

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

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

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

22 CHAIRPERSON JAMES: Bill, they need you.

23 DR. QUINN: Yes, we do. We have no gambling  
24 commission. We have no true oversight and in the most recent  
25 gubernatorial race the sitting governor who came out strongly  
26 against video poker, was defeated by a candidate who was backed

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1 by the industry or at least individuals in the industry and  
2 we're hoping perhaps that this governor will be much more  
3 proactive and that many of our state officials will be much more  
4 proactive but that's yet to be seen.

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

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

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

23 Obviously one of the keys to the success of it here  
24 in Nevada is the oversight by the Nevada Control Board and  
25 Nevada Gaming Commission and following and adhering to a  
26 specific set of regulations. Now, that said, I am not

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1 advocating that each and every state take this approach and I  
2 would not do that. I'm saying for the State of Nevada it works  
3 and I believe it would continue to work.

4 MR. LOESCHER: Thank you, Madam Chairman.

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

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

16 Commissioner Wilhem?

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

23 This Commission is supposed to assess the economic  
24 and social impact of legal gambling. And I believe it's not an  
25 unfair generalization to make that a great deal of the  
26 discussion that has taken place in this Commission and its

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1 subcommittees has tended to talk about legal gambling in  
2 extremely broad and I think probably to the extent they're not  
3 well-defined, maybe slightly misleading categories, lotteries,  
4 casino gambling, parimutuels. I think it's very clear when you  
5 look at the economic impact that there is a differential  
6 economic impact of legal gambling if you look at a spectrum.  
7 One end of which is destination resorts and the other end of  
8 which is machines in convenience stores or in video poker  
9 outlets in South Carolina.

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

22 I think clearly for a given amount of gaming,  
23 destination resorts produce more jobs because they have other  
24 job producing amenities. They tend to have more food outlets.  
25 They tend to have more entertainment and other amenities that  
26 produce jobs. Those jobs in destination resorts tend to be

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1 steadier jobs because generally destination resorts have an  
2 economic platform that is sustained enough that people can have  
3 steady jobs.

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

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

23 What I don't believe, however, this Commission --  
24 let me phrase this differently. I fear the Commission is in  
25 danger of not having any empirical way to figure out whether  
26 there's a differential social impact along that spectrum. You

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1 know, I have my intuition about that but my intuition isn't  
2 really worth anything. I have tried in the discussions in the  
3 research subcommittee to persuade our research contractors to  
4 pay more attention to that spectrum and it's not something that  
5 particularly seems to interest them in the research designs.

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

17 CHAIRPERSON JAMES: Mayor Jones.

18 MAYOR JONES: You know, I think there's a couple of  
19 observations that need to be made here. Mr. Loescher, you asked  
20 the question should convenience gaming be considered in other  
21 markets. My answer to that would be a definitive no. And I  
22 think it goes back, it's not just a question of economic  
23 benefit. It's the observation that it doesn't grow a market, it  
24 doesn't provide high paying jobs, it doesn't provide a social  
25 benefit. What it provides is a way to generate revenue that  
26 otherwise would go for other goods and services.

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1           There was a study that was done and I would note  
2 this just because I think it's interesting and I don't know if  
3 it gets at the social question that Mr. Wilhelm refers to, but  
4 we did a study in the course of our whole analysis on the  
5 economic impact of convenience gaming. And I don't profess to  
6 be an economist but my husband is. He spent two years in a  
7 master's program in economics, five and a half years in a PhD  
8 program in economics. His dissertation was on the history of  
9 Nevada's gaming regulatory framework. He's taught at the  
10 University of Utah, University of Nevada Reno, Weber State  
11 College on and on.

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

22           You know, you can make a case for generating revenue  
23 but one of the most fascinating elements of the study is the  
24 suggestion that there could be material benefit to consumers in  
25 the form of price relief, a social benefit that somehow these  
26 machines would reduce the cost. You have to note that in a

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1 random sampling of 25 grocery items provided in two stores, one  
2 that provided slots and one that did not, the price difference  
3 was zero. In fact, the 25 items had the identical price.

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

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

20 I think with casino gaming in resort districts you  
21 could very clearly make the case that it stimulates an economy,  
22 that it has high paying jobs with benefits, with pensions, with  
23 retirements, that it can allow a community to keep a low tax  
24 environment and provide for itself, but I don't think you can  
25 answer many of those questions in the positive looking forward  
26 in other jurisdictions when you ask that of convenience gaming.

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1 DR. QUINN: I have two comments from our study that  
2 might have some impact on that. One was slightly over 90  
3 percent of the people we interviewed who were players were  
4 residents of South Carolina. Now, I can't give you a breakdown  
5 on the roughly 10 percent who were from out of state, whether  
6 they were tourists coming into the state or people who came over  
7 from Georgia or North Carolina or someone from Ohio who had a  
8 condo at Myrtle Beach, but I can assure you this; if 90 percent  
9 of the people in the casino out here were from Las Vegas, they  
10 would be closed. They would not be able to operate. You would  
11 not be able to sustain it just on your own local economy.

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

25 It's also been mentioned the -- just the money spent  
26 on the infrastructure, the money spent on building and those

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1 kind of things used to not exist with purely the convenience  
2 form of gambling. Why would someone build a \$2 billion building  
3 to put five video poker machines in, particular if he's  
4 reporting that he's only making \$21,000.00 per machine a year.  
5 You know, that would not happen. So I think those are some of  
6 the specific social and economic impact issues that we can point  
7 to.

8           Also approximately 3.5 percent of the people we  
9 interviewed said that they had contemplated suicide specifically  
10 because of video poker. Now, if you took a random sampling of  
11 just men on the street, I'm sorry, people on the street, ladies  
12 and men, the percentage actually might be higher. If you just  
13 said, "How many of you ever contemplated suicide," you might get  
14 15 or 20 percent, but if you asked them, "How many of you have  
15 ever contemplated suicide for one specific reason," then that  
16 5.3 percent all of a sudden becomes a very high number and those  
17 would be some of the things I think you'd consider in terms of  
18 social impact.

19           CHAIRPERSON JAMES: Commissioner McCarthy and then  
20 Commissioner Dobson.

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

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

25           MR. McCARTHY: Thank you. How many  
26 retail/convenience outlets are there in the State of Nevada?

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1 MR. HIGGINS: I do not have an answer to that.

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

4 MR. HIGGINS: That's correct.

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

9 MR. HIGGINS: That's correct.

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

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

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

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

19 MR. McCARTHY: Okay, what percentage --

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

22 MR. McCARTHY: 2400 that are bars?

23 CHAIRPERSON JAMES: Including bars.

24 MR. BIBLE: Including bars.

25 MR. McCARTHY: Is that the total number?

26 MR. BIBLE: That would be the total number.

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1 MR. McCARTHY: Thank you very much. What percentage  
2 of patrons in those 2400 retail/convenience outlets are Nevada  
3 residents?

4 MR. HIGGINS: I would say the vast majority of those  
5 are Nevada residents.

6 MR. McCARTHY: 90 percent?

7 MR. HIGGINS: In excess probably, yes.

8 MR. McCARTHY: In excess of 90 percent?

9 MR. HIGGINS: Yes.

10 MR. McCARTHY: Okay. What were the total revenues  
11 for all forms of business in those 2400 outlets?

12 MR. HIGGINS: We are not privy to all those numbers.  
13 We have private companies as well as public companies and those  
14 numbers are not provided.

15 MR. McCARTHY: Are those numbers submitted to the  
16 Nevada State Gambling Board?

17 MR. BIBLE: You're talking about revenues total for  
18 the entire operation?

19 MR. McCARTHY: Yes, total revenues.

20 MR. BIBLE: No, that would not be available nor in  
21 some cases would the revenues from the gaming devices because in  
22 the restricted locations they're not --

23 MR. McCARTHY: That was my next question. Do you  
24 have the numbers, the aggregate numbers now, from just the  
25 gambling devices themselves? You operate almost 20,000.

26 MR. HIGGINS: That's correct.

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1 MR. McCARTHY: What is the gross revenue from the  
2 gambling devices themselves in those 2400 outlets?

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

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

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

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

15 MR. BIBLE: They would, they would.

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

25 MR. HIGGINS: My other job is working for a company  
26 called Herbst Oil Company and we operate approximately 60

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1 convenience stores in the State of Nevada, California and  
2 Arizona. Once again, that is a private company and those  
3 numbers are not public information and I would not be at liberty  
4 to discuss those in front of a public body.

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

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

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

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

20 MR. McCARTHY: My question then is what steps have  
21 you or these 2400 outlets or however many of them are joined  
22 together as a trade association, what steps have you taken to  
23 try to interview or survey, you know, with a professional  
24 organization the patrons that gamble in those 24 (sic) outlets  
25 to try to define whether or not they are problem or pathological  
26 gamblers?

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1 MR. HIGGINS: I don't believe any such study has  
2 been conducted by any member of the Retail Gaming Association  
3 nor any individual at this time. Obviously, we did take steps  
4 prior to any regulatory requirements to provide information to  
5 those individuals in the form of brochure I see you have in your  
6 hand and the 1-800 number.

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

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

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

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

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

24 Commissioner Dobson.

25 DR. DOBSON: So there, Leo.

26 (Laughter)

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

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

24 And I would like to make that a matter of the  
25 Commission's work when we leave here to talk about what we can

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1 do to deal with that issue because I feel like it's one of the  
2 most important things before us.

3 MR. HIGGINS: Could I address that issue?

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

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

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

21 Just as I don't believe we promote gambling to  
22 pathological gamblers, I don't believe the convenience, as you  
23 put it, gaming segment does market to children. Are there games  
24 in those locations? Certainly, and as I've stated, I give my  
25 personal experience is that I've seen those my whole life and I  
26 don't feel that they do provide any impetus to gamble. Once

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1 again, you talk about proximity. Proximity certainly may have  
2 an effect on pathological gambling. However, if you close every  
3 convenience outlet here in the State of Nevada, do you honestly  
4 believe that the person is not going to drive the extra three or  
5 four to five minutes to go to another location if he or she is a  
6 pathological gambler?

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

10 CHAIRPERSON JAMES: Thank you, Mr. Higgins.

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

12 CHAIRPERSON JAMES: Yeah, very quickly.

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

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

25 CHAIRPERSON JAMES: Thank you, Doctor Quinn.

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1 DR. DOBSON: I now have something even higher on my  
2 list of --

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

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

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