

TO: City Council

FROM: James L. App, City Manager

SUBJECT: **California Proposition 68 – Gambling Revenue Act of 2004**

DATE: October 19, 2004

NEEDS: For the City Council to consider opposing California Proposition 68.

- FACTS:**
1. At the City Council's meeting of October 5, 2004, the Mayor requested the Council consider opposing Proposition 68.
 2. The Council indicated an interest in consider the request at their October 19, 2002 meeting.
 3. Attached is a Resolution opposing, as well as publicly distributed ballot information concerning, the Gambling Revenue Act of 2004.

ANALYSIS &

CONCLUSION: Proposition 68 would authorize the Governor to negotiate Indian Tribe gambling contracts to require payment of 25% of slot machine/gaming device revenues to a government fund. If the affected Tribes do not unanimously accept required amendments within 90 days, the Act would authorize 16 private non-tribal racetracks and gambling establishments to operate up to 30,000 slots machines.

A portion of the proceeds from the private gambling establishments would be deposited in a government fund for distribution, at least partially, to local governments for additional public safety personnel.

POLICY

REFERENCE: None.

FISCAL

IMPACT: Unknown/unclear (see ballot information).

- OPTIONS:**
- a. **Adopt Resolution Declaring Opposition to California Proposition 68.**
 - b. **Amend, Modify, or Reject the Option Above.**

Attachments

Resolution

Proposition 68 Official Title & Summary Analysis

Policy Forum (University of Illinois) *Casino Gambling Causes Crime*

California Police Chiefs Association Press Release, January 26, 2004

RESOLUTION NO. 04-

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF PASO ROBLES
DECLARING OPPOSITION TO CALIFORNIA PROPOSITION 68
(GAMING REVENUE ACT OF 2004)

WHEREAS, Proposition 68 would authorize existing California horse racetracks and card club owners to operate up to 30,000 slot machines; and

WHEREAS, according to the non-partisan Legislative Analyst's report, no monies generated from Proposition 68 could be used to reduce the state budget deficit; and

WHEREAS, Proposition 68 would allow the establishment of private gambling establishments in California; and

WHEREAS, Proposition 68 would exempt new casino development from local zoning laws, the California Environmental Quality Act (CEQA), and specified state and local tax increases; and

WHEREAS, Proposition 68 proceeds for local government can be used only for additional public safety personnel, not to offset current costs; and

WHEREAS, the California Police Chiefs Association, California State Firefighters Association, California District Attorneys Association, and more than 130 law enforcement groups and public safety officials, including more than 30 county sheriffs strongly oppose Proposition 68.

NOW, THEREFORE, BE IT RESOLVED that the City Council of the City of El Paso de Robles does hereby oppose Proposition 68.

PASSED AND ADOPTED by the City Council of the City of Paso Robles this 19th day of October 2004 by the following vote:

AYES:

NOES:

ABSTAIN:

ABSENT:

Frank R. Mecham, Mayor

ATTEST:

Sharilyn M. Ryan, Deputy City Clerk

PROPOSITION

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**NON-TRIBAL COMMERCIAL GAMBLING EXPANSION.
TRIBAL GAMING COMPACT AMENDMENTS.
REVENUES, TAX EXEMPTIONS. INITIATIVE
CONSTITUTIONAL AMENDMENT AND STATUTE.**

OFFICIAL TITLE AND SUMMARY

Prepared by the Attorney General

**Non-Tribal Commercial Gambling Expansion.
Tribal Gaming Compact Amendments. Revenues, Tax Exemptions.
Initiative Constitutional Amendment and Statute.**

- Authorizes Governor to negotiate tribal compact amendments requiring that Indian tribes pay 25% of slot machine/gaming device revenues to government fund, comply with multiple state laws, and accept state court jurisdiction.
- If compacted tribes don't unanimously accept required amendments within 90 days, or if determined unlawful, authorizes sixteen specified non-tribal racetracks and gambling establishments to operate 30,000 slot machines/gaming devices, paying 33% of net revenues to fund government public safety, regulatory, social programs.
- Provides exemption from specified state/local tax increases.

**Summary of Legislative Analyst's Estimate of Net State and Local Government
Fiscal Impact:**

- Increased gambling revenues—potentially over \$1 billion annually. The revenues would be provided primarily to local governments throughout the state for additional child protective, police, and firefighting services.
- Depending on outcome of tribal negotiations, potential loss of state revenues totaling hundreds of millions of dollars annually.

ANALYSIS BY THE LEGISLATIVE ANALYST

BACKGROUND

The California Constitution and state statutes specify the types of legal gambling that can occur in California. For instance, current law allows wagering on horse races and certain games in licensed card rooms. In addition, Indian tribes with tribal-state gambling compacts can operate slot machines and certain other casino-style gambling in California.

Card Rooms and Horse Racing

Card Rooms. The state allows card rooms to conduct card games where the card room operator has no stake in the outcome of the game. The players play against each other and pay the card room a fee for the use of the facilities. Typical card games include draw poker, 7-card stud, and poker pai gow. Certain games—such as twenty-one—are prohibited. There are 96 licensed card rooms in the state. Local governments approve card rooms, as well as establish the hours of operation, the number of tables, and wagering limits. Current state

law limits the expansion of both the number of card rooms and the size of existing card rooms until January 2010.

Horse Racing. The state issues licenses to racing associations that then lease tracks for racing events. In California, there are 6 privately owned racetracks, 9 racing fairs, and 20 simulcast-only facilities. (These latter facilities do not have live racing; instead, they allow betting on televised races occurring elsewhere in the world.)

Gambling on Indian Land

Federal law and the State Constitution govern gambling operations on Indian land. Tribes that enter into a tribal-state gambling compact may operate slot machines and engage in card games where the operator has a stake in the outcome, such as twenty-one. Currently, 64 tribes have compacts and operate 53 casinos with a total of more than 54,000 slot machines. Any new or amended compact must be approved by the

NON-TRIBAL COMMERCIAL GAMBLING EXPANSION.
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ANALYSIS BY THE LEGISLATIVE ANALYST (CONT.)

Legislature, the Governor, and the federal government. As sovereign nations, tribes are largely exempt from state and local taxes and laws, including California environmental laws.

1999 Compacts. Most tribes signed their current compacts in 1999. Under these compacts, a tribe may operate up to two facilities and up to a total of 2,000 slot machines. In exchange, tribes make some payments to the state which can only be used for specified purposes (such as for making payments to tribes that either do not operate slot machines or operate fewer than 350 machines). These payments total over \$100 million annually. Under these compacts, tribes are required to prepare an environmental study analyzing the impact on the surrounding area of any new or expanded gambling facility. These compacts will expire in 2020.

2004 Compacts. In the summer of 2004, five tribes signed amendments to their compacts, and these revised agreements were approved by the state. Under these new agreements, these tribes may operate as many slot machines as they desire. In exchange, tribes make a specified payment annually to the state, with additional payments for each slot machine added to their facilities. As additional tribes sign similar compacts, payments to the state are expected to total in the hundreds of millions of dollars annually. Unlike the payments required by the 1999 compacts, the state can use these payments for any purpose. The newer compacts also require the tribes to (1) prepare more detailed environmental studies; (2) negotiate with local governments regarding payments addressing the impacts of new gambling facilities on the local communities; and (3) follow other provisions related to patron disputes, building codes, and labor relations. These new agreements expire in 2030, ten years later than the 1999 compacts.

PROPOSAL

This measure, which amends the State Constitution and state statutes, sets up two possible scenarios regarding new state gambling revenues.

- The first scenario would occur only if all Indian tribes with compacts agree to specified revisions to their existing compacts.
- The second scenario would be triggered if the tribes do not agree to the revisions. In this case, 5 existing racetracks and 11 existing card rooms would be allowed to operate slot machines.

These two scenarios are discussed below.

Revision of Current Tribal-State Compacts

Under the first scenario, all compact tribes would be required to agree with the Governor to terms required by this measure within 90 days of its passage. Specifically, the measure requires that all tribes with compacts agree to (1) pay 25 percent of their "net win" to the Gaming Revenue Trust Fund (GRTF, a state fund established by the measure) and (2) comply with certain state laws, including those governing environmental protection, gambling regulation, and political campaign contributions. Net win is defined as the wagering revenue from all slot machines operated by a tribe after prizes are paid out, but prior to the payment of operational expenses. Under federal law, the federal government would have to approve the revised agreements.

Expansion of Gambling if Compacts Are Not Revised

As noted above, if the current compacts are not revised under the first scenario, the measure would allow slot machines on non-Indian lands. Specifically, under the second scenario, the measure allows specified racetracks and card rooms located in Alameda, Contra Costa, Los Angeles, Orange, San Diego, and San Mateo Counties to operate up to 30,000 slot machines (see Figure 1). The measure would allow the sale or sharing of slot machine licenses in certain circumstances. The measure also makes permanent the limit on the expansion of both the number of card rooms and the size of existing card rooms (due to expire in January 2010 under current law).

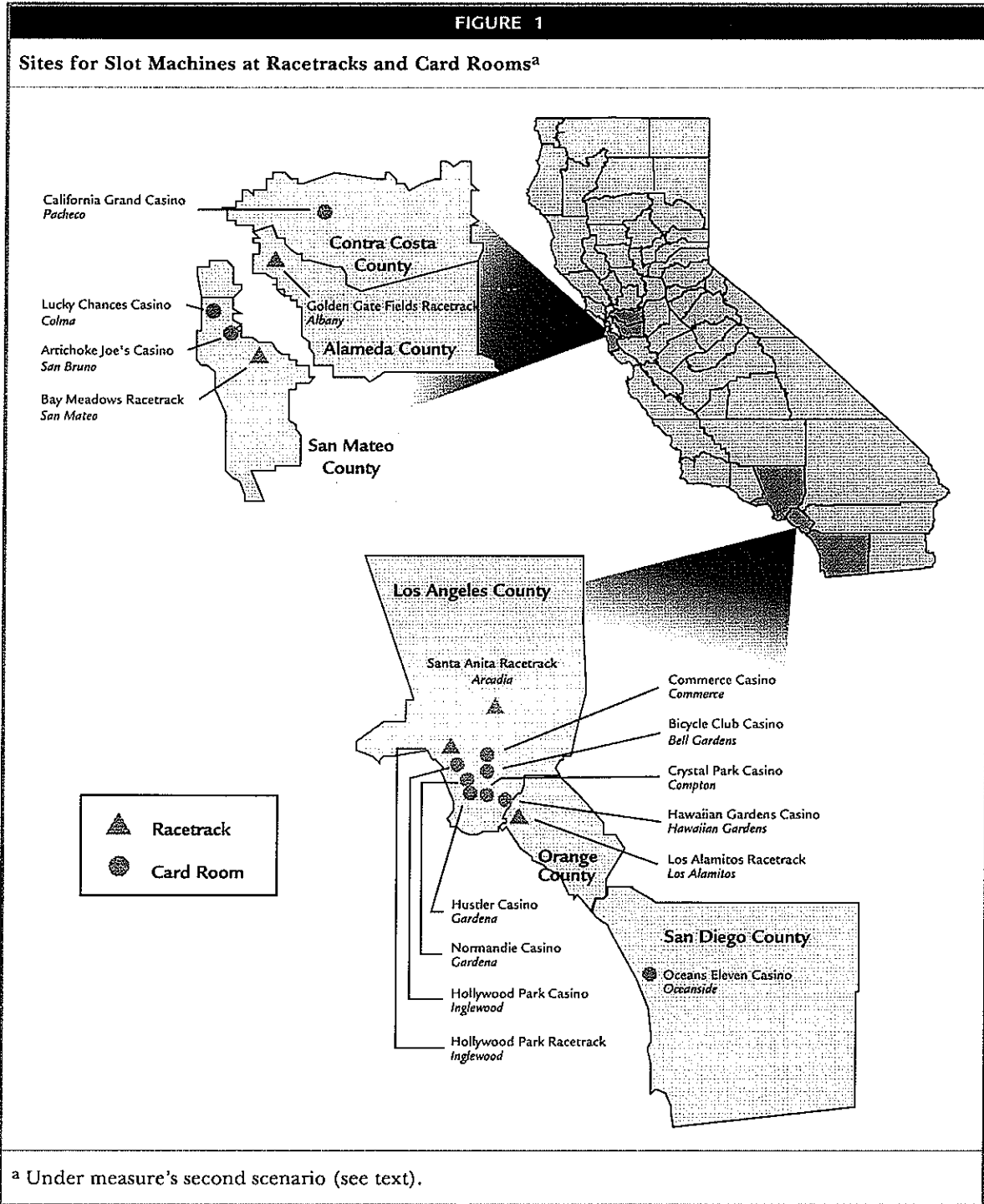
Net Win Payments. Racetracks and card rooms would pay 30 percent of the net win from their slot machines to the GRTF. They would also pay 2 percent of their net win to the city and 1 percent to the county in which the gambling facility is located. The measure specifies that the payments to the GRTF be in place of any state or local gambling-related taxes or fees enacted after September 1, 2003.

The five racetracks also would be required to pay annually an additional 20 percent of the net win on their slot machines. These funds would be administered by the California Horse Racing Board and used to benefit the horse racing industry, including the increase of race purses.

Distribution of Gambling Revenues

Payments based on net win would be made to the GRTF under either scenario—whether tribes revised their compacts or racetracks and card rooms operated slot machines. In either case, slot machine operators

ANALYSIS BY THE LEGISLATIVE ANALYST (CONT.)

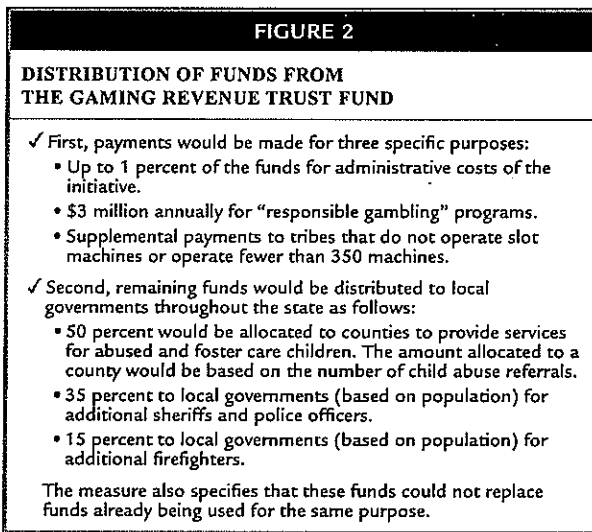


NON-TRIBAL COMMERCIAL GAMBLING EXPANSION,
TRIBAL GAMING COMPACT AMENDMENTS, REVENUES, TAX EXEMPTIONS,
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ANALYSIS BY THE LEGISLATIVE ANALYST (CONT.)

would be required to pay for annual audits of their reported net win and payments made to the GRTF. The measure establishes a five-member board appointed by the Governor to administer the GRTF. Figure 2 describes how funds in the GRTF would be distributed. The bulk of the funds would be distributed to local governments throughout the state for additional child protective, police, and firefighting services.



Related Provisions in Proposition 70

Proposition 70 on this ballot also contains provisions affecting the number of slot machines authorized in the state. That measure would allow tribes entering a new or amended compact to expand the types of games authorized at casinos. It would also eliminate the existing limits on the number of slot machines and facilities a tribe can operate. In exchange for the exclusive right to these types of gambling, tribes would pay the state a percentage of their net income from gambling activities. The State Constitution provides that if the provisions of two approved propositions are in conflict, only the provisions of the measure with the higher number of yes votes at the statewide election take effect.

FISCAL EFFECT

The fiscal effect of the measure on state and local governments would depend on whether current compacts are revised or if racetracks and card rooms operate slot machines. The fiscal effect under each scenario is discussed below.

Revision of the Current Tribal-State Compacts

Net Win Payments. While tribes do not publicly report information on their slot machine revenues, it is

estimated that the machines are generating net win of over \$5 billion annually in California. If the tribes agree to this measure’s provisions, tribes would pay 25 percent of their slot machines’ net win to the GRTF—potentially over \$1 billion annually. These payments would be provided primarily to local governments to increase funding for child protective, police, and firefighting services.

Existing Payments to the State. As described above, tribes under the 1999 and 2004 compacts pay hundreds of millions of dollars annually to the state for both specific and general purposes. This measure does not specifically address whether these payments would continue or cease under the compact revision process. As a result, it appears that the continuation of the payments would be subject to negotiation between the tribes and the Governor. If the revised compacts do not include a continuation of these payments, the state would experience a reduction in payments—potentially totaling hundreds of millions of dollars annually.

Expansion of Gambling at Card Rooms and Racetracks

Net Win Payments. If the tribes do not agree to revise their compacts within the time required, specific card rooms and horse racing tracks would be authorized to operate up to 30,000 slot machines. These entities would pay 30 percent of the net win to the GRTF. The amount of these payments would depend on the number of slot machines in operation and their net win. These revenues could potentially be over \$1 billion annually. These revenues would be provided primarily to local governments to increase funding for child protective, police, and firefighting services.

Additional Payments to Local Governments. Also under this scenario, the cities in which these establishments are located would collectively receive payments in the high tens of millions of dollars (2 percent of the net win). Counties in which these establishments are located would collectively receive payments of half of this amount (1 percent of the net win). The use of these funds is not restricted.

Increased Taxable Economic Activity. If the tribes do not agree to the requirements of this measure, the expansion of gambling at card rooms and racetracks could result in an overall increase in the amount of taxable economic activity in California. This would occur if, over time, there was a large diversion of gambling activity and associated spending from other states to California. This would also be the case to the extent that the gambling authorized by this measure replaced existing tribal gambling activities (since much tribal activity is exempt from state taxation). This additional gambling-related activity would lead to an unknown increase in state and local tax revenues.

NON-TRIBAL COMMERCIAL GAMBLING EXPANSION. TRIBAL GAMING COMPACT AMENDMENTS. REVENUES, TAX EXEMPTIONS. INITIATIVE CONSTITUTIONAL AMENDMENT AND STATUTE.

ARGUMENT in Favor of Proposition 68

Can we share some straight talk?

Indian casinos are earning between \$5 Billion and \$8 Billion per year through a monopoly granted to them by the state of California. Under this monopoly, only Indian casinos can operate slot machines in California. But while the rest of us pay taxes on what we earn, the tribes pay almost nothing on their Billions of earnings—even though they use the same roads, schools, police, and fire and emergency medical services that we all pay for.

Last year, one Indian Casino alone had a slot machine profit of over \$300 million and paid no taxes.

It's time Indian Casinos paid their Fair Share.

In Connecticut and New York, Indian casinos pay the state up to a 25% Fair Share of their winnings in exchange for keeping their monopolies.

Proposition 68 says to the Indian Tribes: *You can keep your monopoly on slot machines, but only if you pay a 25% Fair Share like the Indian Casinos in Connecticut and New York.*

The 25% Fair Share would go to pay for local police and fire services and local programs for abused, neglected, and foster children. The Tribes would also be required to comply with the same political campaign contribution and environmental protection laws that all of us already must comply with.

Proposition 68 actually gives the Indian casinos a choice: If they pay their Fair Share, they keep their monopoly on slot machines. But if they don't, the state will also grant rights to a limited number of locations where gaming already exists.

The Indians would keep operating their slots, but they'd get a little competition. A limited number of card clubs and horseracing tracks *where gaming already exists* would be allowed to add slot machines to their existing games.

These card clubs and horseracing tracks are located in the cities of: Arcadia, Bell Gardens, Commerce, Compton, Cypress, Gardena, Hawaiian Gardens, Inglewood, and Oceanside in Southern California and in the cities of Albany, Colma, Pacheco, San Bruno, and San Mateo in Northern California. Unlike Indian casinos, the card clubs and racetracks would pay 33% of their revenues from the slot machines to local government.

With California's current budget crisis, we need the money.

According to the state's former Legislative Analyst, Bill Hamm, Proposition 68 will generate nearly \$2 Billion every year—monies that will be sent directly to all local governments around the state with all communities benefiting equally.

It isn't fair that the tribes can build casinos wherever they want and make Billions of dollars through a monopoly granted by the state without paying taxes or a Fair Share like the rest of us.

But Proposition 68 is fair. It doesn't take any rights away from the Indian Casinos. But it says that if Indian Casinos won't pay a Fair Share to support local public services like all of us, then they can't keep a state monopoly to themselves. You can't have it both ways.

It's time for the Indian Casinos to pay their Fair Share. We urge you to Vote YES on Proposition 68.

LEE BACA, Sheriff

County of Los Angeles

LOU BLANAS, Sheriff

County of Sacramento

ROY BURNS, President

Association of Los Angeles Deputy Sheriffs (ALADS)

REBUTTAL to Argument in Favor of Proposition 68

Proposition 68's promoters—card clubs and race-tracks—are using a bait-and-switch scheme. They want voters to think 68 is about "making the Indian tribes pay their fair share." It's not.

It's really a deceptive attempt to change California's Constitution to create huge Las Vegas-size commercial casinos on non-Indian lands throughout California.

In fact, the very organizations Prop. 68 promoters claim to help, overwhelmingly reject this deceptive measure:

- Taxpayer groups OPPOSE Prop. 68 because IT WILL HURT—NOT HELP—THE STATE'S BUDGET—not one dollar will go to reduce the state's deficit, and 68 exempts its promoters from paying any future state and local tax increases.
- The California Police Chiefs Association, California State Firefighters Association, the California District Attorneys Association, and more than 30 County Sheriffs OPPOSE because Prop. 68 means MORE CRIME AND HIGHER LAW ENFORCEMENT COSTS. Prop. 68 would place HUGE NEW CASINOS on non-Indian lands in our cities and suburbs—

30,000 new slot machines NEAR MORE THAN 200 SCHOOLS.

- Education leaders and child advocates OPPOSE because Prop. 68 WILL END UP COSTING OUR SCHOOLS MILLIONS, hurting our kids.
- Public safety and local government leaders OPPOSE because Prop. 68 means MORE TRAFFIC CONGESTION on already overcrowded freeways and surface streets.

Please join Governor Schwarzenegger, law enforcement, firefighters, educators, parents, Indian tribes, business, labor, seniors, local government, environmentalists, and taxpayer groups, and VOTE NO ON 68.

STOP THE DECEPTIVE GAMBLING PROPOSITION. It's a bad deal for all Californians.

Please VOTE NO on PROPOSITION 68.

CARLA NIÑO, President

California State PTA

DAVID W. PAULSON, President

California District Attorneys Association

MIKE SPENCE, President

California Taxpayers Protection Committee

**NON-TRIBAL COMMERCIAL GAMBLING EXPANSION.
TRIBAL GAMING COMPACT AMENDMENTS, REVENUES, TAX EXEMPTIONS.
INITIATIVE CONSTITUTIONAL AMENDMENT AND STATUTE.**

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ARGUMENT Against Proposition 68

Message from Governor Arnold Schwarzenegger: "I am officially opposed to Proposition 68, and I strongly urge you to VOTE NO."

This measure is not what it seems. While proponents claim the measure will force Indian gaming tribes to pay their fair share to the state, Proposition 68 does nothing of the sort.

Proposition 68 is not a guaranteed source of revenues for California from Indian gaming tribes. Instead it authorizes 16 new Las Vegas-style casinos to be built in urban areas throughout California.

Governor Schwarzenegger has a vision for California that does NOT include making our state the next pot of gold for commercial casino gambling interests. Governor Schwarzenegger believes casino gaming should be limited to Indian lands.

THE NEW AGREEMENTS GOVERNOR SCHWARZENEGGER NEGOTIATED WITH MANY INDIAN GAMING TRIBES ARE A WINNER FOR TRIBES AND TAXPAYERS. These agreements keep California's promise to Indian tribes while making them pay their fair share. They promote cooperation between tribes and local governments to deal with the impact on law enforcement, traffic congestion, and road construction. Unfortunately, Proposition 68 could destroy these new agreements.

The 16 new casinos authorized by Proposition 68 are located in urban areas of California. They will be near 200 schools and major streets and freeways in Los Angeles, the San Francisco Bay Area and San Diego, further congesting our crowded roads.

NOT A SINGLE PENNY FROM THIS INITIATIVE CAN BE USED TO HELP BALANCE THE STATE BUDGET. Further, the promoters of Proposition 68 have written it so they are exempt from paying any future increases in state and local taxes.

GOVERNOR SCHWARZENEGGER JOINS MORE THAN 400 PUBLIC SAFETY, TAXPAYER, AND OTHER LEADERS IN SAYING:

VOTE NO ON 68

California Police Chiefs Association, California State Firefighters' Association, California Coalition of Law

Enforcement Associations, California District Attorneys Association, More than 50 California Indian Tribes, State Treasurer Phil Angelides, State Controller Steve Westly, Superintendent of Public Instruction Jack O'Connell, Crime Victims United of California, Peace Officers Research Association of California, Sierra Club California, California School Boards Association, The Seniors Coalition, Prevent Child Abuse California, California Taxpayer Protection Committee.

AND 34 COUNTY SHERIFFS:

• Sheriff James Allen • Sheriff Terry Bergstrand • Sheriff Virginia Black • Sheriff Ed Bonner • Sheriff Bob Brooks • Sheriff Bill Cogbill • Sheriff Anthony Craver • Sheriff John Crawford • Sheriff Jim Denney • Sheriff Bob Doyle • Sheriff Robert Doyle • Sheriff Bill Freitas • Sheriff Curtis Hill • Sheriff William Kolender • Sheriff Dan Lucas • Sheriff Ken Marvin, Ret. • Sheriff Scott Marshall • Sheriff Rodney Mitchell • Sheriff Bruce Mix • Sheriff Daniel Paranick • Sheriff Clay Parker • Sheriff Gary Penrod • Sheriff Charles Plummer • Sheriff Jim Pope • Sheriff Ed Prieto • Sheriff Michael Prizmich • Sheriff Perry Reniff • Sheriff Richard Rogers • Sheriff Warren Ruff • Sheriff Robert Shadley, Jr. • Sheriff Gary Simpson • Sheriff Gary Stanton • Sheriff Mark Tracy • Sheriff Dean Wilson.

PROP. 68 WOULD RESULT IN A HUGE EXPANSION OF CASINO GAMBLING ON NON-INDIAN LANDS.

It's a sweetheart deal for the gambling interests behind it, another broken promise to Indian tribes, and a bad deal for the rest of us.

VOTE NO ON 68. STOP THE DECEPTIVE GAMBLING PROPOSITION.

ARNOLD SCHWARZENEGGER, *Governor*

State of California

JEFF SEDIVÉC, *President*

California State Firefighters' Association

WAYNE QUINT, JR., *President*

California Coalition of Law Enforcement Associations

REBUTTAL to Argument Against Proposition 68

"[Arnold Schwarzenegger] wants to renegotiate gaming compacts with casino-operating Indian tribes in the hopes of getting tribes to share revenue with the state. He noted tribes pay Connecticut 25 percent of their revenues, and said such an arrangement could pay for 'thousands of police officers, thousands of teachers.'"

—*Sacramento Bee*, Sept. 24, 2003

We agreed then and we agree now. It makes zero sense for the overwhelming majority of Indian casinos—a \$6-\$8 billion industry—to operate in California while paying virtually nothing to support the common good.

It's time for these immensely profitable Indian casinos to give something back to the state that has given them the most lucrative gaming monopoly in history. It's time for the people of California to get their fair share.

Proposition 68 isn't a blank check for the politicians in Sacramento. It requires a real and meaningful fair share payment that must be used to hire local police and

sheriffs, keep local fire stations open, and fund proven educational programs for abused and neglected children.

To make sure it's truly fair, we give the Indian casinos the final choice. They choose to make this 25% contribution—just as they do in New York and Connecticut. Otherwise, the state will allow limited and highly regulated competition with an even bigger financial return to California's communities.

Before you make your decision, please read the initiative. We think you'll agree: it's time the Indian casinos did the right thing. And pay their fair share.

LEE BACA, *Sheriff*

County of Los Angeles

LOU BLANAS, *Sheriff*

County of Sacramento

ROY BURNS, *President*

Association of Los Angeles Deputy Sheriffs (ALADS)

Institute of Government and Public Affairs

Policy Forum

University of Illinois
Volume 13, Number 2, 2000

Casino gambling causes crime

By Earl L. Grinols

Evidence is converging to show that casino gambling causes significant increases in crime. Taken altogether, casinos impose crime and other costs – paid for by society, including those who do not gamble – that exceed their benefits and represent substantial burdens on nearby populations. Because casino gambling fails a cost-benefit test, policymakers should give serious consideration to options that include imposing taxes equal to the costs casinos impose, restricting casino expansion, or banning casino gambling altogether.

Crime is affected by multiple factors including population density, the number of males and females in different age ranges, percent of each age group that is white, percent of each age group that is black, per capita personal income, unemployment rates, per capita retirement compensation, per capita income maintenance payments, and “shall issue” laws (giving citizens the right to carry concealed firearms upon request—believed to reduce certain crimes). Hence, connecting any single cause such as casinos to crime is controversial. Only by careful sifting of a large body of data can the effect of casinos be separated from other causes to establish a connection. The gambling industry naturally has resisted research findings that link casinos to more crime.

How do researchers conclude that casinos cause crime and measure the size of the connection? There are two ways—the first is through the study of problem and pathological gamblers and the second is through statistical analysis of crime numbers.

Connecting casinos to crime

Pathological gambling is a recognized impulse control disorder of the Diagnostic and Statistical Manual (DSM-IV) of the American Psychiatric Association. Pathological gamblers (often referred to as “addicted” or “compulsive” gamblers) are identified by a number of characteristics including repeated failures to resist the urge to gamble, loss of control over their gambling, personal lives and employment, reliance on others to relieve

a desperate financial situation caused by gambling, and the committing of illegal acts to finance gambling. Problem gamblers have similar problems, but to a lesser degree. It appears that a significant proportion of the population is susceptible to problem or pathological gambling. The latent propensity becomes overt when the opportunity to gamble is provided and sufficient time has elapsed for the problem to manifest.

Pathological gamblers are generally found to constitute one or two percent of the population and problem gamblers are another two to three percent in areas where casino gambling is available. One study of gamblers in treatment found that 62 percent committed illegal acts as a result of their gambling. Eighty percent had committed civil offenses and 23 percent were charged with criminal offenses, according to a 1990 Maryland Department of Health and Mental Hygiene survey. A similar survey of nearly 400 members of Gambler's Anonymous showed that 57 percent admitted stealing to finance their gambling. Moreover, the amounts are not small. On average they stole \$135,000, and total theft was over \$30 million, according to the testimony of Henry Lesieur from the Institute of Problem Gambling before the National Gambling Impact Study Commission, Atlantic City, New Jersey, January 22, 1998. The National Gambling Impact Study Commission's final report issued in June 1999 reported that among those who did not gamble (had not gambled in the past year) only 7 percent had ever been incarcerated. In contrast, more than three times this number (21.4 percent) of individuals who had been pathological gamblers at any point during their lifetime had been incarcerated. By tallying up the crimes of pathological and problem gamblers and the associated costs to society such as police, apprehension, adjudication, and incarceration costs, the average crime costs to society of an additional pathological or problem gambler (some studies lump the two groups together) can be determined. Recent research using this methodology found that an average problem gambler costs society \$10,112 per year. Crime costs constituted \$4,225, or 42 percent of these costs. Combining crime costs with studies of the prevalence of pathological and problem gamblers provides crime cost figures for society as a whole. Using the numbers just reported implies annual crime costs per adult capita of \$57. This number can be compared to the crime costs found by the second method for relating casinos to crime.

Connections in crime statistics

A second way to determine the effect of casinos on crime is to look directly at aggregate crime statistics.

The advantage is that the method is direct, and—because it looks at more than just the crimes committed by problem and pathological gamblers—it is more inclusive. The disadvantage is that it may be difficult to distinguish the share of crime related to casinos from the mass of other crime that occurs all the time.

Moreover, the period of major casino expansion in the United States, 1991 to 1997, coincides with a period of secular decline in overall crime rates. It would be tempting, therefore, to observe that crime fell after a particular casino was introduced and from this conclude that the casino reduced crime. Such a conclusion would be false if crime would have fallen even further without the casino. Finally, because the effects of casinos might differ in different areas, a large sample could be needed to reliably pinpoint the truth.

In research conducted at the University of Illinois and the University of Georgia and with these factors in mind, Professor David Mustard, Cynthia Hunt Dilley and I examined crime statistics for all 3,165 counties in the United States for twenty years beginning with year 1977. This period covers the period of introduction of casinos in all counties with the exception of Nevada. The number of offenses for the 7 FBI Index I offenses (robbery, aggravated assault, rape, murder, larceny, burglary, and auto theft) was obtained from the Federal Bureau of Investigation's Uniform Crime Report County-Level Data. We obtained U.S. Census Bureau data to control for demographic, income, and other variables that affect crime as described above. In all, 54 variables were used to explain observed crime rates across counties and time.

We included twelve variables to identify each year from four years before the opening of the first casino in a county to seven years after it opened. These variables serve two purposes: first, to distinguish the effects of casinos from changes that preceded their opening (for example, a trend toward lawlessness conceivably could lead to the opening of a casino instead of the reverse); and second, to sort out the timing of those effects (an effect on crime could take several years to develop). To find the dates for the first casino opening we contacted state gaming authorities in every state, called casinos to find opening date or date of first Class III gambling (in many cases casinos began as bingo halls and switched at a later date), and used casino internet website information to check our data. The final list was verified against the annually produced Executive's Guide to North American Casinos.

What did the data show? If property crime rates are indexed so that 1982 rates equal 100, then the crime rate in 1991 was 99.7 in non-casino counties (counties that had no casinos during the sample period) and 100.3 in casino counties (counties that had a casino by the end of the sample period)—hardly any difference at all. However, looking at the same statistic just 5 years later—after casinos had begun operation in the majority of the casino counties—the indexes stood at 82.1 for non-casino counties and 93.7 for casino counties. The raw data suggests, therefore, that 12.4 percent of the crime observed in casino counties would not be there if casinos were absent. A similar picture emerges for violent crimes.

The problem with using the raw data for inferences, however, is that direct comparisons do not take into account other factors that cause crime. For example, it is well known that crime rates in areas of high population density tend to be higher. What if between 1991 and 1996 casino counties experienced a significant increase in their population density? Then some or all of the increased crime might be due to the change in population density. This is why we collected so many other variables and applied regression procedures to them—to separate the changes in crime rates due to other factors from those due to casinos.

After adjusting for all of the other factors an interesting picture begins to emerge, both in terms of the share of crime in casino counties due to casinos and in terms of the pattern that the changes take over time. The data indicated that compared to non-casino counties there was no discernable difference in crime in casino counties in the four years before

casinos opened that could be attributed to the opening of casinos. (We did not expect to find any connection, so this finding was anticipated.) For the first three years after the casino began operation, there also was no significant impact on crime rates. After the third year, however, crime rates began to rise in casino counties compared to those without casinos. By 1996, casinos accounted for 10.3 percent of the observed violent crime and 7.7 percent of the observed property crime in casino counties. Estimates of the share of crime attributable to casinos in 1996 for individual crimes ranged from 3 to 30 percent. Auto theft was the highest, followed by robbery at 20 percent. (In addition to stealing an auto, auto theft includes taking parts of cars such as expensive sound equipment as well as things from or out of a car.) The values for the rest of the offenses were between 3 and 10 percent.

Criminologists in the late 1980s and early 1990s estimated the cost per victimization of different types of crime. Applying these costs to the implied number of offenses for each crime due to casinos and dividing by the adult population of casino counties in 1996 produced an annual cost for casino-induced crime of \$63 per adult capita. This figure is remarkably close to the \$57 per adult capital crime cost estimated through the study of problem and pathological gamblers.

Implications

Critics of casino gambling point to a number of social costs. In addition to the direct governmental costs of regulating casinos and providing social services occasioned by gambling, these include the costs of bankruptcy, illness, suicide, harm to families, lost economic output, and crime, among others. Research to pinpoint the size of many of these costs is still in its beginning stages. This paper has described research directed to determining the costs to society of just seven Index I crimes tracked by the FBI: Larceny, burglary, auto theft, robbery, aggravated assault, rape, and murder. In areas with casinos the evidence points to costs of \$63 per adult per year, but other studies that provided information on all of the social costs of casinos suggest that the total is over \$100 per adult annually. Estimates implying costs of \$135, \$150 and more are common. The social benefits of casinos are the increase in profits and taxes from casinos (casino profits and taxes less lost profits and taxes of other businesses due to casinos) plus the convenience value to consumers of having casinos nearby compared to having to travel greater distances to gamble. Research on the benefits suggests they are no larger than \$40 per adult annually. Thus casino gambling fails a cost-benefit test by a substantial margin in terms of Index I crimes alone.

It is an open question whether casino gambling can be offered in a way that allows citizens who could gamble without harm to do so while at the same time preventing the creation of problem and pathological gamblers and the social costs already discussed. If casino gambling cannot be offered in ways that cause it to pass a cost-benefit test, then banning it (as was done until recently) is preferable on economic terms. In light of the evidence, what can a responsible legislator do? One option is to tax casinos by an amount equal to the costs that they impose on society. As we have shown, a conservative estimate of these costs is about \$100 annually per nearby resident. Since

casinos typically take in revenues of around \$200 per adult each year from nearby residents, such a tax would represent 50 percent of casino revenues. If social costs were ultimately determined to be higher, required taxes would also be higher. With taxes imposed at the appropriate level, some casinos would go out of business. Only those casinos that could pass a cost-benefit test by compensating society for the damage they do would operate.

Dr. Earl Grinols is a professor in the Department of Economics, University of Illinois Urbana-Champaign and an affiliate of the Institute of Government and Public Affairs, University of Illinois. The Institute of Government and Public Affairs serves society by helping to improve public policies and the performance of government. It does this by disseminating research on public policy issues and the public decision-making process, and facilitating the application of such research to the issues and problems confronting decision makers and others who address public issues. This is done through basic and applied problem-solving research, the communication of research results to other researchers through scholarly publications, and the application of research results through public service and continuing education programs that help practitioners understand and address the issues they face.

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For more on gambling, see *Legal Gambling in Illinois: A Primer* at the IGP IGPA A web site: www.igpa.uillinois.edu

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FBI CRIME STATISTICS FOR 2002 OF THE MAJOR CASINO GAMBLING CITIES:

	Reno	Atlantic City	Las Vegas	National Avg.
Homicide 100,000	4.58 per 100,000	13 per 100,000	36 per 100,000	5.6 per
Rapes 100,000	64 per 100,000	51 per 100,000	107 per 100,000	33 per
Aggravated Assaults 100,000	458 per 100,000	856 per 100,000	927 per 100,000	310 per
Robberies 100,000	229 per 100,000	684 per 100,000	821 per 100,000	146 per

CASINO LOCATIONS IF THE SLOT MACHINE INITIATIVE PASSES:

LOS ANGELES COUNTY

Commerce Casino, Commerce	1,700 slot machines
Bicycle Club Casino, Bell Gardens	1,700 slot machines
Hollywood Park, Inglewood	4,700 slot machines #
Hawaiian Gardens Casino, Hawaiian Gardens	1,700 slot machines
Crystal Park Casino, Compton	1,000 slot machines
Normandie Casino, Gardena	1,000 slot machines
Hustler Casino, Gardena	1,000 slot machines
Santa Anita Racetrack Casino, Arcadia	3,000 slot machines

ORANGE COUNTY

Los Alamitos Racetrack Casino, Los Alamitos	3,000 slot machines
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SAN DIEGO COUNTY

Oceans Eleven Casino, Oceanside	800 slot machines
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CONTRA COSTA COUNTY

California Grand Casino, Pacheco	800 slot machines
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ALAMEDA COUNTY

Golden Gate Fields Racetrack Casino, Albany	3,000 slot machines
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SAN MATEO COUNTY

Artichoke Joe's Casino, San Bruno	800 slot machines
Lucky Chances Casino, Colma	800 slot machines
Bay Meadows Racetrack Casino, San Mateo	3,000 slot machines

Please note that all casinos can barter with other locations for a certain number of additional slot machines. If the Hollywood Park Casino were to barter for its maximum additional slot machines it would be the largest casino in the world.



California Police Chiefs Association
M e m o r a n d u m

PRESS RELEASE

**Contact: Rick TerBorch, President
California Police Chiefs Association
805-473-5121**

Police Chiefs Condemn Casino Gambling Initiative Public Safety at Risk – Voters Urged Not to Sign Ballot-Qualifying Petitions

January 26, 2004-- The California Police Chiefs Association has taken the following position on the casino gambling initiative whose proponents are expected to begin the signature-gathering process today to place the measure on the November ballot:

The California Police Chiefs Association strongly opposes the casino gambling initiative proposed for the November 2004 ballot. The association's Board of Directors recently voted unanimously to oppose the initiative because of the serious and well-documented threats to public safety associated with casino gambling.

Passage of this initiative will dramatically expand casino gambling in California. Thirty thousand slot machines will be placed in 16 different locations in six California counties. These casinos will all be in urban areas, and they will all be large, with even the smallest casinos having several hundred slot machines.

In fact, there is a special section in the initiative that will turn one location, Hollywood Park in Inglewood, into the one of the largest casinos in the world!

Make no mistake; there is a serious link between large scale casino gambling and crime. That is why we opposed the Indian gaming initiatives and why we oppose this casino initiative. The experience of Atlantic City provides a sobering preview of the crime problems that await California if the casino initiative is adopted. According to 2002 Federal Bureau of Investigation crime reports, Atlantic City, none of whose casinos are as big as the proposed Hollywood Park

location, has an overall crime index of 12,924 crimes per 100,000 people. The Atlantic City crime rate is over three times the national average.

The California Police Chiefs Association's 336 members are responsible for providing direct public safety services for over 70% of California. We take our responsibility of protecting the public very, very seriously. It is for this reason that we are alarmed by the public safety threats created by the proposed casino initiative.

Proponents of the casino gambling initiative want to buy your vote by promising much-needed tax revenue to California. But the threat to public safety is too high a price to pay in return. On behalf of our members, we call on California voters not to be fooled by the paid petition pushers hired by the gambling industry to qualify this measure for the ballot. Californians can protect public safety by refusing to sign the casino petitions.

In the event the measure does qualify for the ballot, the California Police Chiefs Association will make its defeat a top priority, and we intend to take the lead in urging all Californians to soundly reject this threat to public safety.

For further information about the California Police Chiefs Association position on the casino initiative and the related crime problems, please call Rick TerBorch, President of the California Police Chiefs Association, at 805-473-5121.

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