

No. 973

July, 1988

### DETROIT BALLOT ISSUE: PROHIBIT CASINO GAMBLING

**The Proposal** This proposed ordinance provides that, if at any time casino gambling is approved by state law, it shall be prohibited within the corporate limits of the City of Detroit, including Belle Isle. A "Yes" vote is for the prohibition and against legalized casino gambling. If approved, the ballot proposal would initiate a city ordinance, but a state law authorizing casino gambling could supersede that ordinance.

A primary goal of the originators of this ballot proposal is to advise state and local political leaders that citizens of Detroit continue to reject the idea of casino gambling. Detroiters previously registered their opposition to legalized casino gambling in 1976 and again in 1981, both times of severe local fiscal distress. In contrast to those elections, the August 1988 vote will occur during the longest peacetime economic recovery on record, At a time when unemployment is at or near its lowest point in a decade.

**Opposing the Prohibition** Proponents of casino gaming-- those who would vote "No" on the proposed ordinance-- emphasize the potential economic benefits to be derived: creation of 40,000 new jobs in casinos plus additional spin-off jobs; enhancement of tourism and convention business; and use of increased tax revenues to fund social programs and to decrease the tax burden on Detroiters. Legalizing casino gaming would create thousands of jobs in the construction industry, as casino-hotels were built over a ten-year period; new businesses would be created to support those casino-hotels. The establishment of huge casino-hotel complexes, each employing several thousand workers and paying millions of dollars in taxes, attracting hordes of tourists and giving conventioners a reason to spend a few more days in Detroit, appeals to those who see economic development as the primary objective of legalizing gambling. Proponents envision plane loads and bus loads of gamblers spending their money in Detroit (and Detroiters who would otherwise be visiting Las Vegas or Atlantic City doing likewise), providing area residents with jobs, and the city, county, and state with tax revenues to use for regulation and crime control as well as for social and public health programs and local tax reductions. Proponents assert that land values would increase, boosting stagnant property tax revenues; the huge job growth will increase revenues from income taxes on residents and nonresidents. Detroit's historical dependence on the auto industry would be overcome. The image of the city would be changed for the better, and Detroit would become a major tourist center. The city is in the process of expanding Cobo Hall; legalizing casino gaming may be the only way to insure the building of sufficient hotel rooms to make that facility successful. Advocates of legalized casino gambling for Detroit believe that it would be a natural extension of an existing trend: the state raises money from lottery operations and, taxes on-track betting on horse races; Indian tribes in the northern lower peninsula operate casinos on reservations; churches raise money from bingo games and raffles. To proponents, legalizing gambling removes unwarranted restrictions on personal choice. Besides, no one who opposes gambling would be forced to participate.

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**Supporting the Prohibition** The establishment of huge casino-hotel complexes is anathema to other citizens concerned with crime, quality of life, and moral issues. These people, who would vote “Yes” on the proposed ordinance, believe that gambling proponents have unrealistic expectations of the benefits to be derived from legalized gaming. Instead of shifting the tax burden to nonresidents, gambling opponents worry that Detroiters and other residents of southeast Michigan would gamble away money that would otherwise support the local economy; they foresee local resources being funneled out of the state, as profits to casino owners. Those who lobby against gambling assert that it is equally as cyclical an industry as heavy manufacturing. Casino opponents point to the experience of Atlantic City, where major casinos are self-contained units that satisfy all the needs of gamblers, who stay an average of six hours and tend not to leave the confines of the gambling complex. There, business- and family-oriented activities have fled the city, and exorbitant increases in land values have forced out low-income and elderly residents. Opponents fear increases in street crime, organized crime, and white-collar crime. They believe that convention planners look for locations with family attractions, and that convention site selection committees fear that gambling pulls attendees away from meetings. They expect that the tax revenues from casinos would be required to provide services and infrastructure improvements for the casinos, leaving little or nothing for the neighborhoods. They expect the rising cost of downtown real estate would force up rents and parking costs, driving all businesses not directly connected with casinos to the suburbs. They fear that those who can least afford to lose would gamble more than they ought, threatening their families’ ability to survive, and increasing the need for social services and the burden on resident taxpayers. They fear that many unemployed Detroiters would either be disqualified from working in a highly regulated industry or would qualify only for the menial, minimum-wage jobs; better positions would be filled by suburbanites. Many believe that gambling is morally wrong, and/or that government should not feed on the weakness of people. In addition to the risk of public corruption, some fear that the conflict between a government’s legitimate goal of maximizing tax revenues and its role in regulation to prevent abuses could lead to government stimulating gambling as a means of raising revenue. Revenue enhancement could even provide an incentive to subordinate regulatory functions and decrease public protection.

**Tax Revenues** Nevada imposes a range of fees and taxes on casinos: quarterly percentage fee; annual state license fee; quarterly flat license fee; slot machine tax; casino entertainment tax; quarterly county license fee; and various other county, city, and town fees and taxes. New Jersey taxes casinos’ gross revenues at 8% and requires casinos to pay 2% of net income to a Casino Redevelopment Fund for redevelopment of Atlantic City and other areas.

Estimates of tax revenue to be derived by Detroit from legalized gaming require assumptions about the type of casino operations, the number of casinos, the number and socioeconomic status of players, the structure and rates of taxes, the degree and effectiveness of regulation, and other unknown factors. It is unknown whether there are sufficient serious gamblers to support a third major gambling center. There is also uncertainty as to the ways various forms of gambling may interact. Competition may increase revenues to some forms of gaming while decreasing revenues to others, such as the state lottery or horse racing. Legalization may lead those who have never gambled before to become addicted players and affect the gaming propensity of the whole

community. An objective analysis of the city, county, and state revenues to be derived from casino gambling is therefore problematical.

Higher tax rates and dedication of revenues to specific social purposes may make legalization more palatable, but strict regulation and high rates of taxation also provide disincentives to investment.

**Casino Gaming Study Commission** In February 1988, the mayor of the City of Detroit appointed a 64-member Casino Gaming Study Commission “to conduct a ‘thorough, impartial, definitive study’ of the potential impact the introduction of casino gaming could have on Detroit.” The commission was divided into four committees: Crime; Image of Detroit/Social Issues; Economic Implications/Location Sites; and Legal and Regulatory. “The Commission’s assumptive model of twelve, 1,000 room hotel casinos was selected because it affords the greatest number of jobs and provides a basis for weighting maximum potential economic benefits against any possible negative costs,” according to the final report of the commission.

This group, last in a series of study groups appointed in a twelve-year effort to obtain legal authority for and community acceptance of casino gambling, issued their final report on June 8, 1988. The commission recommended the establishment of up to 12 Atlantic City-style casinos (mirroring the assumptive model given them for fact-finding and analysis), although the “Findings and Conclusions” of the Laventhol and Horwath Study published in the Commission’s final report stated “...it is estimated that between 8 and 10 casino-hotels could eventually be supported in Detroit.” That market study, commissioned by the Casino Gaming Study Commission, indicated that direct casino-hotel employment was estimated to produce between 30,000 and 40,000 direct jobs, of which 40% would require skilled labor. An additional 20,000 to 25,000 indirect jobs could be created, according to the commission’s conclusions and recommendations.

The Casino Gaming Study Commission projections are based on gaming activity by the 35.5 million adults within 300 miles of Detroit; the casino win is estimated at \$1.7 billion to \$2 billion annually after phased growth. Estimated tax revenues from a “mature” gambling industry, i.e. seven to ten years after construction of the first facility, are based on ten 1,000 room casino-hotels and tax rates substantially higher than those imposed in Nevada or Atlantic City:

Gross win tax at 8%	\$160 million
Community redevelopment tax at 5%	100
City income tax at current rates	21
Casino regulatory and licensing fees	31
City, county, and school property taxes at current rates	116
State sales tax	<u>38</u>
<b>Total</b>	<b>\$466</b>

The commission report assumes “the new economic activity created by the casino gaming hotels would more than offset any business, job, or economic loss caused by businesses which decided to leave or not locate in Detroit because of casino gaming.” Recommendations include allocation to Detroit of over 60% of all new taxes; suggested applications of those revenues include reducing property tax or resident income tax; hiring 500 additional police officers; improving public education; funding drug pro-

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grams and other social programs for the homeless, youth, senior citizens, and compulsive gamblers. The redevelopment tax would be used for neighborhood redevelopment and new housing, according to the commission recommendation.

The commission's recommendations are predicated on accessible, egalitarian gambling operations like those in Nevada and Atlantic City. Although there are alternate styles of legalized gambling that could be required by enabling legislation that would blunt both the fears of opponents and the optimism of enthusiasts, the Casino Gaming Study Commission recommendation included few restrictions: a preference for gaming rooms on upper floors, but separate entrances for hotel and gaming patrons if gaming rooms are on the ground floor; no free drinks on the gaming floor; mandating that casinos be closed at least four hours a day and until 2:00 PM on Sundays; prohibiting anyone under the age of 21 in casinos. The commission recommended stringent licensing and regulation controls as well as development of a master plan for physical development. Significant minority involvement in casino ownership and casino-related business would be required, according to the commission conclusions and recommendations.