9 However, the other thing that we saw
10 was that over time lottery spending actually did go
11 back up.

12 And so I think that the lesson is, I
13 don't think anybody is saying that we are not going
14 to see a possible drop in the lottery spending in
15 the beginning; but I do think that with some of the
16 things we are hearing today and others that the
17 lottery spending does come back.

18 COMMISSIONER STEBBINS: I had a
19 quick question regarding in the legislation we were
20 able to set a licensing fee, there is a bare minimum
21 for both the resort destination casino as well as
22 the slots parlor.

23 Is there -- what would make economic
24 sense? What should the Commission possibly consider

1 based on region, or what have you, as to what that
2 license fee would be?

3 MR. POLLOCK: Can I go first this
4 time?

5 COMMISSIONER STEBBINS: Sure.

6 MR. POLLOCK: Okay. You know,
7 license fee is one of my favorite issues. One of
8 the things, you have to look at a license fee -- it
9 has to be, obviously, customized in each case.

10 You have to look at a license fee
11 the way an investor would look at a license fee.
12 And when they are calculating return on invested
13 capital, that goes into the denominator.

14 I will give you -- so you've got to
15 be very careful because if the license fee is set
16 too high, you can force them into a different
17 less-than-optimal business model.

18 And so one of the things we did say
19 in the 2008 report is: Be wary of any applicant
20 that simply comes in with the highest license fee.
21 You have to look at that in the broader context.

22 Just take a quick hypothetical
23 example. If a developer is going to build a
24 property; say he is going to invest a billion

1 dollars and thinks that that can generate 200
2 million and he has an investment threshold of 20
3 percent return, he's right there (indicating) but if
4 he adds in 100 million dollar license fee, his
5 investment now goes to 1.1 billion dollars. The
6 investment -- the return now drops below that 20
7 percent.

8 So say the response is then, Well,
9 now I'm only going to invest 800 million and that
10 comes out like -- which is a total investment of 900
11 million, but they expect that even that is going to
12 drop to 180 million.

13 I'm at the 20 percent threshold, but
14 that -- that -- but that 20 billion dollar delta
15 between those two scenarios translates into lower
16 tax revenue; lower employment; perhaps a different
17 business model, so I am suggesting it has to be done
18 very carefully and it is not going to be one number
19 that's going to be right for everyone.

20 MR. BARROW: I think you have said
21 enough.

22 COMMISSIONER CAMERON: Thank you.
23 By the way, very interesting discussion. I had a
24 question about, and you all seemed to touch on this,

1 the fact that the way to be competitive is to pay
2 attention to the amenities themselves.

3 And I'm wondering if, you know, the
4 Revel model in New Jersey where they really went
5 very high end with other amenities, is it too soon
6 to evaluate the effect there?

7 Is that what you were referring to
8 when you said that's a way to make sure you are
9 going to be competitive in the market?

10 MR. POLLOCK: I will go first this
11 time. First of all, I think it is too soon, but what
12 I was referring to in my report was focusing on
13 Connecticut, first of all.

14 In fact, in a number of analyses
15 that we did, we actually carved out Atlantic City
16 from some of our comps because it is different
17 enough that you don't want -- we didn't want to be
18 basing our forecasts on what Atlantic City was
19 doing. It's sort of a standout. It is almost like
20 Las Vegas in our opinion.

21 So, as a result, what we were
22 talking about for a minute, I think what we are
23 talking about, what you are seeing in Connecticut,
24 not the least of which are the concert venues; the

1 golf, all of the things -- if you go on the website
2 and look -- actually, I have looked at the
3 amenities. You can actually take a look at that.

4 And so from my perspective anything
5 different from that could actually change the
6 ultimate result.

7 And then one other thing is that,
8 you know, many of those amenities, if you go to
9 North Central Connecticut, it's safe to assume very
10 few of those amenities existed before those were
11 built.

12 That's not necessarily true in, for
13 example, in Eastern Massachusetts. Many of those
14 amenities are there, whether it's golf; whether it's
15 concert venues; restaurants and so on, so that's an
16 additional challenge for you.

17 It's not just simply putting those
18 in; it is also making sure that we are not
19 substituting, you know, a concert venue in Boston
20 with a concert venue nearby, so I think that's
21 another challenge that you are going to have in that
22 regard.

23 MR. SZAPOR: And I think you are
24 right because you have to balance. You want to

1 create enough amenities to attract out-of-state
2 tourists; people from other regions, or else you are
3 just going to end up with some local casinos, which
4 is not what you want; but as the gentleman was
5 saying there is a fine balance between creating too
6 many and impacting the local community, but I think
7 you can do that on a balanced basis.

8 But I think it's important to create
9 these destination resorts include food, beverage,
10 entertainment, retail, whatever they might be,
11 because you really -- the purpose of this is just
12 not to keep -- give people in Massachusetts a local
13 opportunity to gamble; it is to really reach out and
14 bring other people in, and that's what draws them.

15 MR. NORTON: Mr. Chairman, in the
16 interest of time, we've got another few minutes
17 before we are supposed to get on the next schedule.

18 Do you want to continue on asking
19 questions? Continue on; a couple questions?

20 CHAIRMAN CROSBY: I think it's
21 important enough if we are running late today.

22 MR. NORTON: Agreed.

23 COMMISSIONER ZUNIGA: I have a
24 question relative to the no-smoking assumption -- or

1 rather restriction; and I would be interested in
2 Professor Barrow's argument that that would be a
3 positive impact because I had read that there would
4 be some negative impact.

5 MR. BARROW: I may be a minority on
6 this particular issue, and I know I have taken a lot
7 of flack for it.

8 And I first got interested in it
9 when asked by the American Lung Association to do a
10 survey on casinos and smoking in the State of
11 Illinois, which is one of the states that went to a
12 smoking ban in 2008.

13 What our survey research showed is,
14 obviously, we know the vast majority of residents
15 across the United States don't smoke anymore. 77
16 percent of New Englanders are nonsmokers. And that
17 number is going down.

18 The number of nonsmokers is going
19 up; the number of smokers is going down on a
20 consistent basis. So that's one issue.

21 What we found was, of course,
22 nonsmokers prefer a nonsmoking environment. We
23 found that non -- that smokers do not gamble with
24 any greater frequency than nonsmokers, contrary to

1 convention wisdom in the industry.

2 And we found that even about a third
3 of smokers say they prefer a nonsmoking environment
4 in terms of the casino.

5 And I can go through a whole litany
6 of other observations that I have noticed at various
7 casinos around the country in terms of how they
8 structure their gaming floors between smoking and
9 nonsmoking areas; where the smoke -- the nonsmoke
10 needs to be marginalized; the machines nobody wants
11 to play; it's a lower minimum.

12 They almost generate the illusion
13 that smokers gamble more and spend more because they
14 force nonsmokers into the smoking area.

15 So I think it's going to be an
16 interest experiment, but I think Massachusetts will
17 benefit from this.

18 And there is a growing trend around
19 the country. There are a couple organizations now
20 to promote nonsmoking in casinos; employee groups
21 are promoting it just like they did in the airline
22 industry a couple decades ago.

23 The Revel, 100 percent nonsmoking.
24 We will see if that holds. And there are a lot of

1 Indian casinos that are going that way to protect
2 their tribal members who work there at this point.

3 I think in the end we are going to
4 find out, it's going to be an interesting
5 experiment, but I think Massachusetts will benefit
6 from it.

7 COMMISSIONER MCHUGH: I want to come
8 back to the destination resort piece we have been
9 talking about because, Mr. Pollock, you used in one
10 of your charts, I think in the first one, a two-hour
11 drive time as the draw for people.

12 And then you talked about the
13 amenities that need to exist in a destination
14 resort. And so I have a couple of questions on this
15 score.

16 Is the two-hour drive time
17 consistent with the notion of what we are looking
18 for as a destination resort?

19 MR. POLLOCK: Yes. When you are
20 talking about a convenience model, where the -- from
21 the higher taxes -- the big question -- the
22 facilities, it's not going to draw from a two-hour
23 drive time; it's going to draw much closer.

24 A two-hour drive time is reasonable.

1 If you look at Atlantic City as a model, perhaps a
2 three-hour drive time, but what you draw for that
3 third hour is simply not as much, so I think it's
4 reasonable to have -- you are going to have the
5 level of amenities that are going to prompt a
6 material number of people within that drive time to
7 come to the facility.

8 I wouldn't feel comfortable going
9 much beyond that. I think that's a reasonable
10 expectation for what we expect being built.

11 COMMISSIONER MCHUGH: Focusing on a
12 second on the amenities, is it possible for a casino
13 to capitalize and drive synergy from existing
14 amenities and still meet the kinds of projections
15 you are talking about?

16 You, Mr. Pollock -- Mr. Jenkins
17 talked about the existing amenities in certain areas
18 that are there.

19 MR. JENKINS: Exactly. And that's
20 exactly what I was talking about. Massachusetts is
21 graced to have -- if we just focus on golf, I mean,
22 golf in any of the areas that we are looking at --
23 well, actually, more out in the Southeastern and
24 Western areas, but certainly some of the best golf

1 courses around are already there.

2 Could some sort of relationship be
3 made between the casino and the golf course as to
4 encourage an opportunity to play at those?

5 We have -- just the natural affects,
6 national attractions, whether it's on the Southeast
7 Coast, and obviously we have -- there's the Cape.
8 There's the Southeast Coast. Out west we have the
9 Berkshires and Tanglewood and there's so many
10 opportunities to take advantage of some of these
11 amenities that already exist.

12 It's not necessarily that you have
13 to start from scratch or build them as part of the
14 structure of the casino, but find a way to take
15 advantage of what's already there.

16 That's one of the reasons why
17 Massachusetts is different than Connecticut because
18 many of those attractions are what are bringing
19 people here already.

20 And if there is an opportunity to
21 also gamble at a casino, not only are you going to
22 get the gambling, but also you are going to get the
23 other attractions that already drew people that are
24 now potentially going to go gambling and vice versa,

1 so I think that's why it's not just looking what
2 Maine is going do in accompaniment to their casinos
3 or, you know, whether Connecticut is going to expand
4 again.

5 I'm not sure that that's going to
6 really make any difference. What will make a
7 difference is taking advantage of what we already
8 have here, and that's a terrific opportunity, and I
9 think that that's something that should be part of
10 the proposal process.

11 What are the -- what are the
12 suggested ideas to take advantage of what's already
13 around. And that does two things.

14 One, it makes the casino more
15 attractive and, two, it actually does encourage
16 casino visitors to use the local market, which is
17 what I think everybody would hope to occur.

18 COMMISSIONER MCHUGH: And
19 finally -- thank you. And, finally, in your talk,
20 Mr. Pollock, you were talking about the importance
21 of a competitive bidding process for realizing some
22 of the assumptions your report had contained.

23 What -- can you expand on that a
24 little bit? And what happens if there isn't a

1 competitive bidding process for one reason or the
2 other?

3 MR. POLLOCK: You mean in a process
4 where the licenses are fixed? In Ohio would be a
5 great example of that. There was no competitive
6 bidding process there.

7 COMMISSIONER MCHUGH: Or if there's
8 a competitive bidding process but there is no
9 competition for particular licensing --

10 MR. POLLOCK: That has happened as
11 well. Maryland was a good example of that. I don't
12 anticipate that's likely to happen here, but I do
13 expect that there are ways to potentially address
14 that.

15 It doesn't mean, necessarily, that
16 if you only have one bidder for any given license
17 that by nature you just have to grant that license.

18 We made that -- it was more of a
19 recommendation in 2008 report. If it doesn't meet
20 what you think is best equipped to advance public
21 policy, there is no -- we did recommend that; that
22 you don't have to grant that license, but by its
23 very nature, the competitive building process
24 forces, if it's structured correctly, forces

1 applicants to really be as creative as possible; to
2 suggest the highest level of investment as possible;
3 the greatest employment; incent them to work with
4 local businesses, and the various other areas that
5 are required, so all things being equal it's -- the
6 best way to advance public policy.

7 I don't anticipate that you are
8 going to be facing the same problems that Maryland
9 had. They faced it largely because they came in
10 with a 67 percent tax rate. They initially had four
11 bidders for five licenses.

12 CHAIRMAN CROSBY: Commissioner
13 Stebbins, who has been orchestrating this event,
14 said we could run over a little bit.

15 I hope our next panelists will just
16 sit tight. I think this is such a good opportunity;
17 we hate to lose any of it.

18 Mr. Szapor, I think it was your
19 Invasion Group, maybe all the reports did, but you
20 talked about -- at one point about sequencing the
21 licenses so that a loser in one site would have an
22 opportunity to bid again in a subsequent site.

23 Is that a -- A, how plausible is
24 that? Haven't they already picked out the site that

1 they think is the optimal site for themselves; and,
2 B, does anybody have any experience to see whether
3 that really works as a way to promote competition?

4 MR. SZAPOR: Well, we did not cover
5 that in our report. Maybe it was one of the
6 other --

7 MR. POLLOCK: (Indicating.)

8 CHAIRMAN CROSBY: Mike Pollock.

9 MR. SZAPOR: Mike Pollock. So I
10 will hand it over to him.

11 MR. POLLOCK: Well, there was
12 essentially one reason why we cite in the report why
13 that would make sense because you have all of your
14 best companies and best potential operators bidding
15 for the same license.

16 It allows them a second bite at the
17 apple so they can essentially try something else.
18 Another advantage of that, by the way, which we did
19 not put in our 2008 report, but which makes sense,
20 is that depending -- if you do it sequentially
21 depending on where the first license is issued
22 geographically, and who it's issued to, will allow
23 subsequent bidders to adapt and help maybe change
24 their bids to reflect that so it works in the best

1 interest of the Commonwealth.

2 In terms of the question as to
3 whether or not it has been tried elsewhere, to my
4 knowledge, no, not the ones that I have been
5 involved in that I can think of. Not necessarily a
6 bad idea but I think they --

7 CHAIRMAN CROSBY: Well, it's
8 theoretically attractive, but you don't really know
9 for sure what effect it would have.

10 MR. POLLOCK: Correct.

11 CHAIRMAN CROSBY: Right. Okay.
12 Another question. On the slots, several people have
13 made allusions, or one or more people have made
14 allusions, to having a negative impact on the value
15 of the casino license if a slots parlor is nearby.

16 I wonder if there is any other
17 evidence or advice about where these parlor should
18 go.

19 Is there a consensus that having the
20 slots parlor nearby is a negative, first; and,
21 second, is there any proactive advice, do you know
22 the lay of the land we are dealing with, where a
23 slots parlor would ultimately go?

24 MR. SZAPOR: Well, I think it

1 has -- you heard it here today that a slot parlor is
2 not necessarily going to attract people from further
3 away; it's not necessarily going to be a tourist
4 destination, so I think you are going to look to
5 locate it in an area that has the ability to
6 recapture as many dollars going out of the State
7 from existing Massachusetts residents and, yes, I
8 think I was one of the people to voice a concern
9 that if that license is located in close proximity
10 to one of the destination locations that it could
11 give some fears to the financing community that, you
12 know, a potential expansion of that slot license
13 could impair the destination.

14 So I think you have to take a look
15 at geographically where that might be. I think the
16 process allows for that license to be for -- first
17 in the sequential process and so, you know, from
18 there I think it will allow the other applicants to
19 follow through; but it's going to be something that
20 needs to be carefully considered, but, again, it's
21 not -- it's not a facility that could be conducive
22 to attracting tourists, so I think the location has
23 to be focused on repatriating dollars back to
24 Massachusetts.

1 MR. NORTON: The question related to
2 Chairman Crosby's first point about is there one of
3 the regions where you think there is higher market
4 value which would encourage them to sequence on
5 this?

6 MR. JENKINS: If I may, there is,
7 actually, some evidence when looking at Rhode Island
8 slots because I think it's something like, roughly,
9 1 percent of the visitors to the Rhode Island slots
10 come from Connecticut, which is a border state.

11 And it probably doesn't take much to
12 figure out why there is so few people going to Rhode
13 Island to play slots. It's because they don't have
14 to.

15 And to the extent anybody -- if they
16 do it is obviously going to come out of the
17 Connecticut destination casino, so apparently the
18 Connecticut residents, or players, have already made
19 a decision that there is no need to go and play
20 slots in Rhode Island because we don't have to.

21 So if you do, I think that's good
22 evidence that if you were to put a slot somewhere
23 near a destination casino that it's going to be
24 battling each other for the same dollar.

1 So that begs location then. And if
2 you are asking me, I'd put it as far away as I could
3 from what's most likely to be my first destination
4 casino so whatever that might be, I would go for
5 distance on that one.

6 COMMISSIONER CAMERON: I had a
7 question about in looking at where the new markets
8 have emerged, and we were looking in Pennsylvania;
9 we were looking at New York; and in Delaware, and
10 the model in those three locations, at least in some
11 of them, had the casino next to a racetrack.

12 Now I'm just wondering if any of you
13 have had a chance to evaluate that model and how
14 well it's working.

15 Does one market enhance the other?
16 I was interested if you had a chance to look at
17 that.

18 MR. BARROW: Well, I'll touch on one
19 aspect of that, particularly New York and
20 Pennsylvania.

21 It's a different model in the sense
22 that Pennsylvania has authorized up to 14,
23 essentially they were originally slot parlors, they
24 morphed into full-fledged casinos in the sense that

1 they added table games.

2 I think only two of them have hotels
3 at this point, The Sands and Mount Airy. New York
4 is a BLT state; like Rhode Island, they now have
5 nine facilities including Aqueduct.

6 The employment -- if you are
7 looking -- they are taxed at a much higher rate than
8 the Massachusetts tax rate.

9 As a consequence, much lower levels
10 of capital investment. You are seeing facilities
11 invested maybe at the high end of 170 million down
12 well below a 100 million.

13 And then the effect of that is they
14 have been very effective revenue generators for the
15 State, which is what they were intended to be, but
16 they have not been very good economic development
17 engines in terms of job creation.

18 And just yesterday -- I mean, they
19 have created jobs, but the racinos tend to generate
20 about three new jobs for every million dollars
21 gambled; the resort casinos are now generating six
22 to seven new jobs for every million dollars gambled.

23 And that's because the jobs are in
24 the table games and the jobs are really in the

1 nongaming amenities, which are more labor intensive.

2 Slot machines, as you know, are
3 basically automated at this point, to the point that
4 it is tickets in; tickets out.

5 You almost -- other than a slot
6 technician, there is not a lot of job creation
7 there. So they have been effective as revenue
8 generators, but I think not so effective job
9 creators.

10 MR. POLLOCK: Just to add to that,
11 if you are asking does the addition of slot machines
12 to a racing facility stem the decline in attendance
13 at live racing? No.

14 Does it increase slot play by racing
15 fans? A little bit. Does it increase -- do the
16 slot players migrate over to racing and play there?
17 No.

18 What it essentially does, it
19 increases the pool by which they can increase and
20 enhance their purses, which allows them a more
21 lucrative export signal and allows them to compete
22 against racinos elsewhere that do have better purses
23 that, consequently, can secure the better horses;
24 but it does not generate significant material live

1 attendance.

2 And to be perfectly candid, we have
3 done this in a number of states, that in many states
4 they maintain the racing elements of the operations
5 because they are required to, not because it remains
6 a viable business model.

7 COMMISSIONER STEBBINS: One question
8 about collecting research and data. It seems from
9 everybody's presentations there's good state-wide
10 data, I look at it as having an opportunity, once a
11 license is awarded to the construction period, that
12 we can do some invasive research around the
13 immediate geographic area.

14 If you had to pick three or four
15 things for us to assess and study and evaluate and
16 gather data on, kind of in that local region what
17 would be the information that you would think would
18 be helpful to us?

19 MR. BARROW: Well, I have two or
20 three thoughts on that. You might want to say the
21 crime data, although you can go back and get that
22 after the fact because they keep it historically.

23 I think one interesting study that I
24 don't think has been done is to actually make some

1 very careful and detailed inventory of the types of
2 local business establishments; lodging; food and
3 beverage; retail in the area because I know that
4 some critics have argued that even when you see an
5 increase of employment in those sectors, the
6 argument is it is because local businesses get
7 replaced by chains.

8 I don't know if that's necessarily a
9 bad thing, they pay better wages and hire people,
10 but we could certainly answer that question.

11 I think that you definitely are
12 going to need a baseline study of problem gambling
13 across the state as well in those localities to see
14 if there is, in fact, an increase.

15 So, to me, those are two of the big
16 ones in terms of impact on local businesses and
17 problem gambling prevalence.

18 MR. JENKINS: Actually, I look at
19 three things. I look at employment. I look at
20 crime. And I look at property value -- property
21 values.

22 And I think property values serve
23 as a catchall because if there is broad economic
24 effect -- positive economic effect in a region, I

1 think you can see a lot of them in the property
2 values.

3 Also, the other thing that we
4 learned out of Connecticut is there are impacts on
5 other areas that we may not see up front but are
6 dramatic and that affects property values, which
7 includes education.

8 The number of foreign language
9 speakers in the Connecticut schools went from
10 something like four in the immediate area in
11 Uncasville to something like 27 in a relatively
12 short period of time.

13 Obviously that's going to have an
14 impact on schools and money spent on education, and
15 I do think that many of these things manifest itself
16 in property values. So that's -- I focused on that.

17 MR. POLLOCK: If I may just
18 elaborate on that. We did that 2009 study in
19 Connecticut and the point, and it was a fairly
20 extensive and, arguably, fairly critical study, but
21 one of the things that is found is when you look at
22 the impacts you can't look at them in silos because
23 one of the things we saw is that in the absence of
24 proper planning in the areas, for example, of

1 employment in targeting existing areas of
2 unemployment or underemployment, there was no
3 policies in place to reach those people in advance,
4 so, consequently, they brought in a lot of workers
5 from other areas, which creates demand and creates a
6 burden on services in those other areas.

7 We did see that in the school
8 districts, not just in Uncasville but in the entire
9 region.

10 And we saw a phenomena, which I
11 never heard this term before, which it is called
12 hot-bedding. And I had never heard the expression.

13 What it refers to is people were
14 coming in to work at these various jobs and they
15 take three shifts and they share a bed, so they will
16 sleep from 12 to 8; you will get the bed from 8 to
17 4; and you get the bed from 4 to 12 and consequently
18 the bed never gets cold, so it's called hot-bedding.

19 And it's a phenomena that was --
20 arguably could have been reduced or avoided with
21 proper planning, so you can't look at any one of
22 these criteria in isolation.

23 CHAIRMAN CROSBY: I think we are
24 finished with Commission questions. I just thought,

1 Steve Norton, you have your own -- we are going to
2 hear from you in the next panel, but you have your
3 own ideas about methodology and models and so forth,
4 and I just wonder whether you have any questions for
5 this panel before we adjourn.

6 MR. NORTON: I think we have done a
7 great job of asking questions. I think we can wait
8 until the next panel.

9 CHAIRMAN CROSBY: Thank you, very
10 much.

11 (Applause.)

12 MR. NORTON: Thank you, panelists.

13 (Applause.)

14 (Break taken at 10:50.)

15 (Resumed at 11:10.)

16 MR. BARROW: This is our second
17 panel. It's entitled, Assessing and Reviewing the
18 Information We Need.

19 And this panel is really designed to
20 help the Commission think about the types of
21 information that needs to be collected and how to
22 evaluate that information in assessing various
23 proposals for casino licenses.

24 We have three very distinguished

1 panelists today starting with Martin Romitti, who is
2 right here to my left.

3 He is the director of economic and
4 public policy research at the Donahue Institute,
5 which is associated with the University of
6 Massachusetts, and I believe the main office is at
7 the Amherst campus.

8 At the other end is Steve Norton,
9 who is the executive director of the New Hampshire
10 Center of Public Policy; is actually very active in
11 leading the governor's Gaming Commission to study
12 the potential of expanding gaming in New Hampshire a
13 couple years ago, and Doug Walker, in the middle,
14 who is an associate professor of economics at the
15 College of Charleston in South Carolina and is
16 well-known for his book on The Economics of Casino
17 Gambling.

18 So I think we'll just let them
19 begin; and much like the last panel, I will
20 disappear now.

21 MR. ROMITTI: Well, good morning to
22 Massachusetts gaming enthusiasts and Massachusetts
23 gaming skeptics alike, and I want to thank the
24 Massachusetts Gaming Commissioners for the

1 invitation today.

2 I'm Marty Romitti, and I currently
3 work at the University of Massachusetts Donahue
4 Institute, which is a job that primarily works to
5 study and enhance the State's economy and, in
6 particular, to look at the nature of a number of
7 high-tech businesses around the State, but that's
8 not what I'm here for today.

9 I'm here because of what I did
10 previously to coming up to Massachusetts, which is I
11 directed a division of the State's agency for the
12 State of Missouri that evaluated all of the State's
13 investments and tax incentive programs, which
14 included an evaluation of casino gaming licenses to
15 be awarded in the State, and so I'm here to share a
16 little bit of that experience with you and lessons
17 that we learned in terms of economic research and
18 analysis.

19 Ultimately, the perspective --
20 working within the State and for the State Gaming
21 Commission in that capacity brings a different
22 perspective about the casino/gaming industry.

23 We've heard a lot of talk in the
24 first panel, and it's true, it is an industry. It

1 is a business.

2 They are entertainment venues, but
3 in many ways what they are is very well-lit tax
4 collection stations.

5 And from a State's perspective, the
6 gaming commissioner operates very much like fund
7 managers and the same way in the legislation out
8 here, in Missouri, at the time it was very important
9 because 19 percent of the tax, which was a 21
10 percent tax in adjusted gross receipts; 19 percent
11 of that went to an education fund, so it went to the
12 schools.

13 And so as we started this process
14 that type of collection and the money dedicated to
15 that fund was very important and it had primary
16 importance.

17 With that said, I want to just give
18 you a little bit of information about a casino
19 market in Missouri, since many in the audience
20 probably aren't familiar with it.

21 But, you know, Missouri is a similar
22 sized population to Massachusetts, so potentially
23 some of the lessons we did here maybe translate well
24 over.

1 Just to give you some idea, gaming
2 passed in 1992 by a state-wide referendum, although
3 it was several years later before the first casino,
4 there was, as in the Massachusetts law, a geographic
5 restriction; not by zone, but basically by the
6 outline of the ribbons of the big rivers running
7 through the state, so all gaming had to be within a
8 thousand yards of either the Missouri or the
9 Mississippi River.

10 The first casino actually had to be
11 floating vessels; right? These were little river
12 boat cruises that went out two hours while you did
13 slot machine; came back in, and docked over time.

14 Basically, those became landlocked
15 and became bigger and bigger; but all along up until
16 2008 one of the concerns -- I know there have been
17 many debates back and forth about the impact, full
18 legal impact. Missouri had similar concerns as
19 well.

20 And so all along since the beginning
21 where it was adopted, there was a \$500 loss limit
22 imposed, and so literally you had cards you
23 registered as you went into the casino and you could
24 lose no more than \$500 within a two-hour gaming

1 period, which is considered a cruise period.

2 So just as a side note of interest,
3 you had an interesting situation for a while where
4 the casinos no longer cruised on the river. They
5 were basically just permanently docked, yet they
6 were required to have a licensed sea captain.

7 And you went in and there is one
8 side rope and another side rope, and depending on
9 your boarding time you were directed to the station,
10 but the boat never moved.

11 So all along the industry itself was
12 looking to repeal the loss limit, but the voters in
13 Missouri kept the loss limit up until 2008.

14 In 2008 a state-wide referendum came
15 on to increase the tax -- the casinos to increase
16 the tax themselves by 2 percent in exchange for
17 dropping the loss limit and also imposing the
18 maximum of 13 casinos. At the time in Missouri we
19 had 13 casinos.

20 What then happened -- so basically
21 the market was full in terms of legally full.
22 However, we had a casino in Saint Louis that
23 basically went -- the finances went down the tube
24 and essentially a license became available, so for

1 the first time, much like Michigan is wrestling
2 with, we've had a restricted market, only one
3 license to give, and a bidding process to undertake.

4 So I began to work -- we had a
5 ten-month process, and the process was much along
6 the lines of what we are debating here in a public
7 forum was talked about several times amongst the
8 agencies about how do we go about this process
9 because, you know, as we are sitting here today, the
10 Massachusetts unemployment rate just dropped to 50
11 percent, so that's all very good news.

12 We'd like to think in Massachusetts
13 we're experiencing at least a modest recovery in the
14 midst of a broader recession.

15 However, we very much know that
16 there are struggling areas within the state, and the
17 same was true in Missouri being hit hard by the
18 recession.

19 And so there was a primacy put on,
20 much like the legislation, the casino license and
21 awarding the casino license and getting a casino up
22 and operating as quickly as possible is really
23 looked at as a job creation engine, something of
24 much urgency to be done.

1 Okay. So with that the process
2 before, like I said, is the applicants to come in;
3 the gaming commission would review. There was never
4 a single set open the competition up for one
5 specified time period, evaluate, and make one award.

6 And with that we knew that we would
7 be getting, much like it's required here, you have
8 income impact studies coming in from all over the
9 different applicants saying what type of impact they
10 are going to have on the community.

11 And it was decided that we needed
12 a process to create for the Commission an
13 apples-to-apples comparison so you could look at the
14 economic impact in a more standardized way.

15 And what I have up on the board is a
16 look at where the casino locations were currently
17 and then the red is where the three proposed, the
18 actual final three applicants that were evaluated,
19 were located.

20 You had one in the Kansas City
21 market; one in the Saint Louis, and one down in
22 what's referred to geographically as the Boot Hill
23 of Missouri, or Southeast Missouri, a very rural
24 area, so those were the three set amongst the

1 others.

2 And just to give you some
3 indication, we had a three-step -- for the
4 commissioners' benefit, we worked out a three-step
5 process.

6 You know, the one thing different
7 about Missouri, obviously, is we had a very long
8 history of an established casino market by the time
9 this rolled around; and so we had a lot of available
10 data and we had existing businesses.

11 And because of the power granted to
12 the Gaming Commission to basically request that the
13 industry represent any data that they needed in
14 order to make good judgments, we were able to do
15 something unrepresented and certainly unique in
16 dealing with economic analysis.

17 And that is we basically had
18 existing casinos, basically, provide us with ZIP
19 code level gaming data so that we knew where the
20 majority of their customers were coming from
21 currently.

22 We also asked the applicants to
23 provide that, and the existing casinos also provided
24 us with sales projections as well as

1 cannibalization, or, basically, the type of
2 competitive market pressure they'd feel of a casino
3 located in their area, so we had a questionnaire.

4 We also did a systematic look at
5 gravity modeling, which is a technique to kind of
6 look at market penetration of a new market
7 interested in the similar business impact and then
8 finally an economic impact analysis.

9 To make it a little more relevant to
10 Massachusetts and not just stick all the way on
11 Missouri, so, for instance, you know, a real market
12 when you're looking at casinos, since I'm in the
13 broader economic development work force, development
14 field, we really look at casinos as local market
15 industry. It's just a matter of how big that local
16 market is. Is it a 30-minute drive time? One-hour;
17 two-hour drive time?

18 And so with local markets you look
19 at, you know, three key factors. If somebody from
20 an Applebee's up to a casino is going to look at a
21 potential site; they are going to look at the
22 appetite for that service.

23 So, for instance, this data shows
24 you the broad number of people in Massachusetts; in

1 Connecticut; kind of Southern New England who
2 basically gambled in the last 12 months at a casino.

3 And red indicates a high
4 concentration, so that gives you some idea where the
5 appetite is at.

6 The second key component of the
7 local market is -- when you are looking to set up is
8 your ability to pay; right? Do the people there
9 have the income to pay for your service or at what
10 level?

11 So when you drop and actually look
12 specifically at entertainment and recreational
13 spending, so that's the part of the disposable
14 income that's directed to entertainment which I
15 think Clyde showed you in the Nextcode, kind of fits
16 several different categories.

17 This is indexed, actually, to the
18 U.S. average, so in this case anything that's deeper
19 orange to red is basically telling you the cities,
20 communities, in Massachusetts that spend on
21 entertainment and recreation above the national
22 average, so that gives you some idea, or at least
23 somebody looking at the slide can see -- but I will
24 just flip back and forth. I will give you a quick

1 little back and forth, right, so there is a lot of
2 people interested in gambling and the area changes
3 by where they might have the capacity.

4 And then the last and final is
5 events. You've got a dynamic living market when you
6 plop something down or make a huge investment like
7 that.

8 In the case of Missouri, we already
9 have 12 existing casinos the 13th is going to come
10 into.

11 In the case of New England, you had
12 surrounding states' market with the casino coming
13 into it, so we have to look at the dynamic market
14 trends and events. And events can be both foreseen
15 and unforeseen.

16 And so back to the Missouri study,
17 one of the first things we did was have the ability
18 of having monthly casino revenues from the Gaming
19 Commission, which is collected.

20 You know, they basically collect the
21 tapes every day and report the adjusted gross
22 receipts amounts monthly.

23 So we had a long time series from
24 '06 to '10 to look at, and what you basically saw

1 is -- you know, this is monthly, but Missouri's
2 market -- I'll add to this; I'll add my two cents'
3 worth, or in this case my 1 to 2 billion dollars'
4 worth.

5 Missouri's casino market is -- at
6 the time we did the study, 1.75 billion; just hit
7 1.8 billion this past year; it's pretty much safe to
8 assume, as I saw the estimates ranging from 1.5 to
9 2.5 billion, that one of the things that the Gaming
10 Commission would have to decide, particularly on
11 their economic studies, is where to pay this top-end
12 of the market, you know, and how much can the market
13 bear in Massachusetts.

14 You know, based on Missouri and just
15 kind of, you know, I think, you know, a 1 to 2
16 billion dollar market is a more than safe estimate
17 for a state like Massachusetts. There is an
18 existing market.

19 In fact, given, you know, four
20 casinos it's more likely the case that the four
21 casinos isn't a big enough sponge to soak up all the
22 potential market that exists in Massachusetts, so
23 that allows you to really look at the sites and the
24 casinos themselves in terms of how much of that

1 market you could soak up.

2 So when Missouri -- essentially we
3 had four casinos in Saint Louis; four in Kansas
4 City, and four in what we'll call out-state rural
5 portions.

6 The Saint Louis market, by the time
7 we did the study, had risen to 49 percent of the
8 adjusted gross receipts that were coming out of the
9 Saint Louis market; Kansas City, as you can see, is
10 a flat market but represented about 40 percent, a
11 steady share, and then the four out-states together
12 combined for 11 percent.

13 As you see, though, the big thing
14 that happened was in November of '07 Saint Louis,
15 which has always trailed Kansas City in the casino
16 market, suddenly rose to be the State's top, top
17 market.

18 And, you know, three things happened
19 that help explain why Saint Louis overtook Kansas
20 City as the predominant market.

21 First of all, I have listed, as you
22 see, Lumiere and smoke ban. Lumiere was a new
23 casino.

24 The Saint Louis market had really

1 evolved. The Saint Louis market started with
2 midsize casinos, I call them midsize, the 1,000 to
3 2,000 gaming positions, to a real casino where the
4 large casinos -- we had casinos converting into very
5 large -- adding hotels; a lot more amenities. The
6 Lumiere was the newest coming out in that category.

7 At the same time Illinois -- now,
8 this is a real item that came up about the smoke ban
9 in Illinois, where it's going to be a positive or a
10 negative.

11 I think that's a real -- it could be
12 really regional in that term because to some degree
13 one of the greatest explanations for Saint Louis'
14 rise in market growth may have nothing to do with
15 the wisdom of the Gaming Commission or the State of
16 Missouri.

17 It may have literally had to do with
18 Illinois basically imposed the smoking ban across
19 the state and they included their casinos in it, and
20 immediately you started to see -- because right
21 there there's two casinos right across the river
22 that you could see from the Arch in Saint Louis that
23 basically you could start seeing the customers
24 flocking over.

1 So in Missouri the idea that you
2 could smoke on the Missouri side and not smoke on
3 the Illinois side created -- well, we estimated
4 about a 90 percent transfer of gaming funds across
5 the river to benefit the State.

6 In addition, the Lumiere, a large,
7 new casino, opened on what's called Laclede's
8 Landing, which is adjacent to the Saint Louis Arch,
9 so they became part of the entertainment area all
10 three -- because there's three casinos down there at
11 the time.

12 Moving forward, 2008 you had the
13 loss limit repealed, so now you can gamble more than
14 the 500; you have no limit on the loss limit, and
15 you have River City right as we were -- just before
16 we started the study open up. Again, another huge
17 casino down on Saint Louis. So you saw the Saint
18 Louis market changing and evolving.

19 On the other hand, there was
20 something going on in Kansas City because we had to
21 evaluate that because there was an applicant on the
22 Kansas City side as well.

23 That applicant was facing a
24 different drill. Kansas City was turning against, I

1 guess, Missouri revenue or potentially detrimental
2 Missouri revenue was the Kansas Speedway.

3 One of the greatest economic
4 development blunders that passed through the State
5 of Missouri is that NASCAR wanted to build the
6 racetrack on the Missouri side at the time.

7 Basically, the State didn't want or
8 didn't, I guess, follow up on that and it ended up
9 being built on the Kansas side, so now the Kansas
10 Speedway-- huge development going on. You see new
11 shopping centers and a lot of development. And what
12 they just did, and at the time were going to go, is
13 open up an enormous casino adjacent to the racetrack
14 on the Kansas side.

15 So what we did is we looked at where
16 the population growth was; and you see the
17 population growth, when you have the city split by a
18 river; one side's your state; one side's the other
19 state is we ended up seeing that all the population
20 growth in the metro area was coming from the Kansas
21 side and most likely that was going to eat into the
22 already existing Missouri casino side with that
23 legalization. We estimated that to be about a 16
24 percent drop.

1 We also had the existing casinos
2 themselves make estimates. And they were not making
3 estimates in a room. We had them do it separately.
4 And, basically, we were testing our model against
5 what their estimates were as well.

6 At the end of the day we had three
7 applicants. We basically did market area studies
8 with the Gaming Commission.

9 We decided that it was -- the
10 decision was made based on research; based on
11 knowledge in the Missouri market that they were
12 going to market set drive time radiuses of 30 miles
13 around the urban areas and 60 miles around the rural
14 areas to be formed by the ZIP code level patron
15 data.

16 And what we did is we drew those
17 rings around each of the existing casinos, and the
18 idea is where you see a lot of overlap, you are
19 going to have a lot of the gaming business competing
20 for the same customers as it grows through.

21 With that said, we made estimates
22 that basically reduced the amount because the
23 applicants themselves were saying, Okay, we're going
24 to set up a 1,200 gaming position casino. We expect

1 to make a hundred and such million dollars in
2 revenues each year; but what happens in a market,
3 particularly in a market with other entrants is you
4 don't just get to add that amount.

5 It's not added on top of each other
6 because, you know, one gaming patron is going to
7 pick between this casino and this casino because I
8 only have \$5 to spend at the table, so I am going to
9 go to this casino or this casino and do it, so
10 there's going to be some displacement of those
11 funds, and that was our calculation.

12 And the way the model works and the
13 way the industry works in particular, or generally,
14 is that bigger is better, so you are more likely to
15 go to a bigger casino than a smaller one, and you
16 are more likely to go to a closer one than a farther
17 one.

18 In the case of Massachusetts, one of
19 the key pieces of estimate making the market dynamic
20 will be the population growth projections.

21 Here over the last ten years
22 population changes within the state because it's
23 going to be particularly -- you know, even if you
24 are up to a two-hour drive time distance, you are

1 going to have a majority of Massachusetts in some of
2 that market.

3 We are going to make -- part of what
4 I do at the Donahue is run a State Census Data
5 Center, so, for instance, for the gaming
6 commissioners' benefit we will be doing a new,
7 updated city-level projection this fall, so
8 hopefully that will give you some information on
9 where we see the state population headed by city and
10 town and also by age breakout because the 21 plus,
11 obviously, is the key market.

12 In the end our findings were the
13 applicant -- the gray on the top is what the
14 applicant submitted in the report for what was going
15 to be developed at the site.

16 A hundred -- and just, also, not to
17 take up too much time; but just one piece of news
18 after I get done with this, so we deflated -- we
19 determined in the gravity model about how much the
20 sales were going to be split; we deflated the
21 applicants' estimates, and then we ran the economic
22 impact assessment to give the best idea of which one
23 was really going to create an amount of new gaming
24 revenue that would become part of the funding.

1 In the end, it turned out that in
2 this case, you know -- to some degree urban areas
3 always have a little bit of advantage.

4 You just have more population and
5 their construction wages are generally higher,
6 right, so you naturally have a tendency to have a
7 little higher economic return on it than any
8 investment located in an urban area; but in this
9 case because of the existing market dynamics, it
10 turned out that the rural area, because it was -- it
11 was basically not being penetrated by any other
12 existing gaming establishments in close proximity,
13 turned out it had the best return, so we concluded
14 the potential for the best amount of money to be
15 collected in terms of the funds for the Gaming
16 Commission in the State.

17 Okay. This could all have changed.
18 We had one applicant -- all of them turned out to be
19 midsized applicants.

20 This issue came up -- I don't know
21 if you want me to save it for questions or bring it
22 up now because I heard the question about: Do you
23 licensee sequentially? Do you do them all at once?
24 Do we wait for the best proposal?

1 That issue came up during the course
2 of what we were doing in our application because the
3 height of the downturn; you came off the financial
4 crisis.

5 You know, you set up the process
6 where essentially you say, instead of waiting for
7 the proposal to develop and evaluate, you know, what
8 you want to do is you are setting a hard and fast
9 deadline. If you're in the game get your
10 application and you're in the game and we'll
11 evaluate it on such and such date. Is everybody
12 interested? Get your stuff together and let's look
13 at it.

14 So that deadline process started
15 out -- we had about 13 interested applicants who
16 made inquiries.

17 Then you started hearing about some
18 that were going to be several very large ones; and,
19 in fact, all the way up until almost the end we had
20 a casino that was potentially going to go in Saint
21 Louis that was twice the size of what The Casino
22 Celebration applicant that actually did bid, which
23 would have put it at more along the lines of what
24 Massachusetts is looking for; kind of half million

1 dollar investment level.

2 And, you know, quite honestly the
3 numbers could have swung. You know, a bigger casino
4 in that urban area could have still overtaken a
5 smaller casino in a less dense market; but what
6 really happened is their financing fell through.

7 You know, they couldn't put together
8 the financing, so what you are left with at the end
9 of the day is three midsize casinos, roughly
10 equivalent in size, and there was a real discussion
11 about whether you proceed forward.

12 But at the same time the need, the
13 urgency, the emphasis on let's get funds into the
14 education funding; let's get jobs on the ground;
15 it's a good project -- you know, all the other
16 factors besides the economic impact came into play
17 and so that was a part of the decision.

18 Now, one piece that I put into the
19 report that wasn't necessarily a formal part but
20 became a formal part of it is -- and from the
21 economic and work force development perspective,
22 often times the knock on casinos, of course, is you
23 create jobs, but low-paying jobs.

24 And so, you know, in this case I

1 wanted to show you, you know, that basically they
2 are creating 500 and 600 jobs; but, you know, the
3 actual wage levels -- and, of course, we added data
4 to this that showed the existing casino wage levels.

5 You know, they were running in
6 Missouri, now keep this, this is Missouri, so the
7 state average wage rate in Missouri, as you can see
8 we did it by MSA, so you are talking about 30 to
9 42,000 is an average wage in Missouri.

10 If the casinos were paying below
11 average wage, they would have never qualified for
12 any of our quality jobs programs or targeted
13 programs.

14 But, you know, in the context of the
15 economic impact in terms of regional impact;
16 employment impact, what we did is you put some
17 context around it, what you found is that a \$28,000
18 wage in that rural Cape Girardeau/Southeast Missouri
19 area is actually 95 percent of the average wage for
20 the area; 84, 81. It made more of a dent in the
21 regional product meaning that it's going to be a
22 bigger employer; having more impact, and it's also
23 going to eat into the existing unemployment pool
24 potentially more.

1 So in that relative context it also
2 had a little bit higher on that standard of quality
3 of jobs.

4 So with that, I thank you for, I
5 guess, taking the trip back in time with me for
6 about two years in time to Missouri. And I hope
7 that information is helpful.

8 (Applause.)

9 MR. NORTON: Good morning, still.
10 My name is Steve Norton, and I am the executive
11 director of the New Hampshire Center for Public
12 Policy Studies and about -- well, every year for the
13 last 10 years the State of New Hampshire has engaged
14 in a conversation about whether they're interested
15 it expanding gambling in New Hampshire.

16 And we were asked by the Gaming
17 Commission that was established by Governor Lynch to
18 help that commission understand some of the
19 questions that the Gaming Commission in
20 Massachusetts is struggling with as they look
21 forward to making some decisions about location.

22 Now, the first thing I'll say is the
23 commission faced incredible skepticism about the
24 estimates that were being provided them, both pro

1 and con.

2 General belief is that the estimates
3 of revenue were overinflated and that the estimates
4 of impact were under -- or, excuse me, were also
5 overinflated, and, therefore, we were asked to be
6 extremely skeptical.

7 I should say we're not experts in
8 gambling in any way. What we are are experts in
9 collecting and synthesizing information, and we
10 relied basically on the experts like Clyde and The
11 Innovation Group for understanding some of the
12 impacts on the revenue side as well as some other
13 national experts on some of the social costs;
14 questions that we dealt with.

15 But basically what the commission
16 asked us to do was answer the question what
17 constitutes a prudent calculation of the net benefit
18 of expanded gaming.

19 And that's not exactly the question
20 that you're dealing with, but it has many of the
21 same parts.

22 There are definitely positive
23 impacts, and they include those that are up there;
24 the revenue to the State across a variety of

1 different tax streams in our -- in this case New
2 Hampshire.

3 There were local revenues associated
4 with property tax and additional fees that were
5 associated with growth and population.

6 There are obviously economic
7 development impact, short-term being construction
8 and the long-term being the new jobs that are
9 created with the implementation of the casino.

10 And there are economic development
11 implications outside the casino industry in many
12 respects and that's to the extent that you bring in
13 new business and you create new spending.

14 There are also a whole host of
15 negative impacts. There -- in addition to the
16 positive revenue impacts, there were negative
17 cannibalization of our, in essence, our sales tax,
18 which is a tax on meals and rooms.

19 Then a substitution of gambling for
20 lottery expenditures, as discussed before; and you
21 can see the remainder, including measures of the
22 social costs; new crime; pathological problem
23 gaming, as well as political concerns.

24 These are all very hard to measure

1 and are fundamentally dependent on assumptions that
2 are somewhat imprecise, both on the revenue side and
3 on any estimate of the cost; and so in all the work
4 that I would -- that you're doing I would suggest
5 that transparency about those estimates and those
6 revenue -- those assumptions are really important so
7 that you understand what you're getting; when you
8 ask for information, you are clear about what those
9 assumptions are.

10 We -- so based on this, in essence,
11 whole set of possible calculations about the
12 positive things associated with gambling, we built a
13 model that was both internally logical and also
14 would be consistent across both the positive and
15 negative impacts of gambling.

16 Our primary assumption was that the
17 placement of gaming facilities were that one that
18 doesn't currently exist and would increase the
19 gambling behavior of people.

20 That seems strange, but all measures
21 of revenue are based essentially on the fact that
22 you are going to get people to gamble there.

23 The second piece, which is not
24 inconsistent with anything that anyone said today,

1 is that the farther away you are from a casino the
2 less likely it is that you are to gamble, or,
3 alternatively, the closer you are, the more likely
4 it is that you are going to gamble.

5 And that has a big impact on site
6 selection, particularly in an environment where a
7 difference of 60 miles can make a big difference
8 within your access to both people and economic
9 spending.

10 The gravity of the facility, as we
11 heard earlier, that's the attractiveness; the size;
12 the amenities is critically important to both the
13 behavior of gambling but also your ability to
14 attract other economic activities and also has a big
15 impact on the degree in which you can gamble and the
16 economic activity on the community in the area.

17 And the final one, which is based on
18 the -- really, the first two, is that for a small
19 share of the population everyone agrees that there
20 is a pathological behavior that is associated that
21 has some costs associated with it; that has both
22 potential revenue implications for the State and
23 local community not to deal with them and also for
24 local communities.

1 Of those, obviously from the debates
2 that you have heard in you own state, the most
3 difficult to estimate are the social issues down at
4 the bottom; but the Commission was unwilling to let
5 those go, and so we, as a result, tried to be even
6 more transparent in the assumptions that we make
7 there so that they could make their own
8 determination of things.

9 So basically what we did is we used
10 the drive time analysis, you have heard a little bit
11 about that here, adjusting for 30-, 60-, and
12 90-minute drive times and adjusting for various
13 parts in the state for tourism as well as some other
14 characteristics of the New Hampshire experience, and
15 we also simulated the impact of the other states'
16 activities.

17 Based on research that we had done
18 in looking at the other parts of the state that the
19 impact of the placement of a casino within 60 or 90
20 minutes could reduce revenue -- gambling revenue in
21 New Hampshire by as much as 50 percent.

22 So I -- we -- I believe that one of
23 the most critical pieces that you are going to have
24 to struggle with is the response and potential

1 implication to that response in the markets that
2 you're dealing with; and that's based on our
3 experience.

4 So our model, what we did, is we
5 took into interest the location, identified by the
6 Commission; the size, that's the amenities, a proxy
7 for the amenities; the type, and that is whether it
8 was a slots parlor or whether it had table games;
9 and other actions by state, and that included Maine
10 as well as Massachusetts in our model, and we
11 produced as outputs the economic revenue, crime, and
12 other social cost to the State.

13 Now, in any net true cost benefit
14 analysis, we would have included a whole bunch of
15 other estimates; but we didn't because we were
16 really asking the question: What's the net benefit
17 to the State?

18 If we had been asking about local
19 communities, we would have asked questions about
20 local infrastructure, and you've heard Michael
21 Pollock talk a little bit about that; the
22 implications of the roles of the school;
23 infrastructure and the like, as well as the
24 implication of local revenue and the property tax,

1 which I think would be one of the things that you
2 would want to look at in your model.

3 And then we put it all together. We
4 began with that market definition and we said there
5 are going to be economic impacts and there's going
6 to be an impact associated with the gambling
7 behavior.

8 We've estimated the number of
9 gamblers and the intensity, which you have all heard
10 a lot about. Estimates of pathological; new
11 gambling dollars; dollars that came up with a net
12 impact amount for each of these communities.

13 And then on the economic development
14 side we used sort of two paths, one estimating
15 short-term and long-term and then direct and
16 indirect, the costs associated with each; estimated
17 the degree to which that economic activity would
18 cannibalize existing activity and came up with that
19 impact.

20 And that was put together for the
21 commissioner for each of the sites that they
22 identified.

23 And then we tested it. How well did
24 our models measure up against what the experience

1 was in some of the other middle Atlantic states, and
2 they were remarkably close in our ability to predict
3 revenues; economic development, both the RIMS and
4 REMS models, which you don't need to know the
5 acronyms for them, we estimated economic level costs
6 benefits that were too high relative to the
7 experience, and the social cost of the experience,
8 it is very difficult to estimate what -- how well we
9 measure because at the measurement of it is very
10 difficult and, finally, we had a peer review of our
11 report.

12 So that's the model that we
13 developed, and I am glad to talk specifically about
14 characteristics of that and things that we measured.
15 We have a report which documents it very well.

16 I thought I would just throw just a
17 couple of observations that I had looking at the map
18 that you are looking at with our model in mind.

19 You'll note that if I go back up to
20 this we looked at markets at 30-, and 60-, and
21 90-minute travel times, believing that fewer people
22 would come to a place more than 90 minutes;
23 and that's a slightly different assumption than we
24 made in most of the economics analyses that are

1 made, but there is a resort component to this; that
2 there -- two hours' drive time is probably what you
3 will get most, but you are going to bring in people
4 outside the existing environment.

5 And I wondered if in that world in
6 which you've got three regions and you have multiple
7 casinos in each, the degree of overlap that you have
8 in those markets.

9 And this is a map showing 30-, and
10 60-, and 90-minute drive times with the placement of
11 random within the three different regions, but
12 places that people have talked about; and you can
13 see that there's pretty considerable overlap across
14 those communities.

15 And so I think one of the challenges
16 that the market is going to have and also you are
17 going to have in your thinking about what
18 information to collect is to get at the degree at
19 which that overlap exists or does not; and I wish
20 that I had an easy answer for you, but I don't, but
21 I suspect that there are experts in the gambling
22 industry that would be able to help you understand
23 that more clearly than we.

24 In our model there would be -- you

1 know, the green is the place where you get the
2 lion's share of a local casino's activity.

3 And in that model the placement of
4 the casinos would be best from an economic and
5 revenue generation prospective in -- north of Boston
6 and at or near the southeastern part of
7 Massachusetts because if you remember the maps
8 that -- I'm sorry, I've forgotten your name, put up
9 that's where a lot of revenue is, and that's where a
10 lot of gambling behavior is; but that might not be
11 the right place because those are also potentially
12 competing with enormous economic relevant activities
13 in the Boston area and, also, very significant
14 gambling behavior in Connecticut with Mohegan Sun
15 and Foxwoods.

16 And so in the context of the work,
17 you are asking a similar set of questions. Here are
18 the inputs that you are taking; the outputs that you
19 are interested in, and the markets that you are
20 really trying to understand are that and how and in
21 what ways can you encourage either in the
22 application process to get the information that you
23 need that's going to be able to answer those
24 questions about economic value.

1 This may be the beginning of a road
2 map, this particular question of cost and benefit
3 estimation, but certainly isn't comprehensive. So
4 I'll end there.

5 And do you have slides or no?

6 MR. WALKER: I do not.

7 MR. NORTON: Okay.

8 (Applause.)

9 MR. WALKER: Hello, my name is Doug
10 Walker, and I am an economist at the College of
11 Charleston; and I do not have slides, which one
12 disadvantage of that is that everyone is going to be
13 focused on me speaking instead of on the slides, but
14 I will deal with that.

15 So what I thought I would do today
16 is to talk about different aspects of legalized
17 gambling that I've done research on and kind of go
18 through some of those findings relatively briefly;
19 point out some things that I think are -- current
20 questions that I'm looking at that I think are
21 interesting and end with some issues that I think
22 would be, perhaps, some particular interest to
23 Massachusetts as it begins introducing casinos here.

24 I would like to say that I found all

1 of the panelists so far to be very interesting; and
2 as a public forum I think this is very good
3 information that the people are able to see these
4 different perspectives on this as well as the
5 Commission asking questions.

6 I tend to agree with almost
7 everything I've heard that these are key issues, so
8 I'm happy to be a part of this.

9 So one thing that I think I do
10 that's different than most of the other people who
11 have been panelists is that most of my work is
12 geared at getting into academic journals.

13 As such, what we -- what I tend to
14 do is look at past data, try to model what's going
15 on; relationships between various variables, and
16 then get into a peer review process, which can be
17 good and bad.

18 It can be good in the sense that
19 other people are reading the work and making sure
20 that it has some merit, and it can also be bad
21 because you often wonder have these people even read
22 the paper that they are giving comments on and
23 rejecting the paper for; but that's academics and
24 that's the way it goes.

1 But what I don't do is a lot of
2 prediction of values of what revenues might be in
3 various scenarios, and that's what a lot of these
4 other people have an expertise in doing, and so I
5 think it's good to get different perspectives on
6 those things.

7 So the things that I've looked at
8 that I think are interesting and relevant to
9 Massachusetts include the economic growth effect of
10 casinos, which I've looked at at the state level.

11 I think -- and what we do has been
12 to aggregate data for all of the states in the U.S.
13 that have introduced casinos; looking for a
14 relationship between casino revenues and economic
15 growth, which we define as per capita income; and we
16 found a positive relationship in general.

17 I've done two or three different
18 renditions of the study, but I think that there's
19 pretty good evidence that the casinos tend to
20 promote economic growth and development in the
21 state.

22 And so that's one thing that I think
23 is important, and I think that Massachusetts when it
24 goes into introducing casinos will probably see a

1 positive impact from that overall.

2 I've looked at how different
3 gambling industries affect each other, so looking at
4 casinos; lottery; horse racing, and dog racing.

5 And that study was published in 2008
6 so the data was relatively old; but, again, looking
7 back at states that had multiple industries, the
8 most interesting was also that I found that casinos
9 and lotteries tend to be substitutes, or competing
10 with each other, so that you would likely see some
11 decrease in lottery expenditures in Massachusetts.

12 Now, as was mentioned on the first
13 panel, that may be just a temporary thing; and I
14 would echo the comments by Mike Pollock earlier that
15 if it's marketed right, it could potentially be
16 complimentary to the lottery.

17 And I should mention I have worked
18 with Spectrum on the 2008 Massachusetts report and
19 also recently on the lottery issue, and that's
20 something I know is important; to what extent will
21 casinos affect the lottery.

22 Historically I think that there has
23 been a substitute relationship between those two
24 industries.

1 One issue that I've spent a lot of
2 time, not so much recently, but in the earlier
3 days when I was doing research in this area,
4 was social policy issues of gambling, which has
5 been -- especially back in the early '90s when
6 casinos were first being introduced in states with
7 rivers and riverboat casinos.

8 Social policy issues, which have
9 been a particularly difficult issue to study; and
10 there's a variety of reasons for that.

11 One is different people from
12 different backgrounds have a different perspective
13 on what it is to be a social cost. What is the
14 definition of it.

15 And then, what was just mentioned,
16 the measurement of those is extremely difficult for
17 a variety of reasons.

18 And so I've spent quite a bit of
19 effort looking at studies that have been produced to
20 estimate the social cost, and I think that's
21 probably one of the most complicated parts of the
22 whole equation with casinos.

23 A few other issues that I've looked
24 at that are not so relevant now, one is the

1 motivation for legalizing casinos. And
2 Massachusetts already has, so you probably don't
3 care about that.

4 And then, surprisingly, fiscal
5 stress. That ends up being one of the more common
6 and stronger predictors whether a state will
7 introduce casinos.

8 Although, legalized gambling in
9 general actually doesn't provide a large proportion
10 of most states revenues.

11 I think in Massachusetts it is about
12 7 -- they ranged about 7th among states in terms of
13 the proportion of overall revenues that come from
14 gambling; but for most states it's far under 5
15 percent in total revenues come from gambling, all
16 sources are added together, so it's actually not a
17 huge proportion of most states revenue side of the
18 equation.

19 I've done a little bit of work, and
20 it was mentioned on the first panel on how does the
21 legalized gambling of casinos in particular affect
22 property values, and I think that's a very good
23 question, which there have been few studies in
24 academics on that; and I'm not very familiar with

1 whether in the consulting world whether there's been
2 a lot of work in that, but there have been a few
3 studies that have looked at casinos and the effects
4 on residential values and commercial property
5 values.

6 And I did a study on that on
7 Detroit, which has a few casinos in the downtown
8 area.

9 And what we found in that study
10 looking at sales data of commercial properties were
11 a few segments of the economy where sales price data
12 indicated that there was actually increases in
13 values as a result of the casinos.

14 Those industries that were
15 positively affected were, I think, more related to
16 tourists coming in.

17 But one interesting thing was we
18 found no negative effect on any segment of the
19 commercial real estate industry as a result of the
20 casinos.

21 Now, one potential problem is, and I
22 haven't been to Detroit, but I think property values
23 aren't doing very well there in general, so if you
24 are already at or near zero, how much down could it

1 go from there? I'm not sure.

2 So there may be other issues going
3 on in Detroit that help explain that any economic
4 development might be good there.

5 That's an overview of some of the
6 things that I have done in the past. A few issues
7 that I think are important that I'm trying to look
8 at now, and I think that other people are too, is
9 the question of to what extent are casino taxes
10 regressive in nature.

11 It's pretty well taken for granted
12 that casino taxes are regressive because there has
13 been a lot of literature suggesting that lotteries
14 are; and I believe that literature, but I'm not so
15 convinced that same is true for casinos.

16 And there's some technical arguments
17 in economics of where the actual tax burden falls
18 that has not been explored in casinos that I think
19 need to be, and so I'm trying to look at that now so
20 I'm trying to look at that now; and I think that's
21 and interesting and important question.

22 And then the other issue which --
23 and it may be just be that I'm completely uninformed
24 on this, and I would certainly defer to the people

1 that have done economic impact studies and then the
2 industry itself; but it's not obvious to me whether
3 a regional model, which Massachusetts has adopted
4 where you have three regions; there will be a casino
5 in each. The same has been followed by Kansas,
6 Ohio, and others; but it's not obvious to me that
7 that model is superior or inferior to one where
8 casinos are clustered or that there is some
9 conglomeration.

10 It seems to me that if you are
11 trying to attract tourists, one of the things about
12 Las Vegas is interesting is that there are a bunch
13 of casinos there together, of course they compete
14 with each other, but the fact that people have a
15 bunch of different opportunities, different casinos,
16 each with different amenities, which I would echo
17 earlier comments that those are important, that also
18 will attract people just because they have more
19 options, I think.

20 But I guess the model was
21 established here so that may not be as relevant and
22 important now then if I had done it before the
23 legislation was passed.

24 And then a related question, which

1 I'm working on and I am kind of doing some work
2 similar on Missouri, which looks at how does the
3 proximity of casinos to each other and their size
4 affect each other.

5 And it's also not obvious to me
6 that, although I recognize the casinos are going to
7 compete with each other, I think that the
8 conglomeration affect, where having a few places
9 near each other might attract more people into that
10 neighborhood or into that region, so I think there's
11 two offsetting effects.

12 And our early results in Missouri
13 suggest that those two affects are both real and
14 perhaps of similar size.

15 And then the other issue that I'm
16 currently studying is casinos and political
17 corruption, which is a kind of an interesting study.

18 We haven't gotten very far with
19 that. We are kind of in the early stages. But I
20 would emphasize something that others have said that
21 I think that all of these effects, whatever you
22 happen to be in interested in, are probably very
23 market specific.

24 And so one of the things in the

1 studies that I have done where we find results where
2 we aggregate a bunch of states together, you often
3 will find some states that have one impact; other
4 states have other impacts, and so I think it is
5 probably very state or region specific, so I think
6 that's an important part that should be emphasized.

7 And then a few other just thoughts
8 of things that maybe the Commission and the voters
9 should be thinking about as casinos are introduced
10 here.

11 On the question of licensing, I
12 would agree, again, with Mike Pollock on his point
13 about the fact that that's going to affect the
14 capital, the size of the capital investment.
15 Likely, so that is an important question, what type
16 of fee should be charged.

17 And then the sequential, whether it
18 should be sequential or not, also, I think, is an
19 interesting question which should be addressed.

20 As an economist an interesting
21 question to me, and I have not thought through this,
22 so I am not sure it's a good idea, but the idea of
23 auctioning off the license as part of the proposal
24 might be interesting to see what the companies

1 themselves think that the license is worth. That
2 would be a signal to the State as to what the
3 companies think the license is worth.

4 Someone already had mentioned this;
5 that how casino affect residential/commercial
6 property values and especially nongambling
7 businesses.

8 That, I know, is a concern for --
9 existing businesses always voice that issue; will
10 casinos harm them.

11 And there has been no good studies
12 in academics which addressed that issue that I've
13 seen, and so I think that's a key issue, also.

14 The large destination resort versus
15 a smaller casino model, which one of those is best
16 for Massachusetts.

17 I think others have addressed that;
18 the extent to which each can attract tourists and
19 which will be more likely to keep people at home. I
20 think that's a key question that should be studied.

21 The market saturation question is
22 another issue. Clyde mentioned that in his remarks,
23 also, among others; and I think that our evidence
24 from our study in Missouri suggests that Missouri

1 hasn't reached that point yet and -- but I think,
2 again, each region might be different. It really
3 depends on the public, who is the customer of the
4 various casinos.

5 The on-line gambling issue, I think
6 that's going to be, I think, everywhere in the U.S.
7 pretty soon. I don't know whether that's going to
8 affect traditional casinos or not. I think that's
9 an important question.

10 My guess would be that it would not
11 be that damaging to traditional casinos, but I have
12 no real idea. That's a new thing.

13 And the one thing that may be
14 political -- the political matter is completely
15 irrelevant; the one thing that always surprises me
16 is discussions, either in academic or policy
17 reports, is that rarely is the benefits the
18 consumers get from the opportunity to gamble listed
19 at all as a benefit of legalizing casinos.

20 And one of the benefits, surely, is
21 that people like a new opportunity for
22 entertainment. Clyde mentioned the business and
23 entertainment option.

24 And so, as with any other type of

1 industry or firm, a new firm in an area, from the
2 consumers' perspective, is typically going to be
3 beneficial. It gives them a new opportunity; a new
4 option.

5 And when there's more competition,
6 it tends to bring prices down, and consumers also
7 benefit from variety.

8 So I think from the consumers'
9 perspective it can also be seen as good even if they
10 are not coming from out of state, although,
11 obviously, you have to understand that the people
12 that have to compete with that, existing businesses,
13 tend to prefer not to have more competition, so
14 that's an issue that -- I don't know how easy it is
15 to measure that empirically, but I think it's
16 relevant.

17 And then one other -- I have two
18 other points. One is that perhaps as you are
19 seeking additional information it would be useful
20 to have people read through various reports and
21 offer -- with the intent of getting critical
22 feedback on the reports, a few people have mentioned
23 the assumptions used are important and getting some
24 other perspective on, okay, what are the key

1 assumptions here; how likely are they to hold, I
2 think that's good information to use in developing
3 public policy, but all this research by its nature
4 has to rely on assumptions. I think it's just
5 useful to be aware of what they are.

6 And then, lastly, I don't know how
7 relevant this is, but both with lotteries and then
8 increasingly with casinos, the suggestion that the
9 revenues -- a portion of the revenues are going to
10 be devoted to education, that's always a good thing
11 because people like to give money to education.

12 One interesting question that people
13 have studied in the lottery is when -- suppose the
14 lottery is going to give a million dollars to
15 education.

16 Well, that doesn't necessarily mean
17 that the legislature doesn't then reduce their
18 funding of education by a million dollars, so it
19 would be interesting to keep track of does net
20 spending on education increase as a result of the
21 casino's contribution to it. And that's an issue
22 that I don't think has been addressed with casino.
23 I know it has with lotteries.

24 Anyway, those are a few of the

1 comments that I have for suggestions for what would
2 be interesting to look at. Thank you.

3 (Applause.)

4 MR. BARROW: I would like to thank
5 everyone for those excellent presentations. I think
6 now we go to questions from the Commission.

7 COMMISSIONER STEBBINS: I'll start
8 off. I think on behalf of everybody on the
9 Commission, first of all, thank you for your
10 participation; and, secondly, Professor Walker, we
11 hope we don't become part of your corruption studies
12 at any point.

13 A quick question for Professor
14 Romitti. Customer data. What types of customer
15 data do casinos usually collect? How willing in
16 Missouri -- were they able to share that with you?
17 And what pieces of it did you find valuable?

18 MR. ROMITTI: Well, we had -- the
19 Gaming Commission, of course, had authority to
20 basically regulate the existing casinos and those
21 who would be applicants.

22 And so they had -- in our
23 discussions we talked about the ideal information
24 that we would have.

1 Of course, this is business
2 intelligence, right, so we wanted to know ZIP code
3 level patron data. We basically wanted to know what
4 percentage of customers were attending the existing
5 casinos based on ZIP codes.

6 They keep that data by their own
7 intelligence via, for instance, rewards cards; other
8 means.

9 In order to get that data -- first
10 of all, it was the Commission that worked it out.
11 We signed the confidentiality because it wasn't to
12 be shared.

13 We wanted it aggregated not by
14 individual; but as I'm trying to point out that was
15 critical because then you're able to get a little
16 more real and tangible information on is it
17 really -- you know, we decided it was a 30-mile
18 drive time market for the urban areas based on that
19 data not just randomly, 30, 60, we were looking at
20 where the preponderance of the market was and these
21 are local market businesses.

22 And it was interesting in some cases
23 because you would hear some of the casino
24 applicants, for example.

1 So you had an existing casino market
2 that you could tap into and, of course, they had a
3 perspective, right, they were leery of having any
4 new casino near where they were at, so they had kind
5 of a perspective like we are worried where these
6 things are going to be sited at.

7 We had new applicants that were
8 talking about all the benefits of their site, and so
9 we heard a lot about Interstate intercept, which is
10 basically, you know, get close to a major
11 thoroughfare; you have a lot of traffic and cars;
12 you got cars coming from out of state on interstate
13 and all of a sudden they are going to see your sign,
14 your nice casino in the distance, and they are going
15 to pull of and gamble. The interstate intercept.

16 We had several casinos in the state
17 that were well positioned along the interstate, but
18 what you found out with this -- more nuance; we've
19 talked about there are nuances with every market.

20 We actually found one casino that
21 was right along the interstate, but it did much more
22 of its business, the majority of its business,
23 north/south, meaning, just basically, not getting it
24 off the interstate, but was getting it into northern

1 Missouri and down the Lake of the Ozark's, which is
2 a Central Missouri recreation lake, which is
3 populated by a lot of seniors, retirees; and
4 basically a lot of rural residents.

5 I mean, Massachusetts doesn't have
6 any official rural space, but there are a lot of
7 rural areas; but in Missouri there's a lot of open
8 space, and what you find out is that many people in
9 Missouri in rural towns, it's a big city, no matter
10 how big the casinos are, they want a convenient,
11 kind of quieter, easier to get to location and that
12 sustains.

13 So we are able to test assumptions
14 like that using that type of data and secure
15 confidentiality through agreements.

16 CHAIRMAN CROSBY: Also, Professor
17 Romitti, you did an interesting analysis on how much
18 revenue you thought would be generated by the three
19 competitors in jobs.

20 Did you do any assessing of
21 substitution affect? Did you measure jobs compared
22 to lost jobs?

23 MR. ROMITTI: No, not that directly.
24 You know, the idea of displacement itself. We

1 had -- the casino industry, without a doubt, has
2 been, I think, widely accepted. I use that phrase,
3 obviously, but, you know, at the time the market and
4 the jobs now top at 11,000 jobs.

5 What we did was we took the jobs
6 figures supplied by the applicants and we basically
7 deflated them by what we thought were really going
8 to be new additional sales, not just diverted sales
9 from an existing customer from that casino going to
10 that casino, so deflated in that way what we thought
11 the real jobs impact would be given that level and
12 then ran it through the model, so to some degree it
13 wasn't direct but what you are getting is you are
14 getting less of an impact in the total jobs figure
15 than you would if you just accepted the applicant,
16 so I hope that answers it.

17 COMMISSIONER MCHUGH: I wanted to
18 ask Stephen Norton about your approach. Once you
19 got everything together you said you tested your
20 approach before you began to have confidence that it
21 was going to give you the right answers.

22 How did you go about testing? You
23 didn't have real data the way Professor Romitti did
24 so --

1 MR. NORTON: We tested different
2 parts of our model. We had gaming revenues from all
3 the state, that's generally public information, and
4 we had the characteristics of our model, and we
5 could relate our model to those areas to see how
6 well our model predicted revenues. And we were plus
7 or minus 5 percent.

8 So it said to us our model is pretty
9 good at predicting how much revenue you can generate
10 in this particular industry.

11 And our models weren't terribly
12 inconsistent with anything that the industry has
13 created; that was -- made us feel a little bit
14 better.

15 The question about economics, we
16 used tested models; we used REMS and RIMS, which are
17 two economic development assessment tools; and they
18 were close, which helped us feel more comfortable
19 with that.

20 The piece that we couldn't test in
21 any way were the social impacts component. It is,
22 arguably, the weakest part of our analysis; and we
23 basically used an average of what the literature
24 suggested across a variety of different dimensions

1 and said that this is the best we can do under the
2 circumstances.

3 COMMISSIONER ZUNIGA: I have a
4 question for Mr. Walker. You mentioned that you've
5 looked at the affects on property values at a --
6 residential and commercial, and you mentioned there
7 was no increase necessarily in some of the
8 commercial properties that were not associated with
9 hospitality, perhaps, and there was an increase in
10 those, but I'm curious about the prior idea from the
11 prior panel relative to an inventory of the
12 businesses where there's a turnover of those
13 businesses where the property values remain the
14 same.

15 I am also interested relative to
16 residential property values that I don't believe you
17 mentioned so --

18 MR. WALKER: Yeah, I think both of
19 those are very good questions, which at least in the
20 academic literature I'm not sure they have been
21 addressed, and so, yeah, we did look at sales values
22 for commercial property; but as far as I know there
23 has not been a good study that's looked at turnover
24 and types of businesses.

1 Now, I've heard, and critics will
2 argue, Well, you see all pawn shops turning up
3 around casinos and that -- or bad types of
4 businesses, but I don't know if there's been a good
5 study on that.

6 And then residential values, I
7 think, would be a good indicator. There are,
8 actually, a few studies that I think have hit at
9 that; and so Mike Wenz is an author of one of those
10 I know, so there are a few things in the book that
11 have looked at residential property values.

12 That's something that would be very
13 good, I think for Massachusetts, to try to keep
14 track of and study.

15 MR. NORTON: I would like to respond
16 to the question that was raised earlier about the
17 economic development implications.

18 We found a similar point, that it's
19 hard to predict exactly what economic impact you are
20 going to have with gambling; generally it is
21 positive.

22 We moved, actually, to sports venues
23 to see if there was some literature there that could
24 help us understand the impact, and it's also mixed

1 there.

2 It's not clear one way or the other
3 necessarily that you are generating new -- it's
4 generally not negative, but it's not in general
5 large economic development implications.

6 CHAIRMAN CROSBY: Steve Norton, what
7 was the bottom line of your research on your cost
8 benefit analysis?

9 MR. NORTON: I'll give you three.
10 We estimated for five sites, and there were two
11 sites where there was a net economic benefit.

12 One was in the ski country, largely
13 due to the tourist affect; that it really was a
14 resort destination point; it brought in significant
15 revenue and significant discretionary income, and
16 the other one is along the Massachusetts/New
17 Hampshire border.

18 CHAIRMAN CROSBY: Even after netting
19 out --

20 MR. NORTON: Even after netting out
21 the other social costs and regulatory costs.

22 COMMISSIONER CAMERON: I had a
23 question about the Missouri bidding process and all
24 of the details of the process have to do with

1 economics, and, you know, what the data is saying.

2 I am assuming that all of the
3 candidates were suitable as far as their business
4 practices before this model was in place and their
5 financial stability.

6 I know you mentioned one larger
7 prospective applicant that I think what I heard you
8 say was that they on their own decided not to
9 proceed with the bid.

10 So all of your candidates were
11 suitable in every other way that you could use these
12 steps to determine who got that license?

13 MR. ROMITTI: Well, you know, as you
14 do on the Commission, you have a multitude of
15 criteria you are going to evaluate.

16 We were particularly looking at the
17 one aspect of economic impact, but that certainly
18 wasn't the sole criteria. It was a very important
19 criteria.

20 What ended up happening, of course,
21 is that Missouri had gone through 13 previous
22 licensing processes so they had a little bit of the
23 benefit of history, but, quite honestly, they hadn't
24 licensed a casino in several years since River City;

1 and in that time there was no member of the existing
2 commission that had ever gone through the licensing
3 process.

4 Now, they had staff and, of course,
5 on top of this you have this new dynamic, which was
6 it was going to be this kind of competitive bidding.
7 We want to get it out the door so the construction
8 can begin as soon as possible so we can get the
9 maximum economic impact during the downturn; all of
10 these issues were up.

11 And so the process was kind of
12 running concurrently, so, yes, we were meeting early
13 on with the Gaming Commission to set out what is
14 going to be the strategy for the economic impact
15 analysis.

16 And during the course of those
17 conversations, which happened -- I think they were
18 as early as March of that year and then the award
19 process was December, so you are talking about
20 within the course of the one-year time frame; but we
21 had a pre-meeting to talk about how do we get an
22 apples-to-apples comparison on economic impact,
23 which is we are going to work two years
24 construction; five years operation. If you are

1 going to build the hotel after five years, we're
2 not count it. You know, we just want the
3 immediate -- we're going to send out these surveys.

4 In the meantime, they've had another
5 group that was working on the financial due
6 diligence; you had the highway patrol working on the
7 background check because what they did is they set
8 up a process where they gathered the letters of
9 intent or interest to start getting a handle on who
10 the pool might be.

11 They starting communicating in the
12 ways that they could to kind of, you know, get
13 those. They did the public hearings in the
14 communities over the summer all before the official
15 applications were due and the 50,000, in the case of
16 Missouri, was due by the applicant to have to
17 review.

18 So I think a lot of upfront work,
19 continuous work, before, you know, an actual
20 applicant had to put money on the table.

21 During the course of this, one of
22 those that looked very promising had backed out
23 because he had a large institutional investor, who,
24 basically, was caught up in the financial crisis and

1 they couldn't bring the money to bear so --

2 MR. BARROW: I just want to call
3 attention that we are 30 minutes past our official
4 end time.

5 CHAIRMAN CROSBY: I would like to
6 thank the audience as well. Dr. Walker, you said
7 you have done some research on social costs of
8 gambling. Can you tell us anything interesting?
9 What have you learned? Any quantification?

10 MR. WALKER: Yeah, what I've done is
11 mostly review other studies that have been done in
12 the past; and I think that the reason why it becomes
13 so difficult to estimate those is that most of the
14 social costs that -- people will agree these are
15 social costs of the gambling -- most of those are
16 attributable to problem gamblers.

17 The psychologists can do pretty well
18 in estimating the prevalence of problem gambling and
19 all of that; but when it comes to trying to develop
20 a monetary estimate of social costs, there's a few
21 problems that get in the way of that.

22 One is just the definitional issue:
23 What do you mean by "social cost"? Well, it can't
24 be anything that government spends money on in the

1 sense that, okay, if we increase spending on
2 education, well, that's probably a good thing; but
3 social cost implies it's a bad thing.

4 So there's a few definitional
5 issues. Whether transfers of wealth should be
6 included in that or not; but aside from that I think
7 the biggest problem with it is that for a lot of
8 problem gamblers I think the psychology research
9 shows over half of those people also have other
10 issues. They might have alcohol or drug use
11 problems.

12 And so I think it's impossible to
13 kind of partition -- even if you could evaluate the
14 costs, how do you partition that across the
15 different problems the person may have?

16 And so for that reason I've argued
17 that trying to come up with a monetary estimate is
18 probably not very fruitful.

19 It might be better to focus more on,
20 okay, here are the problems with these types of --
21 that these people have and here are the types of
22 problematic behaviors that they have; and be aware
23 of that rather than trying to focus so much on a
24 dollar value for it.

1 And so it's not to deny that there
2 are social costs, but rather to say that what might
3 seem like a very precise and well thought out
4 estimate actually is based on a large number of
5 somewhat arbitrary assumptions.

6 And, you know, all of this stuff
7 rests on assumptions to some extent; but the ones
8 dealing with social costs are particularly
9 problematic, I think.

10 CHAIRMAN CROSBY: Thank you. Also,
11 you talked about having done a fair amount of
12 research, I think, to the extent to which casinos
13 and lotteries compete for the same dollar; and then
14 you said you might well -- it might well be right
15 that this comes back, but your research was the
16 extent to which they did cannibalize one another.
17 Do you have any data specifically on that?

18 MR. WALKER: Yes. That was based
19 on, I believe, the 1985 to 2000 data for all states
20 that have casinos and lotteries.

21 And so with -- the statistical
22 analysis we did showed that both lotteries harm
23 casinos and casinos harm lotteries. So there was a
24 negative relationship.

1 Now, we didn't take -- so this is
2 putting all states together, so that doesn't mean
3 that a particular state there might be a different
4 relationship, but overall it was a negative
5 relationship between the two.

6 CHAIRMAN CROSBY: How much negative
7 did you --

8 MR. WALKER: That's the question I
9 can't give you a precise -- you know, casino
10 spending goes up by a dollar and lottery goes down
11 by whatever. I can't give you a precise --

12 (Backfeed from microphone.)

13 MR. WALKER: Is that me?

14 CHAIRMAN CROSBY: I guess we are
15 about done.

16 MR. WALKER: So there are other
17 studies that have estimated that, but our study did
18 not get too precise to what extent they harm each
19 other.

20 CHAIRMAN CROSBY: Anybody?
21 Additional questions? Clyde Barrow, right, thank
22 you; Martin Romitti; Doug Walker; Steve Norton, and
23 all our earlier panelists, and our patient audience.

24 And I'm Steve Crosby. I am the

1 Chair of the Commission. I want to thank everybody
2 for coming. I hope lots of people saw it online.

3 This is a big, big challenge; and
4 this is incredibly interesting and an important part
5 of it and we are on our way. Thanks for coming.

6 (Applause.)

7 (Event concluded at 12:17 p.m.)

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