CHAIR JAMES: At this point I would like to turn the Commission’s attention to the day’s activities. First on our agenda is Eugene Christiensen. As I’m sure that most of you here in the audience know, Mr. Christiensen is one of the leading authorities on the gambling industry in the United States. I’m pleased to say that he has agreed to provide the Commission with an economic overview of the gambling industry.

To date the Commission has heard testimony on many different aspects of this complex industry, and today we will begin with a review of the national economic gambling picture provided by Mr. Christiensen.

Also this morning we have with us Dr. Dean Gerstein from the National Opinion Research Council. As you know NORC was tasked with a large portion of the Commission’s original research. A total of 1.25 million dollars has been allotted for the gambling research that was awarded to NORC.

Dr. Gerstein comes with two of his associates, Dr. Rachel Volberg, and Sally Murphy.

Today NORC will discuss their findings from the National Gambling Survey, and the community analysis, and tomorrow they will discuss the Patron Survey.

This afternoon we will be hearing from Dr. Charles Clotfelter on lottery research. We look forward to hearing from these researchers who will be presenting the first major results of our comprehensive research agenda.

I would like now to welcome each of you here this morning to our report retreat.

CHAIR JAMES: I'm going to ask right now if MR. Christiensen will come forward. Thank you for your interest in this issue, and cooperating, and appearing before us today.

I'm going to give you a minute or so to set up. Again, welcome.

MR. CHRISTIENSEN: Thank you very much. It is an honor to address this audience on the subject of gambling. Can you hear me?

CHAIR JAMES: If we can get a little more volume down here?

MR. CHRISTIENSEN: Is that better?

CHAIR JAMES: That is better.

MR. CHRISTIENSEN: All right. There are some slides, I hope this works, we haven't had time to test it, but let's start and see what happens.

Tim Kelly asked me to provide you with an overview of legalized gambling in the United States, based on the gross annual wager, which is an annual statistical description of all forms of legal commercial gambling in the United States that Christiensen Cummings Associates has prepared each year since, I think, 1992, which is derived from an extensive data base that we maintain in-house.

The gross annual wager appears in the trade publication International Gaming and Wagering Business Magazine. And it has, over the years, become the generally accepted set of statistics for this sector of the economy.

I have a copy of the most recent edition here with me, which describes gambling and consumer spending on commercial games in 1997. With one or two exceptions, the data I will present here today, can be found in this publication, so your staff need not take notes.

Perhaps Charles Amber, the editor of International Gaming and Wagering Business can provide additional copies if you would like to have them.

I have, as well, a copy of an article that I recently contributed to the annals of the American Academy of Political and Social Sciences that deals with the subject Mr. Kelly asked me to review for you this morning. If any of the Commissioners would like to read this annals article, it is here.

And, finally, I will leave with you some prepared remarks that touch on topics such as illegal gambling, that I will omit in the interest of time.

If any of the Commissioners would like to read these prepared remarks, or the other documents I referred to, I will leave copies with Mr. Kelly.

CHAIR JAMES: I have asked Dr. Kelly if he would come down and pick those up and distribute them to the Commissioners. Do those include the prepared remarks?

MR. CHRISTIENSEN: They do, indeed.

CHAIR JAMES: Okay, thank you.

MR. CHRISTIENSEN: I think there should be a copy of these remarks for each of you.

This exhibit summarizes consumer spending on gambling in 1997. Consumers spent almost 51 billion dollars on legal commercial games. In other words these consumers, most but not all of them are Americans, collectively lost or spent 51 billion dollars on gambling.

This expenditure would be reflected in the national income and product accounts by a transfer of 51 billion dollars, or more accurately, that portion of this sum contributed by U.S. residents from personal income over to the operators of the various commercial games, where it would head gambling industry income statements. It is not profit.

This 51 billion dollars is equivalent to sales in the income statements of businesses, shoes, or ships, or sealing wax, or whatever. It starts the income statement of gambling industries, and it pays salaries and wages, other expenses, interest on debt, gambling privilege taxes, and income and other normal business taxes. The residue, if any, is profit.

By far the largest expenditure on legal gambling was for casino games. Counting in about 5.8 billion dollars from class III Indian gambling, consumers spent, or collectively lost, 26.3 billion dollars on casino games, or about 52 percent of the total consumer expenditure on gambling.

Lotteries were next, accounting for 16.6 billion dollars, or 33 percent. The remaining 15 percent was spent on bingo, pari-mutuel sports, bookmaking in Nevada, poker and similar card games, and various charitable games, such as punchboards, pull tabs, and so forth.

Gambling may be compared to other kinds of leisure consumption through this exhibit. The 51 billion dollars consumers spent on legal commercial games is about what they spent on movie tickets, spectator sports, cruise ships, video games, recorded music, and theme parks combined.

This is a very substantial expenditure, and commercial games are important drives of the U.S. economy.

Like other companies, gambling businesses employ people. The largest employers are casinos. By our estimates, state authorized and class III Indian casinos employed about 373,000 people in 1997.

Casinos paid these 373,000 employees about 8.3 billion dollars in wages and salaries, or approximately 31 percent of the 26.3 billion dollars consumers spent on casino games.

In other words, about 31 cents of every dollar consumers spent on casinos went to pay casino industry salaries and wages.

As is true in other industries, unions representing casino employees strive to increase this percentage through collective bargaining.

But I think you can see that the casino industry is labor intensive, and that labor costs are a very substantial component of what happens to this economic input when it enters the economy.

Pari-mutuel racing makes contributions to employment and to the gross domestic product that are somewhat greater than the relatively small percentage of aggregate consumer spending on gambling accounted for by pari-mutuel wagering, which was about seven and a half percent, or 3.8 billion dollars of that total 51 billion dollar expenditure.

The reason for the disproportionately large contribution to employment made by pari-mutuel wagering is that pari-mutuel wagering, in addition to requiring labor intensive race tracks for its operations, supports extensive horse owning, training, and breeding industries that are likewise labor intensive.

Horse racing, the largest of the three pari-mutuel sports, and the other two are greyhound racing and Jai Alai, provides about 119,000 full time equivalent jobs, and contributes about 7.4 billion dollars to the gross domestic product.

Lotteries, bingo halls, card rooms, and other commercial games also employ people, although reliable estimates of their numbers are not available.

At the lowest estimate, however, aggregate employment provided by the legal gambling industries can hardly have been less than 600,000 jobs in 1997. In all likelihood the actual number was higher.

Gambling businesses, casinos, and lotteries, and racetracks, and so forth, pay special taxes for the privilege of conducting commercial games. Taxes that are in addition to the income, real estate, and other normal taxes these businesses pay in common with the rest of American industry.

In 1997 about 18.5 billion dollars of the 51 billion dollars consumers spent on commercial games was paid directly to government in such gambling privilege taxes. In other words, 36 cents of every dollar consumers spent on gambling goes to government in the form of gambling privilege tax.

Lotteries contributed, by far, the largest component of this sum, almost 15 billion dollars, or 80 percent of the total. Casinos contributed about 2.2 billion dollars in privilege taxes, and they are next. Smaller amounts of gambling privilege taxes were contributed by pari-mutuel sports, card rooms, and other forms of gambling.

Indian gambling. Congress, in the Indian Gaming Regulatory Act of 1988, effectively granted valuable gambling franchises to Native American tribes. Aggregate gross gambling revenues from class II, which is mostly bingo, and class III gambling, which is essentially casino games, on Indian lands, totaled almost 6.7 billion dollars in 1997.

Tribal gaming facilities additionally generated an estimated 450 million dollars from sales of food, beverages, and hotel rooms, bringing top line Indian Gaming Regulatory Act revenues to more than 7 billion dollars.

Much of this 7 billion dollar consumer expenditure goes to pay wages, salaries, and the other costs of operating tribal gambling facilities. Included in those costs were management fees to non-Indian management companies that we estimate at 301 million dollars.

The residue, from gambling alone, and not counting the percentage of non-gambling facility revenues that fell to tribal bottom lines, we estimate at 2.3 billion. This money went directly to tribes.

If you add in the approximately 135 million dollars tribes realized from non-gaming revenues at class II and class III facilities, IGRA benefits to tribes probably totaled two and a half billion dollars in 1997.

This accounting, I think, is an indication that the Indian Gaming Regulatory Act is accomplishing the purpose of Congress in passing this law, which was to provide an economic engine for Indian tribes.

My colleague, Dr. Volberg, has referred to internet gambling as the latest form of gambling no one knows anything about. That is almost, but not entirely, true. We do know something about Internet wagering volumes and consumer expenditures, as well as something about the policy issues this form of electronic commerce is raising.

An associate of Christiensen Cummings, Mr. Sebastian Sinclair, has made a specialty of electronic commerce, and is able to provide these projections of world-wide consumer spending on Internet gambling through the year 2001.

The projections are global, rather than for the United States because gambling, like other forms of electronic commerce on the Internet, occurs in a single global marketplace.

American consumers enter this marketplace, together with consumers from every community with connections to the Internet, and purchase goods and services there.

The global Internet marketplace is something new under the sun, with enormous implications for many sectors of the economy, perhaps for all of them.

Almost incidentally, gambling is being affected in this process. We think consumers spent about 300 million dollars on internet gambling in 1997. Some of these consumers, not all of them, being residents of the United States

. Under the conditions currently constraining electronic commerce, narrow band access, limited household penetration, and so forth, we project this expenditure to rise to 2.3 billion dollars by the year 2001.

Existing constraints on electronic commerce are, however, unlikely to remain in place. Large corporations like AT&T are determined to remove them. As high speed broad band access spreads to more of the world’s households, electronic commerce may grow exponentially.

Gambling conducted through this global medium by businesses holding licenses from developed countries, Australia for example, would in this scenario participate in this exponential growth.

Gambling is large enough to have a measurable relationship with the U.S. economy. Do you think you could go back to exhibit 2? Well done.

As exhibit 2 shows, consumers spent 495 billion dollars on leisure goods, services, and activities in 1997.

Gambling accounted for about 51 billion, or just over 10 percent. In other words, 10 percent of every dollar consumers spent on leisure, is spent on commercial games. It is worth pointing out, I think, that 21.6 percent, or 107.3 billion dollars of this spending, on video, audio and computer, recorded music, video games and movies, was largely for intangible goods delivered by 20th century information technologies that include the Internet.

This world, the world of the leisure economy is in the early stages of an enormous transformation.

Both gambling industries, and the general economy, grew in 1997, and consumers had more dollars to spend than they had in 1996.

Now, how effectively did gambling compete with other goods and services through this larger pool of consumer dollars? We can answer this question by comparing gambling with the general economy through personal income.

The aggregate wages, salaries, farm and non-farm proprietary income, rents, dividends, interests and transfer payments generated in the United States, expressed in current or nominal dollars.

The comparison tells us how commercial games are faring in relation to changes in the amounts of money americans have to spend on them as well as, of course, on other things.

Exhibit 10 shows the ratio of percentage changes in gross gambling revenue, or consumer expenditures on gambling indexed to percentage changes in personal income between 1989 and 1997.

Graphing this ratio over the past decade makes relative changes in U.S. personal income, which was 6,874 billion dollars in 1997, that is an incomprehensibly large number, and the much, much smaller, 51 billion dollars spent in gambling, intelligible in a single, simple graph. I hope it is intelligible.

In the 1980s, in the decade preceding this graph, consumer spending on gambling, driven by the entry of casinos and lotteries into new markets, where they were able to soak up latent, unsatisfied demand, exceeded growth in the personal income generated by the U.S. economy.

Exhibit 10 shows that these two indicators have not moved in lock step over the past decade. Consumer spending on gambling lagged growth in personal income in 1989, exceeded it in 1990, fell below it in 1991, and then propelled by expanding riverboat and indian casinos, rocketed ahead in 1992, and 1993, before collapsing to unity in 1996.

In 1997 consumer spending on gambling increased by 6.2 percent, the percentage increase in personal income was slightly smaller, 5.8 percent. Consequently the gross gambling revenue line rose slightly above the personal income line.

Now, this exhibit illustrates a very important development, and I think you should understand it. That is the maturation of American markets for most commercial games.

This exhibit says that Americans currently have all the lottery games, pari-mutuel sports, bingo halls, poker rooms, charitable gaming, and similar gambling products, they want. Supply and demand for these goods is in approximate balance. The public's appetite is satiated.

Future consumer spending on these commercial games is likely to move up or down as the economy grows or contracts. It is not, as many people assume, going to grow forever, to the sky.

The most significant exception to this important statement is casino gaming, which remains locally undersupplied in areas where casinos are not conveniently available.

This local imbalance, the continued existence of locally undersupplied demand for casinos, exerts continuing pressure on government that is manifested in initiatives to legalize casino table and machine games.

Additional insight into gambling's relationship to the general economy is provided by looking at consumer spending on commercial games, in relation to nominal personal income over the past 15 years. That relationship is summarized in the next exhibit, if we can pull that up. And I'm sorry, I see that it is only marginally legible.

This exhibit shows, and I do apologize for the lack of legibility, that in current or nominal dollars, spending on gambling increased by 389 percent, or 40.5 billion dollars over this 15 year period.

The percentage increase in personal income was much smaller, 157 percent. By this measure legal gambling gained on the economy between 1982 and 1997. Although, as the previous exhibit shows, the rate of gain becomes irregular in the 1990s.

Gross revenue from legal games increased from .3899 percent of U.S. personal income in 1982, to .7405 percent in 1997, or an increase of .3506 percent of U.S. personal income.

In other words, and this is the bottom line, between 1982 and 1997, consumers spent a larger percentage of their growing personal income on gambling.

Now, is this consumer choice healthy? To ask this question, is to raise fundamental issues about appropriate public policies regarding problematic goods or services in free societies served by market economies.

Gambling is a problematic good. Its consumption has consequences that are both good and bad. If we were talking about bridge, or the keyboard music of Bach, this perplexing mixture of good and bad consequences wouldn't matter very much, because consumer demand for these things is trivial in the context of the U.S. economy.

Any adverse effects that might follow from the pursuit of these leisure activities would be too slight to constitute a public concern.

But we are talking about gambling, and there is massive demand for commercial games. The numbers I've reviewed for you this morning are expressions of this massive demand.

Consumer spending on commercial games has quantifiable positive impacts. The 18.5 billion dollars in gambling privilege taxes that gambling industries paid, the 492,000 jobs provided by the casino and pari-mutuel horse racing industries, the capital invested in gambling businesses, and the employment that this investment creates on Wall Street.

Also on the ledger’s positive side is the unquantifiable recreation consumers derive from gambling. The fun ordinary people have playing bingo or blackjack, or betting on the horses.

Nevertheless many Americans, as I know the Commission has learned, feel consumers shouldn’t allocate so much of their incomes to gambling. The consumer spending on commercial games I have reviewed with you this morning, is inconsistent of the belief of these Americans, and a source of discomfort for citizens who hold them.

Other Americans are persuaded that the costs of the operation of commercial games exceed the benefits. That is an important issue.

Dr. Volberg and I, with the help of several qualified and concerned researches, have attempted to asses this question, and have suggested a methodology for answering it, in a recent monograph. I have a copy here if any of the Commissioners would like to read it. Mr. Kelly has it now.

But there is one adverse impact of the operation of commercial games that is peculiar to gambling, and shared by no other form of leisure consumption. That is, of course, pathological or compulsive gambling behavior.

There are hard costs, direct as well as indirect, to individuals, and to society as a whole, of gambling that isn’t fun, and isn’t play, but a disorder. This disorder behavior, which afflicts a percentage of the population that Dean Gerstein, and Dr. Volberg are measuring for the Commission, results in unaffordable losses, and a long list of individual and social disfuntions.

These hard costs are not reflected in the gambling accounts I haver reviewed for you here this morning. They are important factors in the calculus of public policy for gambling, the problematic good, whose impacts the Commission is charged with assessing.

Dr. Volberg and Dean Gerstein will summarize for you this morning their findings concerning the dimensions of these impacts.

That concludes my prepared remarks. I was asked to spend 20 minutes on them, and I've spent 18, so I've come in on time, and slightly under budget.

CHAIR JAMES: And that is very much appreciated by this Commission, and hopefully you are setting an example for us. Thank you very much.

I would like to open it up now for discussion, and we will start with Commissioner Wilhelm.

COMMISSIONER WILHELM: I appreciate your presentation very much. I just have a series of fairly specific questions so that I am sure that I understand the basis of some of your numbers.

With respect to exhibit 1, 1997 U.S. gambling gross revenues, does that include or exclude non-gambling revenues in gambling facilities, such as hotel rooms, and food and beverage, and entertaining?

MR. CHRISTIENSEN: It excludes them. Should I repeat the question, or can you all hear?

COMMISSIONER WILHELM: So it excludes non-gambling revenue?

MR. CHRISTIENSEN: That's right. Facility revenues, the facility revenues that would be accounted on the income statement, for example, of Terry Lanni's company, are excluded. This is simply the gambling portion of those revenues.

COMMISSIONER WILHELM: So it would be accurate to say that the overall revenues of gambling facilities, including both gambling revenues, and non- gambling revenues, would probably be significantly larger than this, wouldn't they?

MR. CHRISTIENSEN: Significantly larger. We could prepare that number, it is not a number that is carried in the gross annual wager data base, and that is why it is not reflected here.

COMMISSIONER WILHELM: I would be interested in that number. As I think you know, as I'm sure you know, since you follow this industry so closely, at least in the larger destination resort-type casinos, the percentage of income that derives from gambling is dropping proportionately, compared to other forms of income.

MR. CHRISTIENSEN: That is particularly true for the casino companies that operate in Las Vegas. The first calendar year the Treasure Island operated, that is a large property from Mirage Resorts, the non-casino portion of facility revenues exceeded the casino portion. That is a sign of the way the wind is blowing in this industry, that I think is a trend that is long-term, and has long-term consequences.

COMMISSIONER WILHELM: I have a parallel question. In exhibit 4, estimated casino employment by state, and you have a column called casino jobs, which totals 373,000 jobs, is that -- does that figure include or exclude hotel employees and restaurant employees, and things like that?

MR. CHRISTIENSEN: I would have to go back to the analyst to get you a definitive answer to that. To the extent that we are able to do it, we try to separate out jobs that are a direct consequence of the operation of the casino.

So what you are thinking is absolutely true, there are more jobs that are a consequence of the existence of the casino industry that are not included in that figure.

Different economists, different analysts would come up with different definitions for that, and then they would come up with different numbers.

COMMISSIONER WILHELM: With respect to hotel casino facilities, of the kind that you have in Las Vegas, Atlantic City, and Mississippi, and increasingly in other places, just as a rough rule of thumb, based on my experience, it would be fair to say that there are as many jobs in the hotel and restaurant operations as there are in the casino, if not more.

MR. CHRISTIENSEN: I think the answer is more. You are absolutely right.

COMMISSIONER WILHELM: Are you suggesting, then, that this 373,000 number would have to be substantially larger if you were going to talk about the jobs generated by the casino facility in total?

MR. CHRISTIENSEN: It would, I do not have that statistic with me, if you would like to have it, I will have the analyst get it up for you.

COMMISSIONER WILHELM: I would very much appreciate both of the statistics we have talked about so far.

Further, with respect to this jobs question, do these figures include or exclude jobs generated by Native American gambling facilities?

MR. CHRISTIENSEN: They include class III facilities, and the -- sorry.

COMMISSIONER WILHELM: But there are class III facilities -- so the line called Indian is intended to include all tribal class III facilities anywhere in the country?

MR. CHRISTIENSEN: We are looking at, in these exhibits, relating to casino jobs, and then to Indian gaming revenues, we are looking at two different accounts, again, in the data base that we maintain.

The revenues that you have seen, in that pie chart from Indian gambling, that is both class II and class III. In other words, bingo and Indian casinos. The jobs, subject again to checking with the analyst who maintains this data base, I believe are simply the class III facility jobs.

COMMISSIONER WILHELM: And, again, I realize that there are, at this stage in the development of tribal gambling there are, of course, fewer hotel type facilities, but nevertheless those would be excluded from this jobs chart, as well?

MR. CHRISTIENSEN: That is right. The Indian gaming casinos, it is sort of like looking back in time compared to the Las Vegas strip they are not yet non-gaming facility dependent, in terms of their income statements.

COMMISSIONER WILHELM: Overall?

MR. CHRISTIENSEN: Overall. There are individual exceptions, as I'm sure you are aware of.

COMMISSIONER WILHELM: So when you told us a little while ago, Mr. Christiensen, that casino wages account for 31 cents on every dollar consumers spend in legal gambling, if we were to consider all of the jobs generated by the facilities, not just the ones you put in your chart, it would be a significantly bigger number, wouldn't it?

MR. CHRISTIENSEN: Yes, it would be.

COMMISSIONER WILHELM: On exhibit 6, estimated gambling privilege tax --

CHAIR JAMES: Before we leave that one, I would just ask that as you get the data that was requested by Commissioner Wilhelm, if you would send that to the Commission staff, and that would be distributed to all of the Commissioners.

MR. CHRISTIENSEN: Sure.

COMMISSIONER WILHELM: And, again, if you are able to ratchet up that 31 cent estimate along with the actual job numbers, that would be very helpful.

MR. CHRISTIENSEN: Again, there are questions of definition here, which are subjective to a degree. What is a job that is, let's say a casino industry job, I think if we are talking about a pit boss on the floor, everybody can agree that that is a casino industry job. If we are talking about the hotel staff of a hotel that wouldn't exist without the casino, I don't think we get too much disagreement that that job is a function of the industry.

If we talk about somebody who works in a travel agency that, you know, is -- does serve the Nevada market, but the travel agency does other things, is that a casino industry job? It gets to be a matter of definition.

CHAIR JAMES: I don’t want to get into what is, is.

COMMISSIONER WILHELM: Certainly not here, anyway.

CHAIR JAMES: Certainly not here. But I do think that it would be helpful that we are all working off the same set of definitions, and that we are very clear about that when we see one, because I for one, when looking at that, would have assumed that those job categories were included.

So it doesn’t matter to me one way or the other, I just want to be clear what it is.

MR. CHRISTIENSEN: I have a suggestion. This is kind of a repetitive conversation you get in, in my line of work. The answer you get depends on the question you ask.

Maybe if it is no trouble, Commissioner, you could have your staff direct a 25 word written enquiry to us as to what you want, and then there would be no --

COMMISSIONER WILHELM: I would be delighted. I would just offer the thought that in my mind the travel agency type example you are giving I would put in a multiplier category, ont in the category of jobs created by casino facilities.

On the other hand, as you suggest, I think it would be illusory to exclude, for example, and you used Mr. Lanni’s facility as an example a moment ago, there are more jobs that are not casino jobs by the definition you offered in the MGM Grand than there are casino jobs.

Our particular union represents about 50,000 people in Las Vegas, as of this year, 95 percent of whom would be excluded from your definition. Clearly their jobs exist as a part of a gambling facility.

So I would ask you, and we will put this in writing if you would like, to consider defining jobs and the payroll associated with those jobs, in terms of the jobs in gambling facilities, not just the casino.

To me that would be the most logical way of looking at it. I'm sorry for taking all this time, Kay, but to me these things are critically important in our assessment.

In exhibit 6, estimated gambling privilege taxes I believe I understand what that word means. Do you know what the total taxes paid by gambling facilities are? Because obviously gambling facilities pay corporate income taxes, and property taxes, and a whole range of other kinds of taxes that other businesses pay.

MR. CHRISTIENSEN: I've never seen the statistic. Bill Bible in his former responsibilities in the Gaming Control Board in Carson City, Nevada, his former staff would know that, with a high degree of accuracy, I believe, for the people who operate in Nevada, because they all file tax returns.

The same thing is certainly true of the Casino Control Commission in New Jersey, they would know the total tax burden of their licensees. But for all of these industries I don't think that number is obtainable, I wouldn't know how to obtain it, it is certainly very large, because there are a lot of businesses here.

But many of them are not publicly owned, they are privately owned, their tax returns are not available, and it is just very, very difficult to know that.

COMMISSIONER WILHELM: So it would be fair to say, would it not, that the total taxes paid by these industries would be substantially greater than 18 and a half billion?

MR. CHRISTIENSEN: The gambling privilege taxes, that 18 and a half billion dollars there, yes it is a lot of money, it is 36 percent, I think, of the total consumer expenditure on gambling. But it is a tiny amount of money in relation to the tax burden, you know, that all of these businesses certainly have, if they are all, and I assume they are filing tax returns, paying income tax and so forth.

COMMISSIONER WILHELM: So it is probably fair to say, although you don’t have a number, that the total tax burden of this industry is probably well over 50 percent of the gambling dollars consumers spend?

MR. CHRISTIENSEN: I simply -- I’m sure it is there, I’m sure it is large. That is not a number I can generate for you, however.

COMMISSIONER WILHELM: Okay, thank you.

CHAIR JAMES: Thank you, Commissioner Leone?

COMMISSIONER LEONE: I have two questions, one of which relates to the topics you’ve been discussing with John, but let me ask the other one first, because I thought your presentation was very lucid, and best of all disciplined, in the sense that you didn’t reach for answers to questions when the data are not existent, or questionable, and the methodology tends to break down.

Still, there are two questions that have bothered me a lot when we look at these numbers. The first goes to the difference between -- can you hear me now?

The first goes to the difference between gambling, really, and almost anything else I can think about off the top of my head, although I think securities trading has some similarities.

And it is the reason that I think the gross wagering number had some significance. And that is that while consumers on your model spend 51 billion dollars, let's say give or take on gambling, the rest of the money that is wagered, that returns to wagerers, is redistributed in the course of that process, most dramatically in lotteries, where we get very extreme redistributive effects.

People talk about the incidence of the tax portion of lotteries, for example, and whether it is regressive or not. But I have never seen any analysis of the incidence, the redistributive impact of gambling activity.

I know I have seen it, for example, about the futures industry, although I'm a little out of date on this, and it is quite dramatic, the redistributive activity.

So that in the futures industry, for example, which is a zero sum gain, except for the fees, I mean, the house essentially exchanges, it is very misleading to say that something economically at a micro level significant hasn't happened, because there is a significant amount of redistribution.

I suspect, I'm sure, that there must be a significant amount of redistribution that goes on. And I don't even know whether that has ever been done for lotteries, which seems to me to be something you could do, you could at least look at a particular state's lottery system and are you aware of any research that would help us get at that impact?

MR. CHRISTIENSEN: No, I'm not, and I do have a pretty good grasp of the literature. First of all, you put a complicated question very lucidly, I compliment you on that, you do understand.

At the risk of burning time, a commercial game has two functions. It recirculates dollars from player A to player B to player C, and it removes a percentage of that circulating flow of dollars from all players, collectively, and transfers over to the industry. That was 51 billion dollars last year.

That does affect the national income and product accounts. But in their redistributive function, which is all a friendly game does, a friendly poker game, for example, personal income is not affected in the national income and product accounts. But one player might wind up much richer and all the other players much poorer, and that is what the Commissioner is alluding to.

And a lotto game is an extreme example of that, where there might be 33 million players of the lotto game and one winner. So incomes have really been redistributed, and there are economic consequences to individuals that would not be reflected in the national income and product accounts.

I have never seen a study of this. Among other things I'm guilty of an academic study of gambling, which appeared in the university press of Kansas in 1985, and the bibliography in there is exhaustive. There was nothing through 1985 that existed that we did not examine, and there was nothing on this.

We thought about it. If we are old enough in time it is something I would like to look at, I think it is extremely interesting. These games do have consequences to individuals that are not reflected in the accounts that I reviewed for you this morning, and that is what the Commissioner is referring to.

But I cannot point you to something that would answer your question, I have never seen it.

COMMISSIONER LEONE: Okay, that is all.

CHAIR JAMES: Commissioner Bible?

COMMISSIONER BIBLE: What you have given us today, really, is a snapshot, and a snapshot of 1997. Could you maybe give us a little bit of information on a time series analysis as to what the trends are, where the growth factors are, what is increasing, what is decreasing?

MR. CHRISTIENSEN: Surely.

COMMISSIONER BIBLE: And then some sense as to what the total pie, as it grows, looks like.

MR. CHRISTIENSEN: The -- I tried to do that in the concluding pages of my remarks. In the '80s, looking backward, there was double digit growth in consumer spending on gambling almost every year. That growth was really driven by new gambling businesses, mostly lotteries and casinos soaking up latent unsatisfied demand out there, among consumers, for gambling.

That has stopped for everything but casinos in the 1990s. And it is indeed true that for most forms of gambling this is no longer a growth section of the economy. The consumer has got enough, he doesn't want any more.

Drivers of growth in the future, to the extent that there are any at all, would have to come from a change in the political environment that would allow casinos to enter those markets that don't have casinos in them today, and tap the remaining pools of unsatisfied demand for casino games, or conceivably Internet gambling.

My view of electronic commerce is that perhaps as much as 30 percent of discretionary expenditures, all goods and services, you know, books, music, records, movies, everything, could shift to the Internet in a broad band world, specially if the cable guys, the at-homes, TCI, AT&T get their way.

That also could stimulate new growth in gambling from the world-wide wired community. And I think it is unstoppable, if it does occur.

But I don't see any other growth drivers. I think I'm starting to see, Commissioner Bible, really the reverse. I think I'm starting to perceive in some gambling businesses, fatigue and people getting bored with the product, and spending starting to decline.

I think maybe the wave of enthusiasm for this has passed. The last trend I would single out for you is the transformation of some of the casino industry into a competitor for Walt Disney Company and Universal. That is a ground swell tide, companies like Mr. Lanni's, like Steve Wynn's Mirage Resorts, they are in the entertainment business, and don't be confused about that. They are not trying to grow gambling, they are trying to grow the entertainment portion of their business.

Is that a fair answer? Have I been responsive?

COMMISSIONER BIBLE: Yes, that is fine.

CHAIR JAMES: Commissioner Machine. McCarthy, then Commissioner Dobson.

COMMISSIONER MCCARTHY: I enjoyed your presentation, also, Mr. Christiensen, thank you.

I have just a couple of questions. In your article in the IGWB you indicated that there was still several markets for growth for casinos. You also made the point in the article that casinos in Las Vegas, at least, were placing much more emphasis on entertainment and other areas besides gambling machines and table games, to try to draw.

Are you suggesting that is there market difference between the kind of entertainment that casinos in Las Vegas offered a couple of decades ago, versus today, is it the percentage of dollars being invested in entertainment that you were referring to?

MR. CHRISTIENSEN: Both. The answer to both question is different. The entertainment is different, and the investment is different.

A graphic example, the best business in Las Vegas today, the one if I could have one wish, it would not be a casino, it would be the Forum shops at Caesar’s Palace. There are only a handful of machines in the entire facility, just at one end of the shopping mall. But the retail sales per square foot, the last time I looked, were 1,400 dollars per square foot. That is Tokyo jewelry shop numbers. It is off the scale, there is nothing like it in North American retail.

This is just entertainment and shopping, it is shopping packaged as entertainment. There was nothing like that, really, in Las Vegas 20 years ago. It is high count investment, too.

COMMISSIONER MCCARTHY: Are you suggesting it is that kind of model that will be required in other regions of the country in order to succeed as the saturation point is reached for gambling, that component?

MR. CHRISTIENSEN: Absolutely. In every one of these casino markets, in every riverboat market, in every Indian gaming market, it is going to be impossible to stay in the game if all you offer is tables and machines. The consumer demands to be entertained. Entertainment is the new entitlement, I really believe that.

COMMISSIONER MCCARTHY: Okay, thank you.

MR. CHRISTIENSEN: If you don't offer it, exit the industry.

COMMISSIONER MCCARTHY: Do you have any tables that show the net profits of the industry?

MR. CHRISTIENSEN: No, sir, I'm sorry, that is not a part of the gross annual wager base, we don't carry the analysis down to the level of profitability. I just I'm sorry that --

COMMISSIONER MCCARTHY: You don't have that available?

MR. CHRISTIENSEN: No, we don't. You could easily get that for the Nevada industry as a whole from something called the Nevada Gaming Abstract.

COMMISSIONER MCCARTHY: In a casino questionnaire, a questionnaire to casinos around the nation that the Commission sent out recently we also asked beyond the issue of what taxes do you pay, including the normal taxes and taxes peculiar to gambling itself.

We also asked what other kinds of expenditures are you required to make by government for roads, or any sort of public services or so on. Do you collect those numbers?

MR. CHRISTIENSEN: Only on a -- only when we are engaged to do so by a client. We have looked into that as consultants, from time to time. Unfortunately that is proprietary with us. Virtually all the work we do is proprietary. I don't mean to be uncooperative.

COMMISSIONER MCCARTHY: And finally do you collect data on the contributions made to treatment programs for seriously troubled gamblers?

MR. CHRISTIENSEN: We've never been asked to do that. That is a good question. I don't have the numbers.

COMMISSIONER MCCARTHY: Okay, thank you.

CHAIR JAMES: Commissioner Dobson?

COMMISSIONER DOBSON: Thank you, Madam Chair. Going back to exhibit 6, the estimated gambling privilege taxes in 1997, indian gaming there is shown as 583.9 million dollars.

Would you describe what those taxes consist of, and how they are different from the taxes paid by casinos and others?

MR. CHRISTIENSEN: Surely. The Congress, in its wisdom, when it passed IGRA in the compacting process that it laid out, left it open to the states in negotiating a compact with tribes if the state wanted to, to negotiate a share of the gaming revenues, basically as a tax to the state.

Not all states, not all governors were smart enough to do this, but some of them were. I live in New York, and my next door neighbor is Connecticut, and Connecticut is a good example.

The two stage process by which class III gaming came to the Naschantucket Pequats, they started with simply table games, and the basis for that compact was that the State of Connecticut had a small number of charitable Las Vegas night games, and in that first compact between the State of Connecticut and the Naschantucket Pequats there was no percentage of revenues to the state.

However, the Naschantucket Pequats very much wanted machines, for obvious reasons. So they went back to the state and negotiated a modification in the compact, and the state allowed them to add machines, but in exchange, in that bargaining, the state got the Naschantucket Pequats to agree that a percentage of the machine revenues, not the table game revenues, would go to the state as a tax.

And there are also some payments that the tribe makes to defray the cost of regulation, which the state provides.

That kind of thing is what makes that 583.9 million dollars.

COMMISSIONER DOBSON: So there are some states where Indian gaming is not taxed?

MR. CHRISTIENSEN: There are quite a few states where Indian gaming is not taxed, because most of the --

COMMISSIONER DOBSON: Is that the --

MR. CHRISTIENSEN: Pardon?

COMMISSIONER DOBSON: Excuse me, is that the majority, or the minority?

MR. CHRISTIENSEN: I haven't really done a census of it, but I'm sure it is. The states simply weren't swift enough to pick up on negotiating these compacts. As they come up for renewal I would expect that to be an issue.

COMMISSIONER DOBSON: The other question, very quickly, is with regard to what you referred to as the shrinking potential for growth of certain forms of gambling.

Did you consider the states that do not yet have lotteries in that regard?

MR. CHRISTIENSEN: We did, but there simply aren't very many of them left. You have lotteries in 37, 38 counting the District of Columbia, that is something like 84 percent of the U.S. population, and there is not a lot of untapped potential left there.

COMMISSIONER DOBSON: Thank you.

CHAIR JAMES: Commissioner Bible, did you have a point on this?

COMMISSIONER BIBLE: Yes, I just want to follow up on Commissioner Dobson's question. Under the line Indian gaming where you are showing 583.9 million dollars --

MR. CHRISTIENSEN: Yes, Commissioner?

COMMISSIONER BIBLE: Are those transfer payments that are being made from the tribes to state and federal government?

MR. CHRISTIENSEN: State government. I don't think the federal government participates in this. Maybe in a minor way, in some regulatory fees, but it is basically state government, but they are transfer payments, yes.

COMMISSIONER BIBLE: Does it also include payments that the tribe is making to itself?

MR. CHRISTIENSEN: No, they do not. That is a transfer from the tribe to state government.

COMMISSIONER BIBLE: And then under lotteries, that would be the state's share of the win?

MR. CHRISTIENSEN: That is the state's share of the win, that is exactly right, sir.

CHAIR JAMES: Commissioner Loescher?

COMMISSIONER LOESCHER: Madam Chair, thank you. I had the same question as Commissioner Bible had. I would appreciate it if you could send to the Commission the breakdown of the numbers that you have for the gross revenues, and also for the taxes. We need to understand the elements that make up the numbers that you have here.

It is curious, to me, the tribal governments under themselves, and they basically have the view that their assessments constitute 100 percent tax on their enterprise, and yet your numbers don't relate that idea.

Is there a reason for that?

MR. CHRISTIENSEN: I'm not sure I understand the question, I'm sorry.

COMMISSIONER LOESCHER: Madam Chair, the question again, that Commissioner Bible, I thought I understood your answer to him, the answer to me is that the numbers that you have in your reports reflect a transfer of revenues in form of taxes to state and local governments?

MR. CHRISTIENSEN: Pursuant to compact, yes.

COMMISSIONER LOESCHER: But your numbers don't reflect the amount that is transferred to tribal governments?

MR. CHRISTIENSEN: No, they don't. The -- if we could find that pie chart, could you -- yes, this is a summary accounting of what the tribes realized from the operation of IGRA, simply on gaming revenue. Again, facility -- non-gaming facility revenue is not included in here. Adding that in I have it in my text, it is about two and a half billion dollars that the tribe realized in benefits from IGRA in 1997.

This would be a summary accounting of the gaming portion of it. Is that responsive? It is the only thing we have.

COMMISSIONER LOESCHER: Madam Chair, I just would like to say that we would like to have the breakdown of the data, and the sources of your information. I appreciate it.

Thank you, Madam Chair.

MR. CHRISTIENSEN: Sure.

CHAIR JAMES: Thank you. Did you have one other comment?

COMMISSIONER BIBLE: Yes, to follow up on Commissioner Loescher’s question, it would seem like you treated state lotteries and tribal operations somewhat differently, in that you’ve taken the win portion of the lotteries, and apportioned that as a privilege tax, and what Commissioner Loescher is suggesting is that all of the win from tribal operations should be considered as a privilege tax.

MR. CHRISTIENSEN: Well, it is, that is what this reflects. In other words, this big red circle is allocation of 1997 gross gaming revenue or win from both class II and class III.

COMMISSIONER BIBLE: But if you get back to exhibit 6, which is the exhibit we were talking about.

MR. CHRISTIENSEN: Right, but this is to the tribes, and exhibit 6 is to the states, they are different entities.

CHAIR JAMES: But still governments?

MR. CHRISTIENSEN: Yes. I think one way to clarify this, that Indian gaming line is not the Indians, that is from Indians to state governments. The missing line on this chart, if you will, would be tribal governments, and then you would -- to themselves, so then you would have tribal governments, and that would be the number on the preceding pie chart.

COMMISSIONER BIBLE: And under Indian gaming I would presume Foxwoods probably accounts for 40 percent of that figure, 50 percent, something of that nature?

MR. CHRISTIENSEN: Yes. Does that clarify it?

COMMISSIONER BIBLE: Yes.

CHAIR JAMES: Commissioner Lanni?

COMMISSIONER LANNI: Thank you, Chairman James.

Just three responses, not to Mr. Christiensen, I found your comments also to be quite lucid, though.

For MR. McCarthy, the Nevada Gaming Abstract was just released, and that would be available if the staff and the Commission would like to request it. That was for the fiscal year ending July of 1998, in which they indicated that for properties in Nevada with one million dollars of casino revenues, or in excess of that number, that the after-tax, assuming a 37 and a half percent federal tax, the after-tax profits on all revenues for those entities was 5.3 percent for the year.

In addition, just to respond to Mr. Wilhelm, relative to our company, which in Las Vegas at this time has approximately 11,000 employees, about 35 percent of those employees are gaming related, and 65 percent are non-gaming related.

And I think that is reasonably similar, probably, for the industry.

As far as revenues from -- our revenues for our company, which we are projecting for this calendar year, 1999, we are at the point where about 50 percent of our total revenues will come from non-gaming sources, and obviously 50 percent from gaming sources.

And it is moving very much, as Mr. Christiensen has said, in that direction with most companies in Nevada.

CHAIR JAMES: Thank you. And I would like to ask staff if they would get copies of that Nevada Abstract and make it available to all Commissioners. Commissioner Kelly, did you get that? Thank you, I appreciate that. Thank you very much.

With that I would like to thank Mr. Christiensen, I appreciate your -- I think the word of the morning is lucid, I think it is indeed. Thank you very much for that very lucid presentation, and it is very much appreciated by the Commission as well as the information that you submitted in writing, and it has helped our deliberations a great deal.

Thank you very much.

MR. CHRISTIENSEN: Thank you very much.