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GAMBLING ON THE RIVERFRONT IS WILMINGTON READY?

DOES CHILD SUPPORT TREAT CITIZENS LIKE CRIMINALS?

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Gambling with Wilmington's Riverfront



Once upon a time, there was a little state called Delaware. This little state had a teeming Riverfront along its Wilmington city where adults wandered the Delaware Art Museum while youth danced the night away at Kahunaville. Out-of-towners shopped tax-free outlet stores and everyone satiated their hunger at casual Joe's Crab Shack and upscale Harry's Seafood Grill. Families played together during outings to the Daniel S. Frawley Blue Rocks minor-league ballpark. Exclusive apartment residences sprouted around the area, businesses overlooked the credit card megalopolis, and everyone was happy. And then slot machines were proposed along Wilmington's Riverfront.

Three sites currently vie for the honor: a landlocked locale in Georgetown, a floating casino on the Delaware River near Pennsgrove, NJ, and the Christina Riverfront complex which has the strongest support. The 30 investors comprising Delaware Program LLC launched a campaign in June 2003 to establish a slots/hotel complex at 401-501 A Street. To that end, Republican State Representative Joseph DiPinto sponsored legislation of two bills called the Public Education Assistance Act: House bill 250, authorizing this gaming venue, and House bill 260, allocating scholarship monies from this venture to Delaware's three state-supported higher education institutions.

Slot machines, officially termed video lottery, are not a new concept to the state. Years ago, when competition from horse racing tracks in Pennsylvania, West Virginia, and Maryland forced Delaware to close two of its five racetracks, the state introduced legislation to install slot

machines at the tracks to provide extra revenue. Delaware's then-Governor Thomas Carper didn't sign the bill, but since he didn't veto it within a given time either, video lottery legislation became law in July 1994. With the slots' contributions, racing purses increased and the three tracks prospered. Horse farms grew, strengthening the agricultural industry, and new ones were created, preserving open space. Video lottery saved Delaware's horse industry from perishing; and now supporters of the Riverfront legislation look to that same loyal clientele to provide jobs, eliminate Wilmington's deficit, and increase scholarship funding.

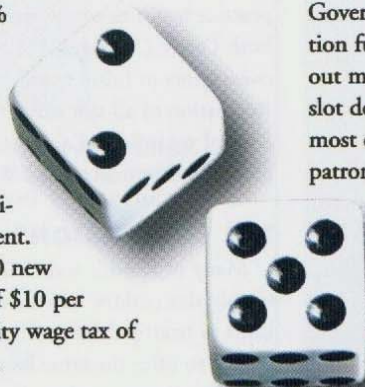
THE FINANCES

"Our studies show, based on what's called the Atlantic City Effect, all of the casinos will end up higher in revenues with a fourth casino because it makes Delaware more of a gaming destination," says Michael Flynn, spokesman for Delaware Program LLC. "Ultimately what it's going to

do is make all of the gaming facilities more competitive and more attractive.”

More of the current is quite a lot. By law, Delaware's video lottery games annually return 87% to 95% of all wagers to its players. The remaining amount is profit. In the fiscal year ending June 2003, the Delaware State Lottery Annual Report indicates the before-expenses revenue as \$525,664,429, distributing a 49% commission to the three tracks (\$254M), 35% to the State General Fund (\$184M), 11% to increase the size of horse race purse (\$58M), and 5% for the leasing, servicing, and upgrading of the games (\$28M). The first quarter of 2004 shows a monthly average net profit from slots of \$45.2M, an increase from last year. None of that goes to local municipalities, and that's where the Riverfront proposal differs.

The riverfront's current proposal would return 92% to players, an amount on par with the other locations. According to Sam Waltz & Associates, the public relations firm hired by the investment company, of that remaining 8% revenue, an approximately \$58M would be added to the General Fund, \$22M is earmarked for college scholarships, and an estimated \$6M would close the City of Wilmington's projected budget deficit. The remaining \$62M would contribute to the facility's operation, overhead, profit, and management. Supporters foresee a financial boon of 300-600 new jobs to the city of Wilmington at a head tax of \$10 per head per month for full time employees and city wage tax of 1.25% for both full- and part-time employees.



“Right now, 48% of the buildings in the City of Wilmington are owned by non-profits or churches, so they're exempt from taxes. You can't get any property tax, so you keep raising the taxes on 52% of the people,” says Democrat City Councilman Norman Oliver.

THE CONTROVERSY

Battle lines have been drawn along economic and social grounds as a result of this drafted video lottery legislation. Various studies suggest the negatives of social impact, while proponents cite studies highlighting the positive economic impact of the slot parlor.

Plunking the gaming complex across from the Amtrak train station affords gamers from Philadelphia to New York to Washington, DC a transportation option that the suburban slots can't take advantage of. In attracting these new gamers, however, there are three elements of controversy to consider: competition, local economy, and demographics.

“You have to conclude that [gaming] is a real business and it has been a growth business,” says DiPinto, who also supported the original video lottery legislation 10 years ago. “We ought to look at this as a competitive business. You wouldn't sit back and wait for your competition to establish an agenda.”

A study by Dr. John O'Neill of Hospitality Advisory Services LLC ranks little Delaware's revenue 7th among the over 40 U.S. slots' markets and our green-eyed neighbors want a piece of the action. Maryland will sit out the fight for a second year after the House Ways and Means committee defeated the slot legislation in April 21-0 despite projections of an \$800M shortfall. Pennsylvania is still in the race, awarding one of the state's available harness racing licenses to the proposed Chester Downs and

Marina in Delaware County, but construction has not begun. Considering that Delaware's slot legislation was introduced and reintroduced for many years before it was finally passed, no one seems concerned by these setbacks.

No one but Delaware, that is.

“With 60% of our customers coming from primarily Pennsylvania and Maryland, we're not going to be able to keep our revenues and the current level once they're in business,” says Secretary of Finance David Singleton, expressing concern that gamers would choose the closer location to gamble at. “If everybody did that, we would lose \$120M per year in revenue. Even if only \$60M was lost, that's still 1/3 of the state's revenue from lottery. We've seen no evidence that an additional location at the Wilmington Waterfront is going to in any meaningful way reduce that impact.”

In fact, preparations are under way to combat this possibility. Governor Ruth Ann Minner proposed legislation in January for a transition fund to allow Delaware to phase into the lower levels of income without making immediate budgetary cuts. On the other side of the coin, the slot dens amplify their edge by extending operating hours until 4 a.m. most days offering the newest, flashiest, most cutting-edge machines to its patrons.

LOCAL ECONOMY

While promotions and increased hours may temporarily boost profits, what would continually encourage gamers to drive an additional 20 to 30 miles when they wouldn't need to? Supporters expect the excitement of Wilmington's entertainment options to turn the Riverfront entity into a Gaming Destination offering patrons more than four walls alongside a circular track. Projections from PR reports indicate that Wilmington could experience 1.5 - 3 million visitors, yet the additional foot traffic may or may not benefit locals.

Extensive gambling industry studies by John Kindt and Earl Grinols, two University of Illinois professors, paint a picture where small businesses reap none of the projected benefits. Rather than exploring the neighborhood seeking treasured restaurants and quaint shops, patrons park at the gaming edifice, eat and drink inside while playing, and then transport themselves home. There's no reason to leave the building, so discretionary funds support gambling and not the local economy. Kindt shows that every \$1 spent costs taxpayers \$3, reflected in local infrastructure and regulatory costs, the criminal justice system, and social welfare. Add to that the findings from the 1999 National Gambling Impact Study Commission Report that “bar, restaurant, and general merchandise earnings fall” with the advent of a close gambling location and you have a recipe for failure.

Businesses are not the only ones in jeopardy. The savvy entrepreneurship providing train accessibility could also put the neighborhood on a straight track to social ruin. It's no random roll of the dice but strategic marketing that places the riverfront proposal in an urban setting. Kindt reports that “...the legalization of various forms of gambling activities makes 'poor people poorer' and can dramatically intensify many pre-existing social-welfare problems.” Tourist-driven areas like Atlantic City or Las Vegas can make such facilities work, Grinols' research shows, but when local clientele support the market, residents face a net loss through increased costs of crime, bankruptcy, domestic violence, lost workdays, and other social costs. Counties with casinos nearby report an 8% higher crime rate than counties without one within four years of opening. A

gambling industry funded study determined that legalized gambling created 1.5 million new criminals within the three-year period from 1994 to 1997.

DEMOGRAPHICS

It may not be fair to say that everyone who gambles is a troubled individual, but Kindt's 2003 study reveals that 27% to 55% of casino revenues come from problem or pathological gamblers. Will Wilmington's shores swim with refugees seeking asylum from negative feelings or mentally disordered individuals constantly focusing on the need to win? Problem gambling is addressed by providing 1% of the riverfront's gross to provide phone help lines, therapy, and education, making Delaware's statewide support the most comprehensive over even Nevada. This concession, however, is an admission that a problem exists. Allocating money to treat the problem that they will create furthers a problem that need not exist. This bandage over the problem solves nothing.

So who are these people? Based on the 1999 Gambling Impact and Behavior Study, the average patron is an unemployed African-American male over 50 years old with no college degree, living within 50 miles of the locale. African-Americans have been shown to play state lotteries more than other groups, spending \$998/year while white counterparts spend only \$210/year. They make up 25% of the heaviest lottery players, and spending increases as education levels fall.

EDUCATION AND OTHER ISSUES

Educational support is a byproduct of the proposed legislation, and it may attract supporters for that reason alone. The original legislation, after all, was established to support the horse industry, and it achieved many supporters for that cause only. The current proposal establishes scholarships for the 81% of Delaware students requiring financial aid for 4-year college programs. There is no question that the three state-sponsored education institutions--University of Delaware, Delaware State University and Delaware Technical & Community College--currently rely on the state for funding which fluctuates each year. This addendum gives the institutions more of what they presently have, and there's a greater need for it than people may realize. Sam Waltz statistics show that the 5-year University of Delaware graduation rate is 67-72%, broken down by race as White 68-71%, African American: 59-61%, and Hispanic: 62-72%. The DSU graduation rate within 6 years is only 29.6%.

"If you talk to the people who are involved in that aspect of education and speak candidly about the reasons why young people drop out, the conventional wisdom is that they drop out because they can't make, perform adequately to continue to pass," says DiPinto. "The real data show that it's usually a fiscal reason...particularly with the minority community...."

The financial benefits, however, may not be enough of a reason for

this legislation to pass. Kindt's 1994 study suggests that this school of thought is the antithesis of education. For a person to be "making a living via gambling activities not only abrogates the perceived need for an education, but also reinforces economically unproductive activities.... In states with legalized gambling activities which were initiated allegedly to bolster tax revenues to 'education,' the funding in 'real dollars' has almost uniformly decreased."

If this legislation is passed, who will run such a profitable establishment? Will Delaware Program LLC be given the reins without any bidding process simply because they proposed it? Would they be the best management company?

"We have significant experience on our team managing a large venue like this," says Flynn. "Some of our principal investors are owners of several hotels in Delaware, so we certainly understand that side of the business. The actual management of the casino facility itself, the game floor, would likely be outsourced to a casino management company." This practice is not new; the racetracks are responsible for slot operation, and both Dover Downs and Harrington's Midway Slots choose to use outside contractors to fulfill management of some part of the operation. Regulation of all slot machines is and will remain under state lottery office control regardless of any new proposal, but in the end, local employees may not even manage the Wilmington enterprise.

THE CONCLUSION?

Many of Kindt's and Grinols' studies are of full-fledged casinos, not simply slot parlors, but the comparisons can be made. In fact, comparisons to nearby Atlantic City come to mind, a city where gambling was touted to offer the same benefits to New Jersey but with the reality of closed businesses and seedy neighborhoods three blocks off the boardwalk. Both sides agree that a comparison between the two is unfair. Slots offer a more modest atmosphere than the casino swirl of baccarat and roulette activities.

"It's difficult to compare what we have in Delaware to what Atlantic City has and we have those comparisons all the time, from the neighborhood perspective to the same kinds of economic benefits and problems Atlantic City's faced," says Flynn. "There's a good way to draw comparisons and a bad way."

Good or bad, Governor Minner opposes a non-racetrack facility, period. The Riverfront's renaissance is a priority for her administration, but she wants it to grow in a different direction. "What we have down there is a combination of business and family entertainment and residential," states Singleton. "A big gambling operation is just not consistent with that."

In the end, perception will win out and impact local economy for better or for worse. Will potential customers be deterred by the increased traffic? Will Harry's Seafood Grill patrons be driven away by the "bad element"? Pennsylvania is only a 10-minute drive north, after all. Who pays for additional law enforcement? Will this affect taxes? Parking? How will the riverfront composition alter on a daily and nightly basis? Will youth choose not to party at Kahunaville because of increased crime? Will July 4th fireworks echo with the ching-ching of slot machines? Will the Delaware population feed the stereotypes, or add to the statistics?

"Ultimately it's going to be up to the General Assembly to decide," states Oliver. As of press date, the legislation has not come out of committee to answer these questions. The story does not end today.

