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Del. too reliant on revenue from gaming, critics charge

Economic, social negatives may outweigh bottom line

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Delaware is hooked on gambling.

The government could not pay its bills without the money legalized gambling pours into the state treasury, about \$203 million this year.

The state has become so dependent on money from slots that, facing the largest budget deficit in its history, Gov. Jack Markell wants to cash in even more.

Though he has temporarily shelved his proposal to add three new casinos and up to 10 sports-betting parlors, Markell still aims to add sports betting next year and increase the state's share of casino profits -- a move he says would increase the state's gambling revenues in fiscal 2010 to \$262 million.

Although the General Assembly put off a planned vote last week on sports betting and a higher take from casino revenues, several members have said the measures are certain to pass as Markell attempts to close a projected \$750 million budget deficit next year.

Some economists question whether Delaware's reliance on gambling revenues is good public policy. They point out that such revenues, which have dipped this year during the deep recession, are unreliable.

They say the social and economic costs -- such as bankruptcies, foreclosures and thefts caused by problem gambling -- diminish the financial windfall. They wonder if it's good for Delaware's reputation and its ability to attract new businesses.

"Delaware has chosen an inferior tax system if it's trying to finance itself out of casinos," said Earl Grinols, an economics professor at Baylor University who studies the issue. "It's not an honest, outright tax. It's not good government."

The state has few places to turn for more money. Politicians consider it a badge of honor that Delaware has no sales tax, which they use to promote the state as a tax-free shopping destination. Though Markell is proposing to raise income taxes slightly for people who earn more than \$60,000, lawmakers have historically shown a reluctance to raise cash that way.

Markell, a former telecommunications executive who served 10 years as state treasurer, said he's trying to maximize the amount of money the state can reap from an industry that has been thriving in Delaware for more than a decade. If the Legislature passes his proposal, Delaware would be the only state east of the Mississippi with legal sports betting. Markell also would like to add table games.

"The decision was made 15 years ago to get into the business," Markell said last week. "Now we're presented with a unique opportunity with sports betting to offer something no other place can offer. There's no question that this is not a cure-all for Delaware's economic challenge, but when you have

a competitive tool like this to generate revenue, you should take advantage of it."

'Help out the economy'

Legalized gambling in Delaware has succeeded beyond politicians' wildest dreams.

Envisioned as a way to revitalize the horse-racing industry and generate about \$4 million annually for Delaware's general fund, gambling has mushroomed into a financial juggernaut since it was approved in 1994.

In fiscal 1997, the first full year of casino operations, the state reaped \$63.9 million from the industry - 3.6 percent of its general fund, a percentage that has grown over the years.

Each year since 2005, the state's take from slot machines has been at least \$200 million. If Markell has his way, gambling revenues would account for 8.2 percent of state revenues in fiscal 2010, which starts July 1.

The money has helped Delaware balance its budget and pay for police, social services, parks, teacher salaries, Medicaid and other state programs. Gambling revenues have become the state's fourth-largest source of revenues -- behind income taxes, corporate franchise fees and unclaimed money that reverts to Delaware.

The money comes from the thousands of gamblers who descend weekly on the so-called "racinos" at Delaware Park, Dover Downs and Harrington Raceway's Midway Slots. Last year alone, gamblers poured \$8.1 billion into the slot machines, and lost \$620.6 million.

At Dover Downs last week, gamblers took their chances on slot machines with names like Double Diamond, King Cash and In The Money. As a constant clang of bells rang on the casino floor, they played roulette at the Wheel of Gold, a machine the size of a playground merry-go-round. They tried their luck at video card games such as blackjack or three-card poker at terminals with five comfortable chairs that feature virtual dealers -- who give instructions to players via videotape.

Gamblers didn't seem to mind that the state was benefiting, or might add sports betting, new casinos or table games.

Clifton White, a retired truck driver from Hampton, Va., said he was spending three days in Dover, staying at the adjacent hotel and would spend much of his time playing three-card poker. He makes the trek to Dover three times a year and has won as much as \$7,000 and lost as much as \$5,000, White said.

"It's good that the state benefits as long as they spend it for what it's intended for," said White, who added that he hopes Virginia will put slot machines at its racetracks.

Adding table games, White said, "would save my trip to Atlantic City to play poker. I could stop here."

Peggy Campbell, a retired mortgage banker from Newburg, Md. -- 100 miles away -- said she makes the trip every six weeks with a friend, and shops at Home Depot and Wal-Mart after she's finished. "They've made money off of me," Campbell said with a chuckle.

Dover painter Bruce Marshall, a twice-a-week visitor, said he empathizes with compulsive gamblers but limits himself to about \$30 a trip -- though he once broke his rule and lost \$400. His best day was a \$600 profit.

"I'm all for expanding gambling," Marshall said. "It's something to help out the economy here in

Delaware. When I lose, I'm just contributing to some of these programs."

'Very volatile revenue source'

Whether it's the right way to help pay for government services, gambling has increasingly become Delaware's way.

John Stapleford, a senior economist for Moody's Economy.com and former director of the University of Delaware's Bureau of Economic Research, said he fears that gambling revenues might take a bigger hit during the current deep recession than the two previous downturns in the last decade.

Stapleford also said Delaware's political leaders don't seem concerned that poorer people often see gambling as a means to break out of poverty, or that Delaware's reputation might be adversely affected.

"What does it do for the image of the state to be the Las Vegas of the East? Is that the kind of image we want?" Stapleford asked. "Nobody in the Legislature seems to care about this. They just think, 'Gee, where can we get more money?'"

Although Delaware has never studied the social and economic costs of gambling, Baylor economist Grinols said his research shows they are significant.

"It all boils down to the fact that gambling has spinoff damage," he said, "that you don't get with other entertainment or recreation, like going to movies or golfing or watching major-league sports teams."

William Fox, a University of Tennessee economics professor, said that with no sales tax and the unwillingness to boost income taxes significantly, Delaware could find itself playing fiscal roulette.

"Gambling is a very volatile revenue source, so that's obviously a risk," Fox said. "I'm sure the governor is arguing for doing this because it generates revenues you don't have today, but it's not necessarily providing the long-term fiscal solution."

Lawmakers have not been persuaded by such arguments amid this withering economic climate, one that has the governor proposing an 8 percent pay cut for the state's 32,000 employees.

"We're in the business of sports and gaming and entertainment," said state Rep. Greg Lavelle, R-Sharpely. "You are doing something to keep the industry growing. There's a good argument that you are diversifying your tax-receipt base."

Rep. John Kowalko, D-Newark, acknowledged that compulsive gambling is a problem, but still supports expanding the industry.

"Despite any reservations," Kowalko said, "I have to look at the reality of where we are."

Additional Facts

GAMBLING PAYS FOR DELAWARE

Revenues the state government receives from the three racetrack casinos has grown from \$63.9 million in fiscal 1997, the first full year of casino operations, to a proposed \$262 million next year -- 8.2 percent of projected general fund revenues. Gambling revenues are the fourth-highest sources of money for Delaware's general fund.

Fiscal year Casino revenues State revenues Pct. from casinos

1997 \$1.78 billion \$63.9 million 3.6%

1998 \$2.05 billion \$87.7 million 4.3%

1999 \$2.19 billion \$117.6 million 5.4%

2000 \$2.28 billion \$152.7 million 6.7%

2001 \$2.24 billion \$174.1 million 7.8%

2002 \$2.43 billion \$193.0 million 8.0%

2003 \$2.47 billion \$180.8 million 7.4%

2004 \$2.74 billion \$183.9 million 6.7%

2005 \$2.88 billion \$199.6 million 6.9%

2006 \$3.17 billion \$208.2 million 6.6%

2007 \$3.29 billion \$218.8 million 6.7%

2008 \$3.36 billion \$213 million 6.3%

2009* \$3.15 billion \$203 million 6.4%

2010?182-141? \$3.2 billion \$262 million 8.2%

Note: * Projected: Based on revenues received through March 2009 as estimated by DEFAC; **?182-141? Proposed:** Based on Gov. Jack Markell's proposed budget and March projections from DEFAC. Contingent on final budget approved by the General Assembly

Sources: Delaware Office of Management and Budget, Delaware Department of Finance, Delaware Economic and Financial Advisory Council
