

MEMORANDUM

TO: Mayor and City Council

CC TO: Deputy City Managers; Lori Crouch

FROM: Chip Filer, City Manager

SUBJECT: Virginian-Pilot Casino Article by Ryan Murphy

DATE: September 23, 2019

It comes as no surprise that the Sunday Pilot article by Ryan Murphy was very selective in both its choice of previous studies mentioned and in the quotes attributed to the 2015 ODU study that appeared in the State of the Region report. Since I was directly involved in the study I feel it is necessary to provide each of you a more complete overview. In addition, I will also provide some additional findings from research pertaining to several of the most germane impacts.

First, it is necessary to say at the start that the 2015 study **did not even examine Norfolk as a possible casino location.** The dynamics at the time suggested that Newport News, Portsmouth or Virginia Beach were the most likely destinations. So, ODU did not run any analysis on Norfolk.

Economic Impacts, Spending Substitution and Market Structure

Economic Impacts and Spending Substitution

Anytime you do economic impact studies the geographic scope of interest is important. The study by ODU in 2015 and many of the other casino studies examine impacts regionally, while my work on “spending substitution” focused on city/county. Both of these works are consistent in their implication. For example, spending at a casino in Norfolk that displaces spending at the oceanfront results in zero net new consumption spending regionally. However, if the geographic scope of interest is just Norfolk, then the above change in spending patterns yields positive net new spending for Norfolk.

Additionally, if visitors are from outside the region (or even outside the Commonwealth) then positive economic impacts accrue to the whole region. Two quotes from the 2015 study are particularly relevant here:

While there are casino gaming opportunities north of Virginia, the opportunities to the south and southwest are limited. Because of this, opportunity does exist for a casino in southeast Virginia to attract patrons from North Carolina and South Carolina. (Page 127, paragraph 4)

It is important to note that, according to Cotti's results, there would not likely be any significant employment or wage effects on neighboring counties to the casino county. This means that the modest employment and wage effects shown above are assumed to be confined to the particular county hosting the casino. (Page 132, full paragraph 7)

Even where the 2015 ODU study calls into question the aggregate economic impact of a casino, it was done **relative to regional impact**. The following appears on page 130, paragraph 3:

While the available evidence suggests that, on average, the introduction of a casino will lead to increases in overall tax revenues, the relationship is not as strong as one might imagine. Many regions have experienced only modest net increases in overall tax revenues because spending in casinos often displaces spending that would have occurred for other goods and services. (Page 130, paragraph 3)

Market Structure and Competition

As you already are aware one other factor which will determine the ultimate size of the economic impact is the location of other casinos. Should other cities in Hampton Roads enter the market, that will surely change the potential net gaming revenues for a Norfolk casino. Dr. Koch's quote suggests that it would be "fallacious" to assume this casino "...will be the only one around."

However, it would be equally fallacious to simply assume that the market structure for casinos in Hampton Roads is competitive going forward. An approval of the agreement with the Pamunkey Tribe on Tuesday night means that Norfolk has the first-mover advantage relative to the evolution of the casino market in Hampton Roads and the Commonwealth. Best case scenario is that by being the first mover, Norfolk generates substantial barriers to entry resulting in the Pamunkey casino being the only regional casino.

In the event other casinos decide to enter the market, the first-mover advantage is still highly valuable as the Norfolk casino would lead the way because the evolution of the market is not simultaneous but sequential. Bottom line, establishing a brand identity first influences the decisions of all firms that follow.

Wage and Employment Impacts

Finally, it is important to note that the 2015 ODU study qualifies the impacts on employment and wages as "modest." In addition, Mr. Murphy writes that the 3,500 new jobs only represent a 1.9% increase in total employment. **This is a terrible misrepresentation of a 2008 study by Chris Cotti**. Cotti finds small employment and earnings impacts when looking at total industry. However, the Cotti study finds significant impacts on the hospitality industry – 18% increases in employment and 8% increases in wages. These results can be found in Table 3 on page 132.

To me, the impacts on hospitality are the most relevant. If the project were a new hospital, I don't know why we would dismiss its benefits if total industry impacts were small, but the wage and employment impacts on the health care sector were large. To put Cotti's impact numbers

above into Norfolk context, the 18% increase in employment suggests an additional 750 jobs in hospitality above the number of jobs created by the casino (estimated at 3,000) and the 8% increase in wages adds an additional \$2,600 to the average annual wage in the industry bringing average wages to \$34,807 annually.

There is no question the 2015 study is skeptical of the regional economic impacts from a casino, but the totality of the report makes it crystal clear that the city/county housing the casino reaps net positive impacts on tax revenue, employment and wage. There is potential for those to erode over time with competition but being first provides a substantial amount of influence on the evolution of gaming market structure in the region and state.

Social Costs, Crime and Comorbidity

Social Costs

The most interesting aspect of the Sunday article is that while the 2015 ODU study was cited in much of the discussion on economic impact, Ryan provided none of the report's findings on the subject of social costs. You can read the full section for yourself, but the following quote sums up ODU's conclusion on social costs and the concerns about sample selection bias and multicollinearity that permeates previous research:

The fundamental reason that nearly all social cost estimates in the literature are arbitrary is that they do not take into consideration that pathological gambling, more often than not, occurs simultaneously ("comorbidity") with other disorders. This means that individuals who have a gambling problem often have another disorder, such as alcohol or drug abuse, or compulsive shopping. (Page 135, paragraph 5)

So, while there appears to be significant "correlation" between gambling and various health disorders and financial distress, previous work has not been able to effectively determine "causation." This empirical reality should not detract you from using general funds to help address things like alcoholism, drug use and financial distress.

Crime

A direct causal link between casinos and crime has not been well established by previous work. The ODU report summarized 16 separate studies on casinos and crime. The conclusion was summed up in the following quote:

A recent review of the casinos and crime issue examined 16 different studies conducted between the mid-1980s until about 2010.¹¹ The markets studied included cities such as Atlantic City, Biloxi and Reno; states including Colorado, Wisconsin and Indiana; and counties in various states. Among the 16 studies reviewed, eight studies found no casinos and crime link, six found that casinos unambiguously increased crime and two reported mixed results. (Page 137, full paragraph 2)

Casinos are, in many ways, no different than any other amenity – arena, opera house, etc. Any of these facilities generate additional tourists which are prey for criminal activity.

Since ODU's study in 2015, a new study on the SugarHouse casino in Philadelphia has been published and I believe it resolves many of the issues contained in ODU's study. The following is from the abstract of that article published in 2017:

Ninety-six months of crime incident data were examined to determine the extent to which crime counts changed within the Philadelphia neighborhood of Fishtown after the opening of a new casino. Count modeling regression results indicate that the operation of the casino had no significant effect on violent street felonies, vehicle crime, drug crime or residential burglary in the surrounding community.

- **Johnson, L.T and Ratcliffe, J.H. (2017) A partial test of the impact of a casino on neighborhood crime. Security Journal 30(2): 437-453.**

For your benefit, I am attaching the full 2015 report to this email. The casino chapter begins on page 130. I also have copies of some of the other articles referenced and I am happy to send them to you at your request. The full 2015 chapter can also be found online at:

<https://www.ceapodu.com/wp-content/uploads/2018/07/2015-state-of-the-region.pdf>

In closing, let me say that this letter is not an attempt to influence you or your vote on Tuesday night. A project of this type has many questions that you all have been examining for the past 12 months. I simply feel compelled to provide you a full context of the previous work that was mentioned in the Pilot article. Let me also point out, Ryan never contacted me requesting clarification or context of the ODU study.

All of you know that I have produced a significant amount of published work during my 20 years at ODU. Some of that will surely be relevant to issues facing Norfolk and, indeed, I suspect you view that as a plus and not a minus for my position.

This will not be the last time something I authored will be brought to your attention. I want to give you this guarantee right up front – I will always be intellectually consistent with you relative to my previous work. To that end, I don't believe that the 2015 report was negative on casinos. If anything, the report clearly suggests the following:

1. The city that is home to the casino benefits. So, if gaming is going to exist, be the place where the casino is located.
2. The previous work on social costs and crime are not definitive.
3. A casino is not a regional panacea for our economic ails.

My guess is you agree with all three of those statements as well. Please feel free to contact me should you wish to discuss this topic further. Otherwise, I will see you on Tuesday night.