

Minutes  
Gaming Study Commission  
Meeting: Tuesday, October 6, 2009

Commissioners Present: Andy Lietz, Chair; Joe Foster, Vice Chair; Jim Craig, Tom Ferrini, Mark MacKenzie, Bob Odell, David Babson, David Bailey, Bonnie Newman, Micheline Dufort, Maggie Pritchard, Ned Densmore, Mary Heath, Karen Pollard (via telephone).

Commissioners Absent/Excused: Lew Feldstein

Staff Present: Gail Wolek

Commission Chair Andy Lietz called the meeting to order at 1:00 p.m.

Chairman Lietz asked Gail Wolek to conduct the roll call. Chairman Lietz then asked for a motion to approve the minutes of the September 15, 2009 meeting. Bob Odell motioned for the minutes to be approved, seconded by Jim Craig. There being no further discussion, Chairman Lietz called for a vote to approve the minutes. The minutes of the September 15, 2009 meeting of the commission were unanimously approved.

Dr. Bruce Mallory, UNH/Carsey Institute, provided a brief overview of the proposed plan for public deliberative sessions scheduled for February. They are also working with Paul Montrone and Anna Grace Holloway of the Live Free or Die Alliance to include an on-line component to public sessions. Chairman Lietz will follow up with Dr. Mallory relative to plan design and budget.

Dr. Andy Smith, UNH Survey Center, informed the Commission that the current poll of approximately 500 NH residents is nearing completion and he should have a summary of findings to present at the 10/20 meeting.

Chairman Lietz advised that Dave Babson, Dave Bailey, and Bob Odell will serve as the Commission's site visitation team. Commissioner Babson said the team has had its first meeting and is in the process of planning which sites to visit. They also plan to gather pertinent information from site jurisdictional authorities and local social service agencies, where possible. Commissioners will be invited to join any site visitation they may be interested in once the visitation schedule has been identified.

Dennis Delay, Center for Public Policy economist, provided information on New England Gaming Statistics and reviewed a presentation titled "The Gaming Landscape in New England" (provided separately as handouts). The final slide, "NH State Revenue Trends," identified Meals & Rooms tax as the most stable revenue source to the state over time.

It was also pointed out that the U.S. Department of Interior is the regulatory authority over tribal-owned facilities on tribal lands. Though tribes have attempted to gain approval to remotely locate facilities away from tribal properties, such approval has not been granted. A new DOI undersecretary has agreed to review the request. Commissioners MacKenzie and Newman asked the Center to keep the Commission advised of any changes in current tribal authority policy.

A comment was made that Rhode Island seemed to be experiencing economic conditions similar to those of NH's North Country. Chairman Lietz followed up asking that the record reflect that the Commission does not equate the North Country to Rhode Island.

Robert Ward, Deputy Director/Director of Fiscal Studies, for the Nelson A. Rockefeller Institute of Government, presented an overview of the Institute's recent report, *For the First Time, a Smaller Jackpot: Trends in State Revenues from Gambling* ([http://www.rockinst.org/newsroom/news\\_releases/2009/2009-09-21-gambling\\_revenue\\_drops.aspx](http://www.rockinst.org/newsroom/news_releases/2009/2009-09-21-gambling_revenue_drops.aspx), [http://www.rockinst.org/pdf/government\\_finance/2009-09-21-No\\_More\\_Jackpot.pdf](http://www.rockinst.org/pdf/government_finance/2009-09-21-No_More_Jackpot.pdf); separate presentation handout provided). Mr. Ward advised that the data included 46 of 48 states with legal gambling activities but did not include tribal revenue statistics due to lack of reliable information. Summarizing the report's findings, Mr. Ward said, "Expanded gambling will generate more revenue, but the revenue over time will lag behind the growth in overall tax revenues and overall state expenditures." He added that the report

found that many if not most states add gambling revenues to help balance state budgets, though the stated intent is often to fund education.

G. Michael (Mickey) Brown, a former casino regulator in the New Jersey attorney general's office who then became a casino industry operator (he is the former CEO of Foxwoods Resort Casino and the Seneca Gaming Corporation) and current gaming industry attorney and consultant, provided background information on the history of gaming in New England and his experience with the various venues and models. In 1977, he noted, only Nevada allowed casino gaming. In 1976 there was a referendum in New Jersey to allow gaming. The Casino Control Act was subsequently adopted in 1977 and the first NJ casino opened in 1978. Atlantic City had the only casino in the Northeast until Connecticut inked a compact with tribal groups, leading to the opening of Foxwoods as a complete casino, with table games, in 1991 and slot machines in 1993. Mohegan Sun opened a few years later.

Currently, all states except Utah and Hawaii permit some kind of gaming activities, said Mr. Brown, who gave a brief overview of gaming interests and regulatory framework in other states, including Indiana, Kansas, Pennsylvania, Rhode Island, Massachusetts, and New York.

Referring to the Center's map (provided to Commissioners) showing the locations of gaming operations in the New England Region, Mr. Brown noted that what are now racinos were once just racetracks. Slot machines at casinos have helped pari-mutuel racing by generating added revenue for larger purses, Mr. Brown said. He also noted that the current decline in gaming revenues is due to a combination of the economic slowdown and increased gaming competition. Atlantic City, he noted, is in serious trouble due to "the proliferation of gaming in so many areas.

Another cause of casino problems can be high rates of taxation, said Mr. Brown. He cited Rhode Island's 73 percent tax rate on gaming revenues plus overexpansion as factors in the bankruptcy filing of Twin Rivers. Foxwoods and Mohegan Sun "both overbuilt" from 2003-2007 and are now finding themselves laying off thousands of employees due to higher debt and reduced gambling revenues. In some cases, Mr. Brown said, gaming establishments are unable to meet debt service requirements and the choice will be for the bondholders to take a hit or the state to take over the facilities. "Since 2007, the bond market in gaming has dried up completely," said Mr. Brown.

Despite current problems, however, Mr. Brown anticipates that Massachusetts will open two or three casinos, perhaps one of them tribally operated. If New Hampshire chooses to expand gaming, Mr. Brown recommended that it open one or two full casinos – not just facilities with slot machines. Casinos offer the best possible revenue and economic development potential for the state, he said, creating many jobs, both in the construction and in the management phases, while slots are nearly completely automated, creating neither significant numbers of permanent jobs nor serving as destination attractions. Slots at existing racetracks can be an attractive option, however, since they can improve racing revenue, particularly where a percentage of slot revenue goes to increasing racing purses.

Mr. Brown said a casino should have a minimum investment of \$200 million to \$300 million, at least 60,000 square feet of gaming floor space, amenities such as restaurants and spas, and a minimum of 250 hotel rooms. In the current market, Mr. Brown projected average annual revenues of about \$140 million for such a facility. "I would situate it where a large part of the population is within a one-hour drive, next to an Interstate highway, if possible," said Mr. Brown, noting that existing racetracks can serve as good casino locations because gaming activity is "already there" and most racetracks are near accessible transportation routes. Mr. Brown said his "personal view" is that casinos should not be located in cities, but rather be designed as a separate destination opportunity removed from densely populated areas. This encourages a focused visitor base while helping to limit addictive gambling that can occur when the opportunities to gamble are too convenient. He said it generally takes about a year from groundbreaking to ribbon cutting for a facility to come on line.

Mr. Brown cautioned that a state tax rate that is too high can cause a developer to build "cheap" to get in and out with as little exposure as possible. A lower tax rate enables developers to build higher end facilities with

greater amenities to add value to the guest experience. Mr. Brown pointed out that food and beverage are generally viewed as break-even enterprises.

In response to Commissioner Craig who asked about the social costs of gaming, Mr. Brown said compulsive gaming is the most prevalent problem. Data indicate that about 3 percent to 7 percent of the U.S. population has a compulsive gambling problem, with many betting illegally on sports events. He said that it falls to the states to control the problem but in most cases, casinos pay the cost for dealing with the problem gambling issues. While increased crime hasn't been generally recognized as a problem around casinos, drugs and prostitution do occur at these locations. It is the responsibility of casino management, surveillance staff, and law enforcement to control these activities.

Commissioner MacKenzie inquired about the costs of security for casinos. Mr. Brown replied costs would include legalizing casino facilities, establishing a regulatory agency (including governing board, staff, law enforcement), legislation for application and licensing processes, investigations on background of companies applying and their principal owners/executives, surveillance abilities (staff, sophisticated cameras, etc.); with regulatory and law enforcement personnel located on-site.

Commissioner Newman asked Mr. Brown if a "betting person" would consider putting a gaming facility in New Hampshire. Mr. Brown said developers would be interested. "You have an unsatisfied market in New Hampshire that goes elsewhere so you'd be capturing this market. If you limit it to one or two casinos, it is much more attractive to a developer who would have some sense of certainty about competition. You would get some serious interest and some serious players." Mr. Brown said the state should allow five to seven years for revenue production to stabilize. He also noted that it is his experience that less than 3 percent of Foxwoods out-of-state patronage comes from New Hampshire.

Commissioner Ferrini asked Mr. Brown if he thought a phased development was possible. Mr. Brown said that was a reasonable concept but noted that the casino floor is the engine driving revenues so it is important to get that running first. It then becomes critically important for the designers and architects to build a concept that can be added on to over time to increase amenities and other gaming opportunities.

Commissioner Bailey asked Mr. Brown about profit margins for casinos. Before the economic downturn, he replied, 30 percent was considered a good margin. "Today, 10 percent is good," making it increasingly difficult for casinos to keep staff, meet debt service requirements, and provide meaningful tax revenue to the state.

After a brief break, the commissioners' roundtable discussion included the following topics and responses from the guest speakers:

- Commissioner Dufort: Casino development effect on local communities (negative in Atlantic City due to variety of amenities offered by the casinos; Connecticut experienced increased employment; NY/Niagara increased construction jobs)
- Commissioner Pritchard: Why gaming growth in Rhode Island hasn't equated to positive impact on state budget (probably not directly correlated)
- Commissioner Heath: Level of illegal gambling (people will continue illegal gambling; introduction of casinos won't have much effect in this area; most illegal gambling related to sports betting)
- Commissioner MacKenzie: Proliferation of charity gaming in NH, how fits into casino development (unlikely any developer would be interested in hosting charitable gaming in a casino)
- Commissioner Foster: RI per capita revenues point strongly to income earned from out-of-state gamblers coming to RI gaming facilities
- Commissioner Craig: Dedicated fund probably worth considering as balance to using gaming revenues just for tax income to the state's general fund
- Commissioner Odell: How is the profit margin percentage calculated (derived from EBITDA...earnings before interest, taxes, depreciation and amortization)
- Commissioner Newman: What would expanded gaming in Massachusetts mean for NH (once a facility in Massachusetts builds customer loyalty through use of players' clubs and other investments in retaining a customer base, it would be very difficult for a similar facility nearby in NH to win that same

customer away with a similar facility; first into the market with a good business model has a huge advantage)

- Commissioner Densmore: Reality of \$296 per terminal per day (probably closer to \$180; don't need 5,000 terminals to start; begin with 2,000 and incrementally increase with demand and revenue flow maybe out over 5 years)
- Commissioner Newman: Regulation and law enforcement best practices: NJ does it well, just overgrew the bureaucracy; Indiana most streamlined and efficient; NY handles through State Police; Michigan very aggressive on regulation; California leaves it to the tribes and local communities. Probably Indiana, Michigan, Connecticut are the best models.
- Commissioner Newman: Any parallels to the racing industry? (No...racing has suffered substantially because of expanded gaming and hasn't kept up; people want things to do in the 20 minutes between races so unless tracks add slots or other gaming activities they will likely continue to experience declines)
- Commissioner MacKenzie: How much property is generally required to build a casino (25-50 acres required to build a \$250-\$300 million facility noted in earlier discussion)
- Commissioner Mackenzie: Where would jobs be created? (construction creates many jobs; by far largest number of employees work on the gaming floor with average income of about \$35,000 per year including a decent level of benefits; usually can count on 1200-1600 FTE's in casino described above)
- Commissioner Newman: We've discussed revenues, but what are the community-based hidden costs i.e. mental health, law enforcement, etc. (this data needs to be further studied and analyzed)
- Chairman Lietz: What models should NH be looking at (Maine, New York/Akwesasne on St. Regis Reservation in northern NY, Foxwoods, Mohegan Sun, Delaware racinos, Pennsylvania/Hollywood Casino in Grantville)
- Commissioner Babson: Who should visiting team see (CEOs of the facilities and local regulators particularly in NY, NJ, DE, CT; have local NH law enforcement talk with their peers and counterparts in visited locations in other states; mention governor has appointed commission to conduct research and should find that people at facilities/communities in other states are willing to help)
- Chairman Lietz: Is there a way to track comparative revenues (so much new development over the past ten years that it is a challenge to adjust revenue streams for comparative data; because NH is so different from all the other states in how it generates revenues, it is important to look at NH trends over time for meaningful information)
- Chairman Lietz: Are there recognized experts commissioners can speak with on the social impacts of gaming? (none come readily to mind)
- Commissioner Newman: Is the industry gearing up for the next generation of (cyber) gamers and what effect will that have on current business models? (existing business models would be hurt; existing facilities would need to find new sources of revenue; the industry is gearing up, but is not particularly enthusiastic about the changes that would include 24/7 gaming availability from the comfort of one's living room)

At 4:00 p.m. a motion was made, seconded, and approved to adjourn the meeting.

**NEXT MEETING, TUESDAY, OCTOBER 20, 2009, 1:00 pm, NHHEAF**

Respectfully submitted: Gail Wolek, Executive Director