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Jury's out on casinos as a boost to economy
TRADEOFFS FOR EXPANDED GAMBLING RAISE QUESTIONS

By Janet Patton
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WASHINGTON -- In this year's gubernatorial campaign, Democratic challenger Steve Beshear is pointing to a \$500 million oasis of casino money. At the same time, Gov. Ernie Fletcher has drawn a line in the sand against expanding gambling.

Beshear has spelled out few specifics, except for that \$500 million, which he said would come from casinos at racetracks and perhaps three or four other locations around the state.

Fletcher counters that any casino revenue will come straight from the pockets of Kentuckians.

Both may be right.

Gambling market analysts say Kentucky easily could produce \$500 million in taxes from casinos. In fact, its citizens already generate about half that when they visit casinos in Indiana and Illinois.

Christiansen Capital Advisors, which tracks gambling, projected in 2005 that full-scale casinos at seven Kentucky tracks could account for \$500 million in tax revenue. Another scenario -- five 'racinos' (the term used for race tracks with slots) and four stand-alone casinos -- would mean an additional \$113 million, but at a cost of nearly half a billion dollars to the tracks.

Another market expert, Steve Rittvo, chairman of The Innovation Group, agreed that the \$500 million figure is realistic. Rittvo's group has done consulting work for Kentucky racing interests in the past.

"Our sense is, if we looked at tracks alone, we think \$1 billion in gross gaming revenue. And then if you had some free-standing casinos on top of that ... \$1.4 billion. I think that is very attainable," Rittvo said.

One reason Kentucky looks good, he said, is because so many people already go outside the state to gamble. At least one state, Tennessee, has a lottery, but no gambling. That gives Kentucky a lot of potential in the race for gambling dollars.

But competition for gamblers is growing every day. Indiana is the 12th state to allow slots at racetracks, more racinos are opening in Pennsylvania, and the fight goes on in Florida and New York for more racinos.

Luring horses?

Even if the revenue projections are realistic, they don't take into account the other side of the income statement, said Bill Eadington, director of the Institute for the Study of Gambling and Commercial Gambling at the University of Nevada at Reno.

"Gambling provides a ready source of revenue for politicians who are either unwilling or unable to go back to voters to increase taxes," said Eadington.

However, "If you create an industry, it's not free. There's lots of infrastructure," he said. And a new entertainment venue will divert dollars from other businesses, such as restaurants, bars, even live performances, he said. And, certainly, other forms of gambling, such as charitable gaming.

Casinos also create an uneven playing field for other businesses, he said. While gambling establishments can offer music, food and drinks -- sometimes free -- their competitors can't offer gambling at any price.

"It's not going to be stimulating the local economy in any fashion," Eadington said.

Ironically, the level-playing-field argument is exactly what the horse-racing industry has been using for decades to lobby for slots. Racetracks without slot machines or without subsidies from casinos have long said they can't compete with those that have them.

No-slot tracks say: Tracks with slots have bigger purses and lure away horses and gamblers who prefer to bet on full fields.

But data from The Jockey Club, which keeps thoroughbred racing statistics, shows a puzzling dilemma. In most states that have expanded gambling at racetracks, those numbers aren't moving much.

No help for races?

Of the states that allow expanded gambling only at tracks (no stand-alone casinos), West Virginia tops the charts.

It has had slots since 1994 -- at two racetracks and two dog tracks. Last year, those four tracks produced \$976 million in gross revenue and gave \$446 million in taxes to state and local governments.

In June, voters decided to allow the state's Mountaineer racetrack and gambling resort to add table games, such as black jack, poker, craps and roulette. Mountaineer president Ted Arneault plans to develop 2,000 more acres to create a tourist destination, and will begin hiring 700 new employees.

"Maybe it's a watershed moment for Hancock County in that we will bring in the jobs, we will bring in the people and we will bring in the economic development," Arneault said after the vote.

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But compare that to what's going on at West Virginia's racetracks: While purses went up more than 23 percent from 2001 to 2006, the number of races and the number of horses running in those races were essentially the same. In 2001, West Virginia ran 4,379 races, with 8,700 horses starting; in 2006, they ran 4,434 races, with 8,760 starters.

As Eadington of Nevada put it: "If you create racetrack casinos, you don't really help racing. You create casinos."

According to the American Gaming Association, commercial casino revenue nearly doubled from 1996 to 2006. Meanwhile, in the same decade, U.S. pari-mutuel 'handle' -- the measure of all racetrack wagering, not just track revenue -- rose only 27 percent.

Some economists say tying racetracks to casinos will only bleed their gambling dollars more quickly.

"It's going to kill Churchill Downs. It's going to kill Keeneland. A lot of people are going to make a lot of money ... if they own slot machines," said John Kindt, an economics professor at the University of Illinois.

But horse racing in Kentucky is considerably healthier than in most of the other states that have made the racino move so far. And racing supporters argue that putting in casinos will boost revenue without drawing away the considerable number of fans in the state. They are the kinds of people who are unlikely to switch from the mental challenge of betting the ponies to no-skill slots, they say.

"This is the imponderable for Kentucky. The state has a national presence," said Earl Grinols, an economic professor at Baylor. "Kentucky's special. Nevada is to gambling as Kentucky is to racing."

Kindt and Grinols have fought the casino industry for decades, testifying on the national and state level that casinos drain more tax dollars than they bring in.

They estimate the social and economic toll of a casino to be about three times the gain, a number Eadington and other economists dispute.

"That three-to-one ratio is totally bogus. Their analysis doesn't stand up," Eadington said. "But there is a middle ground. There are costs associated with expanding gambling, and they are quite a bit more than the casino industry promotes."

Experts also disagree on how best to put a dollar figure on the social costs of pathological gambling, suicide, bankruptcy, embezzlement, domestic violence, and increased crime.

While some costs are paid by the gambler and his family, the public picks up the rest of the tab, Grinols said.

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