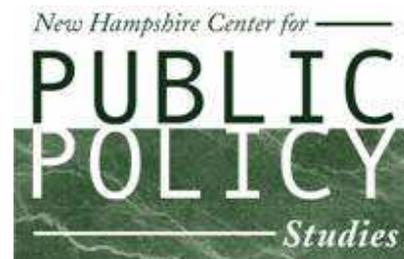


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Expanded Gambling in New Hampshire: An update on options

February 2013

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About this paper

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Executive summary

This paper presents the results of an update to our model of the potential impact of expanded gambling on New Hampshire. We developed this model in 2010 to support the work of the Governor's Gaming Study Commission. While several assumptions in the state's gambling debate have changed in this new legislative session, the specifics of that debate vary depending on the piece of legislation being considered. We also know that proposals can change as they move through the policy-making process. Thus, we modeled several scenarios and present the results here. Our findings include:

It is difficult to accurately predict when the state would see any new revenue from a license fee or casino operations. Experience in other states suggests that it could take at least two years before any tax revenues from casino operations would be available to the state. While up-front license fees paid by developers might come sooner, that will depend on several factors: the speed with which local communities allow expanded gambling through a referendum, and the state's ability to set up a regulatory structure, among other factors.

There is the possibility of a significant license fee, but that amount will depend on the tax rate imposed on gambling revenues and developments in the Northern New England gambling market. Our analysis suggests that the true value of the southern New Hampshire gambling market could generate a license fee as high as \$100 million. However, whether potential developers would pay such a fee depends on, among other factors, the tax rate to be imposed on gambling revenues, competition from casino activity in Massachusetts, and the potential development requirements in New Hampshire, each of which would affect developer incentives. Thus, predicting revenue from license fees is difficult, and budget writers should use caution in basing a budget on such revenue.

While expanded gambling will yield revenue to the state, our model's estimates of the social costs of problem gambling suggest no long-term net state benefit when the tax on casino operations is set at 30 percent or less. That calculation changes as the tax rate is increased. Our model indicates that at a tax rate of 40 percent, a casino with \$300 million in investment would provide an annual net benefit of roughly \$32 million, while a \$500 million facility would provide roughly \$51 million in net benefit for the state.

The size of the investment has a significant impact on state revenues associated with expanded gambling. If policymakers wish to proceed with expanded gambling as a source of steady, long-term state revenue, they should give careful consideration not only to the rate at which casino revenues would be taxed, but also to the level of new investment required of the facility developer. This includes the question of whether that investment requirement will include license fees, real estate purchase, or other developer costs.

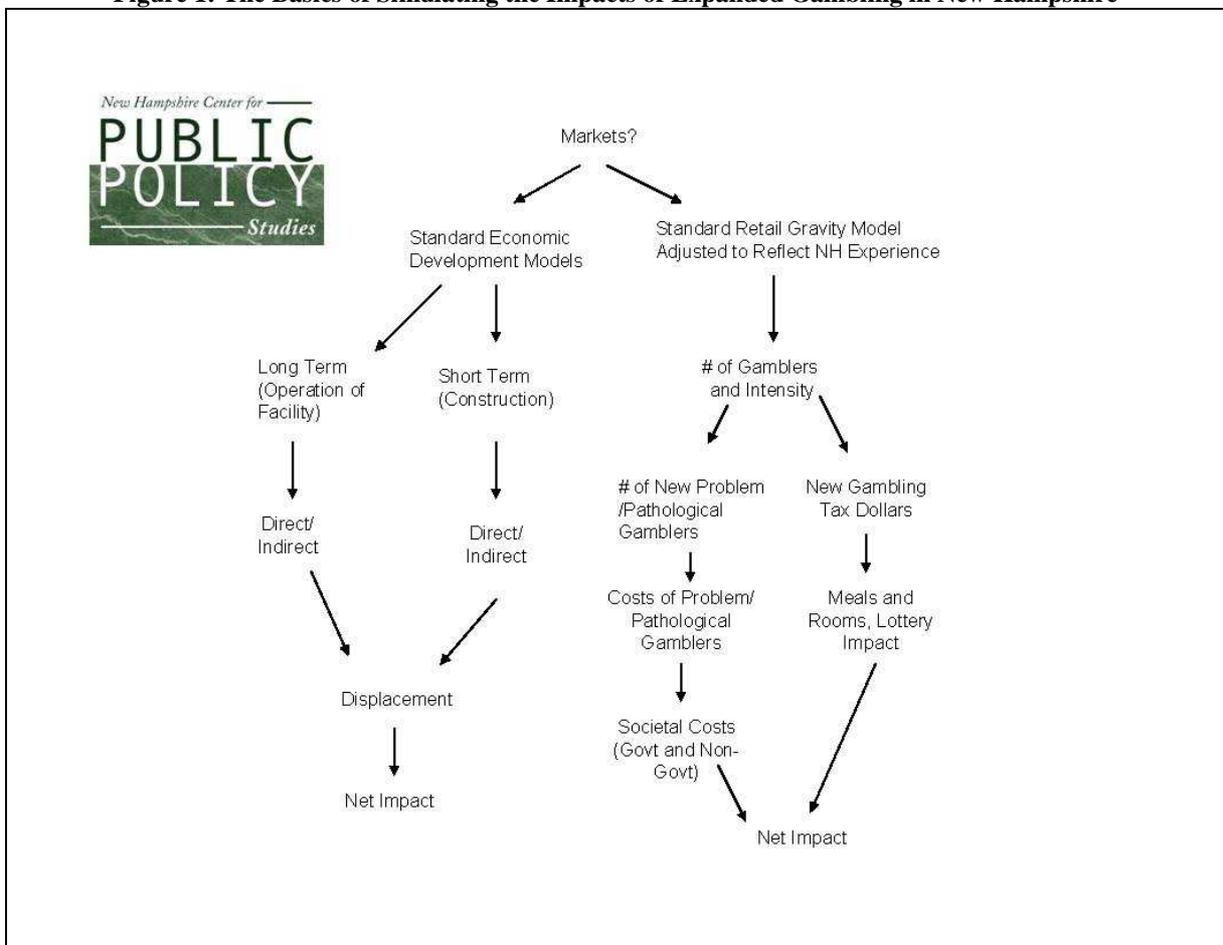
While expanded gambling would result in job increases, the number of long-term jobs depends on the size of the investment. Our estimates range from 540 jobs (at a \$100m facility) to 2,700 jobs (at a \$500m facility). Further, some portion of these jobs will likely replace other jobs. The extent of this so-called "substitution" will be driven by how many visitors to the casino come from outside the market.

Unknown impacts and factors are not estimated: Our model still does not account for a number of factors, including the potential positive or negative effects of expanded gambling on New Hampshire’s “brand” (as a tourist destination and place to do business), the potential private costs associated with pathological gambling (so-called “abused dollars”), nor the benefit to the community where the facility is located in the form of increased property tax revenue.

Our model: Simulating the impact on New Hampshire

In 2010, the Center developed a series of inter-related models that provide a means for simulating the economic and social impacts of expanded gambling for New Hampshire. These models take as inputs assumptions about the amount of capital investment, the size and type of facility, geography, population and income levels, and the potential actions of other states. The model design is shown in Figure 1 below.

Figure 1: The Basics of Simulating the Impacts of Expanded Gambling in New Hampshire



In these simulations, we use a gravity model to produce estimates of the number of individuals who would take part in new gambling options and the money spent. These estimates are used to drive our simulation of the economic impact of construction (short-term) and operations (long-

term) of a gambling facility, the revenues created, the displacement of existing economic activity, and the social costs.¹

Outside assumptions

Given recent changes in the gambling debate in New Hampshire, we find it necessary to re-examine a number of our major assumptions used in our model. These include:

- **The impact of gambling activities in neighboring states.** Our original modeling efforts included a scenario in which two full casinos in Massachusetts at Palmer and Suffolk Downs would compete with a Southern New Hampshire facility. Although in two years Massachusetts has only come marginally closer to selecting a vendor, we believe this remains a valid operating assumption for the purposes of this update.
- **Declines in gambling revenues around the country.** Gambling revenues continue to decline locally and nationally, and our assumptions have been updated to reflect those trends. Our May 2010 report used 2009 as a base year, and therefore we have reduced our revenue estimates to account for this decline. Gaming revenue is reduced by 15 percent in our model, compared to our May 2010 report, based on declines seen in Connecticut slot machine revenue and New Hampshire lottery income from 2009 to 2012.
- **Inflationary impacts.** Inflation is likely to have increased the expense of managing the social costs of expanded gambling. Accordingly we have:
 - Increased regulatory cost by 6.5 percent (to account for general inflation).
 - Increased other social costs (related to crime and mental health issues) by 14.4 percent, based on the medical services inflation rate.
- **Statutory parameters.** The tax rate, timing, and potential license fees associated with expanded gambling in New Hampshire, which were not part of our original work conducted in 2010, are important pieces of the current gambling policy debate in the state. Changes in any of those variables will have considerable impact on the benefit to the state of expanded gambling.

We detail each of these factors below.

Gambling activity in neighboring states

Two neighboring states – Maine and Massachusetts – have seen significant developments in their gambling laws in recent years.²

Maine legalized slot machines at Bangor in November 2003. A racino opened in that community two years later, in November 2005, in a temporary facility with 475 slots. The final facility, Hollywood Slots, opened with 1,000 slot machines in June 2008, four and a half years after passage of the law.

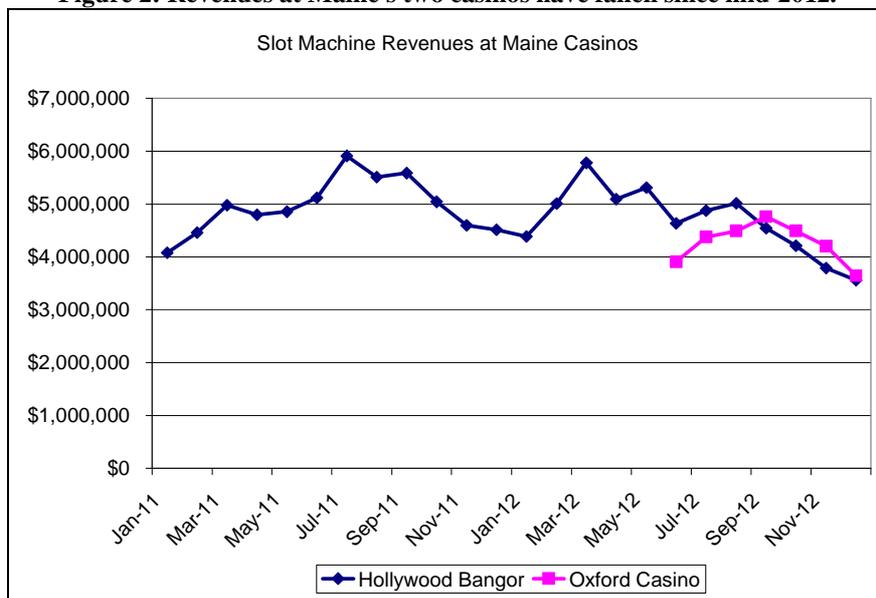
¹ More detail on the model structure and assumptions are available in the Center's May 2010 report, "Analyzing the Impact of Expanded Gambling on New Hampshire," www.nhpolicy.org/report.php?report=236

² For a more detailed review of gambling activity in Northern New England, see the appendix to this paper.

Net gaming revenues, which are the dollars that patrons “lose” and that Hollywood Slots retain and partially distribute to various state funds, increased from \$1.97 million a month (\$24 million a year) to \$3.57 million a month (\$43 million a year) between November 2005 and May 2007. Net revenues at Hollywood Slots totaled \$5.5 million in July 2012, down from \$5.9 million the same month in 2011.

Maine’s second gambling parlor, Oxford Casino, opened in June 2012, on land 120 miles southwest of Hollywood Slots. The Oxford Casino had revenues of nearly \$10 million in its first two months of operation, while revenues at Bangor have fallen since then (see Figure 2).

Figure 2: Revenues at Maine's two casinos have fallen since mid-2012.



An analysis by the New Hampshire Lottery Commission shows that scratch ticket sales have declined in the last six months of 2012 in the region of New Hampshire closest to the Oxford Casino, which is a 90-minute drive from North Conway, N.H. It is not clear at this point what impact, if any, the Oxford Casino has had on New Hampshire tourism spending.

In November 2011, Massachusetts Governor Deval Patrick signed a bill authorizing three resort-style casinos and one slot machine parlor in the state. The bill permits three casinos, each in a separate region of the state: one in the Boston area that extends to Worcester; one in Western Massachusetts; and a third in Southeastern Massachusetts. In addition to the three casinos, one slot machine parlor is authorized to open anywhere in the state. The Massachusetts Gaming Commission plans to award the resort casino licenses in 2014.

Four casinos are vying for the license in Western Massachusetts. For the Greater Boston area, three Las Vegas-style resort casinos have been proposed for Suffolk Downs in East Boston, Everett, and for Milford. The East Boston and Everett sites are about 5 miles apart. In the Southeastern region of the state, commercial casino development is reportedly on hold to allow

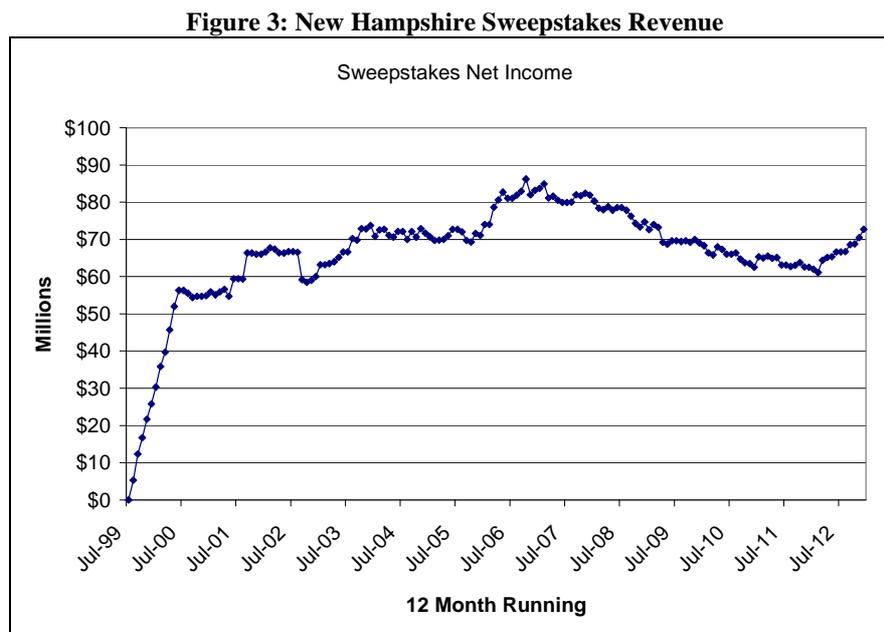
the Mashpee Wampanoag tribe time to make progress on a tribal casino, which must win federal approval.

A slots developer is required to make a minimum \$125 million investment, compared with the minimum \$500 million investment demanded of resort casino developers. But the state will take a bigger portion of gambling revenues from the slots parlor, with a 49 percent tax, compared to a 25 percent tax on casino revenue.

Declines in gambling revenues

Gambling revenues have declined across the country as a result of the Great Recession. This is not surprising, as consumer spending declined sharply over the past four years and gaming is usually considered an entertainment expense.

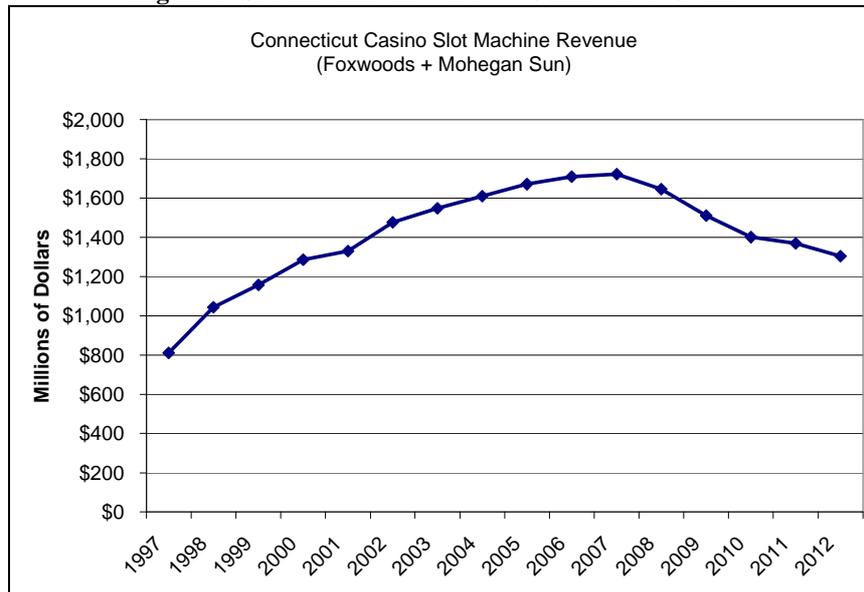
Figure 3 shows the impact of the recession on New Hampshire sweepstakes net income (i.e. state lottery income). New Hampshire annual revenue from lottery sales declined from about \$85 million in 2007 to just above \$60 million in 2011, a loss of almost 30 percent. Lottery revenues regained some ground in 2012, but still remain about 15 percent below the 2007 peak.



Source: New Hampshire Department of Administrative Services

There are also reports of declining revenues in major casino areas, like Las Vegas and Atlantic City, between 2008 and 2012.³ As shown on the following chart, the Indian Nation slot machine revenues in Connecticut casinos (Foxwoods and Mohegan Sun) have suffered a decline of 20 percent in their revenues, from \$1.722 billion in 2007 to \$1.303 billion in 2012.

³ A 2013 Rockefeller Institute of Government presentation to the New Hampshire House Ways and Means Committee showed that Nevada casino revenues declined by 11.8 percent and New Jersey casino revenues declined by 39.2 percent between 2008 and 2012.

Figure 4: Slot Machine Revenue at Connecticut Casinos

Source: University of Nevada Las Vegas, Gaming Abstract

Inflationary changes

Our model was also updated for potential changes in social and administrative costs of gaming from 2008 to 2012. Regulatory costs were adjusted upward by 6.5 percent based on the change in Consumer Price Index over that time period. Social costs (discussed in detail later) were increased by 14.4 percent based on the change in the Consumer Price Index's medical care services component.

Specific statutory parameters

Several proposals for expanded gambling have been put forward in the current legislative session, and those bills make clear that the parameters of the gambling debate in New Hampshire have changed. In the past, initial proposals allowed at least two casinos. But the major gambling legislation in this year's session – a bill that has earned the support of Governor Hassan -- allows for a single casino with a study committee to discuss the possibility of a second site. Moreover, the targeted tax rate on gambling facility revenue has declined. Whereas previous bills taxed proceeds at 40 percent, emerging legislation would establish a 30 percent tax rate, with 25 percent going to fund state activities.

Finally, in past years, then-Governor Lynch indicated he would veto any legislation that legalized expanded gambling. Governor Hassan has not shared that position. This heightens the importance of getting a clear understanding of the timing of potential revenue to the state – including both revenues from license fees and from the operations of a casino – as this has already emerged as a major focus of 2014-15 budget conversations this spring.

License fees

One source of state revenue is the license fee, an amount charged to developers for the right to build and operate a gambling facility in the state. Unlike revenue derived from the operations of

a casino, license fees are often paid upfront. Estimating the market value of any particular license fee is difficult, and the amount charged depends on a variety of goals.

In a pure competitive environment, a gambling developer's willingness to invest in an area is a function of the market size (personal income and competition in the region), the tax rate, and the size of the initial license fee required of the developer.

Policymakers interested in maximizing revenues can fairly easily understand the levers available to reach different goals. To see the biggest immediate revenues, a state would set a low tax rate and have no minimum investment requirements, but set a fairly high license fee. Conversely, states interested in a long-term source of revenues would set a high tax rate and a small license fee. Estimating the value of the various arrangements can be done via an auction which would show how the market values the potential return on investment.

Estimating the market value of a license fee based on the experience in other states, however, is difficult for a variety of reasons. First, when legalizing gambling, states often have goals other than maximizing direct state revenue. New Jersey, Nevada and Colorado have promoted gambling as an economic development booster and tourist attraction. States might also set a license fee lower than a pure competitive market would bear if they are interested in establishing gambling operations as quickly as possible. This would result in less upfront revenue through the license fee, but would likely result in a more rapid development of gambling facilities.

All of these variables complicate efforts at quantifying the value of license fees. A recent analysis by Jeff Hooke, for example, suggests that Massachusetts' "minimum" bid of \$85 million per license, set in the Massachusetts casino legislation of 2011, is far lower than what officials in New York and Illinois have charged in recent casino licensing deals⁴. A 2010 Florida study on the use of auctions to set license fees confirmed this assessment. The study included a review of the types of auctions that could be most effective in generating the maximum license value for a Florida casino, as well as an examination of recent gaming license auctions in other states. The following table comes from that study.

Recent Auction Prices for Gambling Licenses					
Year	State	Framework	Amount of License	Tax Rate	Size of Market (millions)
2008	Illinois	Top offer in auction by sealed bid, with additional requirements.	\$435 million	50.0%	\$1,477
2004	Pennsylvania	Derived from the acquisition of a 50% interest in a local harness track.	\$500 million	55.0%	\$1,456
2004	Illinois	Auction setting - three companies were engaged in the auction for a specific site over a 20 hour period.	\$518 million	50.0%	\$1,477
2000	Michigan	Derived from the acquisition of a 40% interest in a casino license.	\$663 million	24.0%	\$1,424
2001	Indiana	Derived from the acquisition of a 42.4% interest in an operating riverboat casino.	\$750 million	40.0%	\$2,721

Source: AGA and Florida Legislature Office of Economic and Demographic Research

⁴ "\$500 Million License Fee for MGM/National Harbor Casino", The Maryland Public Policy Institute, December 2012.

Using this relatively limited set of data, one could argue that the Massachusetts market (which exceeds \$2.5 billion) could demand license fees of as high as \$750 million under that state's gambling tax requirements, if licenses were awarded at auction with no development size constraints. However, the relatively large investment requirements in Massachusetts (\$450 million) and multiple competitors across the state might explain why Massachusetts is expecting much lower license fees, for the reasons discussed above.

A review of a broader set of states – including both those with auctions and those that use other methods – provides New Hampshire policymakers with little guidance in assessing the value of the state's potential gambling market. Figure 5 below compares the estimated market sizes, facility sizes, tax rates and license fees for several states. The Center's efforts to discern a relationship between these factors proved unsuccessful. Contrary to what a pure economics model would suggest, relatively small markets with high tax rates (such as Harrington Raceway in Delaware) resulted in larger license fees than states with a larger market (Presque Isle Downs in Pennsylvania). Other factors, such as market competition and minimum investment requirements, likely have an impact, as well.

Figure 5: Market size, license fees and tax rates vary considerably from state to state

Facility	State	Market Size		License Fee	
		(millions)	Slots #	(millions)	Tax Rate
Suffolk Downs	Massachusetts	\$598	5,000	\$85	25.0%
Palmer/Springfield	Massachusetts	\$299	5,000	\$85	25.0%
Hollywood Casino	Maine	\$60	1,000	\$0.250	49.1%
Oxford Casino	Maine	\$120	1,000	\$0.250	49.1%
Twin River	Rhode Island	\$475	4,751	\$100	72.7%
Newport Grand	Rhode Island	\$50	1,100	\$100	72.7%
Mohegan Sun	Connecticut	\$700	6,000	Minimal	25.0%
Foxwoods	Connecticut	\$613	7,000	Minimal	25.0%
Delaware Park	Delaware	\$220	2,487	\$80	56.9%
Dover Downs	Delaware	\$200	2,736	\$80	56.9%
Harrington Raceway	Delaware	\$118	1,816	\$80	56.9%
Mohegan Sun @ PD	Pennsylvania	\$310	2,400	\$50	55.0%
Philadelphia Parx	Pennsylvania	\$538	3,400	\$50	55.0%
Harrah's Chester	Pennsylvania	\$397	2,900	\$50	55.0%
Presque Isle Downs	Pennsylvania	\$233	2,000	\$50	55.0%
Meadows	Pennsylvania	\$338	3,500	\$50	55.0%
Mount Airy	Pennsylvania	\$216	2,400	\$50	55.0%
Penn National - Hollywood	Pennsylvania	\$305	2,500	\$50	55.0%
Sands Bethlehem	Pennsylvania	\$403	3,000	\$50	55.0%
Rivers	Pennsylvania	\$353	2,900	\$50	55.0%
SugarHouse	Pennsylvania	\$120	1,700	\$50	55.0%
Prince George's County	Maryland	\$585	3,000	\$18	66.0%
Boot Hill	Kansas	\$40	1,000	\$25	25.0%
Hoosier Park	Indiana	\$215	1,857	\$250	40.0%
Indiana Downs	Indiana	\$238	1,997	\$250	40.0%
Des Plaines	Illinois	\$280	2,000	\$425	50.0%
Chicago	Illinois	\$500	2,000	\$435	50.0%

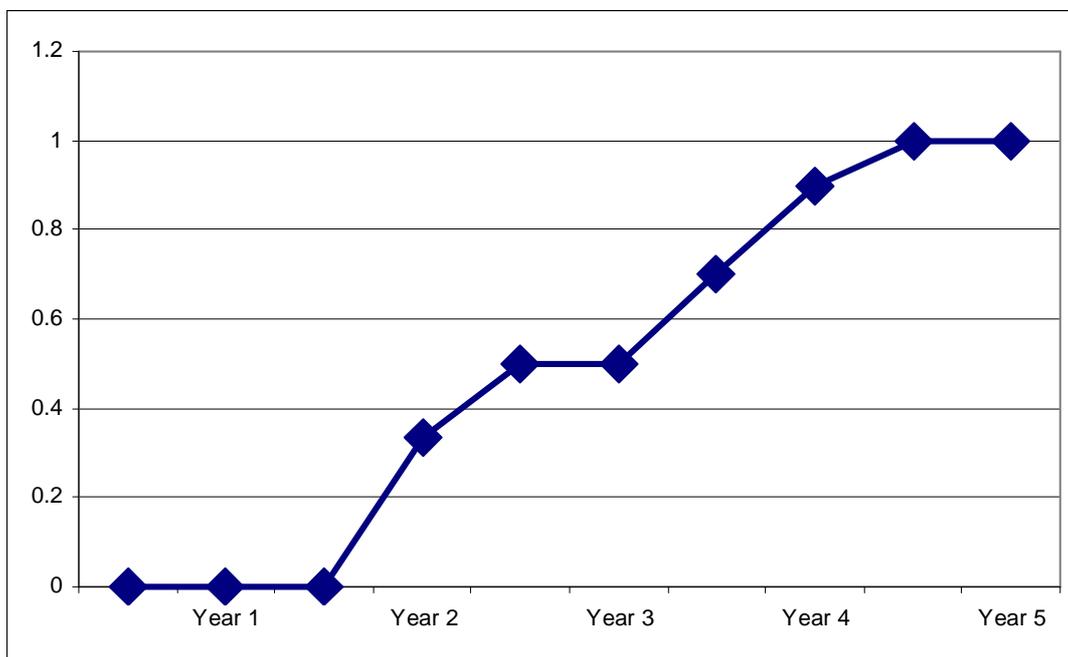
Timing of revenues

One of our goals in this analysis is to help policymakers understand the implications of their assumptions on potential gambling revenue to the state. We also want to shed light on the potential timing of revenues associated with expanded gambling. That is, while the Legislature might pass a bill enabling expanded gambling, there are many factors which could significantly delay the implementation of such a bill, the development of a facility, and the flow of gambling tax revenues to the state.

Figure 6 illustrates the time it can take to reach the initial estimates of potential revenue from expanded gambling, using the example of Maine. That state passed legislation in 2005 to expand gambling. Approximately 18 months later, a temporary facility was created which started generating revenues, but in amounts much lower than projections, because of the smaller number of slots than originally predicted. Once development began, it took almost five years before the facility generated the predicted amount (measured as 1 on the Figure's Y-axis).

A similar timeline appears to be unfolding in Massachusetts. Despite the passage of legislation enabling expanded gambling in November 2011, Massachusetts still has no developments under way in the first quarter of 2013, and may not issue a casino license until 2014.⁵ And while the New Hampshire experience could very well be different (given the regulatory structure and process associated with the selection), this suggests it is unlikely that significant revenues from casino operation could accrue to the state in the next budget period (FY2014-15).

Figure 6: Ramp Up of Hollywood Slots in Bangor, Maine



⁵ <http://www.mass.gov/gaming/fact-sheet/>

Estimates of social costs

Another key piece of our analysis attempts to account for the potential social costs associated with expanded gambling. As we noted in our original work, there are potentially many negative consequences associated with the development of new gambling facilities.

Table 1 provides a categorization of these social impacts and what party bears the financial costs of each of the impacts.

Table 1: Social Impacts Associated with Gambling⁶

Type	Bearer of Costs	Description
Crime	Local communities, law enforcement, individuals, courts, corrections	Increase in crime associated with the introduction of a gambling facility. Majority of crime is monetary in nature (theft, burglary), but violent crimes may be associated as well.
Business and Employment Costs	Individual, family, economy, businesses	Increase in lost work days, lost productivity, and employment termination.
Bankruptcy	Individuals, banks, legal system, creditors	Bankruptcy as a result of gambling debts.
Mental Illness	Health insurer, treatment provider, family	Gambling is associated with mental illness such as depression and anxiety.
Suicide	Family	Problem and pathological gamblers have a higher risk for suicidal thoughts and committing suicide than the general public.
Social Services	Government, Service Agencies	These are the costs related to unemployment, welfare, and treatment costs due to individuals with problem gambling.
Regulatory Costs	Government	Government expenditures to operate a gambling regulatory agency.
Family Costs	Family	This includes costs associated with divorce, spousal separation, and child abuse and neglect, and domestic violence.
Abused Dollars	Family, Friends, Employers	These costs are those associated with money lost gambling that was taken from family, friends, or employers that is never reported as a crime.
Social Connections	Individuals, family, friends, communities	Reduction of social capital
Political	Government, Local communities	Increasing concentration of economic power could result in disproportionate political influence

As the chart illustrates, the financial costs of the social impacts of problem gambling are borne by families, employers, mental health, law enforcement, and the government. In order to estimate the financial costs of the social impact of gambling, we originally looked at several methods from the national base of academic and public policy research.

There is no agreed-upon model for simulating social costs; each method we researched showed wide variation in measurement and methodology, and therefore had wide variation in estimates. This variation results from basic differences in beliefs regarding what should be included in these analyses. This variation becomes even more complex when adding in a low and a high estimate for the population of potential problem gamblers in a given area.

⁶ Sources: NORC (1999), pp. 52; Grinols E. "Gambling in America: Costs and Benefits" [Cambridge University Press](#). 2004. pp. 132-146; Walker D and Barnett A. "The Social Costs of Gambling: An Economic Perspective." [Journal of Gambling Studies](#). 15(3). September 1999. pp. 184.

Therefore, we use the estimates of social costs as defined in a study by the National Opinion Research Center at the University of Chicago (1999.) The factors included in our social cost model from this study are shown in Table 2. Estimates for the number of problem and pathological gamblers and the associated costs per gambler from the Center's 2010 analysis were updated based on the consumer price index.

Table 2: Annual Estimates of Social Costs

National Opinion Research Center at the University of Chicago (1999)
Annual estimates of social costs (in 2007 dollars)

Type of Cost	Primary Payer	Total Costs per Gambler	
		Problem	Pathological
Unemployment benefits	Government	\$ 81	\$ 106
Welfare	Government	\$ 112	\$ 75
Arrests	Government	\$ 299	\$ 389
Corrections	Government	\$ 208	\$ 529
Job loss	Employer	\$ 249	\$ 398
Divorce	Family	\$ 607	\$ 1,338
Poor Health	Family/Insurer/Provider	\$ -	\$ 871
Poor Mental Health	Family/Insurer/Provider	\$ 448	\$ 411
Filed Bankruptcy	Creditors	\$ 482	\$ 1,027
TOTAL		\$ 2,486	\$ 5,143
TOTAL GOV'T ONLY		\$ 700	\$ 1,098

Regulatory expenses

As our model of the costs associated with gambling includes the state expense associated with regulating the gambling industry, we also include estimates of the regulatory expense. For estimating the regulatory expenses associated with expanded gambling, we rely on a bill introduced in the New Hampshire Legislature that included an estimate of what the regulatory costs of new gambling activities would be.⁷ The Racing and Charitable Gaming Commission, Department of Safety, and Department of Justice estimated their costs under the proposed regulatory structure; however, the Lottery Commission explicitly stated it was not able to estimate the expenses related to the administration and regulation of expanded gambling. Using the other three agencies' estimates, the total regulatory cost for fiscal year (FY) 2011 is estimated to be \$6,477,558. Without any estimates of expenses from the Lottery Commission, this is obviously an under-estimate. For our social costs model, the full \$6.5 million will be included unadjusted, as a regulatory structure is a necessity for any model of expanded gambling.

Treatment costs for gambling disorders

In addition, the New Hampshire Department of Health and Human Services (DHHS) presented estimates of treatment costs for problem and pathological gambling.⁸ The budget included prevention services, educational programming, and treatment costs for those with a gambling disorder. In 2010, DHHS estimated that only half of pathological gamblers would seek treatment

⁷ See Fiscal Note from SB489 2010.

⁸ Presentation to the Gambling Study Commission by Joe Harding, Director, Bureau of Drug and Alcohol and Drug Services, DHHS, March 16, 2010.

services in some capacity. With additional costs for administration, program development, and program evaluation, the estimate presented for FY2011 is \$6.7 million. Table 3 shows our estimates for 2011 and 2012. These were increased by the rate of inflation for our work in this analysis.

Table 3⁹

DHHS Proposed Budget for Problem Gambling Treatment Program				SFY11	SFY12
Community Level Prevention Services				\$250,000	\$250,000
Media/Social Marketing				\$665,000	\$380,000
Clinical Services					
			# Served		
	Crisis Eval		236	\$118,813	\$118,813
	Outpatient		5,310	\$4,141,660	\$4,141,660
	IOP		590	\$1,061,964	\$1,061,964
	TOTAL		6,136	\$5,322,436	\$5,322,436
Training/Program Development				\$20,648	\$13,148
Program Evaluation				\$65,000	\$32,500
Administration				\$382,393	\$339,664
TOTAL				\$6,705,477	\$6,337,748

We assume administration, evaluation, prevention, marketing, and program development are fixed costs regardless of the size of any expansion.¹⁰ DHHS estimates that half of pathological gamblers may seek clinical services, so we adjust total treatment cost estimates based on half the estimated number of pathological gamblers in each market area. Table 4 below shows the estimated treatment costs by market area as described in our work in 2010.

Table 4

Market Area	Treatment and Prevention Costs (in millions)					
	Large Casino with Table Games		Large Casino w/o Table Games		Small Casino with or w/o Table Games	
	Low	High	Low	High	Low	High
Southern NH	\$2.5	\$3.7	\$2.1	\$3.1	\$1.7	\$2.0
Southwestern NH	\$1.6	\$1.8	\$1.5	\$1.7	\$1.4	\$1.5
Lakes Region	\$1.9	\$2.5	\$1.8	\$2.2	\$1.5	\$1.7
Ski Country	\$1.5	\$1.7	\$1.5	\$1.6	\$1.4	\$1.5
Great North Woods	\$1.4	\$1.5	\$1.4	\$1.4	\$1.4	\$1.4

⁹ Ibid.

¹⁰ Based on FY 2011 figures. The total fixed costs for providing treatment are estimated to be \$1.4 million.

Running the model: The final state impact

As discussed earlier, the amount of revenue that would accrue to the state is a complex function of the size of the facility, the placement of the facility, and the tax rate on gambling proceeds. Without a minimum investment requirement for developers, policymakers may want to begin with the assumption that, at least initially, the size of the facility as measured by the number of slots will be relatively limited and will increase – if at all – only over time.

Figure 7 illustrates our model run under the mostly likely scenario for expanded gambling now being considered in New Hampshire. It suggests the possibility that expanded gambling could result in a net loss to the state – a loss of roughly \$2 million a year.

Let's walk through the assumptions in Figure 7. First, we assume that the facility in southern New Hampshire would be a mid-sized investment of \$300 million, with about 3,000 slot machines. We arrive at this assumption based on language in Senate Bill 152, the expanded-gambling bill that has received the backing of Governor Hassan. While the bill requires that developers of a new expanded gambling facility make a capital investment "not less than \$425 million," the bill allows developers to include the cost of the license fee (now set at \$80 million) in that investment total. It also allows casino developers to include the cost of purchasing or leasing land where the new casino will be located, as well as infrastructure designed to support the site, including drainage, roadways and water contamination issues. Thus, one might assume that the \$425 million capital investment requirement might actually result in a facility that is significantly smaller than a casino worth \$425 million.

Further, accounting for recent declines in gambling revenue in New Hampshire and at other facilities across the country, we estimate a casino of this size could potentially generate \$91 million in annual revenues to the state of New Hampshire, at a tax rate of 30 percent on net casino earnings, as SB152 calls for.¹¹

And we assume that an operating casino at Suffolk Downs would decrease potential revenues to \$45 million, implying that \$46 million in potential New Hampshire casino business would be lost to competition from Massachusetts. Private and public New Hampshire social costs are calculated at about \$46 million, leaving a net estimated loss to the state of about \$2 million.

¹¹ SB 152 calls for a total tax rate of 30 percent on slot machine income, with 25 percent going toward state highway and bridge improvements, the state university system and economic development in the North Country. The remaining 5 percent would be divided among the following: 3 percent to the town where the casino is located, 1 percent to neighboring towns, and 1 percent to state programs to treat problem gamblers.

Figure 7: Net Benefit Calculation for Mid-Sized Facility, 30% Tax Rate, with impact of casino at Suffolk Downs, Mass.

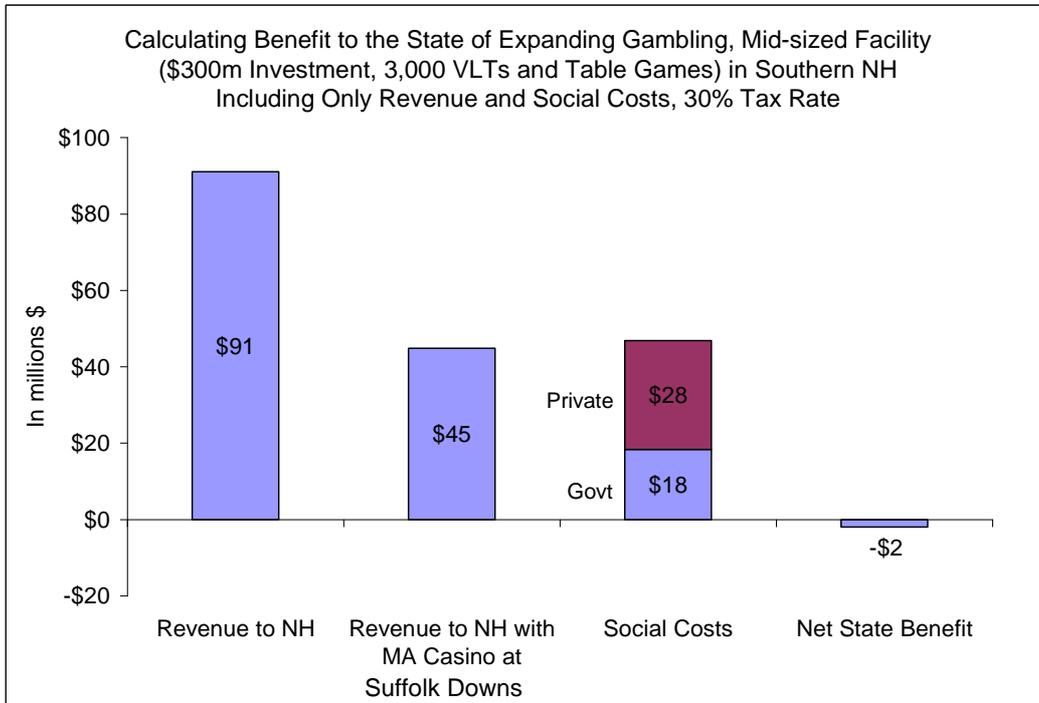


Figure 8: Net Benefit Calculation for Mid-Sized Facility, 40% Tax Rate, with impact of casino at Suffolk Downs, Mass.

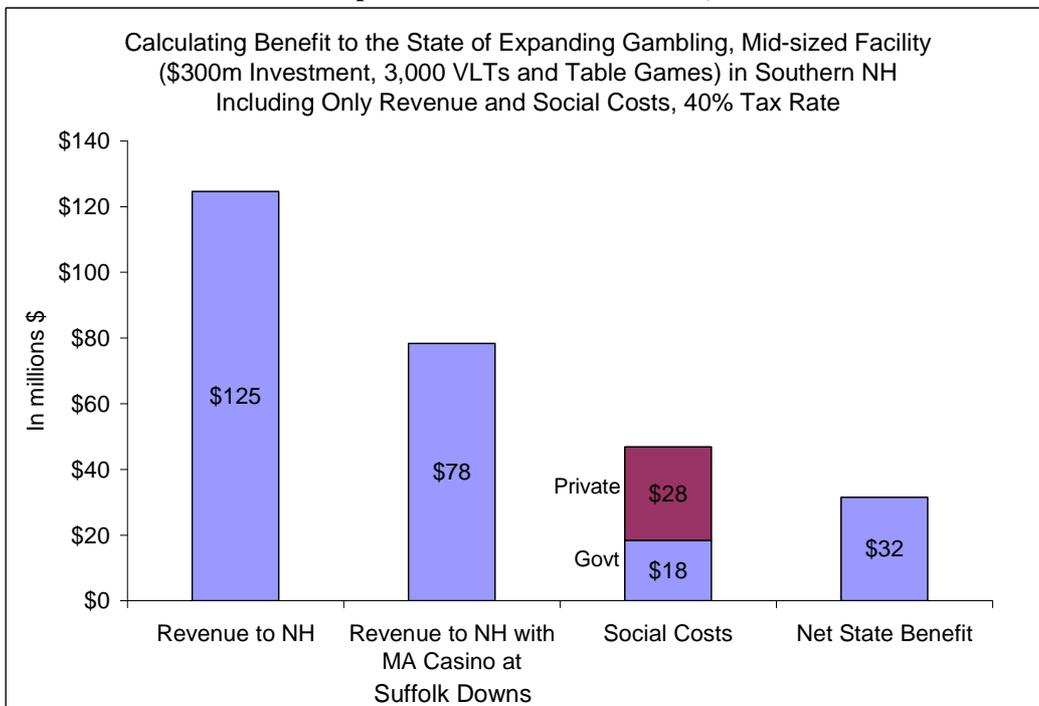


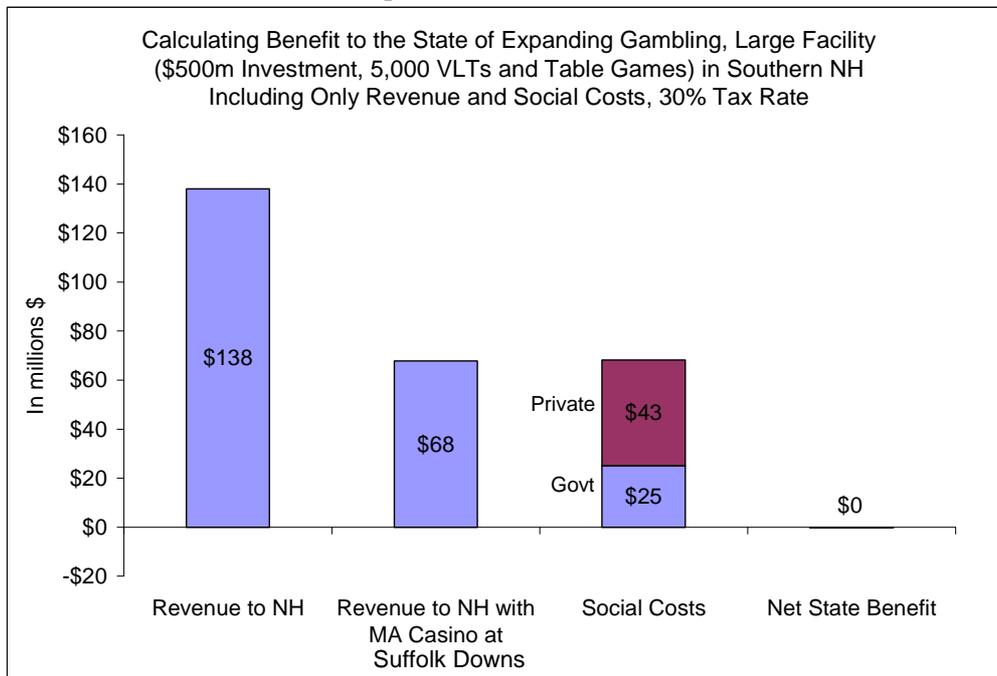
Figure 8 illustrates, increasing the tax rate from 30 percent to 40 percent on a \$300 million facility would shift expanded gambling from a net loser for the state to a net gain of roughly \$32 million per year. This shows the significant differences that result from changes in the tax rate charged on casino earnings and underscores the consideration policymakers should give to this question when analyzing the potential impacts of expanded gambling.

We can change other assumptions in our simulations, as well. If a larger facility were to be constructed (a \$500 million investment, with 5,000 slot machines), our model suggests that the state would essentially break even when gambling proceeds are taxed at 30 percent (Figure 9).

Figure 9 below shows the potential state revenue of such a larger facility in southern New Hampshire, the impact of expanding gambling in Massachusetts on revenues from that facility, additional social costs to New Hampshire, and the net state benefit after social costs are subtracted from potential revenue.

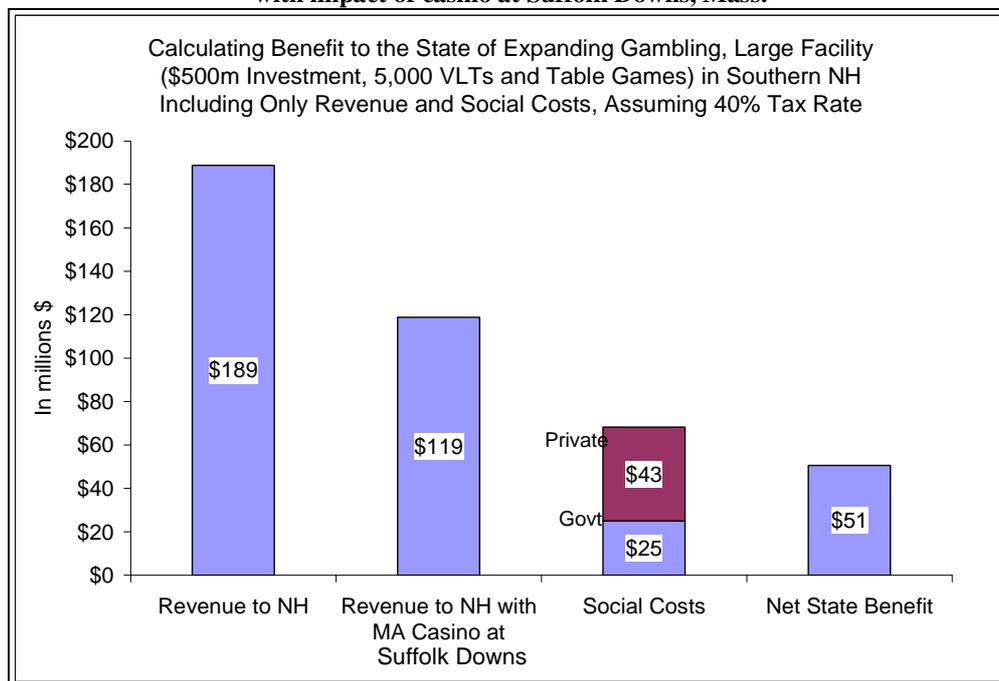
Allowing for recent declines in gambling revenue in New Hampshire and at other facilities across the country, we estimate that such a large casino could potentially generate \$138 million in annual revenues to the state of New Hampshire, assuming a 30 percent tax rate. An operating casino at Suffolk Downs would lower potential revenues to \$68 million. Private and public New Hampshire social costs would total to about \$68 million, leaving no net benefit to the state.

Figure 9: Net Benefit Calculation for Large Facility, 30% Tax Rate, with impact of casino at Suffolk Downs, Mass.



A higher tax rate (40 percent) on a larger facility would generate a net positive state benefit of \$51 million (Figure 10).

Figure 10: Net Benefit Calculation for Large Facility, 40% Tax Rate, with impact of casino at Suffolk Downs, Mass.



Casinos, jobs and economic development

Casinos are also frequently promoted as job creators. Proponents of casino gambling in New Hampshire have stated that new jobs will be created in New Hampshire, from construction activity in the early stages of casino development to the long-term operation of the casino.

Two questions arise when considering gambling casinos as an economic development engine. First, how many and what kinds of jobs are associated with the operation of a casino, and what sort of wage do they pay? Second, to what extent are the casino jobs truly “new” jobs in the local economy? In other words, if spending that was designated for some other part of the economy goes instead to gambling, no new wealth is created in the local economy.

Casino employment

Examining the number of casinos, casino jobs, and wages (including tips and benefits) reveals wide variation among the states. On average, a U.S. casino employs about 700 people, with an annual average wage (including tips and benefits) of \$38,000 per year in 2011.

United States Casino Employment, 2011					
State	Jobs 2011	Number of Casinos	Casino Employee Wages (includes tips and benefits) in millions	Jobs per Casino	Average Wage
Colorado	9,263	40	\$217.47	232	\$23,477
Delaware	2,730	3	\$124.59	910	\$45,637
Florida	2,601	5	\$71.79	520	\$27,601
Illinois	7,911	10	\$313.39	791	\$39,614
Indiana	14,079	13	\$459.30	1,083	\$32,623
Iowa	9,384	18	\$337.67	521	\$35,983
Kansas	n/a	2	n/a		
Louisiana	17,207	18	\$569.23	956	\$33,081
Maine	364	1	\$10.83	364	\$29,753
Maryland	290	2	\$9.86	145	\$34,000
Michigan	7,303	3	\$425.05	2,434	\$58,202
Mississippi	23,721	30	\$826.64	791	\$34,848
Missouri	10,435	12	\$343.50	870	\$32,918
Nevada	174,381	256	\$7,461.00	681	\$42,786
New Jersey	32,823	11	\$915.32	2,984	\$27,887
New Mexico	1,447	5	\$33.61	289	\$23,227
New York	5,082	9	\$179.06	565	\$35,234
Oklahoma	905	2	n/a	453	
Pennsylvania	13,050	10	\$460.29	1,305	\$35,271
Rhode Island	n/a	2	n/a		
South Dakota	1,647	35	\$37.26	47	\$22,623
West Virginia	4,475	5	\$148.71	895	\$33,231
Total	339,098	492	\$12,900.00	689	\$38,042

Source: American Gaming Association Annual reports

Pennsylvania and Delaware are good examples of the type of casino likely to be constructed in New Hampshire, based on the likely New Hampshire investment and market size. Delaware's three casinos each have about 2,200 slot machines, with a \$200 million annual win each. The Pennsylvania casinos average about 3,200 slot machines in each casino, with a \$320 million annual win for each casino.

In the following table (Table 5), we examine the median hourly wage for a potential casino in New Hampshire, and compare that wage against the median wage for all industries in New Hampshire. The table uses national staffing patterns for the gambling industry (NAICS 7132), and median wages by occupation within that industry sector. Where gambling related median wages for an occupation (such as for gaming cage workers or slot key persons) did not exist in New Hampshire, national data was used. The table shows that the median wage paid in a New Hampshire casino would be about \$10.79 per hour, more than one third lower than the 2011 New Hampshire median wage of \$16.99 across all industries.

Table 5: Staff ratio and hourly median wage for various casino employees

National Staffing patterns for Establishment in NAICS 7132 Gambling industries		Hourly Median Wage 2011		
SOC code	Occupational Title	staff ratio	NH	US
39-3011	Gaming Dealers	17.5%	n/a	\$8.87
41-2012	Gaming Change Persons and Booth Cashiers	6.4%	n/a	\$11.75
35-3031	Waiters and Waitresses	6.3%	\$9.06	
33-9032	Security Guards	5.2%	\$12.78	
43-3041	Gaming Cage Workers	4.2%	n/a	\$12.30
39-1011	Gaming Supervisors	3.9%	n/a	\$23.47
39-3012	Gaming and Sports Book Writers and Runners	3.2%	n/a	\$10.25
35-3011	Bartenders	3.1%	\$8.93	
37-2011	Janitors and Cleaners, Except Maids and Housekeeping Cleaners	3.1%	\$11.97	
41-2011	Cashiers	2.8%	\$9.07	
35-2014	Cooks, Restaurant	2.6%	\$11.74	
37-2012	Maids and Housekeeping Cleaners	2.6%	\$9.20	
39-1012	Slot Key Persons	2.1%	n/a	\$14.03
35-9011	Dining Room and Cafeteria Attendants and Bartender Helpers	2.0%	\$8.67	
49-9091	Coin, Vending, and Amusement Machine Servicers and Repairers	1.9%	\$17.25	
33-9031	Gaming Surveillance Officers and Gaming Investigators	1.7%	n/a	\$14.62
43-3031	Bookkeeping, Accounting, and Auditing Clerks	1.7%	\$17.44	
39-3019	Gaming Service Workers, All Other	1.6%	n/a	\$10.61
35-9021	Dishwashers	1.2%	\$9.21	
39-3099	Entertainment Attendants and Related Workers, All Other	1.1%	n/a	\$10.17
11-9071	Gaming Managers	0.9%	n/a	\$32.32
	Above Occupations share of Total Industry	75.0%		
	NAICS 7132 Weighted Median Wage in 2011			\$10.79
	New Hampshire Median Wage 2011 (All Occupations)			\$16.99

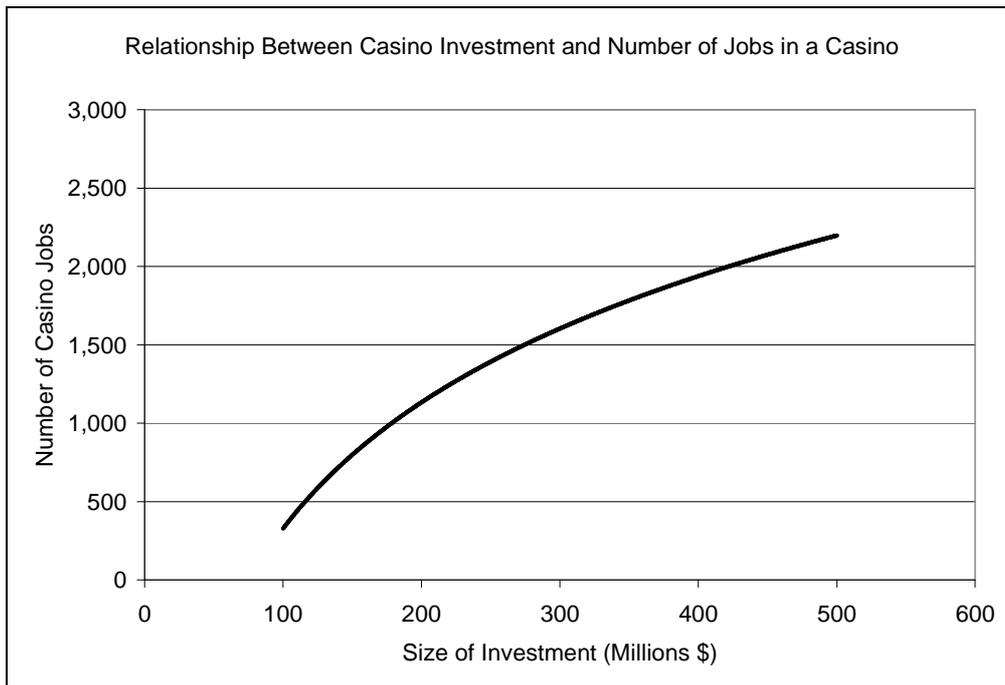
It should be noted that many of the occupations in the above table rely on tips received by gaming customers, and that tips are not included in the above calculation. Gaming dealers, for example, generally receive a large portion of their earnings from tips in the form of tokens received from players. Earnings from tips vary with the table games the dealer operates, the personal traits of the dealer, and the pooling policies of the casino.

Casino jobs and size of the investment

In our earlier work on expanded gambling in New Hampshire, we assumed that a 5,000 slot casino with table games would require a \$500 million capital investment. We estimated that such a casino would employ 2,400 workers, based on analysis of similar size casinos in Nevada, New Jersey and Michigan.

As shown previously, casinos employ many types of workers. Of the 2,400 hypothetically employed at a New Hampshire casino (assuming a \$500 million investment), we expect that 1,200 would be amusement, gambling, and recreation workers, 600 would be accommodation workers, and 600 would be food services and drinking places workers.

The smaller the investment at the casino establishment, the fewer workers needed. The relationship between the number of workers needed at a casino, and the size of the investment in the facility, can be described in the following chart:



A small casino, with an investment of \$100 million, would require about 20 percent of the employees needed to staff a \$500 million casino.

Current legislation (SB 152) requires a minimum \$425 million investment. However, as detailed earlier, the \$80m license fee can be subtracted from that amount, for a net minimum investment of \$345 million. In addition, the legislation also allows developers to include the cost of purchasing or leasing land for the casino site in their total investment. But assuming a \$345 million investment, we would expect to see approximately 1,700 jobs, according to the estimated relationship between investment and staffing.

Whether these jobs are “new” jobs is a matter of debate. Economists have examined expanded gambling as an economic development strategy, as well as a state revenue generator. The Federal Reserve Bank of Boston was asked to study this question in 2006, and found that the local economic benefit of having a casino is likely to be quite small, and depends almost entirely on whether the casino is truly attracting “new” economic activity into the local area surrounding the casino, beyond the goods and services demanded by the casino itself.

“In general, however, a casino’s benefit or harm to a local economy hinges on whether the casino is likely to attract tourists to the region. Destination casinos, such as those in Las Vegas, essentially export casino services to tourists bringing in new dollars to the local economy. A dollar spent by a tourist in a destination casino may fund a local supplier providing food and beverages to the casino, which then spends that income on other goods and services in the local economy, thus multiplying the effect of the first

dollar spent. The tourist, however, does not generally spend much in the communities surrounding a resort-style casino.¹²”

In our original analysis, we calculated that in a casino in Southern New Hampshire about two-thirds of visits would come from out of state. This represents – potentially – new visitors and “new” discretionary spending, assuming these individuals were not already spending money in the southern part of New Hampshire. However, 30 percent of the casino visitors would come from within New Hampshire, and who might now have less money to spend on comparable amusement opportunities in the state.

Displacement would be much higher in other parts of the state where a casino would be less likely to draw travelers from out of state. In the North Country, for example, there is little expectation that out-of-state visitors would go to Berlin only to gamble. One could therefore assume that much of the resources that could be spent on gambling in this part of the state would have been spent on other in-state activities.

There is a significant body of economic development literature which holds that novel entertainment venues, such as municipal sports stadiums with a professional team, bring little “new” economic growth to a region.¹³ In the same way, local residents who spend their discretionary income at a casino are potentially shifting their dollars from other discretionary purchases.¹⁴ Thus, even if 1,300 people were employed at a New Hampshire casino on the Massachusetts border, only about two-thirds (858 out of 1,300 jobs) could be considered new jobs, assuming that two-thirds of the spending at the casino would be coming from outside of New Hampshire.

¹² *Economic impact of casino development*, Heather Brome, Policy Analyst, Federal Reserve Bank of Boston, September 2006.

¹³ <http://thesportdigest.com/article/economic-impact-sports-facilities/>; also <http://www.sabernomics.com/sabernomics/index.php/2008/05/sports-stadiums-and-economic-development-a-summary-of-the-economics-literature/>

¹⁴ “Our analysis indicates that at the county level – where any positive or negative effects are likely to be concentrated – casino would have only relatively minor effects”, *Betting on the Future: The Economic Impact of Legalized Gambling*, Rappaport Institute of Greater Boston, January 2005. See also Keanry, “The Economic Winners and Losers of Legalized Gambling, Brookings; and Thompson and Gazel, “The Spread of Gambling as a Prisoners Dilemma”, 1997.

Conclusion

While allowing a casino to operate in New Hampshire will undoubtedly result in tax revenue to the state, the amount of revenue depends on the established tax rate and license fees charged to developers. Tax rates and license fees may in turn indirectly determine the size and attractiveness of the gambling facility. At the same time, the regulatory and social costs of expanded gambling could very well cancel out the benefits of increased state revenue, depending on the tax rate and size of facility constructed. Competition from surrounding states – in particular, new casinos in Massachusetts – further complicates the calculation of the impact of casino gambling on New Hampshire.

Our models suggest that there is essentially a “break even” point for the total state impact (tax receipts vs. social/regulatory costs) of expanded gambling in New Hampshire, and that point is at a 30 percent tax rate on a mid- or large-sized facility (Figure 7 and Figure 9.) At the same time, at a higher tax rate, changes in the size of the facility could significantly change the value of expanded gambling in New Hampshire (Figure 8 and Figure 10.) Policymakers should pay particular attention to these variables in considering whether to legalize expanded gambling in the current legislative session.

Appendix: Gambling developments in Northern New England

Declining state revenues and a desire for job creation has resulted in significant public policy developments in expanded gambling in New England in recent years, particularly in Maine and Massachusetts. In what follows, we provide an update on the status of expanded gambling in neighboring states.

Maine

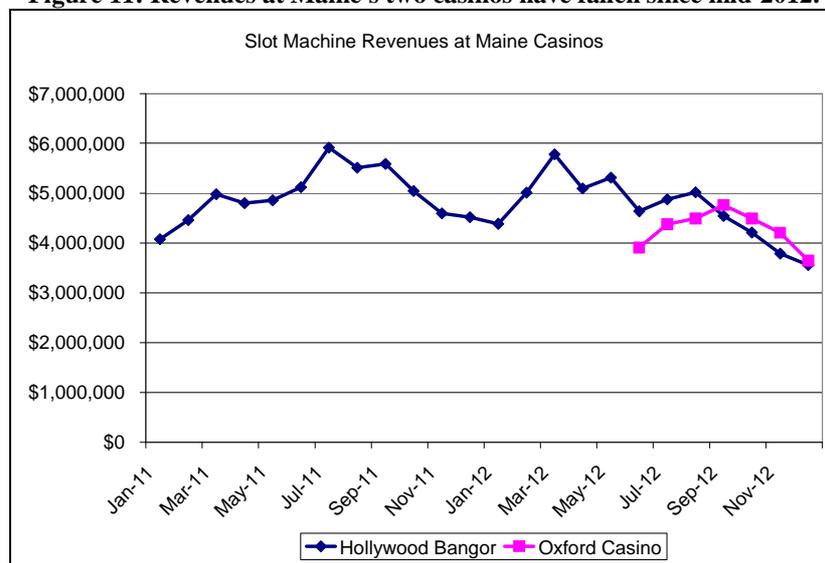
Maine legalized slots at Bangor in November 2003. A racino opened there two years later, in November 2005, in a temporary facility with 475 slots. The final facility, Hollywood Slots, opened with 1,000 slot machines in June 2008, four and a half years after passage of the law. The casino added craps to its offering of gambling options in December 2012.

Net gaming revenues, which are the dollars that patrons “lose” and that Hollywood Slots retain and partially distribute to various state funds, increased from \$1.97 million a month (\$24 million a year) to \$3.57 million a month (\$43 million a year) between November 2005 and May 2007. Net revenues at Hollywood Slots totaled \$5.5 million in July 2012, down from \$5.9 million the same month in 2011. Hollywood Casino now has 923 slot machines and 16 table games.

Maine’s second gambling parlor, Oxford Casino, opened June 2012, on land 120 miles south of Hollywood Slots.

The Oxford Casino had revenues of nearly \$10 million in its first two months of operation, while revenues at Bangor have fallen since then (see Figure 11).

Figure 11: Revenues at Maine's two casinos have fallen since mid-2012.



An analysis by the New Hampshire Lottery Commission shows that scratch ticket sales have declined in the last six months of 2012 in the region of New Hampshire closest to the Oxford County casino. It is not clear at this point what impact the Oxford Casino has had on New

Hampshire tourism spending. The Oxford Casino is an hour and a half drive from North Conway, N.H.

Massachusetts

In November 2011, Massachusetts Governor Deval Patrick signed a bill authorizing three resort-style casinos and one slot machine parlor in the state. The bill allowed three casinos, each in a separate region of the state: one in the Boston area that extends to Worcester; one in Western Massachusetts; and a third in Southeastern Massachusetts. The law gives the Mashpee Wampanoag tribe preference in winning the right to operate in the Southeastern part of the state. In addition to the three casinos, one slot machine parlor is authorized to open in the state.

On January 15, 2013 The Massachusetts Gaming Commission received applications from eleven organizations, each application including a non-refundable fee of \$400,000. Each of these organizations has expressed interest in building a casino or slot parlor in Massachusetts.

Four casinos are vying for the license in Western Massachusetts. MGM Resorts and Penn National Gaming have both paid the initial application fee and have proposed resort casinos in Springfield. A third contender for the region is Mohegan Sun, for a location in Palmer, Massachusetts. A fourth contender is Hard Rock International, which plans a casino in West Springfield on the Eastern States Exposition fairgrounds.

For the Greater Boston area, two Las Vegas-style resort casinos have been proposed for Suffolk Downs on the Revere/East Boston line and for 37 acres on the Mystic River in Everett. The sites are about 5 miles apart. The developers behind the Suffolk Downs site reportedly have the backing of Boston Mayor Menino. Wynn Resorts recently signed an option to buy land on the Mystic River in Everett, known as the former Monsanto Chemical Company site, where developer Steve Wynn intends to build a casino resort. Steve Wynn was originally a partner with Bob Kraft (owner of the New England Patriots football team) for a casino in Foxboro (also part of the Greater Boston gambling area), before that project was abandoned due to local opposition. A third casino application fee was filed by Crossroads Massachusetts, LLC, reportedly for a location in Milford near interstate highway 495.

In the Southeastern region of the state, commercial casino development is reportedly on hold to allow the Mashpee Wampanoag tribe time to make progress on a tribal casino, which must win federal approval.

Plainridge Harness Racetrack in Plainville is bidding to open a slots parlor and has paid the initial application fee. The Raynham race track will also pursue a slots parlor license, and has filed the initial application fee.

Two other applicants filed the \$400,000 initial application fee for unspecified locations in Massachusetts; Mass Gaming & Entertainment, LLC and PPE Casino Resorts. According to a recent statement from the Massachusetts Gaming Commission both applicants have said they are interested in the one slots-only license.

The Massachusetts Gaming Commission has said it would award the single slots-only license allowed under the law before it approved any of the three resort casino licenses. The commission plans to award the resort casino licenses in 2014.

A slots developer is required to make a minimum \$125 million investment, compared with the minimum \$500 million investment demanded of resort casino developers. But the state will take a bigger percentage of gambling revenues from the slots parlor, with a 49 percent tax, compared to a 25 percent tax on casino revenue.

Vermont

Vermont has no serious expanded gambling proposal at this time, and contacts in that state say expanded gambling is highly unlikely.

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