

BGCT

Video Lottery Terminals: Cost-Benefit Analysis

Video Lottery Terminals

Video lottery terminals (also known as video lottery machines, video slots, or VLTs) are not an effective means of raising revenue for the Texas government or the Texas economy. To consider the whole effect that legalizing slot machines would have on Texas we need to examine the funds created from the video slots in a larger context than merely what the public and private sectors stand to earn from an increase in gaming. To see all the implications that expanded gambling would have on the Texas economy we should take into account two main factors: how much money will be added to the Texas economy due to the expanded opportunities for gambling; and what will be the costs to state and local government and the consumer economy due to increases in gambling.

While it is true that a program to add video lottery terminals to race tracks would add revenue, and a source of significant revenue to many commercial corporations and partnerships, video lottery terminals are not the best way to increase funding for the programs necessary for Texas' well being.

If Texas legalizes video gambling there will be a rise in costs and expenses from gambling, both directly and indirectly. The largest of these costs will come from indirect expenses associated with gambling. While the industries that stood to gain work to trivialize these costs, the indirect costs are real costs to Texans and their communities and must be considered to achieve an accurate cost-benefit analysis of the legalization of video gambling in Texas.



a line of video lottery terminals awaiting shipment

Increased Gaming Will Ultimately Harm the Texas Economy

- Gambling does not add to the consumer economy
- Crime increases with the introduction of casinos to communities
- Worker productivity declines as access to gambling sites rises
- Casinos earn the majority of their money from pathological and problem gamblers

We should not allow Texas to add to these statistics, don't allow an increase in gambling in Texas

Texas Direct Expenses and Revenues
(see Table I)

Under current proposals the Texas government would possess a 60% share of the gambling proceeds while private facilitators would get the remaining 40%. Therefore if the total revenue generated by the video lottery terminals is 2.6 billion as has been suggested, we can reasonably assume the Texas' share of the video slot money would come to about \$1.56 billion. After subtracting \$104 million for expenses from regulation, services, and infrastructure, Texas could expect to see \$1.456 billion from its venture into legalized video gambling.

These numbers assume that Texas would have 40,000 slot machines each taking in \$65,000 a year. To take \$65,000 a year the slot machines would continuously run at near peak capacities. The 2.6 billion number is the total revenue before any expenses are taken out.

The Texas economy will lose money due to regulation, services, and infrastructure of the video lottery machines

Texas Private Direct Expenses and Revenues
(see Table I)

The private sector would see considerably smaller profits. Their 40% of the total gambling revenue would be \$1.04 billion but the private sector would incur considerably higher expenses. The private sector would have to pay for employees, buildings and maintenance, supplies, local taxes and fees, marketing, and general administration. These expenses would come to about \$762 million. This would leave the retained private profits at \$278 million.

Funds will be lost to suppliers as the main manufacturers of video lottery machines are located outside Texas. Also the Texas economy will lose a good share of the private profits from the expanded gambling as many owners of the racetracks that would house the video lottery machines would be from out of state and thus likely to return their profits to their home state.

TABLE I

Slot Machine Program Revenues and Expenses	
40,000 machines @\$65,000.....	\$2,600,000,000
I. Government Share 60%.....	1,560,000,000
Government Expenses	
Regulation, Services, Infrst.	104,000,000
II. Private Share 40%.....	1,040,000,000
Corporate Expenses	
1. Employees 2000@30K.....	60,000,000
2. Building (Annual).....	260,000,000
3. Supplies.....	260,000,000
4. Local Tax, Fees.....	52,000,000
5. Marketing.....	78,000,000
6. General Administration.....	52,000,000
Total Expenses	762,000,000
III. Retained Government Earnings.....	1,456,000,000
(total government share — total government expenses)	
IV. Retained Private Earnings.....	278,000,000
(total private share — total private expenses)	

Funds Retained in the Texas Economy
(see Table II)

Government Funds

The Texas government will retain \$1.456 billion from the new revenue created by video lottery terminals. This number is the total revenue created by the new machines minus all reasonable direct government expenses.

Employee Share (see Table III)

The 40,000 machines will generate 2000 jobs at a salary package of \$30,000 each per year. This means that \$60 million in new money will be earned by Texas workers, but not all of this money will be retained in the state. After expenses \$42,000,000 will be retained in Texas.

Supplies (see Table III)

After the purchase of the video slot machines, there are other supplies that will cost \$100 million. Of this, 80% will stay within the state and 20% will be lost to the state. The net gain is \$80 million into the Texas economy.

Building (see Table III)

Casino structures will demand at least 10% of the revenue created by the video lottery terminals. This comes to be about \$260 million per year. 80% of this money will stay in Texas through Texas suppliers and providers (i.e. contractors and mortgage lenders) 20% will go to out of state entities.

Local Taxes and Fees

Local taxes and fees will take 2% of the revenue annually. This money will stay in Texas.

Marketing

Casino and lottery marketing typically takes 3% or more of the revenues. If the marketing is provided through Texas firms, which is likely, this money will be retained in the Texas economy.

General Administration

General Administrative costs are expected to be 2% of the revenues. This money will stay in Texas.

Profits for Private Corporation and Tracks

The private companies owning tracks and running the machines will realize pre-federal tax profits of \$278 million each year. Most of these profits will leave the state. 40% of track ownership is from out of state, these profits, a sum of \$111.2 million, can be expected to go to wherever the track owners reside. Of the remaining \$166.8 million in profits, \$56.7 million will be lost to the federal government in corporate taxes. \$110.1 million of the profits will stay in Texas. All private corporations should be required to pay taxes to Texas.

TABLE III

Funds retained in Texas Economy

Government Funds.....	\$1,456,000,000
Employee Share (PVT).....	42,000,000
Supplies (PVT).....	80,000,000
Building (PVT).....	208,000,000
Local Tax, Fees (GOV).....	52,000,000
Marketing (PVT).....	78,000,000
General Admin (GOV).....	52,000,000
Profits (PVT).....	110,100,000

TOTAL FUNDS RETAINED IN TEXAS ECONOMY.....
\$2,078,100,000

Direct Funds Lost to the Texas Economy
(see table II)

Regulation, Services, and Infrastructure

The government will spend 4% of the machine revenues on regulation costs and also costs of extra services demanded by the new facilities – traffic control, new roads, crime prevention, etc. This will come to be \$104 million dollars lost to the Texas economy. It is wasted money, as the government is diverting money that otherwise would be spent on productive or needed pursuits.

Employee Share

The 40,000 machines will generate 2000 jobs at a salary package of \$30,000 each per year. Not all the \$60 million dollar package will stay in the state as the federal government will tax about 30% through social security and income taxes. Some of the fringe benefit money will go to out of state companies.

Supplies

Most supply money will leave the state. The video lottery terminals cost \$12,000 each and have shelf lives of three years. The 40,000 machines will therefore cost \$160 million per year as machines will need to be constantly replaced as they reach the end of their functional lives. The total money lost to the state on supplies will be \$180 million. This money will go to other states as the companies that make the video slot machines are generally based in Nevada.

Building

Casino structures will demand at least 10% of the revenue created by the video lottery terminals. This comes to be about \$260 million per year. 20% of this money, \$180 million, will leave the state.

Profits

The private companies owning tracks and running the machines will realize pre-federal tax profits of \$278 million each year. Most of this money will leave the state. First, 40% if the track ownership resides in out of state hands. This means that of the \$278 million in profits, \$111.2 million will be taken out of the state. Of the other \$166.8 million, \$56.7 million will be lost to the federal government in corporate taxes.

Multiplier

When money is diverted out of the Texas economy, the economy also loses the multiplier effect of the money as it ripples through the economy. As dollars are spent in the consumer economy, that money is turned into product, and the money is then re-spent by the seller

TABLE II

Direct Funds Lost to Texas Economy (and Wasted)

Regulation, Svcs, Infrast (G)....	\$104,000,000
Employee Share (P).....	18,000,000
Supplies (P).....	180,000,000
Building (P).....	52,000,000
Local Tax, Fees (G)	0
Marketing (P).....	0
General Admin (G).....	0
Profits (P).....	167,900,000

TOTAL FUNDS LOST TO THE TEXAS ECONOMY..... -521,900,000

GAMBLING DOLLARS FROM OUTSIDE TEXAS..... +260,000,000
DIRECT NET

LOSS TO ECONOMY..... -261,900,000
(total funds lost after adjustment for out-of-state gambling dollars)

LOSS WITH MODEST MULTIPLIER (2).....
\$-523,800,000
ANNUALLY

Community & Local Costs (see table III)

Freedom

Undeniably there is an allure to allowing people to choose whether or not they would like to gamble. As it seemingly has few consequences for those other than the gambler it seems like the government should allow it. In Earl Grinols' analysis of gambling. *Gambling in America: Costs and Benefits*, he finds a social benefit in the notion to some people want to gamble, and the freedom to do so can be quantified. He puts this value at \$43 for each adult in the freedom to gamble legally. Therefore if we assume that there will be 10,000,000 adults wanting to gamble this is a \$430 million benefit for the Texas economy.

Crime

Statistically crime tends to rise with the introduction of casinos and gambling to communities. Crime associated with gambling increases costs on the community through the criminal element directly as well as indirectly through the costs of enforcement, detention, and local and state services. In their study of crime and casinos in Wisconsin "Casinos and Crime: What's the Connection" (Wisconsin Policy Research Institute, 1996), William Thompson, Richardo Gazel, and Dan Rickman found that crime in casino areas, above and beyond crime found elsewhere, imposed a public cost of \$17 per adult on the residents of Wisconsin - the cost reflected in criminal justice system expenses. In Texas, when this cost is multiplied by the total adult population near the casinos, the introduction of casinos is likely to cause a \$170 million dollar rise in crime, a negative for the Texas economy.

Suicides

The introduction of casinos to communities also has a direct link to an increase in suicides. About 25% of compulsive gamblers attempt suicide at one point during the course of their addiction. In Texas this will likely result in 23,000 more suicide attempts a year. Out of these 23,000 attempts there will likely be 1000 new successful suicides a year in Texas. The average compulsive gambler is in his early 40s. Each has a potential working career of 22 more years. At an average salary of \$35,000, these new suicides will cost Texas \$770,000 each, or \$770 million each year, as the suicides will continue ad infinitum as this program remains in effect.

TABLE III

Community & Local Economic Benefits and Costs to Local and State Economies

Freedom	+ \$430,000,000
Crime	- 170,000,000
Suicides	- 770,000,000
Compulsive Gamblers	- 720,000,000
Problem Gamblers	- 640,000,000
TOTAL LOSS	-\$1,870,000,000

Compulsive and Problem Gamblers

The National Gambling Impact Study Commission concluded that among the American adult population 0.9% were compulsive gamblers and 1.6% were problem gamblers. However these numbers doubled when casino gambling was introduced within 50 miles of a person's home.

A program for 40,000 slot machines will double the numbers of compulsive gamblers and problem gamblers in Texas metropolitan areas with 10 million adults. The program will cause an additional 90,000 people to become compulsive gamblers, and another 160,000 people to become problem gamblers. William Thompson's research of members of gamblers anonymous groups in five states finds that these individuals impose serious costs on other citizens through crimes, from their non-productivity due to missed work, from their failure to pay debts, and through local and state services such as welfare and unemployment compensation. It was found in the most conservative of the studies that compulsive gamblers impose costs of \$8000 a year on taxpayers. Problem gamblers impose costs of \$4000 a year. These costs do not include the costs of broken homes or suicides.

The sum total of the social costs will be a \$1,870,000,000 negative for the Texas economy.

Conclusion: A Video Slots Program Does Not Make Economic Sense for Texas

While there would be new revenue from an increased program of legalized gambling, these revenues would not offset the enormous costs that would come from introducing video casinos to Texas cities. The government and the taxpayers would have to pay for the crimes and social costs associated with increased gaming. The Texas economy would ultimately lose money as the consumer economy suffers from citizens spending their money gambling rather than on consumer goods. At the same time, a large portion of the gambling revenues would leave the state due to foreign ownership of the casinos. The money the state would see is just not enough to justify these losses, and for these reasons, among others, expanding gambling in Texas is an inappropriate means to increase government funding.

Note

To make this report we took the governor's numbers at face value even though we do not feel that these numbers are completely accurate. So to create this report we consider that the machines will be continuously played at 90% of their capacity. In the real world this is far from certain. Some days the machines might be played at a much lower capacity which would cut into the profits made by the machines.



Say NO to Video Lottery Terminals in Texas Cities

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<http://www.olivettigaming.com/lottery.htm>