

# Gaming: An Economic Overview

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Presented by:



The Florida Legislature  
Office of Economic and  
Demographic Research  
850.487.1402  
<http://edr.state.fl.us>

# Early Gaming Economy

- The first gambling establishments (although they were illegal) were introduced by Henry M. Flagler as he built railroads and hotels along the east coast of Florida in the late 1890's. Two of the most famous were the Bacchus Club in St. Augustine and the Beach Club in Palm Beach.
- Starting in the 1920's, Florida began to see the development of more organized gaming:
  - Early in the decade, floating gambling barges appeared off the Florida coast, anchoring in international waters.
  - In 1921, one of the nation's first greyhound tracks opened in Hialeah.
  - In 1924, Jai-Alai was introduced in Florida as a legal sport in Hialeah, but not as a legal betting event.
  - In 1925, Hialeah Park opened for horse racing.
- **Florida legalized horse and dog racing in 1931, and jai-alai in 1935. This was an effort to raise revenue during the Great Depression, as well as to legalize and regulate what in practice was proving difficult to stop.**
- **In 1931, about 7,000 persons worked in the racing industry. They were mostly spread among the three horse tracks and six dog tracks that held performances in the 1931-32 fiscal year, although a total of 14 permits had been issued. The state raised \$737,301 in revenue from a pari-mutuel handle of \$17,365,424.**

# Milestones Continued...

- During the early 1930's, the illegal numbers game Bolita gained popularity, especially in the Tampa area.
- **Slot machines were made legal during the 1935 to 1937 period, and the state collected more than \$2 million in taxes.**
- By the 1940's, illegal casinos "flourished in the southern part of Florida," especially in Key West which had gaming establishments dating back to the early 1900's. Casinos had been part of Miami Beach since the 1920's, as well as other South Florida locations.
- The 1950's saw a major crackdown on illegal gaming activities, and open gaming essentially came to an end as US Senator Estes Kefauver led an investigation into widespread corruption and linkages to organized crime.
- In 1970, Miami Beach held an advisory referendum or straw ballot where voters rejected casinos by a 9,265 to 7,343 count.
- **In 1971, Florida legalized bingo halls with limited jackpots.**

# Milestones Continued...

- In 1978, the first constitutional amendment to legalize casinos in Florida failed (27% to 73%).
- By 1977-78, about 35,000 persons worked in the racing industry. They were mostly spread among the eight horse tracks, eighteen dog tracks and ten jai-alai tracks that held performances that year, although a total of 37 permits had been issued. According to official records, the state raised **\$58.5 million** (plus an unknown amount from unclaimed winning tickets benefitting the State School Trust Fund) in revenue from this activity, although some informal sources report numbers as high as \$91.2 million.
- In 1979, the Seminole Tribe opened a bingo hall that offered a high-stakes game which did not conform to the state's requirements for prize limitations. This act was ultimately the subject a landmark lawsuit. A federal court of appeals ruled that Indian tribes can operate—without regulation—all forms of gambling on their tribal lands when the state otherwise allows the games.
- In 1984, organized “cruises to nowhere” were introduced, but largely under the authority of federal law. A different form of gambling ship previously existed.
- In 1986, the second constitutional campaign to legalize casinos in Florida failed (33% to 67%), but the **approval for a state lottery passed by a two to one margin**.

# Milestones Continued...

- In 1988, legalized casino gaming existed only in Nevada (since 1931) and New Jersey (since 1976); however the passage of the Indian Gaming Regulatory Act in this year became a gaming turning point among states.
- In 1994, the third constitutional campaign to legalize casinos in Florida failed with less than 40% in favor. The cost of the pro-campaign was over \$16 million—reportedly “the most money spent on any ballot proposition in U.S. history up to that date.”
- **In 1997, authorization was provided for low limit Poker games at qualifying Pari-Mutuel facilities.**
- **In 2004, a limited constitutional amendment to legalize slot machines in certain pari-mutuel facilities in Miami-Dade and Broward counties was successful.**
- **In 2010, the *Gaming Compact between the Seminole Tribe of Florida and the State of Florida* was executed by the Governor on April 7, 2010, and ratified by the US Department of the Interior on July 7, 2010.**

# Authorized Gaming Producing Direct State Revenue...

- Today, there are **30 pari-mutuel locations** where wagering is authorized for horse racing, harness horse racing, quarter horse racing, greyhound racing, or jai alai games.
- **Cardroom poker games** are authorized at 25 pari-mutuel facilities; along with **slot machine gaming** at 7 pari-mutuel facilities in Broward and Miami-Dade Counties.
- The **Lottery** is operated by the State of Florida.
- The **Gaming Compact** *between the Seminole Tribe of Florida and the State of Florida* is in its third year of existence. Authorization for card games expires in FY 2015-16.

# Indian Casinos and Pari-Mutuel Facilities



# Additional Gaming Options

- **Bingo Games** are authorized to be conducted by charitable, nonprofit, or veterans' organizations --- as well as condominium associations, cooperative associations, certain homeowners' associations, mobile home owners associations and certain groups of residents.
- **“Cruises to Nowhere”** operate without direct state taxation of their gambling revenue. They conduct their gambling activities three miles or more off the east coast of Florida (international waters) or nine miles or more off the west coast of Florida (federal waters).
- **Internet Cafes** have proliferated in Florida in recent years. According to a briefing paper from the Office of Attorney General:

*“Questions have been raised regarding the legality of such operations. Opponents to such “Internet cafes” believe that the operation of these establishments violates the state's gambling laws which prohibit games of chance in which consideration and a prize are present unless the game is expressly authorized by law. Owners of such establishments, however, claim that section 849.094, Florida Statutes, which provides for game promotions in connection with the sale of consumer products or services, permits such operations.”*

# Major Types of Gambling Revenue

- **Taxes** are compulsory exactions or payments demanded by government to finance public goods and services. They are usually of general benefit, but revenues from some gambling sources (Lottery, Slots, Unclaimed Winning Tickets from certain Pari-Mutuel activity) have been primarily dedicated to education.
  - They can flow to General Revenue, be earmarked for a specific fund, or be redirected from another fund.
- **Fees** are assessed for a particular – or special - service or benefit and are usually collected to defray expenses associated with that service or benefit.
  - “Regulatory fees” are assessed to those obtaining a license, permit or other privilege under regulatory laws enacted to protect public health, welfare and safety. The money is frequently used to cover the cost of regulation.

# Basic Tax Base --- Simplistic Form

**Handle**      -      **Prizes**      =      **Net Win**

*The total sum wagered or bet by participating gamblers on any particular race or game is known as the handle. This is the initial source of all non-investment revenue.*

*The amount returned to the class of participating gamblers in the form of winnings.*

*The amount initially retained by the gambling provider. Represents the loss to the entire class of gamblers and is sometimes called the "hold."*



Taxes can also be levied more directly against patrons in the form of admissions taxes.

**Taxes, Expenses (which can include licenses) and Profits** usually come out of *Net Win*, although taxes may be calculated against the handle. Cardroom gross receipts are a special case.

# Florida & Nevada Gaming Comparison

| FY 11-12                  |  | (Amount in millions) |                    |
|---------------------------|--|----------------------|--------------------|
| Florida                   |  | State Revenues       | Net Win            |
| Lottery Transfers to EETF |  | \$ 1,373.33          | \$ 1,657.43        |
| Pari-Mutuels              |  | \$ 13.80             | \$ 195.58          |
| Slots                     |  | \$ 157.96            | \$ 411.32          |
| Cardroom                  |  | \$ 13.90             | \$ 131.45          |
| Tribal Casinos            |  | \$ 146.20            | \$ 1,853.90        |
| <b>Total</b>              |  | <b>\$ 1,705.19</b>   | <b>\$ 4,249.68</b> |
| Total Per Capita (18+)    |  | \$ 11.32             | \$ 29.70           |

| FY 11-12                             |                              | (Amount in millions) |                     |
|--------------------------------------|------------------------------|----------------------|---------------------|
| Nevada                               |                              | State Revenues       | Net Win             |
| Table Games                          |                              | \$ 9.17              | \$ 3,807.19         |
| Card Games                           |                              |                      | \$ 128.86           |
| Slots                                | Restricted and NonRestricted | \$ 67.73             | \$ 6,769.78         |
| Percentage Fees Related to the Above |                              | \$ 653.54            | \$ 10,705.83        |
| Pari-Mutuels                         |                              |                      | \$ 57.96            |
| Sports Betting                       |                              |                      | \$ 160.36           |
| <b>Total</b>                         |                              | <b>\$ 730.45</b>     | <b>\$ 21,629.98</b> |
| Total Per Capita (18+)               |                              | \$ 35.47             | \$ 1,105.33         |

|                                      |       |       |
|--------------------------------------|-------|-------|
| Florida to Nevada Ratio (Totals)     | 2.334 | 0.196 |
| Florida to Nevada Ratio (Per Capita) | 0.319 | 0.027 |

# Underlying Economic Premises...

- The money for gambling expenditures comes from somewhere; it is not created:
  - *Recreational budget from discretionary income that could be spent on other items.*
  - *Savings or other investments.*
  - *For problem gamblers, dollars essential to subsistence.*
- Some or all of the jobs, wages and tax revenues attributed to gambling enterprises may be simply transferred from elsewhere. In other words, if the money was spent elsewhere in Florida, it would also generate jobs, wages and potential tax revenues from that expenditure.
  - *Moving activity from one place to another is simply churn without overall statewide gain.*
  - *For jobs, a statewide increase only exists to the extent that the individuals are otherwise unemployable or they are moving in from outside the state to take the jobs*
- In terms of the economy, there are different economic effects based on the type of gambler. Generally:
  - *Residents in the normal course of daily activity—displacement (-) or neutral (=).*
  - *Tourists who would have come to Florida regardless—displacement (-) or neutral (=).*
  - *Residents who would have otherwise left the state to gamble—removal of a leakage (+).*
  - *Tourists coming into the state to gamble who otherwise would not have—new revenue (+).*

The various gaming alternatives will have different mixes of gamblers.

# Secondary Premises...

- A local economic gain doesn't necessarily translate into a statewide gain. Activity may be pulled from another area of the state.
- It makes a difference where equipment and supplies are purchased (in-state or out-of-state).
- It matters where the profits go (in-state or out-of-state).
- Financed capital investment for infrastructure is initially positive as the dollars are infused, but later becomes a drain as repayments of the principal and interest remove dollars.

# Key Economic Terms...

- Cannibalization—creating demand for one product at the expense of another; substitution of one purchase for another. It can be detected through:
  - The shifting among state revenue sources when the gambling product is a substitute purchase replacing the purchase of another good which would have been taxed in a different manner. (+ or – depending on the difference in tax rates)
  - The shifting among gambling products that are substitutes for each other. (+ or - depending on the difference in tax rates)
  - The shifting between a nontaxable purchase to a taxed gambling product. (+)

# More Economic Terms...

- Rates of Taxation—the perspective matters: gamblers or the operators.
  - Pari-Mutuels...complex structure, but totaled approximately 1.58% of the handle in FY 2011-12.
  - Cardrooms...totaled approximately 10.63% of gross receipts (amount received for participation in authorized games) in FY 2011-12.
  - Slots...35% of slot machine revenues (essentially, the amount remaining after prizes), plus various licenses.
  - Compact...tiered scale linked to increments of net win from 12% to 25%.
  - The Florida Lottery is a special case since the state is also the operator.

## Fiscal Year 2012-13 Lottery Distribution...

| Prizes  | Retained | Unclaimed | Total   |
|---------|----------|-----------|---------|
| 62.9%   | 36.4%    | 0.7%      | 100.0%  |
| 3,014.2 | 1,743.1  | 35.1      | 4,792.3 |

| Of Total...                            |               |                 |               |
|--|---------------|-----------------|---------------|
|  | 62.9%         | Prizes          | 3014.2        |
|  | 0.7%          | Unc to EETF     | 35.1          |
| <b>36.4% from player's perspective</b> | 5.6%          | Retailers       | 268.4         |
|  | 1.6%          | Vendors         | 78.8          |
|  | 1.6%          | Admin           | 75.3          |
|  | <u>27.6%</u>  | <u>Req EETF</u> | <u>1320.6</u> |
|  | <u>100.0%</u> |                 | <u>4792.3</u> |

→

**75.8% of net win  
(1320.6 / 1743.1)**

**27.6% to the state  
of each ticket sale  
(1320.6 / 4,792.3)**

# More Economic Terms...

- Incidence—who pays (legal) or bears the burden (economic); as it relates to gaming, economic incidence depends on a variety of factors like accessibility, convenience, and required knowledge or specialized skills:
  - **Regressive**...a tax that takes a smaller percentage of one's income as one's income level increases; proportion of income allocated to the tax is greater for the poor than for the rich.
  - **Proportional**...a tax for which individuals pay the same percentage of their income in taxes, regardless of income level.
  - **Progressive**...a tax that requires those with higher taxable incomes to pay a larger percentage of their incomes than those with lower taxable incomes.
- Competition—Gambling enterprises attempt to garner entertainment or discretionary dollars from local businesses and other communities of the state, but also from alternative forms of gambling products.

# More Economic Terms...

- Competitive Advantage—a benefit leading to higher profits than rivals will experience.

Example: Seminole Tribe's tax advantage... Although sales tax applies to spending by patrons at the nongaming Seminole-operated facilities such as restaurants, retail, lodging and entertainment, tribal immunity prevents the enforcement of the collection and remittance of sales tax. The Seminole Tribe not only effectively sells items free from the burden of collecting sales tax, the Tribe and any of its solely owned entities purchase on a sales tax-exempt basis as well.

- Negative Externalities—costs that arise which do not accrue to the entity carrying out the activity such as problems associated with compulsive gambling behavior or criminal behavior.