

## ***Policy Briefings***

### ***Whither Genting? Framing the Policy Questions for Gaming in Miami-Dade and the Region***

Florida voters have rejected allowing full-fledged casinos three times at the ballot box since 1978. However, last month's Florida Appeals Court decision that allows state legislators to expand gambling without voter approval has brought gaming to the forefront of media attention in South Florida. Recently, Senator Ellyn Bogdanoff (R-Broward) and her colleague, Representative Erik Fresen (R-Miami), introduced legislation for the upcoming session that would bring Vegas-style resorts to Miami-Dade and Broward counties. The bill will allow three casino licenses for companies investing at least \$2 billion. The bill limits the space the resort casinos can dedicate to gaming to just 10 percent. The Genting plan for a \$3.8 billion casino-and-hotel complex along Miami's Biscayne Bay has received the most attention but other potential projects are contemplated as this is written.

The FIU Metropolitan Center is dedicated to informed public policy. My intent in this "thought piece" is to lay out critical issues for public discussion in coming months. The size and scope of these projects warrant serious consideration of their potential impact on the economy and quality-of-life throughout Southeast Florida. The discourse on the costs and benefits of allowing casino gaming in South Florida is an important one as it shows the concerns and hopes of residents and businesses in the region. My hope is that the public and decision-makers examine high-stakes gaming's impacts in other communities to assess potential policy outcomes closer to home.

My colleagues and I welcome your feedback. I can be reached at [howardf@fiu.edu](mailto:howardf@fiu.edu) or (305) 779-7870.

Cordially,

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My purpose here is to neither praise nor bury Genting or the other large-scale Las Vegas-style gaming establishments now envisioned as a result of possible legislative changes in the upcoming Florida legislative session. Instead, I raise some policy questions that should be addressed before their advent. My overarching concern is that local decision makers are informed about the impacts of Vegas-style rollout, thinking not only about the near-term but its impact years, if not decades, down the road.

**Question 1: Will the Gaming Industry's Political Contributions "Truncate" Discourse about the Pros and Cons of Gaming?** Money talks in American politics. The gaming industry shouts. In 2010 the industry contributed over \$12 million at the federal level alone. My concern here is not simply with the "go/no-go decision." It is with the details of implementation down the road on a number of factors, including gaming rules and payments to local governments and the like. Media coverage suggests that the industry already has a full-court press on; the public and interested stakeholders will need to remain vigilant in order to have their voices heard.

**Question 2: Will Miami-Dade's Gaming be "Destination" or a "Hybrid?"** My forecasting training tells me that advocates and developers seem to guarantee that Miami-Dade's gaming will be "Destination-oriented," suggesting that the preponderance of gaming dollars will be coming from outsider pockets. From my vantage, the real question is proportionality: Out of every \$100 gambled, how much will come from locals or outsiders? Will it be 50/50? Will it be 30/70? In the absence of legislation that precludes locals from the establishments, it is a question decision-makers should ponder.

**Question 3: What will Gaming do the Area's Wage Structure?** If there is a \$64,000 question in this policy debate, this would be my choice. As we emerge from the "Great Recession," one could argue that our unemployment rate of 12.1% is the big problem, with no decline expected soon. But as Miami-Dade's Chief Economist Robert Cruz reported at our recent State of the Economy Forum, median family income has

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dropped 12% since 2007. High stakes gaming may create jobs that benefit real wages, particularly for lower income groups. However, higher aggregate income may be offset by higher rents, and it is conceivable that ripple effects from gaming may impact hiring (positively or negatively) in other sectors.

**Question 4: What are the Social and Administrative Costs of Rollout?** Much has been written on the social costs of gaming, with efforts to draw a causal bead on linkage to prostitution, bankruptcy, and other negative spillovers. This literature is occasionally criticized as reflecting the biases of its financial supporters. But there is an academically-based literature that is worth studying in framing potential social impacts. At a more granular level, gaming will impact infrastructure usage and will likely cause changes in long-standing traffic and commuting patterns. Evidence from other jurisdictions may provide some useful guidance to decision-makers on what to expect locally.

**Question 5: Does Vegas-Style Gaming Foster “Path Dependence” in the Local Economy?** Will Vegas-style gaming foster a “lock-in” of hospitality and retard diversification of our economic base? Perhaps only history will answer that question. What’s clear is that a number of factors such as media coverage (will we live to see a Jackson-based “Miami Hope?”), education quality, tax subsidies (including tourist development), housing costs, and other drivers foster—most notably from my vantage, the absence of military R and D—make for a tourist-driven economy, not just the climate. Viewed in this light, Genting and its stable mates might be viewed as “final nails” or an impetus to ask some tough questions about prior efforts at diversifying our economic base, and what is realistic to expect in that vein?

**Question 6: What Impact Will Vegas-Style Gaming Have on the Region?** Gaming in Miami will impact all of Miami-Dade and ripple across the border into Broward and Monroe Counties. Housing costs, rentals (both residential and commercial), commutes and a host of other quality-of-life factors are likely to change with the large-scale projects envisioned. Recent FIU

Metropolitan Center housing studies address the impact of already rising housing and commute costs for South Florida workers. If experience in other venues is predictive, housing and rental will increase significantly in areas proximate to the development, and small restaurants and merchants will be squeezed. “Racinos” and other gaming in neighboring Broward may suffer, with negative consequences for their respective communities. Lower-paid workers may benefit from the wages of newly-opened casinos but find themselves with long commutes in search of affordable housing. One thing seems certain: the economic impact of the proposed casinos will transcend municipal and county borders; the public and interested parties should act accordingly.

#### **SOME REFLECTIONS ON GAMING in ATLANTIC CITY**

My hometown of Vineland, New Jersey is less than 35 miles from Atlantic City. I have fond memories of family visits on weekends; I was in Atlantic City when Lyndon Johnson won the Democratic nomination for President in 1964. One could say that as a youth I caught the tag end of Atlantic City’s “Glory Days” as a family resort. When gaming started in 1978, the Vineland Public Schools lost significant numbers of teachers to the gaming establishments in Atlantic City—salaries and tips of dealers and pit bosses were much higher than entry- and mid-career teachers. Nowadays when visiting, I see Transport of New Jersey buses making stops throughout Vineland, bringing gamers and employees down Route 40 to Atlantic City. Upbringing aside, my instruction and research at FIU focus on local government finance, which typically includes lotteries and gaming as a revenue source and economic development approach. Thus a brief comment on Atlantic City and its experience with gaming seemed in order.

Legislation passed in 1976 allowed Vegas-style gaming in Atlantic City; Resorts International was the first casino opened in 1978. At the time, gaming was embraced as an economic development strategy to revitalize Atlantic City as a tourist and convention hub. I believe most observers would acknowledge that writ large—gaming in Atlantic City resuscitated a dying

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resort. At its peak before the “Great Recession,” the casinos employed nearly 40,000 workers and generated over \$5.2 billion in revenues. Unemployment in Atlantic City was 18.1 in 1977. It is currently 11.6%, but was well below 6.0% in the mid-2000s. While many “mom-and-pop” eating and retail establishments opened prior to 1978 have closed, the city now has upscale outlet shopping and the recently opened (2003) Borgata has brought a mix of stores and restaurants consistent with a “Destination” resort.

Overall progress notwithstanding, Atlantic City’s history underscores issues that are likely to ensue with Genting and other establishments:

#### **Atlantic City’s Infrastructure and Redevelopment Have Been Limited to “Pockets” Around the Casinos:**

Skeptics of Atlantic City’s redevelopment frequently state that “Atlantic City was a slum beside the sea before casinos and now it’s a slum by the sea with casinos.” There is considerable truth to this assessment. Part of the problem was poor municipal management. But academic analysis would suggest that Atlantic City’s experience is not unique. Research by Terance Rephann and others finds that casino-related economic development is centered on the properties and surrounding city and county governments generally fail to capture significant shares of economic gains. Improvements to Atlantic City’s infrastructure (convention center, roads, bus terminal, and airport) took decades to materialize and only did so after concerted efforts from elected officials at the local and state levels to earmark a piece of casino revenues for this purpose.

#### **The Atlantic City Experience Reminds Us that No Industry is Immune to the Economic Cycle:**

Since peaking in 2006, casino revenues have declined by 31.0%. Five of the city’s eleven casinos have either entered into or recently concluded bankruptcy proceedings. One property (the Tropicana) has changed hands four times since its establishment in 1981. Contracts covering unionized workers at the 10 of the 11 casinos expired this past September 15<sup>th</sup>; management has asked for cuts of nearly \$3.00 from

their average hourly base wage of \$12.00 along with increased contributions to pension and health benefits.

#### **Miami would be a “Late Adapter” in the Gaming Market:**

In her 2010 and 2011 assessments of the Atlantic City market, Emily Sze of HVS notes that Atlantic City’s biggest problem is not the “Great Recession”: It is competition from neighboring Pennsylvania and New York, with nascent operations in Maryland and Delaware. Along the east coast, Connecticut has become a hub of Indian gaming. Experience with diffusion of the lottery suggests that neighboring states and jurisdictions that do not have gaming may feel compelled to enter the market to preserve their “piece of the action.” Sands CEO Sheldon Adelson’s recent comments (November 2, 2011) in the *Miami Herald* that he would only support one facility in Greater Miami speak to possible saturation in a maturing industry. Thirty-four years ago, Atlantic City was **the** alternative to Las Vegas. Today, Miami would join a host of other cities and Indian reservations that have adopted gaming as an economic development tool.

What is the upshot? At a minimum, local officials should review the voluminous academic literature on the economic and social impact of gaming. It would certainly help to frame a debate as something other than “op/ed” pieces in various media outlets. My next suggestion would be for local decision-makers to interview their colleagues in other communities to garner first-hand, “grounded” assessments of the benefits and costs of gaming. Lastly, it would be appropriate for the actors in the Tri-County area to conduct econometric estimates of high-stakes gaming. While there are undoubtedly “lessons to be learned” from Atlantic City and other venues, each region’s unique demographic and economic situation makes for differences in economic impact. Ultimately, residents and tax payers should know what to expect, short- and long-term, from what is a “high stakes” decision in the future of the community.