

1 CHAIRMAN JAMES: Mr. McCormick?

2 MR. MCCORMICK: Last week I publicly released a
3 preliminary report from an ongoing study being conducted by my
4 firm. I understand from a few people that some of the comments I
5 made created a stir, and thus, I'm glad to have an opportunity to
6 elaborate and clarify some of my observations.

7 The graph on the first page shows the steady increase
8 in bankruptcy filings in Biloxi since 1993. The purpose of our
9 study is to see what impact, if any, legalized gambling had on
10 the Gulf Coast with respect to consumer bankruptcies.

11 We recognize there's a strong bias in the data
12 because of the individual's reluctance to admit the existence of
13 a potential problem with gambling or because whatever amounts the
14 individual has lost are, in his or her opinion, too negligible to
15 warrant reporting.

16 For instance, at least ten percent of our clients are
17 casino employees. However, almost none admit to losing any money
18 at the casinos. On the other hand, we recognize that a
19 countervailing bias exists in the data because we've asked our
20 clients to report any loss from gambling regardless of the amount
21 lost.

22 As the data will show, seven of the 21 debtors with
23 reported gambling losses lost less than \$100. This may suggest
24 an overreporting of gambling problems since these amounts are
25 more reflective of a casual gambler who gambles once or twice a
26 year for entertainment purposes only.

27 Analysis of the data was broken up into three groups.
28 First, various statistical measurements were performed on the
29 entire group of debtors making up the first 100 petitions filed

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1 by the Biloxi office of our organization. Next, the Chapter 7
2 debtors were examined and finally the Chapter 13 debtors.

3 The total reported loss from gambling for the entire
4 group was \$64,770, yielding an average dollar loss for the entire
5 group of \$647. The highest dollar loss was 28,700. Of the 100
6 petitions filed, 21 reported gambling losses on the statement of
7 financial affairs in their bankruptcy schedules. The average
8 dollar loss from gambling for those 21 debtors was \$3,000.

9 I recognize that the foregoing only addresses the
10 issue of what impact gambling has had on Mississippi on a macro
11 level. What I'd like to do now is bring this analysis down to a
12 micro level and relay the experiences of three couples that I've
13 personally represented since May 1997.

14 The experiences of these three couples demonstrate
15 that people from varying backgrounds and all walks of life can
16 quickly succumb to a gambling addiction. The first couple I'd
17 like to discuss is from Bay Minette, Alabama, which is about one
18 and one-half hours from here.

19 We'll call this couple Bill and Wilma.

20 I chose to talk about them because they were the
21 first couple I ever encountered with gambling losses in excess of
22 \$10,000 and because Bill and Wilma are unique in that each spouse
23 was guilty of having a gambling problem.

24 Usually when a couple enters my office and it is
25 revealed that there are large gambling losses, it was one spouse
26 responsible for the losses. When Bill and Wilma retained our
27 firm to file a bankruptcy proceeding on their behalf, I
28 discovered they had lost \$2,000 from gambling just ten days
29 before.

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1 The reason for this last gambling spree was that they
2 had received a final demand letter from one of their credit card
3 companies, threatening to sue if they did not immediately pay
4 \$10,000. Their theory was that they would give the casinos one
5 last try in an attempt to raise the required funds.

6 I personally gave the clients the phone number to
7 Gamblers Anonymous on several occasions but they refused to call.

8 Our office filed a Chapter 13 proceeding for Bill and
9 Wilma, but as they signed their petition, they declared and
10 discussed, this is sick, when they were confronted with the fact
11 that they would be paying back their debts at \$700 a month, even
12 though they were only going to have to pay a portion of the
13 \$70,000 lost in slot machines and at the blackjack tables.

14 I should probably end this story by letting you know
15 that Bill and Wilma had to sell their home only two years prior
16 to pay off their previous gambling debts and are now living in a
17 mobile home.

18 Before I continue, it's probably best if I digress
19 for a moment to briefly explain a few features of the Bankruptcy
20 Code for the benefit of those on the commission, the panel and in
21 the audience who have little familiarity with Title 11.

22 The two chapters of the Bankruptcy Code that provide
23 relief for individual consumers are Chapter 7 and Chapter 13. An
24 individual can obtain a discharge of most debts under Chapter 7
25 through a liquidation process although 95 percent of the time
26 exemption laws protect the debtor from losing any assets.

27 Chapter 13 allows a consumer debtor to pay back
28 secured creditors and a percentage of their unsecured debts,

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1 depending on their disposable income, over a period of 36 to 60
2 months.

3 Section 523 of the Bankruptcy Code provides that cash
4 advances of \$1,000 or more incurred on credit cards within 60
5 days of filing for bankruptcy protection are presumed to be non-
6 dischargeable if the creditor objects.

7 In addition, since the Bankruptcy Code provides that
8 debts procured through fraud are also non-dischargeable, many
9 bankruptcy courts have accepted the argument of credit card
10 issuers that each use of a credit card entails a representation
11 by the cardholder that he or she has both the ability and the
12 intent to repay.

13 Thus, huge cash advances without subsequent repayment
14 constitute misrepresentations sufficient to render the debt non-
15 dischargeable under a theory of fraud. Although debts procured
16 through fraud are not dischargeable under Chapter 7, Chapter 13
17 provides a broader discharge and cash advances can be paid back
18 at the same percentage as other unsecured debts.

19 Thus, a gambler who has funded his addiction with
20 credit card cash advances may be advised to seek protection under
21 Chapter 13 instead of Chapter 7 to avoid the denial of discharge
22 of certain debts and the consequent attorney fees involved with
23 having to defend adversary proceedings.

24 The next couple I'm going to talk about is George and
25 Margaret from Mobile, Alabama, which should also demonstrate that
26 the problem addiction affects not only Mississippi residents but
27 out-of-state visitors within close proximity of our casinos.

28 George was a retired executive. He and his wife were
29 very sophisticated people who were used to being in control and

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1 feeling smarter than others. They had become accustomed to an
2 expensive lifestyle over the years. Their spending failed to
3 slow down when George retired.

4 Margaret spent much of the time visiting her son in
5 Montgomery so George took the opportunity to visit the casinos.
6 His gambling trips and their expensive lifestyle were funded with
7 credit cards, and unfortunately, withdrawals from his IRA.

8 Due to poor financial planning, George ended up owing
9 approximately \$50,000 to the IRS for these withdrawals. They
10 didn't have the income to contribute money to a Chapter 13,
11 especially since George's health prevented him from working much
12 longer at the job he'd now obtained in an attempt to gain some
13 control over the couple's finances.

14 Furthermore, they had been making payments on their
15 credit cards. Thus, we decided to try a Chapter 7. George and
16 Margaret were fortunate to receive a discharge from all of their
17 debts except the IRS taxes. However, this discharge was not
18 without cost.

19 Since Alabama's homestead exemption only allows the
20 debtor to protect \$5,000 of equity in his or her home, which is
21 much lower than the \$75,000 allowed in Mississippi, and since the
22 equity in their home exceeded this amount, George and Margaret
23 had to borrow \$10,000 from relatives to save their home.

24 This money had to be paid over to the Chapter 7
25 trustee for the benefit of their creditors. Overall, however,
26 the clients were happy about only having to pay \$10,000 to get
27 rid of \$80,000 in credit card debts.

28 The final couple I'd like to discuss is Jim and Angel
29 who are residents of Ocean Springs, Mississippi. This couple's

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1 story is another example of how sophisticated, upper middle-class
2 people can destroy their finances and credit history in a
3 relatively short period of time.

4 Both Jim and Angel had excellent jobs. In fact,
5 their combined gross monthly income exceeded \$5,000. But \$28,000
6 worth of credit card advances by Jim for gambling in 1997 alone
7 quickly became an overwhelming obstacle.

8 In any event, Jim will have almost \$1100 deducted
9 from his paycheck every two weeks for the next 48 months for his
10 Chapter 13 planned payments. In addition to paying their secured
11 creditors over this time, their confirmed Chapter 13 plan
12 proposes to pay their unsecured creditors over \$100,000, which is
13 the most I've ever filed in a 100 percent case.

14 Also on the down side, both Jim and Angel's credit
15 histories will have a significant black mark for ten years and
16 Jim faces the risk that others at work will become aware of his
17 gambling problem.

18 This week, and it is a short week because of the
19 holiday Monday, I've already three individuals in my office with
20 over \$10,000 in gambling losses. Yesterday, a lady came into my
21 office and she had \$100,000 in credit card debts and she
22 estimated that half of that was from gambling over the past year.

23 One of the comments I made last week that some people
24 took issue with was my opinion that the elimination of legalized
25 gambling would bring about an economic depression never before
26 seen in Mississippi. Allow me to clarify.

27 First, as a Christian, I am morally opposed to an
28 industry that makes its profits by preying on those with little

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1 self-control. The whole concept of legalized gambling is morally
2 demeaning.

3 That being said, however, I'm not naive or so closed-
4 minded to ignore the positive economic benefits that the casinos
5 have brought to this region. It is unlikely that the hotels
6 would be filled. Moreover, I doubt that the unemployment rate
7 would ever be so low again. In fact, it probably would be
8 astronomical.

9 I would not go so far, however, to call the Gulf
10 Coast's economic growth a miracle. I say this for a few reasons.
11 First, my definition of a miracle is limited to events like the
12 parting of the Red Sea.

13 Second, our local economy has become too dependent on
14 the casinos. Eventually a saturation point will be reached or
15 perhaps other fads will replace gambling. What happens if
16 Congress passes legislation to outlaw or significantly restrict
17 casino operations? What happens if a voter initiative to
18 eliminate gambling is successful?

19 If the cities of the Mississippi Gulf Coast do not
20 want to become like the small cities of Pennsylvania that became
21 ghost towns in the late '70s when the local steel mill closed, we
22 need to attract other industries.

23 But unlike those steel workers who depended on those
24 jobs for 20 or 30 years, those employed by the casino industry
25 are clinging to a false hope. There is tremendous turnover in
26 the industry and it will only become worse as experienced dealers
27 and other casino veterans move to the Coast to meet the demand.

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1 Third, in the summer of '97 before we opened an
2 office in Biloxi, I visited the Grand Casino in Gulfport because
3 I'd never seen the inside of a casino.

4 In addition to noticing the thousands of slot
5 machines and the hundreds of people who seemed less able to
6 afford to lose money than myself, I noticed that the dealers and
7 other casino employees had badges that indicate where they lived
8 or from where they had moved to Mississippi. I was surprised at
9 the number of people from out of town and out of state.

10 The same holds for many of the casino employees that
11 I represent. They've come from other states that had gambling
12 such as Florida, New Jersey or Nevada. To suggest that many of
13 the new jobs created by the industry have gone to outsiders
14 instead of the residents and taxpayers of the Mississippi Gulf
15 Coast.

16 I also recognize there's significant social costs and
17 other negatives that accompany casinos. To begin with, last year
18 USA Today reported that gambling debts contributed to only 2
19 percent of personal bankruptcy filings. However, the data from
20 my study suggests that gambling and the proximity of casinos
21 contributes to a much higher percentage.

22 Although auto theft, burglaries and homicides were at
23 a 5-year low in '97 in the City of Biloxi, the Coast Crime
24 Commission statistics released in March revealed that, compared
25 to 1993, large cities are up 40 percent and still on the
26 increase. The number of assaults is also 268 percent higher.

27 Both drug arrests and DUI arrests are down from their
28 5-year highs in '96 but still up 49 percent and 187 percent,
29 respectively, since '93. It does not seem illogical to conclude

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1 that free alcohol at the casinos and the stress of personal
2 finances brought on by gambling addiction are major contributors
3 to the rise in assaults, thefts and substance abuse.

4 Perhaps what may be in order is that the casinos
5 should help coordinate a joint effort with the Visitors Bureau,
6 Chamber of Commerce and tourism entities to educate visitors that
7 the casino should be seen as a form of entertainment not a get
8 rich quick opportunity.

9 In addition, the casinos should conduct similar
10 education as part of the introductory training a new employee
11 receives. This should help reduce the problem of addiction and
12 go a long way in reducing the negative image the casinos have.
13 After all, I'm sure the casinos would like to be viewed as a form
14 of entertainment rather than an industry that preys on those with
15 little self-control.

16 While on the subject of education, why is it that a
17 recent bond issue for education recently failed in Biloxi?
18 Perhaps a large group of people in the area feel that the casinos
19 should be contributing more to the local economy. After all,
20 isn't that what the Gulf Coast residents were promised six years
21 ago?

22 I also understand that when the Beau Rivage opens
23 next year, many of the employees will be from out of state,
24 particularly Nevada. This means more families and more children
25 to further burden our schools.

26 3.2 percent seems a ridiculously low level of tax on
27 casino revenues when you consider the social costs brought on by
28 the casinos, the current state of our public education system and
29 the conditions of our roads and sidewalks in downtown Biloxi.

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1 If we accept the fact that casinos are here to stay,
2 then I think most residents would agree that instead of the
3 profits being siphoned out of state, the casino should make good
4 on their promise and contribute more to the local economy.

5 In other words, instead of choosing I'm a part of the
6 Mississippi miracle as my motto, I have selected if the casinos
7 are here to stay, make them pay.

8 Ladies and gentlemen of the commission, I thank you
9 for the opportunity to speak today and I hope my comments
10 contribute to an informed analysis of gambling in our region.
11 Please know that if I can be of further assistance to your
12 mission, I'll be more than happy to contribute.

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