

Maryland's Gambling Governors—lies, damned lies, and statistics

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By Douglas M. Schmidt

Years from today, if Marylanders are asked to cite Governor Martin O'Malley's greatest achievement while in office, the first answer will be, "He was the governor who gave us slots."

The Governor's ego and self-image will surely bristle at this epitaph on his career, but the fact is that no single issue in memory in Maryland has engendered more lobbying money, public rallies, legislative hearings, arm twisting, bill printing, press reporting and hot air than slots gambling. Slots is a mass from which there is no calculable escape velocity. Long after Governor O'Malley retires, his legacy of slots and the gambling industry will remain with us.

When Governor O'Malley shepherded through the new era of slots gambling in Maryland, he thought he was achieving two important goals. The first was to plug, in the face of a recession, a major leak in state revenues with a predicted \$660 million per year of new revenue by 2013. The second was to put an end, once and for all, to the perpetual, divisive debate about slots in Maryland. He has accomplished neither.

The Governor led a campaign for slots based on a claim that the State of Maryland would have to cut services or increase taxes without slots revenues. The gambling lobby, the largest lobby in Annapolis, spent an estimated \$7.1 million in its efforts to convince the electorate to vote for the November 2008 referendum to change the Maryland Constitution, outspending the citizen-led coalition against slots by 7 to 1. In the last week before the referendum, the Governor robo-called Maryland homes politicking for slots. It was an all-out fear mongering campaign. Deficit budget or slots. Reduced funding for education or slots. Considering the pressure politics, it is notable that four out of ten Marylanders still voted against the referendum, suggesting that the moral and political debate on this issue would persist. Nevertheless, the Governor claimed a tremendous mandate. Slots forged ahead.

Slots was originally designed to save Maryland horse racing, but to the chagrin of the horse racing industry, this objective has become a shadow of its former self. When Governor Robert L. Ehrlich, Jr. first took office in 2003, he was greeted with a potential tsunami of a deficit that he inherited from Governor Parris Glendening. In a move that may have doomed him to one term, Governor Ehrlich rejected seizing the moment in a Reaganesque fashion to use his political goodwill and capital to right-size state government, shelf the unfunded "Thornton" education mandate, and otherwise rein in spending. Instead, he and his poorly prepared advisors grasped at slots as a life ring.

The Ehrlich administration took what was his modest and soft-pedaled campaign promise to push forward slots for the horse racing industry and turned slots revenues into the foundation for his administration's balanced budget. Ehrlich's slots bill was hastily conceived and poorly written. After

spending two sessions battling a Democratic legislature and dragging luminaries such as Maryland State Superintendent of Schools Dr. Nancy S. Grasmick in front of committees to shill for slots, Governor Ehrlich finally tossed in the towel. Surely partisan politics defeated his effort. But a sloppy bill and concept made it easy to reject.

Fast forward to newly elected Governor O'Malley in 2007. The same set of circumstances awaited him—a budget with a looming deficit that only draconian cuts, new taxes or the promise of slots could cure. Politicians get elected on promises to spend money on new programs not to cut them. So, like his predecessor, O'Malley chose the hope of slots revenues over better budgeting and better government. Key to the whole slots initiative was the Governor's and the Department of Legislative Services' projection that slots would, after a few years, bring \$660 million of annual revenue to the State's coffers.

The numbers do not add up. The numbers have never added up. Even the humblest church lady who ever testified against slots in Annapolis could see into the future better than two governors. What people did not understand at the time was that to net \$660 million for the state, gamblers had to lose approximately \$1.4 billion at the machines. The majority of the \$1.4 billion take was promised to the slots parlor licensees, horse racing, local governments and various other constituencies needed to pass a gambling bill. Everybody got something---or so they thought.

The great folly of Maryland's slots plan was to be the fifth and last state in the region to enact slots after New Jersey, Delaware, West Virginia and Pennsylvania. Jack Welch of General Electric fame used to preach that GE would not own or enter a business where GE could not be number one or number two. His summation of being a follower was, "When you're number four or five in a market, when number one sneezes, you get pneumonia." The concept that Maryland could expect people to flock to our slots parlors from across a highly competitive and saturated regional market was flawed from the beginning.

Even more ridiculous was that this \$660 million was based on Maryland jamming into our little state more slot machines than already existed in either Delaware or West Virginia. The total take per machine per year was rosily projected to be better than what is actually achieved in Delaware or West Virginia. In a final display of financial lunacy, Maryland was going to accomplish all of this by exacting from the gambling companies one of the lowest revenue sharing deals in the nation.

Senate President Thomas V. Mike Miller, Jr. was equally reliant on the people's inability to add and subtract. He was particularly obsessed with repatriating the money he claimed that Marylanders gambled in other states, as if he could turn around Charles Town bound buses at the West Virginia border. An oft-cited \$350 to \$400 million gross number came from a study of dubious origins and limited sampling. Again, even if it was correct, the math did not work. The question people never asked was how do you get from \$400 million currently spent by Maryland gamblers to \$1.4 billion needed to make Maryland slots work? That is apples to apples. You get there not by enticing Maryland gamblers to come home or depending upon already satisfied out-of-state gamblers to stream across our borders. You get there by turning tens of thousands of Maryland citizens who formerly did not gamble into slots gamblers.

Fast forward to 2010. Where are the millions of dollars of predicted revenues? The rollout of slots parlors is far behind schedule. The revenues are almost non-existent and they certainly will fail to reach the \$90 million promised for 2010. What is the likelihood that Maryland will deploy 15,000 machines in five locations? No chance whatsoever. 1,500 machines out of 2,500 are up and running in Cecil County. Two of the five locations are lying fallow with weak bidders or no bidders. The market economy is speaking loudly and clearly to Maryland's plans.

The State of Maryland will never see \$660 million of revenue from slots. There is no math and no planned deployment of machines to get close to that number. Has Governor O'Malley silenced once and for all the incessant demands and debate over slots? Look at the Arundel Mills Mall controversy, look at Penn National Gaming lobbying, and look at the clamor for table games from newcomers such as Baltimore Mayor Stephanie Rawlings-Blake. The squabbling over Maryland gambling will never cease.

A public policy under-achiever like slots might be just so much grist for the political mill, except that slots has been the controversy of the decade in Maryland pitting neighbor against neighbor, the wealthy against the poor, and even parishioner against parishioner. The failure of slots to deliver as promised begs two troubling questions. Were citizens of Maryland purposely lied to in order to force a favorable vote on the referendum? Or is it the case that our state politicians are just fools and incapable of being trusted with such a complex, far-reaching project as slots?

The insidious answer lies somewhere between these two depictions and is best summed up as "Cheney Think." Cheney Think is exemplified by basing a massive public policy initiative on a false, institutional premise—in the case of the Iraq War it was the assumption that Iraq had weapons of mass destruction when it had absolutely none. First, you establish in your administration a policy or goal that you want to achieve. Then, that policy becomes the lens through which your administration views all facts, reports, studies, hypotheses and calculations. In the end, the tail wags the dog. Loose studies become facts. Simple math is substituted for statistical review and analysis. After securing the facts that they needed, the Governor and his administration proceeded to sell the public on the necessity of slots with total certainty in its position and of its convictions. You be judge. Is that prevarication or stupidity or Cheney Think?

It should come as no surprise to anyone what drove this irrational slots policy. It was the age-old lure of money--very big money when it comes to slots. For the gambling industry that is facing a nationwide decline in revenues in its traditional bastions such as Las Vegas and Ocean City, every new state where the industry can create new gamblers is precious. For a governor and a legislature struggling with exogenously induced deficits, a new source of funds that sidesteps the word "tax" is as rare as a vein of gold. For a developer who has become a billionaire by exploiting the ineptitude of governments, the chance to snooker the state and put a government-sponsored monopoly into a major mall is nothing short of genius. For candidates running for office, the grouping of individual campaign contributions by the Ocean Downs slots licensee William Rickman and his family as well as other gambling and racing interests such as the Maryland Jockey Club is a necessity.

Lost in this headlong rush for funds and riches is something that used to be called “the public good.” Never mind that our government will create tens of thousands of new gamblers out of its own citizens or that those who can afford it the least will be the preponderance of those who will lose their money. Never mind that gambling is an unproductive waste of discretionary income that underwrites a minimal number of low-skilled jobs compared to our state’s real economic drivers in technology and biotech. Never mind the personal toll on families and communities caused by the increased number of problem gamblers and the addicted.

Our leaders told us that the state would be bankrupt and the education of our children would suffer without slots. We believed them. We voted for this great panacea. We chose the lesser of two evils and, in the end, we find that a lesser evil is still an evil and it will not go away. Because it never ends is why Martin O’Malley will be forever remembered as the governor who brought slots to Maryland.

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