



September 25, 2020

Councilman Thomas Smigiel
Councilwoman Mamie B. Johnson
Co-Chairs, Mayor's Committee on Gaming

Re: Staff Report – Impacts of a Casino Hotel on the City of Norfolk

Councilman Smigiel and Councilwoman Johnson,

As the co-chairs of the Mayor's Committee on Gaming, I submit to you the following staff report regarding the impacts of a casino hotel on the City of Norfolk. Staff estimate that the project will create a large, positive fiscal impact. We estimate annual tax revenue ranging from \$24.8 million to \$44.5 million. The variation within the range is a function of the final scope and scale of the project still being unresolved. However, market conditions for gaming in Hampton Roads suggest that \$24.8 is the absolute minimum the project would generate. Our revenue estimates are substantially larger than any other type of economic development project in recent memory. The driving factor in these large estimates is not wishful thinking but the existence of a new legislated tax on gaming revenue. We estimate that the project will generate anywhere from \$16.2 to \$32.9 million in new gaming tax revenue alone. The tax revenue generated by the hotel rooms and restaurants produce an ongoing fiscal impact in line with other hotels and restaurants in the downtown Norfolk corridor and range from \$8.6 million to \$11.6 million.

Staff also examined negative externalities commonly associated with casinos that could expose the city to additional expenses. Staff see no scenario where the entire stream of new tax revenue from the casino hotel would be used to offset the additional expenses. Thus, staff predict Norfolk will realize a significant and positive fiscal impact even in net.

Please let me know if you have any questions on the report and I am happy to speak to the committee at a future meeting if you feel that would be useful.

Sincerely,

Dr. Chip Filer
Norfolk City Manager

The Fiscal and Economic Impacts of a Casino Hotel in Norfolk

*Staff Report prepared for
Mayor's Gaming Committee*

September 25, 2020

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Executive Summary

Purpose

The purpose of this report is to provide an update of previous estimates assessing the fiscal and economic impact of a resort and casino in the City of Norfolk to the Mayor’s Gaming Committee. This update is necessary to:

1. incorporate the specifics of final gaming legislation that was passed by the General Assembly during the 2020 session into the analysis and;
2. incorporate specifics about the project scope and scale that may have changed because of the final state legislation.

Virginia Gaming Legislation

Requirements

The legislation passed by the General Assembly in its 2019 and 2020 sessions established very specific rules for the operation of casinos in the Commonwealth. First, only 5 localities have an opportunity to “host” casinos within their jurisdictions – Bristol, Danville, Norfolk, Portsmouth and Richmond. Second, to host a casino those localities must get citizen support via referendum on the November 3, 2020 ballot. Only Richmond was granted the opportunity to hold their referendum at a date after November 3, 2020. Third, a \$300 million minimum capital investment for each project was established.

Localities were required to select a preferred casino gaming operator and submit those operators to the Virginia Lottery Board for review prior to scheduling the November referendum. Legislation required that the Board, “...shall conduct a preliminary review of the financial status and ability of the preferred casino gaming operator to operate and properly support ongoing operations in an eligible host city, as well as current casino operations in other states and territories.”

On July 9th, 2020, The Board approved the Pamunkey Indian Tribe and Golden Eagle, LLC as preferred casino operators and permitted the city to proceed to referendum on November 3, 2020.

Taxes

The General Assembly authorized a casino gaming tax and established graduating tax rates for the Commonwealth and host localities. Gaming taxes are collected on adjusted gross receipts (total gross receipts less winnings paid to winners). The tax revenue accrues to a new Gaming Proceeds Fund. Tax rates are progressive by revenue and are implemented as follows:

- The first \$200 million in adjusted gross receipts are taxed at 18% with 6% appropriated to the host locality.
- Adjusted gross receipts above \$200 million but less than \$400 million are taxed at 23% with 7% to the host locality.
- Adjusted gross receipts above \$400 million are taxed at 30% with 8% to the host locality.

Funds

A series of funds were created to hold casino tax proceeds. The primary fund is a "Gaming Proceeds Fund," which will receive all state tax revenue from casino gaming. Both state and local taxes are to be collected by the state, which will make disbursements to host localities in the manner discussed in the preceding paragraph.

In addition to the Gaming Proceeds Fund, the legislation creates and funds a "Virginia Indigenous People's Trust Fund"; a "Family and Children's Trust Fund"; and a "Problem Gambling Treatment and Support Fund." Specifics regarding the legislation can be found in section II.

Fiscal and Economic Impacts

Fiscal Impacts

Using current legislation and projecting the scope and scale of the project, we can produce annual estimates of Norfolk's gaming tax revenue, real estate tax, business personal property tax revenue, food and beverage tax revenue, and hotel tax revenue. The annual tax revenue forecast for the resort and casino ranges from a low of \$24.8 million to a high of \$44.5 million. These estimates do not include the \$10 million purchase price for the land as part of the purchase agreement or other local taxes and fees some of which must be paid (i.e. water, storm water and sewer) and some which could be paid depending on the final project (i.e. admissions tax).

Economic Impacts

The proposed casino will directly create 2,415 new jobs paying on average more than \$46,000. An additional 1,141 jobs are expected to be created within the city because of purchases made by the casino as well as personal spending by casino and supplier employees. Average wages for all employed generated by the casino hotel is estimated to exceed \$48,000.

Substitution Effects

Substitution occurs when money that would normally be spent on one thing is spent on something else. For example, money spent on gambling would not be available to spend shopping. The substitution effects of the casino are not expected to be substantial for several reasons:

- Effects will be broad based geographically. Spending on casino gambling in Norfolk may substitute for spending on other localities in Hampton Roads.
- Any substitution effects will occur across a variety of industries. No one industry will feel any substitution effects too significantly.

- Tax rates on gaming are higher than other fiduciary tax rates assuaging some of the negative aspects of substitution. Gaming tax rates are higher than the local option retail sales tax or food and beverage taxes so the net impact of substitution on city revenue will be positive.
- The casino will also help the locality and region recapture gaming spending that is currently leaking out of the area. The casino will capture spending residents make at out-of-city gambling venues.
- The casino will bring additional out-of-region tourist spending to our market. Many of these tourists will also spend money in shops, restaurants, and other locations off the resort property.

Social Impacts

Problem Gambling

The academic literature on problem gambling does not establish a clear causal pattern between the introduction of a casino facility and a subsequent increase in pathological gambling disorders. Results from various studies are summarized in Section III.

Given estimates from other states with casinos, we anticipate costs associated with problem gaming at \$3.1 million annually for Virginia. The Problem Gambling Treatment and Support Fund is estimated to generate between \$1.5 and \$2.0 million for treatment services to be administered through local Community Services Boards. Therefore, we anticipate that casino host cities may need to financially support gaming treatment to the tune of \$1.6 to \$1.4 million out of gaming revenues generated.

Public Safety

Much like the research on problem gaming, casino impact on crime rates seems inconclusive at best. Compounding matters, several reports reviewed were performed with data from the 1970s-1990s, a period of a national secular increase in crime. While the nature of the activity (gaming) does not seem to have any causal impact on crime rates, casino facilities draw large crowds. Crowds, regardless of the activity, are prime locations for increased crime. We do anticipate additional funding necessary to increase patrols in the areas leading to the facility once open. The casino operators are responsible for security in and directly around the facility.

Staff Summary

The General assembly passed legislation permitting casino development in 5 localities across the Commonwealth – Bristol, Danville, Norfolk, Portsmouth and Richmond. Excluding Richmond, citizens in the other four communities must vote on a referendum permitting casino development in the general election this November.

The resort being proposed in Norfolk will generate significant tax revenue for the city even in a scenario where the casino is smaller than proposed and produces less daily revenue than most current markets. We estimate total new tax revenue between \$24.8 and \$44.5 million from the project.

These numbers are large, and dwarf typical tax revenues generated from other project types. The reason the project has such large tax revenue forecasts is that it is subject to a brand-new tax, the gaming tax. The tax on gaming receipts is additional revenue to the state and locality beyond the traditional taxes collected from hotel rooms, restaurants, and gift shops.

The opportunity, now that Virginia has legalized casinos, is unique. Staff analysis suggests that there will be additional costs associated with the casino. However, those costs can be more than offset by the new revenue resulting in a net economic benefit for the resort and casino substantially larger than any major development project in the last 30 years. With this new revenue stream, we recommend that City Council appropriate new funds in a manner that mitigate the possible related costs of the development as well as provide resources that complement and augment the existing tourism industry in Norfolk.

SECTION I: A Brief History of Norfolk’s Resort and Casino Project

Initial Talks with the Pamunkey Tribe

Discussions between City officials and the Pamunkey Indian Tribe (“Tribe”) began in early 2018 when the Tribe and its development team expressed an interest in developing a tribal resort casino near Harbor Park. The Pamunkey Indian Tribe is the only federally recognized tribe in Virginia. At that time, prior to the Commonwealth legalizing commercial casino gaming, the Tribe was the only entity with the right to engage in casino gaming and develop such a project in Virginia.

City administration briefed the City Council members on seven occasions, including: August 28, 2018; September 25, 2018; July 2, 2019; July 23, 2019; August 27, 2019; August 28, 2019 and September 10, 2019.

All initial conversations considered a tribal casino. A tribal gaming casino is one that is built on sovereign land controlled by a Native American tribe. These can offer Class III gaming (slots and table games) if approved in the Tribe's state compact and by the US Bureau of Indian Affairs. Commercial casinos are licensed by their respective states to offer Vegas-style, games like slots, video poker and table games. Such casinos are operated by a commercial operator, such as Caesars Entertainment or MGM Resorts, but they can be owned and operated by Native American tribes.

It is important to remember that prior to January 2019, Norfolk simultaneously pursued two tracks to accomplish the casino project. The city supported state legislation that would allow for commercial casinos in Virginia but also pursued the establishment of a tribal casino. Both options involved partnering with the Pamunkey Tribe.

To guide the City’s efforts and evaluate the value such a project could bring to Norfolk, the City hired consultants with expertise in gaming as well as attorneys with extensive experience with federal laws related to commercial gaming and tribal gaming.

Here we present a brief overview of key dates:

January 29, 2019--The Norfolk City Council unanimously passed a resolution in support of legislation under consideration by the Virginia General Assembly allowing the development of a resort casino in the City of Norfolk. The resolution notes that preliminary economic analysis of a resort casino, including restaurants, hotel, and entertainment, shows that a casino project in Norfolk would:

- Generate significant state and local tax revenue;
- Generate thousands of jobs;
- Create workforce development opportunities for the City of Norfolk;
- Support the City’s efforts to diversify the local and regional economy;
- Promote Norfolk and the region as a premier tourist destination;
- Attract tourists to Norfolk, the region and the Commonwealth of Virginia; and
- Increase Amtrak ridership and air passengers at Norfolk International Airport.

The Pamunkey Tribe and their development team communicated that it was important to have City Council approval of the project prior to October 2019 in order to best position the Tribe to be successful in the process to gain the authority to operate the planned casino from the Department of Interior.

September 10, 2019-- The City Council participated in a work session to discuss the details of a proposed agreement with the Tribe. At this time, the Council requested construction standards, additional storm water drainage, Elizabeth River Trail accommodation and payment for the costs of additional public transportation, which were accepted by the Pamunkey development team and were incorporated into the agreement.

September 24, 2019--The City Council voted 7-1 to approve the Intergovernmental Agreement and an Option to Purchase with the Pamunkey Indian Tribe. This agreement would bring to Norfolk a transformational new resort casino strategically located on nearly 14 acres of downtown waterfront adjacent to Harbor Park baseball stadium.

At the time of the approval of the intergovernmental and option agreement, casino gaming was not legal in Virginia. Legislation to permit commercial Gaming had been proposed in the General Assembly and was on the agenda for the 2020 session of the Legislature. As part of the negotiations it was agreed that the Tribe should submit a Trust Application to the United States Department of the Interior for the acquisition in trust of the Subject Property as part of the Tribe's initial reservation land. The agreement also included the option for the Tribe to build, own and operate a commercial casino should gaming become legal.

October 1, 2019--The City Council approved, on a 7-1 vote, a resolution committing that, if and when the City receives revenues from the option to purchase, sale of the land for the project, or its development prior to the opening of a resort casino in Norfolk, those revenues will be dedicated to funding Council priorities related to education capital improvement projects for Booker T. Washington High School and Maury High School.

On November 26, 2019-- The City Council adopted Resolution 1774 establishing a Mayor's Committee on Gaming to study the impact of current and proposed gaming activities in the City of Norfolk, the Commonwealth of Virginia, and the Mid-Atlantic Region.

Pivot to Commercial Casino & Commonwealth Legislation to Legalize Gaming

In its 2019 session, the Virginia General Assembly passed Senate Bill 1126 (SB 1126) to authorize casino-based gaming in the state and to authorize the development of five commercial casinos in Virginia. The bill included a re-enactment clause, requiring the 2020 General Assembly to pass the bill again following a study by the Joint Legislative Audit and Review Commission (JLARC). HB 4 was the reintroduced bill for the 2020 session.

SB 1126 provided much of the outline for casino gaming as it was incorporated in the language of HB 4.

SB 1126:

- Permitted a casino in Richmond, Norfolk, Portsmouth, Danville and Bristol
- Required a minimum capital investment of \$200 million per casino. This was changed in 2020 by HB4 to \$300 million minimum investment.

- Required each city to hold a voter referendum to approve the casinos.
- Required that the casinos be regulated, and licenses be administered by the Virginia Lottery and its board.

In recognition of this potential additional pathway, Norfolk included a commercial option in its initial agreement with the Pamunkey. If taken, this path would result in the same sale of land to the Tribe; however, the property would not become sovereign land of the Pamunkey and would not require US Government Approval as gaming would be legal with the passage of the legislation. It was agreed by Norfolk, The Tribe and Golden Eagle Consulting II, LLC “GEC”, the Tribe’s development partner, that the developers would use their best efforts to obtain a license from the Commonwealth to conduct Gaming on the Subject Property and will diligently pursue the development and construction of a commercial casino in the City in compliance with the state legislation. The tribe would no longer pursue the development of a Tribal Casino.

The Virginia General Assembly and Governor authorized commercial casino gaming in the 2020 legislative session. and the citizens of Norfolk will have the opportunity to vote on a local gaming referendum that would appear on the ballot in November 2020.

Selection of Preferred Casino Gaming Operator

The General Assembly legislation requires that the locality submit to the lottery board an application that affirmed the selection of a preferred operator. All localities but Richmond picked preferred partners and submitted those operators to the lottery board. The review of potential operators by the Virginia Lottery Board was **required** prior to localities receiving approval to proceed with a referendum.

Norfolk’s application was submitted to the Lottery Board in June 2020 with the Pamunkey Tribe and GEC as its preferred partner(s). The Lottery Board approved the application and notified the city on July 9th to proceed to referendum. The approval of the preferred casino gaming operator was based on the experience and financial viability of the operators along with the financial performance of the operators (if applicable) in other states and territories.

Impending Actions

With passage of a referendum authorizing the casino in November 2020, the tribe would begin finalizing the design and construction of the proposed facility. As a commercial gaming establishment, it would be subject to all typical City processes such as site plan review and architectural review board approval. Upon the successful completion of these items, construction could begin in 2021 with opening of the resort casino in late 2022.

SECTION II: An Overview of The Commonwealth's Gaming Legislation

Host Localities

The 2020 legislation limits the location of casino gaming establishments to the following host cities: Portsmouth, Richmond, Norfolk, Danville, and Bristol. Except for the City of Richmond, each eligible host city will hold a referendum on the question of whether to allow casino gaming in the city at the November 2020 general election.

Role of Lottery Board

The legislation authorizes the Virginia Lottery Board to regulate casino gaming in the Commonwealth . The Board has the power and duty to:

- Issue permits and licenses and supervise all licensed gaming operations.
- Adopt regulations regarding the conditions under which casino gaming shall be conducted and all such other regulations it deems necessary and appropriate.
- Issue an operator's license only to a person who meets the criteria of § 58.1-4107.
- Issue subpoenas for the attendance of witnesses before the Board, administer oaths, and compel production of records or other documents and testimony of such witnesses and order audits.

State-Level Provisions of the Law

Gaming Tax Creation and Associated Tax Rates

The legislation passed by the General Assembly in the 2020 session created a special non-reverting fund to be known as the Gaming Proceeds Fund ("The Fund") to receive all state tax revenue from casino gaming. A non-reverting fund simply means that any monies remaining in the fund at the end of a fiscal year stay in the fund and do not "revert" to the state General Fund.

The legislation imposed a state tax on adjusted gross receipts of each licensed operator received from authorized games. Adjusted gross receipts are defined as gross receipts from casino gaming less the winnings paid to winners. Tax revenues collected will accrue to the Fund as follows:

- On the first \$200 million of adjusted gross receipts of an operator, a rate of 18 percent.
- On the adjusted gross receipts of an operator that exceed \$200 million but do not exceed \$400 million, a rate of 23 percent.
- On the adjusted gross receipts of an operator that exceed \$400 million, a rate of 30 percent.

Failure to pay taxes and submit prescribed forms and the return to the Department by the stated deadline may result in the Department suspending or revoking the license of an operator (§ 58.1-4124. Tax rate on adjusted gross receipts., 2020, cc. 1197, 1248.)

Special Funds

In addition to the Gaming Proceeds Fund, above, the legislation creates and funds the following:

- The Virginia Indigenous People’s Trust Fund--an amount equal to a tax of one percent on the adjusted gross receipts of any casino gaming establishment operated by a recognized and acknowledged Virginia Indian tribe.
- The Family and Children’s Trust Fund--Two-tenths of one percent of The Fund.
- The Problem Gambling Treatment and Support Fund--Eight-tenths of one percent of The Fund.

Responsible Gaming Funding

The legislation creates a special non-reverting fund called the Problem Gambling Treatment and Support Fund (The Treatment Fund) to develop a comprehensive program for the prevention and treatment of problem gambling. The Fund will be administered by the Commissioner of Behavioral Health and Developmental Services and will receive eight-tenths of one percent (0.8%) of The Fund.

Specifically, funds will be used to:

- Provide counseling and other support services for compulsive and problem gamblers.
- Develop and implement compulsive and problem gambling treatment and prevention programs.
- Providing grants to support organizations that aid compulsive and problem gamblers.

In addition to The Treatment Fund, casino gaming operators must include the words "If you or someone you know has a gambling problem and wants help, call 1-800-GAMBLER," or some comparable language approved by the Department, prominently at log-on and log-off times to any person visiting or logged onto on-premises mobile casino gaming; and provide a mechanism by which an account holder may limit on the amount of money deposited within a specified period of time and the length of time the account holder will be unable to participate in gaming if the holder reaches the established deposit limit a temporary suspension of gaming through the account for any number of hours or days (§ 37.2-314.2. Problem Gambling Treatment and Support Fund., 020, c. [1197](#), [1218](#), [1248](#), [1256](#), § 37.2-314.1.)

Lottery Revenue/School Funding

Any remaining revenues in the Gaming Proceeds Fund that are not appropriated to the city in which they were collected, or the above funds, will remain in the Gaming Proceeds Fund until appropriated by the General Assembly for programs established to address public school construction, renovations, or upgrades. (§ 58.1-4125. Gaming Proceeds Fund., 2020, cc. 1197, 1248).

Locality-Level Provisions of the Law

Gaming Tax Creation and Implied Locality Tax Rates

A portion of the tax revenue in The Fund, above, will be appropriated to the city in which they were collected as follows:

- An amount equal to a six percent tax on the first \$200 million of adjusted gross receipts
- An amount equal to a seven percent tax on the adjusted gross receipts that exceed \$200 million but do not exceed \$400 million
- An amount equal to an eight percent tax on the adjusted gross receipts that exceed \$400 million

It is important to note that the localities have no taxing authority over casino gaming revenues. Rather, host localities are receiving a share of the tax revenue as a pass through from the state. For example,

the first \$200 million in gaming revenue is taxed at 18%. That tax revenue accrues to The Fund and from the fund, 6% of the 18% is appropriated to the host locality. The remainder stays in the nonreverting Gaming Proceeds Fund with the Commonwealth.

Table 1 presents the final tax rate structure on adjusted gross gaming revenues. The rate structure is progressive relative to adjusted gross receipts (AGR).

Table 1 – State and Locality Tax Rates

Tax Rate	Host-Locality Share	Adjusted Gross Receipts
18%	6%	First \$200 Million
23%	7%	More than \$200 Million and less than \$400 Million
30%	8%	More than \$400 Million

Source: Virginia Legislative Information System

Responsible Gaming Fund money to local CSBs

Virginia’s 40 Community Services Boards (CSB’s) are the public safety net provider for community-based mental health, substance use disorder, and developmental services. The Department of Behavioral Health and Developmental Services is responsible for distributing all non-Medicaid state and federal funds to CSB’s. The Problem Gambling Treatment and Support Fund is administered by the Commissioner of Behavioral Health and Developmental Services.

At the beginning of each fiscal year, the Department allocated available state-controlled funds to community services boards in accordance with procedures established by the Department and approved performance contracts.

SECTION III: Estimated Fiscal and Economic Impacts of a Resort and Casino in Norfolk

In this section we estimate fiscal and economic impacts of the proposed resort and casino project.

Fiscal Impacts

Now that final casino legislation has passed the Virginia General Assembly, city staff are in a better position to estimate the annual fiscal (tax revenue) impact to the city. As mentioned in the previous section, Virginia's legislation provides host-locality gaming tax revenue. In addition to the gaming tax revenue, localities are also eligible to collect traditional tax revenue real property, retail sales, food and beverage sales, hotel taxes and bed taxes.

The estimates presented are based on three different scenarios we label as, Scenario 1, Scenario 2, and Scenario 3. All three scenarios share the following market conditions:

1. Only 5 localities can host casinos.
2. Northern Virginia is not eligible to host a casino.
3. Richmond, while an eligible host locality, is not currently pursuing a project and does not have a referendum on the November 2020 ballot. They are the only locality of the 5 eligible that can wait until next year to put the referendum on the ballot.

The scope, scale and gaming revenue vary across each scenario. The specifics of each scenario are:

Scenario 1 - assumes a project with \$500M in capital investment, 3,000 slot machines, 125 table games, 300 hotel rooms, and 4-5 restaurants including a coffee shop. These project parameters are substantially higher than the Norfolk project example in the JLARC report submitted prior to the final legislation. Staff are quite confident in this scale for the final project given the legislation excluded a casino in Northern Virginia. This scenario also incorporates average daily revenue projections per table and per slot machine from our list of comparable casinos (see Appendix A).

Scenario 2 - assumes a project scale identical to Scenario 1 but replaces the comps average revenue projections with more modest averages for daily revenue per table and per slot machine of \$2,800 and \$200 respectively.

Scenario 3 - assumes changes to the scale of the project, but industry average revenue per table and slot machine. Here we model a \$350 million capital investment, 200 hotel rooms (100 fewer), 2,170 slot machines (830 fewer), 100 table games (25 fewer), and 2-4 restaurants. We continue to use the modest daily revenue per table and per slot machine.

Table 2 – Project Specifics by Scenario

	Scenario 1	Scenario 2	Scenario 3
<i>Capital Investment (\$ M)</i>	\$500	\$500	\$350
<i>Slot Machines</i>	3,000	3,000	2,170
<i>Game Tables</i>	125	125	100
<i>Revenue Projection Source</i>	Comparable Casinos	Modest Average	Modest Average
<i>Hotel Rooms</i>	300	300	200
<i>Restaurants</i>	4-5	4-5	2-4

Source: Staff Assumptions based off national data in State of the States 2019

Table 3 shows forecasts for annual revenue, state gaming tax revenue and local gaming tax revenue for Norfolk’s resort and casino project in its first full operational year under the three scenarios.

Total Adjusted Gaming Revenue

Scenario 1—We estimate first year slot machine revenue of \$340.5 million and table game revenue of \$146.6 million for a total of \$487.1 million.

Scenario 2—Using the modest revenue averages rather than comparable venues, first year revenue is estimated to be \$219.0 million for slots and \$127.8 million for tables totaling \$346.8 million.

Scenario 3—Using modest revenue averages as well as a smaller project overall average produces \$158.4 million in slot revenue and \$102.2 million in table revenue for a total of \$260.6 million.

Other Revenue

Food and beverage revenue are estimated at \$35 million, \$35 million, and \$30 million for Scenarios 1, 2 and 3 respectively. This estimate is based on the anticipation of 4-5 restaurants as suggested by the project developers for Scenarios 1 and 2 and 2-4 restaurants for Scenario 3.

Hotel revenue is estimated using an Average Daily Rate of \$190 and 90% occupancy rate.¹ With that, Scenarios 1 and 2 produce \$18.7 million while Scenario 3 produces \$12.4 million. Summing across all sources of revenue (gaming, food and hotel) Scenario 1 produces \$570.5 million, Scenario 2 produces total revenue of \$400.5 million and Scenario 3 produces \$303.1 million.

Estimated Gaming Tax Revenue

We use the “Total Adjusted Gaming Revenue” estimates and legislated tax rates to produce estimates of gaming tax revenue accruing to the state and host-locality. “Total State Gaming Tax” presents the state gaming tax revenue accruing to “The Fund” for each scenario. Scenarios 1, 2 and 3 produce \$108.1

¹ An ADR of \$190 and 90% occupancy are both reasonable assumptions for the downtown Norfolk hotel market.

million, \$69.7 million and \$49.9 million, respectively. For Norfolk, Scenarios 1, 2 and 3 yield a “Total Local Gaming Allocation” of \$32.9 million, \$22.3 and \$16.2 million for respectively.

The substantial drop-off in revenues in Scenarios 2 and 3 from Scenario 1 is driven by the fact that the assumptions inherent in 2 and 3 result in gaming revenue falling below the \$400 million cut off for the top tax rate. Regardless, Scenarios 2 and 3 produce substantial new tax revenue to Norfolk.

Table 3 – Estimates of Local and State Gaming Tax Proceeds from the Pamunkey Resort and Casino

	Scenario 1	Scenario 2	Scenario 3
Revenue Categories			
<i>Slots</i>	\$ 340,545,000	\$ 219,000,000	\$ 158,410,000
<i>Table Games</i>	\$ 146,593,125	\$ 127,750,000	\$ 102,200,000
Total Adjusted Gaming Revenue	\$ 487,138,125	346,750,000	260,610,000
<i>Food and Beverage</i>	\$ 35,000,000	\$ 35,000,000	\$ 30,000,000
<i>Hotel</i>	\$ 18,724,500	\$ 18,724,500	\$ 12,483,000
Total Adjusted Revenue	\$ 540,862,625	\$ 400,474,500	\$ 303,093,000
State Gaming Tax			
<i>18 percent of first 200 million</i>	\$ 36,000,000	\$ 36,000,000	\$ 36,000,000
<i>23 percent of 200-400 million</i>	\$ 46,000,000	\$ 33,752,500	\$ 13,940,300
<i>30 percent of 400 million+</i>	\$ 26,141,438	\$ -	\$ -
Total State Gaming Tax	\$ 108,141,438	\$ 69,752,500	\$ 49,940,300
Local Gaming Allocation from State Tax			
<i>6 percent of First 200 million</i>	\$ 12,000,000	\$ 12,000,000	\$ 12,000,000
<i>7 percent of 200-400 million</i>	\$ 14,000,000	\$ 10,272,500	\$ 4,242,700
<i>8 percent of 400 million+</i>	\$ 6,971,050	\$ -	\$ -
Total Local Gaming Allocation	\$ 32,971,050	\$ 22,272,500	\$ 16,242,700

Source: Staff Calculations

Next, we turn to estimates of various other local taxes eligible for collection including real estate tax, hotel tax (including transient bed tax), food and beverage tax, business personal property tax and sales tax. We omit any calculation of admission tax for now, though it is quite possible that an entertainment venue could be part of a final project design. We also omit estimates of various fees associated with utility usage. Lastly, there is still ambiguity as to what aspects of hotel casino revenue would be subject to BPOL so that has been omitted as well. Nonetheless, Table 4 captures most local non-gaming tax collections from the project.

Total Local Tax Revenue

Total Other Local Taxes” shows the estimate of other local taxes collected across the three scenarios. Since the scope and scale of the project are identical for Scenarios 1 and 2, both produce other tax revenues of \$11.6 million. The substantially smaller project assumed in Scenario 3 produces \$8.6 million. “Total Local Gaming and Other Taxes” adds the local gaming tax revenue forecast to the other local tax forecast to produce aggregate tax revenue forecasts across the 3 scenarios. We project total Norfolk tax revenue of \$46.9 million for Scenario 1, \$33.9 million for Scenario 2, and \$24.8 million for Scenario 3.

We put these number into perspective with two illustrations. First, how much would Norfolk have to increase the real estate tax rate to achieve the tax revenue generated by each scenario? Currently, the real estate tax is \$1.25 per \$100 of assessed value and each 1 cent increase in this tax yields approximately \$1.92 million. Therefore, as shown in the bottom row of Table 4, Norfolk would need an additional 24 cents to yield the tax revenue in Scenario 1, an additional 18 cents to achieve the revenue from Scenario 2 and 13 cents to achieve the revenue from Scenario 3.

Our second illustration compares the food and beverage and sales tax revenue from this project against the entire downtown business district. We project the city will collect \$2.2 million annually on food and beverage and sales taxes just from this project alone. If we consider just those two tax categories across the entire downtown business district during FY 2020, the district generated \$5.2 million dollars. These numbers are very impressive especially when we consider they are being generated by one building on 13 acres.

Table 4 – Five Year Estimates of Other Local Tax Proceeds from the Pamunkey Resort and Casino*

Other Local Taxes *	Scenario 1	Scenario 2	Scenario 3
<i>Real Estate Taxes (\$1.25/\$100 AV)</i>	\$ 3,750,000	\$ 3,750,000	\$ 2,500,000
<i>Hotel Taxes (8% + \$3 night)</i>	\$ 1,793,610	\$ 1,793,610	\$ 1,195,740
<i>Food and Beverage Tax (6.5%)</i>	\$ 2,275,000	\$ 2,275,000	\$ 1,950,000
<i>Business Personal Property (\$4.33/100 AV)</i>	\$ 3,247,500	\$ 3,247,500	\$ 2,528,720
<i>Sales Taxes (1% - City Portion)</i>	\$ 537,245	\$ 537,245	\$ 424,830
Total Other Local Taxes	\$ 11,603,355	\$ 11,603,355	\$ 8,599,290
Total Local Gaming Tax	\$ 32,971,050	\$ 22,272,500	\$ 16,242,700
TOTAL LOCAL GAMING AND OTHER TAXES	\$ 44,574,405	\$ 33,875,855	\$ 24,841,990
Equivalent Real Estate Tax Increase	23¢	18¢	13¢

**Several local taxes and fees are not included. Among those are Admissions, Business License Tax, BPOL, Utility Taxes, Storm Water Fees, Water Fees, HRSD Fees, indirect taxes, etc.*

Source: Author Calculations

Broad Economic Impacts

A Brief Overview of Impact Analysis

In this section we provide economic impact estimates of the resort and casino. Economic impacts are slightly different than fiscal impacts. Fiscal impacts focus purely on the net local tax revenue generated by a project (new revenue-new costs). In the case of the resort and casino, the fiscal impacts are very large.

In addition to fiscal impacts, large projects generate broad economic impacts. The jobs and wages that are created represent the most significant economic impact. The analysis in this section estimates the economic impacts resulting from the resort and casino's ongoing operation. It is important to note that short-term positive economic impacts also occur because of construction of the project. The construction related economic impacts are substantial given this project is anticipated to be a \$500 million capital investment. However, they are transitory. The purpose of this section is to estimate the ongoing economic impacts from the resort's operation. Economic impacts are traditionally classified into three types - direct, indirect, and induced. Traditionally, economists will use either employment levels (in persons) or output levels (in nominal dollars) as the direct effect. We use employment levels for the purposes of this study.

Direct impacts reflect the employment, compensation, and associated purchases that are directly tied to the project. These direct impacts are important for impact studies as they become the primary input to the analysis. Multiplier effects accrue off the direct impacts from the project. Below we show how we conduct the full impact estimates off the initial direct jobs estimate and the initial total compensation estimate.

Indirect impacts represent the "spinoff" activity into the economic region of interest that was generated by the cluster industry activity. Indirect impacts are largely supply chain effects. For example, casino restaurant purchases might mean more demand for bread resulting in more bakery jobs, which then leads to more demand for bakery equipment, and so on. It is important to note that to "multiply" the initial demand shock, the suppliers must lie in the region of analysis. If the demand shock is satisfied by a firm outside the region of analysis, this becomes a leakage and the multiplier process from the initial demand shock stops. So, the larger the geographic area of interest the larger the indirect effects. Thus, new jobs created within any locality would yield a larger economic impact for the Commonwealth of Virginia than the locality itself. For this analysis, we are only looking at indirect effects for the City of Norfolk.

Finally, induced impacts measure the activity associated with the income increases emanating from the initial demand shock. When the resort makes a new purchase from one of its suppliers, the supplier's workforce may experience an increase in income. That income will be spent by the workers on various goods or services and that increase in demand for those goods and services will lead to additional consumption by the workers in those industries. Unlike the supply chain nature of indirect effects, induced effects are consumption based. However, as with indirect impact estimates, the induced impact multiplier shrinks when employees spend money out of the region of analysis. We only estimate induced impacts for Norfolk in this analysis.

Estimating Economic Impacts of the Resort and Casino

The first step in the impact analysis is determining the base activity for 3 measures of the development:

1. direct job creation for the project;
2. total compensation for those employees; and,
3. total spending generated by the development.

Precise estimates of these three can be challenging. However, in this case, we have clear rules of thumb for employment need based on the number of hotel rooms, table games and slot machines. Using those rules of thumb for the project proposed in Scenario 1, we estimate 2,415 new jobs will be created.

We also have industry averages for spending by casinos in the local area. Considering the current suppliers in Norfolk that could support the goods and services demanded by the resort, we estimate the project will spend \$333 million annually in the city to support ongoing operations.

Finally, Table 5 presents average wages, benefits and tips (WBT) for states with casino gaming. The average WBT across these 24 states is \$46,571.² Therefore, total direct compensation for this project is estimated at \$112,471,114 annually. The projections for direct employment and direct compensation would make the resort a top 10 employer in Norfolk immediately upon opening.

² This data comes from the report State of the States 2019: The AGA Survey of the Commercial Casino Industry (2019). Retrieved from https://www.americangaming.org/wp-content/uploads/2019/06/AGA-2019-State-of-the-States_FINAL.pdf.

Table 5 – Employment, Compensation and Average Compensation by State

State	Jobs	Wages, Benefits and Tips (WBT)	WBT Average
<i>Colorado</i>	9,638	\$508,458,209	\$52,755.57
<i>Delaware</i>	5,299	\$217,559,889	\$41,056.78
<i>Florida</i>	8,180	\$379,528,247	\$46,397.10
<i>Illinois</i>	15,396	\$863,915,973	\$56,113.01
<i>Indiana</i>	22,133	\$1,013,224,278	\$45,778.89
<i>Iowa</i>	15,662	\$617,961,418	\$39,456.10
<i>Kansas</i>	3,685	\$138,843,253	\$37,677.95
<i>Louisiana</i>	32,717	\$1,364,766,542	\$41,714.29
<i>Maine</i>	1,468	\$61,776,481	\$42,082.07
<i>Maryland</i>	15,364	\$712,690,169	\$46,387.02
<i>Massachusetts</i>	1,646	\$77,225,189	\$46,916.88
<i>Michigan</i>	16,371	\$899,761,970	\$54,960.72
<i>Mississippi</i>	32,884	\$1,395,598,200	\$42,440.04
<i>Missouri</i>	19,987	\$883,686,104	\$44,213.04
<i>Nevada</i>	409,444	\$18,655,292,402	\$45,562.50
<i>New Jersey</i>	39,007	\$2,136,729,631	\$54,778.11
<i>New Mexico</i>	2,299	\$88,410,558	\$38,456.09
<i>New York</i>	17,247	\$1,016,458,991	\$58,935.41
<i>Ohio</i>	19,953	\$804,173,751	\$40,303.40
<i>Oklahoma</i>	1,162	\$51,275,598	\$44,127.02
<i>Pennsylvania</i>	33,171	\$1,792,045,489	\$54,024.46
<i>Rhode Island</i>	5,215	\$257,536,155	\$49,383.73
<i>South Dakota</i>	1,175	\$46,898,771	\$39,913.85
<i>West Virginia</i>	8,347	\$360,625,270	\$43,204.18
TOTAL	737,450	\$34,344,442,538	\$46,571.89

Source: State of the States 2019

Table 6 provides direct, indirect, and induced impact estimates for two categories of economic activity associated with the project – Employment and Compensation.³ The row titled “*Employment*” shows estimates for total job creation resulting from the 2,415 direct jobs. The initial 2,415 jobs will create an additional 610 indirect jobs and 531 induced jobs for a total employment impact of 3,556. These numbers yield a jobs multiplier of 1.47 suggesting that each new job in the resort will generate an additional .47 jobs in the City of Norfolk.

Next, we move on to estimate total compensation generated by the project. The row titled, “*Compensation*” shows estimates for direct, indirect, and induced total compensation. Direct compensation for the resort is \$112,471,114 which was provided as part of the base conditions; indirect compensation adds an additional \$30,989,830; and induced adds another \$27,848,295. Using these compensation numbers with the total employment estimates, we impute average wages attributed to the project at \$48,099 (\$171,309,239/3,556).

It is important to note that the employment and compensation impacts do not include the amount of the fiscal impact calculated previously. Indeed, the \$46 million dollars in additional tax revenue can yield an additional set of multiplier effects if spent wisely. For example, previous research has calculated rather large multipliers associated with government spending on public schools and infrastructure improvements. Some of this work has estimated multipliers of more than 2 for spending in these two categories meaning that each \$1 spent yields an additional \$1 or more in economic activity. So, strategic spending of the new tax revenue should yield even larger economic impacts than just those provided in Table 6.

Table 6 – Economic Impacts

	Direct	Indirect	Induced	Total
<i>Employment</i>	2,415	610	531	3,556
<i>Compensation</i>	\$112,471,114	\$30,989,830	\$27,848,295	\$171,309,239

Source: EMSI and Staff Calculations

Finally, the location of the proposed project is also a significant benefit. In many cases, a major new employment project will occur outside of the inner-city urban core limiting the potential impact to inner-city residents. Positive employment impacts to urban residents only accrue if the transportation system directly links where the residents live with where the jobs are created. This happens far too infrequently – a situation called spatial mismatch – thus urban residents tend to get little to no positive impact from large development projects.

³ There are several economic impact software packages designed to assist researchers with their analysis. We use two – EMSI and JobsEQ as a consistency check to our numbers.

The importance of a large inner-city economic development project was elucidated by scholar Michael Porter in a 2016 article:

“Second, to truly increase employment and opportunity for inner-city residents, there needs to be a viable economy and businesses located in or near the inner city. Business and job growth in or near the inner city will help address a spatial mismatch of jobs and workers (Andersson, Haltiwanger, Kutbach, Pollaskowski & Weinberg, 2014) and eliminate transportation and other barriers inner-city residents face trying to access jobs in other parts of the metropolitan area.”⁴

The proposed location of the resort and casino will help mitigate spatial mismatch and provide an opportunity for those otherwise dislocated from job opportunities to take advantage of the 2,415 jobs directly associated with the project and, possibly, a majority of the additional 1,141 expected to be created in supporting industries.

Spending Substitution

Critics of casinos and gaming in general contend that the net economic impacts from the industry are much smaller than anticipated because spending on gaming merely substitutes for spending that would have occurred in other entertainment. The introduction of casino gaming, horse track gaming, etc. induces personal consumption that is not “net new” and only cannibalizes other types of personal expenditures. A full understanding of this dynamic is vital as cannibalization would reduce the fiscal impact to a locality from the opening of a casino.

Could the casino’s hotel rooms and restaurants divert spending from existing hotels and restaurants? If so, those associated loss in tax revenue should be subtracted from the overall fiscal impact presented previously. As just mentioned, that question is not typically examined in previous work because there is not a clear research methodology to answer the question confidently. First, we have no other development project to use as a prototype. A new casino in Norfolk is unlike any other project that has been developed. Second, determining the exact cause of a small business death is notoriously difficult. While a firm’s death could clearly correlate with an economic event, the likelihood that the event was causal to the death of the firm will be less clear.

The best way to answer this question is to look at the impacts of previous casino introductions into a downtown area. A 2016 analysis by Bleakly Advisory Group⁵ produced when Atlanta was pondering a downtown casino provides us with some understanding of this issue through the examination of 4 cases – New Orleans, Detroit, Pittsburgh, and Cleveland.

Here we present a summary of the findings in that study and their application to the situation in Norfolk.

1. **Any substitution effects will be broad based geographically.** Analysis of the cases suggests that substitution effects will be small in any one commercial district. The cannibalization of spending increases as the geographic area increases in definition. This is due to visitors coming from a

⁴ Porter, M. (2016). Inner-City Economic Development: Learnings from 20 Years of Research and Practice. *Economic Development Quarterly*, 30(2)105-116.

⁵ “The Impacts of Casinos on Downtown Development,” (2016), Bleakly Advisory Group/Key Advisors/Bruce Seaman, Ph.D.

broad array of areas and those same visitors spending their money across a broad array of areas.

Applying this to Norfolk, we would anticipate that spending in the casino would not just substitute from the downtown core. Spending will come from folks that traditionally spent income in Virginia Beach, Richmond, Northern Virginia, etc. So, we would not anticipate disproportionate impacts in one location of the city. In addition, as non-local visitors make up an increasing share of the spending, the impact of cannibalization diminishes.

- 2. Any substitution effects will occur across a variety of industries.** There is some previous research focused on the potential for spending cannibalization by casinos. In his book "Gambling in America (2004), Earl Grinols presents limited evidence of spending cannibalization from casinos in Illinois. The results show that there is very little cannibalization from casino spending across 10 different categories of personal expenditures. The largest losses were in general merchandise and miscellaneous retail and wholesale trade. These categories include department stores, general stores, drug stores, and liquor stores. While these types of stores were the most impacted, the impact was still quite small. In fact, Grinols found that, across all industry sectors, there was a \$170 gain in spending for each \$1000 increase in casino revenue. Much of that increase was attributed to spends at gas stations within a 5-mile radius of the casino facility. A major caveat to the Grinols (2004) study is that it only examined the increase in casino revenue. Any impacts to the surrounding retail market from non-casino revenue (i.e. if the resort facility had a hotel or restaurant) were not examined.

The proposed project in Norfolk will contain a hotel and restaurants which will expand the industries susceptible to spending substitution. We do not anticipate any impacts on the existing hotel industry in Norfolk. One reason we are confident in this claim is that hotel revenue has increased in Norfolk by 46% over the last 5 years. This increase is being driven by increasing average daily rates and new hotels particularly in downtown Norfolk. Indeed, the downtown Norfolk hotel sub-market needs additional hotel rooms. So, the additional of 300 rooms at the casino will provide needed supply.

Forecasting impacts on the existing restaurant industry is much more complicated. We don't know the exact price point for the restaurants in the proposed resort. We only know that there will likely be 3-5 eateries of some fashion, and at least 1 is likely to be a coffee shop. We know current retail and restaurants conditions are bleak due to the COVID-19 pandemic. Finally, we know that the downtown restaurant scene has seen steady expansion with good survival rates for new establishments. In summary, there are likely to be establishment closures with the opening of the resort and casino. Whether those closures are truly caused by the opening of the resort or merely correlated with the opening will be unclear. Regardless, we suggest that some of the new gaming revenue be used to improve overall market conditions for all businesses, particularly in the downtown business district. Spending the new revenue in this fashion will help mitigate the impacts on existing businesses.

3. **Tax rates on gaming are higher than other fiduciary tax rates assuaging some of the negative aspects of substitution.** Legislators typically set gaming tax rates more than existing tax rates on other goods and services. The legislated tax rates for the state and host localities were provided previously for Virginia. Focusing just on Norfolk, each new dollar of gross gaming receipts above \$400 million is taxed at 8%. Comparatively, sales tax rates are 1% and food and beverage are taxed at 6.5% both lower than the 8% gaming tax rate. The hotel tax comparison is slightly more complicated. The base tax rate is 8%, identical to the gaming tax rate, but there is an additional \$2 a night tax. For a \$200/night room, this amounts to an additional 1% or a total tax rate of 9%, higher than the gaming tax rate of 8%. Apart from hotel spending, dollars spent on gaming yield significantly higher tax revenue for the city than dollars spent on goods and services. Policy makers could strategically use this increase in net tax revenue to help mitigate the costs of substitution and leave city-wide social welfare unchanged. This is approach was used effectively in Detroit with the city investing heavily in the downtown precipitating a rebirth. A similar, but more modest impact occurred in Pittsburgh. According to the study, New Orleans and Cleveland did not see any marked improvement in tourism as a result of the casino's construction.

4. **The casino will also help the locality and region recapture gaming spending that is currently leaking out of the area.** Spending on gaming is nontrivial. While not all states have casinos, all states have residents that spend money at casinos. Spending at casinos in 2018 was nearly \$44 billion in the United States. Without casinos in Virginia this spending leaks outside the state to neighboring states with casinos like Maryland, Delaware, and New Jersey.

Traditionally, spending at a location by locals is not seen as new spending. It is assumed that the \$1 spent at the casino would have been \$1 spent at a local restaurant, a cinema, or a retail store. In the case of a new attraction that does not exist anywhere in the region this spending substitution is not so obvious. It is incorrect to assume that all residents of Hampton Roads that are looking to spend money at a casino, will simply substitute dinner and movie instead. So, in the case of a brand-new attraction, currently absent from the market, local spending at that attraction could indeed be "new" spending in the market.

So, the creation of a resort and casino in Norfolk may lead visitors and residents to shift their spending away from current goods and services and toward gaming. The magnitude of that shift is notoriously difficult to estimate. Previous research has not found that casinos generate spending shifts to the degree that existing local restaurants and hotels fail en masse. Indeed, in two markets (Detroit and Pittsburgh), the introduction of the casino(s) precipitated additional growth and complemented the existing arts and entertainment district. With gaming tax rates higher than tax rates on other goods and services, there is a real opportunity to mitigate any competitive imbalance from the casino with a renewed city investment into fundamentally beneficial public goods that improve business conditions for small business. This could be accomplished by providing small business grant programs, increasing citywide promotional spending, reducing parking costs or improving access to commercial districts via public transportation.

SECTION IV: A Summary of Previous Work on Social Impacts of Casinos

When examining previous research on gaming impacts, it is critical to focus on the academic literature. Popular press articles, research, and op-eds by anti-casino advocacy groups as well as similar work by pro-casino and pro-gaming groups are typically biased and almost always present data that is evidence of correlation and not causation. The academic literature provides more thoughtful approaches to empirical work. Consequently, the findings in the academic literature represent more appropriate empirical evidence regarding causation between casinos and social ills.

This section presents an overview of previous empirical work on the impacts from gaming in general and casinos specifically.⁶ We begin with a review of previous work examining the causal link between gambling and gambling addiction. Next, we turn to previous work on the causal link between crime and gaming, specifically in the geographic area around a casino.

Pathological Gambling

It is reasonable to assume that easier access to gambling opportunities generates an increased incidence of problem gaming. That belief has not necessarily held up in the research. Two previous studies – Welte, et.al. (2004) and Jacques and Cantinotti (2008) - arrived at opposite conclusions. The 2004 study by Welte, et.al. suggested that residents within 10 miles of a gambling facility had issues with problem gambling at twice the rate of the those living outside 10 miles of the facility. However, the 2008 study by Cantinotti found no statistically significant difference in the rates of problem gaming between those residents living close to a facility and those living farther away. So, there is no consensus on whether the introduction of a casino increases the rate of pathological gaming for residents near the casino.

Alternatively, one surprising and steadfast result of research on gaming access and problem gaming is that the prevalence of problem gaming has remained surprisingly constant over the last 30 years despite a massive proliferation of gaming opportunities across the country. This result has been found across several previous studies. Reilly (2009) summarizes as follows:

“This review of prevalence research reveals that estimates of pathological gambling in the general population, ranging from less than 1% to 1.9%, have been fairly stable over the past three decades from study to study, time to time, and place to place despite the various methodologies employed by researchers. This constancy is surprising in view of the dramatic increase in legalized gambling in the United States during this period, and it belies the conventional wisdom that increased exposure to gambling necessarily results in higher rates of the disorder (LaPlante & Shaffer, 2007).”

Currently, Norfolk has an estimated adult population of 192,191. Using the Reilly estimate and Norfolk’s adult population, we could estimate that pathological gaming currently affects between 1,921 and 3,652 Norfolk residents. The 2019 JLARC report on gaming also provided a prevalence rate. That report’s

⁶ To conserve space, we don’t provide an exhaustive review of the previous literature. Walker (2013) provides, perhaps, the most comprehensive review of the academic literature regarding the social costs of gaming. In his paper, Dr. Walker reviews 30 papers and reports published from 1985-2001.

range was wider than Reilly at 0.8%-2.9%. Utilizing that range, we could estimate that pathological gaming impacts between 1,538 and 5,574 adults.

In addition to estimates of prevalence, previous research has also attempted to estimate per gambler per year social costs in dollar value. Cost estimates range from \$1,500 to \$50,000 per gambler per year.⁷ The implausibly large range suggests that authors are not using the same set of costs in their analysis. Also, pathological gamblers tend to have additional psychological and physical issues – a concept called comorbidity. Authors estimating very large annual costs typically apportion all social costs to gambling and not any of the other ailments. Alternatively, authors arriving at smaller social cost estimates apportion only costs directly attributable to the gambling behavior.⁸

Walker (2008) presents estimates of social cost associated with pathological gaming for Southern Nevada. The author’s estimate of \$1,579 in 2008 dollars (\$1,885 in 2019 dollars) represents the low end of the range of per gambler per year cost, however, the research methodology in the study is rigorous. Alternatively, a study by Thompson, Gazel and Rickman (1997) estimates a per gambler per year social cost of \$9,469 (\$15,286 in 2019 dollars), but that study likely includes some costs that are not really net new societal costs.

Table 7 uses these previous estimates of prevalence and cost to estimate a total annual cost per gambler. It is important to note that this is not a net new cost. In fact, as shown in Reilly’s work, the prevalence of gambling addiction has remained constant despite new access to gaming. The introduction of a casino to Norfolk is not expected to increase this prevalence rate, but the facility will certainly not help reduce prevalence. Overall, we project that the City of Norfolk has an annual societal cost due to pathological gaming between \$2.4 million and \$8.8 million.

Table 7 – Pathological Gaming

<i>Study</i>	<i>Percent</i>	<i># of Residents</i>	<i>Total Annual Social Cost \$1,579 – Walker (2008)</i>
<i>Reilly (2009) Range</i>	1%-1.9%	1,921-3,652	\$3M-\$5.8M
<i>JLARC (2019) Range</i>	0.8%-2.9%	1,538-5,574	\$2.4M-\$8.8M

Source: Cited Studies

It is important to remember the incidence of comorbidity mentioned above. Previous work on the social impacts of gaming has been largely unable to uncover the path of causality among the various disorders.

⁷ \$1,500 is from a study by Walker (2008), while \$50,000 is from a study by Kindt (1995).

⁸ As an example, perhaps a gambling addict’s compulsive nature results in the individual also being an alcoholic. The individual will certainly incur health care costs related to the alcoholism. Attributing those health care costs to gambling would yield a substantial difference in the final annual social cost estimate relative to apportioning those costs to the alcoholism.

So, the estimates above are not directly attributable to gambling. For example, an individual suffering from alcoholism may also become a problematic gambler and, while the costs associated with treatment and counseling for the alcoholism are captured in the above estimates, it is debatable whether they should be included as a social cost of gambling.

An overview of funding for responsible gaming that is statutorily mandated in other states is given in Table 8. The legislation passed in Virginia requires 0.2% of the proceeds in the Commonwealth Gaming Proceeds Fund be earmarked for the Problem Gambling Treatment and Support Fund. Using current information on the size and scale of the 5 proposed casinos, the legislated funding should be approximately \$1.5 million to \$2 million each year. Previous work on problem gaming suggests that, on average, states spend about \$0.37 per adult in problem gaming treatment. For Virginia, \$0.37 per adult suggests annual spending of \$3.1 million.

Table 8 – Statutory Funding for Responsible Gaming (Selected States with Commercial Casinos)

State	Problem Gaming Funding Level
Colorado	2% of Casino Gaming Revenue
Delaware	\$1M or 1% of e-gaming revenue and \$250k or 1% of Table revenue
Florida	\$250,000 per casino
Kansas	2% of Casino Revenue
Louisiana	1% of casino revenue; max of 500,000 per facility
Maryland	\$425 per electronic device; \$500 per table game
Massachusetts	Minimum of \$5M annually
Michigan	\$2M annually
Nevada	Subject to Annual Appropriation
New Jersey	\$600,000 annually plus \$250,000 per internet license fee
New York	Subject to annual appropriation
Ohio	2% of casino gaming revenue
Pennsylvania	\$2M or 0.2% of casino revenue plus \$3M
West Virginia	Subject to annual appropriation of \$150,000 - \$500,000
Virginia	0.2% of Gaming Proceeds Fund

Source: For Colorado through West Virginia: State of the States 2019. For Virginia: House Bill 4

More specifically, Virginia's Department of Planning and Budget estimated costs for a quality program to be offered by local Community Services Boards (CSB). They estimate at least 24 local CSB positions, 1 central staff position with the Department of Behavioral Health and Developmental Services and an additional \$1.1 million for training programs for a total annual cost of \$3 million. This estimate is in line with the \$3.1 million estimated from average program spending across other states.

Currently, Norfolk's Community Services Board does not offer gambling addiction treatment in its portfolio of services. This is similar for other localities across much of Virginia. The \$1.5 - \$2 million anticipated for the Problem Gaming Treatment and Support Fund falls short of the \$3.1 million anticipated need for problem gaming treatment. Therefore, each host locality and/or the Commonwealth is likely to incur an additional \$1.0- \$1.5 million in treatment costs. In the absence of an increase in state funding for treatment, Norfolk should anticipate spending \$200,000 - \$300,000 annually out of local gaming tax revenue to engage private nonprofits specializing in gambling addiction to provide additional support.

In conclusion, previous academic work does not establish a clear causal pattern between the introduction of a casino facility and a subsequent increase in pathological gambling disorder. However, in the discussion of whether to increase gaming opportunities, state-level policy makers typically assume there is a social cost related to the introduction of gaming and allocate a share of new gaming revenues to assist with pathological gaming. That is also the case in Virginia with 0.2% of gaming tax revenue dedicated to problem gaming. The amount generated by this earmark is unlikely to fully cover the costs associated with effective treatment. Therefore, we forecast that Norfolk would need to spend an additional \$200,000 - \$300,000 out of their local gaming tax revenue to fully support a high-quality problem gaming treatment program through its local CSB.

Public Safety

Much like the research on problem gaming, casino impact on crime rates seems inconclusive at best. Compounding matters, several reports staff reviewed were performed with data from the 1970s-1990s, a period of a national secular increase in crime.

One study examined crime volume in Detroit and neighboring communities before (3 years), during, and after (3 years) three Detroit casinos opened. The study concluded that there is “no alarming indication to suggest that the volume of crime has increased when casinos opened in the city”. The study found that total Index Crime offenses did not increase. Certain types slightly increased, such as prostitution arrests and arson offenses, while others decreased. Total Index Crime data for Detroit showed a “steady decline from 1996 through 2002, clearly indicating that crime did not increase in the three years following the opening of the casino” (Moufakkir, 2005).

Another study examined the relationship between casinos and crime using county-level data for the United States between 1977 and 1996. The results suggested the effect on crime is low shortly after a casino opens and grows over time because crime-ameliorating effects such as employment opportunities, wages, and increased law enforcement staff (which often cannot be sustained) are concentrated shortly after the casino opens. However, over time, these effects are dominated by factors that increase crime, such as problem and pathological gamblers committing crimes as their resources are depleted, visitors committing and being victims of crimes, and changes in population due to the casino become more pronounced. It must be noted that the increase in crimes was in part the result of declining public safety expenditures, problem gambling and increased tourist visitation. These are factors that can be minimized with the kind of social expenditures mentioned in his report. Compounding matters, the report used data from the 1970s-1990s, a period of a national secular increase in crime, which may not have been adequately accounted for in the study design. (Grinols & Mustard, 2006).

On the heels of the work by Grinols and Mustard, a paper was published calling into question their findings. That work by Douglas Walker (2008) contends that finding higher city crime rates following the introduction of a casino is misleading since any attraction that increases the number of visitors will lead to increases in crime.

This same result holds in data for downtown Norfolk. We examined incident data for the downtown Norfolk patrol division for the years 2016-2019 as provided by Norfolk Police Department (NPD). Table 9 presents the data aggregate 4-year incident levels by day of the week. The data show a noticeable increase in incidents occurring on Friday and Saturday corresponding to the days with more visitors in the downtown area. Furthermore, this weekend increase holds in spite of total annual crime falling 17% overall between 2016-2019.

Table 9 – Total Incident Reports by Day of the Week (2016-2019)

<i>Day of the Week</i>	Incident Reports (4-year Total)
<i>Sunday</i>	568
<i>Monday</i>	542
<i>Tuesday</i>	576
<i>Wednesday</i>	541
<i>Thursday</i>	536
<i>Friday</i>	724
<i>Saturday</i>	713

Source: Norfolk Police Department

Lastly, a study examined if there is a link “between casino expansion and alcohol-related fatal traffic accidents” (Cotti & Walker, 2010). It found a “strong link between the presence of a casino in a county and the number of alcohol-related fatal traffic accidents”, but that the magnitude and the direction of the impact depended on the population size of the county. The authors found that rural or moderately sized (in terms of population) counties would likely see an increase in such accidents when casinos are present, but urban and larger sized counties may experience a decrease (Cotti & Walker, 2010). They theorized that the reason rural/less-populated counties may see more alcohol-related fatal accidents is that in rural counties, both county residents traveling to the casino and visitors going to the casino tend to drive more miles while intoxicated, making such accidents more likely. In urban areas, the effect of casinos on such accidents is less as there may be substitution between casinos and other drinking places, combined with the increased availability of public transportation (Cotti & Walker, 2010). The recent ascent of Lyft and Uber should further reduce the propensity for alcohol-related incidents caused by the presence of a casino.

In summary, casinos attract visitors and that means the potential for crime. The nature of the activity, in this case gambling, does not appear to increase or decrease the prevalence of crime. The area within and directly around the casino will be patrolled by security hired by the developers of the project. However, city staff will have to work with the Norfolk Police Department to determine the additional manpower needs required to effectively patrol the downtown area given the increase in visitors. Since the entire FY 2019 actual expenditures by the NPD totaled \$73 million, a small portion of the new tax revenue generated by the casino should be more than enough to cover the additional public safety expenses.

SECTION V: Conclusion

Hampton Roads is poised to serve a large and largely untapped multi-state gaming market. As pointed out in the 2015 State of the Region Report prepared by Old Dominion University, southeastern Virginia is a prime location given a lack of gaming opportunities for residents of North Carolina, South Carolina, and Georgia. North Carolina has only one tribal casino in the far western part of the state while South Carolina offers two yacht casinos operated out of North Myrtle Beach.

A summary of staff findings include:

- Local revenue impacts range from a low of \$24.8 million to a high of \$44.6 million per year. This is equivalent to 13 to 23 cents per 100 on the real estate tax.
- The proposed casino will directly create 2,415 new jobs paying on average more than \$46,000. Additionally, the casino is estimated to create a total of 3,556 new jobs in Norfolk with average wages of \$48,175.
- The proposed project is requesting no economic incentives from the city. The land for the casino will be sold for \$10 million and the owners of the property are responsible for all infrastructure improvements, including flood mitigation and the incorporation of the Elizabeth River Trail on the property's waterfront.
- There will be additional costs to the city because of the project. These include increases in traffic (both vehicular and foot) and increases in public safety staffing (particularly on weekends). However, staff are confident that those costs are easily covered through just a small portion of the new tax revenue being generated by the project. This is true even at the \$24.8 million estimate. As a result, net tax revenue and net economic impact are unambiguously positive and large.

Casino gaming is coming to Virginia. Residents of Norfolk and other Hampton Roads localities will visit and spend money at a Virginia casino. The proposed Norfolk casino will enable the city and its residents to keep much of that spending as well as attract out-of-market casino spending.

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Appendix A

Comparable Casino List with Associated Revenue per Position

Resort	Revenue Per Slot/Day	Revenue Per Table/Day	Net Gross Gaming Revenue (Adjusted Gross Receipts) \$Millions
<i>MGM National Harbor</i>	\$345	\$5,323	\$722.5
<i>Baltimore Live</i>	\$280	\$2,440	\$585.5
<i>Horseshoe Baltimore</i>	\$198	\$1,941	\$277.9
<i>MGM Grand Detroit</i>	\$318	\$4,500	\$618.0
<i>MotorCity Detroit</i>	\$410	\$4,500	\$500.8
<i>Chicago Des Plaines</i>	\$828	\$9,421	\$491.3
<i>FireKeepers Battle Creek</i>	\$267	\$2,000	\$333.7
<i>Parx Philadelphia</i>	\$310	\$2,664	\$560.1
<i>Sugar House Philadelphia</i>	\$272	\$2,408	\$301.9
<i>Sands Bethlehem</i>	\$276	\$3,044	\$566.8
<i>Rivers Pittsburgh</i>	\$248	\$1,482	\$331.6
<i>Hollywood Columbus</i>	\$180	\$1,620	\$203.7
<i>Jack Cleveland</i>	\$205	\$2,223	\$196.6
<i>Hollywood Toledo</i>	\$211	\$1,420	\$193.1
Comps Average	\$311	\$3,213	\$420.2

Source: Various state sources and staff calculations