CHAIRMAN JAMES: I'm going to ask the Commissioners to please take their seats and the audience to come back in.

Commissioners, I'm sure you remember Doug Seay of the Commission staff who so ably briefed us on lotteries in Boston. And today Doug has prepared a briefing on riverboat casinos.

Doug, we thank you for your hard work on this particular paper. I remind the Commissioners that they can find it behind tab nine in their briefing books. With that, Doug.

MR. SEAY: Thank you very much. I can't help notice that I was given 30 minutes in Boston and now I'm given 15. I think the implication is pretty obvious.

CHAIRMAN JAMES: You did so well.

MR. SEAY: That you want me to speak twice as quickly is the implication.

This is about riverboat casinos. This is more than simply obviously casinos on boats. I think there are three reasons why this subject is significant.

The first is that this is the form in which casinos have come to mid-America. Previously casinos were thought of as something sort of alien, certainly nothing you put into a small town, and yet that's sort of the basic venue for most of these boats. Previously Las Vegas and all of its exotic nature, in far away deserts, what have you, safely protecting the citizenry for casinos was if you wanted casino entertainment you got on a plane and you went to Las Vegas. Even after Atlantic City opened it didn't really change that all that much. It expanded the market somewhat on the East Coast but for mid-America still casinos were
a pretty exotic idea and now that is dramatically changed due to largely the riverboat casinos.

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

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

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

Second is that almost all the work done has been done by people who were either pro or anti riverboat casinos. They're done for a specific purpose. No matter how credible they may in
fact be, the mere fact that they have been generated by one of these sources has to make someone who is trying to come to an objective judgment somewhat wary of relying upon them entirely.

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

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

Riverboats were supposed to be a very small part of this. In fact, they were thought of as a way to save the riverboats, rather than vice versa. Riverboats weren't thought of as platforms for casinos as much as the opposite. And because of this original conception, they were very heavily restricted. There were wagering limits, overall loss limits per day. There were cruising restrictions, meaning the boats had to actually leave the dock. You could not get on or off I think it was every two hours. There were a number of other restrictions as well. Even the space allowed on riverboats for casinos was limited. Other types of entertainment on the riverboat had to be provided for those who didn't want to gamble, so on and so forth. So it was a very small part of this economic development plan.
But then an unexpected dynamic emerged which was the riverboat phenomenon began spreading throughout the Midwest. It quickly caught on in Illinois which opened its own riverboats across the river from Iowa's in the fall of that same year and then to Missouri and Indiana and so forth. Later on to Louisiana and Mississippi.

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

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

But then the idea becomes, well, we can play the same game towards those neighboring states that don't have riverboat
casinos. We'll put them on our borders. If you look at the map that I passed out, it's very interesting. If you look at the pattern where these riverboats are sited, they're almost always sited on the borders of the states. That's not simply because that's where the rivers are, because the whole idea is to tap into the citizens of other states. If you're a budgetary officer, that's what you want. You want people from other states paying taxes to your treasury. And state after state after state is doing this, and that sets up a dynamic which is pretty clear, which is those states that are affected then themselves have to debate do we have to institute casinos simply to protect ourselves from these, quote, unquote, "raids." This is the term that is used by the people in the industry.

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

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

Another type of this interstate competition, this dynamic of interstate competition among the governments, not among the industry, but among the governments also undermines
efforts by the states to regulate the industry. Any restrictions that are placed upon the riverboat such as loss limits or mandatory cruising times or any other type of restriction you wish to talk about, it's inevitable the industry will go to the regulators and legislators and say this forces us to be uncompetitive. We're losing money; the state is losing money. We need to be at least equal to the state across the river. Time and again that has lead to the repeal of restrictions that were originally there.

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

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

The tax rates as well are pretty much confined by competition. Illinois has recently raised its rate from 20 percent which was the industry norm, the state norm in the region, to 35 percent over $1 million. The other states are
watching that very closely, both to see if that affects the
industry, whether people start leaving the state. If not, almost
certainly they are going to start raising their taxes as well to
match it. So the states watch each other very closely. They
don't take these decisions in the abstract about what may or may
not be good for the state, but they look very closely what the
competition from other governments is in the region.

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

There are two distinct models. It's very
interesting. I think this is something the Commission should
look at further and I hope they'll do so in Biloxi and New
Orleans in September. There are two very distinct models that
the states have chosen to regulate this industry. I should point
out that the shape of the industry is determined far more by the
decisions that the government makes about it than by its own
internal competition.
The first model is one of very heavy regulation where the state establishes local monopolies for the casinos or effective local monopolies, spreads those throughout the state, allows a fairly comfortable profit margin and in return for suppressing competition, takes a very high percentage of the profits in taxes, 20 percent and now maybe perhaps up to 35 percent in Illinois. That's what every state has done other than Mississippi.

Mississippi is the odd man out. It consciously models itself after Nevada, has adopted many of the same laws, tax rates, what have you. And its approach is much more free market. It doesn't have as many barriers to entry. There are no upper limits on the number of casinos in the state as there are in all the other states that have riverboat casinos. It's treated as just another industry, and the results there have been quite surprising. Places like Tunica and Biloxi have almost overnight become major gambling meccas. Mississippi is primed to move away from this day tripping local clientele, regional clientele base into a national clientele. That's very much the goal, certainly on the Gulf Coast and in Tunica where it's a resort destination. That's how Mississippi really has distinguished itself from the pack. It's the number three state in terms of gambling income in the United States. This is Mississippi of all places, and it is on track to become number two, and again very quickly. It's the largest industry in the state. Single companies in the state employ more than the state government. So it has rapidly overnight become a major economic presence in the state.
Clearly the Mississippi model, at least if it's confined to one state, has a far more dramatic economic impact. It's very unclear what the social impact is of allowing such hands off, not entirely hands off, but largely hands off approach to gambling.

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

I was surprising at the honesty that it probably isn't all that positive. It may be positive but certainly the benefits such as they are, are very much concentrated in a local area. There's also the impact on the state economy. I know it will shock everyone on this panel that economists tend to disagree over what the actual impact is. I think George Bernard Shaw once said, "If you took every economist in the world and laid them end to end, they wouldn't reach a conclusion." That won't be the case here today. We have a lot of conclusions that are going to be drawn here today, unfortunately all disagree.
Part of the problem is a simple lack of data, what is being measured at the cities, at the region economy, at the economy of the state. There's a big debate in the economic literature, something about the entertainment industry per se, how much value added does it actually give beyond the direct expenditures for salaries and whatnot. Opportunity cost, the so-called phenomena of cannibalization where, for example, you have a restaurant in a casino that may be subsidized and it draws patrons away from non-casino restaurants. In the region it looks like there's an increase in employment in the casino restaurant, when in fact it's offset by a decrease perhaps. That's one of the things that people very vehemently disagree on.

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

Crime, a very contentious issue. If you look at the literature the answer is pretty obvious. The impact of casinos on crime is negative; it's positive; or there's no impact at all. There's no real data at all on this subject. I've looked at pretty much all the information I could find and there's no substantive data that I could find that's really worth much of
anything. I talked to local and state officials in each of the affected states and they all say the exact same thing, that we don't collect that information. Nobody asks those questions. There's no way relating either street crimes or white collar crimes to gambling, because the questions are not asked and the data is not asked. Several of them asked me specifically if the Commission could send them letters asking them to collect that data because they don't have the authority to do it themselves. I found that a pretty interesting statement to make, when I see so many authoritative articles written pro and con on the impact of crime in a particular region.

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

Problem gambling is the one that we're consistently looking at in every area of the gambling industry. The problems are the same here as they are everywhere. What is the prevalence in the population? Hopefully that will be more clear after the prevalence study that the Commission has commissioned comes in. But then comes the real pretentious part of it, what is the cost to society of problem gamblers. The variables in there are enormous in terms of percentages of problem gamblers, however you wish to define it. And then there are economic costs to society; i.e., the costs that you and I pay because of problem gamblers. These order on a scale of magnitude that I rarely have encountered outside of astronomical figures. It's either
bankrupted the entire nation or it has no impact whatsoever. Somewhere in between is the truth but I haven't come across anything in my own review of the literature that gives any reason to believe one set of figures over another, other than if you agree with certain assumptions that are pretty vague to begin with.

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

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

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

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

CHAIRMAN JAMES: Any quick comments before we move on with our panel? Commissioner Wilhelm.
COMMISSIONER WILHELM: I thank Doug for the efficient and objective job that we've quickly come to expect from him. I do want to make one observation, however, which I think is very important.

Your statements about the history and the relative newness of the gambling in the areas that we're talking about today are quite right if viewed through the lens of the issue of legal gambling. I think it's very important to note, however, in going back to the comment made by city manager of Riverside, Missouri earlier, the areas that you're talking about have had gambling, including casino gambling, for many, many decades. For example, Ohio and other states like that were littered with technically illegal but very wide open casinos through the mid-50's. Riverboats in this country had casino style activities, though not slot machines because they basically weren't much in existence yet, throughout the 19th Century and a good part of the 20th Century. The Gulf Coast of Mississippi where you talked about the recent emergence of all of these legal casinos, historically was a major gambling destination. Again, technically illegal but wide open. Louisiana, my goodness, the people in Louisiana bet on everything and have for the entire history of the state. So I only want to make the point that while you're right, that legal gambling on a widespread basis, casino style in particular, is new in the venues you've been talking about and the forms you've been talking about, casino gambling as well as other kinds of gambling has existed on a large scale, on a very wide open basis for most of the history of this country in the areas that you're talking about. I think we ought to keep that in mind.
MR. SEAY: I don't disagree with that. I should qualify and say in the modern era, but meaning in the past 30 years. I would also point out that there are obviously significant differences, which is not to take issue with any of your points which are well taken, there are going to be obvious differences between an economic impact, social impact, what have you, between illegal and legal gambling, simply because the mere fact that it is illegal will mean that probably the large portion of middle America is not going to participate in it, whereas with legal gambling the surveys show that ultimately a majority of people in the region actually partake of the experience.

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

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

CHAIRMAN JAMES: Thank you.

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

MR. SEAY: You mean for the funds?

COMMISSIONER BIBLE: The funds as to how they're earmarked to treat problem gamblers. I noticed in the testimony you presented there's kind of a thread that some of the dollars that are allocated either through admission charges or through taxation on gross revenue, are allocated to treatment for problem gamblers. If you could put together a matrix perhaps for the
four or five states that are involved that would describe those
activities and that earmarking.

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

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