

## Comments on a Casino in North Central Connecticut

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My name is Nicholas Perna. I am an economist with considerable expertise in the field of regional economics and finance. Until recently, I was on the faculty of Yale University, and I have also worked at several large, regional banks. Earlier in my career, I taught courses at Williams College on how regional economies function and grow. I am also a native of Connecticut and I care deeply about the future of our State.

A basic rule of economic policy-making is that legislators should choose the option that provides the greatest benefits relative to the costs of the undertaking. This is not just an economic principle; it is common sense. My conclusion is that the legislation passed in 2015 which gave the operators of the two existing casinos, the Mohegan and Mashantucket Pequot tribes, the exclusive right to develop the first commercial casino in the state falls seriously short of meeting this criterion. I will try to address this in terms of (1) the legislative process that was used; (2) the possibility of large fiscal costs to the State and; (3) whether siting a casino in a location other than between Hartford and Springfield would generate larger economic benefits.

**Decision Making.** The legislation passed in 2015 is cause for considerable concern. There was little transparency with no input from the public. Furthermore, there was no attempt to solicit proposals from anyone other than the operators of the two existing casinos in the state. It is quite likely that both the State and the community would have been offered larger financial and other benefits if a competitive process had been used. As an economist, I find this unsatisfactory and contrary to established principles of sound decision-making. As a resident and taxpayer of this state, I find this very troublesome -- especially at a time when the ongoing budget crisis is causing large numbers of

citizens to question the wisdom of our elected officials and the transparency of the legislative process.

**Unmeasured Costs. This** The agreement reached in the early 1990s provided that the two existing casinos would contribute 25 percent of their slot machine revenues to the State of Connecticut. Over the years, the total contribution to the State General Fund now totals billions of dollars. There is considerable legal opinion that this major source of funding would have to end if a third casino were to open, causing these contributions to evaporate completely. The annual loss of hundreds of millions of dollars could not come at a worse time, a time when the State is struggling with huge budget deficits as far as the eye can see -- and maybe even beyond. It would necessitate even more layoffs of State employees, bigger tax increases, additional reductions in needed services as well as further cuts in financial aid to cities and towns. Thus, loss of the casino revenue would impose large financial burdens throughout the state.

**Does the site make sense?** I have reviewed all of the major economic impact studies and reports prepared by both the proponents and opponents of locating a third casino somewhere in the North Central part of the State convenient to Springfield. They made for quite interesting reading and I was impressed with the sophistication of the analysis. I wish I had them to use as dueling case studies when I was teaching regional economics.

The study by Pyramid Associates, commissioned by the Mohegan and Mashantucket Pequot Tribes, makes an attractive case for siting the third casino in the North Central part of the State. While carefully done, the analysis suffers from two major flaws. First, it only examines "gross" impacts, i.e., it does not take into account the likelihood that this casino will take business away from the two existing Connecticut facilities which are not that far away. Because of this flaw, the Pyramid analysis substantially overstates the benefits of a third casino in North Central Connecticut. The purported benefits are almost doubled compared to an analysis that takes this "drain" or "cannibalization effect" into account. Quite simply, a substantial number of jobs and considerable State revenues will be taken away from the two existing tribal casinos, greatly reducing the "net" benefits of the third casino.

To put it bluntly, a portion of the gain in jobs and tax revenues to the East Windsor area would come at the expense of the residents in the Ledyard and Uncasville areas.

The second major flaw is that the Pyramid analysis does not ask the very relevant question of whether a different site would provide greater economic benefits. At the request of MGM Resorts International, the Oxford Economics group found that locating the third casino in Southwest Connecticut, for example, would yield much larger economic benefits. It would generate almost three times as many jobs and more than triple the total tax revenue compared to one located in the North Central part of the state. Pyramid Associates has criticized this finding, claiming that the larger benefits are simply the result of building a larger casino. I don't find this to be a very potent objection. The Southwest part of Connecticut can support a much larger facility because it has a much larger population to draw from, with higher incomes, than the North Central part of the State. Simply put, it is a much better market for a new casino.

**In conclusion**, I believe that the Legislature should repeal the 2015 legislation and start anew. It should begin by determining whether it is legally feasible to open another casino without endangering existing payments to the State from the slot machine take at the two existing casinos. Second, it should open a competitive bidding process to reputable casino operators who would propose opening another facility in a part of the State where the net benefits are greatest. All claims about jobs created and revenues generated should be subjected to rigorous economic analysis.

Thank you