

MEMO

To: NH Gaming Study Commission Members

From: Andy Lietz

As promised, attached is the proposed outline for the Interim Progress Report, which is due to the Governor next month. This is a working draft, and we welcome your suggestions on ways to improve it. Feel free to send me any comments before we officially meet again. We will have an opportunity to discuss this outline and other issues involving the progress report at our Dec. 1 session.

As you'll see, the outline calls for brief background on the executive order and Commission's purpose. The report will then summarize our process to date and identify some of the issues and themes that have emerged during that process. Because we are not yet in a position to make any formal findings, these issues are listed as subjects that have been raised but which require further analysis, data and other consideration as we continue our work.

I look forward to receiving any reactions and suggestions you may have by Nov. 30 so that we can have them available for our Dec. 1 discussion, after which we will prepare a draft of the interim progress report for you to review before it goes to the Governor.

New Hampshire Gaming Study Commission Progress Report:

Proposed Outline

Part I

Introduction

1. Summary of executive order and general statement of status.

Consistent with the executive order, this Commission has been considering a range of issues and topics involved with proposals to expand gaming in New Hampshire. Many of these issues have been analyzed over many years and in many states that have also considered expanded gaming. One conclusion is clear: Even with all the studies and presentations already before it, the Commission needs more analysis and, especially, more hard data before it can reach firm findings. That will be the primary task and mission of the Commission between now and June, when our final report is due.

2. Identify major issues and themes that have been raised to date and which will inform the Commission's next steps.

Based on research, testimony, and other work, the Commission has identified several broad themes and issues that merit further analysis and consideration, including:

- *Expanded gaming has the potential to create revenue and economic activity. Any benefits must be weighed against potential short-term and long-term impacts, including social costs, financial risk to some NH charities, which may be dependent upon revenues from charitable gaming, and changes to the state's image and "brand" in ways that could affect tourism or other business activities.*
- *While some say the revenue will be significant, all agree that no matter what the Legislature decides, gaming alone will not eliminate long-term fiscal challenges facing the state, even if best-case revenue projections for expanded gaming prove accurate.*
- *Like many of NH's revenue sources, gaming revenues have been shown to be sensitive to economic conditions.*
- *NH residents already engage in a variety of gaming activities, mostly in the form of Lottery games but also in poker rooms, bingo halls and other charitable gaming. However, the introduction of slot machines and VLTs – which are at the core of most expansion proposals and business models – would represent a very different form of gaming, with social, fiscal,*

economic, and other implications that the Commission needs to more fully understand and consider.

- *Even if it does not expand gaming, New Hampshire needs to more rigorously monitor and regulate gaming that is already occurring in the state.*
- *Decisions about expanding gaming in NH should be made in the context of actions that may be taken by bordering states. For example, if Massachusetts were to construct a casino near the NH border, to what extent might New Hampshire suffer additional social costs? Would New Hampshire gain a “first mover” advantage if it acted to expand gaming before its neighboring states did so?*

Part II

Summary of Commission work to date

1. *Section 1: Summarizes activities of the Commission to date (meeting topics, presentations, etc.). This section sets the table for...*

2. *Section 2, which highlights points made during these meetings by various speakers and in presentations, including:*

- During each biennium, the state faces the challenge of adjusting the state’s revenue structure just to meet spending requirements. Expanded gaming is potentially a new revenue source and a possible way to regain gaming dollars now likely being spent by some New Hampshire residents out of state.
- Given current economic conditions, any new jobs and economic activity can be seen as a positive. However, revenue and economic impacts are difficult to predict: they may be more or less than predicted due to a range of factors, many of which are beyond the state’s control, such as actions by bordering states, and the potential of legalized Internet gaming.
- By all accounts, gaming revenues and activity have been declining in the last few years. It is important to better understand how much of those declines are due to the current economic downturn – and thus may recover -- or how much the declines may be due to potential market saturation or other causes.

- Expanded gaming's positive impacts must be assessed against potential downsides, including:
 - Impact, if any, on current Lottery and charitable gaming revenue.
 - Additional regulatory costs.
 - Impact of competition from neighboring states and/or legalized Internet gaming.
 - Additional social costs beyond those that already exist as the result of gaming activities of NH residents either within the state or beyond.

- Similarly, economic development impacts must be considered in full context:
 - Casino jobs, while beneficial, are not replacements for lost manufacturing and other higher income jobs etc.
 - Not all forms of gaming create the same numbers of jobs or levels of wages (VLT parlors vs. full-scale facility).
 - The extent of the so-called “substitution effect” cited by some must be understood as it could cause some economic losses in other businesses as discretionary spending is redirected from other forms of entertainment to expanded gaming activities.
- Based on the experience of other states, would what is intended to be a modest expansion of gaming inevitably lead to greater proliferation and, if so, should that be a concern?

Other considerations:

- Social costs

Given the extent of current gaming activity in NH, will expansion significantly increase compulsive gaming problems and related social costs? How will the state pay for treatment, with HHS budgets already under pressure? At the same time, with the state currently spending very little to help compulsive gamblers, expanded gaming could provide revenues needed to pay social costs already being run up by NH residents who gamble out of state but who live and experience their problems here.
- Regulatory factors

- NH is already thinly staffed to properly monitor and regulate existing Lottery, bingo and other charitable gaming activities.
- Determining the scope of a complete regulatory restructuring is needed before significant expansion of gaming.
- Needs and views of local law enforcement issues must be considered.

Part III

Materials prepared by New Hampshire Center for Public Policy Studies

1. Brief history of gaming in NH
2. Gaming revenues in NH
3. Current status of gaming in bordering states
4. Fiscal and economic analysis of proposals presented to GSC, including matrix that shows capital investments, estimated revenues, market area, anticipated economic activity, and other details of each proposal.

Part IV

Next steps

1. *Summarize Commission meetings and other activities planned for 2010.*
 - o Site visits.
 - o Further testimony/presentations, especially to further inform Commission on some of the topics listed above.
 - o Public hearings, including focus groups and legislator input.
 - o Additional survey work.
 - o Responses to generic models to be developed by Center (see below).
 - o Final report.

2. Center analysis of generic models of expanded gaming.

Because “expanded gaming” can mean anything from new Lottery games to slot parlors to full-scale resort casinos, the Policy Center will develop and analyze revenue and economic impacts of different models of expanded gaming. The following list highlights major advantages and disadvantages of each model, for which the Center will develop fiscal and economic analyses:

- **No expansion**
 - Pluses: Protects revenue stream to Lottery and charities; eliminates risk of substitution effect; no additional negative impact on quality of life and state “brand;” fewer added social costs.
 - Minuses: No new economic activity or revenues, including money needed to enhance regulation of existing gaming and to pay for social costs run up by NH residents who game in other states. If Massachusetts develops casinos that attract NH residents, NH may bear added social costs, but without added revenue from gaming.
- **Expand existing gaming (Lottery and charitable gaming).**
 - Pluses: Infrastructure largely already in place and ready to go; little added overhead; instant new revenue
 - Minuses: Limited expansion possibilities; attracts limited out-of-state revenue; minimal added employment; added social costs; additional regulatory costs.
- **Other models, to be determined by the Commission. The models to be selected could include:**
 - **VLTs/slots only at race tracks.**
 - Pluses: Land and facility infrastructure largely in place; gambling already is established in the location; lower capital costs and overhead; revenue from temporary facility within months and ongoing revenues from licensing fees and annual tax payments.

- Minuses: Limited economic activity; could hurt Lottery and charitable gaming; susceptible to competition; risk of substitution effect on area businesses; added social costs.

- **Full casino – VLTs, table games, and amenities -- at race tracks.**
 - Pluses: Land already in place; gambling already is established in the location; more revenue, both from licensing fees and annual tax; greater job creation; more attractive to both in-state and out-of-state gamers.
 - Minuses: Could hurt Lottery and likely material impact to charitable gaming; higher capital costs; greater public infrastructure costs; risk of substitution effect; added social costs.
- **VLTs only at non-track locations.**
 - Pluses: Minimal capital costs and overhead; revenue, both from licensing fees and annual tax; new, though limited, economic activity for hard-pressed parts of state.
 - Minuses: Limited economic activity; could hurt Lottery and charitable gaming; susceptible to competition; substitution effect; added social costs.
- **Full “destination resort casino” at non-track location, near state border.**
 - Pluses: Greatest economic and revenue potential; could be more easily marketed to complements other tourism activity; more attractive to both in-state and out-of-state gamers.
 - Minuses: Could hurt Lottery and would likely have material impact on charitable gaming; high capital costs; risk of substitution effect; risk of brand damage which could also hurt other tourism activity, added social costs.

Part V
Appendices

- Executive order
- Minutes and excerpts from presentations to commission (text, charts, power points etc)
- UNH survey results
- Links to vetted studies
- Site visit status report