Commerce Committee Public Hearing on March 10, 2016
HB 5577

Before the Legislature decides on any policy on casinos—whether to expand or not, if expanding, how many and what locations—it needs a comprehensive, comparative, dynamic analysis. A review of available studies argues that the proposed Hartford area facility may not generate net new jobs or new revenue for the State. Such an analysis would not preclude the tribal partnership building a new casino somewhere in Connecticut, but it might save them from a poor investment that would serve neither the tribes nor the taxpayers of Connecticut well.

Casinos have played an outsized role in Connecticut's economy. Without the employment, direct and indirect, tribal casinos have generated, Connecticut would not have seen a single month in which total employment surpassed the peak of February, 1989. No casinos, no job creation in 27 years!

But Connecticut's good luck of being among the first to exploit the opportunity of tribal casinos could not last. Neighboring states want their cut of the action. All have now built, are building, and are considering whether to build yet more. Between the impact of the Great Recession and this growing regional competition, activity at Connecticut's tribal casinos has declined more than 40%, resulting in significant job losses and sharp reductions in revenues to the State and municipalities. Confronting a growing fiscal crisis, how Connecticut responds to the loss of casino jobs and revenues has taken on special importance.

The tribes, through a joint venture, want to build a relatively small casino in the Hartford area, hoping to detour gamblers headed to the MGM casino resort now under construction in Springfield. In support, they commissioned a study by respected economist Clyde Barrows. But that study is narrowly focused, failing to consider critical factors that significantly undercut the scale of promised jobs and revenue. MGM Resorts International asked Oxford Economics to do a more comprehensive study using essentially the same assumptions as the Barrows' study: it reveals two serious shortcomings. First, that study projected gross benefits, not net benefits in jobs and revenue. But the Hartford location would pull patrons from the existing casinos, not just intercept those heading to Springfield. Once included, that interaction reduces net benefits by half. Second, the tribal study only looked at the Hartford location. But if Connecticut is going to license a new casino, it should consider what location would generate the largest net benefit measured in terms of new jobs and revenue. The Oxford study shows, unsurprisingly, that southwestern Connecticut would be a much more successful location.

But the Oxford study clearly understates shortcomings of the tribal study. First, Barrows' own comprehensive annual study of gaming in the northeast reveals how complex and dynamic gaming now is, and points to the competitive importance of larger casino resorts. The disappointing performance of the recently-opened Plainridge Park casino in Massachusetts—similar to the proposed Hartford venture—underlines this problem: after a well-attended opening, gamblers now regularly drive just a few more miles further to visit the large casino resort in Fall River. The result is that Plainridge is now generating significantly less revenue than projected and will deliver far fewer permanent jobs. This also argues that there are serious methodological weaknesses in the gravity model on which these studies rely; in this case it substantially overstated the gaming activity the Plainridge site could capture. Second, the tribal study does not include either regulatory costs—which are now $28 million in Massachusetts—or local impacts on municipalities. This is critical: because the federal government regulates only casinos on tribal land, Connecticut would have to build its own regulatory infrastructure. Third, casino gambling is only one way in which to gamble, and only one way to spend money. The importance of this effect is that casinos compete with lotteries and, presumptively, Keno. So the addition of the Hartford casino would likely reduce revenues from both the lottery and Keno; and insofar as patrons spent money gambling that they would otherwise have spent on other goods and services, it will also reduce sales tax collections (depending on the scale of the impact, that may also result in loss of retail and service jobs). Adding together these overlooked costs and lost revenue means that a Hartford area casino might reduce total tax revenues to the State, exacerbating the fiscal crisis, impose significant costs on area municipalities, while generating few if any net new jobs. And given the experience at Plainridge, it might burden the tribal partnership itself with a zombie casino.

Clearly the Legislature (and the tribes!) need a comprehensive dynamic analysis to frame the discussion of whether and how Connecticut should manage gambling.

Fred V. Carstensen
Professor of Finance and Economics
Director, Connecticut Center for Economic Analysis
University of Connecticut

Full disclosure: MGM Resorts International has contracted with the University to have CCEA provide a REMI-based analysis of the potential impacts of casino expansion in Connecticut.