

Item 1 - C3

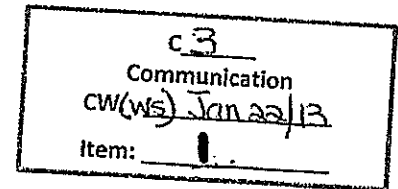
Submitted by M. Poverine

DEPUTATION TO EXECUTIVE COMMITTEE

CITY OF TORONTO

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Introduction

The City of Toronto (the City) engaged Ernst and Young Ltd (E&Y) to "conduct a study of the potential impacts of a commercial casino located in Toronto." The E&Y consultant report was delivered to the City on October 26.

- The E&Y report is severely flawed and lacks scientific rigour.
 - I. Economic Analysis
 - i. Failure to account for city revenue decline due to "substitution effects" on local business and property tax base
 - ii. Failure to include infrastructure and service enhancement costs to city
 - iii. Unjustified reliance on unverified financial projections from OLG and unnamed casino operators
 - iv. Unwarranted inflation of municipal "hosting fees"
 - v. Groundless projections of incremental increases in gamblers drawn to city
 - II. Social Impact Analysis
 - i. Incorrect and misleading analysis of literature on relationship between casinos and crime
 - ii. Minimization of the negative social impacts of casinos on the city, including bankruptcies, suicide, health and mental health problems, and divorce
- The E&Y report does not fulfill the requirements of the Request for Proposals issued by the City (Roster Assignment #9144-11-7001-Cat2MC19-12).
 - I. E&Y did not construct a model to assess the economic impact on the local Toronto economy, only the casino industry
 - II. E&Y failed to consult with stakeholders – the public, for example - other than the OLG and gambling industry executives
 - III. E&Y failed to conduct a thorough and scientific review of the studies and literature of the socioeconomic impact of casinos in other jurisdictions

ECONOMIC ANALYSIS

The E&Y report's (hereafter the Report) economic analysis does not take into account any costs associated with casino gambling in the city, only benefits. The most glaring omissions are the Report's complete failure to 1) account for substitution losses¹ to Toronto's economy, and 2) infrastructure costs associated with the construction and operation of a casino in Toronto.

Substitution Costs

E&Y themselves acknowledges that "one of the most significant factors in assessing the GDP impact is the substitution effect of casino spending replacing existing spending by residents and tourists on other entertainment and leisure activities in Toronto." E&Y model, however, **"does not take into account the effects of substitution."**

Casino industry executives themselves admit that substitution costs are real and substantial; Steve Wynn (Chairman of The Board of Wynn Resorts owner of a number of Las Vegas casinos) stated to a group of Connecticut local business people, "There is no reason on earth for any of you to expect for more than a second that just because there are people here, they're going to run into your restaurants and stores just because we build this casino here." Substitution costs estimates range from 35% to 75% depending on the jurisdiction². The greater the number of local gamblers means a greater substitution effect. Even using the Report's dubious projection that "30% to 40% of the customers will be tourists and "high rollers", the substitution costs of the 60% - 70% local gamblers at a casino will be immense. Thus, the overall increase in GDP for the city projected in the Report is overstated by at least 60%.

Similarly, the Report's projections for gains in jobs and increased tax revenue for the city are equally overstated by its failure to account for job losses in, and the predictable closure of, restaurants, theatres, sporting events, night clubs, retail stores, etc. through substitution. E&Y explicitly states that their model "does not take into account the effects of new jobs replacing existing jobs in the community."

Infrastructure and Service Enhancement Costs

E&Y's model does not include any infrastructure or service enhancement costs which will, at least in part, be borne by the City. Those costs, perhaps hundreds of millions of dollars, include transportation (roads, TTC), sewer and water, and other utilities. Service enhancement costs, which will be ongoing, include police, fire, health, education, and mental health services. Less obvious costs, but nonetheless real, include, for example, increased traffic congestion.

It is impossible at this juncture to estimate those costs, particularly since no definitive casino plans have been proposed nor approved. It is, however, clear that the E&Y projections do not include those costs, and therefore overstate the economic benefits to the city.

¹ Substitution costs refer to the extent that casino patrons simply decrease their spending on other goods and services.

² Rose and Associates, 1998 (National Gambling Impact Study Commission). U.S. Government Printing Office

Unwarranted Reliance on Unverified OLG Revenue Projections

E&Y notes that it "relied upon **unaudited** statistical, operational, and financial data and information" for the Report; further, E&Y did not "verify the accuracy or completeness" of this information. The Report is, however, troublingly "based solely" on this information. Finally, the sources of this information are not identified in the Report. It is, therefore, obvious that the economic projections contained in the Report cannot be challenged since the Report does not identify them. There are, however, some internal contradictions which give rise to grave doubts about the accuracy of the data employed in the Report.

- The projection (p.40) that each Toronto slot machine will generate \$230,000 is contradicted by the fact that OLG race track slots now generate \$170,000 and existing casino slots only \$100,000.
- The projected gambling revenue from the new casino is \$1.4 billion dollars is contradicted by the fact that the revenue from all 8 OLG casinos is \$1.9 billion
- The overall economic projection is based on a "hosting rate" of 4% is contradicted, in the Report, by a new "hosting fee" schedule from the OLG which proposes a rate of 1.3%.

Groundless Projections of Gamblers Drawn to City

The Report projects that a significant number of gamblers would be drawn to Toronto by a new resort casino. This is speculative at best and is inconsistent with the fact OLG Resort Casinos have experienced a ten-year decline in gaming revenue which is attributable, by OLG, to a decrease in tourist visits because of the "strengthening of the Canadian dollar, the implementation of a smoking ban on the gaming floors, higher border security, and an increase in the number of U.S. casinos in border communities." The obvious question is, of course, why would Toronto be any different?

The report argues that Toronto would be an "attractive location for international high rollers;" This is an unsubstantiated, bald-faced assertion and it is difficult to understand why "high roller" gamblers from Asia would fly to Toronto when Macao, the casino capital of Asia is much closer.

SOCIAL ANALYSIS

Crime and Casinos

The Report asserts that "crime statistics for municipalities that host casinos do not show a link between crime rates and the opening a casino in the municipality." Other than anecdotes, the sole source for this assertion is a report from the U.S. National Gambling Impact Study Commission. E&Y completely mischaracterizes that report. First, the study was not conducted by the National Commission Gambling Impact Study Commission (itself dominated by gambling industry insiders); it was paid for by the American Gaming Commission. Second, the study did not collect crime data; it surveyed elected officials in counties in Illinois only. Third, the study was not published in peer reviewed journal.

The Report ignores the largest, most exhaustive national (U.S.) study, among others, of the relationship between casinos and crime which was published in a peer-reviewed journal in 2006 by Grinols (Distinguished Professor of Economics at Baylor University) and Mustard (Professor, University of Georgia). The study is readily accessed on-line (it is, in fact, the first study identified by typing "casino and crime" into Google). Grinols and Mustard report that 8% of crime in a locality is attributable to a casino and that the cost of that crime is \$75 per year per resident in a locality which has a casino. Grinols and Mustard found that the increase in crime only occurs after four years of the establishment of a casino and there is crime suppression for the first two years. They further report robbery (136%), aggravated assault (91%), and car theft (78%) increased the most in casino communities after five years.

Additionally, a study showed a 20% increase in crime in Bangor, Maine 4 years after the opening a casino in that city. The Florida Attorney General's Office in 2007 reported that communities with casinos had crime rates double the national average. Finally, a Wisconsin study in 2001 showed increased crime in communities with casinos and a "spillover" effect on contiguous counties.

The E&Y report fails utterly to fairly represent the state of research on the connection between crime and casinos.

Minimization of the Social Costs of Casinos

The only other social cost identified in the E&Y Report is problem gambling. The Report ignores an extensive literature (both academic and non-academic) on the relationship between casinos and suicide, personal bankruptcy, substance abuse, physical health issues, mental health issues (other than compulsive gambling, including depression and anxiety disorders), family dissolution and abuse, underage gambling, and loss of social capital. All of these impacts are recognized by the Problem Gambling Institute of Ontario and other agencies around the world, but completely ignored or glossed over by the E&Y report. Rather than accurately present and review the research concerning these issues, the E&Y Report simply discusses (at some length) the OLG's advertising strategy to reduce problem gambling. That effort it seems is, at least, compromised by OLG's efforts to increase gambling revenue.

THE E&Y REPORT DOES NOT FULFILL THE REQUIREMENTS OF THE RFP

The E&Y report does not fulfill the requirements of the Request for Proposals issued by the City (Roster Assignment #9144-11-7001-Cat2MC19-12) in three ways: 1) E&Y did not construct a model to assess the economic impact on the local Toronto economy, only the casino industry, 2) E&Y failed to consult with stakeholders – the public, for example - other than the OLG and gambling industry executives, and 3) E&Y failed to conduct a thorough and scientific review of the studies and literature of the socioeconomic impact of casinos in other jurisdictions

The Economic Model

E&Y constructed an economic model which focused, to the exclusion of all other sectors, on the casino industry. For example and as shown earlier, the E&Y Report failed to address the economic (and social dislocation) issue of substitution, disregarded infrastructure and service enhancement costs for the city, and ignored the economic expenditures associated with the negative social impact of a casino in Toronto.

Stakeholder Consultation

E&Y failed to consult with stakeholders as required in the RFP. The list of stakeholders with whom E&Y consulted is dominated -- apart from municipalities and their departments - - by casino operators, the OLG, and their allies. E&Y saw fit to consult with Ripley's Aquarium of Canada and the owner of the Docks nightclub, but not a single citizen, religious leaders of any faith, gambling treatment providers, criminologists, independent economists (E&Y's "independent economic consultant" is, in fact, a professor of mathematics and a former VP for E&Y), banker, or civic leader (apart from Alan Broadbent).

Literature Review

The city-issued RFP called for a review of research studies and literature on the socioeconomic impact of casinos in other jurisdictions. In fact, E&Y reviewed only 9 research studies on the socioeconomic impact of casinos and two of those studies were commissioned and published by gaming industry associations. A total of 12 other sources of information were consulted: 6 of those were publications sponsored by the Canadian gambling industry and 2 newspaper articles.

Moreover, the analysis of the research studies, as has been previously shown is superficial at best and misleading at worst.

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