CHAIRPERSON JAMES: With that, I'd like to open it up for questions from Commissioners and also for interaction among panelists. Commissioner Loescher and then Commissioner Wilhelm.

MR. LOESCHER: Doctor Quinn, I know you're not a state official but you've studied the business in South Carolina, but who derives the benefit from the revenues in South Carolina? Does the state government do that or charities or how?

DR. QUINN: Currently in South Carolina the money that the state gets is derived primarily from the licensing fees and from the state income tax. Now, interestingly enough, I think it's been estimated that approximately $3 billion went into the machines in '97. The state reportedly got $62 million in licensing fees. Currently, it appears that the Department of Revenue, who is charged with oversight of that, has been woefully neglect in numerous ways. The system for accounting for the money coming in is based on an honor system currently. And so it's hard to tell exactly how much money is coming in, but the State of South Carolina is not receiving very much of it.

CHAIRPERSON JAMES: Bill, they need you.

DR. QUINN: Yes, we do. We have no gambling commission. We have no true oversight and in the most recent gubernatorial race the sitting governor who came out strongly against video poker, was defeated by a candidate who was backed
by the industry or at least individuals in the industry and
we're hoping perhaps that this governor will be much more
proactive and that many of our state officials will be much more
proactive but that's yet to be seen.

But the money predominantly goes to the operators,
specifically the five -- I think the largest five operators
control 31 percent of the machines.

MR. LOESCHER: Madam Chair, just one more question
to Mr. Higgins and I appreciate your testimony and your
experiences in the State of Nevada. This concept of total
immersion in gambling in communities and neighborhoods, would
you recommend that to other places in America?

MR. HIGGINS: Commissioner Loescher, my testimony
most certainly dealt specifically with regard to retail gaming
with the State of Nevada. Obviously, as I mentioned, the State
of Nevada has a long history, 40 to 50 years of a lot of these
types of operations and every poll that has been done the last
few years shows an overwhelming majority of the people want to
continue with that type of operation. I don't pretend to know
whether it is the right form of gambling for other states. I
certainly -- as Doctor Quinn states, in South Carolina, he feels
they are woefully inadequate in their regulation.

Obviously one of the keys to the success of it here
in Nevada is the oversight by the Nevada Control Board and
Nevada Gaming Commission and following and adhering to a
specific set of regulations. Now, that said, I am not
advocating that each and every state take this approach and I would not do that. I'm saying for the State of Nevada it works and I believe it would continue to work.

MR. LOESCHER: Thank you, Madam Chairman.

CHAIRPERSON JAMES: Thank you. Mr. Higgins, I want you to know in my tour with the Mayor we went into a facility, she may have shared this story with you, and I was told that I might be visiting and to be expected and if I came to please point out those brochures that went up over the weekend. And so they were very grateful for them and thought that it would be very helpful for some of the individuals that were there and needed that kind of help.

So if our Commission coming to Las Vegas facilitated getting that kind of information out, we are indeed grateful for that.

Commissioner Wilhem?

MR. WILHELM: I appreciate the testimony of this panel and I have an observation to make about a dilemma that I believe this testimony points to, a dilemma for this Commission and I don't know -- this isn't specifically a question but I'd be interested if any of the panel members have any comment on this dilemma that I perceive.

This Commission is supposed to assess the economic and social impact of legal gambling. And I believe it's not an unfair generalization to make that a great deal of the discussion that has taken place in this Commission and its
subcommittees has tended to talk about legal gambling in extremely broad and I think probably to the extent they're not well-defined, maybe slightly misleading categories, lotteries, casino gambling, parimutuels. I think it's very clear when you look at the economic impact that there is a differential economic impact of legal gambling if you look at a spectrum. One end of which is destination resorts and the other end of which is machines in convenience stores or in video poker outlets in South Carolina.

Now, it stops along the way in that spectrum but to try to describe the dilemma that I feel this Commission has, let me look at the opposite end of that spectrum, destination resorts and convenience stores and video poker outlets. I think it's pretty clear and we've had testimony to this Commission and we'll have more, including some this afternoon, that in terms of economic impact, that destination resorts as compared to the other end of that spectrum pretty clearly have a much greater and more positive economic impact. I think destination resorts clearly make a greater contribution to the economy of the place in which they're located, measured by taxes and by a variety of other economic impacts.

I think clearly for a given amount of gaming, destination resorts produce more jobs because they have other job producing amenities. They tend to have more food outlets. They tend to have more entertainment and other amenities that produce jobs. Those jobs in destination resorts tend to be
steadier jobs because generally destination resorts have an economic platform that is sustained enough that people can have steady jobs.

I think by any reasonable set of measurements of what constitutes a good job that the jobs in destination resorts tend to be better jobs than the other end of that spectrum. They tend to have higher wages. We've had testimony on that and we'll have more. They tend to have a greater degree of job security or to read it a different way less turnover. They tend to have better health and retirement benefits. They tend to be better jobs at destination resorts and I think there's a number of reasons for that.

In my own mind there are two primary reasons that jobs tend to be better. One is that some of the economic characteristics of destination resorts that I just mentioned and the other is that destination resorts, when you look around the country, are more likely to be union. So using just those few examples, I think it's pretty clear, in the record that has been established for this Commission, that the economic impact of destination resorts as one end of that spectrum is considerably more positive than the other end of the spectrum of convenience stores and the like.

What I don't believe, however, this Commission -- let me phrase this differently. I fear the Commission is in danger of not having any empirical way to figure out whether there's a differential social impact along that spectrum. You
know, I have my intuition about that but my intuition isn't really worth anything. I have tried in the discussions in the research subcommittee to persuade our research contractors to pay more attention to that spectrum and it's not something that particularly seems to interest them in the research designs.

So I think that the dilemma that -- one of the dilemmas we're going to face when we go to write our report and this is really addressed to my fellow commissioners but as I said, if any of the panel has any thoughts I'd be interested, is I think we're going to have a record that shows pretty definitively that the economic impact, including but not limited to the jobs impact of destination resorts as compared to the other end of that spectrum and as compared to stops along the way too, is more beneficial. But I don't think we're going to know anything empirical about the social impact and I think that's a real problem and I don't know how we get at it.

CHAIRPERSON JAMES: Mayor Jones.

MAYOR JONES: You know, I think there's a couple of observations that need to be made here. Mr. Loescher, you asked the question should convenience gaming be considered in other markets. My answer to that would be a definitive no. And I think it goes back, it's not just a question of economic benefit. It's the observation that it doesn't grow a market, it doesn't provide high paying jobs, it doesn't provide a social benefit. What it provides is a way to generate revenue that otherwise would go for other goods and services.
There was a study that was done and I would note this just because I think it's interesting and I don't know if it gets at the social question that Mr. Wilhelm refers to, but we did a study in the course of our whole analysis on the economic impact of convenience gaming. And I don't profess to be an economist but my husband is. He spent two years in a master's program in economics, five and a half years in a PhD program in economics. His dissertation was on the history of Nevada's gaming regulatory framework. He's taught at the University of Utah, University of Nevada Reno, Weber State College on and on.

He's worked in gaming in the states of New Jersey, Nevada, Mississippi, Minnesota, Louisiana, Wisconsin. He was the chief consultant with most recently the city of Detroit. He's worked as everything from a dice dealer to a CEO and I give that background because I'm going to give his analysis of the study for which I think he's well-qualified. He said the economic projections were based on a faulty asymmetric model that could prove that everyone should smoke because it would create an economic miracle by generating jobs for morticians, cemeteries and the maker of iron lungs.

You know, you can make a case for generating revenue but one of the most fascinating elements of the study is the suggestion that there could be material benefit to consumers in the form of price relief, a social benefit that somehow these machines would reduce the cost. You have to note that in a
random sampling of 25 grocery items provided in two stores, one
that provided slots and one that did not, the price difference
was zero. In fact, the 25 items had the identical price.

Furthermore, in a sampling of eight convenience
stores in gaming and non-gaming environments between Las Vegas
and Boulder City, Boulder City does not have gaming, the price
differential was less than three percent. So if you're looking
for a social benefit in that it provides less expensive
groceries, that impact is not true. Walgreens has just come
into our market. They chose on their own not to offer slot
machines and, in fact, their pricing structure is the same.

So looking at the issue of convenience gaming and
again, I'm talking about this going forward, you have to ask
yourself the question, is there any reason? Does it create high
paying jobs? Does it provide a benefit to the people living in
the neighborhoods. Does it have a positive economic impact? I
think Doctor Quinn made it very clear, they don't even know if
they have any economic impact at all, which is rather a
frightening thought.

I think with casino gaming in resort districts you
could very clearly make the case that it stimulates an economy,
that it has high paying jobs with benefits, with pensions, with
retirements, that it can allow a community to keep a low tax
environment and provide for itself, but I don't think you can
answer many of those questions in the positive looking forward
in other jurisdictions when you ask that of convenience gaming.
DR. QUINN: I have two comments from our study that might have some impact on that. One was slightly over 90 percent of the people we interviewed who were players were residents of South Carolina. Now, I can't give you a breakdown on the roughly 10 percent who were from out of state, whether they were tourists coming into the state or people who came over from Georgia or North Carolina or someone from Ohio who had a condo at Myrtle Beach, but I can assure you this; if 90 percent of the people in the casino out here were from Las Vegas, they would be closed. They would not be able to operate. You would not be able to sustain it just on your own local economy.

Another point that I think bears looking at is our information also indicated there were some specific groups; particularly minorities and lower income groups, that I do not believe would be likely candidates to travel to Las Vegas or Atlantic City or some of the destination gambling centers who actually form higher percentage groups of the sample that we took and these would be people who most likely would not be engaging in that form of gambling. Now, they may conceivably be involved in sports betting or we have people who bet on dog fights and cock fights and things like that but they would not be engaged in this kind of gambling because they couldn't travel to a destination and if there were not convenience gambling there, that part wouldn't take part in it.

It's also been mentioned the -- just the money spent on the infrastructure, the money spent on building and those
kind of things used to not exist with purely the convenience form of gambling. Why would someone build a $2 billion building to put five video poker machines in, particular if he's reporting that he's only making $21,000.00 per machine a year. You know, that would not happen. So I think those are some of the specific social and economic impact issues that we can point to.

Also approximately 3.5 percent of the people we interviewed said that they had contemplated suicide specifically because of video poker. Now, if you took a random sampling of just men on the street, I'm sorry, people on the street, ladies and men, the percentage actually might be higher. If you just said, "How many of you ever contemplated suicide," you might get 15 or 20 percent, but if you asked them, "How many of you have ever contemplated suicide for one specific reason," then that 5.3 percent all of a sudden becomes a very high number and those would be some of the things I think you'd consider in terms of social impact.

CHAIRPERSON JAMES: Commissioner McCarthy and then Commissioner Dobson.

MR. MCCARTHY: I have some questions first for Mr. Higgins and then for Doctor Quinn. Mr. Higgins, how many --

CHAIRPERSON JAMES: Leo, can I ask you to get a little closer to the mike?

MR. MCCARTHY: Thank you. How many retail/convenience outlets are there in the State of Nevada?
MR. HIGGINS: I do not have an answer to that.

MR. McCARTHY: You said approximately nine percent of all the slot machines, video poker machines and so on.

MR. HIGGINS: That's correct.

MR. McCARTHY: You don't know how many -- you made the statement that Nevada operates by far and I'm quoting, "the largest and most varied number of retail gaming locations in the country".

MR. HIGGINS: That's correct.

MR. McCARTHY: We've heard from Doctor Quinn that they have 7600 retail outlets in South Carolina.

MR. HIGGINS: Well, I was misquoted or I was mistaken because I don't believe we have 7600 retail establishments here in the State of Nevada.

MR. McCARTHY: Do you have a rough idea of how many you do have?

MR. HIGGINS: I would, a rough idea of 2,000 or so approximately.

MR. McCARTHY: Okay, what percentage --

MR. BIBLE: You have about -- there's about 2400 including bars.

MR. McCARTHY: 2400 that are bars?

CHAIRPERSON JAMES: Including bars.

MR. BIBLE: Including bars.

MR. McCARTHY: Is that the total number?

MR. BIBLE: That would be the total number.
Mr. McCarthy: Thank you very much. What percentage of patrons in those 2400 retail/convenience outlets are Nevada residents?

Mr. Higgins: I would say the vast majority of those are Nevada residents.

Mr. McCarthy: 90 percent?

Mr. Higgins: In excess probably, yes.

Mr. McCarthy: In excess of 90 percent?

Mr. Higgins: Yes.

Mr. McCarthy: Okay. What were the total revenues for all forms of business in those 2400 outlets?

Mr. Higgins: We are not privy to all those numbers. We have private companies as well as public companies and those numbers are not provided.

Mr. McCarthy: Are those numbers submitted to the Nevada State Gambling Board?

Mr. Bible: You're talking about revenues total for the entire operation?

Mr. McCarthy: Yes, total revenues.

Mr. Bible: No, that would not be available nor in some cases would the revenues from the gaming devices because in the restricted locations they're not --

Mr. McCarthy: That was my next question. Do you have the numbers, the aggregate numbers now, from just the gambling devices themselves? You operate almost 20,000.

Mr. Higgins: That's correct.
MR. McCARTHY: What is the gross revenue from the gambling devices themselves in those 2400 outlets?

MR. HIGGINS: Again, we have a variety of companies who -- some of which are private and will not submit numbers. Other ones are public and those are certainly public information. You can get those on any publicly trading company. However, there are certainly numerous companies that are not, and therefore, that information is not provided.

MR. McCARTHY: Do they have to report that to the state commission?

MR. BIBLE: They do, they do. They do report revenue data.

MR. McCARTHY: All right, so the state commission would have the gross revenue number for the 2400 outlets.

MR. BIBLE: They would, they would.

MR. McCARTHY: Thank you. Do you have any information that tells us what the revenue is from other products other than gambling machines in those 2400 outlets? I'm hearing the term "neighborhood convenience store" and that conveys a certain impression if they go in there for other things, food, whatever, do you have any numbers that would help us -- outside of drinks and machines, can you give us any help on the revenues, the living earned from the same of other products?

MR. HIGGINS: My other job is working for a company called Herbst Oil Company and we operate approximately 60
convenience stores in the State of Nevada, California and Arizona. Once again, that is a private company and those numbers are not public information and I would not be at liberty to discuss those in front of a public body.

MR. McCARTHY: Okay. You made the statement toward the end of your testimony, "I believe I should be able to point to at least one incident if not several where retail gambling had a deterious effect on some of those individuals," meaning problem/pathological gamblers.

MR. HIGGINS: I think you mistook my quote. I said, "My family members, peers, people I knew and associated with on a regular basis over 30 years of my life spent here in Nevada".

MR. McCARTHY: Oh, okay, so your closest friends and family members are not problem or pathological gamblers. You're not addressing the patrons that come into those 2400 outlets.

MR. HIGGINS: No, I'm addressing more than my close friends. I'm addressing people -- most people I know and deal with on a regular basis whether it be in business or otherwise in the state.

MR. McCARTHY: My question then is what steps have you or these 2400 outlets or however many of them are joined together as a trade association, what steps have you taken to try to interview or survey, you know, with a professional organization the patrons that gamble in those 24 (sic) outlets to try to define whether or not they are problem or pathological gamblers?
MR. HIGGINS: I don't believe any such study has been conducted by any member of the Retail Gaming Association nor any individual at this time. Obviously, we did take steps prior to any regulatory requirements to provide information to those individuals in the form of brochure I see you have in your hand and the 1-800 number.

MR. McCARTHY: Thank you. Incidentally, I think that --

CHAIRPERSON JAMES: Commissioner McCarthy, I'm going to have to in the interest of time cut you off --

MR. McCARTHY: Thank you. I think this is -- the material in this brochure is pretty good. It's better than others that I've seen around the country. I don't know how many people are actually going to pick up this brochure and read it. I'd like to see it in big print in signs on the wall, maybe that would help, a gratuitous comment.

Doctor Quinn, very briefly, have you given this Commission a copy of your survey?

CHAIRPERSON JAMES: Excuse me, Mr. McCarthy, in the interest of time and I want to get to Commissioner Dobson, because he had his hand up before we go to our lunch break and we will have the opportunity during the break if you'd like to discuss this further with the panelists.

Commissioner Dobson.

DR. DOBSON: So there, Leo.

(Laughter)
DR. DOBSON: Mr. Higgins, you made the case for the fact that in your view those who are compulsive gamblers, those who have either pathologically addicted or at least have a problem with gambling are going to find a way to gamble, and that may or may not be true. I'm not sure from my perspective but the larger question is, how did they get that way, not what happens after they are there. But the issue of proximity and availability is, I would think, very relevant to that issue of how they got there, especially with regard to the young, which is my greatest concern.

Let me go back to my good friend, Commissioner Wilhelm's comments. It's always a pleasure to be able to agree with him on anything and we find ourselves in total agreement with what you said. Having sat here through these hearings for whatever it is, 15, 17 months by now, I have drawn the conclusion that I didn't understand when we started that there are some forms of gambling that appear to be more harmful than others and this one appears to me, convenience gamble, to be at the top of the list or very close to it because of that proximity and availability of especially young people not being able to avoid it. It's in their faces. And the concern I have is what are we going to do to flesh that out because our money for research is almost gone.

And I would like to make that a matter of the Commission's work when we leave here to talk about what we can
do to deal with that issue because I feel like it's one of the most important things before us.

MR. HIGGINS: Could I address that issue?

CHAIRPERSON JAMES: Thank you, yes, you may, Mr. Higgins.

MR. HIGGINS: The operators here in Nevada are members of the Retail Gaming Association, first off, do we operate in convenience stores and grocery stores and those locations? Certainly. Do those locations have children who come in them? Most certainly again. Do those locations cater to children and I will take issue with the panel and Mayor Jones on this issue. I would disagree wholeheartedly that we cater to children.

Children certainly are part of the clientele in the location. However, pursuant to Nevada regulations, no operator of any one of those locations is going to promote gaming for anyone under the age of 21 for several reasons. In my opinion, one for responsibility; two, you've got a fear of a regulatory backlash and losing your gaming license and obviously, that's something that's valuable to people here in the State of Nevada.

Just as I don't believe we promote gambling to pathological gamblers, I don't believe the convenience, as you put it, gaming segment does market to children. Are there games in those locations? Certainly, and as I've stated, I give my personal experience is that I've seen those my whole life and I don't feel that they do provide any impetus to gamble. Once
again, you talk about proximity. Proximity certainly may have an effect on pathological gambling. However, if you close every convenience outlet here in the State of Nevada, do you honestly believe that the person is not going to drive the extra three or four to five minutes to go to another location if he or she is a pathological gambler?

I would take issue with you if you said that you didn't believe that would happen either. Now, if there's no gaming in their jurisdiction, I believe that may be the case.

CHAIRPERSON JAMES: Thank you, Mr. Higgins.

DR. QUINN: Can I comment on that very quickly?

CHAIRPERSON JAMES: Yeah, very quickly.

DR. QUINN: The reason I have to comment on that is this applies, perhaps, to Nevada but not South Carolina. In South Carolina we have a very unusual law that anyone can play video poker. There is not an age limit. There is an age limit on who can collect the winnings. So an individual seven years old can play video poker but he can only collect the winnings if he's over 21.

The lowest payoff machine we found in the entire state was in a bowling alley, segregated from the machines down by the bar where the parents played, over by the Pac Man machines where the kids played and I do not believe that that occurred by accident.

CHAIRPERSON JAMES: Thank you, Doctor Quinn.
DR. DOBSON: I now have something even higher on my list of --

CHAIRPERSON JAMES: I want to thank each of you for being here this morning and sharing your insights with the panel, with the Commission. I would encourage you to stay in touch with the Commission. There's information that we may need from you. Any additional information that you'd like to share we would be happy to receive.

With that, we're going to stand in recess for lunch until 12:50. Thank you.