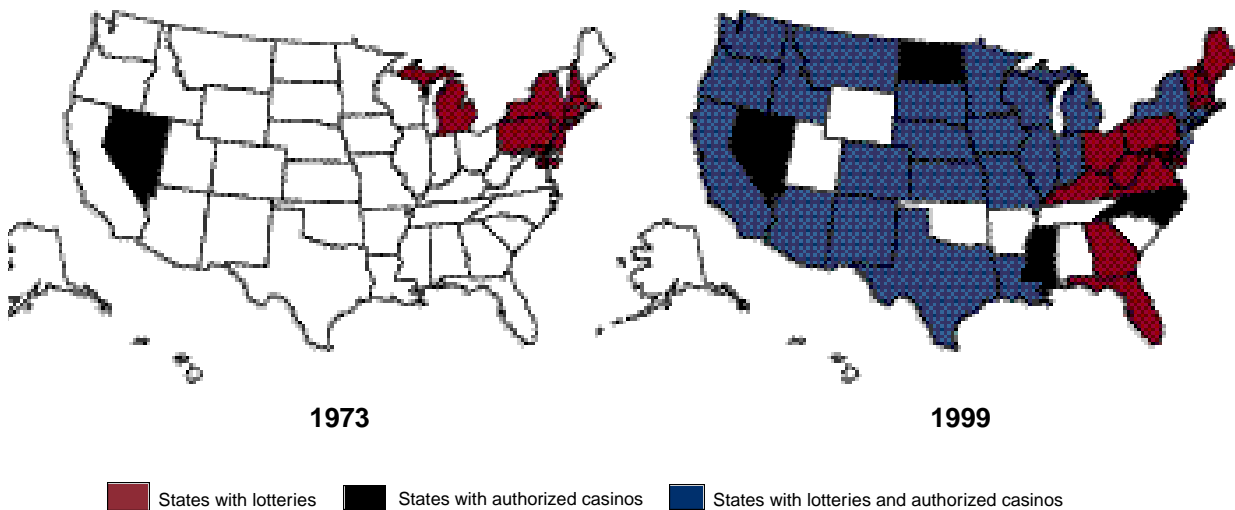


from 0.30 percent to 0.74 between 1974 and 1997. Especially striking is the increase over time in states with lottery and/or casino gambling.

In 1982, gross gambling revenues (dollars wagered minus payouts) totaled \$10.4 billion. In 1997, gross gambling revenues had increased to more than \$50 billion. The amount of money spent on gambling compared with amounts spent on other leisure activities is notable. In 1997, Americans spent \$495.9 billion on leisure goods, services, and activities; more than \$1 in \$10 (\$50.9 billion) was spent on gambling, not including monies spent by gamblers on hotels, food, transportation, and other expenses. In terms of “destination leisure”

*These numbers must be viewed with caution. For a fair and accurate understanding of the actual size and potential profitability of the entire industry or any of its segments, it is critical to note the difference between the figures for “total money wagered,” known in the trade as “handle,” and “gross gambling revenue.” The two terms are not interchangeable. The ratio between them is on the order of 10 to 1 for the entire industry and 25 to 1 for casino gambling. It is easy to see how, taken out of context, figures for “money wagered” and for “gross gambling revenue” might be easily misinterpreted, especially by the layman.

INCREASE IN STATES WITH LOTTERY AND CASINO GAMBLING: 1973 VERSUS 1999*



*Excludes pari-mutuel gambling

SOURCES: Gross Annual Wager, International Gambling and Wagering Business Magazine, August 1998, p. 8. Gambling in America, Final Report to Congress, 1975, pp. 78, 144. Casino Business Directory, Reno, Nevada: Nevada Gaming Publishing, 1998 and other sources.

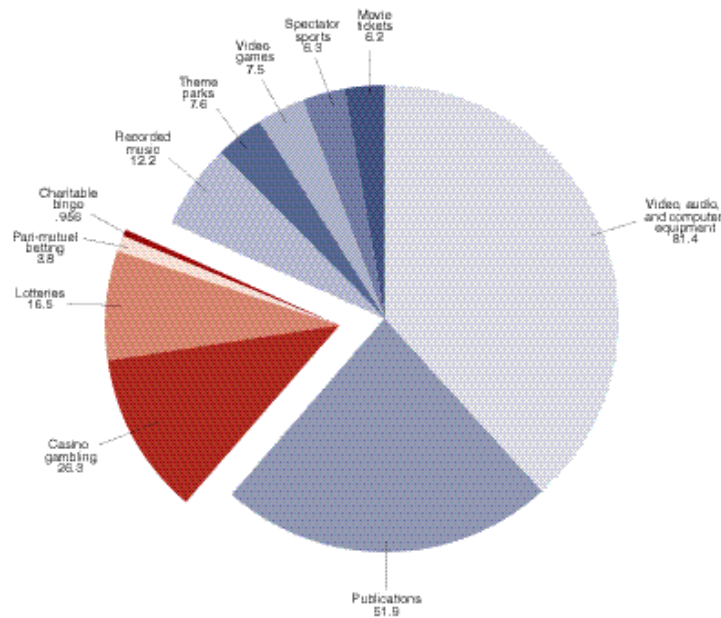
(e.g., spectator sports, cruise ships, theme parks, concerts), the 1997 figure is \$81.8 billion, with “destination” gambling accounting for \$30.1 billion, or more than one-third of those revenues.

Before the beginning of this decade, legalized casinos operated in just two jurisdictions: Nevada and Atlantic City. Currently, casinos are authorized in 28 states and have created over 700,000 direct and indirect jobs with wages of approximately \$21 billion. With the multiplication of locations, there was a metamorphosis of the types of casinos:

²The 1997 Gross Annual Wager, International Gambling and Wagering Business Magazine, August 1998, p. 33.

³A. Arthur Andersen, *Economic Impacts of Casino Gaming in the United States: Volume 1: Macro Study*, December 1996, p.8.

COMPARISON OF AMOUNTS SPENT IN 1997 ON GAMBLING VERSUS OTHER LEISURE ACTIVITIES



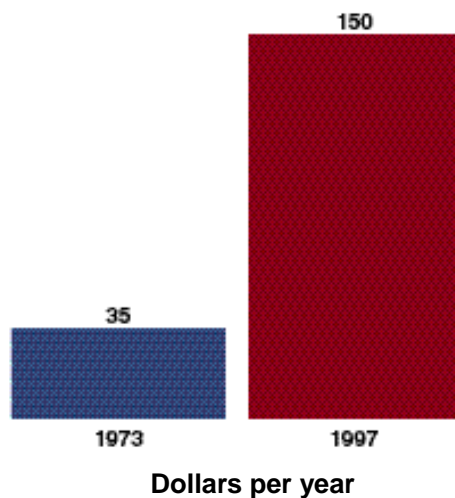
Dollars in billions

SOURCE: *Gross Annual Wager*, International Gambling and Wagering Business Magazine, August 1998, pp. 13, 17–18.

In addition to “destination” casinos in Nevada and Atlantic City, there are nearly 100 riverboat and dockside casinos in 6 states and approximately 260 casinos on Indian reservations. The expansion of gambling to these new sites is seen by one leading researcher as “the most significant development” in the industry in the 1990’s.

The number of state lotteries—the second largest type of gambling in terms of revenues—has expanded rapidly during the last quarter century. In 1973, seven states had lotteries, with total sales of \$2.0 billion. By 1997, state lotteries operated in more than five times as many states and garnered \$34 billion in sales, not including money from the new and fast-growing electronic gambling device (EGD) segment. Perhaps most dramatic, per capita lottery sales climbed from \$35 in 1973 to \$150 in 1997.

PER CAPITA LOTTERY SALES IN STATES WITH LOTTERIES: 1973 VERSUS 1997*



*Per capita based on total lottery sales/population of all states with lotteries.

NOTE: Sales in billions stated in current dollars.

SOURCES: Charles T. Clotfelter, et al. State Lotteries at the Turn of the Century: Report to the National Gambling Impact Study Commission, 1999, p. 2.

Pari-mutuel gambling—horse racing, dog racing, and jai-alai—has not enjoyed the high level of growth that many other segments of the industry have, and its percentage of total gambling revenues has declined significantly over past decades. Of the three segments, horse racing is by far the largest component and has performed the best financially. Legal in 43 states, with over 150 racetracks in the United States, pari-mutuel horse racing generates annual gross revenues of approximately \$3.25 billion, based on a “handle” or wagers of \$15.3 billion. While comparatively small in terms of revenue, the industry has an extensive network of connections throughout the economy, with hundreds of thousands of individuals owing their jobs to the industry.

From informal, illegal office pools to legal bookmaking in Nevada, wagering on sports events is a pervasive activity in our culture. Many gamblers are avid and knowledgeable followers of sports, tracking point spreads on major, and even minor, sporting events by consulting newspapers, radio talk shows, television programs, on-line services, and other sources. There is growing concern regarding increasing levels of sports wagering by adolescents in high school and by young adults on college campuses. A 1996 study sponsored by the National Collegiate Athletic Association found that of the over 2,000 student athletes surveyed in Division I basketball and football programs, 25.5 percent admitted betting on college sports events while in school.

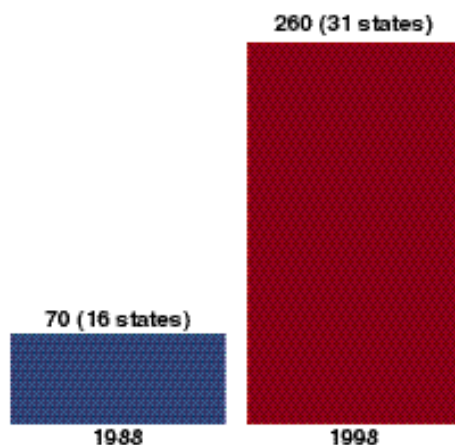
The terms “convenience gambling” and “retail gambling” have been used to describe legal, stand-alone slot machines; video poker; video keno; and other EGD’s that have proliferated in bars, truck stops, convenience stores, and a variety of other locations across several states. However, these terms do not adequately convey the range of locations at which EGD gambling takes place, nor do they describe the spectrum of laws and regulations that apply (or fail to apply) to EGD’s. Some states, including Louisiana, Montana, and South Carolina, permit private sector businesses to operate EGD’s; in other states, such as Oregon and California, this form of gambling is operated by the state lottery. In South Carolina, this form of gambling is increasingly widespread, with 34,000 licensed video poker machines operating at some 7,500 locations.

In 1988, Congress passed the Indian Gaming Regulatory Act (IGRA), providing a regulatory framework for casino gambling on Indian reservations. From 1988, when IGRA was passed, to 1998, tribal gambling revenues grew more than thirtyfold, from \$212 million to

\$6.7 billion. As of 1998, approximately 260 facilities were operating in 31 states. It is important to note that over two-thirds of Indian tribes do not have any gambling at all and that not all gambling tribes benefit equally. In fact, the 20 largest revenue generators in Indian gambling account for 50.5 percent of the total revenue.

The Internet represents a new frontier in the spread of gambling, with the number of on-line bettors continuing to grow every year. The gross revenues of Internet gambling doubled between 1997 and 1998, when they reached an estimated \$651 million. One estimate predicts that Internet gambling will exceed \$2 billion by 2001. Adding to the concern regarding Internet gambling is the issue of access by adolescents and the recent licensing of Internet gambling operators by several foreign governments, including Antigua and Australia, with sites accessible to users worldwide.

INCREASE IN NUMBER OF INDIAN CASINOS AND INDIAN BINGO HALL FACILITIES: 1988 VERSUS 1998

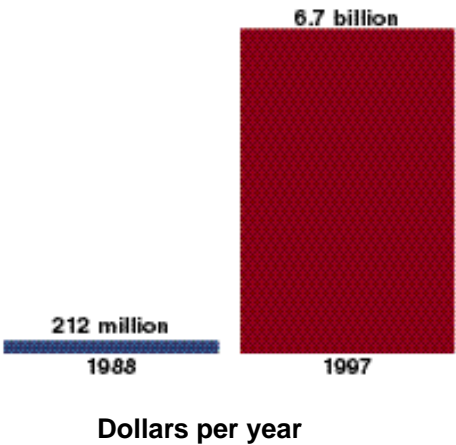


SOURCES: See charts entitled "States with Tribal Gaming in 1988" and "States with Tribal Gaming in 1998." For 1988, there was no centralized information source, and the data were compiled from numerous sources, including the National Indian Gaming Commission; the Bureau of Indian Affairs; newspaper and magazine articles; and the *Indian Gaming Magazine, Directory of North American Gaming*, 1999. For 1998, see National Indian Gaming Commission, "Report to the Secretary of the Interior on Compliance with the Indian Gaming Regulatory Act," June 30, 1998.

With the sharp increase of legal gambling in the past 20 years, there is increased concern about problem and pathological gambling. Clearly, more people are gambling, and they are wagering more. Problem and pathological gamblers are distinct from recreational or social gamblers: They cannot control their impulse to gamble and often bring ruin on themselves and their families. Problem and pathological gamblers often lose their jobs, their savings, their relationships, and their dignity. Researchers estimate that between 2.5 and 3.2 million adults in the United States have met the criteria in their lifetime for pathological gambling. Between 1.7 and 2.6 million adults have met the criteria in the past year. Especially troubling, 1.1 million adolescents between the ages of 12 and 18 are also estimated to be pathological gamblers.

⁴This figure should be viewed with caution, however, since adolescent measures of pathological gambling are not always comparable to adult measures and different thresholds for adolescent gambling may exist.

INCREASE IN TRIBAL GAMBLING REVENUES: 1988 VERSUS 1997



SOURCES: See chart entitled "Trends in Tribal Casino Gaming Revenues, 1988–1997." Amounts are in constant 1997 dollars based on the CPI-U-X1 index in the *Economic Report of the President*, February 1999, p. 398. For Indian gaming revenues from 1988 and 1995, see U.S. General Accounting Office, *Tax Policy: A Profile of the Indian Gaming Industry*, May 1997, p. 6. For Indian gaming revenues in 1996 and 1997, see *Gross Annual Wager*, *International Gambling and Wagering Business*, August, 1998, p. 9.

1976 FEDERAL REPORT ON NATIONAL POLICY TOWARD GAMBLING

It has been 23 years since the gambling industry and the gambling behavior of Americans have been reviewed by a federal commission. In 1976 the Commission on the Review of the National Policy Toward Gambling issued its Final Report, “Gambling in America.” At the time, only 13 states had lotteries, 2 states (Connecticut and New York) had approved off-track wagering, and there were no casinos outside of Nevada. The 1976 Report marked the first time that a national commission had sought to provide methodologically sound research and recommendations on gambling. In its efforts, the Commission conducted and oversaw 3 years of in-depth research and extensive hearings.

An excerpt from the Commission’s 1976 Report reveals that gambling was then, as it remains today, a controversial and divisive subject:

“Gambling is an issue so fraught with ingrained moral and philosophical dichotomies and unresolved social questions that no disposition of the subject can ever come close to being universally accepted. Attitudes toward gambling encompass the most sincere and high-minded ethical beliefs as well as the basest kinds of acquisitive instincts and exploitation.”

The Commission’s 1976 Final Report adhered to a pragmatic approach. Theirs was primarily a single question: Since gambling is inevitable, who should regulate gambling and how? Furthermore, inasmuch as gambling was also recognized as a social issue, the Commission determined that “gambling policy is the proper responsibility of the government entity closest to the lives of citizens—the State.” The 22 key recommendations of the Commission focused on the enforcement of state and local gambling statutes, the regulation of legal gambling industries, and the issues surrounding illegal gambling industries.

NATIONAL GAMBLING IMPACTS STUDY COMMISSION: 1996–1999

The NGISC was established on August 3, 1996, when President Clinton signed Public Law 104-169. The nine members of the Commission were appointed by the President, the Speaker of the House, and the Senate Majority Leader. They represent diverse backgrounds, regions and, indeed, viewpoints.

By the time that the NGISC was created in 1996, legalized gambling had grown nationally to a multibillion-dollar-per-year industry with \$50 billion in gross revenues. Indeed, as the NGISC was launching its initial efforts, the gambling issue was playing an increasingly prominent role in political elections and preelection spending wars. More than ever before, policymakers, business executives, and voters needed reliable information about the benefits and costs of all forms of gambling.

Congress charged the NGISC with the task of “conducting a comprehensive legal and factual study of the social and economic impacts of legalized gambling in the United States.” The study was to include the impacts on communities, social institutions, and individuals, as well as the role of government.

The following excerpt from Public Law 104-169 outlines the NGISC’s six mandated topics of inquiry:

A review of existing federal, state, local, and Native American tribal government policies and practices with respect to the legalization or prohibition of gambling, including a review of the costs of such policies and practices;

An assessment of the relationship between gambling and levels of crime, and of existing enforcement and regulatory practices that are intended to address any such relationship;