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CASINO ENVY

When Should Competition Govern Gambling Policy?

States and communities authorize gambling for two reasons: to make money or to keep it.

The first reason drove development in the late 80's and early 90's, when riverboat and truck-stop casinos offered a tempting stream of tax revenue that hadn't existed before.

Now that every state has gambling within or across its borders, guarding existing revenue or stopping gambling dollars from flowing out of state has become as compelling an impetus for expansion as the former. Dozens of states and communities have passed gambling bills only when they realized how much money was moving through their highways to casinos in neighboring markets.

The "casino envy" factor has been the reason for enormous gambling initiatives – like in Detroit, which launched its downtown casino project only after Canadian casinos started sucking millions of dollars across the border. It's also been cited as justification for mere enhancements to existing gambling – like in Indiana, where riverboat casino owners say they need dockside gambling in order to compete with Illinois.

The question that lawmakers and voters are asking, is whether this is a *valid* reason for gaming expansion. Should a jurisdiction allow its gambling policy to be dictated by the decisions of its neighbors? The way they answer that question might depend on a few other queries:

Brand New Gambling Or Expanded Gambling?

Naturally, it's a lot easier to push through an expansion of existing gambling rules than to justify new casinos in a market with a history of opposition.

In Indiana, for example, the case for relaxing dockside gambling rules is strong. The state has offered casino gambling since 1995, and now hosts a fleet of 10 boats, which have so far contributed more than \$1.5 billion in tax revenue.

The fact that the boats could only offer gambling to cruise passengers wasn't much of an issue until June of 1999, when neighboring Illinois started to let patrons board and bet on its boats at any time. Now Indiana casino owners are rightfully worried about sinking revenues if the legislature doesn't let them offer them the same flexibility.

Considering that the state has had a remarkably peaceful relationship with its casinos so far, this seems like a small concession that would protect a long-term financial and political investment. This is not a major change in philosophy or structure.

On the other hand, the case is a lot harder to sell when entirely new gambling initiatives are at issue. That Michigan managed to shove through its casino bill is a minor miracle, considering that similar measures had been soundly defeated in the past.

In other states – New York, for example – the mere idea of missing out on revenue sources that never existed in the first place has not been compelling enough to cause a major shift in gambling policy.

In a way, that makes sense. One would hope that voters and lawmakers would launch gambling out of hope and optimism instead of reactive fear.

Can The Losses Be Quantified?

Perhaps one reason that Detroit casino backers won their case, was that there were widely publicized reports that \$1 million was making its way through Detroit into Ontario every day. That magic, memorable number was a bitter pill to swallow and a clear way to illustrate what Michigan was missing.

Likewise in Indiana, the boat owners not only claim that they are now losing patrons to Illinois casinos; they've produced numbers to prove it.

The owners of Evanston's Casino Aztar recently conducted a study of the gaming industry around Evanston and nearby Metropolis, Illinois, which showed that Aztar had lost around 40 percent of its business since Illinois approved dockside gambling – and that there was a corresponding increase in revenue on the other side of the river. Managers at riverboats in northern Indiana report the same shifts in that part of the state.

Indeed, the Indianapolis Star reports that Illinois experienced a 37.5 percent increase in revenue for the first six months of 2000 compared to the same period in 1999.

When the impact on Indiana casinos seems so brutal, and when the change has proven so successful across the border, how does one rationally justify rejecting the request?

Naughty Or Nice?

Finally, any gambling expansions regardless of their motivations are evaluated partly by the results of previous gambling experiences in the state. If the politicians and voters have an amiable relationship with the gambling industry... If they feel that promises have been kept and integrity has been maintained... They are naturally more inclined to accommodate change.

In Indiana, that question seems tough to answer. According to the Star's recent in-depth examination of riverboats and their host communities, the casinos have been good neighbors and have lived up to their promises – but some expectations still have not been met.

While millions of dollars have funded infrastructure and other government programs, it seems a common complaint among business owners that the casinos have not brought the comprehensive economic revitalization that was expected. Businesses

near the casinos say they're still struggling, when five years ago they predicted growth.

Though this sounds more like a revenue allocation problem than an issue with the casinos themselves, Indiana's boat owners would probably be in better graces if their contributions had been directed toward more visible refurbishment projects as they have in some other cities.

Sometime this year, we will learn whether Indiana's gaming boats proved their case convincingly enough to win dockside betting rights. The sensible move would be approval.

In the meantime, dozens of other skirmishes are happening between states and communities with competitive gambling policies. There will always be features that distinguish one gambling market from another. Some are significant, like the types of gambling that are legal. Others are seemingly small, like admission fees, alcohol regulations and betting limits. Occasionally those slight differences will result in significant losses from one jurisdiction to another.

Opponents warn against a "keeping-up-with-the-Joneses" mentality. They say that competitive escalation can only lead down a slippery spiral toward more significant changes in the sorts and styles of gambling in the state.

While it's true that not every change in gambling policy warrants a knee-jerk reaction from surrounding states, sometimes the impact is so clear and brutal that failure to react is costly. Knowing how to identify those critical issues and pick those battles is key to rational, yet competitive gambling policy.

This likely wouldn't be an issue if the gambling industry weren't so tightly regulated, and if nearly every change in policy didn't require a public referendum, a major act of legislature, or even a constitutional amendment. But because it is, little changes can seem larger than life.

Maybe gaming skeptics have been bred to be paranoid. After all, gaming expansion has often come through the back door, in a subtle series of graduated steps. But we need a little dose of reality here. Is dockside betting really the next step to Armageddon? So far, Illinois seems to have survived.

The way the casino owners see things, it's not about keeping up with the Joneses – it's about keeping the Joneses from milking you blind.

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