



*An Analysis of Property  
Tax Credits and  
Transportation Funding  
Under the Governor's  
Casino Proposal*

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*MTF*

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## **I. Introduction**

As with any proposal of such magnitude and with such high stakes riding on the outcome, the Governor's casino plan has already generated heated debate and no shortage of hyperbole. Consistent with the Foundation's mission and long practice, the purpose of this report is to provide an initial analysis of the numbers that lie behind the Governor's proposal.

Specifically, the purpose of this analysis is to review the Governor's casino legislation and estimate the dollars available when casinos become fully operational, anticipated in 2012, for the two principal benefits highlighted by the administration: property tax relief and funds for transportation infrastructure.

An important caveat: our analysis is not meant to be the final word on this subject; rather, it is intended to encourage a debate driven by the facts. Legislative deliberations must be guided by realistic and reasoned estimates of what benefits will actually derive from licensing three resort casinos in Massachusetts, and there are no easy answers to that question.

We have divided our examination into three parts:

- an analysis of the assumptions leading to the administration's estimates of gross gaming revenues from three casinos;
- an analysis of how much money would be needed for the three categories of mitigation – host communities, public health, and the lottery – included in the administration's plan;
- an analysis of the impact that the new revenues would have on transportation funding and property tax relief for which the administration proposes to earmark the revenues.

The Foundation is neither for nor against resort casinos in Massachusetts and has not attempted in this report to conduct a full analysis of costs and benefits. For example, we have not evaluated the administration's claims that 20,000 new jobs would be created, nor claims by opponents that casinos would displace many jobs in neighboring communities. In any case, any net increase in income and sales taxes from the casinos' economic activity would be small compared to the funds raised from gaming and are not part of the Governor's plan to fund property tax credits and transportation.

Further, this report does not attempt to analyze the amount of the license fees from the winning casino bidders or the uses of those substantial one-time revenues. However, as our analysis shows, even under the best case virtually all of the license fees would need to be used to reach the administration's target of \$400 million in net annual revenues.

## II. State Gaming Revenues

The administration's plan is to produce \$400 million in annual payments for property tax credits and road and bridge repairs through a 27 percent tax on gross gaming revenues, which are the casinos' net earnings from gaming after paying out winnings.

The Governor stated in his press conference of September 17, "Three high quality and properly sited resort casinos would, using conservative estimates, generate over \$2 billion annually in new economic activity..." Economic activity measures the exchange of goods and services and is not the same as gross gaming revenues.

However, as outlined in supplemental information provided to the Foundation by the administration, the expectation is to generate \$2.05 billion in gross gaming revenues annually. Nearly 80 percent of these gaming revenues – \$1.62 billion – would come from 15,000 slot machines each averaging \$300 per day.

In an August 2007 report prepared as a blueprint for casino gaming and economic development presented to the administration,<sup>1</sup> Dr. Clyde Barrow, Director of the Center for Policy Analysis at UMass Dartmouth, estimated that the state could generate \$1.5 billion in gross gaming revenues with 10,500 slot machines averaging \$300 per day.

The administration's higher figure – \$2.05 billion vs. \$1.5 billion – depends largely on the additional 4,500 slot machines, an almost 50 percent increase over Dr. Barrow's estimate, generating an additional \$486 million annually. It is an open question whether the market would support those additional 4,500 slot machines without any decrease in the \$300 average per slot machine / per day. Increasing the supply of slot machines would not necessarily create an equal increase in consumer spending.

A key to evaluating the soundness of the administration's and Dr. Barrow's numbers lies in an analysis of the New England gaming market. In particular, as Dr. Barrow points out, there are two distinct factors to consider in estimating future revenue opportunities for Massachusetts casinos:

- casinos' ability to capture gambling dollars spent by Massachusetts residents in neighboring states;
- casinos' ability to attract unmet gaming demand.

A press release accompanying Dr. Barrow's blueprint states that the New England gaming market is estimated to be approximately \$4.5-\$5 billion, "and most analysts agree that there is still about \$1.5 billion in unmet gaming demand within the six-state region."<sup>2</sup> Also, Dr. Barrow estimates Massachusetts residents spend \$1.1 billion gambling in Rhode Island and Connecticut.<sup>3</sup> Combining these two elements creates a \$2.6 billion revenue opportunity for Massachusetts casinos.

If the administration is to reach its goal of \$2.05 billion, Massachusetts casinos must capture nearly 80 percent of the estimated \$2.6 billion, an enormous task made all the more difficult as it would take five years before Massachusetts casinos become fully operational. In contrast, casino operations in other New England states have ambitious plans to expand within the next two years.

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<sup>1</sup> Dr. Clyde W. Barrow, *Maximum Bet: A Preliminary Blueprint for Casino Gaming & Economic Development in Massachusetts*, August 2007.

<sup>2</sup> Dr. Clyde W. Barrow, *Resort Casinos at Suffolk Downs and SEMass and WMass Could Generate \$500 Million in New State Revenue*, August 6, 2007.

<sup>3</sup> Dr. Clyde W. Barrow, *New England Casino Gaming Update*, March 2006.

Gaming facilities in Maine, Rhode Island and Connecticut have committed \$1.8 billion in new capital investments at existing casinos and slot parlors, seeking to hold on to their customer base and attract new people. Foxwoods and Mohegan Sun in Connecticut will invest a collective \$1.5 billion adding 2,600 slot machines by 2008; Lincoln Park in Rhode Island recently completed a \$220 million upgrade to bring the total number of slot machines to 4,750; Newport Grand in Rhode Island will add 850 slots, while Bangor, Maine's slot parlors are undergoing a \$130 million expansion adding 1,000 slot machines. And New Hampshire is considering getting into the gaming business with a specific proposal being developed at Rockingham Park immediately across the Massachusetts border that could introduce 3,000 slot machines in six months.

The 5,000 additional slot machines (excluding Rockingham) coming on line within the next year – using the administration's figures of \$300 per slot machine / per day – would generate nearly \$500 million annually, capturing approximately one-third of New England's unmet demand. Even assuming a conservative 3 percent annual growth in gaming revenues over the next five years, by 2012 nearly two-thirds of the estimated unmet demand would already be met. With population growing at a tiny 0.25 percent per year in New England, one-fourth the national average, it's unlikely that population growth over the next few years would generate a significant increase in demand.

Dr. Barrow forecasts that Massachusetts casinos could capture over \$800 million from the \$1.1 billion in 'lost' Massachusetts gaming revenues in Connecticut and Rhode Island. However, resorts seeking to capture those gaming dollars face the same challenges as attracting the unmet demand. Elected leaders and gaming officials in Connecticut, Rhode Island and Maine have expressed concern that three new casinos in Massachusetts would reduce gross gaming revenues and taxes paid to their states. Facilities in the other states will use the five-year head start to inoculate themselves against losses to casinos still on the drafting table.

Location decisions will also play a role in determining how well Massachusetts casinos can compete for current gamblers. To give Massachusetts the best shot at capturing revenues, Dr. Barrow recommends a casino in New Bedford to attract Rhode Island residents and a casino near Springfield around the Massachusetts Turnpike and I-291 to attract residents from western Connecticut, upstate New York and Vermont who frequent Foxwoods and Mohegan Sun. However, the bidding process recommended by the administration may lead to casino locations that pose greater marketing challenges than those recommended by Dr. Barrow.

With all the uncertainties, a rigorous and independent study of potential gaming revenue in New England is urgently needed. This independent study should explore revenue opportunities five years from now, as that is the gaming marketplace that Massachusetts casinos will enter. It is certainly conceivable that when they open, these casinos would confront a relatively saturated market in which achieving significant revenues would require drawing business away from other facilities rather than capturing unmet demand. Getting to \$2.05 billion in a nearly saturated marketplace would be an extraordinary accomplishment; even reaching \$1.5 billion would be no small feat.

### III. Mitigation

Gross gaming revenues are, of course, the key to the amount of money that will flow to the state from the casinos. At \$2.05 billion, the 27 percent tax would produce \$554 million annually. However, at \$1.5 billion, the annual revenues would be only \$405 million.

Before distributing funds for property tax credits and transportation investments, the administration's legislation proposes to address three areas of mitigation – host communities, public health, and the lottery. For community and public health mitigation, the legislation proposes establishing trust funds with 2.5 percent of gross gaming revenues going into each fund every year.

#### ***Community Mitigation Trust Fund (Section 11)***<sup>4</sup>

...to assist the local host community, cities, towns and district attorneys in the vicinity of resort casino facilities, to address any increases in police, fire, transportation, water, sewer, enforcement and prosecution costs, or other services directly related to the construction and operation of the facilities; provided, however, that the authority shall determine which towns and cities will be affected by construction and operation of the facilities.

#### ***Public Health Trust Fund (Section 12)***<sup>4</sup>

...to meet increased demand for social service and public health programs resulting from gaming, including but not limited to gambling prevention and addiction services, services to address other problems such as domestic violence and child welfare services, an educational campaign to mitigate the potential addictive nature of gambling, and on an annual basis, a comprehensive study and evaluation system to ensure proper and most effective mitigation of any negative public health costs.

With gross gaming revenues of \$2.05 billion, the 5 percent for community and public health mitigation would total \$102.5 million; at \$1.5 billion of gross gaming revenues, the mitigation would be \$75 million a year.

#### ***Lottery Mitigation***

The casino legislation filed by the administration appropriately pledges to protect the lottery from a decline in lottery betting that is likely to result from introducing three resort casinos to the Massachusetts gaming market. To hold the lottery “harmless,” the legislation calls for the state to make appropriations to the lottery based on the difference between the lottery's actual performance in a given year, presumably beginning in 2012, and the guaranteed funding base established by the legislation. This guaranteed funding level is computed by taking the 2003-2007 annual average of the “total amounts deposited in the state lottery fund” and increasing that number by 3 percent each year beginning in 2008 (see Column A in Table 1).

The term “total amounts deposited in the state lottery fund” could be interpreted either to refer to the lottery's “net operating revenue,” for which the 2003-2007 average is \$995.8 million, or the “net profits before distribution,” for which the 2003-2007 average is \$922.9 million. “Net operating revenues” includes the Lottery Commission's administrative expenses. We have chosen to use the “net profits before distribution” figures because we believe they more closely reflect the actual funding stream that the lottery provides to cities and towns. In any case, the two measures produce very similar results, with our use of “net profits” leading to a slightly smaller mitigation gap.

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<sup>4</sup> Governor Deval Patrick, *An Act Establishing and Regulating Resort Casinos in the Commonwealth*, October 11, 2007.

There are two key variables which determine the size of the gap that the state would need to fund in 2012 and beyond:

- the actual rate at which lottery net profits grow compared to the 3 percent guarantee;
- the decrease in lottery net profits that would occur as a result of the new casinos.

Regarding the first variable, there is no certainty about future lottery performance, but looking at the actual experience of recent years provides a reasonable guideline. For the 2000-2007 period, the lottery’s net profits grew at an average of 0.7 percent per year. If we exclude 2007 because it was a particularly poor year (net profits fell 6.2 percent), then the 2000-2006 average was 2.4 percent. In our analysis, we have chosen a projected growth rate of 1.5 percent per year, which is roughly midway between 0.7 and 2.4 percent. This reflects the 2007 experience in part without giving it undue weight.

**Table 1: Result of Differing Growth Rates (in millions)**

	<u>A</u> Base Funding Level Growing at 3%	<u>B</u> Lottery Growing at 1.5% (estimated)	<u>C</u> Gap Caused by Differing Growth Rates
2003-2007 average	922.9		
2008	950.6	936.7	13.8
2009	979.1	950.8	28.3
2010	1,008.5	965.1	43.4
2011	1,038.7	979.5	59.2
2012	<b>1,069.9</b>	<b>994.2</b>	<b>75.7</b>
2013	1,102.0	1,009.1	92.9
2014	1,135.1	1,024.3	110.8
2015	1,169.1	1,039.6	129.5
2016	1,204.2	1,055.2	148.9
2017	1,240.3	1,071.1	169.2

The difference between the 3 percent annual growth in the base funding level and the 1.5 percent projected actual growth rate of the lottery’s net profits causes the gap between the base and actual lottery performance to grow each year, reaching \$75.7 million in 2012 (see Column C in Table 1).

In considering the second variable, experts have offered widely varying estimates on the likely decrease in net lottery profits that would occur when casinos open. A 2003 Christiansen Capital Advisors report<sup>5</sup> prepared for the Lottery Commission concludes that the lottery can expect anywhere from a 3 to 8 percent decline in revenues when casinos open, and that within five years the lottery will have recovered to pre-casino levels. An August 2007 report by Dr. Barrow<sup>6</sup> estimates that the worst case impact on lottery would be an 8 percent decline in the casinos’ first year. A 2007 article in the Springfield Republican<sup>7</sup> cites Governor Patrick’s expectation that casinos could cause lottery revenues to decline up to 4 percent during each of the first three to five years of operation. A 2006 study by the House Committee on Economic Development<sup>8</sup> estimates a potential lottery decline of 15 percent through the casinos’ first two years.

<sup>5</sup> Eugene Martin Christiansen, *Analysis and Recommendations for the Massachusetts Lottery*, January 18, 2003.

<sup>6</sup> Dr. Clyde W. Barrow, *Maximum Bet: A Preliminary Blueprint for Casino Gaming & Economic Development in Massachusetts*, August 2007.

<sup>7</sup> Dan Ring, *Patrick to defend lottery revenue*, *The Republican*, September 26, 2007

<sup>8</sup> James C. Kennedy, *Rolling the Dice: The Economic Reality of Expanded Gambling in the Commonwealth*, House Committee on Economic Development, March 21, 2006.

For this analysis, we have chosen to use a very conservative one-time 5.5 percent decrease in 2012 with the 1.5 percent growth rate resuming immediately in 2013. A 5.5 percent drop is the midpoint of the range estimated in the Christiansen report and would result in a \$68.6 million decline in 2012. As Table 2 shows, Governor Patrick’s estimate of three consecutive years of 4 percent declines would produce a \$157.6 million drop by 2014, and the House Committee on Economic Development’s estimate of a 15 percent decline over two years would result in a \$171 million drop by 2013. Each of these figures is more than double the \$68.6 million decline in lottery profits that we have used in our analysis.

**Table 2: Estimated Decline in Lottery Profits When Casinos Open (in millions)**

	<b>Christiansen Capital Advisors best case: 3% in 2012</b>	<b>MTF: 5.5% in 2012</b>	<b>CCA and Barrow worst case 8% in 2012</b>	<b>Springfield Republican: 4% in 2012, 2013, 2014</b>	<b>House Committee: 7.5% in 2012, 2013</b>
<b>2012</b>	44.1	<b>68.6</b>	93.1	53.9	88.1
<b>2013</b>	44.7	69.6	94.5	106.4	<b>171</b>
<b>2014</b>	45.4	70.6	95.9	<b>157.6</b>	173.6

To determine the total estimated amount for lottery mitigation, one must combine the effects of 1) the 1.5-percentage point differential between growth rates (\$75.7 million) and 2) the 5.5 percent decline in 2012 (\$68.6 million). Together these total \$144.2 million for lottery mitigation in 2012. It is important to note that the \$144.2 million would increase by roughly \$20 million per year after 2012 because of the differing 1.5 percent and 3 percent growth rates.

**Mitigation Summary**

Table 3 summarizes the impact of the three areas of mitigation. Column A assumes \$2.05 billion of gross gaming revenues and Column B \$1.5 billion. In both cases, the amount available for property tax credits and transportation falls well short of the \$400 million in the administration’s plan. At \$2.05 billion, the total available is approximately \$300 million; at \$1.5 billion, it is less than \$200 million.

**Table 3: Total Mitigation Needs (in millions)**

		<b><u>A</u></b>	<b><u>B</u></b>
<b>Gross Gaming Revenues - 2012</b>		<b>\$2,050</b>	<b>\$1,500</b>
Revenues to State	27%	\$554	\$405
Community Mitigation	2.5%	(\$51)	(\$37.5)
Public Health Mitigation	2.5%	(\$51)	(\$37.5)
Lottery		(\$144)	(\$144)
<b>Balance</b>		<b>\$308</b>	<b>\$186</b>
Total for Property Tax Credits	50%	\$154	\$93
Total for Transportation	50%	\$154	\$93

It is noteworthy that even under the \$2.05 billion best case scenario, the administration would need to use all of the initial license fees from the three casinos to achieve the \$400 million for transportation and property tax credits. Taking the top end of the administration’s \$600-\$900 million estimate for the license fees, the state would realize \$90 million a year over the 10-year licensing period, all of which would need to be dedicated to close the \$92 million shortfall (see Column A in Table 3).

#### IV. Property Taxes and Transportation

The previous analysis suggests that it is extremely unlikely that the Governor's plan as proposed would achieve \$400 million in annual revenues for property tax credits and transportation investments or for any other priority. Nevertheless, for purposes of analysis we will assume that \$200 million a year is available for property taxes and \$200 million for transportation, and we will examine the impact that these revenues would have in addressing those respective problems.

##### *Property Tax Credits*

According to the administration's plan, the \$200 million directed towards property tax relief would be distributed to qualifying homeowners via a credit on their income tax filing. Those homeowners who pay more than 2.5 percent of their income on property taxes would qualify, a population that the administration estimates at one million. The amount of the credit would vary based on the percentage of each homeowner's income spent on property taxes; the administration estimates that the average credit would be \$204 per year.

There are two ways to assess the Governor's promises of property tax relief: Does the proposal address the problem of escalating property taxes? What is the extent of the relief provided to taxpayers?

##### *Does the proposal address the problem of escalating property taxes?*

Because the credit would go directly to homeowners, the Governor's proposal bypasses cities and towns altogether and thus ignores the underlying dynamic that is driving increases in property taxes. Most cities and towns are facing a relentless squeeze in which costs are growing faster than revenues year after year, leading to the twin problems of rising property taxes and declining services. Certainly, there is nothing in the casino plan which would provide fiscal relief to municipalities or slow down the rate of property tax growth, let alone actually reduce property taxes as the administration claimed when unveiling its plan.

In fact, the Governor's proposal might actually exacerbate local fiscal problems because casinos would siphon off some betting on the state lottery, the major state funding source for municipal services. As discussed above, the administration's proposal includes provisions to compensate for any impact that casinos may have on the lottery. However, because there are not likely to be adequate dollars to compensate the lottery while also providing for the advertised property tax credits, there may be pressure to reduce lottery mitigation funds in order to give the tax credits.

##### *What is the extent of the relief provided to taxpayers?*

The administration estimates that one million homeowners would receive a property tax credit ranging from \$150-\$375 per year, with an average of \$204. The credits would become available at full casino build-out, likely in 2012.

Using the administration's projection that one million homeowners would be eligible for the credit, the Foundation estimates that 65 to 75 percent of all homeowners statewide would qualify because they would pay more than 2.5 percent of their income on property taxes; conversely, 25 to 35 percent of homeowners would not qualify for the credit.<sup>9</sup>

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<sup>9</sup> According to the most recent Department of Revenue data, there are 1,909,659 residential parcels in the Commonwealth, and the Foundation estimates that 70 to 80 percent – roughly 1.3 to 1.5 million – are owner-occupied.

To put the savings in context, the \$204 credit would equal 3.9 percent of the average taxpayer's estimated property tax bill in 2012.<sup>10</sup> The credit is roughly equivalent to the average annual increase in property taxes in recent years. However, by 2012 the \$204 credit would equal only about two-thirds of the average annual increase in property taxes (see Column B in Table 4).

**Table 4: Proposed Credits Related to Average Tax Bills**

	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>
	<b>Average Tax Bill</b>	<b>Annual Increase from Previous Year</b>	<b>Cumulative Increase Over 2012 Average Bill</b>	<b>Average Credit</b>	<b>Average Tax Bill after Average Credit</b>	<b>Credit as % of Property Tax Bill</b>
<b>2012</b>	\$5,240			\$204	\$5,025	3.9%
<b>2013</b>	\$5,541	\$301	\$301	\$204	\$5,326	3.7%
<b>2014</b>	\$5,860	\$319	\$620	\$204	\$5,645	3.5%
<b>2015</b>	\$6,197	\$337	\$957	\$204	\$5,982	3.3%
<b>2016</b>	\$6,553	\$356	\$1,313	\$204	\$6,349	3.1%
<b>2017</b>	\$6,930	\$377	\$1,690	\$204	\$6,726	2.9%

The key point to emphasize is that the property tax credit would effectively cover less than one year's increase in property taxes. This is because property taxes rise every year, while the average credit would remain roughly constant at \$204.<sup>11</sup> As projected in Table 4, if the average property tax bill were to increase by \$301 in 2013 and \$319 in 2014, the 2014 bill would be \$620 greater than the 2012 bill, and thus the \$204 credit in 2014 would essentially cover two-thirds of the 2013 increase but none of the 2014 increase, nor would it cover any increase in future years. Column F shows that property taxes continue to grow inexorably while the value of the \$204 credit declines as a percentage of the total property tax bill.

The \$200 million in credits comprises 2.4 percent of the total residential levy in 2007, but by 2012 the credits would constitute just 1.8 percent of the projected total residential levy of \$10.9 billion,<sup>12</sup> demonstrating the relative diminishing value of the credit as levies and tax bills continue to increase.

In summary, the casino proposal would have a limited impact on the issue of rising property taxes. Providing tax credits directly to homeowners would not address the underlying fiscal problems facing municipalities which are leading to higher property taxes. Furthermore, there are unlikely to be sufficient funds to cover both lottery mitigation and the administration's commitment to property tax relief. Finally, a \$200 credit to about two-thirds of homeowners would not be available until 2012 and would cover less than one year's average property tax increase while having no effect on increases in future years.

### **Transportation**

The Governor's casino plan earmarks \$200 million a year to improve the state's roads and bridges. The Governor stated that his plan would "ensure the safety of our public roadways and bridges, and we address effectively one of the greatest fiscal challenges we face – without an increase in the gas tax."

<sup>10</sup> In 2007 the average tax bill was \$3,962; using the 2000-2007 average annual increase of 5.75 percent, the average tax bill in 2012 would be \$5,240.

<sup>11</sup> Annual growth of 5 percent in casinos' gross gaming revenues would increase the average credit by about \$10 per year, which pales in comparison to the average property tax increase of around \$300.

<sup>12</sup> Based on the 2000-2007 average annual growth of 7 percent.

Assuming that the full \$200 million is in fact available and earmarked for transportation, Table 5 shows that casino revenues would fall dramatically short of the recommendations of the Transportation Finance Commission (TFC) and in particular an immediate increase in the gas tax of 11.5 cents.

**Table 5: Gas Taxes vs. Casino Revenue**

	TFC – 11.5¢ Gas Tax Increase	Casinos \$200m/yr. begin 2012	Difference \$
5 years (2008-2012)	\$2b	\$200m	\$1.8b
20 years	\$10.5b	\$3b	\$7.5b

### Five-Year Analysis

As summarized in Table 5, the discrepancy between casino and gas tax revenues is striking. A gas tax hike would raise \$2 billion over the next five years compared to \$200 million from casino revenues.

Concluding that an increase in the gas tax was the only way to provide an immediate and sizeable source of revenue, the TFC recommended an 11.5¢ hike in 2008 indexed to inflation that would raise \$345 million in 2008 and \$2 billion over the next five years.

Since \$200 million in gaming revenues are not expected until 2012 when casinos become fully operational, by the time the first \$200 million from casinos becomes available, the TFC proposed hike in the gas tax would already have delivered \$1.6 billion for roads and bridges. In 2012 the proposed gas hike would raise \$467 million compared to the Governor's \$200 million from casinos.

The administration has indicated the possibility of using the \$200 million in annual revenue as an income stream against which they would borrow up to \$3 billion. This would create a large one-time infusion of dollars in 2012 or 2013 but would create no additional funds in future years for roads and bridges since the \$200 million a year in casino revenue would simply be used to pay off the bonds. In fact, borrowing would incur financing costs and, therefore, reduce the money available for roads and bridges.

In addition to interest costs typically associated with borrowing \$3 billion, special obligation bonds such as those proposed here would carry higher borrowing costs than general obligation bonds issued by the Commonwealth. Furthermore, annual casino revenues would undoubtedly be less certain than revenues generated by a hike in the gas tax, increasing the risks to bondholders and the costs of borrowing.

Worse yet, if the administration borrows \$3 billion up front, it is virtually certain that some of those funds would be used for politically popular expansions, reducing funds for repair and maintenance and increasing the financial gap to fix the transportation infrastructure.

### Twenty-Year Analysis

Looking at a 20-year period, casino revenues are only a fraction of the proposed gas tax increase. The TFC estimated that even with a 15 percent reduction in gas consumption due to fuel efficiencies, the gas tax hike would generate \$10.5 billion over the next 20 years – \$7.5 billion more than revenue from casinos regardless of whether those funds come annually or up front through borrowing. The gas tax has not been increased since 1991 and an 11.5¢ hike simply reflects inflationary growth since then, costing an average of \$66 per vehicle per year or \$1.25 per week.

Beyond the fact that casino revenues are woefully inadequate to address the transportation funding gap, there is virtually no connection between casino usage and the maintenance of transportation assets.

One of the most important recommendations from the TFC is to strengthen the link between those who use and those who pay for the transportation system. “We support a system that relies heavily on direct user fees so that there is a strong relationship between the use of the system and how much people pay.”<sup>13</sup> Transportation in essence is a utility like electricity or water where people should pay for the amount they consume.

With diminishing federal highway funds and states forced to rely increasingly on their own funding sources, states are considering open road tolling and gas tax increases where users pay the costs they add to the system. Open road tolling of major highways also allows the state to ration roadway use through congestion tolling to smooth out travel patterns, and improve traffic flows while reducing demand for costly increased capacity. And while gas taxes do not provide the same controls over congestion, they are tied directly to road usage. Thus, tolls and gas taxes target users of transportation systems to pay for upkeep.

In contrast, casino revenues dedicated to transportation infrastructure do not tie users – those who benefit from well maintained roads and bridges – with payers. Simply stated, those who share in the benefits do not share in the costs. A transportation funding plan based on casino revenue severs any connection between usage and revenue.

Earmarked casino revenues allocated to transportation needs are less reliable for two additional reasons. First, year-to-year variations in both gross gaming revenues and lottery mitigation will alter the amount of funds available for transportation infrastructure making future revenue streams difficult to predict.

Further, should the Governor succeed in his effort to dedicate casino funds, there are no certainties that the Legislature would keep that earmark in place. The Commonwealth faces major fiscal challenges, and there is nothing in the Governor’s plan that guarantees that casino revenues will be used for transportation for the next 20 years, making casino revenue far less reliable than gas taxes or tolls.

In sum, casino revenues are neither a sufficient nor appropriate source for transportation funding, and in no way an adequate replacement for an increase in the gas tax.

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<sup>13</sup> *Transportation Finance in Massachusetts: Building a Sustainable Transportation Financing System (Volume 2), Recommendations of the Massachusetts Transportation Finance Commission, September 17, 2007.*