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Rockefeller Institute Blinken Report: Gambling Not a Solution to State Revenue Woes

Albany, NY —States turning to gambling as a possible quick fix for revenue woes have often been disappointed with the results, according to a just released study from the Nelson A. Rockefeller Institute of Government, entitled *State Revenues From Gambling: Short-Term Relief, Long-Term Disappointment*.

According to Lucy Dadayan, senior policy analyst at the Institute and principal author of the report, despite the steep declines in tax revenues during the "Great Recession" most states were reluctant to raise taxes on income or sales. As an alternative, she reports, officials in many states turned to taxes on gambling, part of what are often called "sin taxes." In the recession's wake, over a dozen of states have legalized and expanded different forms of gambling activities in the hopes of raising more revenues, despite the fact gambling revenue plays a small role in state budgets, ranging between 2.0 and 2.5 percent of state own-source general revenues in the typical state.

The report demonstrates that tax and fee revenues from gambling activities have softened considerably in recent years, due, in part, to market saturation and industry cannibalization. In total, the report indicates that inflation-adjusted tax and fee revenues from major sources of gambling grew by only $0.5 billion or 1.8 percent for the nation as a whole between 2008 and 2015. This growth is largely attributable to the states that had recently legalized and expanded operations of casinos and racinos, while gambling revenues in long-time casino/racino states, at the same time, saw significant declines.

Gambling revenue did not do well in 2015, relative to 2014. Lottery revenue declined by 0.7 percent in real (inflation-adjusted) terms in fiscal year 2015, with twenty-seven states reporting declines. This was the second consecutive decline. Casinos experienced dramatic growth during the 1990s, but that growth slowed over the past decade. In recent years, much of the growth has shifted to racinos —hybrids of casinos and racetracks —as more states have approved such facilities. Revenues from casinos and racinos combined increased by 1.1 percent in real terms in 2015, but that growth is mostly attributable to two states, Maryland and Ohio, which legalized casino/racino operations after the Great Recession and opened more facilities in fiscal year 2015.

The Institute's analysis of gambling revenue trends indicates that gambling is not a reliable and sustainable source of revenue for the states and not a significant solution to budgetary problems. Additionally, Dadayan notes, gambling is associated with tangible and intangible economic and social costs that are hard to quantify and measure. The study warns that "State officials considering expansion of existing gambling activities or legalization of new activities should weigh the pros and cons carefully."

The study is the third in a series of "Blinken Reports" funded by former U.S. Ambassador to Hungary Donald Blinken and his wife, Vera. For a copy of the report, go to www.rockinst.org/pdf/government_finance/2016-04-12-Blinken_Report_Three.pdf**.**

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