

Economic Costs of Expanded Gambling in Kentucky 2008

(For detailed cost/benefit analysis, see: Grinols, Earl. *Gambling in America: Costs and Benefits*. Cambridge: Cambridge University Press, 2004)

SOME PERTINENT STATISTICS

From 2003 & 2006 reports produced by Harrah's offering a "Profile of the American Gambler", available on-line, the following facts were obtained:

Participation rate (at least 1 visit in past 12 months to a casino) by percent of population:

U.S. Adult Population (2006 report)	25%
Louisville & Northern Kentucky areas adjacent to Indiana casinos (2003 report)	30-32%
Lexington area (2003 report)	8%
Kentucky, averaged (2003 report)	16%

Conclusion: Proximity to a casino means a rough doubling of participation (as defined) above by the population.

Harrah's latest profile of American Gambler puts the national average of visitation to a casino, at least once per year, at 25%, for comparison.

Being very conservative, I would guess that casino participation rates for Kentucky cities if they had local access to a casino would be approximately 35 %, not increasing greatly in cities like Louisville or Covington, but having a **doubling effect** on the rest of the state's population. Given that there are twice the number of casino visitors in N. Ky and in Louisville than the rest of the state, it seems fair to deduce that if casinos are within 35-50 miles of most of the population, the rates will double, and that they will rise slightly with the convenience of not having to cross the river in those areas already close to riverboat casinos.

Kentucky was one of 15 states in 2005 that did NOT generate over 2 million trips to a casino. It is a "designated market area." Only 500,000 + trips were made by Kentuckians.

Interestingly, in Harrah's annual report they never offer statistics on the same demographic distinctives, so it is always difficult to compare changes up or down in gambling rates.

Numbers of Problem and Pathological Gamblers now in Kentucky

Definitions:

Problem Gambling = gambling that exhibits similar persistent and recurrent maladaptive behavior as pathological gambling, except to a lesser extent. I.e, problem gamblers can usually quit for periods of time. In most usages it means any gambling behavior that causes disruptions in psychological, physical, social, or vocational areas of life.

Pathological Gambling = (according to DSM-IV of the APA) "persistent and recurrent maladaptive gambling behavior as indicated by five or more of ten items, including: needing to

gamble with increasing amounts of money; repeated unsuccessful attempts to control, cut back, or stop gambling; chasing losses; lying to family members or others to conceal the extent of gambling; committing illegal acts such as forgery, fraud, theft or embezzlement to finance gambling; jeopardized or lost significant relationships, jobs or career opportunities; relying on others to provide money to relieve a desperate financial situation.

Factors included in determining social costs (as cited by Grinols)

Crime

- Apprehension & increased police costs
- Adjudication (criminal & civil justice costs)
- Incarceration & supervision

Business & Employment Costs

- Lost productivity on job
- Lost time & Unemployment

Bankruptcy

Suicide

Illness

Social Service Costs

- Treatment/therapy costs
- Unemployment & other social service, incl. Welfare & food stamps

Government Direct

(regulation—e.g., 1999 study of Louisiana found regulation costs were \$50.02 per year, or a direct cost per Louisiana adult = \$16.53)

Family Costs

Divorce, separation, custody fights

Abused dollars

(lost gambling money acquired from family, employers, or friends under false pretenses—and never reported to authorities)

Earl Grinols puts the cost of each pathological gambler (in 2003) at **\$10,330 per year**
 Cost of each problem gambler at **\$2,945 per year**

(This is based on academic, peer-reviewed research. Dr. Grinols is an emeritus professor of Economics at the University of Illinois, Champagne-Urbana, and now serves as Professor of Economics at Baylor University in Texas)

The costs to Kentucky, present and to be anticipated if we get 12 casinos

Current Costs of P & P Gamblers to Kentucky w/o KY Casinos		
Kentuckians 21+ years of age =	2,867,257	
Pathological Gamblers now w/o casinos x 1%	28,672	
2006 Ky Council Problem Gambling report:		35,000
Problem Gamblers now w/o casinos x 1%	28,672	
2006 Ky Council Problem Gambling report:		70,000
TOTAL, Social Costs:		
# Pathological Gamblers x \$10,330 =	\$296,181,760	\$360,500,000
# Problem Gamblers x \$2,945 =	<u>84,439,040</u>	<u>206,150,000</u>
Total Annual Social Costs est. now =	\$380,620,800	\$566,650,000

Projected costs to Kentucky with 9-12 casinos all over the state

An assumption that proximity to 9-12 casinos would double these figures is not excessive, but is highly likely.

100% increase in pathological gamblers w/ casinos (2003 figures)	\$592,363,520
100% increase in problem gamblers w/ casinos (2004 figures)	<u>\$168,878,080</u>

TOTAL, annual social costs with 9-12 casinos **\$761,241,600**

This is why the fiscal health of states with casinos is not significantly better than that of states without casinos. Every year, in Indiana and West Virginia, legislative debates rage about expanding the number of casinos, the kinds of games, and the location at which EGDs may be operated.

WHERE DOES THE MONEY COME FROM?

For Kentucky to receive revenues of \$500 million, \$14 billion would have to be wagered, with Adjusted Gross Receipts of \$1.4 billion. That amounts to roughly \$3464. annually for every man, woman, and child in the Commonwealth of Kentucky, that will have to be wagered at the casinos to generate that revenue. Realistic? Not very. Kentuckians don't have that kind of wealth.

On the other hand, some tinkering with the state's tax system including such things as a sales tax on some services, and a larger number of graduated steps in the income tax with most people paying about the same as they currently pay, but with those making over \$200,000 paying slightly more, adding a cigarette tax of \$1.00 a pack which would inhibit teens from smoking, reduce the numbers of smokers, and reduce Medicaid costs, could generate \$500 million too. Even simply dividing the number of adults in Kentucky over age 21 into \$500 million would mean only a modest average tax increase of \$174. Wouldn't you rather pay \$174 more in taxes than have 30,000 or more lives of your neighbors and their families devastated by what casinos will do to them?

Finally, most of those dollars will go out of state, making even greater #s of dollars leaving the state, to the owners and stockholders in the big 6-7 casino enterprises.

Advocates tend to trivialize the negative impacts, because some of them are hard to quantify—such as the cost of a suicide on a family, or the cost of divorce to a child.

A few other tidbits

Natchez, MS reported that 70% of business showed declining sales within a few months of opening city's first riverboat.

Vicksburg, before casinos, had 2 pawn shops. Now there are 20.

Bankruptcy: in a study of 8 US communities that adopted casino gambling, 7 saw an increase in bankruptcy filings. Researchers found those communities that have had casinos the longest tended to have the greatest increase in bankruptcy filings. SMR Research Corporation found that gambling may be the fastest growing driver of bankruptcy, and accounts for 10-20% of filings in areas near casinos. This data predates the current housing slump and increase in foreclosures.

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