CHAIRMAN JAMES: Mr. McCormick?

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

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

We recognize there's 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 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 data because we've asked our clients to report any loss from gambling regardless of the amount lost.

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

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

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

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

The experiences of these three couples demonstrate
that people from varying backgrounds and all walks of life can
quickly succumb to a gambling addiction. The first couple I'd
like to discuss is from Bay Minette, Alabama, which is about one
and one-half hours from here.
We'll call this couple Bill and Wilma.

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

Usually when a couple enters my office and it is
revealed that there are large gambling losses, it was one spouse
responsible for the losses. When Bill and Wilma retained our
firm to file a bankruptcy proceeding on their behalf, I
discovered they had lost $2,000 from gambling just ten days
before.
The reason for this last gambling spree was that they had received a final demand letter from one of their credit card companies, threatening to sue if they did not immediately pay $10,000. Their theory was that they would give the casinos one last try in an attempt to raise the required funds.

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

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

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

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

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

Chapter 13 allows a consumer debtor to pay back secured creditors and a percentage of their unsecured debts,
depending on their disposable income, over a period of 36 to 60 months.

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

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

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

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

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

George was a retired executive. He and his wife were very sophisticated people who were used to being in control and
feeling smarter than others. They had become accustomed to an expensive lifestyle over the years. Their spending failed to slow down when George retired.

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

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

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

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

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

The final couple I'd like to discuss is Jim and Angel who are residents of Ocean Springs, Mississippi. This couple's
story is another example of how sophisticated, upper middle-class people can destroy their finances and credit history in a relatively short period of time.

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

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

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

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

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

First, as a Christian, I am morally opposed to an industry that makes its profits by preying on those with little
self-control. The whole concept of legalized gambling is morally
demeaning.

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

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

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

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

But unlike those steel workers who depended on those
jobs for 20 or 30 years, those employed by the casino industry
are clinging to a false hope. There is tremendous turnover in
the industry and it will only become worse as experienced dealers
and other casino veterans move to the Coast to meet the demand.
Third, in the summer of '97 before we opened an office in Biloxi, I visited the Grand Casino in Gulfport because I'd never seen the inside of a casino.

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

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

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

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

Both drug arrests and DUI arrests are down from their 5-year highs in '96 but still up 49 percent and 187 percent, respectively, since '93. 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 is that the casinos should help coordinate a joint effort with the Visitors Bureau, Chamber of Commerce and tourism entities to educate visitors that the casino should be seen as a form of entertainment 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'm 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.

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 the 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 percent seems a ridiculously low level of tax on casino revenues when you consider the social costs brought on by the casinos, the current state of our public education system and the conditions of our roads and sidewalks in downtown Biloxi.
If we accept the fact that casinos are here to stay, then I think most residents would agree that instead of the profits being siphoned out of state, the casino should make good on their promise and contribute more to the local economy.

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

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