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Voting Dynamics and the Birth of State-owned Casinos in Kansas

Amir Borges Ferreira Neto
Department of Economics, Regional Research Institute, West Virginia University

Collin D. Hodges
Department of Economics, West Virginia University

Hyunwoong Pyun
Department of Economics, West Virginia University

Abstract

In 2007 Kansas passed the Kansas Expanded Lottery Act (KELA) which allowed for the construction of four non-tribal casino resorts in four delimited gaming zones throughout the state. Voting on KELA was exceedingly close in both the Kansas State House and State Senate with votes in favor of 52.5% and 55%, respectively. This paper aims to determine if the location of the four gaming zones plays a significant role in determining voting outcomes. Utilizing a probit choice model we conclude that party affiliation, receipt of contributions from the gaming industry, and having an out-of-state casino in close proximity to a gaming zone increases the probability of voting yes, while representing a voting district that neighbors the gaming zones or having a Native American casino diminishes the probability of voting yes.

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Contact: Amir Borges Ferreira Neto - amneto@mix.wvu.edu, Collin D. Hodges - cdhodges@mix.wvu.edu, Hyunwoong Pyun - hypyun@mix.wvu.edu.
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1. Introduction

From 1995 to 2005 the United States as a whole experienced relatively slow casino industry growth. However, during the great recession, and likely driven by a decline in tax revenues and budget shortfalls, there was renewed interest in gambling legalization among the states (Walker2013). Raising taxes in order to plug holes in a state's budget during an economic downturn is generally not a politically viable option. However, politicians are often willing to support "avoidable" taxes on "sin" goods. As gambling naturally falls into the category of sin goods, states are apt to look to casino legalization as a "painless" way to raise tax revenues (Walker 2013). This taxation approach is, typically, much less politically costly than, say, raising the sales tax.

However, the potential for casinos to generate negative spillovers are often an area of concern. Walker (2007) notes that, despite the difficulty in quantifying the social costs and benefits of gambling, debates concerning its legalization remain heated. For example, supporters and opponents of casinos often clash over the potential relationship between gambling and crime. There is some empirical support for this concern. Research by Gazel et al. (2001) suggests that not only do casinos increase crime in the counties within which they operate, but within adjacent counties as well. In addition to impacting crime rates, casinos can potentially generate a variety of other social ills. For example, Cotti and Walker (2010) find a strong link between casino operation and the number of alcohol-related fatal traffic accidents. Grote and Matheson (2014) find some evidence that casinos increase the number of personal and business bankruptcies. However, they observed that this effect seemed to disappear after 1995, suggesting that actions taken to identify and combat gambling problems since the proliferation of casinos may have been successful.

That said, other empirical research suggests that casinos can generate positive spillovers as well. Wiley and Walker (2011) find that commercial casinos increase retail property values, acting as complements to, rather than substitutes for, other businesses. Humphreys and Marchand (2013), looking at casino operations in Canada, found that for every job created in the gambling industry, roughly one to two additional jobs were created in the hospitality industry. Anderson (2013) found that, after the passage of the Indian Gaming Regulatory Act in 1988, American Indians on gaming reservations experienced a 7.4% increase in per capita income and reductions in family and child poverty rates, relative to their counterparts on non-gaming reservations. However, regarding overall economic growth, the verdict remains uncertain. Walker and Jackson (2007) find evidence suggesting that, while casino gambling might generate some initial positive growth effects, the average state should not expect long-term growth effects from casino legalization.

Non-tribal casino gambling is relatively new to Kansas, having just been legalized in 2007 with the passage of the Kansas Expanded Lottery Act (KELA). KELA allowed for

four state-owned "destination casino resorts" to be opened in four delimited gaming zones throughout the state. These gaming zones — northeast, southeast, south central and southwest—consisted of Wyandotte, Crawford/Cherokee, Sedgwick/Sumner, and Ford counties, respectively. In addition to allowing for the opening of these destination casino resorts, KELA allowed for licensed parimutuel tracks operating within the state to contract with the Kansas Lottery to have electronic gaming machines placed at their tracks. These race tracks with electronic gaming machines are known as "racinos."

In Kansas, KELA mandates that the state receives at least 22% of the gaming facility revenues, including 2% to be set aside for a fund to address gambling addiction. Additionally, KELA requires that the state receive 40% of all electronic gaming machine revenue (KRGC, 2015). However, despite the political advantages of raising tax revenues by creating an avoidable tax on a sin good, the vote on KELA was quite close. It passed the Kansas State House with only 52.5% of representatives in favor, and in the State Senate with only 55% of senators in favor. The aim of this paper is to identify and evaluate the determinants of this voting outcome.

2. Empirical Approach

To understand the voting dynamics surrounding KELA we use an empirical model to examine several determinants of voting outcomes, with particular emphasis on the location of the gaming zones. As the casinos are only being operated within these zones, it is expected that location will play a role in predicting voting outcomes. In other words, politicians representing the counties included within the gaming zones, and which could potentially receive a casino, might be more motivated to vote "Yea". Additionally, counties neighboring gaming zones might have some interest in seeing the legislation pass in order to take advantage of any potential economic spillovers.

The remainder of this section is divided into two parts. First, we present the data used along with a short descriptive analysis. Second, we describe the econometric approach used.

2.1. Data

The data used to investigate the role played by location in determining legislator's voting outcomes was gathered from several sources: www.votesmart.org (2015), www.followthemoney.org (2015), the Kansas Legislative Research Department (KLRD, 2015) and the Kansas Data Access & Support Center (KDASC, 2015).

From votesmart.org we obtained data for our dependent variable: vote by legislators in both the Kansas House and Senate. If the legislator voted 'Yea', the variable VOTE assumes the value of 1, and 0 if 'Nay'. As we are primarily interested in gaming location as the determinant of legislator voting outcomes, we include four variables to account for it: i) ZONE, which captures if the legislator represents a voting district that contains a county that is either wholly or partially contained within a gaming zone; ii) NEIGHBOR, which accounts for the legislator representing a voting district that contains a county that borders a gaming zone.; iii) if there is a neighboring out-of-state casino in close proximity to the gaming zone, this is captured by COMPETITION; iv) NATIVE, to account for whether a legislator represents a voting district containing a Native American Casino. As voting districts do not

line up exactly with county borders, we utilized data obtained from the KLRD to match legislators with counties they represented in whole or in part.

We also include variables to characterize state legislators as well as variables to determine the median voter of each district. The variables included for state legislators are as follows: legislator's political party (DEMOCRATS), amount in thousands of dollars of contributions from the gaming industry made to each legislator (CONTRIBUTION), if the legislator was an incumbent (INCUMBENT), and the gender of the legislator (FEMALE). Regarding the median voter, utilizing data collected from the KDASC[1] we include variables for: percentage of county population that is white (WHITE%), percentage of population that is female (WOMEN%), percentage of population between the ages of 20 and 49 and those above 65 (AGE2049% and AGE650VER%), and the percentage of the population that is married (MARRIED%).

Table 1 presents the descriptive statistics from the variables described above. Note that, although the House and Senate have 165 legislators in total, we considered only the 162 legislators that actually participated in the vote, and excluded three abstentions from our sample. We observe that 24.7% of the sample consists of senators, 32.7% are democrats, 28% are women, 76.5% are incumbent, and the mean amount of campaign contribution from the casino industry was $967.27 dollars. It is interesting noting that the standard deviation of donations are over $1,300 dollars with the maximum of $7,400. As for the location variables, 32% of the legislators represented a county wholly or partially contained within a gaming zone, 40.7% represented counties neighboring gaming-zone counties, and 10% represented counties that already had a Native American casino. As for the median voter, 84% are white, 50% are women, 39% of the population is between 20 and 49 years of age, 13% are over 65, and 20% of the population is married.

If location does indeed play a significant role in determining voting outcomes, it might be possible to observe this in the descriptive statistics. An initial review of the data shows that of the 54 legislators representing a gaming zone, 31 legislators (57.4%) voted 'Yea'. Of the 67 legislators representing counties neighboring gaming zones 33 (49.3%) voted 'Yea', and of the 49 legislators representing areas with a nearby out-of-state casino 65.3% voted 'Yea'. Although a consistent pattern is not observed, it shows that location still may play a significant role in predicting voting outcomes in regards to KELA.

[1]The data for the median voter is based on the 2010 census. We acknowledge that this is not ideal as the casinos might have affected the regions examined, but we believe that the main characteristics do not differ significantly since 2007.

Table 1 - Descriptive Statistics

Variable	Mean	Std. Dev.	Minimum	Maximum
Vote	0.531	0.501	0.000	1.000
Senate	0.247	0.433	0.000	1.000
Democrat	0.327	0.471	0.000	1.000
Female	0.278	0.450	0.000	1.000
Incumbent	0.765	0.425	0.000	1.000
Contribution*	0.967	1.330	0.000	7.400
White%	0.504	0.130	0.251	0.976
Women%	0.504	0.015	0.420	0.537
Age2049%	0.392	0.054	0.292	0.621
Age65over%	0.136	0.042	0.054	0.250
Married%	0.198	0.037	0.099	0.268
Zone	0.321	0.468	0.000	1.000
Neighbor	0.407	0.493	0.000	1.000
Native	0.099	0.300	0.000	1.000
Competition	0.302	0.461	0.000	1.000
Zone2	0.247	0.433	0.000	1.000
Neighbor2	0.204	0.404	0.000	1.000

*In thousands of dollars. N=162

2.2. Econometric Model

We use a binary choice Probit model, with VOTE as the dependent variable. The model assumes $F(X\beta) = \Phi(X\beta)$, that is, the cumulative distribution of $X\beta$ follows a normal distribution. Hence, the model estimates the probability $Pr(y = 1) = Pr(X\beta + \mu > 0)$. Using this model we should be able to evaluate how the variables influence the probability of the legislator voting 'Yea', while controlling for the other variables. The functional estimate takes the form:

$$Pr(Vote = 1) = \beta_0 + \beta_1 ZONE + \beta_2 NEIGHBOR + \beta_3 NATIVE + \beta_4 COMPETITION + Z_1\gamma_1 + Z_2\gamma_2 + \mu \quad (1)$$

Such that Z_1 contains all variables that characterize the median voter and Z_2 contains all variables regarding legislators. After estimating the model above, we assume that the northeast gaming zone does not represent a new casino, as previously established Native American Casinos are concentrated in that area; hence, the variable ZONE becomes ZONE2, and the NEIGHBOR becomes NEIGHBOR2.

3. Results

From the descriptive analysis we maintain the hypothesis that location may be one of the main determinants of voting outcomes on KELA. As argued before, the legalization of

casinos is an easy way to "painlessly" increase revenues with the creation of an avoidable tax on a sin good. Additionally, one must also consider the potential for spillover effects (such as economic activity driven by complementarity to businesses) accompanying the gaming industry. On the other hand, there may be some negative externalities associated with casinos that legislators might take into account when determining whether or not to legalize casino operation within their state, such as increased crime and gambling addiction.

With this in mind, Table 2 presents the results for the two models estimated and which were specified in the previous section. Model 1 differs from Model 2 in that the former includes the variable NEIGHBOR and the latter replaces ZONE with ZONE2, as previously explained. The results of both models are very similar in terms of the values and statistical significance of the estimated coefficients. In terms of legislator characteristics, being a democrat and having received a contribution from the casino industry increases the likelihood of voting 'Yea'. Other characteristics were not statistically significant. This result is not surprising in that democratic legislators are typically less socially conservative[2] and campaign contributions are equivalent to lobbying by the gambling industry.

Regarding the median voter, while no variable was statistically significant in Model 1, the variable WOMEN% was positive (as in Model 1) and statistically significant in Model 2. This result is interesting because although women are known to be more liberal then men, casino gambling is more associated with men than women (Hing et al. 2014). Also, LaPlante et al. (2006) finds that gender is not an important feature in the gambler profile.

Turning to our variables of interest, the location variables, we see that the presence of a Native American casino and an out of state casino are statistically significant. The former decreases the likelihood of a 'Yea' vote while the latter increases the likelihood. This makes sense intuitively in that there is likely to be localized aversion to allowing direct competition to pre-existing Native American casinos. On the other hand, competing with casinos located in neighboring states is likely to be viewed in a more positive light as people would be spending their money within their own state's borders as well as potentially drawing tourists away from other areas.

It is also worth commenting on the other variables of interest that were not statistically significant. The coefficients for both ZONE and ZONE2 as well as NEIGHBOR and NEIGHBOR2 were negative, indicating that legislators representing a county that would become a gaming zone or neighboring one are less likely to vote 'Yea' than other legislators. It is possible that representatives of these counties — those that would become gaming zone and those neighboring gaming zones - are more concerned with negative externalities commonly attributed to casinos, such as those discussed earlier, than with possible economic benefits such as increased tax revenues. Additionally, there may be a belief that any positive economic spillovers would dissipate quickly thereby diminishing any incentives neighboring counties might have to support casino legalization.

[2]McVeigh (1995) provides some evidence related to past gambling bills in Colorado showing that support for legalization was typically stronger among liberal politicians.

Table 2 - Probit Estimations

Variable	Model 1		Model 2	
	Coefficient	Marginal Effect	Coefficient	Marginal Effect
Constant	−1.4598	.	−0.2102	.
	(5.8511)	.	(6.0045)	.
Senate	−0.4779	−0.0953	−0.4609	−0.0902
	(0.4453)	(0.0875)	(0.4433)	(0.0855)
Democrat	2.1528***	0.4294***	2.2451***	0.4394***
	(0.4553)	(0.0708)	(0.4688)	(0.0703)
Female	−0.2272	−0.0453	−0.2690	−0.0527
	(0.3195)	(0.0633)	(0.3243)	(0.0629)
Incumbent	−0.0648	−0.0129	−0.0499	−0.0098
	(0.3411)	(0.0679)	(0.3427)	(0.0670)
Contribution	0.7910***	0.1578***	0.8049***	0.1575***
	(0.2272)	(0.0398)	(0.2262)	(0.0382)
White%	−4.0604	−0.8098	−3.8041	−0.7445
	(3.1394)	(0.6150)	(3.1276)	(0.6007)
Women%	14.7567	2.9433	15.7848	3.0893
	(9.9776)	(1.9527)	(10.2745)	(1.9718)
Age2049%	−4.8469	−0.9667	−7.6008	−1.4876
	(6.2369)	(1.2420)	(6.6203)	(1.2917)
Age65over%	3.2289	0.6440	2.2924	0.4487
	(6.8037)	(1.3526)	(6.9615)	(1.3589)
Married%	−9.2614	−1.8472	−12.9749	−2.5394
	(9.8778)	(1.9582)	(10.3781)	(2.0139)
Zone	−0.4213	−0.0840	.	.
	(0.3989)	(0.0787)	.	.
Neighbor	−0.3164	−0.0631	.	.
	(0.3718)	(0.0735)	.	.
Native	−1.6262**	−0.3243**	−1.9184**	−0.3755***
	(0.7347)	(0.1403)	(0.7575)	(0.1401)
Competition	0.9695**	0.1933**	0.7488**	0.1466**
	(0.4579)	(0.0877)	(0.3732)	(0.0708)
Zone2	.	.	−0.5243	−0.1026
	.	.	(0.4328)	(0.0835)
Neighbor2	.	.	−0.5914	−0.1158
	.	.	(0.4409)	(0.0851)
Pseudo R-squared	0.4760	.	0.4865	.
Likelihood ratio test	106.61	.	108.96	.
	0.0000	.	0.0000	.

Note: Standard-errors in parentheses.
***, **, * indicate significance at the 1%, 5%, and 10% levels, respectively.

Table 2 also presents the Marginal Effect (ME) of the calculated coefficients. For the categorical variables the marginal effect shows how the vote would change if the categorical value changed to 1, holding all else equal. As for the continuous variables, the table shows the change in voting outcome if the variables changed by one unit, holding all else equal (average). Analyzing the ME then, we have that being a democrat increased the probability of voting in favor of KELA by 43%, the presence of a Native American casino within a voting district decreased this probability by over 30%, and the presence of a nearby out-of-state casino also increased the probability by 19% in Model 1 and 13% in Model 2. Although not statistically significant, being a representative of a gaming zone would decrease the probability of voting 'Yea' by 8% in Model 1 and 12% in Model 2.

4. Conclusions

In this paper we set out to identify the determinants of voting outcomes related to the legalization of casino operation in Kansas via the Kansas Expanded Lottery Act. We tested the hypothesis that location would be a significant factor in determining voting outcomes, controlling for other relevant determinants such as political party affiliation, incumbency, receipt of campaign contributions from the casino industry, and median voter characteristics. The results show that location did play an important role, as previously suspected. Our research shows that the main determinants of voting outcomes on KELA were party affiliation–more specifically, being a democrat–representing an area that already had a Native American Casino, and representing an area that borders a nearby out-of-state casino. One notable feature of KELA's passage is the close margin of the voting. While this experiment has generated some interesting results, these should be taken with a grain of salt. There are other variables that are likely relevant determinants, some of which are either unobservable or very difficult to quantify, such as the religious makeup of the population or the likelihood of addiction, for example. Moreover, the fact that voting districts do not match county boundaries might also affect the results, as legislators would primarily care about their own constituents.

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