

Testimony By
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Before

House Judiciary Committee

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Mr. Chairman, members of the House Judiciary Committee, thank you for the opportunity to appear before you today and present testimony on gambling in Pennsylvania and its affect on tourism, hospitality and business industries.

My name is Mike McGovern and I am representing the Pennsylvania Restaurant Association. I am speaking on behalf of and represent over 2,500 members of our Association operating businesses at over 4,600 locations throughout this Commonwealth, and represent individuals operating both large and small, individual, independent and multiple chain and franchise foodservice establishments.

Our eating place sales are expected to reach \$8.7 billion this year. We employ 280,552 individuals and represent the largest retail employer and the second largest private sector employer in the Commonwealth.

As you can see Mr. Chairman, our foodservice industry contributes significantly to the economic viability of our Commonwealth. It also is a highly competitive industry who relies heavily on the disposable income of our citizens and our visitors.

The mission of the Pennsylvania Restaurant Association is to promote, protect, and improve the foodservice industry in the Commonwealth of Pennsylvania.

The introduction of proposed gambling legislation necessitates that our Association maintain its mission and focus on the economic, socioeconomic, job and discretionary income facets that would be affected if additional forms of gambling became legalized in the Commonwealth of Pennsylvania.

Our Association is opposed to any legislation that would permit casinos or riverboat gambling to compete with our restaurants for disposable income and/or affect the fiscal integrity and competitiveness of our foodservice industry.

Proponents argue that casinos will bring in more tourists. Studies, however, show many gamblers aren't out-of-town tourists, but residents of the surrounding community and when casinos come to town, these local residents often end up spending their discretionary dollars inside the casino rather than in local businesses. A study by the Gaming and Economic Development Institute, for example, determined that a limited-scale local casino draws 67 percent of revenues from the local population and another 18 percent from regional visitors. A large-scale casino gets 52 percent of its revenues from the local population, with an additional 20 percent from regional travelers, the study found.

Proponents also claim casinos will create jobs. A large casino could hire hundreds of new dealers, bartenders, waitstaff and maintenance workers as well as bring in a one-time increase in demand for construction workers, plumbers and electricians to build the casino.

In many cases, however, the casinos take employees from other service-sector jobs and increase competition between employers. Casinos, with high profit margins, can offer employees higher salaries and attract the most talented people in the area. Earl Grinols, a University of Illinois professor who studied ten counties that legalized casino gambling in the 1990s, concluded job gains in those counties were negligible, and after accounting for job gains without gambling, one job was lost for each gambling job created. Restaurateurs across the country who already face

tight labor markets are finding that in many cases casinos only increase competition and drive up wages in already limited markets.

Many state and local governments support casinos as a way of generating tax revenues, noting that land-based and riverboat casinos will bring in wagering taxes, sales taxes, meal and drink taxes, and admission or docking fees.

Yet one researcher, Robert Goodman, Director of the United States Gambling Study, warns there are hidden costs associated with casinos. In his study *Legalizing Gambling As A Strategy For Economic Development*, Goodman finds that an influx of tourists increases the need for basic support services such as transportation, health and police, and, coincidentally, the need for corresponding increased public resources.

Goodman further finds that gambling usually diverts money from people's discretionary income. Richard Syron, president of the Federal Reserve Bank of Boston, believes that money for gambling is extracted from other consumer spending.

Scott Allmendinger, editor of *Restaurant Business*, wrote in his piece "Can't Compete with Free", "For 15 years, casino hotels have been dumping millions of dollars worth of food and beverage on Atlantic City - \$234 million worth in 1991 alone - in order to keep the gamblers as close to the tables as possible...The effect on Atlantic City's restaurants: 40% fewer units competing for 10% fewer dollars in a 10-year period...In Minnesota restaurant business within a 30-mile radius of casinos with food service fell by 20% to 50%."

Jan Oleck's article "Are They Gambling With Your Future?" in *Restaurant Business* reports that in Atlantic City the number of restaurants declined from 243 in 1977 to 146 in 1987, the ten year period following the first year casinos were legalized.

Casinos and riverboats can use complimentary or reduced or subsidized meals and alcoholic beverages to promote their gambling and as a legitimate business expense against their profits.

Independent and multi-unit restaurants have great difficulty competing on a playing field that is not level. It is difficult to compete with free or reduced food and alcoholic beverages.

It is more difficult today than ever before to be a public official. You are asked to do more with less. You have three choices - reduce expenditures, increase taxes, or find new revenue sources. The attractiveness of the latter is obvious.

There is increasing documentation that the revenue projections from gambling have been overstated and that the cost to governments in infrastructure, public safety, transportation and social services have exceeded original estimates.

Casinos and riverboat gambling proponents have created and will continue to create the hope of increased tourism. However, we have shown that it primarily delivers local gamblers spending all their time and money in the casinos and on the boats providing little or no real benefit to the traditional tourist industry. Their promise of substantial economic gain is the result of the transfer of disposable income at the expense of existing businesses through loss-leader competition and subsidized foodservice and beverage service.

We have reviewed many studies on the impact of gambling in other areas of the country and consulted with our fellow state restaurant associations. Overwhelmingly, these studies point out the negative impact on our foodservice industry, and other existing businesses, in areas that have approved gambling.

There have been indications of a growing national diversion of consumer expenditures on restaurants, movie houses, sports arenas, museums and other leisure activities to gambling enterprises. Atlantic

City is a grim reminder of what can happen to an area socially and economically when disposable income ends up in the hands of a privileged few.

We believe the economic impact on our existing business community to be so complex and pervasive that we recommend that this Committee commission an independent study to evaluate the impact of gambling on tourism, hospitality and business industries and to determine if the citizens of Pennsylvania want to expand gambling. This study should be conducted by the Joint State Government Commission, the Legislative Budget and Finance Committee or by a leading Pennsylvania college or university to provide this committee with the knowledge and factual information it needs to make an informed decision on whether or not to recommend to the House of Representatives the approval of the expansion of gambling in Pennsylvania.

In closing, we applaud the Chairman and the members of this Committee for convening this public hearing to discuss the impact gambling would have on tourism, hospitality and business industries in the Commonwealth of Pennsylvania. We look forward to participating in the continued debate on this highly sensitive issue and would hope that the members of this Committee would call upon our Association to continue to provide input to insure the continued viability of our foodservice industry.

Thank you for the opportunity to share our concerns with you today. Mr. Chairman, I would be pleased to respond to any questions that you or any members of your Committee may have.

Pennsylvania Restaurant Association

Appendix

The Pennsylvania Restaurant Association has reviewed among other material and has access to the following studies on gambling dealing with both sides of this issue:

Impact of Gaming on Texas

Center for Economic Development & Research
University of Houston

The Impact of Casino Gambling in New Orleans

Ryan, Connor, & Spreyer
University of New Orleans

Casinos and Restaurants

Florida Restaurant Association

Incremental Economic Impact of a Single Casino in New Orleans

Johnson, Oakton, Ryan

Legalized Gambling as a Strategy for Economic Development

Robert Goodman
U.S. Gambling Study Organization

Testimony from 9/94 hearing on the national impact of casino gambling proliferation from the U.S. House Committee on Small Business

Market & Community Impact Assessment -- Potential Casino Development

Houston, Texas Civic Task Force on Gaming