

Gambling pitched as Arizona's budget salvation

By: [Jim Small](#) October 23, 2009



The struggling Arizona racing industry is hoping it can sell lawmakers on a proposal to help racetracks stay open and give the state hundreds of millions of dollars in new revenue. But the idea faces resistance on several fronts, as it would expand gambling by allowing “racinos” and by lifting limits on tribal casinos.

The proposal is simple: Give the state’s seven dog- and horse-racing venues the ability to operate slot machines, blackjack tables and poker rooms while heavily taxing the new income.

But the move also would lift limits on existing Indian casinos, allowing them to add games such as craps and roulette, which are not allowed under the 2003 gaming compact between tribes and the state.

Tribal casinos also would be allowed to stop paying millions of dollars to the state each year, but they also would lose their monopoly on gambling in Arizona. Racetrack owners have said their industry could collapse if lawmakers refuse to grant permission for casino-style gambling. Phoenix Greyhound Park, which opened in 1954, announced last month that it would be ending live races in December and shutting down for good at the end of the year.

“We’ve been seriously hurt by Indian gaming,” said Dan Luciano, the park’s general manager. “Without any other type of gaming, the model doesn’t work anymore.”

The economic recession no doubt hastened Phoenix Greyhound Park’s demise, but records from the Arizona Department of Racing show interest in racetrack betting has been declining for years.

The state’s racetracks have seen attendance, the number of races and the amount wagered – both on live and simulcast races – decline dramatically. In recent years, attendance at racetracks peaked in 1998, when there were more than 1,400 race days that drew more than 1.5 million people to the tracks. According to Department of Racing records, which date online back to 1998, racetrack betting totals

reached a high point in 2001, when \$266 million was wagered on races.

In 2009, 947 live race days drew only 1.2 million people. The amount of money bet on races decreased 29 percent, with only \$190 million being wagered that year.

Gambling has been allowed on Arizona reservations since 1992, but it expanded in 2003 after voters approved a new tribal-state gaming compact.

Gibson McKay, a lobbyist for the racetracks, said all of the tracks have struggled since the expansion of tribal casinos.

“The tribes have a \$3 billion monopoly,” McKay said. In response, the Arizona Racetrack Alliance is asking lawmakers to allow them to compete with the tribes and has hired a roster of well-known lobbyists to push for the creation of racinos when the Legislature returns to work in January.

The chief supporter is Rep. Andy Tobin, a Republican from Paulden. He floated the idea earlier this year, but many lawmakers hesitated to embrace the concept due to moral or practical objections. Tobin, the House majority whip, is hopeful the continuing economic crisis will lead to widespread support for his plan.

“It’s not a fix-all,” he said. “But for Heaven’s sakes, it could surely prevent some cuts” to state services.

Arizona has a \$2 billion hole in the fiscal 2010 budget, plus forecasted deficits of at least \$2 billion in upcoming years. Last week, Gov. Jan Brewer’s office released projections from state agencies envisioning 15-percent cuts in funding, which included releasing 13,000 prison inmates and cutting social services for the sick and poor.

Tobin’s plan relies on taxing the gross revenue from racino gambling at 45 percent. That means racinos would pay the state 45 percent of revenue collected after payouts and before accounting for operating expenses. A draft of the plan Tobin circulated in May estimated the tracks would generate nearly \$1 billion in gambling earnings within five years, which would translate into \$430 million in new revenue for the state.

The proposal also would use that future revenue stream as collateral that would allow the state to borrow \$1 billion to make up for the projected revenue shortfall during the next two years.

In addition to the new revenue stream, Tobin said racinos would create 3,800 permanent jobs at the racetracks, as well as temporary jobs during construction of facilities for the new gaming operations.

But doing so would put the state in direct violation of the 2003 gaming compact with the Native American tribes, so the legislation would end restrictions on the number of slots, video-poker machines and table games such as poker and blackjack. It would also allow the tribes to offer Vegas-style games that are now prohibited.

It would also mean that money the tribes pay into the Arizona Benefits Fund would be reduced substantially. The fund provides money for education, emergency services, wildlife conservation, tourism, the Arizona Department of Gaming and efforts to stop problem gambling.

Tribes contribute money on a sliding scale, ranging from 1 percent to 8 percent, based on gross gaming revenue. In 2008, the tribes contributed \$111 million to the state, accounting for 5.6 percent of the nearly \$2 billion in gross revenues reported to the state Department of Gaming. There is no provision in the compact allowing the state to examine the financial records of casinos.

However, if the compact is broken by an expansion of gambling, tribes would only have to pay the state 0.75 percent of their revenues. In 2008, that would have amounted to \$14.9 million.

“That will be about enough to fund the Department of Gaming,” said Sheila Morago, executive director of the Arizona Indian Gaming Association.

A draft version of Tobin’s plan, though, would require money raised from racinos to pay for the programs that now receive tribal gaming revenues. The money also would help pay for K-12 education.

Morago’s group opposes expanding gambling to racetracks in part because it would create an inequitable system that would harm rural tribes that sell their allotment of slot machines and table games to urban tribes.

“It changes the face of the state forever,” she said.

Morago also disputes the revenue estimates Tobin and racetrack officials purport racinos will generate.

“There’s just no way,” she said. “I don’t see anybody waiting for Turf (Paradise, a Phoenix horse-racing track) to get a slot machine. The people who are gambling are already gambling.”

But Tobin said \$430 million in new state revenue is a conservative figure that was crunched by a bonding company. He said he sought the estimate from an outside source because he wanted to see how much the state could borrow against the revenue stream. Tobin also said that number includes only slot machines at racetracks, not table games.

“I wanted the lowest number I could come up with,” he said.

Of course, the proposal to build racinos hinges on legislative support, something that doesn’t appear to be forthcoming. The idea was flatly rejected by lawmakers on both sides of the political aisle earlier this year, and many of those objections remain the same today.

Many Republicans are wary of expanding gambling, if not opposed outright, because of moral objections or concerns about the impact gaming would have on communities.

“I believe it leads to more illicit activity when you have more gambling,” said Rep. Sam Crump, a Republican from Anthem.

The Center for Arizona Policy, a conservative advocacy group, argues gambling leads to bankruptcy, crime and the break-up of families.

“The cost of gambling to Arizona families from increased gambling is not worth any help to the budget,” said Cathi Herrod, president of the Center for Arizona Policy.

Rep. Rich Crandall, a Mesa Republican, opposes it on economic grounds.

“Even Bill Clinton, a liberal president, said you can’t build an economy on gambling,” he said.

Most Democrats oppose the idea because of their party’s relationship with the tribes, which have provided hundreds of thousands of dollars to the Arizona Democratic Party to help with elections and other political efforts.

Rep. Tom Chabin, a Flagstaff Democrat whose district includes three reservations, said the public already weighed in against racinos in 2002, when they rejected the idea.

“Arizona voters settled that question when they established Indian gaming,” he said.

But other lawmakers said expanded gambling should be considered, even though it might not be the best solution.

Rep. Laurin Hendrix, a Gilbert Republican, said, “As a general policy, I’m against the expansion of gambling, period. But that’s not to say I wouldn’t consider it. We’re in unique times.”

Sen. Linda Lopez, a Tucson Democrat, said the state’s need for money means the entire Legislature “needs to decide whether the crisis warrants” expanding gambling. Her district includes Tucson Greyhound Park.

“I have to take care of the people in my district and their need for jobs and economic resources in their community,” she said.

But Rep. Vic Williams said if the state is going to consider expanding gaming, it should look beyond the racetracks, since they are generally in older or poor neighborhoods and might not be able to attract women, the elderly or affluent customers. The discussion should be expanded to consider allowing full-fledged casinos be built outside of the reservations.

“Let’s do this right,” the Tucson Republican said. “If we are going to look at this, let’s do it in a way that propels the state forward.”

Either way, gambling is likely to expand. The Tohono O’odham Nation is planning a casino on a plot of land the tribe recently purchased near Glendale’s sports facilities. In addition, the tribal gaming compact expires in 2012 and tribal leaders probably will request increased limits on slot machines and table games, Tobin said.

In the meantime, though, Tobin said he is waiting to see what position Gov. Jan Brewer will take. She has proposed a temporary 1-cent sales tax to help bridge the budget deficits, but said she is open to other ideas from lawmakers. “The governor has to decide to lead. Where does she stand on this?” he said.

Gubernatorial spokesman Paul Senseman said the governor has concerns about the societal impacts that would come with expanding gambling off of the reservations.

“Having said that, she’s said that everything has to be on the table,” Senseman said. “I think we’d look to the (legislative) leaders to tell us if there’s support.”

Along the way, lawmakers also would have to decide who’s going to regulate the racinos. Draft versions of the legislation indicate the Department of Racing would oversee the casino-style gambling, not the Department of Gaming, which supervises Indian casinos.

Luis Marquez, interim director of the Department of Racing, said racetracks would prefer dealing with only one state agency. Because his agency already regulates the races and pari-mutuel gambling, it makes sense that the Racing Department would expand its oversight.

“In other jurisdictions (with racinos), the racing departments oversee the gambling at race tracks,” he said. The Department of Gaming did not return phone calls.