MR. DON PHARES, PROFESSOR OF ECONOMICS AND PUBLIC POLICY,

UNIVERSITY OF MISSOURI

CHAIRMAN JAMES: Mr. Phares.

MR. PHARES: I appreciate the opportunity to be here. Being an academic, we have a tendency to wander and get off on tangents. I will try to be as brief and succinct as possible, albeit I may talk a little faster than normal.

A little bit of background on the study. Our study was commissioned by the CEOs of the 28 largest corporations in St. Louis, a group called Civic Progress; Anhauser Busch, Emerson Electric, et cetera. It was not an industry based study. Basically we went in and were asked, what is the economic impact of gaming of Missouri, period. We were given a budget and we went off and did the study with no directions from anyone.

The results of the study are probably unique to Missouri. I would not suggest that they're generalizable in specifics to other states. I mentioned, our study was done statewide. It was not done for each of the local venues and then added together. That would introduce a great deal of double and triple counting. Rather, it was done on a statewide basis and it looks at the economic impact of gaming in the state of Missouri.

The methodology was fairly straight forward. I won't go into that. I'll just mention that we looked at the direct effect of spending as a result of gaming in Missouri, casino gaming. We looked at the indirect impact and obviously took into account the various multipliers that apply to the direct impact. We did our analysis on a very detailed basis, looking at not major industrial sectors, but looking at in fact 528 different
sectors. We didn't use all of those but when we took our spending categories, we took multipliers applicable to different types of spending which can have rather widely different multipliers.

The multiplier question is an interesting one, because the range in multipliers is fairly substantial. You can go from zero, and some studies have even indicated negative multipliers, up to a full impact multiplier which would be on the order of something around two. We felt that the reality fell somewhere in between. Our study suggests that the true multiplier was about .94 for casino receipts and 97 of $808 million.

Some of the key aspects of the study. The data that we used for spending was not taken from pro forma reports. It was not taken from the Missouri Gaming Commission. It was taken from a survey that we sent to each of the venues asking for detailed information on what they spent their money on. So it was a little bit of unique input, not using data that was second or third hand. It was primary data.

We measured the so called displacement effect. That is, what kinds of spending does spending on gaming displace, which is an interesting issue and it's a key issue. We felt that it was pivotal not to simply go in and say spending times two and that's it. But rather it's spending adjusted for the displacement effect and then applying the appropriate multiplier. We actually found that for 1997 the displacement effect, direct and indirect, was almost $700 million. So it was substantial.

The estimates for '97 lead to increases in output after adjusting for the displacement effect of about 760 million. This would be business spending. Increases in income of about
508 million and almost 18,000 jobs. We factored into this, and one of the problems with this kind of analysis is how do you deal with the issue of capital construction that occurs over one or two years. What we did basically was used a methodology for annualizing that so we could add that onto the ongoing expenses to include the capital expenses as an ongoing. So we didn't lump the whole thing in one year but rather looked at over a life of 20 years.

A little bit of profile on Missouri gaming, just to go through quickly. This is contained in the report that I believe you have in front of you. Largest single age 51 to 65, about 36 percent, mostly Caucasian, 84 percent. Slightly more females than males, 53 percent. 44 percent had some college, all the way through graduate degrees. 86 percent were high school graduates or above. 20 percent were professional/executive. 19 percent was skilled labor; 32 percent were retired.

Annual income. 89 percent had incomes about 20,000 and this surprised us a bit, 50 percent had incomes above 50,000. This is family income. The majority of the visits were one to five per year. We looked at it on an annual basis. 34 percent indicated that they visited one to five times. 44 percent gambled for two hours. The cruise in Missouri is two hours, so once you're on the boat, I guess you're technically classified as being there for two hours.

We also asked them what their gaming budget was used for. The most commonly played game was slots, 64 percent. Most common bet was the quarter slots, 45 percent. We asked them did they set a budget. 74 percent yes, they did set a budget before going. 67 percent indicated that that budget was $50 or less.
So if you take 67 percent of the 74 percent who set a budget, we have about 50 percent who indicated that they set a budget of $50 or less.

What would Missouri casino patrons have done more often without Missouri casinos? 40 percent would have gone to out of state casinos. So this income was brought into the state of Missouri that had previously been lost. 24 percent would have bought more lottery tickets. 15 percent would have gone to horse or dog tracks out of state. Eight percent would have spent more on bingo. And then theatre and concerts, ten percent; more vacation, eight percent; restaurant visits, six percent. It gives you sort of a profile of the Missouri gamer.

Turning from the direct impacts, the economics that I've talked about, let me make a few comments on some of the social impacts. Clearly it's come up before this session and it's obviously going to come up during this afternoon and clearly will come up tomorrow morning. They're very hard to measure. This I think becomes quite clear.

Missouri, when we did this study, was new and evolving. We have actually added several venues. So when we started in '95 the gaming industry in Missouri was clearly in a state of flux. They have since added a variety of venues. To date there has not been a study done on the social impacts that I'm aware of at least and I am surely up to date on most of the studies of gaming in Missouri, of the social cost of gaming in Missouri. It's very difficult to say that the findings in other states can apply to Missouri. I've seen indications from 1.7 percent of the population of cost per gamer being something under
5,000 to being something in excess of 60, 70,000. There's a huge range here that clearly needs to be addressed. I don't think we have the answer in general. We clearly did not have the answer in specific for Missouri.

To the extent that social costs do exist, they do have an impact. But I think that impact must be based on sound and empirical fact and methodology and not on guesses or some kind of an ideological stance. So I argue very strongly that to the extent that this Commission can encourage hard studies to be done using data, surveys and so forth, this clearly would lend a lot of credence to the debate that is taking place.

We did look at some of the social aspects of gaming in Missouri. Criminal activity, as was mentioned earlier. In none of the communities in which the gaming venues were located did we find any indication that there was any change in criminal activity, so to the extent that we did talk with every community and public officials in every venue.

Infrastructure needs for the support of venues is entirely done by the venue. That is, the venue commits to making the appropriate infrastructure and putting it in place before they come in. That's part of their package. It's not part of the package for the home dock city. Induced demand for more public services, particularly police and fire, I should note that in Missouri the full enforcement costs are borne by the venues; that is, they pay something upwards of about $10 million a year for the cost of the highway patrol to be on the venues and provide the enforcement that is necessary for the venues themselves.
Is there some additional cost for the home dock cities in terms of additional fire and additional police? Yes. Did we find that it was substantial? No, we did not. Public subsidies would be another aspect of the social cost. Do these boats, through these venues, get subsidized by public funds that could go to other purposes? In Missouri, the venues do not receive any public subsidies, for example, TIFs. TIFs are now a major point of controversy in Missouri and in the St. Louis area. Everybody wants a TIF for virtually everything. Statutorily, and I have some of the statutes with me, gaming venues are not permitted to take advantage of many of the kinds of subsidies that many other businesses coming into the state of Missouri would be able to take advantage of.

Problem gamers, obviously an issue which is worth consideration. Let me just mention a couple of points. One, as I said earlier, we don't really have a handle on that in Missouri. Is it something that needs to be done? Yes. We did not do it in part because the industry was in a state of flux. The first point I would raise is, if you have 1.7 percent of your population that's a problem gamer, what's the problem? Is it riverboat? Is it lotteries? Church bingo? Is it sports or is it someone who will bet on anything no matter what the situation? I think you need to differentiate between different types of problem gamers and what their problem is.

The second point I'd like to make is Missouri does have in place programs that deal with the problem gaming issue. They have an 888 number. I guess they've run out of 800 numbers. 888-BETS OFF, where you can call and get counseling. This started in January of '95. You get up to 20 hours of counseling...
by a trained counselor in gaming addiction, as long as your insurance does not cover this, it's free, no charge. If you need more than 20, you can come back and get more than 20 hours. To date, out of 22 million admissions, 150 people have taken advantage of this program. They also have a Missouri program whereby people can put themselves on a list that excludes them from being permitted on the venue. There are 300 people on the list in the various venues in the state of Missouri as of present.

Let me in closing indicate how the gaming venue funds in terms of taxes are used in Missouri. All state funds from gaming, this is not only riverboat gaming but constitutionally riverboat, lottery and bingo, all funds in Missouri are earmarked for education, K through 12 and higher education. They're constitutionally earmarked for gaming, they are statutorily appropriated on a year by year basis. So whether it goes to K through 12 or higher is determined by the legislature, but it must go into either K through 12 or higher education.

The 18 percent tax that the state receives from gaming at present accounts for about ten percent of the school foundation formula, and in the most recent year it accounted for almost 50 percent of the new money that went into the school foundation fund. The one dollar admission fee is used to support the Missouri Gaming Commission. That's about 30 percent. The other 70 percent goes into the so called veterans capital improvement fund which is a fund earmarked for improvement of facilities for veterans.

Local funds, they receive two percent, total tax is 20, 18 percent state, two percent local that goes to the home
dock city and then the one dollar admission fee, $2 is split, one
dollar state, one dollar local. It's pretty much used at the
discretion of the locality. In surveying the various localities
what we found is that virtually none of them had built this into
the operating budget, but rather they were using this money on
capital expenditures, one time expenditures to improve roads or
to improve other things that were necessary in that particular
community.

Thank you.

CHAIRMAN JAMES: Thank you.