

SHOULD HAWAII LEGALIZE GAMBLING?

FACTS AND ISSUES

A STUDY BY THE LEAGUE OF WOMEN VOTERS OF HAWAII
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QUESTION: Can legalized gambling benefit the State of Hawaii?

RATIONALE FOR STUDY

In a period of declining revenues and pressing social needs, many Hawaii residents are coming to believe that legalized gambling offers a needed source of income. Over the years, bills legalizing various forms of gambling have appeared before the Legislature with increasing frequency. In 1997, more than thirty such bills were introduced. One that survived the House Judiciary and Finance Committees only to die from lack of support before reaching the floor, was recommitted immediately to the House Finance Committee, thereby allowing its reconsideration in the 1998 session. Proponents will continue to bring gambling to the fore.

Because the question of whether to legalize gambling continues to be raised, and because—in some scenarios—the question may come to a public vote, every Hawaii resident needs to be prepared to make informed decisions. Unfortunately, emotionally-colored arguments and partial information often predominate in such situations. We need to examine pro's and con's which are based on fact rather than on unsupported allegation. We also need to place much information presented as fact in context, assessing sources and conditions under which studies were conducted and statistics derived.

SCOPE OF STUDY

This study begins by presenting general information that should be factored into any decision regarding gambling. From there, the study sets forth arguments for and against legalizing some form of gambling in Hawaii.

The experience of various government entities on the Mainland provides some basis for judgment; trends across the country merit attention. Nevertheless, even as we examine gambling on the Mainland, we recognize Hawaii's unique characteristics.

This study focuses on the economic and social implications of legalization, rather than on the moral. It does, however, touch on the ethical considerations of government action. It also looks at some of the forces which could place a future Hawaii government in a far different position vis à vis the gambling issue than the one it holds today.

ORIENTATION FOR STUDY

TYPES OF LEGAL GAMBLING: There exist six sections of the legal gambling economy, with new ones planned for the future.

- (1) State lotteries and instant games (whereby a player puts money in a machine, then receives a card showing whether he has won).
- (2) Casino-style gambling, including shipboard and Native American casinos.

- (3) Pari-mutuel racing and sport gambling.
- (4) Non-profits, including bingo and "Las Vegas Nights" sponsored by churches, veterans' groups, etc.
- (5) Native American high-stakes bingo.
- (6) "Mini Casinos," created through the use of keno machines, video lottery terminals (VLT's), slot machines and pull-tab machines in bars, convenience stores and at race tracks.

In 1995, the gambling industry initiated trial runs with interactive cable TV gambling. Gambling from the home on the Internet and by telephone are possibilities.

Presently, none of these forms of gambling is legal in Hawaii. The only legal gambling is social gambling, in which the house does not take a cut.

MAJOR QUESTIONS: In his United States Gambling Study, Robert Goodman provides an overview worth careful consideration in Hawaii. He says that "many governmental functions in legalized gambling are a radical departure from government's traditional role in economic development and pose critical policy questions." Among these questions are:

- (1) Is gambling an effective strategy to raise revenue and create jobs?
- (2) If it is, to what extent should government encourage people to gamble?
- (3) What role should governments play in protecting their gambling enterprises from competition whether within their own states, from other states or nations, or from Native American/Hawaiian holdings?

PROBLEMS IN GATHERING OBJECTIVE DATA: In attempting to answer these questions, we face the difficulty of obtaining straightforward information. As he conducted his study at the University of Massachusetts during 1992-93, Goodman found a noticeable lack of economic impact studies either prior to or after gambling ventures were in place. A League of Women Voters study in Pennsylvania identified a corresponding lack of environmental and social impact studies. In the absence of unbiased financial data, many government entities rely heavily on gambling industry data. According to John Kindt, writing in the Drake Law Review, such projections frequently prove to be far higher than actual revenues.

Since Goodman's study appeared in 1994, the nation has seen the results of other studies, both privately and governmentally funded. Many of these are difficult to place into context. Charles Arthur, a professor of business at the University of Nevada, published a 1994 study on public interest in gambling. The study was presented as an academic enquiry. Later that same year, an article in Newsweek identified Arthur as a paid consultant to the gambling industry. How does a reader interpret and weigh this information?

Often the reports of government entities are as difficult to judge as academic or industry studies. Florida, for example, commissioned studies from both its Department of Commerce and its Department of Law Enforcement. About the same time, the City of Chicago hired a study of a

proposed casino. The Florida studies strongly opposed establishment of a casino, while the Chicago report was highly favorable. All three reports showed definite bias, both in use of language and in failing to present information contrary to their main arguments. It would be easy to conclude that these studies reflected the convictions of highly-placed officials, since Florida's governor opposed expansion of gambling while Chicago's mayor supported casino gambling.

Writing in the Columbia Journalism Review, Stephen J. Simurda discussed the difficulty of covering stories on gambling. He quoted Steve Wiegand, who covered gambling for the Sacramento Bee. "There is no place from which to gather a lot of information in a hurry," says Wiegand, "and so many of the people I speak to are so self-serving, it is hard to know how much of what they tell me is true."

Because Robert Goodman has conducted a well-documented, extensive study, and because he does not take money from either the gambling industry or groups openly opposing gambling ventures, he has become the most widely quoted figure in the field.

The U. S. Congress, perceiving the difficulty of developing a clear picture, moved in the spring of 1996 to create a nine-member national commission on the social and economic impact of gambling. Since the commission has two years in which to complete its work, the report will not appear until well into 1998. Moreover, the commission has been denied subpoena powers, which makes data gathering doubly difficult. Nevertheless, we can anticipate a more far-reaching, objective analysis of the benefits and costs of gambling ventures than is now available.

IRREVOCABILITY: In looking at legalized gambling, both officials and the public should consider the near-irrevocability of their decisions. Once gambling is legal, a self-perpetuating bureaucracy will have been set in place. Gambling creates another instant constituency, the beneficiaries, whether they are teachers or senior citizens or college students. Furthermore, people will depend on it for jobs, and governments will depend on it for revenue.

NATIVE AMERICANS/SOVEREIGN HAWAIIANS: An additional point to be considered is the possible action of Native Americans or Sovereign Hawaiians within the state's gambling milieu. The Indian Gaming Regulatory Act (IGR) of 1988 allowed Native Americans the right of matching any form of legal gambling within a state on tribal lands without state taxation or regulation. Now it appears that Native Americans may be able to use non-tribal land for such ventures. It follows that once gambling is legal in the state, Hawaiians and (quite possibly) Mainland Indian groups could operate casinos here.

Presently, one-third of all Indian tribes in Mainland states operate gambling ventures, some 100 operations in 20 states. While changes to the 1988 IGR have been proposed, the tribes strongly oppose such changes. They believe that, as sovereign entities, they have the right to operate gambling independent of state regulation.

The Washington Spectator reported in 1996 that Michigan Governor John Engler had blocked the efforts of promoters to turn over a parcel of land in downtown Detroit to the Chippewa tribe, which planned to establish and operate a casino there. This had been the only attempt (to that date) in the U. S. to establish an off-site Indian reservation on land that never belonged to a tribe. Under federal law, such an arrangement is legal. According to Ivan Zabilka of the National Coalition Against Legalized Gambling, the tribes in Wisconsin and other states have sought to have all Indian land declared tribal land. As a result of this situation, the IGR Act now allows new lands to

be used for class III gambling (i.e., casinos) upon application to the Department of the Interior. This opens the entire country to Native American gambling.

On April 4, 1996, the Deputy Attorney General of Hawaii, testifying with the concurrence of Attorney General Margery Bronster, stated, "Although the U.S. Supreme Court decided last week that Congress had exceeded its constitutional authority in enacting certain provisions of the Indian Gaming Regulatory Act (IGR 1988), which authorizes an Indian tribe to sue a State (25USCS2710(d)(7)), there are still many unanswered questions about the Act and a State's ability to control gambling within its borders once it opens the door."

It is speculation whether the law would permit gambling on the lands of a future sovereign entity, but, if it did, decisions made now would carry considerable impact. There is no certainty that a future Hawaiian nation would embrace gambling. Some Hawaiian leaders oppose the idea. However, Pacific Business News reported in January, 1995, that a native Hawaiian Group, Na 'Io Hawai'i, met with an East Coast tribal group that operates four casinos. The tribe offered \$100 million in financing along with management personnel and training. The Hawaiian group believes that a casino would generate annual profits of more than \$400 million and create up to 10,000 jobs.

THE PRO'S OF LEGALIZED GAMBLING IN HAWAII

ACCEPTANCE AND GROWTH

HISTORY: Gambling is very much a part of America's history. In 1612, the Virginia Company raised money for its settlement by sponsoring a lottery. George Washington—a gambler himself—issued repeated (and mostly futile) orders against games of chance among the ranks. Even at Valley Forge, where soldiers were freezing and starving, they wagered. I.A. Rose of the Whittier Law School says that legalized gambling has moved in 70-year cycles throughout America's history. People exhibit great enthusiasm for gambling as a pastime for a period of years, then lose interest for a while. (Rose believes that the next downturn is not due for another 30 years.)

Even in early Hawaii, attention was given to government-sponsored gambling. In 1893, the Kingdom of Hawaii's Legislature enacted a bill proposing a lottery. While Queen Lili'uokalani did not actively support the idea, her position was moot since she was overthrown six days later. Thus the bill was never put into practice.

A GROWING INDUSTRY: Today, gambling is one of the fastest-growing industries in the country. Industry revenues have grown 9% per year during the past decade. Time Magazine reports industry revenue of \$40 billion in 1996, out of the \$420 billion wagered. Gaming stocks have received highly favorable reception on the U.S. stock market. For example, shares of Anchor Gaming began 1996 at \$22; they closed the year at \$40, an increase of 82%. The stock is projected to grow in 1997 and 1998 at an annual rate of 30%, according to the Red Chip Review.

Twenty-four states have legalized casino gambling while thirty-seven sponsor lotteries. Only Utah and Hawaii have no gambling (with the exception of social gambling). It is a measure of public enthusiasm that U.S. gambling receipts last year totaled more than receipts from baseball, movies, concerts and booksales combined.

PUBLIC ATTITUDES: In 1995, Catholic Monitor reported that a solid majority of Americans believed there was nothing wrong with gambling. In a poll conducted for the magazine among 3500 residents of states other than Nevada and New Jersey, 51% thought gambling was "acceptable for anyone," while 35% said gambling was "acceptable for others, but not for me."

While a survey of Hawaii residents reported by Joseph Toy in the Honolulu Advertiser (March 6, 1995) showed a somewhat higher figure opposing gambling, those who called themselves "neutral" appeared favorable to some forms of gambling. The survey, conducted by Market Trends Pacific for Coopers and Lybrand LLP, found 42% in favor of legalized gambling, 38% opposed, and 20% neutral. The neutral respondents were open to some forms of gambling, particularly the lottery. They also felt (77%) that gambling revenues would boost the economy. Still, they had reservations concerning crime and negative social impact.

Informal polls conducted by John Clark, a Hilo restaurant owner, have consistently shown that 55% to 60% of Big Island voters support gambling in some form—preferably a lottery. Clark says he has conducted his polls during the last four elections, mailing questionnaires to an equal number of voters chosen randomly. Those mailed during the last election drew 1200 responses. The polls

were financed by candidates from both Democratic and Republican parties. They showed that strong opposition existed only in North Kona, the area most often proposed as a casino site.

REVENUE AND EMPLOYMENT

SHIPBOARD REVENUE: In a period of state revenue shortfall, gambling presents one possible means of maintaining income. Senate Ways and Means Chair (in 1995) Donna Ikeda said that just four ships could generate an annual income of \$100 million for the state. As she and 1995 House Speaker Joseph Souki pointed out, shipboard gambling has the fastest “startup time” of any form of gambling. Souki has said that it is also the “cleanest,” meaning that it can be regulated most easily, since the activity occurs offshore. An executive from Harrah’s Club has predicted \$158 million/year in state and county taxes from shipboard gambling. A report issued in March, 1997, by the State Department of Business, Economic Development and Tourism projected revenue of \$47 to \$104 million, depending on the numbers of clientele.

CASINO REVENUE: Land-based casino gambling requires a longer startup time than shipboard gambling, but has potential for greater revenue. A single casino/resort complex on the Big Island, as proposed in a 1997 house bill, would generate \$19.2 million in state and county tax revenues (according to the Arthur Andersen consulting firm). This sum includes a \$1 million annual payment to the state, with the remainder coming from a 15% gambling tax. Two-thirds of the tax would be earmarked for the state and one-third for the county. Other casinos on other islands could help generate many times the \$19.2 million figure.

Hawaii residents visit Las Vegas in such large numbers that one hotel there is known as “Little Hawaii.” Regal Travel estimates that people from Hawaii made at least 75,000 visits to Las Vegas in 1996, spending an average of \$100/day while they were there. The appeal of local gambling would keep part of that money in the State, with multipliers in effect for money spent on food, liquor and lodging.

During the construction phase, casinos generate business opportunities for local suppliers of goods and services. Even specialized workers imported from the Mainland would spend money locally. This construction-phase revenue should be even greater than that generated by initial phases of shipboard gambling, since ships would be built elsewhere with only the support infrastructure requiring local construction.

According to Shannon Bybee of the UNLV Gaming Institute, many operating expenditures for casinos are made locally. Almost all purchases are from local vendors. Large purchase items such as energy expenses and medical care for employees are made with local entities. Bybee also points out that—while many local retail business dollars leave the community to pay for goods—casinos and other service providers spend a greater proportion of their revenues locally for goods, services and wages. His figures show that casinos spend 3% to 10% of their annual revenue upgrading gaming equipment and facilities.

A study done for the New Jersey Governor’s Advisory Commission On Gambling in 1988 used a multiplier of 1.866 applied to expenditures of casinos to estimate the impact of such expenditures on the local economy. The industry has used this figure since that time. Thus, a total casino revenue of \$100 million would translate to \$186 million in indirect expenditures for an aggregate \$286 million impact within the State of Hawaii.

The assertion that casinos harm local businesses is overstated, according to Bybee, the effect of casinos being no different than that of any new industry. Casino traffic often changes existing patterns. Some businesses close but others open. To survive, local businesses may have to engage in aggressive marketing, rather than waiting for dollars to come without effort or investment.

AIRPORT VLT REVENUE: Legal gambling in Hawaii's airports could provide a limited approach that offers even faster startup than shipboard gambling. Based on 1994 passenger figures, projected monthly concession fees of \$1,300,000 from 1000 machines installed statewide could be guaranteed, according to Edward Kelly, a gaming industry marketing specialist. When a 1997 bill to legalize video poker machines in state airports was introduced in the House, the minimal impact on Hawaii residents was considered especially favorable.

PARI-MUTUEL REVENUE: In the scenario created by the Department of Business, Economic Development and Tourism, Hawaii would have one racetrack on Oahu with a capacity of 10,000 spectators. In the moderate estimate, the venture would produce a \$5.8 million gain in state and county tax revenue. (The optimistic figures project \$9.2 million, the pessimistic \$2.9.) The Department believes that the racetrack could draw as many as 50% of the spectators from out-of-state, meanwhile creating a potential increase in new visitor arrivals and expenditures as owners, breeders, and maintenance workers come from out-of-state.

LOTTERY REVENUE: Many Hawaii residents believe that a lottery is the best gambling alternative. It is true (according to Kiplinger's Magazine) that percentages of gross lottery income retained by the state have decreased in recent years (33¢ of every lottery dollar in 1996 vs. 40¢ in 1992). It is also true that lottery income derives primarily from a state's residents, rather than from outsiders. Still, lottery should be considered, especially as a means of funding targeted programs. Bruce La Fleur, copublisher of La Fleur's Lottery World, points out that lotteries are still the most efficient way for a government to make money. "Casinos," he says, "give states back a lot less money relative to what they take in."

According to Robert Goodman, lotteries produce between 1.2% and 1.5% of state revenue in states where they are legal. Because this income typically is "targeted" to a certain use, such as education, the amount has greater impact than if it entered the state's general fund. In states where the total amount is directed to education, it provides between 6% and 8% of the education budget. In 1995, the University of Hawaii Professional Assembly went on record as favoring enactment of a state lottery.

While lotteries do, in fact, draw money primarily from a state's residents, the decision to play is one of free choice: The taxation is voluntary. Given Hawaii's high visitor numbers, the right kind of lottery promotion might draw an unusually high percentage of out-of-state money.

JOB CREATION: The most important secondary benefit of gambling is job creation. The New York Times Magazine says that the industry will have created 500,000 jobs during the 1990's.

Tunica, Mississippi, offers an example of the benefit casino employment can have in a community. Characterized as America's Ethiopia in its pre-riverboat days, this poverty stricken community had 15% unemployment. Now the median income has tripled and unemployment has fallen to 5%.