

# **YOU PAY EVEN IF YOU DON'T PLAY**

**CASINO-FREE PHILADELPHIA'S COST/BENEFIT REPORT  
OF PROPOSED PHILADELPHIA CASINOS**

APRIL 8, 2008

A REPORT OF



**OPERATION HIDDEN COSTS**

# TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY</b>	<b>3</b>
TOTAL BENEFITS / COSTS TO PHILADELPHIA CITY BUDGET	4
<b>INTRODUCTION</b>	<b>5</b>
<b>ATLANTIC CITY: A RED HERRING</b>	<b>7</b>
<b>NOTES ON METHODOLOGY</b>	<b>8</b>
<b>BENEFITS</b>	<b>10</b>
Casino Host Fees	10
Increase in non-casino tax revenue	10
State-funded Tax Cuts	11
<b>HIDDEN COSTS</b>	<b>14</b>
Police for areas	14
Addiction Services and Criminal Justice costs	14
Substitution effect and lost wages	17
Municipal services costs	18
Regulation and litigation/lobbying costs	18
Reduction in property values and associated taxes	19
Opportunity Costs	20
<b>SUMMARY OF COST/BENEFITS</b>	<b>21</b>
<b>CONCLUSION</b>	<b>22</b>

## EXECUTIVE SUMMARY

Like the allure of a jackpot, the offer of casinos seems tempting. But at the end of the day, casino owners are betting they can take more money from Philadelphia than they invest. Foxwoods' Mashantucket Pequot Tribal Nation from Connecticut, and SugarHouse investor Neil Bluhm from Chicago, believe they can take more from Philadelphia and its surrounding area than they give back. *They are exporting dollars out of Philadelphia. They are causing us lost jobs and wages, reduced sales, and the cannibalization of our local businesses. The cost to the city will be massive.*

This report looks at the benefits of casinos to the city budget and compares them with the hidden costs. To come up with the best data, we relied primarily on numbers reported previously by others (including the Philadelphia Gaming Advisory Task Force (PGATF), Mayor Nutter's administration, and Temple economist Dr. Frederic Murphy).

In certain cases, we update numbers based on current political and economic realities. For example, due to many factors such as market saturation, Wall Street analysts expect a significant downturn in the overall take of casinos, resulting in less casino-funded tax cuts. (The simplified tabulation of our numbers is in the chart on the next page.)

Many of the *hidden costs* are not immediately apparent because they are dispersed among city and state agencies, most notably the social costs. For example, when an addict from Philadelphia Park attempts suicide because “[b]asically, I'm just a compulsive gambler and I just need some kind of mental health help”<sup>1</sup> – it costs the state and city in a myriad of ways. There is a cost to dispatch police troopers to manage the scene. There is a municipal cost to transport the patient to the emergency room and to fund his stay at the county prison. Costs of the court trial and his rehabilitation also add into the expenses for the city and state. *No expense is singularly large, but collectively the costs are huge, and dispersed throughout the city's budget, all of which is paid for by city taxpayer.* This economic social cost has been mostly ignored or minimized by PGATF and others, and we therefore rely on numbers from the respected National Opinion Research Center study.

After all the numbers are added up, our report estimates **a total loss of \$52 million per year for the City of Philadelphia.** That is money the city will either have to recoup by cutting services or by returning to Harrisburg to ask for a handout.

As our report shows, casinos are more than just a tax. They will not benefit the economy of the city, no matter where they are located. Unless something changes, casinos will be a significant economic burden forced on the city. *Even if you don't play, you will still have to pay.*

## TOTAL BENEFITS / COSTS TO PHILADELPHIA CITY BUDGET

*(average year; includes short version of citation)*

<b>BENEFITS</b>	
Casino host fees	<b>\$23.6 million</b>
<i>From Mayor Nutter's administration</i>	
Increase in non-casino tax revenue	<b>12.7 million</b>
<i>From the PGATF</i>	
State-funded cuts (wage tax reduction)	<b>39.5 million</b>
<i>Calculated with Mayor Nutter's administration's numbers</i>	
<b>Total Benefits</b>	<b><u>\$75.8 million</u></b>
<b>HIDDEN COSTS</b>	
Police	<b>\$14.3 million</b>
<i>From Mayor Nutter's administration</i>	
Addiction and criminal justice costs	<b>82.3 million</b>
<i>Calculated with numbers from National Opinion Research Center</i>	
Substitution effect & lost wages	<b>12.1 million</b>
<i>From Dr. Murphy's analysis</i>	
Municipal services costs	<b>2.9 million</b>
<i>From the PGATF</i>	
Regulation costs	<b>2 million</b>
<i>Doubled from the PGATF estimate</i>	
Reduction in property values	<b>4.2 million</b>
<i>Calculated with numbers from Hallwatch.org</i>	
Opportunity costs	<b>10 million</b>
<i>From Dr. Murphy's analysis</i>	
<b>Total Costs</b>	<b><u>\$127.8 million</u></b>
<b>City's Net Benefits (Cost)</b>	<b><u>(\$52 million)</u></b>

## INTRODUCTION

Casino-Free Philadelphia's campaign *Operation Hidden Costs* is designed to begin a dialogue about the hidden social and economic costs of introducing convenience slots parlors to Philadelphia. The goal of this operation is to promote a debate based on economic reality rather than on political fantasy.<sup>ii</sup>

What follows is a *survey* approach to crafting a cost/benefit report, using the best information available from the Philadelphia Gaming Advisory Task Force's (PGATF) report, the Econsult report funded by Foxwoods casino, and the independent analysis of the Econsult report by Dr. Frederic Murphy at Temple University. Despite repeated requests<sup>iii</sup>, the Governor's office has not supplied any substantive or meaningful analyses of the potential costs of new casinos in our cities.

Each report has its own weaknesses because each completely ignores certain undeniable costs:

- The Econsult report accounts for virtually no social or economic costs (\$0 estimate for the casino economic cannibalization effect, \$0 for law enforcement policing, \$0 for compulsive or problem gambling treatment services, \$0 for medical emergency services and hook-ups<sup>iv</sup>, \$0 for regulation, \$0 for reduction in property values and corresponding loss of property tax revenue, etc).<sup>v</sup>
- The PGATF does a slightly better job – although, like the Econsult report, it uses old numbers based on the unknown scenario of the two particularly chosen casinos on the riverfront. PGATF still essentially ignores costs of criminal justice needs brought about by new casinos (only accounting for policing costs). The PGATF also fails to account for the reduction in property values, and other meaningful social and economic costs.<sup>vi</sup>
- Dr. Murphy's independent review of the Econsult report, likewise, ignores some important costs, such as loss of Philadelphia homes property values, costs of casino regulation, as well as the costs of paramedics or other city services and hook-ups (sewer system, etc).<sup>vii</sup>

Therefore, we have chosen to supplement this report with other studies, including:

- Hallwatch.org's analysis of property values;
- national studies on the effect of casinos from experts like Dr. Robert Goodman and Dr. Earl Grinols;
- Mayor Nutter's administration's research on casinos and their calculations of host fees and policing costs; and
- the work of Wall Street experts (Oppenheimer & Co. and Magnetar Capital).

This report cites but does not use the Pennsylvania Intergovernmental Cooperation Agency's report on the City of Philadelphia's 5-year budget.

The result of these efforts is the most comprehensive cost/benefit review offered to date.

If building casinos in Philadelphia puts the city in the red, then Philadelphia will be returning to Harrisburg seeking yet more funding for essential services. With the economic damage caused by two casinos, Philadelphia will have fewer financial resources to use for mass transportation, schools, and real job creation programs. If Harrisburg will not fund the city's financial shortfall, Philadelphia's quality of life will decrease, not just for the gamblers but also for everyone in Philadelphia, and beyond. And state coffers reserved for important programs will dwindle as a result. *We all will pay for casinos, even if we don't play them.*

## **ABOUT OPERATION HIDDEN COSTS**

Casino-Free Philadelphia believes that the numbers Governor Rendell has used to champion the economic benefits of casinos are grossly inflated and misleading. He claims that casinos will bring 7,000 new jobs into the city while some economic studies show casinos could create net job loss of 5,900 jobs.<sup>viii</sup> He has budget only .001% of casino revenue to deal with gambling addiction when it could cost the state up to 2,000 times more to deal with the impact of those new addicts.<sup>ix</sup>

Every major project comes with hidden costs. *Operation Hidden Costs* is a campaign of Casino-Free Philadelphia to ensure accountability to addressing the real economics of casinos. During the course of *Operation Hidden Costs* (February-April 2008) Casino-Free Philadelphia planned and executed a series of actions to examine the costs/benefits of casinos, including this report. This report was funded entirely by Casino-Free Philadelphia, a citizens grassroots organization.

## ATLANTIC CITY: A RED HERRING

One argument for casinos is to recapture the money heading over to Atlantic City. The recent revenue losses in Atlantic City casinos are seen by some as justification for this argument. Atlantic City has lost over a billion dollars since the introduction of casino gambling to Pennsylvania. However, a closer inspection is warranted.

Let's explore the numbers.<sup>x</sup> In January 2008 the Atlantic City casinos reported a 10% decrease in total revenue from last year – a loss of under \$5 million.<sup>xi</sup> Assume that *every* dollar of Atlantic City's \$5 million loss was due to Pennsylvania slots and not the introduction of casinos to New York, the recession, or the smoking ban.<sup>xii</sup>

During that same month, Pennsylvania casinos won over \$100 million. That means over \$95 million was *not* recaptured Atlantic City money but money coming from elsewhere.

Even if one assumes a generous \$20 million (20%) of the Pennsylvania revenue came from out-of-state tourists visiting Pennsylvania casinos, there is still \$75 million coming from Pennsylvania's own citizens that were not gambling before, essentially a tax on its own citizens.

That is \$75 million that Pennsylvanians would have not have otherwise gambled – *new* gambling money by new gamblers. That is \$900 million a year (\$75 million/month x 12 months).<sup>xiii</sup>

Since most people gamble with their discretionary budget, each dollar lost in a slot machine is a dollar not otherwise spent in the local non-casino economy. That is approximately \$900 million a year being redirected from other industries in what is called the *substitution effect*.

This substitution effect is spread across a variety of industries. The most heavily hit by this are restaurants, bars, and even furniture and car sales.<sup>xiv</sup> But these significant losses, hurting local and neighborhood economies, receive less attention than the hyped reporting of the revenues of casinos, year after year.

It is difficult for the press to report on a small restaurant that laid off four of its twenty workers because business has dropped off. The evening news does not cover the closing of a small furniture shop. The local business section has no space to analyze the decreased advertising revenues from car dealerships or movie theaters.

The political fantasy is that legalizing gambling in Pennsylvania simply captures the money otherwise spent in Atlantic City. *In fact, more money will be shipped to out-of-state investors than recaptured from Atlantic City casinos.*<sup>xv</sup> The economic reality is that it is about getting more Pennsylvanians to gamble.

## NOTES ON METHODOLOGY

This report focuses on the fiscal health of Philadelphia, not the state. Casino-Free Philadelphia encourages a broader, statewide cost/benefit analysis and believes such an analysis at the statewide level would show that Pennsylvania casinos have a long-term negative impact on the state economy and state non-gambling tax revenues, despite apparent short-term gains.

Another major limitation of this report: this report does not consider the additional hidden costs that do not directly affect Philadelphia's economy, such as the effect on the state lottery – whose surplus has decreased from \$300 million to \$35 million within one year of the opening of slot parlors.<sup>xvi</sup> How does this loss affect senior citizens in Philadelphia? What is the economic bottomline is these non-gambling tax losses?

This report focuses only on the long-term consequences to the city budget. One-time costs and benefits, such as sewer system hook-ups, estimated in the tens of million of dollars or the 160 police training costs, are ignored. Instead, this report focuses on what an average year of having casinos in the city does to Philadelphia's budget.

This report concentrates only on the Phase I implementations for both Foxwoods and SugarHouse casinos. Phases II and III for either casino are unlikely to be completed. First, those plans carry *even* more unsubstantiated assumptions about traffic and local impact than Phase I assumptions. Second, historically the casino industry has abandoned plans like Phases II and III and expanded to table games instead. Given the trend, both casinos are likely to abandon their initial designs of slots and hotel expansion in favor of implementing table games and an associated dramatic shift of their plans. Third, Dr. Murphy argues fairly convincingly that the rates of return are worse for the casinos on Phases II and III than on Phase I. Phase III actually would be an economic loss for them. Finally, issues of riparian lands and continued neighborhood resistance will limit their ability to build Phases II and III if they ever manage to build Phase I.

The casinos make claims about the “domino effect” of bringing casinos into Philadelphia. They claim, with very little evidence, a vast increase in *non-casino related businesses* from tourism and spin-off businesses. History finds this argument fallacious – merely public relations spin designed to achieve their political goals. Aside from Atlantic City and Las Vegas, which are economies built around gambling, this claim has been routinely false in other jurisdictions. (Even in Atlantic City, the city experienced a net loss of independent restaurants with the introduction of casino gambling.) In Buffalo, for example, casino proponents claimed that casinos there would attract tourism from around the region, even from Pennsylvania.<sup>xvii</sup> The reality was that tourism did not grow to match expectations and instead resulted in severe cannibalization of existing businesses.<sup>xviii</sup>

To add this argument, Philadelphia is fighting a nationwide image of “Killadelphia.” Adding casino slot parlors to this negative image will only add to the negative image of



Philadelphia. Gambling stands contrary to historic Philadelphia's prime draw of Heritage Tourism. Therefore, one can expect casinos in Philadelphia to have no positive impact on tourism and even a negative impact.<sup>xix</sup>

On the other side of the balance sheet, this report ignores several hidden costs.<sup>xx</sup> Some infrastructure costs are included, such as police, but others are not, including costs associated with public transportation, indirect traffic infrastructure costs due to increased traffic, the costs of eminent domain, loss from real estate transfer taxes, and more. Other ignored hidden costs are mentioned throughout the report.

The methodology for this approach is to rely, as much as possible, on existing studies and reports. This report, therefore, represents the collective wisdom about the cost/benefit of casinos.

There is a danger in comparing studies, largely because different studies do not define terms in the same way. For example, "social cost" under the Dr. Murphy study includes a host of issues that also, at some points, overlap with police costs. His meaning is different than PGATF's definition of "*social costs*." Although not all of the complexities are mentioned in text, this report does take these differences into consideration. Much of the complexity is moved to the endnotes section.

Experts from across the country have been reviewing this report, including national gambling experts such as Dr. Goodman. Local economists, such as Dr. Fred Murphy, also reviewed this report.

Internally, this report was crafted with input from Casino-Free Philadelphia's membership including advice on relevant sections from local economists, real estate agents, accountants, small business owners, professors, policy experts, investigative journalists (retired or inactive) and other individuals. For political reasons, many of those have asked to have their names removed, some because they work for casino proponents, others out of fear of retribution.<sup>xxi</sup> To protect all involved, Casino-Free Philadelphia takes full responsibility for this report, acknowledging the advice of many involved and thanking the dozens who helped bring about this report.

## BENEFITS

### *Casino Host Fees*

As mandated in Act 71, Philadelphia would receive annual direct taxes in the form of *host fees*. In other cities that have opened casinos there is often a flattening effect as the novelty of casinos wears off, such as for riverboats in Iowa.<sup>xxiii</sup> Often casinos request and receive reductions in their tax obligations to host cities. One can expect Foxwoods and SugarHouse to do the same, claiming hardship in their competition with other states, just as they argue for exemptions to a smoking ban on the principle of competition with other states.

Econsult estimated that Foxwoods would contribute \$14.5 million in host fees, suggesting an estimated \$29 million for both Foxwoods and Sugarhouse. Prior to granting casino licenses, the PGATF estimated host fees of \$26 to \$30 million in host fees.

Mayor Nutter's administration has estimated host fees of \$23.6 million. One can assume this is an appropriately conservative number. A worst-case scenario would be a 10% reduction in host fees paid out, given the flattening and the casinos' additional lobbying efforts.

Best Case: \$30 million

Worst Case: \$21.2 million

**Likely Case: \$23.6 million**

### *Increase in non-casino tax revenue*

In Pennsylvania casino revenues are taxed by the state at 55%, slightly above average of surrounding states' gambling tax rate.<sup>xxiii</sup> However, that tax rate does not translate directly to Philadelphia's coffers. The city coffers will receive revenues from the taxes collected from the increased tax base due to the introduction of casinos (for example, sales taxes on food, city wage taxes and business privilege tax if still in place).

Econsult used very generous numbers to calculate the increase in non-casino taxes and estimated \$10.8 million for Foxwoods alone (which would result in an estimated \$21.6 million for both casinos). While relying heavily on Econsult's original assumptions, the Murphy's report suggests more realistic tax revenues should be estimated at \$7.7 million for Foxwoods alone (or, an estimated \$15.4 million for both casinos).

The PGATF uses a more conservative estimate of \$10.5 to \$15.1 million for both casinos combined, which does not take into account the combined effect of two casinos placed so close on the riverfront.

One can discount Econsult's inflated numbers and therefore Dr. Murphy's study, which is hampered by relying on those numbers, too. The PGATF numbers are more realistic. Their reasonable estimates for the Sugarhouse and Foxwoods locations are \$7.1 million and \$5.6 million, respectively, for a total of \$12.7 million, the mid-point of their range for all casino sites.

Best Case: \$15.1 million

Worst Case: \$10.5 million

**Likely Case: \$12.7 million**

### ***State-funded Tax Cuts***

As part of the original gambling legislation, the state would distribute a hodgepodge of development projects and special tax cuts to communities hosting new gaming and other communities statewide. The City of Philadelphia was granted special funds, including funds for convention center expansion, plus a permanent reduction in wage taxes. Other cities, likewise, have been given special grants. Currently the legislative body is developing legislation about how to disperse all of these promised grants and/or how to make sure no more money is given out at the expense of promised property/wage tax relief.

Because this report looks at the annual budget of our city and what casinos will cost that budget, only permanent tax implications are important for our estimates. Therefore one can ignore the one-time startup fund for the Convention Center and other one-time state-funded donations. The only permanent effect of casinos on the city budget from the state: reduction in wage taxes.<sup>xxiv</sup>

A number of assumptions are important to question about the current projections of state income and tax rate. These assumptions include:

- 1) *The casino industry will not successfully lobby for a reduction in its tax rate.* Elsewhere established casinos have used their clout and influence to push through additional tax reductions on their revenues. In Pennsylvania, the casino industry has already begun to push for table games and smoking exemptions before casinos are even up and running. One can expect that Foxwoods and SugarHouse (and other casinos across the state) will claim hardship due to the economic recession and increased competition as other states introduce gambling. They will surely call for a reduction in their tax rate or bailouts in other ways.
- 2) *The State does not increase pork barrel spending of casino money.* Some percentage of any funds allocated out of the casino revenues will likely be shifted over time to "development" projects across the state.
- 3) *Harrisburg money will not be diverted from the City of Philadelphia due to Philadelphia's dedicated stream of casino revenues.* As casino revenue comes in to pay for city expenses, money otherwise earmarked for such services is often shifted away to other funds. In Florida, for example, state lottery gambling

revenues were to be directed to increase education funding. However, once the state lottery was up and running the state moved the usual educational funds elsewhere, resulting in a flat-line for education spending (even a slight decrease some years).<sup>xxv</sup> Given Harrisburg's history, one can expect the same for school funding going to Philadelphia. A detached observer would be skeptical of political promises from Harrisburg that wage taxes will be permanently cut via this mechanism and that other taxes will not rise.<sup>xxvi</sup>

- 4) *Wage tax cuts will come only if the Philadelphia casinos open.* This issue is a strictly political question, not an economic one. Representative Godshall has introduced a bill that would do exactly what folks fear, eliminating the wage tax cuts for Philadelphia. Yet his bill has gained zero traction. It is important to note that when the City of Philadelphia was guaranteed \$850 million in state funds to expand the Pennsylvania Convention Center, casino proponents, especially the building trades, argued that the deal for the convention center would be broken if Philadelphia did not build its casinos. They were wrong. The Convention Center is now under construction with all state revenue earmarked. Those with an interest in casino construction will argue that the wage tax will not come without casinos in Philadelphia, but history in this situation suggests otherwise.

Any estimate is therefore a political consideration. It is unlikely that the law will be modified, even if Philadelphia casinos never open, to stop the state-funded cuts. Such a political calculation can be based on the strong standing of so many powerful Philadelphia state legislators and on the difficulty of any force to reopen any aspect of the gambling legislation as seen by the DeNaples fiasco. One could assume that wage tax reduction will come no matter what happens.

If one does assume they come, however, one would use numbers from Mr. Rob Dubow, Mayor Nutter's finance director who calculates the amount of wage tax relief from the state be as high as \$95 million a year. He bases his numbers on Governor Rendell's assumptions of a statewide \$3 billion in revenues from casinos.

On the other hand, many people are skeptical of the Governor's claims. A majority of Philadelphians believes that substantial wage tax reductions will never happen, largely because they question the above assumptions.<sup>xxvii</sup>

Even Wall Street analysts believe that Governor Rendell's numbers are inflated.<sup>xxviii</sup> They reduce Rendell's estimates of net casino revenues by eighty-three to ninety-three percent.<sup>xxix</sup> That would translate into a corresponding amount of cuts in property tax and wage tax rates.<sup>xxx</sup>

After the Wall Street analysts made their predictions about Governor Rendell's estimates, the economy brought more bad news for the casino industry. The casino industry, which has weathered recessions in the past, showed a serious decline. Moody's rating agency revised its outlook for the casino sector from stable to negative, including possibly downgrading Foxwoods' financial rating.<sup>xxxi</sup> This change came as the nationwide

recession (or economic downturn) hit the casino industry with expectations that revenues will continue to decline. Saturation of the marketplace did not help.

A reasonable conclusion is to accept 83% of the Governor's projection, conscious that this number will further be affected by the current economic downturn, the increased competition from other states, and other factors (e.g. Ms. Terry Gillen of the Nutter Administration noted still other factors that might also reduce the casinos' total take in her City Council testimony<sup>xxxii</sup>).

Taking this amount would result in a very optimistic estimate of the initial wage tax cuts at \$78.9 million (\$95 million x 83%). This is the best-case scenario.

To give a conservative estimate, this report assumes that some wage tax relief will come and is at least partially due to the opening of the Philadelphia casinos and takes a generous perspective that, *politically speaking*, half of the tax cuts promised will stay and remain, in spite of the above considerations.

Best: \$78.9 million

Worst: \$0

**Likely: \$39.5 million**

## HIDDEN COSTS

### *Police for areas*

Former Police Commissioner Sylvester Johnson suggested that the introduction of casinos would require 150 new police for the surrounding area. Current Police Commissioner Charles Ramsey repeated the need to create special districts for the proposed casino sites and neighborhoods with Deputy Mayor Everett Gillison testifying on the need for 160 police.<sup>xxxiii</sup>

Even ignoring the expensive one-time startup costs with training police officers and creating a new facility (\$3.3 million), such a police force is very costly. The Philadelphia Gaming Advisory Task Force estimated \$11 to \$16 million per year to cover police services for both Foxwoods and Sugarhouse.

A more precise number, however, is from the current police force's estimated numbers of \$14.3 million per year.<sup>xxxiv</sup>

Costs would go down considerably if the casinos would be located further away from neighborhoods and placed together in the same location (e.g. the airport). Patrolling becomes easier because the police would not have to deal with the urban population density and the small streets running through tightly knit neighborhoods. Likewise, placing the two casinos next to each other makes patrolling more efficient because patrols can be run out of a single police station.

Best Case: \$11 million

Worst Case: \$16 million

**Likely Case: \$14.3 million**

### *Addiction Services and Criminal Justice costs*

Gambling addiction affects individuals, families, and communities. The associated costs of this addiction are many and are hidden in the increased costs of other services, including the costs of bankruptcy, adjudication, treatment services, suicides, and much more.

When an addict from Philadelphia Park attempts to commit suicide because “[b]asically, I’m just a compulsive gambler and I just need some kind of mental health help”<sup>xxxv</sup> – it costs the state and city police troopers who arrived on-the-scene. The city picks up the cost of his trip to the emergency room and his later stay at the county prison. Costs for his court trial and rehabilitation also need to be added into the expenses for the city.

The Governor budgets only \$1.5 million *statewide* for all gambling addiction services and \$0 for additional criminal justice costs. His budget currently assumes the human costs of gambling will only be 0.001% of casino revenue. That's only \$15.50 spent for each problem gambler.<sup>xxxvi</sup> That Governor Rendell's staff would allow him to suggest such a low number either shows incompetence or fear of truth telling. Econsult was worse, estimating \$0 of cost total. The PGATF was also unrealistic, estimating \$2.3 million for Philadelphia.

The problem of addiction gets compounded if addiction support services are not offered. One can assume addicts increase the criminal justice costs as untreated problem gamblers turn to illegal sources to feed their habit (i.e. embezzlement).

Gambling will increase when casinos are introduced to Philadelphia. These casinos are intentionally placed within easy walking distance of high-density residential neighborhoods unlike, say, the airport, which does not provide "the same access" in the words of Foxwoods' General Manager James Dougherty. Closer access means higher addiction rates.<sup>xxxvii</sup>

One number to understand is how many people will become *new* addicted gamblers with the introduction of casino gambling to Philadelphia. Studies show that gambling addiction and problem gambling tends to *double* within a 50-mile radius of a new casino.<sup>xxxviii</sup> Since this number is derived from casinos in more rural areas without mass transit and road congestion, one can craft the real calculation for cities by using the time equivalent for the 50 miles, roughly 30-40 minutes of travel by mass transit, bicycle, or foot.

Though that statistic has shown true in multiple settings, it has to be understood in the Philadelphia context where Harrah's Casino and Philadelphia Park are both within that radius and where Atlantic City has had such an influence. Not enough research exists to show how *further* introduction of casino gambling affects an area. The National Opinion Research Center (NORC) performed the largest study on this topic for the National Gambling Impact Study Commission.<sup>xxxix</sup> Its report concluded, "[S]ome of the greatest increases in the number of problem and pathological gamblers shown in these repeated surveys came over periods of expanded gambling opportunities in the states studied." Thus, the increase in accessibility of casino gambling might *exaggerate* this doubling effect.

Further, many of those cases studied involved rural areas, where people can drive much faster. One can travel 50 miles in rural areas in about the same time it takes a West Philadelphian gambler to go to the Delaware River waterfront, if that is where casinos are built. Based on prevalence and the increased density of casino gambling, one can reasonably accept the NORC analysis on a doubling of the problem gamblers in the Philadelphia-area.

The NORC study goes on to estimate an annual cost of \$1,200 per pathological gambler and \$750 per problem gambler due to job loss, unemployment benefits, welfare benefits,

physical and mental health, and minimal treatment. The researchers add “lifetime costs” of \$10,550 per pathological gambler and \$5,130 problem gambler. The NORC study excludes gambling-related incidences of theft, embezzlement, suicide, domestic violence, child abuse, neglect, and the non-legal costs of divorce. Dr. Earl Grinols, a leader in this field, comes up with a slightly higher number of \$1,700 and a slightly lower number of \$670 per pathological and problem gambler, respectively, when he includes those incidences.

PICA used Grinol’s costs in its brief analysis. Citing the American Psychological Association, PICA reports that 30,740 Philadelphians are at risk for pathological or problem gambling. Using the Grinols’s costs, PICA estimates a pathological gambler costs \$1,700 per year while problem gamblers cost \$670 per year to the city for treatment. That would suggest \$23 million of costs (assuming a 10% rate of pathological gambling).

PICA goes on to use Grinols’ study to examine the cost of apprehension, adjudication, incarceration and regulation as “between \$20,500 and \$45,700 per pathological gambler per year.” With the PGATF estimating the City’s pathologically gambling population to be 9,450 people, the estimated law enforcement costs could be as high as \$200 million per year.

Thus PICA’s brief survey estimates \$223 million per year for addiction services and criminal justice.

Dr. Murphy uses a more thorough and different method to calculate costs of gambling addiction also relying on Grinols’ research. Grinols found that wherever casinos are built, a *relatively* stable per capita cost is put upon the host city – about \$190 per person. This is an estimated social cost of \$285 million to Philadelphia.

But Dr. Murphy questions this calculation because Philadelphia is a high-density area and the first city of this size to experiment with two large casinos in neighborhoods. Given the large population, the costs might be expected to be more evenly divided across the population, and therefore reduced overall.

Dr. Murphy instead uses the NORC’s costs (which are lower than Dr. Grinols’ numbers) alongside a doubling of pathological and problem gambling and results in \$55.8 million of total social costs to the city and state and \$518.7 “lifetime” costs due to criminal justice costs. That’s an average of \$66.2 million per year.<sup>xi</sup>

Dr. Murphy’s calculations assume a doubling with only one casino, Foxwoods. One might conservatively not assume another doubling with the introduction of SugarHouse, but instead merely add an additional 0.25% increase in addiction rates – a total of \$82.3 million (\$66.2 million x 1.25%).

These calculations are still quite conservative as they ignore the criminal costs imposed upon the Philadelphia law enforcement system from crimes committed by people from



out of town that have to go through the Philadelphia system. Because that number relies on NORC's numbers, it further ignores gambling-related incidences of theft, embezzlement, suicide, domestic violence, child abuse, neglect, the non-legal costs of divorce, and other costs that Dr. Grinols has used in his numbers.

Best: \$58.8 million

Worst: \$285 million

**Likely: \$82.3 million**

### ***Substitution effect and lost wages***

As the section on Atlantic City shows (page 6), the introduction of gambling to Pennsylvania results in money moving *away* from some industries *into* the casino industry. This is not *new* money in the system, but money that would otherwise be spent on local restaurants. This effect is called the substitution effect.

The benefits included wage tax increases from the new jobs in the benefits column; this item includes wages and lost revenue *directly* related to the substitution and cannibalization effect of casinos from lost jobs and decrease in non-casino business activity.

No government agency has looked closely at the substitution effect of casinos for Philadelphia. According to Ms. Gillen, Director of Philadelphia's Commerce Department, "We need to be careful that we don't mix up new spending with substitution spending. The Gaming Task Force model determined that 75-90 percent of all casino spending is new – that is, it is money that would not have been spent on movies, sporting events or other things in Philadelphia."<sup>xli</sup> She goes on to question that number and suggests a full investigation.

The only person to itemize the hidden costs of the substitution effect is Dr. Murphy. In his report, he assumes a \$12.1 million loss to the city in non-casino tax revenue due to Foxwoods' opening, including some but not all lost taxes from businesses. Doubling that to include SugarHouse results in an estimated \$24.2 million loss.

Half of his number, however, is a very rough calculation of the loss of real estate taxes. Later on is a more thorough analysis of real estate losses (see below). Removing that amount returns us to \$12.1 million.

His numbers are low because they calculate only the BPT taxes lost, not other business taxes or the ripple effect due to money being moved out of the city's economy to the coffers of the out-of-state (e.g. Connecticut and Illinois) investors or suburban investors. Including those lost taxes would increase the number dramatically.

Best: \$12.1 million

Worst: \$24.2 million

**Likely: \$12.1 million**

### ***Municipal services costs***

Casinos are a major industry and, in an already traffic-choked area, additional consideration must be given to providing emergency medical services. The PGATF report is the only one to consider these expenses. The PGATF estimates this amount to be in the range of \$900,000 to \$2.9 million. A more car-friendly and mass transit-accessible location that is not in the vicinity of so many pedestrians and neighborhoods would cost less. The upper limit of \$2.9 million a reasonable amount given the current sites and that other municipal costs are not taken into account.

This number does not look at many other municipal costs including traffic expenses that will likely be huge given the proposed sites, even with casino-financed support. A worst-case scenario might be ten times or more of the cost – a simple doubling of the amount is plenty conservative.

Best Case: \$0.9 million

Worst Case: \$5.8 million

**Likely Case: \$2.9 million**

### ***Regulation and litigation/lobbying costs***

Statewide there is a need for regulation and that is taken into consideration at the state-level budget. However, it is clear the casinos have no intention of backing down from fight after fight once they arrive in the city. The PGATF originally estimated regulation costs to be at \$1 million per year for administrative expenses. However, that was before the casino industry repeatedly sued the city.

Considering legal costs incurred by the casino industry's regular desire for expansion and legal fights with the city over every aspect of their business, one can easily double that amount, knowing that the PGATF expected a very cordial and friendly relationship with the casinos, which apparently does not seem to be the case. The real costs might be much more, easily at \$4 million in protracted legal battles with the casino industry over every aspect of their operations.

Further, it would be wise for the City of Philadelphia to create a local monitoring agency and engage in on-going studies and surveys about the affect of casinos on the city. This report does not account for any costs for this.

Best: \$1 million

Worst: \$4 million

**Likely: \$2 million**

### ***Reduction in property values and associated taxes***

Real estate experts vary in their analysis of casinos. Some suggest it will not be a problem at all. Others have reported that even before the current nationwide housing downturn people were already refusing to move into Philadelphia neighborhoods where the casinos were proposed. No study has yet been conducted on this, so one can estimate by relying on other studies and cities' experiences.

Even before the housing downturn, one real estate agent estimated a downturn of 20% in the casino neighborhoods due to the impending casinos.<sup>xliii</sup> The unusually close proximity of Philadelphia's neighborhoods to the proposed casino sites will result in a further reduction of housing prices because people do not want to live next to a massive casino -- complete with a huge parking garage, 24/7 blinking lights and free unlimited drinks and traffic during all hours of the day. *Already* people are moving out of these areas (there has been no documentation of people moving *to* the casinos).<sup>xliiii</sup>

Studies in situations with less proximity between casinos and neighborhoods show that property values decline upon the arrival of casinos. The largest and most detailed impact study of casinos on real estate prices shows that there is a *4.6% decrease in property values within a mile of casinos*. The sample size of the study was 10,000 homes.<sup>xliiv</sup>

Other studies show decreases in a similar range, though many demonstrate larger decreases. For example, a study of the Foxwoods Casino in Connecticut showed a 10% decrease in values of residential homes on main roads or alternate roads leading to the casino.<sup>xlv</sup>

Based on the research, an estimate a 4.6% decline in property values is appropriate, noting that casinos have never been so close to an urban residential neighborhood and therefore one might expect a higher decline. Philadelphia's Bureau of Tax Revisions has already granted requested reductions in the tax assessment to residents who claim casinos have such a negative effect on real estate. According to Hallwatch calculations, the total loss in property value would be \$163,374,441, based on a 4.6% property decrease.<sup>xlvi</sup>

Philadelphia's property tax system is complex and broken, and therefore imprecise in its calculations. But if one calculates using the current calculations of a 32% assessment rate and a tax rate of 8%, one returns a loss of property taxes of \$4.2 million.

With a 10% loss of property value, the loss of revenue would be \$9 million. Or if the 20% rate continued, the loss to the city would be \$18.1 million of lost revenue.

None of these calculations take into account the reduced transfer taxes.

Best: \$4.2 million

Worst: \$18.1 million

**Likely: \$4.2 million**

## ***Opportunity Costs***

If the casinos are built on the river, what won't be built and how does one calculate those costs? These costs are called "opportunity costs" – i.e. the *lost* opportunity for building something that would spur greater growth or result in less destruction of pre-existing businesses. Of the opportunity costs, the two most talked about lost opportunities are port expansion and riverfront development as outlined in the Penn Praxis study.

For example, the potential of losing port jobs by choking traffic headed to and from the port area, would be absolutely devastating – resulting in the loss of thousands of family-sustaining jobs and associated costs. The ILA has repeatedly stated their opposition to casinos because of the potential loss of those port jobs. Port jobs offer \$57,000 a year plus benefits to workers – compared to half that for casino jobs. Even losing five thousand of the 45,000 port jobs would be a devastating consequence (a loss of \$285 million of wages, almost all of which is new money to the area).

Similarly, the economic benefits of building a riverfront in keeping with modern planning principles is hard to calculate. However, the building trades' unions would have jobs if the casinos are built elsewhere, and if alternative facilities are built along the waterfront.

Yet, this analysis has not been done. Therefore, it is reasonable to go with the extremely conservative estimate of Dr. Murphy's report of \$5 million for one site (\$10 million for both). Nobody else has estimated any of these costs. It is likely these estimates are off by one or two orders of magnitude.

These opportunity cost figures are additional costs *over* the amount of taxes estimated to the city on the property (e.g. Foxwoods' estimated in the range of \$5.3 to 7 million).

Best: \$0

Worst: \$285 million

**Likely: \$10 million**

## SUMMARY OF COST/BENEFITS<sup>xlvii</sup>

Calculating all of the best case and worst-case scenarios returns the following table (below). The best-case scenario includes the highest rates of benefits and the lowest rates of hidden costs. For example, it assumes Philadelphia will see every penny that the state has promised it *at the rate projected* despite Wall Street's predictions or the apparent downturn in the economy. We believe the best case is an exaggerated case.

Similarly, we believe the worst case is an exaggerated case, assuming the worst of the impact on casino gambling, especially of the opportunity costs and social costs. We include them not because we believe they are relevant in the budgeting process, but as context. The likely case is, indeed, the likely case.

We therefore expect a reasonable cost/benefit report by City Council or the Mayor to, similarly, result in a loss of approximately \$52 million per year to the city for each year of two casinos operating.

### EXTREME CASES AND LIKELY CASES OF PHILADELPHIA CASINOS ON PHILADELPHIA'S CITY BUDGET

	Best Case	Worst Case	LIKELY CASE
<b>BENEFITS</b>			
City's host fees	\$30 million	\$21.2 million	<b>\$23.6 million</b>
Increase in non-casino tax revenue	15.1 million	10.5 million	<b>12.7 million</b>
State-funded cuts (wage tax reduction)	78.9 million	0	<b>39.5 million</b>
<b>Total Benefits</b>	<u>124 million</u>	<u>31.7 million</u>	<u><b>75.8 million</b></u>
<b>HIDDEN COSTS</b>			
Police	\$11 million	\$16 million	<b>\$14.3 million</b>
Addiction and criminal justice costs	58.8 million	285 million	<b>82.3 million</b>
Substitution effect & lost wages	12.1 million	24.2 million	<b>12.1 million</b>
Municipal service costs	0.9 million	5.8 million	<b>2.9 million</b>
Regulation costs	1 million	4 million	<b>2 million</b>
Reduction in property values	4.2 million	18.1 million	<b>4.2 million</b>
Opportunity costs	0	285 million	<b>10 million</b>
<b>Total Costs</b>	<u>88 million</u>	<u>638.1 million</u>	<u><b>127.8 million</b></u>
<b>City's Net Benefits (Cost)</b>	<u>\$36 million</u>	<u>(\$606.4 million)</u>	<u><b>(\$52 million)</b></u>

## CONCLUSION

Casinos will not bring the massive jobs and revenues the city needs. They are a false hope.

These casinos are *not* coming to Philadelphia to recapture Pennsylvania money lost to Atlantic City casinos. More money will be shipped to out-of-state investors than to the Atlantic City casinos. And the city and state lose a big bet.

Their introduction will result in a massive hole in the city budget – over \$52 million per year. The previous city administration’s poor handling of this issue, along with the Governor’s stubbornness, is forcing the city into a bad deal.

Some of these costs we will see immediately, such as the new 160-person police force needed to patrol their areas. Other costs will be subtler, such as restaurants losing patrons’ dollars and the resulting loss of jobs -- *or* the criminal justice and policing and addiction service costs that the casinos do not cover.

The benefits will be concentrated, and therefore easier for them to report – a big check from the casino industry to the city. But each dollar and cent earned from the casino industry represents money taken from us.

Each of us will be paying that check. Whether we play at casinos or not, all of us are going to have our tax dollars shipped away to support the casino industry and its harmful effects.

The bottom line: *You pay, even if you don’t play.*

## ENDNOTES

---

<sup>i</sup> “Fugitive attempts suicide at casino” by Matt Coughlin, *Courier Times* (April 5, 2008).

<sup>ii</sup> From *The Boston Herald* by Dave Wedge, “Three Detroit casinos similar to those proposed by Gov. Deval Patrick have fallen about a half-billion dollars short of initial projections and created thousands fewer jobs than predicted in what could be a stark warning to Massachusetts [or Pennsylvania].” (January 23, 2008). Yet these and other experiences outside of Philadelphia have been largely ignored. Our approach in this report is to not reinvent the wheel but to learn from others who have hosted casinos about their experience and to draw on the previous research already about casino costs.

<sup>iii</sup> These requests include Freedom of Information Requests by Ed Goppelt of Hallwatch.org, e-mails by reporter Bruce Schimmel of the *City Paper*, and our public calls and personal letters to the Governor for releasing all reports.

<sup>iv</sup> The PGATF calls these costs on page 285: “The cost for the paramedics, and for operation, maintenance, and depreciation of the EMS unit, would be \$450,000 per casino, and would also require a one-time investment of \$60,000 for the additional vehicle at each site... For comparison’s sake, New Orleans spends about \$300,000 annually to provide EMS coverage and about \$870,000 for a share of the cost of fire suppression coverage for one casino. Detroit, with three casinos, budgeted \$4.4 million in 2004-2005 for casino-related fire department costs.”

<sup>v</sup> *Potential Local Economic Impacts of the Only Casino Entertainment Facility Proposed Fronting the South Delaware River in the City of Philadelphia* as submitted to Philadelphia Entertainment and Development Partners, L.P. (Foxwoods) by Econsult Corporation, March 2006.

<sup>vi</sup> Final Report of the Philadelphia Gaming Advisory Task Force as submitted to Mayor John F. Street on October 27, 2005.

<sup>vii</sup> *Economic Impact of the Foxwoods Casino* by Dr. Frederic Murphy.

<sup>viii</sup> Governor Rendell as quoted repeatedly in the media; Dr. Murphy’s study.

<sup>ix</sup> For more on this, see “Raising the Stakes: Assessing Allegheny County’s Human Service Response Capacity to the Social Impact of Casino Gambling” by Ray Engel, Danny Rosen, and Tracy Soska (2008).

<sup>x</sup> We examine the numbers using the Philadelphia Inquirer’s Feb 11<sup>th</sup> article “Casino revenues fell 10 pct. in January.” A similar analysis has been done by Dr. Murphy based on May 2007 numbers but only using the East Coast casino revenues with the same result: *this experiment is creating more gambling in Pennsylvania*.

<sup>xi</sup> The casinos grossed \$355 million at slot machines and table games in 2008, compared to \$394.5 to January 2007.

<sup>xii</sup> According to the AP on February 7, 2007 read, “The measure bars smoking on 75 percent of a casino floor, and requires gambling halls to set aside 25 percent of the floor space as smoking areas by April 15.” Pennsylvania currently has no ban in place but is negotiating it.

<sup>xiii</sup> Plus there are the problem and pathological gamblers. Chester newspapers have widely reported on a gambling addict who gambled over \$573,000 after stealing money to feed her habit. These are a few examples of the costs that add up, too, as we get to into the report. Those dollars are not out of discretionary budgets but are often mortgage payments or other critical dollars to a stable economy.

<sup>xiv</sup> Dr. Goodman, personal communication.

<sup>xv</sup> Taking the \$5 million/month mark as a starting point for the Atlantic City amount being recaptured, SugarHouse and Foxwoods would both be sending far more than \$5 million/month out of the state per year based on their majority out-of-state ownership.

<sup>xvi</sup> “Republicans, Rendell Debate Over Pa. Lottery Surplus Drop” by Tony Romeo of KYW news radio (February 25, 2008).

<sup>xvii</sup> “Buffalo Looks for Work but Debates Casino’s Value” *New York Times* (February 19, 2007).

---

<sup>xviii</sup> Phil Fairbanks of The Buffalo News did an in-depth three part analyzing the promises of casinos and how they stacked up with reality. In his part 1 “Casino promises – still waiting” he wrote: “So what about the new hotels, restaurants and shopping centers Gov. George Pataki and others promised when he signed the law authorizing casino gambling?”

“ ‘Thousands of additional jobs will be created outside of the casino walls as investors build new hotels, restaurants, shopping centers, and businesses,’ Charles Gargano, Pataki’s top economic development aide, predicted then.

“An overstated promise?”

“Or a benefit still to come?”

“Four years after Gargano made that pledge, there are *no new hotels and no major restaurants. And certainly no new shopping centers.*” (Italics ours) (April 15, 2006).

<sup>xix</sup> As another example of this dynamic, look at Iowa from LaCrosse Tribune article “Jo Daviess leader says riverboat dealt empty promises” (October 15, 2000).

<sup>xx</sup> As another example, we do not ignore the reduced wage taxes based on the loss of jobs in the city but we believe a fuller accounting of the loss of BPT could be done. Dr. Murphy’s analysis calculates only about \$1 million in BPT losses but ignores other forms of taxes and the ripple effect of casino losses. Casinos will create some jobs. These numbers are not insubstantial and are partially considered in the PGATF’s calculation of non-casino direct revenue increases, which we include. However, we believe an accurate analysis must also include direct and indirect job losses due to the substitution effect of casinos. PICA and the Murphy report both suggest that job creation is a myth due to job losses through the diversion of current local recreational expenditures to casinos. Dr. Murphy cites up to 5,424 lost jobs outside of the casinos for Phase I for a loss of \$109 million in lost wages. The city would lose those associated taxes. We do not, however, include the full impact of these costs.

<sup>xxi</sup> See Daniel Rubin: *An embarrassing display of a citizen's rights*, Philadelphia Inquirer (January 14, 2008).

<sup>xxii</sup> LaCrosse Tribune article “Jo Daviess leader says riverboat dealt empty promises” (October 15, 2000).

<sup>xxiii</sup> New York taxes gaming at 60%, New Jersey at 8%, Delaware at 36.5%, Maryland at 67-70% and West Virginia at 54% according to each appropriate state lottery/gambling regulatory body.

<sup>xxiv</sup> We consider the \$5 million for the schools no more than shifting revenue around and believe a matched reduction in \$5 million to the school budget will occur.

<sup>xxv</sup> “In Florida, for example, as education budgets were diverted for other uses, and as lottery sales flattened and student enrollment increased, spending per student ended up below pre-lottery days,” from Politicians Bet the Farm by Barbara Dreyfuss in *The American Prospect* (March 2008).

<sup>xxvi</sup> This is why we do not count the \$5 million in funding for the Philadelphia school system.

<sup>xxvii</sup> See *Quinnipiac University Poll* where 58% percent of Philadelphians believed significant wage tax reductions were unlikely while only 36% thought it very likely. This is up from 52% in a similar poll cited by the PGATF, page 278. (Poll released February 28, 2008.)

<sup>xxviii</sup> David Katz from Oppenheimer & Co. estimated a take of \$2.8 billion while Mark Falcone from Magnetar Capital suggested closer to \$2.5 billion. Both are reduced from Governor Rendell’s more optimistic numbers of \$3 billion. They argued the state did not fully take into account the interstate competition. (The Morning Call on Feb 27, 2008.)

<sup>xxix</sup> Calculations: \$2.8 billion (Falcone) / \$3 billion (Rendell) = 93.3% and \$2.5 billion (Katz) / \$3 billion = 83.3%.

<sup>xxx</sup> The percent loss would actually be higher due to the fixed costs such as regulation.

<sup>xxxi</sup> “Casinos’ Lucky Days Running Out,” The New Jersey Times on March 21, 2008

<sup>xxxii</sup> City Council testimony on March 11, 2008.



---

<sup>xxxiii</sup> April 4, 2008 before City Council.

<sup>xxxiv</sup> Deputy Mayor Everett Gillison' testifying in City Council according to Philadelphia Inquirer, April 5, 2008.

<sup>xxxv</sup> "Fugitive attempts suicide at casino" by Matt Coughlin, Courier Times (April 5, 2008).

<sup>xxxvi</sup> For more on this, see "Raising the Stakes: Assessing Allegheny County's Human Service Response Capacity to the Social Impact of Casino Gambling" by Ray Engel, Danny Rosen, and Tracy Soska (2008).

<sup>xxxvii</sup> This correlation between proximity is widely researched. In addition to other cited sources in this section: the Research Institute on Addictions at the University of Buffalo showed addiction rates *double* within a 10-mile proximity or *A study of differences in Canadian university students' gambling and proximity to a casino* from Journal of Gambling Issues which showed students' gambling habits correlate with proximity to casinos.

<sup>xxxviii</sup> The National Gambling Impact Study Commission, Final Report, June 1999.

<sup>xxxix</sup> Their report is available at: <http://www2.norc.org/new/gamb-fin.htm>

<sup>xl</sup> We average the lifetime costs over 50 years (76.4 years of average lifespan with all gambling happening after people are 18 years old) or \$10.4 million per year.

<sup>xli</sup> In written testimony to City Council on March 11, 2008.

<sup>xlii</sup> Real estate agent Kathy Conway at Casino-Free Philadelphia Cost Meet-and-Greet (March 11, 2008).

<sup>xliii</sup> See Daniel Rubin's *Their love for Phila. was too much of a gamble*, Philadelphia Inquirer (December 13, 2007) at <http://www.philly.com/philly/news/local/12454436.html>.

<sup>xliv</sup> Terrence M. Clauretie, Thomas M. Carroll, and Nasser Daneshvary, "Rolling the Dice, Would Casinos Harm Illinois Home Values," Illinois Real Estate Markets, Winter 1998

<sup>xlv</sup> Nicholas H. Mullane, II; William N. Peterson; John M. Turner, "Casino Impacts on North Stonington,"

<http://web.archive.org/web/20050308121240/www.tribalnation.com/NorthStonington.html>.

Amended December 24, 2001.

<sup>xlvi</sup> According to calculations done by Hallwatch.org (April 3, 2006).

<sup>xlvii</sup> **Money for the neighbors**

We do not count the amount of money given to neighbors in the form of Community Benefits Agreements because it does not directly affect the *city's* income/expense sheet. Given the amount of political pressure to do so, we expect that casinos will negotiate Community Benefits Agreements (CBA).

West Warwick, Rhode Island achieved a CBA equaling 2% of gross casino revenue. Given the taxation in Pennsylvania, the casinos in Philadelphia would doubtlessly balk at such a high percentage; yet we do believe numbers in that amount would be extremely reasonable. The Philadelphia casinos have offered \$1 million per year and suggested that this amount is generous. Some city residents have asked for as much as \$250 million per year per casino to offset the costs.<sup>xlvii</sup> Though that would be a best-case scenario, we recognize it is probably not the most likely political case.

The PGCB was reported to have capped Foxwoods' CBA at \$1 million per year. SugarHouse, however, has no such cap. Without knowing more about negotiations with SugarHouse, we hear rumor of a proposed \$5 million CBA for Sugarhouse – a total of \$6 million per year for both casinos. We believe smart negotiations could increase the amount dramatically – to the tens of millions – as this amount grossly underestimates the costs that Philadelphia and its neighborhoods will incur, as we see above.

---

In terms of how much money a casino should pay to host communities, we believe that a casino should pay at least as much as the cost of the harm it causes. In our view, however, this is untenable: If forced to pay for the costs inflicted, casinos could not afford to be in Philadelphia.