

1 a pretty exotic idea and now that is dramatically changed due to
2 largely the riverboat casinos.

3 As it draws on a different type of clientele, Las
4 Vegas and to a lesser extent Atlantic City, have a national
5 clientele, even international. McCarran in Las Vegas is one of
6 the busiest airports in the United States. But the riverboats
7 typically have a local clientele, roughly defined as within 200
8 miles, a 200 mile radius, basically where you drive to the casino
9 and back home in a day and still have time to gamble.

10 The third reason is one of the most interesting ones.
11 It's the reason I think it was accepted by mid-America, whereas
12 other traditional casinos have not been. It was that the promise
13 would be that riverboat casinos were somehow different, that this
14 vehicle would allow cities and towns to have casinos and get the
15 good things they might bring, such as economic development, and
16 yet even though they're part of the city, they wouldn't be part
17 of the community. That part could be segregated. In a sense
18 they would act as a sieve to sift out the good things and the bad
19 things would be left somewhere else.

20 Now, it's unclear if this has actually worked as
21 intended. There's surprisingly little good empirical information
22 about any aspect of this phenomenon. There's a number of reasons
23 for that. One is simply a short time period. Iowa was the first
24 to start riverboat casinos, and they only started in the spring
25 of 1991. There hasn't been that much time really for studies of
26 any real depth to have taken place.

27 Second is that almost all the work done has been done
28 by people who were either pro or anti riverboat casinos. They're
29 done for a specific purpose. No matter how credible they may in

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1 fact be, the mere fact that they have been generated by one of
2 these sources has to make someone who is trying to come to an
3 objective judgment somewhat wary of relying upon them entirely.

4 The third reason that it's difficult to come to a
5 judgment about their actual impact is that the industry has
6 changed quite rapidly even though it's only been around for a
7 very short time.

8 As I said, Iowa was first to license riverboat
9 casinos and they began operating in the spring of 1991. The
10 original idea was to use them as part of a broader strategy of
11 economic development for depressed river towns, as part of a
12 tourism development strategy. It was building upon the old idea
13 of the Mississippi River and the riverboat gamblers and it would
14 be sort of an exotic little fun thing that would help these
15 communities to draw people and some of them would gamble and some
16 of them would not.

17 Riverboats were supposed to be a very small part of
18 this. In fact, they were thought of as a way to save the
19 riverboats, rather than vice versa. Riverboats weren't thought
20 of as platforms for casinos as much as the opposite. And because
21 of this original conception, they were very heavily restricted.
22 There were wagering limits, overall loss limits per day. There
23 were cruising restrictions, meaning the boats had to actually
24 leave the dock. You could not get on or off I think it was every
25 two hours. There were a number of other restrictions as well.
26 Even the space allowed on riverboats for casinos was limited.
27 Other types of entertainment on the riverboat had to be provided
28 for those who didn't want to gamble, so on and so forth. So it
29 was a very small part of this economic development plan.

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1 But then an unexpected dynamic emerged which was the
2 riverboat phenomenon began spreading throughout the Midwest. It
3 quickly caught on in Illinois which opened its own riverboats
4 across the river from Iowa's in the fall of that same year and
5 then to Missouri and Indiana and so forth. Later on to Louisiana
6 and Mississippi.

7 Although the argument of economic development is
8 still used to promote riverboat casinos, the motivation has
9 changed, at least from the standpoint of state governments which
10 had to legalize and regulate these casinos. And the state
11 governments' interest is quite clear. From whatever else may be
12 said, it focuses very much on revenues, how much revenue can be
13 generated. The argument of economic development and tourism
14 development is still there, but when it comes down to the
15 approval, people looking at the bottom line of how much spending
16 can be extracted from these enterprises for the state.

17 Now, it's interesting how this phenomena begins,
18 because as I said, originally it starts with the concept that
19 these are good for economic development and shifts to revenue.
20 The first take on it is generally for states that don't have
21 riverboat casinos, whose neighboring states do. Their citizens
22 cross the river to gamble and thus, give their taxes over to
23 other jurisdictions. So the idea occurs, we need our own boats
24 purely for defensive measure, simply to keep our own citizens'
25 money in the state benefiting us and hopefully taking some back
26 from the states that are in essence raiding us. So that's one of
27 the first key ideas, okay, we'll license them as well.

28 But then the idea becomes, well, we can play the same
29 game towards those neighboring states that don't have riverboat

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1 casinos. We'll put them on our borders. If you look at the map
2 that I passed out, it's very interesting. If you look at the
3 pattern where these riverboats are sited, they're almost always
4 sited on the borders of the states. That's not simply because
5 that's where the rivers are, because the whole idea is to tap
6 into the citizens of other states. If you're a budgetary
7 officer, that's what you want. You want people from other states
8 paying taxes to your treasury. And state after state after state
9 is doing this, and that sets up a dynamic which is pretty clear,
10 which is those states that are affected then themselves have to
11 debate do we have to institute casinos simply to protect
12 ourselves from these, quote, unquote, "raids." This is the term
13 that is used by the people in the industry.

14 So very quickly this pattern has spread throughout
15 the Midwest. And even those states such as Ohio and Kentucky
16 which do not yet have riverboats or land based casinos are forced
17 into debating the measures and consider them quite actively. I
18 must say, the states, when they site their casinos, site them
19 generally not coincidentally right across the river from major
20 metropolitan areas that don't have casinos for obvious reasons.

21 It's interesting that each one of these states
22 believes they're making their decisions in isolation. They have
23 these industries to control as though their decisions really are
24 going to determine the shape of the industry. But in fact, it's
25 pretty clear the pattern is they're more reactive than they are
26 proactive in making these decisions.

27 Another type of this interstate competition, this
28 dynamic of interstate competition among the governments, not
29 among the industry, but among the governments also undermines

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1 efforts by the states to regulate the industry. Any restrictions
2 that are placed upon the riverboat such as loss limits or
3 mandatory cruising times or any other type of restriction you
4 wish to talk about, it's inevitable the industry will go to the
5 regulators and legislators and say this forces us to be
6 uncompetitive. We're losing money; the state is losing money.
7 We need to be at least equal to the state across the river. Time
8 and again that has lead to the repeal of restrictions that were
9 originally there.

10 For example, in Iowa when the boats opened up they
11 had all these restrictions that I talked about. Illinois opened
12 its boats and did not have loss limits. Therefore, they quickly
13 took the customers away from Iowa's boats which had a rapid peak
14 and then a trough of people going to the Iowa boats, the reason
15 being that customers didn't want to have to be bothered with this
16 loss limit stuff. So the operators in Iowa eventually made an
17 successful argument that loss limits should be repealed and those
18 have been removed.

19 Now, the Illinois boats operate at what they say is
20 an unfair restriction in that they have to cruise; that is, they
21 have to leave the dock or at least limit access at two hour
22 periods I believe it is, where Iowa does not. So this is sort of
23 going back and forth between states. This competition between
24 the states undermines any attempt to regulate. Whether that's
25 good or bad, that's simply a reality.

26 The tax rates as well are pretty much confined by
27 competition. Illinois has recently raised its rate from 20
28 percent which was the industry norm, the state norm in the
29 region, to 35 percent over \$1 million. The other states are

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1 watching that very closely, both to see if that affects the
2 industry, whether people start leaving the state. If not, almost
3 certainly they are going to start raising their taxes as well to
4 match it. So the states watch each other very closely. They
5 don't take these decisions in the abstract about what may or may
6 not be good for the state, but they look very closely what the
7 competition from other governments is in the region.

8 I don't know if this is good or bad, it's just
9 unforeseen. The industry in every state as it's turned out is
10 much different from what even the proponents have projected for
11 themselves, and it has expanded from the very small sideline
12 industry into a major industry in each of the states throughout
13 the Midwest overnight and Louisiana and Mississippi. It's even
14 sparked debate over taking another look at land based casinos.
15 We see three casinos about to open in Detroit which again
16 suffered from the same type of competition. Windsor, Canada
17 across the river from Detroit had a casino; Detroit did not.
18 Detroit citizens go there to gamble. The argument is that
19 Detroit needs a casino simply to recover the revenues that it's
20 losing to Ontario.

21 There are two distinct models. It's very
22 interesting. I think this is something the Commission should
23 look at further and I hope they'll do so in Biloxi and New
24 Orleans in September. There are two very distinct models that
25 the states have chosen to regulate this industry. I should point
26 out that the shape of the industry is determined far more by the
27 decisions that the government makes about it than by its own
28 internal competition.

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1 The first model is one of very heavy regulation where
2 the state establishes local monopolies for the casinos or
3 effective local monopolies, spreads those throughout the state,
4 allows a fairly comfortable profit margin and in return for
5 suppressing competition, takes a very high percentage of the
6 profits in taxes, 20 percent and now maybe perhaps up to 35
7 percent in Illinois. That's what every state has done other than
8 Mississippi.

9 Mississippi is the odd man out. It consciously
10 models itself after Nevada, has adopted many of the same laws,
11 tax rates, what have you. And its approach is much more free
12 market. It doesn't have as many barriers to entry. There are no
13 upper limits on the number of casinos in the state as there are
14 in all the other states that have riverboat casinos. It's
15 treated as just another industry, and the results there have been
16 quite surprising. Places like Tunica and Biloxi have almost
17 overnight become major gambling meccas. Mississippi is primed to
18 move away from this day tripping local clientele, regional
19 clientele base into a national clientele. That's very much the
20 goal, certainly on the Gulf Coast and in Tunica where it's a
21 resort destination. That's how Mississippi really has
22 distinguished itself from the pack. It's the number three state
23 in terms of gambling income in the United States. This is
24 Mississippi of all places, and it is on track to become number
25 two, and again very quickly. It's the largest industry in the
26 state. Single companies in the state employ more than the state
27 government. So it has rapidly overnight become a major economic
28 presence in the state.

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1 Clearly the Mississippi model, at least if it's
2 confined to one state, has a far more dramatic economic impact.
3 It's very unclear what the social impact is of allowing such
4 hands off, not entirely hands off, but largely hands off approach
5 to gambling.

6 So what has the impact been from riverboat casinos?
7 There are a number of major issues that I think we're all
8 familiar with. Economic development is certainly the most
9 important one. If you couldn't make the claim that it
10 contributed to economic development, there would be very little
11 pressure for opening up a casino. That differs between the local
12 impact from the state impact. We heard several of the mayors
13 here this morning I think giving very honest and heartfelt
14 presentation about the impact on their communities. It's clear,
15 I haven't come across a single city official who says that it has
16 a negative economic impact on their city. The question is, and I
17 think it's one the mayors alluded to, what is the impact to the
18 neighboring cities.

19 I was surprising at the honesty that it probably
20 isn't all that positive. It may be positive but certainly the
21 benefits such as they are, are very much concentrated in a local
22 area. There's also the impact on the state economy. I know it
23 will shock everyone on this panel that economists tend to
24 disagree over what the actual impact is. I think George Bernard
25 Shaw once said, "If you took every economist in the world and
26 laid them end to end, they wouldn't reach a conclusion." That
27 won't be the case here today. We have a lot of conclusions that
28 are going to be drawn here today, unfortunately all disagree.

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1 Part of the problem is a simple lack of data, what is
2 being measured at the cities, at the region economy, at the
3 economy of the state. There's a big debate in the economic
4 literature, something about the entertainment industry per se,
5 how much value added does it actually give beyond the direct
6 expenditures for salaries and whatnot. Opportunity cost, the so
7 called phenomena of cannibalization where, for example, you have
8 a restaurant in a casino that may be subsidized and it draws
9 patrons away from non-casino restaurants. In the region it looks
10 like there's an increase in employment in the casino restaurant,
11 when in fact it's offset by a decrease perhaps. That's one of
12 the things that people very vehemently disagree on.

13 Government revenues is a factor and its economic
14 benefit, what have you. It's clear that the best strategy for
15 everyone, be it local, regional or government, what have you, the
16 state, whatever, is to get your revenues from people outside of
17 your jurisdiction. That's truly what drives a lot of government
18 decision making I think on siting and regulating these riverboat
19 casinos. Unfortunately that eventually becomes a zero sum game
20 because states aren't dumb and they take measures to counteract
21 that and they end up, while they're targeting citizens in other
22 states, they end up getting most of their money from their in-
23 state citizens so it's a draw, more or less.

24 Crime, a very contentious issue. If you look at the
25 literature the answer is pretty obvious. The impact of casinos
26 on crime is negative; it's positive; or there's no impact at all.
27 There's no real data at all on this subject. I've looked at
28 pretty much all the information I could find and there's no
29 substantive data that I could find that's really worth much of

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1 anything. I talked to local and state officials in each of the
2 affected states and they all say the exact same thing, that we
3 don't collect that information. Nobody asks those questions.
4 There's no way relating either street crimes or white collar
5 crimes to gambling, because the questions are not asked and the
6 data is not asked. Several of them asked me specifically if the
7 Commission could send them letters asking them to collect that
8 data because they don't have the authority to do it themselves.
9 I found that a pretty interesting statement to make, when I see
10 so many authoritative articles written pro and con on the impact
11 of crime in a particular region.

12 And the comparisons to other areas, there's been a
13 lot of studies on Atlantic City. There's one on Indian casinos
14 in Wisconsin, on Deadwood, South Dakota, all these places.
15 They're just not really applicable to riverboat casinos, but
16 nevertheless, it's a fascinating area in which a great deal more
17 study needs to be done.

18 Problem gambling is the one that we're consistently
19 looking at in every area of the gambling industry. The problems
20 are the same here as they are everywhere. What is the prevalence
21 in the population? Hopefully that will be more clear after the
22 prevalence study that the Commission has commissioned comes in.
23 But then comes the real pretentious part of it, what is the cost
24 to society of problem gamblers. The variables in there are
25 enormous in terms of percentages of problem gamblers, however you
26 wish to define it. And then there are economic costs to society;
27 i.e., the costs that you and I pay because of problem gamblers.
28 These order on a scale of magnitude that I rarely have
29 encountered outside of astronomical figures. It's either

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1 bankrupted the entire nation or it has no impact whatsoever.
2 Somewhere in between is the truth but I haven't come across
3 anything in my own review of the literature that gives any reason
4 to believe one set of figures over another, other than if you
5 agree with certain assumptions that are pretty vague to begin
6 with.

7 Then part of it is social values. I'm not making a
8 value judgment here, but I think it is an interesting phenomenon,
9 casino gambling. It has moved into mid-America and it ceased to
10 be an exotic activity and it's becoming much more part of the
11 general culture, certainly within easy access of any adult in the
12 Midwest region and the mid-south region and it's certainly
13 spreading. The economic impact, however difficult it is to
14 determine, is certainly far more visible than the social impact.
15 But the social impact is a very important one, far more difficult
16 to study and that's the one in which virtually no data that I
17 could find exists. It's all pretty much conjecture.

18 I think we can all assume certain things are
19 happening. But to actually point to them and prove them in an
20 objective court would be a very difficult thing to do. In this
21 whole thing I think one thing to remember, since part of the
22 Commission's mandate is to perhaps generate some recommendations,
23 since this is a state activity obviously, is that the states are
24 not independent agents even though they think they are. They are
25 far more often reacting to conditions that they have very little
26 control over, even though they may think they are making
27 decisions for their own citizens than they are simply standing up
28 above it all. I think that a lot of the governments in the

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1 region have begun to pause simply to gain some measure of what is
2 actually going on.

3 They have a commission in Indiana, similar to this
4 one, looking at the state. Iowa has put a five year moratorium
5 on the expansion of gambling, so on and so forth. I think the
6 governments themselves are aware that this industry has expanded
7 so rapidly that even if its effects are entirely positive, nobody
8 really knows what they are. It's for those reasons, because
9 there is no data here. I'll end with this, when I was designing
10 the panels on lotteries in Boston, it seemed that it would be far
11 more interesting to have debate and discussion among people who
12 were in disagreement than it would be simply to have their
13 testimony presented in serial fashion, which I hoped would be the
14 case here. We tried our best to get as many different
15 perspectives, institutional, regional, what have you and
16 certainly balanced. I don't know how many angels can dance on
17 the head of a pin, but I think most of these panels probably
18 balance on one. That represents I think a great deal of effort
19 on all of our parts to make certain that these panels don't just
20 do a pro and a con, but look at the wide variety of facets that
21 each of these issues presents.

22 I've asked the panelists, and I'll remind them now,
23 hopefully to feel free to address each other's remarks if in fact
24 there is some contentious point that they would like to bring out
25 and hopefully do some of the work for you that you will benefit
26 from.

27 CHAIRMAN JAMES: Any quick comments before we move on
28 with our panel? Commissioner Wilhelm.

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1 COMMISSIONER WILHELM: I thank Doug for the efficient
2 and objective job that we've quickly come to expect from him. I
3 do want to make one observation, however, which I think is very
4 important.

5 Your statements about the history and the relative
6 newness of the gambling in the areas that we're talking about
7 today are quite right if viewed through the lens of the issue of
8 legal gambling. I think it's very important to note, however, in
9 going back to the comment made by city manager of Riverside,
10 Missouri earlier, the areas that you're talking about have had
11 gambling, including casino gambling, for many, many decades. For
12 example, Ohio and other states like that were littered with
13 technically illegal but very wide open casinos through the mid-
14 50's. Riverboats in this country had casino style activities,
15 though not slot machines because they basically weren't much in
16 existence yet, throughout the 19th Century and a good part of the
17 20th Century. The Gulf Coast of Mississippi where you
18 talked about the recent emergence of all of these legal casinos,
19 historically was a major gambling destination. Again,
20 technically illegal but wide open. Louisiana, my goodness, the
21 people in Louisiana bet on everything and have for the entire
22 history of the state. So I only want to make the point that
23 while you're right, that legal gambling on a widespread basis,
24 casino style in particular, is new in the venues you've been
25 talking about and the forms you've been talking about, casino
26 gambling as well as other kinds of gambling has existed on a
27 large scale, on a very wide open basis for most of the history of
28 this country in the areas that you're talking about. I think we
29 ought to keep that in mind.

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1 MR. SEAY: I don't disagree with that. I should
2 qualify and say in the modern era, but meaning in the past 30
3 years. I would also point out that there are obviously
4 significant differences, which is not to take issue with any of
5 your points which are well taken, there are going to be obvious
6 differences between an economic impact, social impact, what have
7 you, between illegal and legal gambling, simply because the mere
8 fact that it is illegal will mean that probably the large portion
9 of middle America is not going to participate in it, whereas with
10 legal gambling the surveys show that ultimately a majority of
11 people in the region actually partake of the experience.

12 COMMISSIONER WILHELM: I don't want to be
13 argumentative, Doug, but you'd be hard pressed to justify the
14 statement that average people didn't gamble in large numbers in
15 the states you're talking about over many decades.

16 MR. SEAY: I didn't mean the average. I meant the
17 majority.

18 CHAIRMAN JAMES: Thank you.

19 COMMISSIONER BIBLE: I also would like to compliment
20 you. It's an excellent job. If I could get you to augment it by
21 taking a look at the areas, earmarking activities in Illinois,
22 Indiana --

23 MR. SEAY: You mean for the funds?

24 COMMISSIONER BIBLE: The funds as to how they're
25 earmarked to treat problem gamblers. I noticed in the testimony
26 you presented there's kind of a thread that some of the dollars
27 that are allocated either through admission charges or through
28 taxation on gross revenue, are allocated to treatment for problem
29 gamblers. If you could put together a matrix perhaps for the

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1 four or five states that are involved that would describe those
2 activities and that earmarking.

3 MR. SEAY: I'll be happy to do that. I should also
4 point out that there's several experts in the next panel who can
5 probably speak directly to that.

6 CHAIRMAN JAMES: Doug, again on behalf of the
7 Commission, thank you for that excellent briefing. We really do
8 appreciate it.

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