The Impact of Legalized Gambling on Consumer Bankruptcy: *A Preliminary Report*

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Introduction

The following report is a preliminary report from an ongoing study being conducted by the Biloxi law firm of Bond, Botes & McCormick, P.C. The purpose of the study is to see what impact, if any, legalized gambling on the Gulf Coast may be having with respect to consumer bankruptcies. The viewpoints and observations contained in this report are those of Michael J. McCormick, and not the official position of Bond, Botes & McCormick, P.C., or any of its affiliates.

The source of the data used for this initial phase of our study was the first one hundred bankruptcy cases filed by the Biloxi office of the Bond & Botes organization. More specifically, the information contained on the Statement of Financial Affairs provided the raw data for the study.

Since the information on the Statement of Financial Affairs is derived in part from the "Due Diligence" checklist used on the client's initial consultation, we recognize that there is a strong bias in the data because of the individual's reluctance to admit the existence of a potential problem with gambling, or because whatever amounts the individual(s) has lost are, in his or her opinion, too negligible to warrant reporting. For instance, at least ten percent of our clients are casino employees. However, almost none admit to losing any money at the casinos.

On the other hand, we recognize that a countervailing bias exists in the date because we have asked our clients to report <u>any</u> loss from gambling, regardless of the amount lost. As the data will show, seven of the 21 debtors[1] with reported gambling losses lost less than $100. This may suggest an overreporting of a gambling problem since these amounts are more reflective of a casual gambler who gambles once or twice a year for entertainment purposes only.

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[1] Within this report, as with section 102(7) of the U.S. Bankruptcy Code, the term "debtor" is meant to include both the singular and the plural (i.e., a married couple is permitted under the Code to file a joint petition).

Executive Summary

Analysis of the data was broken up into three groups. First various, statistical measurements were performed on the entire group of debtors making up the first 100 petitions filed. Next, the Chapter 7 debtors were examined, and finally the Chapter 13 debtors.

Overall, 25 of the petitions filed were Chapter 7 proceedings and the other 75 petitions filed were Chapter 13 cases. None of the petitions were filed under Chapter 11 or Chapter 12 of the Bankruptcy Code. The total reported loss from gambling for the entire group was $64,770, yielding an average dollar loss for the entire group of $647.70. The highest dollar loss was $28,700.

Of the 100 petitions filed, 21 reported gambling losses on the Statement of Financial Affairs. The average dollar loss from gambling for the 21 debtors was $3,084.29.

Exactly 20% of the Chapter 7 debtors reported gambling losses. The total dollar loss for Chapter 7 debtors was $20,150, at an average of $4,030 per Chapter 7 debtor with gambling losses.

All of the statistics for the Chapter 13 group were higher, except for the average dollar loss. This is not surprising since our firm usually steers debtors toward Chapter 13 when there have been significant amounts of money lost through gambling, especially where the source of funds used for gambling was credit card cash advances. The basis for this advice is of course that Chapter 13 provides a broader discharge, including debts procured through fraud, and thus the debtor taking large cash advances will have more success and save the cost of defending adversary proceedings.

The total dollar loss for the Chapter 13 group was $44,620.00 versus $20,150 for the Chapter 7 group. The highest dollar loss was $28,700 for the Chapter 13 group versus $10,000 for the Chapter 7 debtors. However, surprisingly the average dollar loss for the Chapter 13 group was approximately one-half the average for Chapter 7: $2,788.75 versus $5,740.

<u>The Raw Data</u>

CHAPTER	NO LOSS	LOSS	AMOUNT
========	=======	=====	=======
7	X		0
7	X		0
7	X		0
7	X		0
7	X		0
7	X		0
7	X		0
7	X		0
7	X		0
7	X		0
7	X		0
7	X		0
7	X		0
7	X		0
7	X		0
7	X		0
7	X		0
7	X		0
7	X		0
7	X		0
7		X	$50.00
7		X	$100.00
7		X	$1,000.00
7		X	$9,000.00
7		X	$10,000.00
13	X		0
13	X		0
13	X		0
13	X		0
13	X		0
13	X		0
13	X		0
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13	X		0
13	X		0
13	X		0
13	X		0
13	X		0
13		X	$10.00
13		X	$20.00
13		X	$20.00
13		X	$20.00
13		X	$20.00
13		X	$50.00
13		X	$200.00
13		X	$300.00
13		X	$300.00
13		X	$500.00
13		X	$700.00
13		X	$730.00
13		X	$2,050.00
13		X	$5,000.00
13		X	$6,000.00
13		X	$28,700.00
13	X		
13	X		

Statistical Analysis and Summary

Number of Chapter 7 Debtors	25
Number of Chapter 13 Debtors	75
Total Dollars Lost per 100 Debtors	$ 64,770.00
Average Dollar Loss Per 100 Debtors	$ 647.70
Standard Error	$ 3,210.06
Variance	$10,304,505.71
Number of Debtors out of 100 with gambling losses	21
Avg. Dollar loss per Debtor with gambling losses	$ 3,084.29
Median Dollar Loss	$ 32,385.00
Highest Dollar Loss	$ 28,700.00
Number of Chapter 7 Debtors with gambling losses	5
Percentage of Chapter 7 Debtors with gambling losses	20.00%
Total Dollar Loss by Chapter 7 Debtors with gambling losses	$ 20,150.00
Avg. Dollar loss per Debtor with gambling losses	$ 4,030.00
Standard Error	$ 4,490.17
Variance	$ 6,630,864.00
Highest Dollar Loss for Chapter 7 Debtors	$ 10,000.00
Number of Chapter 13 Debtors with gambling losses	16
Percentage of Chapter 13 Debtors with gambling losses	21.33%
Total Dollar Loss by Chapter 13 Debtors with gambling losses	$ 44,620.00
Avg. Dollar loss per Debtor with gambling losses	$ 2,788.75
Standard Error	$ 6,918.98
Variance	$47,872,223.44
Highest Dollar Loss for Chapter 13 Debtors	$ 28,700.00

Preliminary Observations, Conclusions and Recommendations

While I or my firm do not wish to take an official position regarding the morality of gambling, I am of the opinion that the elimination of legalized gambling on the Gulf Coast would bring about an economic depression never before seen in Mississippi. It is unlikely that the hotels would be filled or that tourism dollars would be as significant without the presence of gambling. Moreover, I doubt that the unemployment rate would ever be so low again. In fact, it would probably be astronomical.

Despite recognizing that legalized gambling has brought about unprecedented growth on the Gulf Coast, I recognize there are significant social costs and other negatives that accompany the casinos. To begin with, USA Today reported last year that gambling debts contribute to only 2% of personal bankruptcy filings.[2] However, the data from the study suggest the gambling and the proximity of casinos contributes to a much higher percentage. Recognizing that the presence of a high standard error and variance in our study can only be minimized with an increased statistical sample, it is our intention to continue to monitor the number of debtors filing with our office who have gambling losses.

Although auto thefts, burglaries and homicides were at a five-year low in 1997 in the City of Biloxi, the Coast Crime Commission's statistics released in March reveal that compared to 1993, larcenies are up 40% and still on the increase. The number of assaults is also 268% higher. Both drug arrests and DUI arrests are down from their five-year highs in 1996, but still up 49% and 187% respectively since 1993. It does not seem illogical to conclude that free alcohol at the casinos and the stress of personal finances, brought on by gambling addiction, are major contributors to the rise in assaults, thefts, and substance abuse.

Perhaps what may be in order, based on the initial statistics, is that the casinos should help coordinate a joint effort with the Visitor's Bureau, Chamber of Commerce, and tourism entities to educate visitors that the casinos should be seen as a form of entertainment and not a get-rich quick opportunity. In addition, the casinos should conduct similar education as part of the introductory training a new employee receives. This should help reduce the problem of addiction, and go a long way in reducing the negative image the casinos have. After all, I am sure the casinos would like to be viewed as a form of entertainment rather than an industry that preys on those with little self-control.

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[2] USA Today, *Bankrupt in the USA*, June 10, 1997. *See also* http://www.usatoday.com/news/index/bankr001.htm

The overall breakdown is as follows:

Credit card bills	63%
Job loss or pay cut in the family	50%
Management of personal finances	37%
Medical bills	28%
Difficulties with business they own	15%
Divorce or breakup of marriage	13%
Lawsuit or legal bills	12%
Taxes	10%
College expenses	8%
Death in the family	7%
Gambling debts	2%

While on the subject of education, why is it that a recent bond issue for education recently failed in Biloxi? Perhaps a large group of people in the area feel that the casinos should be contributing more to the local economy. After all, isn't that what Gulf Coast residents were promised six years ago? I also understand that when the Beau Rivage opens next year, many of the employees will be from out-of-state, particularly Nevada. This means more families and more children to further burden our schools. 3.2% seems a ridiculously low level of tax on casinos revenues when you consider the social costs brought on by the casinos, the current state our public education system, and the condition of our roads and sidewalks in downtown Biloxi. If we accept the fact that the casinos are here to stay, then I think most residents would agree that, instead of the profits being siphoned out of state, for now the casinos should make good on their promise and contribute more to the local economy.