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Delaware casinos: Learning from a gambling state

West Virginia's table games provide a cautionary tale

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WEIRTON, W.V. -- As Delaware begins implementing table games and possibly adding new casinos, it has looked for guidance to West Virginia, where gambling similarly expanded beyond slot machines just two years ago.

Delaware copied much of its law and tax rates, and may copy the way it regulates table games from that state.

But there is a cautionary tale to be learned there as well when it comes to the question of how much government should rely on the money it gets from gambling.

Unlike Delaware, West Virginia gives a cut of gambling proceeds to the cities and counties where the casinos are located.

Wheeling and Weirton, two West Virginia cities along the Ohio River, serve as opposing case studies.

Bustling Wheeling, with its diversified economy, treats gambling as an industry to be nurtured for long-term revenue. While gambling revenue has become an indispensable crutch in Weirton, a former steel town nearly gutted by the decline of that industry.

Wheeling officials invested gambling revenue from the Wheeling Island Hotel-Casino and Racetrack into infrastructure. They hope to turn their city into a tourist destination that also includes a hilltop resort, an amusement park, a minor league hockey team, a conference center and large retailers.

"You have to look at the whole package of what we have to offer," said Terry Sterling, president of the Wheeling Area of Chamber of Commerce. "It's a great place."

Thirty miles up the Ohio River, Weirton uses its gambling revenues from the Mountaineer Casino, Racetrack and Resort to plug holes in taxes and jobs that left when the steelmaking industry nearly disappeared a decade ago.

"If Mountaineer is in bad shape, we're in bad shape," said John Newbrough, 62, who owns a camera shop on Weirton's Main Street.

West Virginia has enjoyed an early lead in table games. But with table games coming to Ohio and Pennsylvania, that advantage will vanish.

Delaware is in the same predicament. It is trying to establish itself as a gambling destination so it can withstand whatever comes to Pennsylvania and Maryland. Parlay betting on NFL games began in September and no other state east of the Mississippi can offer it. Delaware is hoping that uniqueness can lure gamblers to the tables and slot machines here.

Delaware is moving closer to legalizing table games and talks continue about adding new venues. The hopes of new casinos have prompted developers in Wilmington to start purchasing land. One investor has drafted plans to build a resort and casino outside Millsboro.

New venues and new forms of gambling could mean a boost in revenues for the state, even if temporary, that will leave officials with more decisions about how to use the funds.

Nearly one dollar in ten of Delaware's day-to-day spending comes from taxes on gambling. Table games and more venues could increase that percentage.

"While it's an important piece of the overall budget puzzle, it is never going to be the silver bullet that solves the budget problem in Delaware," said University of Delaware political science professor Joe Pika. "Nor is it going to be the driver for economic development in the state."

Weirton's exodus

Weirton, sits nestled along the Ohio River in West Virginia's Northern Panhandle. It was once a prime location for mining iron, making it into steel and then shipping it either south along the river or by train west to Ohio and Michigan to be used by auto manufacturers.

At the height of manufacturing in the 1970s, the Weirton Steel Company employed about 14,000 people. The company now employees about 3,000.

The town has seen an exodus in the past two decades, the population of 22,124 in 1990 has fallen to about 18,748 in 2008, a 15 percent drop.

Weirton is one of four cities where casino gambling is legal in West Virginia, and one of three with table games. With Ohio across the river and the Pennsylvania border about five miles to the west, the casino easily draws gamblers from both states.

The Mountaineer Casino sits atop a peak that overlooks the river, providing a view from the Western-themed casino of the manufacturing on either side of the Ohio.

Opened in 1951 as a horse racing venue, in 1994 the state allowed them to add slot machines and then table games in 2007. As a requirement of the law to allow table games, casinos had to be located close to the border and had to build a hotel. Legislators also gave a portion of the tax revenues to the counties where they were located to be further divided among the cities in the area.

Delaware also legalized slot machines in Delaware in 1994, a move supporters said would revitalize the horse racing industry, and put the funds -- \$63.9 million at the time -- directly into the state's general operating budget.

The only boom seen in the Delaware cities where the casinos were located was from an increase in retail stores and casino jobs.

Weirton City Manager Gary DuFour says the bulk of the money his city receives goes into the operating budget for services like police and operation of city government. The city receives about \$446,000 in tax dollars from the casino, more than half its operating budget.

"That's a tremendous change for a community that was fully part of the steel industry," DuFour said.

If revenue from Mountaineer were to decline sharply, the impact on Weirton would be immediate, DuFour said. The city would be forced to find other tax sources, he said but more devastating would be that most people would likely abandon the city. According to corporate filings, Mountaineer employs about 1,825 people.

The presence of the casino means a lot to local business, like James Dowdy's Manuel's Dry Cleaning and Tailoring on Main Street.

"Weirton has always been a gambling town," Dowdy, a life-long Weirton resident, said, adding that from the turn of the century people would come into town from the steel mills and mining sites to try their luck at a poker table or slot machine before it was legal.

Danny Greathouse, a Hancock County commissioner, said the county, which includes Weirton, has done a better job of using the money, funding construction of a sewer expansion that had been put on hold for more than two decades.

"The idea behind the passage of table games was that the money would be reinvested and Mountaineer would become a resort," Greathouse said.

There aren't many attractions in town beyond gambling, he said, aside from a small state park. Greathouse thinks making the region more of a destination would bring families and tourists back.

But Greathouse admits that hasn't happened.

"It's been sloppy," he said.

Delaware has also missed opportunities to create attractions beyond gambling. DelPark at one point planned to add a hotel to the facility, but that never materialized.

While Weirton is the largest city in Hancock County, Greathouse said the smaller town of Chester has wisely invested its share of the gambling revenues.

Chester, located north of the Mountaineer casino, has an advantage -- visitors from Ohio cities have to pass through the town to get to the casino.

Mary Lawrence, who owns the River Island Collectibles in Chester, said the city council wants to expand the main thoroughfare to the casino, for instance, providing a tourist-friendly stop along the way to the resort.

Lawrence said she gets shoppers both heading to the casino before they lose their money and often men heading home after losing a bundle.

"Guys who lost a lot of money at the track come in here looking for gifts for the wives saying, 'We're going to be in trouble,' " Lawrence said.

Dianne Quinonez, 58, of Riverside, Calif., is sort of person Chester is trying to attract. While visiting her son in Ohio, she decided to take a day trip to Mountaineer, but not before stopping at Lawrence's shop to try to get a West Virginia souvenir.

And while her cross-country trip was filled with more high-profile stops, such as the Mormon Tabernacle in Salt Lake City, she didn't want to forget her time in West Virginia.

"I like to see all the sites," she explained while picking out a West Virginia decorated hand bell.

A tourist destination

A city of 30,000, Wheeling was never as dependent as Weirton on steel. As the employment numbers at Wheeling-Pittsburgh Steel have dwindled, the business scene shifted to include banking and tourism. Gambling is just a part of its diversified economy, said Sterling of the chamber.

Located in the middle of the Ohio River, Wheeling Island Casino draws gamblers, but Sterling says the city and Ohio County have developed the area as a tourist destination.

"There has been a very positive economic impact to our county from their presence," Sterling said. "They're a huge economic generator."

Sterling said the county has been investing casino revenues into projects in an area called The Highlands on the edge of town where new retailers are opening.

The biggest is a Cabela's outdoor store, which Sterling said draws people from hundreds of miles for their hunting, fishing and camping needs. The county is also in talks to add an amusement park near the stores.

In an attempt to foster partnerships between businesses, Sterling said the chamber's board includes representatives from all the big tourist attractions, including the casino.

The city has begun promoting its convention center, which this summer hosted a national conference of Jehovah's Witnesses and hopes to draw more groups to the area.

The Wheeling Nailers Hockey Club, a minor league offshoot of the Pittsburgh Penguins, offer a package deal: Two tickets, a night at the Wheeling Island casino and a \$20 dinner voucher for just \$99.

Oglebay Resort and Conference Center at the edge of town offer 36 holes of golfing and skiing during the winter.

Those attractions give Sterling confidence that, even as competition from Ohio and Pennsylvania grows, Wheeling will continue to prosper. The city has a head start over any possible competitors because they've already got the other attractions in place, he said.

Wheeling gets nearly \$1 million a year in gambling funds, said Frank O'Brien, director of the Wheeling Convention and Visitor's Bureau. Wheeling city officials declined repeated requests to be interviewed, but O'Brien agreed to discuss how Wheeling government is using the funds.

Most of that money has been invested in police and firefighter pension funds, he said, strengthening the departments and ensuring the city wouldn't be left scrambling if gambling revenue drops.

Ohio County used the \$2 million a year it receives to develop The Highlands around the casino, paving roads running sewers and setting up streetlights, Sterling said. The outdoor megastore Cabela's has proven to be an attraction in itself, he said.

While the jobs the casino benefit the city, O'Brien said the broader impact has been more important, adding that they often partner with the resort to offer packages or conduct fundraisers for the community shelters.

"We have a casino and a partner in the community," O'Brien said. "It has been win, win, win."

The 'multiplier effect'

Delaware's reliance on gambling taxes has more in common with Weirton than Wheeling.

John Warren Kindt, a business and legal policy professor at the University of Illinois, said gambling revenue at its root is problematic because it takes money from those who can least afford it and turns it into corporate profits that have little economic spin-off, which experts call a "multiplier effect."

When a consumer buys a product, whether manufactured item or a service, the purchase creates more jobs and allow puts more money into the economy, he said.

"It's lost consumer spending, that's a lost job -- for every slot machine you're losing one job," Kindt said.

As for promises that it will help education programs or the elderly, Kindt said such commitments generally hurt those programs more than helping them. When gambling funds are committed to special projects, Kindt said other sources of funding go away and in the long-term the programs get less money.

"In practically every case, it's a shell game on the public," Kindt said.

Robert Ward, director of fiscal studies at the Nelson A. Rockefeller Institute of Government, said a survey of gambling revenues found they grow at a slower rate than other revenue sources.

"Gambling revenue typically will not keep pace with education spending, so in that case it will need to be supplemented with other revenue over time," Ward said. "The same is true if gambling revenue is intended as part of the overall general revenue stream."

Gambling taxes are put to the best use when they encourage economic development, said David Schwartz, director of the Center for Gaming Research at the University of Nevada, Las Vegas. He cited the example of New Jersey.

The state legalized gambling in the 1970s to try to revive Atlantic City and keep a low tax burden on the casinos, funneling the money toward development projects, Schwartz said.

The New Jersey Casino Reinvestment Development Authority reports it has spent \$1.8 billion statewide on construction projects in 24 years, including 350 public housing units in Atlantic City and \$200 million in improvements to the Atlantic City Expressway.

Pika noted that Markell and Economic Development Director Alan Levin have been promoting their efforts to broaden Delaware's economy in light of the drastic decline in manufacturing jobs. In the past year, the state has lost two auto assembly plants and an oil refinery.

"Levin and the governor have both been trying to find ways to diversify the economy as we move out of the manufacturing economy that it once was," Pika said. Advocates of any industry will always claim it will be more beneficial than it actually will, he said, and Delaware's gambling advocates were no different.

"It's important for public decision-makers and for the public at large to be very cautious," Pika said.

"If you hitch your wagon to the horse of gambling and the horse isn't having a good year then you've got trouble," Schwartz said.
