

STATEMENT OF:
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BEFORE THE
COMMITTEE ON PUBLIC SAFETY & SECURITY
2015 REGULAR SESSION OF THE CONNECTICUT GENERAL ASSEMBLY
Held in the Legislative Office Building, Room 2C, Hartford, Connecticut, March 17, 2015

Co-Chairman Dargan, Co-Chairman Larsen, and members of the committee, thank you for this opportunity to address the Committee of Public Safety and Security on an issue that will soon affect that economic safety and security of literally thousands of Connecticut workers and small business owners, as well as the state's 2 million taxpayers. Connecticut's two tribal casinos – Mohegan Sun Casino and Foxwoods Resort Casino – have experienced a decline in gross gaming revenue every year for the last eight years.

Total (gross) revenue, including gaming and non-gaming revenue for the two casinos combined has declined by 39%, or by \$1.2 billion in the last eight years, from \$3.2 billion in CY 2006 to \$1.9 billion in CY 2014. Total revenue at Foxwoods Resort Casino declined by 43%, or by \$685 million in the last eight years, from \$1.6 billion in CY 2006 to \$892 million in CY 2014. Total revenue at Mohegan Sun Casino declined by 35%, or by \$545 million in the last eight years, from \$1.6 billion in CY 2006 to \$1.0 billion in CY 2014 (see Figure 1).²

The revenue decline at Connecticut's two casinos has resulted in a significant workforce reduction at both casinos. Foxwoods Resort Casino employed 12,800 persons at its 2006 peak, but currently employs 7,558 persons (-40.9%). Mohegan Sun employed 10,500 persons at its 2006 peak, but currently employs 7,205 persons (-31.4%). This is a combined loss of 8,537 Connecticut jobs since 2006, although in fact many of these jobs have actually been transferred to new gambling venues in New York, Pennsylvania, Rhode Island, and Maine.

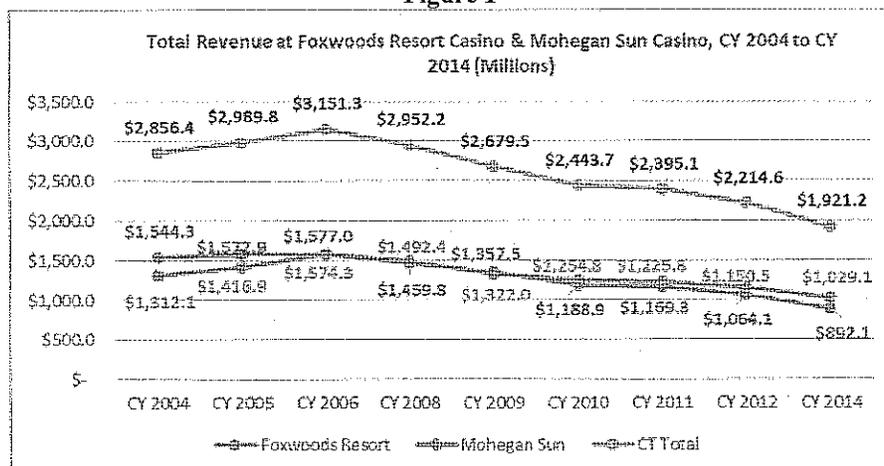
This process will be repeated again over the next five years, and at the same level of magnitude, with the potential additional loss of more than 9,300 jobs and \$354 million in wages statewide, if nothing is done to stem the flow of gaming revenue and jobs to the four new resort casinos that will open in Massachusetts and New York beginning in early 2017.³

¹ Dr. Clyde W. Barrow is also a Partner and General Manager of Pyramid Associates, LLC, a registered Massachusetts company specializing in feasibility analysis (gravity modeling), economic and fiscal impact analysis, and survey research. He is Project Manager for the Northeastern Gaming Research Project.

² All data in Figures 10-15 is tabulated from the *Northeastern Casino Gaming Updates, 2004-2015*.

³ The economic impact estimates of 'conservative' estimates insofar as they do not take into account the direct, indirect, and induced economic impacts on contract employees, on-site lease holders, and the impact on other regional tourist industry establishments (e.g., recreation and amusement, food and beverage, retail, and lodging, among others).

Figure 1



The Mohegan Tribal Gaming Authority & Mashantucket Pequot Gaming Enterprise are obviously concerned about the potential competitive impact of these new gaming facilities and, consequently, my company was retained to conduct a revenue displacement analysis and an estimate of the potential employment and revenue losses to the State of Connecticut that may occur as a result of competition from four new casinos in Massachusetts and New York. While the preparation of this report is still underway, I am in a position to provide the Committee with preliminary results as we expect to complete and release the full final report within the next week.

Background

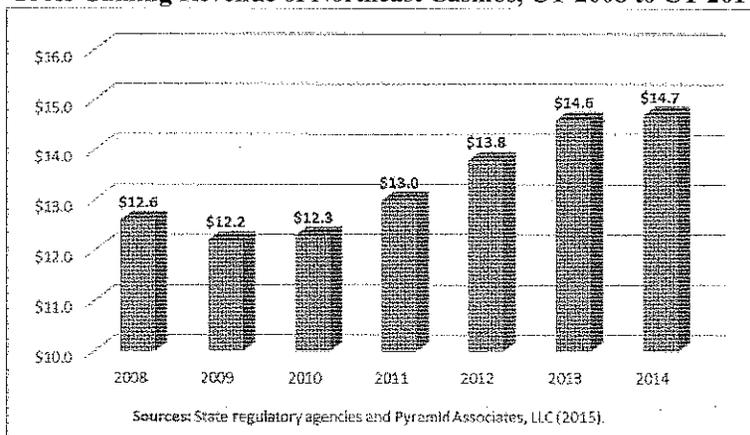
However, before reviewing our preliminary findings, let me offer a few words about my professional background and expertise in the gaming industry for members of the committee who may be unfamiliar with my work. I am a Professor of Public Policy and Chair of the Department of Political Science at the University of Texas – Rio Grande Valley (2014-present) and previously served as Director of the Center for Policy Analysis at UMass Dartmouth for 22 years. I have supervised or conducted research on nearly 400 policy reports, both as an academic and as an industry and government consultant, including numerous reports on the leisure and hospitality sector of the New England economy, which includes casino gaming.

I have been studying casino gaming, in particular, its impact on New England and the Northeast since 1995. In 2004, I launched the Northeastern Gaming Research Project, which was established to provide policymakers, the general public, and the media with independent and objective research on the economic, fiscal, and social impacts of gaming in the New England and Mid-Atlantic regions. In addition to articles published in scholarly journals, the project publishes an annual *Northeastern Casino Gaming Update*, which most recently was released just two weeks ago. I regularly follow trends and developments in the gaming industry, publish original academic research on the industry, and analyze proposals for expanded gaming – most recently in Maine, Massachusetts, New Hampshire, New York, Oregon, Texas, and Wisconsin. I previously testified before the Connecticut Legislative Task Force on Expanded Video Gaming (September 26, 2013).

CONNECTICUT GAMING: WHAT JUST HAPPENED?

To understand what may happen to Connecticut’s two casinos over the next five years, it is instructive to examine what just happened over the last five years. Gross gaming revenue in the Northeast, including both tribal and commercial casinos reached a trough of \$12.2 billion in CY 2009 – the same year as the trough of the Great Recession – and then began a recovery in CY 2010 (\$12.3 billion) to reach \$14.7 billion in CY 2014. Gross gaming revenue in the Northeast increased by \$2.5 billion (+20.5%) in the five years from CY 2009 to CY 2014 (see Figure 2).

Figure 2
Gross Gaming Revenue of Northeast Casinos, CY 2008 to CY 2014



As Figure 3 and Figure 4 illustrate, many states, including New York (2004), Maine (2005), Pennsylvania (2007), Maryland (2010), and Ohio (2012) saw their share of the Northeast gaming market increase by several percentage points as they introduced casino gaming for the first time, expanded gaming supply in the form of new venues, and/or added table games aimed at recapturing gamblers from states such as Connecticut (1992), Delaware (1995), New Jersey (1978), and West Virginia (1994) that had entered the market earlier.⁴ Delaware and Rhode Island mitigated or completely offset this negative impact on its gaming venues by adding table games to their casinos early in the emerging casino arms race (see Figure 3). Thus, new entrants to the market have successfully recaptured gaming revenue from adjacent states, particularly from Connecticut and New Jersey, but they have also increased the total size of the gaming market by generating new demand or by meeting underserved local demand for casino gaming.

However, new and organic growth in the Northeastern gaming market has not meant that all boats are lifted by a rising tide as also demonstrated by the period from CY 2009 to CY 2014. Even though the total Northeastern gaming market increased by \$2.5 billion during this time, there was an on-going dynamic shifting of market shares on a state-by-state basis primarily at the expense of Connecticut and New Jersey.

Figure 3

⁴ Dates in parentheses are dates of first casino opening in the state, see, AGA (2013, 11-22).

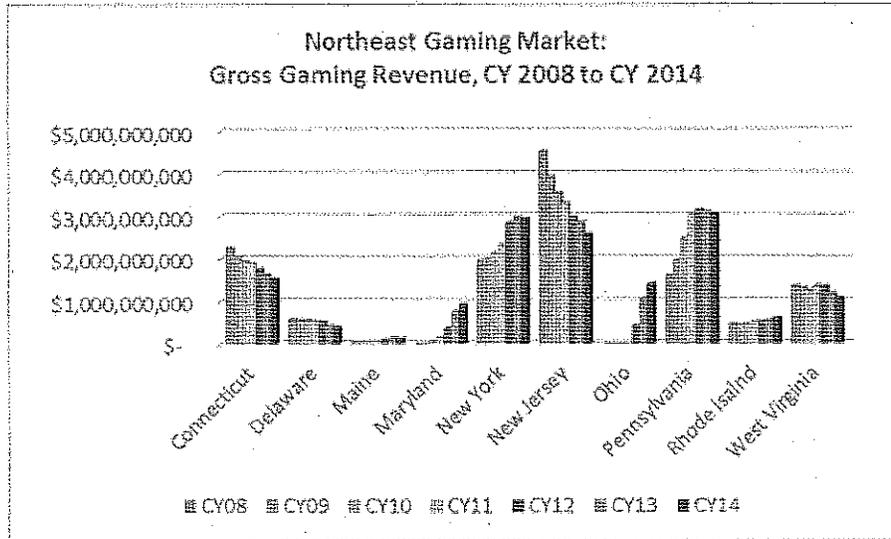
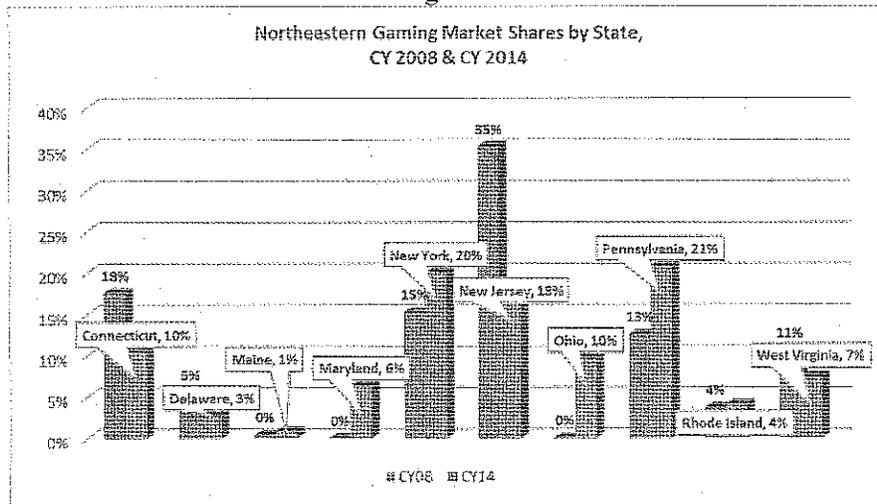


Figure 4



The end of the revenue and jobs erosion at Connecticut’s two casinos remains elusive. As reported in previous Northeastern Casino Gaming Updates, visitors from Pennsylvania to Connecticut’s two casinos almost completely disappeared after that state opened 12 casinos beginning in late 2006. Similarly, New York has opened 9 racetrack casinos since 2005 and, as New York has steadily expanded its presence in the Northeastern gaming market, casino expenditures in Connecticut by New Yorkers have declined from a peak of \$420.9 million in CY 2006 to \$213.7 million in CY 2014 (-49.2%).

Similarly, spending by Rhode Island residents at Connecticut’s two casinos has dropped from a peak of \$322.5 million in CY 2005 (a year before the first Twin River expansion) to \$133.1 million in CY 2014 (-58.7%). During the same period, spending by Rhode Island residents at Twin River has increased from \$257.4 million in CY 2005 to \$297.5 million in CY 2014 (+40.1%). Moreover, given its geographic location, Rhode Island’s Twin River Casino was well positioned to intercept casino patrons from central and eastern Massachusetts before they reach Connecticut. Their

expansion and marketing strategy has been quite successful in this regard as expenditures at Twin River by Massachusetts residents have increased from \$182.2 million in CY 2006 to \$334.5 million in CY 2014 (+83.6%). During the same period, expenditures by Massachusetts residents at Connecticut's two casinos fell from a peak of \$889.3 million in CY 2005 to \$475.6 million in CY 2014 (-46.5%).⁵

CONNECTICUT GAMING: WHAT IS ABOUT TO GET CHANGE?

While expanded gaming in the Northeast has exerted significant negative revenue and employment impacts on Connecticut's two casinos, these negative impacts have largely been generated by a proliferation of slot parlors or in some cases slot parlors with a few table games (e.g., Pennsylvania and Rhode Island). For the most part, these states' gaming facilities do not have hotels and none of them offers the array of dining options, retail shopping, golf, and live entertainment venues that can be found at Mohegan Sun Casino or Foxwoods Resort Casino. However, the Northeastern gaming market is about to change significantly and in a direction that will further erode Mohegan Sun's and Foxwoods Resort's competitive advantage as the region's premier destination resort casinos.

By early 2017, however, Massachusetts and New York will be opening four destination resort casinos with a combined 9,300 slot machines, 377 table games, 1,415 hotel rooms with spas, retail shopping, gourmet dining outlets, an indoor water park, golf courses, and live entertainment venues. Every one of the four planned new casinos will be a direct competitor with Mohegan Sun and Foxwoods Resort, which both draw a significant number of their customers from Massachusetts, New York, Rhode Island, northern New Jersey, and northern New England.⁶

Table 1
Estimated Patron Origins by State, 2015:
Foxwoods, Mohegan Sun, Twin River, Newport Grand, Hollywood, & Oxford

	Foxwoods	Mohegan	Twin River	Newport	Hollywood	Oxford
Massachusetts	32.2%	18.3%	51.9%	44.1%	2.0%	2.0%
Connecticut	39.8%	59.9%	0.9%	0.8%	0.1%	0.0%
Rhode Island	11.0%	3.4%	45.1%	52.1%	0.1%	0.1%
New Hampshire	2.6%	1.1%	0.5%	0.2%	2.0%	9.9%
Maine	1.2%	0.3%	0.1%	0.0%	87.8%	86.2%
Vermont	0.5%	0.4%	0.0%	0.0%	0.3%	0.5%
New York	9.3%	12.7%	0.3%	0.5%	0.3%	0.2%
New Jersey	1.7%	1.4%	0.2%	0.1%	0.5%	0.0%
Other	1.7%	2.5%	1.0%	2.2%	6.9%	1.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Pyramid Associates, LLC. Note: The statistical margin of error for the Foxwoods, Mohegan Sun, Twin River, Newport, Hollywood, and Oxford surveys is +/- < 1%.

Once these four new resort casinos open in Massachusetts and New York, our revenue displacement analysis indicates that:

⁵ See, Clyde W. Barrow, *Northeastern Casino Gaming Update, 2015* (Westport, Massachusetts: Northeastern Casino Gaming Research Project and Pyramid Associates, LLC, 2015).

⁶ Vermont, New Hampshire, and Maine.

- the combined competitive impact of the planned new casinos in Massachusetts and New York will displace approximately \$570.0 million in gross gaming revenue from Mohegan Sun Casino and Foxwoods Resort Casino by CY 2019, the first full fiscal year of stabilized operations for four casinos modeled in this analysis.
- the combined competitive impact of the planned new casinos in Massachusetts and New York will displace approximately \$132.7 million in non-gaming revenue at Connecticut's two casinos, including \$39.1 million in lost food and beverage sales, \$26.5 million in lost hotel revenue, and \$67.0 million in lost retail, entertainment, and other revenue.

**Estimated Gross Revenue for Foxwoods Resort Casino, CY 2014 Thru CY 2019:
Competitive Impact of Massachusetts & New York Casinos**

	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018	CY 2019
Connecticut Casinos (w/o MA & NY)	\$ 1,921,202,996	\$ 1,921,202,996	\$ 1,921,202,996	\$ 1,921,202,996	\$ 1,921,202,996	\$ 1,921,202,996
Total Displacement of GGR	\$ -	\$ -	\$ -	\$ 399,072,095	\$ 484,587,544	\$ 570,102,993
Total Displacement of NGR	\$ -	\$ -	\$ -	\$ 92,870,076	\$ 112,770,806	\$ 132,671,537
Total Revenue Displacement	\$ -	\$ -	\$ -	\$ 491,942,171	\$ 597,358,350	\$ 702,774,530
Connecticut Casinos (w/MA & NY)	\$ 1,921,202,996	\$ 1,921,202,996	\$ 1,921,202,996	\$ 1,429,260,825	\$ 1,323,844,646	\$ 1,218,428,466
Displaced Gross Revenue from CT Residents	\$ -	\$ -	\$ -	\$ 177,245,372	\$ 215,226,524	\$ 253,207,675
Reduction in State Revenue Sharing	\$ -	\$ -	\$ -	\$ 69,837,617	\$ 84,802,820	\$ 99,768,024

Note: 1. Revenue in 2014 constant dollars. 2. Assumes January 1, 2017 start date for MGM Springfield, Wynn Everett, Rivers Casino & Resort, and Montreign Resort Casino. 3. Assumes zero percent (0%) annual real growth in GGR through CY 2019.

- The combined displacement of gross gaming and non-gaming revenue from Connecticut to Massachusetts and New York will thus reach \$702.8 million in CY 2019.
- These figures indicate that the opening of resort casinos in Massachusetts and New York is about to catalyze one the largest inter-state transfers of gaming revenue in recent U.S. history -- second only to the transfer from New Jersey's casinos to Pennsylvania's casinos from 2006 to 2014.

Furthermore:

- It is estimated that \$253.2 million (36.0%) of the revenue displaced from Connecticut's two casinos to the four new resort casinos planned for Massachusetts and New York will be spent by Connecticut residents living in the northern and western parts of the state, who will likely find MGM Springfield to be a comparable, but more convenient gaming facility. This revenue is certainly up for grabs depending on Connecticut's response or lack of response to Massachusetts' and New York's incursion into its gaming market.

- It is also estimated that the State of Connecticut will lose nearly \$100 million annually by CY 219 in revenue sharing payments from Mohegan Sun Casino and Foxwoods Resort Casino.⁷

Finally, lower gaming and non-gaming revenues at Connecticut's two casinos will immediately and directly translate into additional layoffs and lower employment levels at the two casinos. It is estimated that total job losses due to inter-state revenue displacement will be at least 9,300 jobs.⁸

It is estimated that revenue losses of the magnitude discussed earlier will require Connecticut's two casinos to shed an additional 5,812 employees for a loss of \$193 million in annual wages (see Table 2). As Figure 5 illustrates, Connecticut's casinos employ individuals who reside in virtually every corner of the state and, consequently, the impact of these projected layoffs will be felt across the state of Connecticut.

In addition, lost wages by former casino employees will mean less spending by those former employees and this will induce the loss of an addition 1,598 jobs statewide at a cost of \$73.9 million in lost wages (see Table 2).

Table 2

Employment & Wage Losses in Connecticut Generated by New Massachusetts and New York Casinos (by CY 2019)			
Direct	Indirect	Induced	Total
5,812	1,890	1,598	9,300
192,947,268	86,636,843	73,940,044	353,524,155

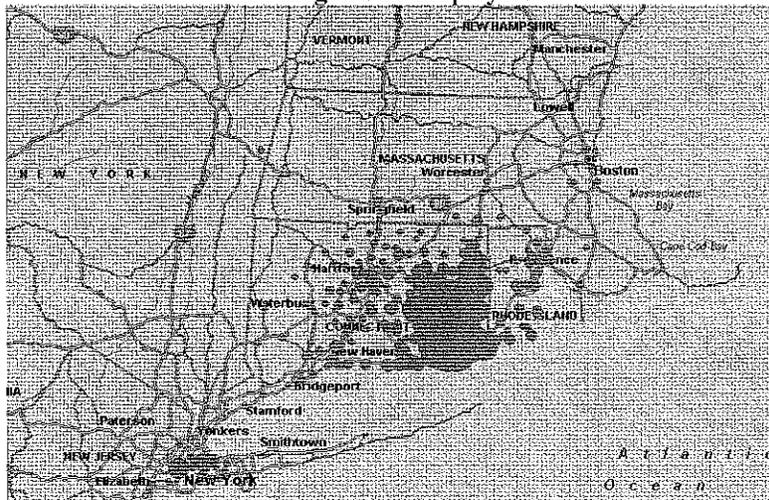
Source: IMPLAN (2015); Pyramid Associates (2015).

Figure 5

⁷ This estimate assumes that slot machine revenues will account for seventy percent of gross gaming revenues and that both tribes will continue to share twenty-five percent (25%) of slot machine revenues with the State of Connecticut. This figure does not include other tax revenue that will be lost as a result of reduced purchases by the casinos from local vendors, reduced local purchases by former employees, and increased social spending on unemployment insurance and public assistance generated by higher unemployment. These estimates will be included in the final report.

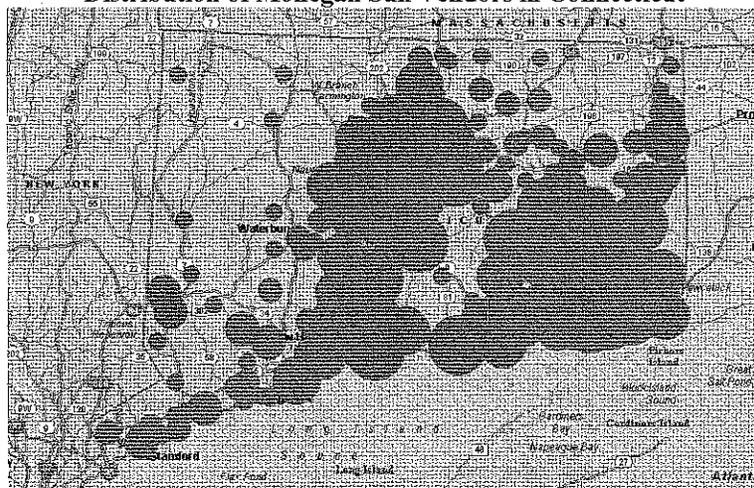
⁸ The economic impact estimates of 'conservative' estimates insofar as they do not take into account the direct, indirect, and induced economic impacts on contract employees, on-site lease holders, and the impact on other regional tourist industry establishments (e.g., recreation and amusement, food and beverage, retail, and lodging, among others).

Distribution of Mohegan Sun Employees in Connecticut



Finally, as Figure 6 illustrates, Connecticut’s two casinos make local purchases from Connecticut vendors throughout the state. The revenue displaced by the new Massachusetts and New York Casinos will result in a reduction of local non-payroll purchases from Connecticut vendors of approximately \$336.1 million. This reduction in local purchases from Connecticut vendors will result in the loss of an additional 1,890 non-gaming jobs and \$86.6 million in lost wages in Connecticut (see Table 2).

**Figure 6
Distribution of Mohegan Sun Vendors in Connecticut**



It is possible to mitigate this inter-state revenue transfer, and the resulting jobs losses that will result from it, but 2017 is not far away, so the time for a response is very short; and the sooner Connecticut responds to the threat at its border, the more it may be possible to not just mitigate potential losses, but to restructure and downsize the plans of its new competitors by preempting them.

Thank you for your attention. I will gladly answer any questions.