

No Windfall

Casino taxes won't make up cuts to local governments

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The opening of casinos in Cleveland and Toledo and the “racino” at Scioto Downs in Columbus means, among many other things, additional tax revenue. A third casino is scheduled to open in Columbus on Oct. 8, with a fourth to follow in Cincinnati next spring. Any new revenue is a welcome addition to strained local budgets. However, casino revenue makes up only a fraction of the cuts that local governments recently sustained because of slashed revenue from the state and the impending end of the estate tax.

Overall, counties, cities, villages, townships and other local government jurisdictions will lose close to \$1 billion a year from the cuts in state aid, not including reductions in state spending that goes to local governments for specific programs. Yet Policy Matters Ohio estimates that the casino tax is likely to provide just \$227 million a year for local governments that receive it. This will go to counties, the four cities that house casinos and four other major cities. Even for these governments, the estimated amount they are to receive in casino gaming taxes on average will be only half of the revenue they are expected to lose because of the current state budget. Nor will the additional aid to school districts make up more than a fraction of state cutbacks to education funding.

Our casino revenue estimates are necessarily tentative. Projected revenues have come down significantly since the 2009 campaign for the casino proposal, and the expected opening of numerous gambling facilities makes it hard to be sure what revenues will be. We estimate casino tax revenue based on several sources, including state agencies, casino operators, and former taxation department analyst Mike Sobul. Our numbers reflect a comparatively optimistic assessment.

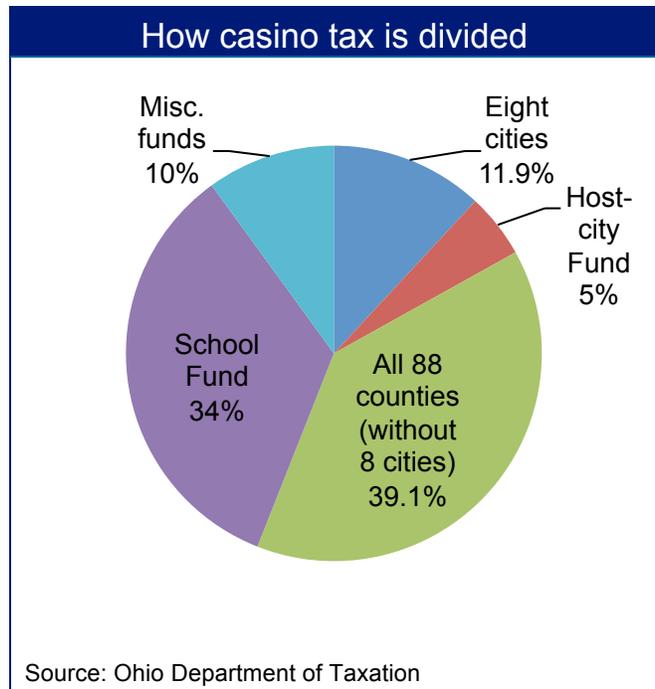
Casino taxes are set at 33 percent of gross casino revenues. Tax revenues are to be split into many pieces (see graphic, next page), with money going to school districts, counties, eight large cities, law enforcement, treatment of problem gambling, the state racing commission and the Ohio Casino Control Commission. Half of the county share where the largest city has more than 80,000 people will go to that city, and the four cities that will host casinos each will get 5 percent of that casino's tax revenue.

Key findings

- New casino tax revenue will provide less than a quarter of the nearly \$1 billion in annual losses local governments will see because of cuts in state aid
- Counties and big cities that get casino tax revenue lose twice in state aid what they get in new casino taxes
- Support to schools will not make a major financial difference

Tax revenue from casinos will make up only a fraction of the \$1.8 billion in state cuts to K-12 education in the current two-year budget compared to the previous biennium. According to an analysis Sobul did last May, the new tax revenue will amount to between 0.5 and 1.5 percent of operating spending in most school districts.

Like schools, local governments across Ohio have been hit by reductions in reimbursements the state had previously made to them for property-tax levies they lost after state policy eliminated them. These have been especially damaging to county levies that support health and human service programs. Local governments also are experiencing drastic reductions in state aid through the Local Government Fund, and municipalities and townships are about to see a decline in support because of the repeal of the estate tax, which had generated hundreds of millions of dollars annually for them.



Even those localities that will receive casino revenue are still deep in the hole based on the cuts in state aid. The four casino host cities – Cincinnati, Cleveland, Columbus, and Toledo – will likely receive less as a group in gaming tax revenue than their 2013 loss just in local government funds. Estate tax elimination alone is likely to offset Cincinnati’s casino tax gains. It will be some time before a full accounting can be done of the full financial effects from casinos on host cities, but officials from Columbus and Cleveland have noted recently that gaming-tax revenues come nowhere near making up losses from changes in state tax policy.

Video lottery terminals (VLTs) are also opening at Ohio race tracks, licensed by the Ohio Lottery. Assuming all seven tracks add VLTs, annual revenue could be up to \$338 million a year, based on the first three months of operations of Scioto Downs. This will reduce casino revenue. Unlike casino taxes, new government revenue from the racetracks will go to the lottery. Like other lottery profits, it is required to be spent on education – and somewhat similarly, the constitutional amendment enabling the casinos says that tax distributions to schools and local governments are “intended to supplement, not supplant, any funding obligations of the state.” However, as with the lottery, there is little reason to believe casino revenue will amount to a bonus over what the state would otherwise spend.

Regardless of the supplantation issue, casino revenues, while significant, go nowhere near making up for the cuts sustained by local governments from state tax policy changes made in the current state budget. Ohio needs to boost its investment in schools, local governments and human services with additional revenue from those who can afford to pay. Revenue from gambling does not suffice.