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**SMALL ODDS OF TEXAS WINNING AT VLTs
TESTIMONY BEFORE THE TEXAS HOUSE WAYS AND MEANS COMMITTEE
By Chris Patterson on HB 9, relating to authorization and operation of video lottery games in Texas.**

ECONOMIC RESEARCH:

The economic impacts of gambling have been examined by a large body of national and international research; however, the research findings are mixed. While there is general agreement that gambling can provide large state revenues and that there are socio-economic costs attached to these revenues, researchers disagree about the dollar value assigned to these costs and whether the net fiscal impact is positive or negative.

To determine whether gambling provides an overall economic benefit, fiscal costs associated with gambling must be subtracted from the fiscal benefits. Benefits associated with gambling, particularly casinos, are identified as:

- new revenues;
- job creation;
- increased tourism; and
- increased sales revenues from businesses that cater to gamblers.

Costs associated with gambling include:

- reduction of approximately 10 percent in state lottery revenues;
- investment of approximately 10 percent of revenues in regulatory costs for gambling;
- criminal justice costs underwriting an 8 to 13 percent increase in crime;
- lost state and local revenue resulting from diversion of spending from goods and services to gambling; and
- lost jobs resulting from decreased spending on non-gambling goods and services.

According to some research, the economic impact of gambling is positive – however, most of these studies acknowledge limited or no calculation of costs. For example, Ray Perryman, principal of an economic and financial analysis firm located in Waco, has recently produced a study estimating that casinos and VLTs could generate \$2 billion in state revenues, \$730 million in local government revenue, \$762 million in racetrack profits, and 250,000 new jobs. The February 2005 study, commissioned by the Texas Enhancement Group (businesses favoring the expansion of gambling), claims these financial benefits would be generated without any increase in the gambling related costs currently paid by Texans – but the study does not estimate costs.

Other research, however, indicates the economic costs associated with gambling cancel out the revenues with net-zero financial gains or result in an overall financial loss at the end of the day. For example, research conducted by Florida's Office of Planning and Budgeting concluded in 1994 that Florida would experience a significant deficit if the state expanded gambling; although tax revenues were projected to reach almost \$500 million annually, gambling costs were projected to total at least \$2 billion annually.

There is limited research available on the economic impact of VLTs in the U.S.; however, studies from Australia and Canada indicate that VLTs are not associated with the same fiscal benefits that are sometimes associated with casino gambling. Unlike casinos, VLTs do not create jobs nor foster businesses that cater to gamblers; as a result, legalization of VLTs has been associated with a net job loss.

EXPERIENCE OF COMMUNITIES & STATES:

The financial costs of gambling are evident in experiences of communities and states:

- 24 out of 57 counties in the U.S. with casinos experienced job losses
- Atlantic City went from 50th in the nation for per-capita crime to first and violent crimes rose by 78 percent, during the first three years of casino gambling
- Sales declined 10 to 20 percent in Natchez, Mississippi after gambling was legalized
- Counties with casinos have a bankruptcy filing rate that is 13.6 percent higher than in counties without casinos throughout the nation
- Delaware reports spending between \$1 to \$1.5 million annually on gambling-related costs and Wisconsin reports spending \$63 million annually

CALCULATION OF COSTS FOR TEXAS:

When costs associated with gambling are included in the equation, what would be the overall benefit of legalizing VLTs for Texas? Earl L. Grinols, professor of economics at Baylor University and one of the nation's leading researchers on the economic impacts of gambling, examined this question. He calculates Texas will shoulder an increased annual cost of at least \$1.5 to \$3 billion dollars if VLTs are legalized – a cost that would be magnified by reductions in state revenue from the diversion of spending on goods and services to gambling (an amount that is difficult to predict).

POLICY RECOMMENDATION:

The cost identified by Dr. Grinols, other research on gambling, and experiences of communities suggest that Texas policymakers should exercise extraordinary caution about legalizing of VLTs. The long and short term impact, direct and indirect impact, and, most importantly, the final net economic result should be determined. Before VLTs are legalized, the question that should be answered is this: Once the costs are subtracted from new state revenues, will the lives of Texans be enriched by VLTs?

Texas Public Policy Foundation's report on VLTs is available at

<http://www.texaspolicy.com/pdf/2005-03-vlt.pdf>, <http://www.texaspolicy.com/pdf/2005-03-vlt-grinols-summary-11-04.pdf>
<http://www.texaspolicy.com/pdf/2005-03-vlt-grinols-costs-xls.pdf>