

TESTIMONY OF MICHAEL BELLETIRE
ADMINISTRATOR - ILLINOIS GAMING BOARD
MAY 20, 1998

National Gambling Impact Study Commission

Chairman James and Members of the Commission.

My name is Michael Belletire, and I serve as the Administrator (staff director) for the Illinois Gaming Board.

Before addressing in some detail the issues you have asked this panel to consider, I'd like to provide you with a brief summary of the regulatory framework for riverboat casino gambling in Illinois and in our sister midwestern states.

The Illinois Gaming Board is a five member panel, appointed by the Governor and confirmed by the Senate, charged with the responsibility of implementing the Illinois Riverboat Gambling Act. The regulatory authority over casino gambling is vested in the Board, and the Board delegates to its staff a broad range of investigatory, enforcement and administrative duties.

The Board is responsible for awarding operator, supplier and occupational licenses. Additionally, the Board is charged with: the oversight of all casino gaming operations; administering discipline over those licensed; conducting or directing audits of gaming entities; and, levying and collecting the gaming related taxes imposed under the Act.

The staff serving the Board include agents and officers of the Illinois State Police and the Illinois Department of Revenue, as well as attorneys and support personnel. The staff the Board has assembled is under my administrative direction.

In making its licensure-related decisions, the Board renders judgments based upon comprehensive background and investigative reports and evaluative information developed by its staff. Final orders or decisions of the Board are subject to administrative review through the Illinois court system. The jurisdiction and venue for review of a final order of the Board relating to owner or supplier

licenses is vested in the Appellate Court seated in Sangamon County (Springfield, Illinois). All other final orders are subject to initial review through circuit court.

The structure we have in Illinois is largely the model employed by our sister states of Indiana, Missouri and Michigan. Iowa's regulatory authority has jurisdiction over riverboat gambling and (dog and horse) racing.

Generally, the midwest states have only cautiously embraced legalized casinostyle gambling. Illinois, Michigan and Indiana each limit, by statute, the number of operating licenses allowed. Illinois statute allows for up to 10 operator licenses; Indiana 11 and Michigan 3. Iowa and Missouri administratively determine the number of licensed operators, though Iowa's legislature has just passed legislation that places a five year moratorium on new licenses.

In addition to restricting the number of operating licenses, the midwestern states have also placed various limitations on the conditions under which gambling takes place. Though there are nuances of difference, Illinois, Missouri and Indiana all require casino-style gambling to be conducted on riverboats. In general, whether those boats navigate or not, access is limited to prescribed entry times. Iowa imposes fewer restrictions on entry times and, in addition to riverboat casinos, has also authorized limited land-based casino-style gambling -- allowing EGDs at its dog and horse tracks. Missouri, by statute, imposes a \$500 per cruise "loss limit." Illinois restricts the number of gambling positions that each of its operations may have.

Each of the midwestern states imposes significant taxes on admissions and gaming revenues. The level of taxation varies somewhat from state to state, but in the aggregate the effective tax rates across the midwest states, when adding in locally imposed taxes, ranges from 25 to 35 percent of gaming revenues or casino win. This level of taxation is far greater than that imposed in the three largest casino gaming jurisdictions -- Nevada, New Jersey and Mississippi.

One of the topics this panel was asked to discuss with you is the extent to which "competition" between states for the gambling dollar has resulted in state policies that are reactions to what other jurisdictions allow. One of the questions put to us was whether "competition has lead to a 'race to the bottom' in terms of regulation." The answer to that question is a firm "No".

If there is a race between our midwestern states it is not a sprint, nor even a mile run, but a marathon. It has been eight years since Iowa and Illinois first authorized riverboat casinos and nearly six years since Missouri and Indiana followed suit. Since initial authorization of riverboat casinos in these states there have been only a few significant changes that have served to liberalize the regulatory and policy approach to gambling in the midwest.

The two most consequential changes occurred in 1994. Iowa's legislature acted to eliminate loss limits, and eliminate most casino access limitations, while also permitting the use of Electronic Gaming Devices (EGDs) in that state's race tracks. Also in 1994, Missouri voters approved a constitutional amendment that authoritatively settled the issue of whether its existing riverboat casinos could add EGDs to the table games already being offered. A third development was the addition, in 1996, of Michigan to the ranks of midwestern states authorizing casino-style gambling, as voters in Michigan approved an initiative for three casinos in Detroit.

There is no doubt that each of these three measures came about, in part, as a result of competitive factors. There has been no rush for states to leap frog one another in changing policy, however. That is not to say that there haven't been voices for change. For several years running, operators in Illinois and Missouri have cried out for "leveling the playing field" -- seeking an end to cruising and boarding requirements in Illinois and in Missouri an end to the \$500 loss limit.

Each of these matters may eventually become law but in the main the legislatures in the midwest have shown little appetite for abrupt change or even fine tuning the broad conditions under which limited scale casino gambling operates.

At the administrative level -- (by that I mean the decisions of the Illinois Board and its counterpart regulatory Boards in our sister states) -- there have been some measures taken that serve to liberalize the conditions under which casinos afford access. In the main, however, the changes have not altered the fundamental framework of tight controls and limited licensure. In Missouri and Iowa, for example, there are no limits on the number of operating licenses that can be awarded, but no new licenses have been awarded in the past three years and both states have rebuffed prospective applicants. The Indiana Commission, which has legislative authority to grant one additional license, has yet to do so and shows no signs of acting anytime soon.

If there is one theme common to midwestern regulation of gambling it is not competition but cooperation. Our agency and its sister agencies in Iowa, Missouri, Indiana and Michigan have adopted what I consider to be a model of inter-governmental collaboration and cooperation.

This cooperation has been manifested in several ways: ranging from training, to the sharing of rules and regulations to joint or coordinated investigations. If Jack Thar, my Indiana counterpart, were before you today, I believe he would tell you that the opening of riverboat casinos in Indiana went smoothly and expeditiously partly as a result of the assistance of the Illinois Gaming Board.

It is standard operating procedure for each of the midwestern regulatory agencies to share background information and to examine carefully the implications of adverse action taken by another jurisdiction. There is a fundamental recognition on the part of the midwestern state regulators that we rise and fall with one another when it comes to effective and tight control of casino gambling.

We have also been asked to comment today on the way in which state officials, "balance the desire for revenues (from casino gambling) with the responsibility to protect the public interest." In my judgment, the midwest regulatory agencies do not find this a difficult task. The Illinois Gaming Board and its counterparts exert firm and consistent controls over the conduct of gambling and over those involved in gaming operations. The record shows their actions have been based upon the public interest and, pardon the play on words, when it comes to revenues they let the chips fall where they may.

To an extent, our midwest experience differs somewhat from that of other regulatory approaches. New Jersey, for example, over the past few years has engaged in a concerted "de-regulation" effort, oriented in part towards bolstering the attraction and profitability of the industry. There has been no similar effort here. It needs to be understood, however, that Illinois and other midwestern states shaped their regulatory climate, with the benefit of assessing the strengths and weaknesses of the New Jersey and Nevada experiences. I think those in the industry would agree that our midwestern approach is less onerous in some regards than the historic New Jersey approach and more restrictive than the Nevada approach.

The Board I work for sees itself first and foremost as a regulatory body. Board members are cognizant, however, of the provisions in the Riverboat Gambling Act that call for licenses to be awarded and maintained in a manner that encourages economic development and revenue generation. Our Board does not hesitate to act in the public interest. They have rejected measures even though gaming revenues, and hence tax revenues, would increase. I can cite several examples of this but one, in particular, underscores this point.

Two years ago our Board was asked to authorize the use of so-called, "wide area progressive slot machine systems." Simply speaking, these systems link slot machines across several casinos. The progressive feature of the machines in the system builds very large prize pools, with a single player eventually winning \$1 million or more.

Our Board rejected these inter-casino systems for a number of reasons. One reason, was discomfort with the implied "get rich quick" allure of these megasystems. As our Chairman noted, the industry has consistently represented itself as offering entertainment and the message that you should gamble to "strike it rich" seems somewhat out of harmony with the entertainment concept.

None of this is to say that there is not a strong sense of competition within the casino industry itself. Of course there is, but casinos in Illinois compete with one another as well as with those in bordering jurisdictions. In my experience midwest regulators have not relaxed safeguards or controls in order to feed competition or revenues.

Though there is an exceptionally high level of cooperation among midwest regulators, each of these regulatory entities approaches policy questions differently.

The Missouri Commission, for example, under legislative direction, has evaluated that state's loss limits and called for an end to those limits. The Illinois Board has elected not to take up the question of whether our state's limiting conditions such as cruising requirements or limits on gaming positions should be altered -- leaving the issue as a matter of legislative policy.

The Indiana and Missouri commissions have placed a strong emphasis on evaluating applicants for licensure on the basis of specified investment and

development commitments. Illinois, while encouraging development and reinvestment, has generally not formalized such obligations.

In the main, midwestern regulators and public officials have been far less oriented towards what could be seen as "cultivating" an industry than have public officials in Mississippi, New Jersey and Nevada. Part of the explanation for this lies in the differences in overall approach to casino gambling. Our act, and to a large extent the casino framework in Iowa, Missouri and Indiana, encourages the dispersion of a limited number of licenses across the state. In New Jersey and Mississippi the opposite is true -- i.e. there has been a policy determination in these states to concentrate casinos in cluster-like settings. The latter choice tends to breed a more urgent sense of managing development and investment and a closer relationship between regulators and the industry.

In my personal view, the experiment with casino gambling in the midwest states has been generally positive. Those seeking to be operators in the midwest have been subjected to rigorous scrutiny. Safe and popular attractions have been built with meaningful capital investments. New jobs, with decent wages and fringe benefits, have been created. Local communities hosting riverboat casinos have, in the main, benefited from the experience with new revenues and infrastructure and in some instances a new sense of optimism about their economic future.

The experience has not been uniformly positive. What some saw as a potential economic renaissance for aging rivertowns has not generally materialized. There is little evidence that riverboat casinos have fostered a positive retail ripple effect in their immediate vicinity.

In general, there has been no increase in crime in riverboat communities. But, it cannot be said that the propensity to gamble in excess has not led to tragic consequences for some, albeit a relatively small number of individuals.

Overall I would observe that riverboat gambling in the heartland has not been as detrimental or as malignant to our social fabric as its critics contend or as important or as benign as the industry makes it out to be. The answers are not all in and the experience is an evolving one. There are issues left to wrestle with, though I believe those issues can best be resolved in the state capitals and not in Washington.

As you go about your work I encourage you to make distinctions in what can be labeled as the "regulation" of gambling. From an administrative perspective, my Board and its midwest counterparts are primarily regulating the conduct and ownership of casino-style gambling. They are not, in the main, regulating "Gamblers." Regulating the decisions or the dysfunctional behavior of those that gamble is not, I submit, an administrative matter, but a political and philosophical matter.

The choices made by the Illinois General Assembly to limit patron access to casinos is essentially a political decision to regulate gamblers, by making it more difficult to gamble as a spur of the moment decision. Other states have made different choices about access. Yet, despite allowing differing levels of access, the various states have developed effective regulations over the conduct of the business of casino gaming.

At the national level there are both administrative matters and political issues. Internet gambling, which you will discuss tomorrow, has an administrative regulatory dimension. If it is offered, which purveyors will be approved and how can the integrity and finances of cyberspace gambling be properly overseen? These are different issues than the political question of protecting individuals from a propensity to gamble too much when gambling can be done from a home

computer.

The other issue that states are not able to independently address is Class III Indian Gaming. Here again, the adequacy of the administrative regulatory system must be assessed.

When you look at the political or philosophical issue of controlling gamblers, you take on a much more difficult task. As has been the experience with alcohol, it is far easier to regulate the manufacture, distribution and dispensation of alcohol than it is to control the behavior of the consumer. In our nation's history we have been at the extremes with alcohol -- from the unregulated to prohibition, and we appear to have found the value of a middle ground.

If there is a lesson from the experience with alcohol (and, from cigarette smoking), it may be that it is the industry itself that holds the key to maintaining an equilibrium. Over the long term, consumer behavior will be shaped by industry practice and measured by visible social consequences and the tort system. As is

often the case, government policy will likely be derived as a reaction to an imbalance in the equilibrium.

I don't believe it is necessary for the Commission to establish conclusively which points of view expressed in dueling and directly contradictory studies are "correct", particularly when the motivation for those studies is to send a message about the acceptability or the unacceptability of gambling. Theoretical or even real but anecdotal information about the ill-effects of gambling should not be a basis for sweeping policy change. Such information, however, should serve as fair warning to those in the gaming industry that they should take care in cultivating their future.

For the present, as I believe our Illinois experience shows, there is a consensus that we have properly regulated the conduct of riverboat casino gambling and avoided creating an environment in which the unintended or undesired elements of this new business offset its benefits.

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