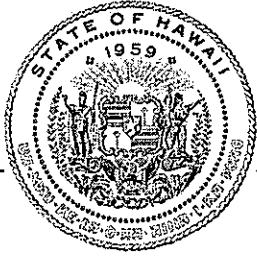


SB1097

TESTIMONY



**DEPARTMENT OF BUSINESS,
ECONOMIC DEVELOPMENT & TOURISM**

NEIL ABERCROMBIE
GOVERNOR

RICHARD C. LIM
INTERIM DIRECTOR

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Statement of
RICHARD C. LIM
Interim Director
Department of Business, Economic Development, and Tourism
before the
SENATE COMMITTEE ON JUDICIARY AND LABOR

Wednesday February 9, 2011
9:00 A.M.
State Capitol, Conference Room 016

in consideration of
SB 1097
RELATING TO GAMING.

Chair Hee, Vice Chair Shimabukuro and Committee members:

The Department offers the following comments regarding Senate Bill 1097 which seeks to grant a 10-year license for one stand-alone casino in Waikiki not in a hotel. The measure also establishes a Hawaii gaming control commission within DBEDT, imposes a 6.75 percent wagering tax on gross receipts and creates a state gaming fund and compulsive gambler program.

DBEDT does not have the resources or core competency to administer, regulate and enforce an industry such as gaming and related activities.

Thank you for the opportunity to offer these comments.

From: Tracy A Ryan [tracyar@hawaiiantel.net]
Sent: Saturday, February 05, 2011 1:39 PM
To: JDLTestimony
Subject: Testimony for Wednesday
Attachments: image001.jpg

TESTIMONY

The Libertarian Party
c/o 1658 Liholiho St #205
Honolulu, HI 96822

February 5, 2011

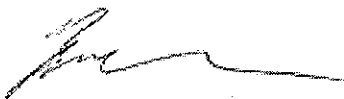
RE: SB 1097 to be heard Wednesday, February 9, 2011 at 9:00 AM in conference room 016.

To the members of the Senate Committee on Judiciary and Labor

We support passage of SB 1097 if it is amended to repeal code sections 712-1221 through and including 712-1230 that criminalize gambling in our State. Ideally this bill should be gutted in its entirety and substituted with a straight forward repeal of these laws. Establishing a monopoly which very clearly aims to support the financial interests of a single private provider with criminal penalties remaining on the books for anyone else doing the exact same thing raises troublesome ethical issues.

Either gambling is a right that free people enjoy, as we libertarians believe, or it is a dangerous vice that the community must suppress, as some others believe. For the legislature to take the point of view that it is dangerous vice to be criminalized except when it benefits tourism or the State tax coffers is a questionable stand.

Sincerely:



Tracy Ryan
Oahu County Chair
The Libertarian Party of Hawaii

(808) 534-1846

tracyar@hawaiiantel.net

Gambling Economics: Summary Facts

Professor Earl L. Grinols, 2 February 2011

- Independent research. Not funded by gambling or anti-gambling organizations.

Gambling is a public concern because it creates economic costs for society and taxpayers, including non-users. Most costs derive from problem & pathological gamblers (two groups).	Per Path. Gambler in 2010 \$	Totals/ Adult Capita
➤ <u>Crime</u> : E.g. Aggr. asslt, rape, rob., larceny., burglary, auto theft, embezzlement, fraud.	\$4334	\$64
➤ <u>Business and Employment Costs</u> : Lost productivity, lost work time, unemployment-related employer costs.	\$3060	\$72
➤ <u>Bankruptcy</u>	\$337	\$4
➤ <u>Suicide</u>		
➤ <u>Illness</u> : E.g. Stress-related, cardiovascular, anxiety, depression, cognitive.	\$916	\$10
➤ <u>Social Service Costs</u> : Treatment, unemployment & other social services.	\$530	\$20
➤ <u>Direct Regulatory Costs</u>		\$16
➤ <u>Family Costs</u> : Divorce, separation, child abuse & neglect, domestic violence.	\$83	\$1
➤ <u>Abused dollars</u>	\$3806	\$76
➤ <u>Social connection costs</u> : reduction in social capital (employer, family, friends)		
➤ <u>Political</u> : concentration of power, disproportionate political influence (NH, May10)		
➤ TOTALS (Right column includes problem gambler costs.)	\$13,067	\$242

- **Gambling fails a cost-benefit test: Conservatively estimated, costs to benefits exceed \$3:\$1.**
 - Costs of introducing gambling depends on starting base, but typically > \$166 per adult. Benefits < \$54.
 - Large costs are privately borne, but 64 percent are publicly borne and 39 percent are tax-supported public costs.
- **Gambling attracts clientele unequally**
 - 30% don't gamble at all; most gamble rarely, minority 10% account for 2/3rd—4/5ths of wagers.
 - 30-50 % of revenues derive from problem and pathological gamblers (e.g. 48.2% of gaming machine revenue, Aus. Inst. for Gambling Research, 2001; 37 % Montana keno machines; 58% machine revenue, Ontario Problem Gambling Research Center, 2004, 60% U. Lethbridge, 2004, other studies similar.)
 - Convenience gambling draws from nearby (Example: IL, over 70% from less than 35 miles).
 - Creates social costs nearby that must be taken account of.
- **Slot Machines, Electronic Gaming Devices (EGDs), Video Lottery Terminals (VLTs)**
 - Most damaging and quickly addicting form of gambling. (E.g. Breen and Zimmerman (2002)ⁱ: shorter times to addiction for those who 'got hooked' on video gambling. 1 year vs 3.5 for other forms.)
 - 80 percent of casino revenues, sometimes more, are from slot machines.
 - Causation: Bridwell and Quinn (2002)ⁱⁱ. Remove slot machines from SC. 6 months later Horry C. (Myrtle Beach) hotline calls fall from 200 to 0 per monthⁱⁱⁱ. Number of Gambler Anonymous groups smaller by 2/3.
 - Confirming evidence of causation is available in National Gambling Impact Study Commission research.
- **Economic Development; Failure of Impact Studies**
 - IMPACT STUDIES ARE NOT COST-BENEFIT STUDIES. More people working next door to you may not improve the well being of citizens in your area. Well being may actually decline.
 - An additional job has been estimated to be worth as little as zero to the community, or between \$0-\$1,500.^{iv} In a county of 100,000 adults the introduction of class III gambling would create additional social costs of \$16.6 m annually and social benefits of \$5.4 m. Using \$750 as mid-range value of a job to the rest of the county means that gambling would have to increase the total number of jobs in the county of this size by more than 14,933 to improve well being of residents, an unlikely outcome.

- **Factory, Tollhouse, or Restaurant Type Enterprises: Hawaii Gambling will Lessen Local Economy**
 - **Factory**—sells to outsiders. Hawaii has tourist base already; these are insiders from economic perspective. Factory form not apply to Hawaii.
 - **Tollhouse**—uses its location to take out as much as it brings in. Hawaii has tourist base already. Not HI's case.
 - **Restaurant**—takes from existing revenue stream, not enlarging it as much as it takes from it. HI's case. Shrinks HI business at same time as adds social costs.

- **Crime: *Review of Economics and Statistics Study*^v**
 - Approximately 9% of total crime (FBI Index I) due to gambling in counties with Class III gambling.
 - 8.6% of property crime; 12.6% of violent crime.
 - E.g. For an average county with 100,000 population this implies 615 more larcenies, 325 more burglaries, 272 more auto thefts, 10 more rapes, 65 more robberies, and 100 more aggravated assaults.
 - Other studies. Example: Wheeler, et al. (2010)^{vi}: "Our results indicate a positive and significant relationship between gaming and crime rates..." "...if gaming expenditure were zero in 2006, income-generating crime would fall by about 10%." Example: Walker (2009) "Virtually all studies of casino communities find that the raw number of reported crimes and arrests increase following the introduction of casinos." But, Example: Grinols-Mustard (2011)^{vii} "...national park visitors have no effect on either property or violent crime." Visitor type matters.

- **How can we conclude that gambling increase crime?**
 - Gambling largely expanded since 1991, a period when crime has decreased substantially.
 - Crime rates drop much more in non-gambling-counties than gambling-counties.
 - In many areas, casino-county crime rates as a fraction of non-gambling-county rates have increased from 2-25% less before casinos entered to much higher after.
 - Indian reservations: Counties that obtained compacts had higher crime rates than noncompact-counties, but the difference was stable until the early 1990s, when the crime rates in compact-counties increased by even more. By 1996 compact-counties have significantly higher crime rates than non-compact counties.

- **Gambling Taxes are Worse than a Conventional Tax Collecting Identical Revenue**
 - A conventional tax implies social costs per extra dollar collected of \$1.17-\$1.59.
 - Taxes on gambling revenues conservatively cost \$2.28 per dollar of tax collected if the tax rate is 30%.

- **When gambling merely transfers dollars from one pocket to another without creating a tangible product we are made poorer.**
 - Some gamble for recreation (such gamblers are presumably provided recreation value for their lost dollars), but many gamble to acquire money. Instead of creating a product or offering a service to earn money, this second group of gamblers doesn't accomplish anything and yet expects to acquire money.
 - The more people there are who gamble to acquire money, the poorer society is.
 - If everyone gambled to acquire his money, we would all starve.

ⁱ Breen, Robert B. and Mark Zimmerman, 2002, Rapid Onset of Pathological Gambling in Machine Gamblers, *Journal of Gambling Studies*, 18, 1, Spring, 31-43; Breen, Robert B. and Mark Zimmerman, 2004, Rapid Onset of Pathological Gambling in Machine Gamblers: A Replication, *International Journal of Mental Health and Addiction*, 2, 1, 44-49.

ⁱⁱ Bridwell, R. Randall and Frank L. Quinn, 2002, From Mad Joy to Misfortune: The Merger of Law and Politics in the World of Gambling, *Mississippi Law Journal*, 72, 2, 565-729.

ⁱⁱⁱ Grinols, Earl L. 2004, *Gambling in America: Costs and Benefits*. New York: Cambridge University Press, pp. 186-187

^{iv} Rappaport, Jordan and Chad Wilkerson, 2001, What are the Benefits of Hosting a Major League Sports Franchise?, *Economic Review*, Federal Reserve Bank of Kansas City, 86, 1, 55-86.

^v Earl L. Grinols and David B. Mustard, "Casinos, Crime, and Community Costs," *The Review of Economics and Statistics*, 88, 1, February 2006, 28-45.

^{vi} Wheeler, Sarah A, David K. Round, John K. Wilson, 2010, The Relationship Between Crime and Electronic Gaming Expenditure: Evidence from Victoria, Australia, *Journal of Quantitative Criminology*, Springer Verlag, October.

^{vii} Grinols, Earl L. and David B. Mustard, 2011, How Do Visitors Affect Crime? *Journal of Quantitative Criminology* (forthcoming).

Radcliffe & Associates, LLC

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February 7, 2011

Senator Clayton Hee, Chair
Senator Maile S.L. Shimabukuro, Vice Chair
Committee on Judiciary and Labor
Hawaii State Capitol, Room 016

RE: SB1097 Relating to Gaming

Dear Chairman Hee, Vice Chairwoman Shimabukuro and Members of the Committee:

My name is John Radcliffe and I am an advocate of having legalized, regulated, gaming entertainment in Hawaii. Hawaii has a huge, illegal, unregulated, untaxed, gambling enterprise that easily runs into the hundreds of millions of dollars. And of course, we export somewhere between a billion dollars and half a billion after tax gaming dollars to legal gaming venues in other states. On February 3rd last year, in 2010, I testified on this same bill, and said then that "making gaming legal in Hawaii is the most intelligent thing that this Legislature could do this year." That is because a casino brings in more new money, more new taxes, and provides more new jobs. But the Legislature chose, instead—to cut government services to the point that nearly every governmental department is now between 40 and 60% below what is considered a minimum standard to operate those departments. In addition, Hawaii became the laughing stock of the country by having to go to the shortest school year and the shortest school day—not only in the United States—but in Europe and Asia to boot. A lot of school days Hawaii just didn't have school at all—couldn't afford it. And today? Well, today conditions are worse. More people are out of work, there is more homelessness, there are fewer social services, and more workers lucky enough to still have jobs are working for less.

We need legalized gaming here for one reason only: it will enhance the quality of our lives by creating jobs and wealth which we can all share.

The Hawaii social service safety net is gone. The extensive array of benefits that our citizens used to enjoy, and that you and other government leaders in other states and at the federal level, worked so hard to provide is going or already gone.

As policy makers you have already cut out whole swathes of state government. Whether it is the Department of Agriculture, which can no longer satisfactorily safeguard agricultural products, or the various other departments that monitor imports, foodstuffs, or whatever—we are past the point of being able to adequately protect our citizens. Even the courts are closed on certain days.

In Hawaii when "revenue enhancement," is referred to, it means raising taxes—not creating more wealth. Raising taxes is not really revenue enhancement. Even if this legislature raises the GET a full one percent and lays off even more public employees, that won't solve the problem. Because the fact is, Hawaii needs, in essence, "to get another job" to bring in more money—and that extra job is casino gaming. Even if you take away benefits from retirees, you cannot close the budget gap. If you raise every

Senator Clayton Hee, Chair
Senator Maile S.L. Shimabukuro, Vice Chair
Committee on Judiciary and Labor
February 7, 2011
Page 2

tax we now have, and dream up a lot more taxes, you still will not be able to close that budget gap—but the economy could be destroyed.

The point is, that we here in Hawaii can no longer depend on raising taxes and cutting services to achieve a just society.

I said last year, that we still had our very successful, but very tiny, Congressional delegation, to keep bringing in more and more federal dollars. But you saw what has just happened. The Congress and the President put the kibosh on federal earmarks—and so those days are over. That money is drying up.

We are on our own. We have to build a new destiny of our own. We need new enterprise, new industry.

Specifically we need casino gaming as an economic tool to bring in more and different tourists. Just because people have been coming here in recent years, too many in that industry and others, think that they always will. They won't, necessarily. We need to evolve our tourism products, add to them, build new things for people to see and do.

I am attaching to this testimony an executive summary of a 75 page economic impact analysis paper that we had commissioned at the end of 2000 that called for doing double what we are asking for now.

Times were tough eleven years ago too, but nothing like they are now. Then, it was thought, that Hawaii's economic future could have been protected with two casinos located on Oahu. The study was never refuted by anybody. We showed then that almost 20,000 new jobs would have been created by two casinos, and that taxes from: gaming revenue, GET, and new income, would have produced about \$143 million in new taxes per year—in 2000. A \$143 million a year over the past eleven years would have generated \$1.573 Billion in tax dollars.

When I first began to argue for gaming eleven years ago, there were about 500 casinos in the United States and today there are nearly double that—nearly 1,000, and the number keeps growing. Forty eight states employ some form of gaming in order to gain more economic power and keep their governments and social services healthy. Thirty states already share at least 875 casinos. Forty two states permit slot machines. Hawaii stands alone with Utah on the issue.

Thank you for the opportunity to submit written testimony.

Respectfully Submitted,

John H. Radcliffe
President, Radcliffe & Associates, LLC

DECEMBER, 2000

**MARKET AND ECONOMIC IMPACT ANALYSIS
TWO CASINOS ON THE ISLAND OF OAHU**

Prepared By:

**MICHIGAN CONSULTANTS
426 W. Ottawa
Lansing, Michigan 48933
517-482-0790
Jacob Miklojcik, President**

Assisted by:

Lawrence B. Boyd, Ph.D. University of Hawaii

EXECUTIVE SUMMARY
MARKET AND ECONOMIC IMPACT ANALYSIS
TWO CASINOS ON THE ISLAND OF OAHU

PURPOSE AND SETTING

The report analyzes the market and the economic impacts derived from the construction and operation of two landbased casinos on the Island of Oahu. Care is taken to distinguish dollars that are new or retained in Hawaii from spending that is simply an intra-state shift. The document includes information on the importance of tourism to the Hawaiian economy and identifies the downward trends during the past decade. The increasing competition from new and emerging casino venues is emphasized. The report also discusses various other community impacts, and contrasts landbased casinos with shipboard gaming.

The analyses of the impacts coupled with the review of tourism trends form a strong argument for the creation of the two casinos. A central theme develops that *it is entirely logical that a person who withheld support for past gaming proposals during other economic times would now decide to support the dual Oahu casino approach given the financial soundness of the proposal and the competitive and economic realities facing Hawaii.*

MARKET CAPTURE ESTIMATES

A comprehensive methodology, detailed in the full report, arrived at substantial estimates for the market capture by the two casinos:

- Total casino visits 6.8 million annually**
- Total gaming hold \$431 million annually**
- Total hold as % of existing US markets less than 1.4%**
- Total non-shifted gaming hold \$309 million annually**
- % Of total hold that is non-shifted 72%**

CAPTURE OF NON-SHIFTED GAMING AND NON-GAMING SPENDING

Crucial to determining the economic impacts is the identification of the source of spending and whether any of the dollars are shifted from existing in-state spending. The methodology uses a series of calculations within four major spending categories. In all cases conservative factors/assumptions are chosen. The analysis considers both gaming and non-gaming spending (such as restaurants, lodging, retail, etc.). The Table below displays the results.

NON-SHIFTED GAMING AND NON-GAMING SPENDING CAPTURE			
Category	Gaming	Non-Gaming	Total \$ Annually
"Existing" Visitors	147,862,365	95,834,726	243,697,091
New Visitors Due To New/Expanded Convention Center Events	9,178,200	133,440,000	142,618,200
New Visitors Due to Gaming Option	93,600,000	156,000,000	249,600,000
Residents	58,590,649	17,366,591	75,957,240
TOTAL	\$309,231,214	\$402,641,317	\$711,872,531

The totals represent only small fractions of the tourist spending now generated by casinos in the United States. Anyone with confidence in Hawaii can agree that the proportions are obtainable given the other attributes of the state.

The report offers a sizing scenario for descriptive purposes, although the ultimate decisions will rely on a variety of local design and site factors. The total on-site investment would likely be at least \$375 million.

EMPLOYMENT AND PUBLIC REVENUES

The capture of the additional spending generates new jobs. The employment is located not only on-site (at the casinos), but also off-site due to the non-gaming spending. The casinos will also be major purchasers of goods and services from local firms, spawning additional jobs. This direct and indirect employment creates sequential rounds of spending within the economy, thereby creating further employment opportunities. The full-time job estimates displayed below in all cases are derived from "non-shifted" spending only.

On-going Employment from Non-Shifted Spending

From Non-Shifted Gaming Spending	3,436
From Non-Shifted Non-gaming Spending	4,973
At In-state Casino Subcontractors.....	1,139
Non-Shifted Direct and Indirect Employment Subtotal	9,549
Potentially Created By Multiplier Effect	10,026
Total Net Jobs	19,575

A capital investment of \$375 million would also directly generate approximately 3,000 employee years in the construction industry, along with additional jobs from sequential rounds of spending. There is also likely to be additional spin-off investment on the part of area hotels, restaurants, and retail establishments.

The report estimates the major categories of incremental public revenues:

Gaming Tax from Non-Shifted Spending (@ 10%)	\$37.0 million
Incremental Income and Excise Taxes (Non-Shifted)	\$34.7 million
Total Incremental Tax Revenues (from items estimated)	\$71.7 million

Various other impacts were identified that will likely lead to additional public revenues, but formal numerical estimates would be premature. These include such items as parking revenues, taxes paid by casino contractors, taxi and rental car fees, building permits, airline fees, increased property tax revenues, etc.

GAMING COMPETITION AND THE HAWAIIAN ECONOMY

The Hawaiian economy is dependent upon Travel and Tourism. Yet, *in the casino gaming field, a crucial segment of its most important economic sector, the State does not compete.* A few aspects are particularly notable:

- Visitor levels stagnated during the 1990s at the same time that the mainland economy was flourishing. There has been an increase in visitors from the mainland in recent months, but the gains typically are no greater than or below the spikes in tourism at competing venues—a loss of market share has clearly occurred.



Email to: JDLTestimony@Capitol.hawaii.gov
Hearing on: Wednesday, February 9, 2011 @ 9:00 a.m.
Conference Room #016

DATE: February 5, 2011

TO: **Senate Committee on Judiciary & Labor**
Senator Clayton Hee, Chair
Senator Maile Shimabukuro, Vice Chair

FROM: Allen Cardines, Jr., Executive Director

RE: Support for SB4 Relating to Gambling
Strong Opposition to: SB 1097 Relating to Gaming

Honorable Chairs and members of the joint committee on Judiciary & Labor and Economic Development & Technology, I am Allen Cardines, representing the Hawaii Family Forum. Hawaii Family Forum is a non-profit, pro-family education organization committed to preserving and strengthening families in Hawaii, representing a network of various Christian Churches and denominations. We strongly oppose this bill that would authorize shipboard gaming on vessels in our island waters. Hawaii is among only two States (Utah and Hawaii) in the nation where all forms of gambling remain illegal.

We support SB4 because sweepstakes vending machines and the like have operated in bars, convenience stores, and other establishments in Hawaii (per HRS 712). The operation of these vending machines (which we believe is just another form of gambling) would become illegal if SB4 passes. SB4 clarifies the law so that there would be a clear distinction in what is described as illegal gambling.

We oppose SB 1097 because it allows for a stand alone casino in Waikiki. Proponents of legalized gambling in Hawaii boast of its promise of economic revitalization and prosperity. There may well be an element of truth to their claims; however, greater scrutiny reveals a far different story. While it may be true that legalized gambling could potentially yield new jobs, the potential greater negative economic impact must also be considered. Not unlike the social costs associated with other addictive behaviors, compulsive gambling wreaks havoc on individuals, families, and communities.

The widespread proliferation of gambling on the mainland has produced very troubling consequences for the people and communities most closely associated with it. Those consequences include: increased violent crime, property crime, and drug-related crime; an increased influence of organized crime; increased addiction and family deterioration; a disproportionately adverse impact on youth and the poor; and, a net negative economic impact.



PAGE TWO

Gambling is often associated with crime. The relationship is easy to understand. Many types of gambling have been, indeed still are, illegal. Hence, by definition, criminals are the only operators of games. When gambling restrictions are relaxed, criminals are the first to open up legal gambling establishments.

We should also point out the obvious. Lots of people in Hawaii travel to Las Vegas for fun and recreation. Those visits are 100% irrelevant to the simple issue at hand - should Hawaii become more like Las Vegas by legalizing gambling? To answer that question, we really should examine the data about what it is like to live in a place like Vegas.

This data should serve as a clarion call for all of us - a reminder of the compelling reasons the people of Hawaii and our elected representatives have consistently and steadfastly resisted the siren song of the big money gambling interests. It reminds us why "the Las Vegas effect" upon our islands would wreak havoc on our ohana based community and our aloha spirit.

How does Nevada rate in the nation? Nevada is number three in bankruptcies and abortions. Number four in rape, out of wedlock births and alcohol related death. Number five in crime, number six in prisoners locked up and number 50 in voter participation. This and other well-documented information is available through the Hawaii Coalition Against Legalized Gambling.

In response to this data, the Coalition's response seems appropriate: "Not in my Backyard." Shouldn't that be our collective community response?

It seems to me Hawaii is rather akamai for its continued rejection of legalized gambling. As we all know, Hawaii is special. This issue is no different - we are one of only three states in the nation that can boast of no legalized gambling. Let's work hard to keep it that way!

Mahalo for the opportunity to testify.