

HOUSE OF REPRESENTATIVES
COMMONWEALTH OF PENNSYLVANIA

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History of Gaming

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House Judiciary Committee

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Majority Caucus Room, Room 140
Main Capitol Building
Harrisburg, Pennsylvania

Thursday, March 28, 1996 - 10:00 a.m.

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BEFORE:

Honorable Thomas Gannon, Majority Chairman
Honorable Jerry Birmelin
Honorable Timothy Hennessey
Honorable Steven Maitland
Honorable Al Masland
Honorable Dennis O'Brien
Honorable Ron Raymond
Honorable Jere Schuler
Honorable George T. Kenney, Jr.

Honorable Thomas Caltagirone, Minority Chairman
Honorable Lisa Boscola
Honorable Michael Horsey
Honorable Kathy Manderino

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ALSO PRESENT:

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Chief Counsel for Committee

Dan Fellin, Esquire
Counsel to Committee

Judy Sedesse
Committee Administrative Assistant

Heather Ruth
Majority Research Analyst

Steve Meehan
Majority Research Analyst

Heather Ruth
Majority Research Analyst

William Andring, Esquire
Minority Counsel for Committee

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1 CHAIRMAN GANNON: I am going to call to
2 order the House Judiciary Committee for hearings
3 concerning House Bill 2308.

4 A couple of housekeeping matters before
5 we bring on our first witness. There is a list.
6 The staff are passing around a pad and those of
7 you who would like to be on the mailing list for
8 any future Committee activity concerning this
9 issue, you can sign in on the sheet and if you
10 have a mailing address, we will make certain
11 that you get that information.

12 Secondly, the witnesses have received a
13 letter from my office as setting the ground
14 rules for this particular hearing. It is
15 concerning an overview of gaming in Pennsylvania
16 and the United States. It is not specific to
17 House Bill 2308. So that I would hope that the
18 witnesses would present their testimony in that
19 context and that the Members of the Committee
20 and their question of witnesses, if there are
21 any questions, keep their questions in that
22 context.

23 I would also at this time like Members
24 of the Committee, beginning on my left, to
25 introduce themselves, give us your name and

1 county that you represent.

2 REP. BOSCOLA: Representative Lisa
3 Boscola from Northampton County.

4 REP. BIRMELIN: Representative Birmelin
5 from Wayne County.

6 REP. MANDERINO: Kathy Manderino,
7 Philadelphia County.

8 REP. CALTAGIRONE: Tom Caltagirone,
9 Berks County.

10 REP. HORSEY: Representative Horsey,
11 Philadelphia County.

12 REP. MASLAND: Al Masland, Cumberland
13 County.

14 REP. MAITLAND: Steve Maitland, Adams
15 County.

16 REP. SCHULER: Jere Schuler, Lancaster
17 County.

18 CHAIRMAN GANNON: And if there are
19 other Members of the Judiciary Committee in the
20 audience, if they would introduce themselves. I
21 don't see anybody.

22 MS. SEDESSE: Representative Kenney is
23 here.

24 CHAIRMAN GANNON: Just to open up, I
25 would like to invite Representative George

1 Kenney just to make a few remarks. He is the
2 prime sponsor of this bill.

3 REP. KENNEY: Mr. Chairman, I don't
4 want to delay consideration of my bill any
5 further, so I just want to thank you, as
6 Chairman of the Judiciary Committee, and the
7 Committee Members, for considering my
8 legislation. Thank you.

9 CHAIRMAN GANNON: Thank you,
10 Representative Kenney.

11 With that, we will call our first
12 witness for today, Charles Kline, Executive
13 Director of the Pennsylvania Lottery.

14 Welcome, Mr. Kline, and thank you for
15 joining us today.

16 MR. KLINE: Thank you for inviting us
17 here today. We are here today to provide an
18 historical perspective of Pennsylvania Lottery.
19 As requested, I will limit my remarks to Lottery
20 games in Pennsylvania, as well as the United
21 States.

22 I would like to begin first by
23 reviewing how we came to be. The government-run
24 lotteries are not new. Their origins can be
25 traced as far back as the Middle Ages.

1 Lotteries were held in England during
2 the 17 Century to build aqueducts and recover
3 from wars.

4 In early Colonial America, lotteries
5 flourished. In 1775, lotteries were authorized
6 to raise money for the Colonial Army.

7 In the 1800s, lotteries helped build
8 colleges like Harvard, Yale and Princeton.

9 Up to and continuing through the Civil
10 War, lotteries grew in popularity in the United
11 States. However, it all came to an end as
12 widespread fraud and corruption led to the
13 banning of all US lotteries as we entered the
14 1900s.

15 It wasn't until 1964 that the citizens
16 of New Hampshire voted to institute what we now
17 refer to as the first modern US lottery.

18 Today, there are 37 state-run
19 lotteries, plus the District of Columbia. In
20 addition, some states have joined forces to form
21 multi-state lotteries: the most successful being
22 and most known is Powerball.

23 Over the past 20 years, lottery games
24 have evolved at a rapid pace. The old passive
25 games -- where players matched preprinted

1 numbers to the lottery's numbers -- have given
2 way to state-of-the-art computer generated
3 games. A handful of the lotteries have also
4 moved to even faster paced games, like 5-minute
5 Keno and video lottery terminals.

6 Today, there are basically five types
7 of games offered in the US. They are:

8 * instant scratch off games and break
9 open pull tabs,

10 * three and four digit games,

11 * lotto and cash lotto games,

12 * Keno and fast draw Keno games, and

13 * video lottery terminal games.

14 In calendar year 1995, US lotteries
15 generated \$33 billion in sales, of that amount
16 35 percent was transferred to help fund a wide
17 array of government programs.

18 The Pennsylvania Lottery was
19 established in August of '71. At that time, all
20 Lottery proceeds were dedicated to providing
21 property tax relief for the elderly.

22 The impetus for the creation of our
23 lottery was basically twofold: first, there was
24 a desire to provide tax relief for the elderly,
25 and secondly, there was a belief that the

1 Lottery would lead to a reduction in
2 Pennsylvania's illegal numbers activity.

3 On March 7th of '72, Pennsylvania sold
4 its first ticket. In '75, we added scratch-off
5 games. Two years later, we launched our three
6 digit game, the Daily Number. Our four digit
7 game, Big 4, arrived in 1980. And, in '82, we
8 introduced Lotto. Since then, every game has
9 been a variation of one of these games.

10 In each of the fiscal years from '74 to
11 '75 through '83 and '84, the Lottery experienced
12 double digit sales increases. During that
13 period, sales went from \$100 million to \$1.2
14 billion.

15 By this time, the Lottery was funding
16 property tax and rent rebates, free transit and
17 shared rides, inflation dividends and
18 prescriptions. Programs previously funded in
19 the General Fund were also transferred to the
20 Lottery Fund during that period.

21 But then starting in '84 - '85, the
22 balance in the Fund began to erode. We were
23 paying out more than we were taking in. To
24 complicate matters, sales leveled off, peaked in
25 '88 - '89, and then declined for three

1 consecutive years.

2 At that point, it was clear that
3 actions needed to be taken to maintain and
4 preserve the integrity of the Lottery Fund.
5 Some of us may recall this period all too well.
6 Fortunately, we succeeded in restoring solvency
7 to the Fund. Here's how:

8 * Programs that were transferred from
9 the General Fund were returned to the General
10 Fund;

11 * Programs, like inflation dividend,
12 were discontinued;

13 * Co-payments for Shared Ride Program
14 and the PACE programs were increased;

15 * The income eligibility limits for the
16 PACE and Property Tax and Rent Rebate programs
17 were frozen;

18 * The use of generic drugs was
19 required;

20 * The Lottery also took steps to
21 improve its marketing efforts.

22 Starting in fiscal year '91 and '92,
23 the balance in the Lottery Fund began to improve
24 and today, it is relatively stable. Our efforts
25 to ensure its stability continue.

1 Now, let's look briefly at what the
2 Pennsylvania Lottery is all about. The
3 Lottery's mission is to sell lottery tickets in
4 a manner consistent with the highest level of
5 integrity and such a manner as to maximize
6 revenues available for funding programs
7 benefiting older Pennsylvanians. We do this in
8 a socially responsible fashion as befits our
9 position as a division of state government.

10 Many parties have a stake in the
11 successful outcome of our operations. They
12 include older Pennsylvanians, retailers,
13 players, vendors and suppliers, employees,
14 formal policy makers, and the citizens. In
15 addition, many other parties serve as watchdogs.
16 They include the media, auditors, anti-gambling
17 entities, unions, prospective vendors, and
18 suppliers and competitors.

19 All of our actions at the Lottery are
20 guided by a basic set of principles that have
21 served us well over the years: the value of
22 people, technology, research, service and
23 responsible management.

24 * We recognize that our success depends
25 greatly on our ability to serve our customers.

1 * We strive to be recognized as an
2 organization of the highest ethical standards.

3 * We strive for our customers'
4 discretionary dollar, not every dollar.

5 Now let's look briefly at the Lottery
6 organization. The Pennsylvania Lottery is not a
7 commission. We are a bureau within the
8 Department of Revenue. I report to the
9 Secretary of Revenue, Bob Judge.

10 The Lottery currently has a staff of
11 185 employees who report to five divisions:
12 Marketing, Games Control, Administration,
13 Security and Budget.

14 Our central office is in Middletown,
15 and we have six field offices. They are located
16 in Philadelphia, Wilkes-Barre, Harrisburg,
17 Clearfield, Pittsburgh and Erie.

18 Our operating budget is about \$50
19 million, which includes advertising. The
20 Lottery also relies heavily on the services of
21 four major vendors to provide advertising,
22 instant ticket printing, on-line hardware and
23 software support and ticket deliveries.

24 We currently offer six games in a wide
25 variety of instant tickets. Our on-line games

1 include the Daily Number and Big 4, Wild Card
2 Lotto, Keystone Jackpot and Cash 5. Our instant
3 tickets include such games as Bonus Bingo, Win
4 \$1,000 a Week for Life.

5 All of the on-line games sell for \$1.
6 The cost of our instant games range between \$1
7 and \$5.

8 Today, our retail network consists of
9 4360 on-line retailers and 2905 instant only
10 retailers. One-half of our entire retail
11 network is located in the Pittsburgh and
12 Philadelphia areas.

13 There is one on-line terminal for every
14 2700 Pennsylvanians, and one every 10 square
15 miles. In Philadelphia, there is one terminal
16 every 2 miles. In Clearfield, there is one
17 every 40 miles.

18 We view our retailers as our business
19 partners. They represent the front line of our
20 operations. This year, they will earn more than
21 \$80 million in commissions and bonuses for
22 selling and displaying our products.

23 The average lottery player is 43 years
24 old, married, has at least a high school
25 education, is employed and has a household

1 income in excess of \$30,000. The main reason
2 that he plays is to win.

3 Pennsylvania is the only state in the
4 nation that targets all of its lottery proceeds
5 to older Pennsylvanians.

6 The Pennsylvania Lottery raises the
7 money for these programs. We do not administer
8 the programs. Here is a list of some of the
9 programs that we fund:

10 * PACE or the co-pay prescription drug
11 program. Under PACE, eligible persons pay only
12 a small portion of their prescription cost.

13 * Property Tax and Rent Rebates. Here,
14 eligible older Pennsylvanians qualify for
15 grants.

16 * Free and reduced fare and mass
17 transit rides during non-peak hours on holidays
18 and weekends.

19 * Shared Rides, where the older
20 Pennsylvanians pay a portion of the fare.

21 * Area Agency on Aging Programs,
22 including in-home care, senior citizen
23 activities and home delivered meals.

24 Again, if you would like more details
25 on these programs, I suggest you contact those

1 agencies that administer them, or I will be
2 happy to provide the information to you.

3 This fiscal year, for the first time
4 ever, our sales will exceed \$1.6 billion,
5 placing us approximately 6th in the overall
6 sales in the US. About 54 percent of our total
7 sales will come from our two daily numbers'
8 games: the Big Four and the Daily Number. The
9 remaining sales will be split equally between
10 our instant games and our lotto-style games.

11 Where does each lottery sales dollar
12 go? The answer to this question may help to
13 explain how we differ from other forms of
14 gambling.

15 * On average, 50 cents of each dollar
16 is returned to the players in the form of
17 prizes.

18 * 40 cents goes to programs.

19 * 7 cents goes to retailers and vendors
20 who print and sell tickets.

21 * The Lottery operates on 3 cents of
22 each dollar, which makes us one of the most
23 efficiently run lotteries in the nation.

24 I would like to conclude my remarks by
25 making a few general comments concerning the

1 Lottery's role in the current gaming
2 environment.

3 We pass no judgment on whether or not
4 gambling should be expanded in Pennsylvania, but
5 we think it is essential that our Lottery be
6 represented in such discussions. That is why we
7 are grateful that you have invited us here
8 today.

9 Although we have much in common with
10 the parimutuel industry in Pennsylvania and we
11 stand together on many issues, it is important
12 to note that lotteries are fundamentally
13 different from casinos and to a lesser extent
14 parimutuels. Let me first list some of the ways
15 of what we have in common:

16 * We are all heavily regulated.

17 * We have all achieved a high degree of
18 public trust.

19 * We all raise revenues for public
20 programs.

21 * We would all like to think that our
22 games are entertaining.

23 Now, more importantly, here is how we
24 differ:

25 * Casinos and Pari-mutuels are

1 privately owned. We are not. We are a public
2 entity.

3 * Casinos and parimutuels are regulated
4 from outside. We are charged with the
5 responsibility of regulating our own games, and
6 are audited from a host of outside auditors.

7 * The pace of casino games is fast.
8 Wagering on parimutuel games occurs at a slower
9 pace. Our games, with the exception of our
10 instant games, are drawn just once a day. The
11 pace of our games is slow.

12 * Finally, all of our arguments for
13 existense are economically based. Casino's
14 argument goes like this: jobs, economic
15 development and revenues. Pari-mutuel's
16 argument is primarily jobs and economic
17 development; tax revenues are not at the top of
18 their list here in Pennsylvania. Our argument
19 is primarily revenues. We generate funds for
20 programs that benefit older Pennsylvanians.

21 Pennsylvanians can be especially proud
22 of their lottery. Since its inception in 1972,
23 the Lottery has generated more than \$9 billion
24 in benefits for older Pennsylvanians.

25 The Pennsylvania Lottery is working in

1 our communities, reducing the high cost of
2 prescription drugs, providing reduced fare and
3 free public transportation, easing the burden on
4 homeowners and renters and supporting local
5 senior citizen centers.

6 The Pennsylvania Lottery is also
7 working to maintain its reputation as one of the
8 most efficiently run organizations in the
9 nation. Last fiscal year, we returned 97 cents
10 of each sales dollar to the community in the
11 form of benefits, prizes and commissions.

12 We have had our fair share of setbacks
13 over the year, but for the most part the Lottery
14 has been a solid success.

15 As we enter our 25th year -- our silver
16 anniversary year -- we are faced with many
17 challenges. How do we continue to grow sales in
18 a responsible fashion? What role will we play
19 in the expanding gaming environment? How will
20 we meet the growing needs of our older
21 Pennsylvanians who depend on the Lottery to
22 maintain their quality of life? How will we
23 respond to the ever-changing marketplace?

24 Whatever the challenges, be assured
25 that the Lottery is committed to face the future

1 with confidence and integrity.

2 Thank you.

3 CHAIRMAN GANNON: Thank you very much,
4 Mr. Kline.

5 We have been joined by Representative
6 Ron Raymond of Delaware County.

7 Now I would like to entertain
8 questions.

9 Representative Birmelin.

10 REP. BIRMELIN: No.

11 CHAIRMAN GANNON: Representative
12 Boscola.

13 REP. BOSCOLA: Thank you for being
14 here. I know you said that in the fiscal year,
15 the first time, your sales exceeded 1.6 million.
16 Can you tell me why that has occurred? Is this
17 going to be a trend? And then if we expand
18 gaming, will that hurt the Lottery system at
19 all? What are your feelings?

20 MR. KLINE: Well, 1.6 billion, over the
21 past 4 years, we have taken steps to improve our
22 marketing efforts here. You have seen instant
23 ticket vending machines, in the ways of
24 broadening our distribution. You have seen the
25 introduction of new games. Within the

1 traditional framework. We hadn't moved into
2 Keno or the video lottery terminals, so we have
3 done it all within the existing framework, it
4 has been an extension of our existing product.

5 As far as what the expansion of
6 gambling effect will have on lottery sales, we
7 are not at the point yet to determine whether or
8 not if any negative impact there might be.
9 However, there are two schools of thought on the
10 issue. One is that the pie is so big that it
11 will not affect our sales. The other school of
12 thought is that the pie is only so big and that
13 any slice of the pie taken will benefit
14 ourselves. We are not opposed to the expansion
15 of gambling; we simply want assurances that our
16 interests are protected, and we wanted to take
17 some studies to determine, once we find out what
18 direction we are moving in, whether or not there
19 will be any effect on our sales.

20 REP. BOSCOLA: Thank you.

21 CHAIRMAN GANNON: Representative
22 Manderino.

23 REP. MANDERINO: Thank you, Mr.
24 Chairman.

25 Chuck, I don't want to make an

1 assumption that I understand some things, so let
2 me just ask some basic questions. Video lottery
3 terminal games, which is something that you say
4 other state lotteries are offering and that you
5 just mentioned again in your answer to
6 Representative Boscola, explain to me what those
7 are.

8 MR. KLINE: Well, video lottery games,
9 some of these states have placed the
10 responsibility for running those games under the
11 Lottery's jurisdiction. They are primarily
12 games like video slots, but they are, sometimes
13 they are loaded on an on-line system or they are
14 typed directly into the central system either
15 through dialogues or are on-line continually and
16 are monitored to themselves. They are like slot
17 machines, but they are video instead of the
18 wheels.

19 REP. MANDERINO: Okay. So it is fair
20 to say that that's a -- what do you call it the
21 faster paced game than anything we offer in
22 Pennsylvania?

23 MR. KLINE: That's correct.

24 REP. MANDERINO: And some states that
25 are offering that, are they regulating that as a

1 private industry or are they operating that as a
2 state revenue --

3 MR. KLINE: They are all, they are all
4 generating revenues for the state.

5 REP. MANDERINO: I am sorry. Like our
6 Pennsylvania State Lottery, which is a state
7 entity?

8 MR. KLINE: No, they divide the
9 revenues, usually up amongst the owners, whether
10 they are tavern owners or restaurants or bar
11 owners. Usually the equipment, the providers
12 receive a piece of the revenues and then the
13 remainder goes to the states. The states are
14 charged with regulating and overseeing the
15 programs.

16 REP. MANDERINO: There is one on-line
17 terminal for every 2,775 Pennsylvanians. Do you
18 have a figure on average transactions per
19 terminal?

20 MR. KLINE: A average on-line terminal
21 will do about \$6,000 a week in sales of which
22 the retailer will receive about 5 percent in
23 commissions. We have one of the lowest number
24 of on-line retailers per capita of any lottery
25 in the country. We have gone to great lengths,

1 in Pennsylvania, to protect and preserve our
2 retailers' desires to promote our products, so
3 as such, we don't have as many terminals as
4 other states.

5 REP. MANDERINO: And half of the
6 network being either in Pittsburgh and
7 Philadelphia, is that a demand based --

8 MR. KLINE: It is population driven.

9 REP. MANDERINO: Okay. Is the Lottery
10 at a point now with the location or the number
11 of terminals and the amount of revenue that each
12 one, on average, generates, that it is at
13 capacity, under capacity or over capacity, or is
14 that not a question you can answer?

15 MR. KLINE: Well, it is a good issue.
16 It is one of the more difficult challenges we
17 face, trying to reach the balance between
18 expansion of our retail network and preserving
19 our existing retail network to desire to promote
20 our products. We are very near the bottom of
21 the list in the numbers of terminals per capita
22 in the Lottery in the state. So it is one area
23 that we are moving to expand at a slow rate and
24 not nearly at the rate that some other states
25 will expand. So we believe that there is some

1 potential for growth in the expansion of our
2 existing retail network.

3 We also have moved into areas like
4 instant ticket vending machines. They are going
5 into non-traditional locations, where they are
6 placed at the exit of heavy traffic areas like
7 supermarkets, where we didn't have a big
8 presence in in many areas of the state. Some
9 areas of the state, we have a higher presence in
10 supermarkets. Because of the traffic exiting
11 and entering the store, they have done extremely
12 well for us because they are impulse purchases.

13 REP. MANDERINO: And does the
14 Pennsylvania Lottery keep any statistical,
15 anecdotal or other kind of follow up in specific
16 cases of people who play the Lottery and/or win
17 the Lottery and what happens with them, what
18 they do with their winnings, or anything like
19 that?

20 MR. KLINE: Oh, sure. I mean, we have
21 a history of all of the winners. Occasionally,
22 there will be some articles. Oprah Winfrey just
23 had a segment on where she had past Lottery
24 winners on, and they called us and asked us for
25 names of people in Pennsylvania. We have a

1 couple of people in Pennsylvania.
2 Unfortunately, the one person lost all of his
3 money. He won \$17 million. So he even showed
4 up on all the national shows. But we do have a
5 follow up of past Lottery winners, the vast
6 majority of which are still doing very well.

7 REP. MANDERINO: Thank you.

8 Thank you, Mr. Chairman.

9 CHAIRMAN GANNON: Thank you,
10 Representative Manderino.

11 Representative Horsey.

12 REP. HORSEY: No.

13 CHAIRMAN GANNON: Representative
14 Masland.

15 REP. MASLAND: Thank you, Mr. Chairman.

16 Mr. Kline, in your testimony you talk
17 about the average Lottery player being a 43 year
18 old married individual, etc. I imagine you have
19 done some surveys in order to determine that, is
20 that correct?

21 MR. KLINE: That is correct.

22 REP. MASLAND: Have you thought about
23 doing any surveys to determine what impact the
24 expansion of gaming -- river boat gambling, if
25 you will -- would have on your lottery? And if

1 you haven't done any, I think you probably
2 should.

3 MR. KLINE: Yes, we have probed in
4 those surveys to try to determine whether our
5 players are playing other games and whether they
6 would transfer some of their play to other
7 games.

8 A couple areas: when the Windsor,
9 Ontario opened up the casino; in Michigan, we
10 looked at some areas there, in their daily
11 number game, in counties surrounding that
12 casino, daily number game play decrease; in
13 South Dakota, they had video lottery terminals
14 that they put in place and their instant tickets
15 sales decreased. The Legislature then repealed
16 the law and instant ticket sales increased. The
17 Legislature came back and put the law back in
18 and the instant ticket sales decreased again.

19 So, I mean, there are cases out there,
20 there are 37 other states that have lotteries,
21 and so the beauty of that is they are all
22 operating within the little test markets so
23 there is information that we can ascertain
24 through a national search of other areas also.
25 So there have been movements in sales. Whether

1 or not casinos, for example, would affect our
2 sales, it would most likely occur maybe in those
3 areas, maybe around the daily number game play.
4 We happen to be a daily numbers driven state.
5 But outside of that area, we really haven't seen
6 any of that.

7 REP. MASLAND: I think you talked about
8 how you are basically a slow type of game as
9 compared to those that are fast and I didn't
10 know if you had investigated whether or not the
11 people who are your customers now would be more
12 attracted to a fast as opposed to a slow game.

13 MR. KLINE: Well, one of the things
14 that we found: we ran a bingo ticket, a scratch
15 bingo ticket, an instant ticket that takes 10
16 minutes to play, and we found tremendous success
17 with that ticket because we took gamblers who
18 were bingo players and brought them into the
19 Lottery product, and they had never been in the
20 Lottery before, so we moved people who were
21 playing bingo over to our product and our sales,
22 it moved up a notch, in the state sales, since
23 we introduced that game. So I think that theory
24 may be able to be placed in reverse, that you
25 may see some people moving over.

1 But, again, I go back to the two
2 schools of thought on how big the pie is, and
3 really don't have enough data collected to make
4 any types of conclusions.

5 REP. MASLAND: Well, that is something
6 I am sure that maybe we can get one of our state
7 universities to look into it and do some
8 analyses.

9 My personal opinion is that the pie is
10 only so big. I think when you are talking about
11 discretionary income, people only have so much
12 to spend on discretionary items, whether it is
13 gambling or restaurants or whatever they desire
14 to spend their money on and that is limited and
15 at some point, you are going to be impacted if
16 there is going to be an expansion.

17 Thank you.

18 MR. KLINE: Thank you.

19 CHAIRMAN GANNON: Thank you,
20 representative Masland.

21 Representative Maitland.

22 REP. MAITLAND: Yes, thank you, Mr.
23 Chairman.

24 Mr. Kline, do you ever run into people
25 that have a gambling problem with the

1 Pennsylvania Lottery?

2 MR. KLINE: Personally, I have been
3 there for 4 years and I haven't, but that's not
4 to say that there are not people with gambling
5 problems that play the Lottery. Studies have
6 shown that compulsive gamblers are 2 to 6
7 percent of the population, I think, falls into
8 that gambler range.

9 We have, through our game design, we
10 address the problem. Because of the pace of our
11 game is so slow, that you will see less
12 compulsive gamblers playing lottery type games
13 than any other types of games. You know, I am
14 not going to sit here and say it. Because we
15 can go out and probably find a number of people
16 that are playing on the Lottery more than what
17 they should be playing, but because they have to
18 wait for the drawing once a day, the pace is so
19 slow that the play is not as bad as it may be on
20 other games.

21 REP. MAITLAND: Do you have anything in
22 place to help a problem gambler, fund any
23 program or do you have any educational effort?

24 MR. KLINE: No, we don't. Again, we
25 have addressed, for the past 25 years, we have

1 addressed that problem by creating games that
2 are slower paced, that don't fall into the types
3 of hardcore gambling games that other games do.

4 REP. MAITLAND: Thank you.

5 CHAIRMAN GANNON: Thank you,
6 Representative Maitland.

7 Representative Schuler.

8 REP. SCHULER: Thank you, Mr. Chairman.

9 On page three, Mr. Kline, at the bottom
10 of the last line, you say relatively stable.
11 Could you explain that to me? What does that
12 mean? Are we in trouble, are we doing all right
13 or what does this mean?

14 MR. KLINE: Well, I struggled with what
15 to say there.

16 If the fund is supporting programs
17 right now, I say relatively stable. Our lottery
18 games, our game sales, are pretty stable now,
19 because we aren't as dependent upon large
20 jackpot that we were in the past to drive sales.
21 Our games are more daily numbers driven, our
22 instant ticket product has improved which is a
23 much more stable product. So on the revenue
24 generating side, our product is more stable than
25 it was before when you project a, you know, a

1 3 percent, maybe, growth rate out into the
2 future.

3 On the program side, however, with all
4 of the programs that we have, with a growing
5 elderly population, potential for increasing
6 income eligibility limits with the potential for
7 prescription drugs increasing, that makes it,
8 that throws in another variable on the stability
9 of the Lottery fund. We don't have -- I mean,
10 we aren't projecting revenues to go zipping off
11 like they did before and program costs staying
12 at one level and that's why I used the word
13 relatively stable.

14 REP. SCHULER: In other words, we are
15 just breaking even or --

16 MR. KLINE: Yes, currently. We are
17 keeping pace with the program costs.

18 REP. SCHULER: All right. That leads
19 me then to, you know, I am sort of like the
20 other people in this, I think there is only X
21 number of dollars that people are going to spend
22 for gambling. It would seem to me that if
23 gambling is extended, you are really going to
24 have to do some marketing, which you are doing
25 right now, you said.

1 Let me ask you another question. Close
2 to my border, there was a small track betting
3 parlor. And, in Delaware, more specifically
4 Delaware Park, had to go to slot machines to
5 make it. Has that had any impact on the Lottery
6 of that section in Pennsylvania, that you know
7 of?

8 MR. KLINE: We haven't measured it in
9 that area of the state.

10 In the past, when other lotteries would
11 come on-line -- Pennsylvania was one of the
12 first lotteries to come on-line, but when the
13 bordering states came on-line, we saw the drop,
14 we saw the rate of increase not as great as it
15 probably would have been because we were in such
16 a rapidly increasing environment then, it was
17 almost, didn't have any affect on it. We
18 haven't gone to the Delaware area and measured
19 whether or not we are seeing a transfer of
20 lottery play down to the race track.

21 REP. SCHULER: How about with regards
22 to: have you made any studies with regards to
23 off-track betting and how it impacted the local
24 community in regards to the Lottery?

25 MR. KLINE: No, we haven't looked at

1 that either.

2 In the areas in which we establish
3 off-track betting parlors, we haven't looked at
4 it. However, sales during that period that we
5 put those in place, it did improve for us, so.

6 REP. SCHULER: What was that again?

7 MR. KLINE: During the period in which
8 we started placing the off-track betting
9 facilities, Lottery sales began to improve. So
10 if we would have looked at it -- They didn't
11 lead to a reduction in Lottery sales. If we
12 would looked at it, we would have to look at
13 whether or not they slowed the rate of the
14 increase.

15 REP. SCHULER: Okay. That's all the
16 questions I have. Thank you.

17 CHAIRMAN GANNON: Thank you,
18 Representative Schuler.

19 Representative Raymond.

20 REP. RAYMOND: No questions.

21 CHAIRMAN GANNON: Representative
22 Caltagirone.

23 REP. CALTAGIRONE: Thank you, Mr.
24 Chairman.

25 Just a couple of quick questions. And

1 you may not have this information available and
2 you may have to see if there are some other
3 states that might be able to provide this kind
4 of information and if you could, in turn, then
5 provide that information to the Committee
6 because I know you would have access to the
7 other lottery states.

8 First of all, I am curious to find out
9 the number of Pennsylvanians that leave
10 Pennsylvania, almost on an hourly basis, that go
11 to the casinos in New Jersey to gamble. Has
12 anybody ever acquired information on
13 approximately how many Pennsylvanians leave this
14 state by how much money they may be wagering in
15 Atlantic City, number one, or possibly even Las
16 Vegas? I would be interested in that and I am
17 sure the Committee would be interested in it.
18 Because it appears to me that we have a
19 tremendous number of busses that go on bus tours
20 that leave this state and dump an awful lot of
21 money down in Atlantic City and I am wondering
22 if you ever had the opportunity to access
23 information through the Lottery or any other
24 sources, and I am sure that that's been done
25 somewhere, somehow.

1 MR. KLINE: Yes, I think it probably
2 has been, but I haven't seen it. I think
3 another area that you may get, you may get the
4 casino industry to provide it to you because I
5 am sure that they are looking at where their
6 players are coming from. You may be able to go
7 to the casino industry in New Jersey and you may
8 be able to get that information from them if
9 they are willing to share it with you.

10 REP. CALTAGIRONE: That information
11 that is critical, I think, to prove a point also
12 about our Pennsylvania Lottery, in that if they
13 are doing that now -- and I understand where you
14 are coming from about the potential impact that
15 may have on the Pennsylvania Lottery -- but if
16 we had the kind of numbers that I think we had
17 and the kind of money that is leaving the state
18 now and it is not impacting on the Pennsylvania
19 Lottery, I don't know how the case can be made
20 that with any additional times of gambling
21 whether it is that or whether it is something
22 else that it would have a dramatic impact and
23 would cause the Lottery to fall into serious
24 trouble. I am just curious as to how that might
25 play out.

1 The second part of that is also the
2 studies from other states, you alluded to that
3 earlier, where other states have had lotteries
4 that have gone into different types of
5 additional forms of gambling. There are only 37
6 states, I am sure that they have made some of
7 these switches and I am curious what their
8 experiences might have been. You alluded to a
9 couple of examples. I wonder if there are any
10 studies or particular information that you may
11 also be able to provide this Committee with.

12 MR. KLINE: Yes, the information in
13 that area is real thin, but we try to accumulate
14 it. Most of what you have seen has been done by
15 the gaming industry. And I have attended a few
16 conferences where presentations have been made,
17 and that's where I am getting the information in
18 Michigan and the information in South Dakota,
19 those two cases, and I have that information
20 which I will share with you.

21 REP. CALTAGIRONE: Yes, I would be
22 particularly interested in other sources of
23 information other than from the gaming industry
24 because people would say that might be a little
25 skewed. If there were universities or other

1 independent organizations that may have
2 conducted some studies, I think that kind of
3 information would be extremely helpful. Thank
4 you.

5 Thank you, Mr. Chairman.

6 CHAIRMAN GANNON: Thank you,
7 Representative Caltagirone.

8 I want to first commend the
9 Pennsylvania Lottery for the fine job that it
10 does for the citizens in the Commonwealth of
11 Pennsylvania, and I want to thank you for taking
12 time to be with us today and offer your
13 testimony and take questions from the Committee.
14 Thank you, Mr. Kline.

15 MR. KLINE: Thank you.

16 CHAIRMAN GANNON: Our next witness is
17 Mr. Michael Navin, Esquire, Professor of Law,
18 the Dickinson Law School.

19 CHAIRMAN GANNON: Thank you, Mr. Navin.
20 You may proceed.

21 MR. NAVIN: Good morning, Mr. Chairman,
22 and Mr. Masland, my representative, and Members
23 of the Committee. I want to thank you for this
24 opportunity to offer assistance as you begin
25 hearings on House Bill 2308, Session of 1996. I

1 hope these comments provide direction and focus
2 for your inquiries.

3 My purpose is to provide background
4 about the historical and legal aspects of
5 gambling. I have not examined House Bill 2308
6 in more than a cursory manner and none of my
7 comments relate to that proposed legislation.
8 Neither should any inference be drawn that my
9 comments represent a personal opinion about the
10 historical or legal and moral aspects of
11 gambling. But in order to provide you with what
12 I hope is useful information, I must necessarily
13 refer to arguments, both pro and con, that have
14 been offered concerning gambling.

15 I could begin with a brief historical
16 sketch of gambling.

17 It appears to be a pastime about as old
18 as mankind. It also appears to have been
19 controversial for just about as long. Our word
20 gambling derives from a Middle English word,
21 gamen, which means to amuse oneself. But, of
22 course, gambling is more than a game or
23 amusement. It is an activity which, in locales
24 such as Nevada, constitutes both major business
25 undertaking and a subject of extensive public

1 regulation. Among individuals, it is the
2 subject of ardent support and fierce disdain.
3 Historically, it would appear that few person or
4 cultures are neutral where gambling is
5 concerned.

6 It is also clear that measured in terms
7 of public and private opinion, gambling has
8 experienced cycles of acceptance and
9 probibition. There do not seem to be extended
10 periods of time where one can find gambling
11 continuously to be either widely accepted or
12 condemned. This is particularly true in the
13 United States. Therefore, it seems reasonable
14 to proceed on an assumption that no argument,
15 which supports the unmitigated acceptance of
16 gambling by a culture is likely to long hold
17 sway. Equally true is the assumption that
18 neither would a contrary argument to eradicate
19 it from the public consciousness be expected to
20 prevail for long.

21 On the one hand, from the middle of the
22 18th Century until the Civil War, it was common
23 to find state sanctioned lotteries authorized to
24 provide funding for praiseworthy civic kinds of
25 projects; the kinds of projects that it would be

1 common for us today to think of as appropriately
2 funded from general tax revenues. These
3 projects included establishing or improving
4 institutions the likes of Harvard and Princeton
5 Universities, as well as the construction and
6 maintenance of roads, lighthouses, hospitals and
7 jails. One reason for the prevalence of these
8 lotteries was the absence of an effective
9 government to levy and collect taxes. The
10 inherent allure of lotteries made them a
11 workable method to raise funds for worthy
12 purposes. To this day, because gambling,
13 including lotteries, constitutes taxation only
14 upon those who voluntarily choose to
15 participate, it can be an effective revenue
16 raiser for an authority unwilling or unable to
17 impose taxes.

18 On the other hand, even though there
19 was a long period of widespread acceptance for
20 the lotteries, by the early 1800s a general
21 disaffection developed and, from the middle of
22 the 19th Century until the middle of the 20th
23 Century, lotteries were generally prohibited in
24 the United States. One notable exception during
25 this time was a brief revival after the Civil

1 War when many states turned to lotteries to
2 raise funds. The infamous Louisiana Lottery,
3 known imcomplimentary as The Serpent, operated
4 from 1868 until it was ended by federal action
5 in 1890. Despite obvious and widespread
6 corruption, The Serpent persisted because the
7 Louisiana state government couldn't wean itself
8 from its revenues, more than 90 percent of which
9 flowed from out-of-state sources. In fact, not
10 until the federal government acted in 1890 to
11 bar the use of the mails and other
12 instrumentalities of interstate commerce to
13 facilitate the running of any lotteries, did it
14 cease operating. This congressional action,
15 coupled with the US Supreme Court's reaffirmance
16 of the states' police power to regulate
17 gambling, effectively eliminated the states' use
18 of lotteries until their revival in the 1960s.

19 The forces which drive these cycles
20 seem to be related to humankind's love of
21 gambling and our ability to forget just why it
22 was that we previously prohibited certain kinds
23 of behavior. An illustration of this phenomenon
24 not related to gambling was the banking fiasco
25 of the depression era. The New Deal enacted

1 strict banking regulation which served amazingly
2 well until the deregulation of the 1980s. What
3 followed predictably was the Savings and Loan
4 fiasco. Another force behind this cyclical
5 behavior seems to be a failure to realize that
6 even legalized gambling has a limited ability to
7 produce revenue. When Nevada was the only US
8 destination where gambling was permitted, it
9 thrived and became a Mecca for vacationers
10 seeking the diversion of gambling. Not wanting
11 to miss out on a good thing, more and more
12 states have added to the range of gambling
13 activities they will permit. To this point,
14 Atlantic City, New Jersey, for example, has yet
15 to prove the revenue raising success that state
16 hoped it would become. Eventually, as more and
17 more gambling is permitted, there will come a
18 time when it produces insufficient revenue to
19 support all of the activities dependent upon it.
20 It seems likely the disenchantment will then
21 increase and gambling can be expected to enter a
22 period of relative disfavor.

23 Considering all of these factors, it
24 may be easy to explain why gambling generates
25 cycles of increased interest followed by

1 decreased interest and so forth and so on. Over
2 long periods of time, the arguments against
3 gambling consistently depend and on an appeal to
4 notions of efficiently and productively using
5 time and property. The perception that gambling
6 fails to promote these values, when coupled with
7 a fear of corruption that is so often
8 associated with organized gambling activities,
9 contributes to viewing it as evil in the minds
10 of its opponents. But people love to gamble
11 whether it is legal or not. So the long-term
12 arguments in support of gambling depend on
13 recognizing that gambling occurs whether it is
14 prohibitive or not and that, therefore, society
15 should act to ensure the proper conduct of
16 gambling while at the same time benefiting by
17 taxing it. After all, proponents say, it is
18 nearly impossible to collect significant revenue
19 from gamblers while it is an illegal activity.
20 Depending on the length of our collective
21 memories, these arguments ebb and flow producing
22 periods of relative prohibition followed by
23 periods of permitted, but regulated and taxed,
24 gambling. One comes sort of to expect that
25 these cycles are a persistent feature of the

1 legal and cultural landscape.

2 A very brief sketch of the legal
3 considerations regarding gambling.

4 Gambling is a business and, for the
5 most part, the law of business is the law of
6 contracts, which I teach. In a laissez faire
7 system such as ours, individuals can make
8 whatever contracts they wish and be secure in
9 knowing that courts will enforce those
10 obligations the parties have created. This
11 produces a predictable stability which is an
12 important factor in promoting economic growth.

13 Of course, courts will not enforce
14 contracts that are in themselves destructive of
15 an ordered society as so-called the unlawful
16 contracts are often described. But to the say
17 that an unlawful contract is unenforceable
18 provides a little insight as to which contracts
19 are lawful and which are not. Some cases are
20 easy as, for example, where one agrees to murder
21 another person for a fee, even if the murder is
22 committed and cannot therefore be prevented, no
23 court will order the solicitor to pay the
24 killer. Equally easy is the case of a robber
25 who expects to split the proceeds of a robbery

1 50-50 and who, upon discovering that there
2 really is no honor among thieves, sues her
3 accomplice for the agreed share. Courts will
4 refuse to aid her as well. But unlawfulness is
5 a characteristic of contracts that exist on a
6 sliding scale rather than in an all or nothing
7 fashion. So a difficult case is whether a
8 contract to pay an agent a commission upon the
9 placing of certain business can be enforced when
10 it is discovered that the agent placed the
11 business by paying a bribe. No one wants to
12 encourage bribery, but it is hard to see why the
13 person who benefited from the placing of the
14 business by the agent's bribe should not have to
15 pay what he agreed. This is especially true
16 where he had no knowledge that a bribe would be
17 made because there really are two separate
18 contracts present only one of which is unlawful.
19 If no payment is required, one person reaps the
20 windfall, but requiring the payment to be paid
21 has the effect of rewarding the person who made
22 the bribe and causes one unlawful contract to
23 contaminate a lawful one. The right way to
24 decide such a case is difficult to see at best.

25 Traditionally, when gambling has been

1 generally prohibited, contracts that are classed
2 as being wagers are refused enforcement. This
3 may seem intuitively correct, but isn't
4 necessarily so. For example, suppose that A
5 makes a wager with B on a horse race where
6 betting on horses is illegal. A is the stake
7 holder. If B's horse loses, A merely keeps the
8 payment, the money, and the illegal gambling
9 remains hidden. If B sues to get his money back
10 because the gambling contract is illegal, most
11 courts will refuse to help B for the very reason
12 that the contract is illegal. However, by
13 refusing to make A return the bet to B, the
14 effect is to condone the wager. Now, suppose
15 the same facts except that B's horse wins. If A
16 pays B what he has agreed to pay, no one is the
17 wiser. But suppose A refuses to pay off on the
18 bet with B. If B sues A to force him to pay,
19 courts will refuse to help because if they do
20 they will be enforcing an illegal gambling
21 contract. Of course, if they don't order A to
22 make good on his promise, the effect is to not
23 only condone the gambling contract, but to
24 condone A's faithless conduct as well. Courts
25 are forced into positions in some cases where

1 they are damned if they do enforce the agreement
2 and damned if they do not.

3 What sophisticated gamblers playing the
4 legal system should do is make sure they hold
5 the wager until the outcome is determined. If
6 they win, they keep the money. If they lose,
7 they refuse to pay and there is nothing the
8 other party can legally do about it. Of course,
9 one consequence of refusing to enforce
10 agreements in court is to encourage persons to
11 engage in extra legal self-help which may
12 involve violence or threats of violence. It is
13 clear that the fear of violence is often a
14 factor which leads to gambling being legitimized
15 so courts can act to discourage the violence
16 from occurring.

17 Even when there is general acceptance
18 that all gambling is not considered evil,
19 contract cases involving gambling are still hard
20 to decide. Even when wagering is legal, there
21 are cases where courts are torn. Examples
22 include cases involving casinos where either an
23 intoxicated or addicted gambler loses huge sums
24 of money. As mentioned above, it is better
25 strategy for the casino to be the stake holder

1 but, whether the casino is suing to recover on
2 credit the gambler pledged or whether the
3 gambler is suing to recover from the casino, the
4 decisions are very difficult to reach. Some
5 have favored the gamblers because it is thought
6 that the casinos have greatly overreached and
7 abused their patrons. Other cases favor the
8 casinos because the possibility of losing even a
9 large sum of money is an inherent risk of
10 gambling. Gambling creates problems for the
11 legal system no matter what and legalizing
12 gambling does not make them go away.

13 Finally, there are many kinds of
14 contracts which look like wagers and which, if
15 some or all wagering contracts are illegal, may
16 prove difficult to decide whether to enforce
17 and, if enforced, hard to explain.
18 Traditionally, a major class of these is
19 insurance. No matter how it is analyzed,
20 insurance is a form of gambling. It is in most
21 ways merely a parimutuel type of arrangement.
22 Even in times where almost all wagering is
23 prohibited, however, insurance contracts are
24 routinely allowed because there are readily
25 discernible benefits that flow from the risk

1 allocation effects of insurance agreements. It
2 has always seemed to me that the root of
3 understanding why gambling has such a checkered
4 history in the law is the difference between a
5 pure wager which produces no direct societal
6 benefits and an arrangement such as insurance
7 which, although containing a significant
8 wagering element, nevertheless produces direct
9 economic benefits for society. Another group of
10 difficult-to-explain contracts involves major
11 market activities such as commodities futures
12 trading which, again, is best understood as the
13 making of wagers. Nevertheless, commodities
14 futures trading, indeed the entire financial
15 market apparatus, is permitted and encouraged to
16 operate and contracts it generates are routinely
17 enforced with no real thought given to their
18 gambling aspects. Despite the benefits of
19 insurance and organized financial markets,
20 however, permitting them creates genuine
21 philosophical and analytical problems because it
22 becomes necessary to concede that wagering
23 itself is not bad. Once this step is taken, we
24 return to the basic dilemma which is, if not all
25 gambling is bad then how do we decide what we

1 will tolerate and what we will condemn.

2 I thank you for your attention and I
3 hope this brief outline produces some guidances
4 in making your inquiry.

5 There are some references at the end
6 which I think you might find of help about these
7 questions.

8 CHAIRMAN GANNON: Thank you, Mr. Navin.
9 Representative Birmelin.

10 REP. BIRMELIN: Thank you, Mr.
11 Chairman.

12 Just a couple of quick comments and
13 questions for you. You are a Professor of Law,
14 I see from the title they have given you on the
15 agenda, and you did this background study so I
16 am assuming that this may be a new area of
17 interest to you other than the law of contracts,
18 is that true?

19 MR. NAVIN: Well, Representative, I
20 have taught contracts, I teach insurance, and I
21 have taught business, including securities
22 regulations, so the relation between traditional
23 concepts of gaming and legal aspects has long
24 been an interest to me.

25 REP. BIRMELIN: I was struck by the

1 language that you used on pages four and five.
2 On five, you referred to talking about why we
3 wouldn't pay a killer, who had a contract to
4 kill someone, why we would not pay a robber in a
5 50-50 agreement with another robber and why we
6 would fail to pay a bribe when someone may have
7 contracted to do that.

8 And then in page four when you talked
9 about in your second paragraph approximately a
10 third of the way down, you said, the perception
11 that gambling fails to promote these values,
12 which you listed ahead of that notions of
13 efficiently and productively using time and
14 property, the perception that gambling fails to
15 promote these values, when coupled with a fear
16 of the corruption that is so often associated
17 with gambling activities, contributes to viewing
18 it as evil in the minds of its opponents, my
19 question to you is: is not the act of gambling
20 itself considered to be evil or amoral
21 restitution (inaudible)?

22 You seem to have scurried around that
23 but not have said that directly. Do you believe
24 that there are some people who feel that the act
25 itself is immoral?

1 MR. NAVIN: Without a doubt,
2 Representative, on the grounds of Biblical
3 authority. Some people in some religious groups
4 will simply decide that this kind of activity is
5 wrong and should be prohibited.

6 REP. BIRMELIN: Do you know on what
7 basis they would do that?

8 MR. NAVIN: I do not. I could not cite
9 the scripture on that basis.

10 REP. BIRMELIN: I am only suggesting to
11 you -- and there are those who would think that
12 it is wrong based on the Commandment: Thou shalt
13 not covet thy neighbor's things (the Ninth
14 Commandment) and go down over a long list and
15 one of them that may be considered is the
16 neighbor's wealth in the form of covetousness
17 and then to covet one another's money by gaming
18 them for it, putting their's up against mine and
19 hoping I get their's and they don't get mine.

20 MR. NAVIN: All right.

21 REP. BIRMELIN: Do you have any
22 indication as to what percentage of people you
23 think in the general public would say, yeah, I
24 think gambling in and of itself is wrong, there
25 are other reasons why it is wrong -- and we have

1 listed some of those -- but that in and of
2 itself that gambling is wrong, could you put a
3 handle on that for me?

4 MR. NAVIN: I really could not on the
5 basis of what proportion of the population. My
6 guess is it has got to be significant. Because
7 if you look at the way in which gambling comes
8 and goes, it does appear to have a very cyclical
9 kind of acceptance that is up now and down
10 later. And my underlying hunch is that what you
11 are seeing is probably groups within the
12 population, say 30 percent, really think
13 gambling is terrible, 30 percent really think
14 gambling is just fine and 30 to 40 percent or so
15 have their doubts and then over time, there are
16 kind of the undecideds in your basic poll. When
17 the undecideds look at the advantages that come
18 from allowing and regulating and taxing
19 gambling, then we permit it. Then after a
20 while, it appears that it is discovered that
21 maybe it isn't such a great idea after all and
22 the undecided group moves off the other way.
23 And it is clearly a significant proportion that
24 I don't know that I could quantify.

25 REP. BIRMELIN: Yes, I don't know

1 whether I could quantify it either.

2 One other area that I am a little bit
3 concerned about -- and I think Representative
4 Maitland touched on it briefly; however, your
5 presentation didn't really do that -- and, that
6 is, for those who believe that gambling itself,
7 gambling is an immoral activity, they frequently
8 point to the results of those who cannot control
9 that habit, those who fall into the category of
10 compulsive gambler, I suppose, and who put
11 themselves and their families at jeopardy.

12 I don't know if I should mention this
13 or not, but a fellow legislator just told me
14 this morning that one of the relatives of that
15 legislator has spent themselves into a form of
16 poverty, in the process of doing so. And I
17 don't think that's an unusual circumstance. I
18 don't think that is unusual at all. Personally,
19 I have seen people in my office, as a legislator
20 in the past 12 years that I have been there, who
21 come in and they are looking for jobs and who
22 are looking for assistance in some other things
23 and then I, you know, a week or so later, see
24 them buying, 10, 15, 20 dollars worth of Lottery
25 tickets, and these are probably the people who

1 are least can afford to do that.

2 And I wonder if in your study you have
3 either seen statistics or have done any research
4 and can comment on what you see as the logical
5 conclusion of what someone believed to be the
6 immoral act by the results of its devastation on
7 some of the people who participate in that
8 activity.

9 MR. NAVIN: That is a very difficult
10 question to address. Again, I cannot provide
11 you with specific kinds of data to back up.

12 REP. BIRMELIN: It is probably the kind
13 of question you would ask your law students.

14 MR. NAVIN: Well, yes. See, I ask law
15 students questions that I don't even know the
16 answers to just to see what they say and I
17 suspect that you may have just done the same
18 thing.

19 REP. BIRMELIN: Well, I am not ...

20 MR. NAVIN: Let me try to explain. I
21 think it is a fair question. I think it is a
22 fair question for you to ask.

23 Part of the problem that you are now
24 grappling with and that I think the Legislature
25 has to grapple with in dealing with the proposed

1 bill like 2308, it really deals with any
2 activity that people can engage in which may
3 produce harm to some.

4 I mean we have the -- but, to me, this
5 is my characterization -- the ludicrous
6 situation of the federal government subsidizing
7 tobacco growers while at the same time paying
8 huge sums of money in the form of benefits to
9 people who have, in my view, clearly damaged
10 their health as the result of smoking. And the
11 problem -- And also, you can go back and look at
12 the Homestead Act and prohibition and the rest
13 of them. I mean, a lot of people believe that
14 the consumption of alcohol is evil. The Koran,
15 for example, would support that.

16 But the problem for those who believe
17 that something is evil is compounded when it
18 turns out that, one, there are large numbers of
19 other groups of people who don't share that
20 belief; and, two, despite all of our efforts in
21 the past to eradicate something, we have been
22 sorely ineffective in doing that. And the
23 prohibition era again comes to mind.

24 So that even if it is true that people
25 gamble compulsively -- and I believe that they

1 do and I believe, I listened to the previous
2 witness who, I think has clearly more expertise
3 in the numbers, it was 2 to 6 percent, I believe
4 he said that are probably compulsive gamblers,
5 percent of the population -- even if you don't
6 allow gambling legally, people still gamble.

7 When I was high school student in a
8 different state than this, I could play the
9 numbers game, as a 16 year old, illegally, and I
10 used to get 750 to 1. And then the state, the
11 State of Connecticut, legalized the Lottery.
12 The best you could get was 500 to 1. So the
13 illegal bookmakers cheered, reset their odds at
14 600 to 1 and continued to run the games.

15 I mean it's -- My response to you is,
16 if you want my personal opinion, I don't gamble.
17 I would say try not to. And sometimes I have to
18 drive on 81 when it is slippery out there. But
19 Representative Masland knows about this coming
20 from Carlisle.

21 But the fact of the matter is, what my
22 studies have shown me is that whether it is good
23 or bad, whether it is morally good or bad,
24 whether it is legal or illegal, gambling is
25 something that a large proportion of our

1 population does and so the dilemma for society
2 is to try to figure out, I would submit, how to
3 minimize the effects of this while at the same
4 time maximizing the benefit to society. So I
5 would like to be as forthcoming as I can.

6 I suspect that it creates untold
7 devastation. So do cigarettes, so does alcohol
8 and so do other forms of drugs. For example,
9 with contraband. And we also have with certain
10 kinds of drug addiction problems, methadone type
11 maintenance programs which appear to have some
12 very beneficial effects to enable people to help
13 themselves out of a terrible problem they get
14 in, when they become addicted to this stuff.

15 REP. BIRMELIN: I thank you for your
16 answer and just as an editorial note, I would
17 sort of echo what you said in relation to the
18 subsidizing of agricultural products which we in
19 turn know that are devastating to the health of
20 people. There are many who would abdicate that,
21 you know, it is all right for the state to
22 propose and promote gambling as long as we have
23 a little program off to the side and you save
24 some of the money to deal with those who have
25 become compulsive gamblers even though we have

1 promoted it on the other hand. And I think it
2 is sort of a house divided against itself when
3 the government is promoting one thing that they
4 know they are creating problems for our people
5 in another area and then have to deal with those
6 problems.

7 It was a little bit amusing to me, I
8 was in Florida recently and I was driving around
9 and I noticed in the taxicabs, they have these
10 signs that they put on the roof of the taxicabs
11 and it says are you a compulsive gambler, call
12 1-800 and so forth for help and then underneath
13 it, it had Florida Lottery Commission as the
14 sponsor of the ad. So talk about schizophrenia.
15 I think that's what we have here.

16 And I appreciate your coming in for the
17 testimony.

18 MR. NAVIN: Thank you.

19 REP. BIRMELIN: And Representative
20 Masland will take care of those roads for you in
21 the future, I am sure.

22 MR. NAVIN: I know that he will. I
23 have confidence in my representative.

24 CHAIRMAN GANNON: Thank you,
25 Representative Birmelin. We have been joined by

1 Representative Harold James from Philadelphia
2 and also I believe Representative O'Brien and
3 Representative Lawless are also here somewhere
4 in the audience, I think.

5 Representative Boscola.

6 REP. BOSCOLA: Thank you, Professor.
7 You came here today -- and I really wasn't going
8 to ask you a question after I listened to your
9 testimony, but Representative Birmelin brought
10 up a couple of points that I wanted to ask you a
11 little bit further about, and this is probably
12 what my biggest problem is with the opponents of
13 gambling, is that they say that this, it might
14 be an evil in some way, or that morally, that
15 this is wrong, and we heard that maybe 30
16 percent of the people out there believe this is
17 true. Do you really believe they think gambling
18 itself is morally wrong or that some of the
19 things that occur, perceived occurrences because
20 of gambling like corruption, I have heard the
21 phrase wives being turned into widows and babies
22 will not be fed anymore, things like that?

23 And I don't think that that is
24 necessarily true, that gambling itself is evil,
25 so the question is: if gambling itself is evil,

1 but these perceived things that happen around
2 gambling might be -- and only 2 to 6 percent of
3 the population is a compulsive gambler, what
4 about the 95 percent of the people that do see
5 it as a form of entertainment and might go to a
6 slot machine maybe once or twice a year, they
7 are now going out of state to do that?

8 You have brought up an interesting
9 point about alcohol. I mean, if you think about
10 it, there is a lot of, about 85 percent of the
11 people in jail right now, some kind of drug or
12 alcohol problem, so we might as well go back to
13 prohibition if some of these arguments hold
14 true. And look how unsuccessful that was.

15 And I am not advocating go back to
16 prohibition. I think that our society
17 concentrates too much on that little segment
18 that creates such a problem.

19 You know, most of us like to -- Even
20 myself personally, you know, I go down to
21 Atlantic City once or twice, I have even been in
22 Delaware, and I like it as a form of
23 entertainment, so why should we penalize
24 individuals that are responsible when they
25 gamble, for the 2 to 6 percent that aren't?

1 MR. NAVIN: Is that the question?

2 REP. BOSCOLA: There are a couple of
3 things in there.

4 MR. NAVIN: I am not trying to be
5 clever or anything, I get paid to do that over
6 in Carlisle. But, of course, it is hard to get
7 from here to Carlisle because of the road.

8 The first question I heard you ask was
9 whether people perceive gambling as inherently
10 evil or the consequences that they see of
11 gambling, one consequence of which is the
12 devastation brought on those who are unable to
13 control their impulse to gambling. And my
14 guess, belief, which is all I can give you, is
15 that there is a significant group in society
16 which believes that gambling itself is wrong
17 regardless of whether it produces good or bad
18 side affects and then beyond that, there is
19 probably near unanimous agreement that there can
20 be terribly bad side affects or consequences of
21 gambling whether you consider it to be morally
22 good or morally bad.

23 And I think, as I tried to answer your
24 colleague, I suspect, I mean, again, if you look
25 historically, you will see that the Quakers,

1 simply viewed gambling as wrong and the history
2 of the Commonwealth is clearly bound up with
3 people from that background. So it must be that
4 there is both a substantial or significant, not
5 50 percent, who think just plain bad.

6 REP. BOSCOLA: Say maybe 30 percent?

7 MR. NAVIN: What?

8 REP. BOSCOLA: Maybe 30 percent is what
9 --

10 MR. NAVIN: Anything I say is pure
11 supposition on my part, it would be my gut
12 reaction. But in looking, simply on the basis
13 of how this ebbs and flows over time, it must be
14 significant. To me significant here would
15 probably represent at least a quarter: a quarter
16 who loathe it, a quarter who love it, and that
17 great 50 percent in the middle who are open to
18 being convinced that the not necessarily morally
19 love it, but the bad side affects, bad
20 consequences are going to occur anyway and it is
21 better for a society to deal with it in
22 aboveboard, openhanded manner and at the same
23 time, not unpleasantly, realize revenue from it.

24 You can't collect too much money in
25 taxes from people who gamble when at the same

1 time you say by paying this tax, you identify
2 yourselves as privileged. I mean, it just asks
3 a lot of people.

4 REP. BOSCOLA: And then the last
5 portion about those 2 to 6 percent that, you
6 know, do, are compulsive gamblers and then the
7 90, 95 percent of the people that are
8 responsible, why should they be penalized? Why
9 shouldn't this be an option in Pennsylvania?

10 MR. NAVIN: I guess that is for you to
11 decide as a legislature. It seems to me that
12 you are asking a question that can be
13 generalized into what is the function of
14 government. And this debate is now raging
15 naturally over the question of whether a
16 balanced budget, which has vastly reduced
17 expenditures on certain items, is going to be
18 signed by the President or not. That's the
19 question that I happily can see you fine ladies
20 and gentlemen were elected to decide.

21 REP. BOSCOLA: Thank you.

22 CHAIRMAN GANNON: Thank you,
23 Representative Boscola.

24 Representative Manderino.

25 REP. MANDERINO: No.

1 CHAIRMAN GANNON: Representative
2 Horsey.

3 REP. HORSEY: Just one quick question.
4 Is not gambling an extension of our society,
5 free society, capitalist society, competitive
6 society?

7 I mean, gambling is maybe a step up in
8 that we allow wagers to be put on competitive
9 experiences, but isn't capitalism consistent
10 with competition?

11 MR. NAVIN: Oh, I don't think there is
12 any doubt about that, Representative. The
13 portion where I talk about insurance in the
14 financial markets --

15 REP. HORSEY: Exactly, wagering.

16 MR. NAVIN: Yeah. The difficulty
17 legally, historically, in dealing with contracts
18 which have a wagering element such as insurance,
19 is the problem of finding something beyond the
20 existense of the wager which is beneficial
21 enough to justify allowing what is otherwise
22 wager. Insurance. Commodities. I mean,
23 commodities futures traded or any kind of
24 futures traded, plainly and simply is just
25 betting on whether there will be a frost, for

1 example, at the time they are ready to harvest
2 coffee beans in Brazil, which will have an
3 effect on the supply of coffee and the demand
4 for coffee and, therefore, its price.

5 You can look at people who use
6 agricultural commodities. The major banking
7 concern, for example, will be involved in an
8 extensive operation known as hedging where, in
9 effect, what they want to do is to remove from
10 the calculus of how they operate their business,
11 fluctuations in the price of the raw materials.
12 And the futures markets enable producers to
13 eliminate the uncertainty associated with that
14 by placing the risk in the hands of people who
15 are willing to bet on it. And it is that risk
16 allocation and function of the futures markets
17 that make it possible for society to say, even
18 if we don't like wagering, we are going to allow
19 this because there are tremendous benefits that
20 flow from it.

21 I think the same is true with
22 insurance. When you get to the pure wagering
23 situation where you cannot find this ancillary
24 benefit, then it seems to me, you get to the
25 cycle that I can identify which comes and goes:

1 we allow it; then we do away with it. We feel
2 that it is bad and enough us feel that it is bad
3 that we have our government prohibited, followed
4 by people saying, even though we prohibit it,
5 for crying out loud, it is still going on. And
6 so we can't eliminate it, so let's go back and
7 see if we can make it better, if we can do
8 something for it, the compulsive gamblers, if we
9 can do something for the compulsive drinkers and
10 that is really I think why Congress eventually
11 wound up passing yet and improving yet another
12 Constitutional Amendment in the repeal of the
13 Volstead Act.

14 So it is a tremendously difficult
15 problem because this activity continues. People
16 drink whether you prohibit it or not. People
17 use other drugs whether you prohibit their use
18 or not. People gamble whether you prohibit it
19 or not. You just don't know, unless people
20 change more fundamentally, whether you can do
21 anything about it.

22 REP. HORSEY: Yes, and the people like
23 the NCAA as of tonight. Thank you.

24 MR. NAVIN: That's right. Watching it
25 and betting on the outcome are two different

1 things.

2 CHAIRMAN GANNON: Representative
3 Masland.

4 REP. MASLAND: Thank you, Mr. Chairman.
5 I hesitate to ask you anything, Mike.

6 MR. NAVIN: It is all right, Al.

7 REP. MASLAND: I don't think you quite
8 hit me with your best shot yet.

9 MR. NAVIN: I am more worried about
10 what you are going to say.

11 REP. MASLAND: Well, the only solace in
12 this is that the Pennsylvania Cable Network is
13 not carried in my district, so your committing
14 me to fixing Route 81 is just between the two of
15 us, right?

16 MR. NAVIN: Right.

17 REP. MASLAND: I really just have one
18 question and it gets back to the Louisiana
19 Lottery, when you talked about a problem that
20 they had weaning themselves from the revenues
21 and that is a major concern of mine, as to how
22 dependent a state can become on the revenues.
23 We are dependent with respect to a number of
24 programs that are funded by the Lottery already.

25 I imagine the 90 percent of their funds

1 is probably the most glaring example that you
2 have come across, but are you aware of any other
3 statistics with respect to other states as to
4 what percentage of their revenues?

5 MR. NAVIN: No, 90 percent was not the
6 amount of revenue that Louisiana produced. It
7 was the amount of revenue from the Lottery that
8 came from people who were not voters of those
9 who approved it, so that I think it was closer
10 to 93 percent of the profit that came from
11 running the Louisiana Lottery came as the result
12 of people outside the state of Louisiana who
13 were playing the Lottery and, therefore, it is a
14 wonderful method of taxation for the purpose of
15 providing public works in the State of Louisiana
16 because you can get people everywhere else to
17 pay for it.

18 It is interesting that if you look at
19 the situation prior to the Revolutionary War and
20 you look at the Colonies before 1776, the
21 lotteries were very, very popular. Despite the
22 fact of absolutely deep-seated religious
23 conviction on the part of many citizens that
24 they would be wrong. And yet it seems to be a
25 function of what I might describe as a

1 relatively weak governmental structure. There
2 isn't in effect, the government of the Colonies
3 is really removed to the British Crown and
4 Parliament 3,000 miles in weeks, even by any
5 method of communication, away, so that it is not
6 easy to see how you deal with taxes. And then,
7 of course, there is the Stamp Act and the Boston
8 Tea Party which somebody tries to do it.

9 So when you have difficulty raising
10 revenue, then what you can do is easily move
11 into the Lottery or some other kind of
12 self-selected revenue producing business, where
13 you only tax those who choose to participate.

14 At the close of the Civil War, the
15 United States is in economic and social chaos.
16 The fact that what will happen in the South
17 after the end of the Civil War, is really
18 unknown. The states were weak, what was left of
19 the state governments in the Confederacy had
20 been decimated by the war and so at that point
21 in time, all of a sudden you see growing in
22 popularity again the use of lotteries to raise
23 revenues for admittedly worthwhile public
24 purposes. And then the Louisiana Lottery, just
25 for a variety of reasons, probably the worst

1 example. But I suspect that Louisiana Lottery
2 appears to have been the last of the post Civil
3 War lotteries to have ended, to have been
4 stopped; and it was stopped simply by the
5 federal government enacting that group of
6 statutes which included the Anti-Trust Laws, the
7 Interstate Commerce Act and the rest of them
8 which began to deny the use of the mails and
9 other instrumentalities for interstate commerce
10 for certain kinds of prohibitive activities.

11 You may or may not be aware -- if you
12 are not a lawyer, you are probably not aware --
13 the fundamental grounding of the Civil Rights
14 Act of 1964, which prohibits discrimination on
15 so many bases is not because we are opposed to
16 discrimination, but because Congress has made a
17 determination that discriminating on the basis
18 of race or other characteristics has an adverse
19 impact on the conduct of interstate commerce.
20 It is not because it is morally wrong itself, it
21 is because it is bad for interstate business;
22 and the origins of that use of the Commerce
23 Clause in the US Constitution come in the late
24 1880s and around 1890.

25 REP. MASLAND: Just one other comment

1 because we have talked about revenue raising in
2 general, you know, a number of people would say
3 that a gas tax is a type of wager, they are
4 basically paying this 6 1/2 cents of wagering on
5 whether or not the roads will actually be fixed.
6 Now, based our your comment --

7 MR. NAVIN: You said that. I didn't.

8 REP. MASLAND: Based on your comment
9 this morning, I am going to put you down in the
10 category that you believe that that is a wager
11 worth taking so that we can fix Route 81, is
12 that correct, sir, yes or no?

13 MR. NAVIN: I will give you a
14 conditional yes, Representative, and that is
15 that you will give a personal guarantee that 81
16 gets a share of the money.

17 REP. MASLAND: I will do all I can.

18 MR. NAVIN: I knew that you would.

19 I would not, by the way, describe a
20 user fee such as gas taxes as a wager, but I see
21 your point.

22 CHAIRMAN GANNON: Thank you,
23 Representative.

24 Representative Maitland.

25 REP. MAITLAND: Thank you, Mr.

1 Chairman.

2 Professor Navin, what kind of impact do
3 you think the institution of gaming in
4 Pennsylvania would have on our courts? Would
5 there be a large volume of gaming related
6 lawsuits or increase in police activity, gaming
7 related?

8 MR. NAVIN: I doubt that there is an
9 increase. I suspect that the net effect is
10 relatively small. If it has the consequence of
11 reducing the attractiveness of illegal gaming,
12 then enforcement activities that are now
13 directed at routing out illegal gaming could, in
14 effect, be diverted to attempting to police what
15 amounts to the rules by which certain gaming
16 activities can be conducted. You might have
17 fewer police officers, frankly, and more
18 auditors who are -- and one of the problems of
19 regulating gaming is that with these huge
20 volumes of cash that are flowing back and forth
21 across the tables, that the fact of the matter
22 is, it is very difficult to ever be certain that
23 somebody is not skimming and the casinos
24 themselves are never a hundred percent certain
25 that their employees haven't figured out a way

1 to make sure that less than all of what passes
2 through the handle is winding up in the pockets
3 of the management. And before I was a lawyer, I
4 was an accountant. I worked as an auditor for
5 Arthur Young in York, 30 years ago. And it is a
6 very difficult problem, to do that.

7 But I would think the net effect is
8 probably minimal. It is a different kind of
9 case.

10 REP. MAITLAND: If I might, I would
11 like to address my next question back to Mr.
12 Kline from the Lottery Commission.

13 Mr. Kline, has the Lottery Commission
14 been sued?

15 MR. KLINE: Have we been sued, well, we
16 were sued for the ADA recently. But, no,
17 retailers, sometimes are sued in disputes, but
18 they are infrequent.

19 REP. MAITLAND: If it is not a chronic
20 problem, then it is more of a nuisance?

21 MR. KLINE: Yes, many of the suits will
22 involve divorces and the application of what --

23 REPORTER: Excuse me. Mr. Kline, can
24 you repeat your answer or --

25 MR. KLINE: Occasionally someone,

1 someone will also dispute, will present to us
2 fake tickets. We just had a case in
3 Philadelphia where a policeman, you know,
4 arrested someone, stole the tickets off the
5 person who was being arrested and they were in a
6 domestic dispute and tried to redeem them; in
7 those cases, we catch them and turn them over,
8 turn them over to the law enforcement agencies,
9 but not much of our time is devoted to legal
10 problems.

11 REP. MAITLAND: Thank you, Mr. Kline.

12 And thank you, Professor Navin.

13 CHAIRMAN GANNON: Representative
14 Schuler.

15 REP. SCHULER: Thank you, Mr. Chairman.
16 Professor, on page four --

17 MR. NAVIN: Yes, sir.

18 REP. SCHULER: -- you mentioned about
19 the more gambling, there was more gambling and
20 the less revenue is generated that it would be
21 more disfavored with gambling. I suspect then
22 you are a opponent of the X number of dollars
23 that are available for gambling?

24 MR. NAVIN: I suspect that is true,
25 sir. There is a limited amount of discretionary

1 dollars that any individual or group of
2 individuals can have.

3 REP. SCHULER: Right now in
4 Pennsylvania, we have small games of chance, we
5 have bingo, we have the Lottery, we have racing
6 and, of course, you have illegal operations that
7 we don't really, we know they go on, but the
8 powers that be do try to keep a lid on that and
9 I think they do a pretty good job. But having
10 said all that, would you care to share with us
11 your view as to what point on this continuum
12 Pennsylvania is reaching the law of diminishing
13 returns on the gambling?

14 MR. NAVIN: Before I testified, I was
15 listening to the questions that were being asked
16 of Mr. Kline and his responses and I thought
17 that they were thoughtful questions and equally
18 thoughtful answers. The real question that I
19 think you need to address to somebody
20 differently because it requires the collection
21 of, in my mind, hard data, is how much is going
22 out of state? I know even the law students are
23 wonderful at setting up a bus trip to Atlantic
24 City and the quilters from Huntington would
25 probably do the same thing at some point or

1 another.

2 Unless you can answer the question of
3 how much revenue that people would otherwise
4 gamble within the Commonwealth is being wagered
5 outside the Commonwealth, it is really very
6 difficult to respond, I think intelligently or
7 accurately to that question.

8 By the same token, I suppose there is
9 the question of the flow the other way, which
10 probably is only a short lived phenomenon. If
11 you are the only state in the area that has
12 gambling game A, then people will cross state
13 lines to play your game, but if they can do it
14 at home, they will probably avoid the traveling,
15 which may have a beneficial impact on air
16 quality, for all we know, when we look at it the
17 other way, fewer busses, fewer fumes, and I
18 might add, for Representative Masland's benefit,
19 less wear and tear on our state's highways.

20 But that is is the question. I think
21 it is the right question for you to ask, it is
22 one of the ones that you have to know the answer
23 to before you can rationally deal with the kinds
24 of issues that are presented in the bill that
25 you are holding hearings on, but I really don't

1 have that information.

2 REP. SCHULER: Thank you.

3 Thank you, Mr. Chairman.

4 CHAIRMAN GANNON: Representative James.

5 REP. JAMES: Thank you, Mr. Chairman.

6 No questions.

7 CHAIRMAN GANNON: Representative

8 Caltagirone.

9 REP. CALTAGIRONE: A couple of quick,
10 Professor.

11 CHAIRMAN GANNON: I am sorry.

12 Representative Raymond. I guess he's not here.

13 Representative Caltagirone, I am sorry.

14 REP. CALTAGIRONE: Okay. Professor, I
15 call it holy of holies, it wasn't mentioned here
16 yet and that is the stock market.

17 MR. NAVIN: Well, I mentioned the
18 financial markets.

19 REP. CALTAGIRONE: I understand. But
20 do you think the stock market -- And we hear
21 these reports every night. And, of course,
22 that's what makes this country, supposedly, and
23 most of the free countries around the world,
24 those that are coming into their own, getting
25 involved in the stock market; do you think that

1 is a form of gambling at the highest level?

2 MR. NAVIN: Well, I don't think there
3 is any doubt about it in my mind. Any way you
4 slice it, it is a wager, just like life
5 insurance.

6 REP. CALTAGIRONE: How about the
7 political parties in this state and the churches
8 with the raffles and the strip tickets and the
9 wheels and bingo --

10 MR. NAVIN: -- is that gambling?

11 REP. CALTAGIRONE: Gambling?

12 MR. NAVIN: I don't see how one with a
13 straight face would say otherwise, so I won't.

14 REP. CALTAGIRONE: Thank you,
15 Professor.

16 CHAIRMAN GANNON: Thank you, Professor.
17 Just an observation from your testimony, is it
18 fair to say that there is a certain level of
19 gaming activity that always occurs in society,
20 but the cycle is whether it is approved or
21 disapproved publically?

22 MR. NAVIN: Yes, although I would
23 suspect there is kind of a vicious cycle which
24 is involved there, which is that the more
25 generally approved it is, the higher the total

1 volume it will occur. If it is completely
2 suppressed, then only the hard core,
3 determined-to-gamble-at-any-cost and being
4 willing to risk the wraths of prosecution for
5 the illegal activity will play. The more it is
6 legalized, the easier it is and the higher again
7 in the gambling terms of the handle will be
8 throughout the system.

9 CHAIRMAN GANNON: So it may be fair to
10 say that part or baseline will gamble
11 irrespective of whether it is approved or
12 disapproved, and that could be, that small
13 percentage then could be characterized as
14 compulsive.

15 MR. NAVIN: I suspect it is more than
16 the compulsive gambler. I think there are
17 people who would choose to gamble. And in fact,
18 for all it is possible to determine, they may be
19 gambling on whether they will get caught. There
20 is something to the risk taker that says that I
21 will gamble because it is illegal because I
22 think it is interesting to find out whether I am
23 going to get caught. Like the person who drives
24 80 in a 60 zone, something like that, it is not
25 clear to me the people would drive 80 if it was

1 legal as many people would drive 80 as some who
2 just want to test whether they can get away with
3 something. So I kind of think that your
4 question is right along those lines.

5 CHAIRMAN GANNON: Okay. Any follow-up
6 questions, Representative Horsey?

7 REP. HORSEY: Just briefly. You raised
8 the question on legislative responsibility. Mr.
9 Chairman, if you can bear with me on two quick
10 questions of Mr. Kline. The first question is:
11 the revenues in the State of Pennsylvania have
12 gone up or down over the first three months this
13 year concerning the Lottery? Have revenues gone
14 down?

15 MR. KLINE: That is a difficult
16 question to answer. The reason being that our
17 revenues to the state are dependent upon our
18 prize payouts and if triples were to hit the
19 daily numbers game, for example, our revenues
20 would go down over a three-month period. You
21 have to look at larger periods in order to draw
22 any conclusions. Like if you ask me about
23 sales?

24 REP. HORSEY: Yes.

25 MR. KLINE: The sales?

1 REP. HORSEY: Yes.

2 MR. KLINE: The sales have been going
3 up over the last three months.

4 REP. HORSEY: Are you familiar with the
5 intake by Delaware the first month of their
6 legalized gambling, which is this year? Are you
7 familiar about their payment?

8 MR. KLINE: Yes.

9 REP. HORSEY: Can you give us that
10 number?

11 MR. KLINE: Well, in Delaware, the
12 video machines are paying out at about a 92
13 percent rate -- Is that right, about 92 percent?
14 -- so that 8 percent of their sales, 8 percent
15 of the money that is going into the machine, is
16 then being turned over to various groups,
17 including the state, the track owners that are
18 turning in the purses, increased purses of
19 tracks. The state is getting about 17 percent
20 of that.

21 REP. HORSEY: The overall question is,
22 what was the take, total --

23 MR. KLINE: How much?

24 REP. HORSEY: -- the first month of
25 operation, intake of all revenues?

1 MR. KLINE: I saw the numbers, but I
2 can't remember.

3 REP. HORSEY: Are you aware, Professor?

4 MR. NAVIN: No, I am not, sir.

5 REP. HORSEY: Okay. I have heard the
6 figure, I have heard the figure of \$50 million
7 and if it was a drain on the Pennsylvania
8 Lottery, I think there would have been an impact
9 on our people who want to gamble. Thank you.
10 That's all.

11 MR. KLINE: Okay.

12 CHAIRMAN GANNON: Thank you,
13 Representative Horsey.

14 Thank you, Professor Navin. It was
15 very nice of you to come here today and present
16 your testimony and take our questions. Thank
17 you very much.

18 MR. NAVIN: Thank you very much for the
19 opportunity.

20 CHAIRMAN GANNON: Our next witnesses
21 are John R. Long, President and Chief Operating
22 Officer of Ladbrooke Racing Pennsylvania, and
23 John M. Swiatek, Vice President of Ladbrooke
24 Racing Pennsylvania.

25 MR. LONG: Thank you, Mr. Chairman.

1 CHAIRMAN GANNON: Thank you, you may
2 proceed.

3 MR. LONG: I am John Long, President
4 and Chief Operating Officer of Ladbroke Racing
5 Corporation, and to my left is John Swiatek, who
6 is the Vice President of Ladbroke's operations
7 in Pennsylvania.

8 Both of us Johns are very pleased to
9 have the opportunity to tell you about Ladbroke
10 and talk about horse racing and the wagering
11 business in Pennsylvania and to make some
12 comments about the potential for the gaming
13 industry in Pennsylvania. I would say, though,
14 that my comments reflect the opinions of
15 Ladbroke Racing Corporation and not necessarily
16 that of all of the participants of the racing
17 industry within the state.

18 Ladbroke is a worldwide leader in
19 hospitality and entertainment and gaming.

20 Our parent, Ladbroke Group PLC, is a
21 London-based company with gaming interests
22 throughout the world. We are listed as one of
23 the top 100 companies on the London Stock
24 Exchange.

25 We own and operate three casinos in

1 London and 2,000 off-track betting shops
2 throughout the United Kingdom.

3 We own the Hilton International Hotel
4 chain. And with 163 properties worldwide,
5 Hilton has been voted the best brand name in
6 hotels for the third year running. And for some
7 of these hotels, we also operate casinos.

8 Ladbroke's operations in North America
9 include some of the finest hotels, including the
10 Drake in Chicago; the Caribe Hilton in San Juan,
11 Puerto Rico; the Marquette in Minneapolis; the
12 Vista in Washington, D.C.; and six other Hilton
13 International properties throughout Canada.

14 We, though, are headquartered in
15 Pittsburgh, Pennsylvania. That is where
16 Ladbroke Racing oversees the racing and gaming
17 operations for the United States. Both John and
18 I are residents of the Pittsburgh area. Our
19 kids go to school there and we worship in the
20 area. We own and operate a race track near
21 Detroit, another thoroughbred track near San
22 Francisco and we recently opened the largest
23 card club casino in northern California.

24 But, we are most proud of our \$50
25 million investment here in Pennsylvania. We

1 purchased The Meadows race track in Washington
2 County in 1989, and thanks to the enlightened
3 legislation that has been passed since then, we
4 have opened five off-track racing, wagering and
5 dining facilities, better known as OTBs. And
6 they are located in New Castle, Johnstown,
7 Greensburg, and Harmar and Moon Townships in
8 Allegheny County. Our sixth and last OTB will
9 open in the fall in West Mifflin, also in
10 Allegheny County. We will be the first track in
11 the Commonwealth that has opened all of the six
12 OTB licenses allocated to it.

13 In all, more than a million people a
14 year visit our facilities. And our live racing
15 card is carried at 1.3 million homes in the
16 Tri-State region on cable television.

17 We employ almost a thousand people and
18 our Pennsylvania payroll currently amounts to
19 about \$11 million a year. Another 100 employees
20 will join Ladbroke's when our new OTB opens this
21 fall.

22 Ladbroke's is also a major contributor
23 to the host communities in the forms of real
24 estate, mercantile and other business privilege
25 taxes and, of course, our employees pay earned

1 income taxes.

2 I cite these figures to underscore this
3 point: Ladbroke is a strong, thriving business
4 that plays a very important role in the economic
5 base of the communities that we operate in.
6 Just as important, we are valued by the
7 political and community leadership of every
8 single one of these cities and towns because our
9 facilities have contributed to additional
10 economic development.

11 For example, our Harmar Township OTB
12 has become the center of an entertainment
13 complex in that community. Not long after we
14 opened our OTB, a major family-oriented ice rink
15 was opened adjacent to our facility.

16 In New Castle, the OTB has helped to
17 spur a significant amount of commercial
18 development in the same area including a brand
19 new 84 Lumber store and a Walmart which opened
20 just a short time ago.

21 And, Ladbroke has earned the respect of
22 the other businesses in these communities as
23 well.

24 We have made a great investment in
25 Western Pennsylvania and, in return, Ladbroke

1 has benefited from the good will and patronage
2 of the people of the region.

3 We are an important Pennsylvania
4 company and we are very, very proud of that
5 fact.

6 But to understand what role expanded
7 gaming might have in the Commonwealth, it is
8 vital to understand the importance of the
9 Pennsylvania horse racing industry.

10 As you may know, we have been directly
11 involved in helping to design the programs that
12 have catapulted horse racing in Pennsylvania to
13 a premier position within all of the United
14 States.

15 Our sport doesn't get the kind of media
16 attention that is afforded the professional and
17 college teams in the Commonwealth, yet horse
18 racing and the agricultural industry it
19 represents have grown to be a very popular
20 entertainment option for Pennsylvanians.

21 The combined attendance at the four
22 race tracks, coupled with the attendance at the
23 13 off-track betting facilities currently open
24 in Pennsylvania, amounts to millions of people
25 each year. We draw more Pennsylvanians and more

1 professional sport teams than our major cities.

2 And through the use of cable
3 television, hundreds of thousands of more people
4 take part in our sport from home.

5 And that's why we can say with great
6 confidence that Pennsylvania's horse racing
7 industry is among one of the most successful in
8 the United States.

9 And by any standard, Ladbroke has been
10 recognized as an industry leader.

11 This achievement rests, not solely at
12 our front door, though, but to a large part, it
13 relies right here in the Capitol. You have
14 designed and approved rules and regulations
15 covering horse racing that have achieved three
16 important objectives:

17 1. We have been able to revitalize an
18 important part of the Commonwealth's
19 agricultural industry, namely, the breeding of
20 racehorses.

21 2. We have allowed the industry to
22 expand to meet the demands of the people in
23 Pennsylvania for a new gaming and entertainment
24 outlet.

25 3. We have assured that the racing and

1 gaming operations are conducted in the interest
2 of all Pennsylvanians and with the highest level
3 of integrity.

4 The last few years have been very good
5 to the commercial equine industry ... and good
6 for the economy of Pennsylvania.

7 The final 1995 audited numbers have not
8 been issued by the Pennsylvania Racing
9 Commissions. But we estimate that the total
10 handle, which is the total amount of money bet
11 for horse racing, in Pennsylvania in 1995,
12 amounted to in excess of \$1 billion. That's an
13 impressive 13 percent increase from 1994 and
14 almost a 100 percent cumulative increase in just
15 this decade.

16 And the purses paid out, or the prizes
17 paid out to the horse owners, have increased
18 from \$41 million in 1994 to \$44 million in 1995.
19 So by continuing to grow our business, we
20 continue to attract the best horses in the
21 United States and present the most competitive
22 and outstanding races.

23 Off-track betting facilities give the
24 industry the chance to bring horse racing and
25 unique entertainment to a much larger percentage

1 of Pennsylvania's population and they are
2 enormously popular.

3 The OTBs carry racing programs from
4 Pennsylvania's tracks and tracks from other
5 states, all packaged in brand new facilities
6 with excellent food and beverage options.

7 In 1993, you enacted full-card
8 simulcasting legislation. This allowed us to
9 televise racing from outside of the state so
10 that our residents can wager at our facilities
11 in the state. And we now send racing from
12 Pennsylvania tracks to race tracks and OTBs
13 throughout North America.

14 Telephone wagering has given more
15 people the opportunity to participate. Tied to
16 the tracks by cable television, they can enjoy
17 racing from the comfort of their own homes.

18 In all, we are now able to give our
19 customers a complete package of entertainment,
20 dining, racing and wagering options.

21 These numbers tell an impressive story.

22 Today, horse racing is making a strong
23 and increasing contribution to the Pennsylvania
24 economy on two levels:

25 1. Through the capital investments, the

1 jobs and the taxes generated directly by racing
2 operations.

3 2. Through the investments, the jobs
4 and the taxes generated by the commercial
5 breeders and the horse farms that prosper as a
6 result of healthy horse racing industry.

7 Horse racing operations require
8 substantial investment in capital assets,
9 including land, structures, equipment, tracks
10 and animals. The Pennsylvania Racing
11 Association estimates that horse racing-related
12 capital holdings in 1994 had a market value of
13 \$1.2 million. (NOTE: Written testimony figure
14 is \$1.2 billion.)

15 Currently, there are two harness and
16 two thoroughbred tracks and 13 off-track
17 wagering establishments in Pennsylvania.

18 In 1994, the combined assets of all of
19 these facilities alone was \$145.1 million. And
20 between 1990 and 1994, the four tracks invested
21 \$179 million in new plants and equipment.

22 Horse racing and the commercial horse
23 industries also produce a significant number of
24 jobs throughout the Commonwealth.

25 In 1994, horse racing tracks employed

1 almost 4,000 people. These employees earned
2 \$47.8 million in wages and salaries and
3 benefits.

4 The effect of spending by the owners
5 and the racing stables also ripples throughout
6 the economy. More than 2600 jobs and payrolls
7 amounting to \$46 million are associated with the
8 direct care and the training of the horses such
9 as grooms and other members of the stabling
10 team.

11 And another 3200 jobs have been created
12 by those companies that sell goods and services
13 to the racing teams, from veterinarians to feed
14 sales.

15 And, finally, another 8,000 individuals
16 -- trainers, breeders, riders and jockeys --
17 derived at least a portion of their income and
18 their livelihoods from Pennsylvania horse
19 racing.

20 And, similarly, the importance of
21 assets and employment is obvious when we look at
22 the segment of the commercial equine line
23 industry that is directly tied to horse racing.

24 Employment attributable to direct and
25 indirect spending by horse farms amounted to

1 9400 jobs in 1994, and that didn't include farm
2 family members. Direct and indirect spending
3 totaled an estimated \$194.1 million.

4 Clearly, horse racing is an important
5 factor in the Pennsylvania economy. In total,
6 the horse racing industry and related commercial
7 equine activities are responsible for 35,000
8 jobs ... \$576 million in personal income ... and
9 \$752 million in total economic output.
10 Even excluding the corporate and the business
11 taxes, this industry generated in excess of \$62
12 million in tax revenues for the Commonwealth in
13 1994.

14 Our achievements have attracted the
15 interest of legislators and race track operators
16 from other states and countries. For example,
17 at Ladbrooke, we have been visited by legislators
18 and track operators from 16 separate states and
19 three foreign countries to see how we do
20 business.

21 Invariably, the first thing they want
22 to know about is the Pennsylvania legislation
23 that regulates us. Without exception, they
24 recognize our legislation as a model which sets
25 the stage for this well-run industry.

1 The Legislature has understood and
2 supported the initiatives that have enabled the
3 industry to offer Pennsylvanians who enjoy the
4 sport more and more opportunity to watch and
5 wager.

6 Over the past few years, we have been
7 asked for our opinion on proposals to legalize
8 more types of gaming in Pennsylvania.

9 Our position is this: Pennsylvania has
10 in nurtured two very successful gaming
11 institutions: horse racing and the State
12 Lottery. Both are popular with the public and
13 both contribute tax revenue to the state.

14 These institutions exist because the
15 Legislature determined that it was good public
16 policy to create them.

17 If that public policy is expanded in
18 the Commonwealth, we would respectfully
19 recommend that you must consider these points:

20 1. Having not rushed into the expansion
21 of gaming that swept the country in the past
22 three to four years, we have the unique
23 opportunity to learn from other states. We can
24 take the best practices and reject the errors
25 that have been made elsewhere. We should be

1 able to write the best legislation in the
2 country.

3 2. Many communities in Pennsylvania
4 need help in the form of economic development.
5 And, our two major urban centers have extensive
6 waterfronts that could be the foundation for
7 this development.

8 3. Many states see the expansion of
9 gaming as a form of soft taxation and earmark
10 the revenue for a specific purpose. We believe
11 that it is important, clearly very important, to
12 specify where the income from the gaming will go
13 when fashioning the bill.

14 4. The Commonwealth already sanctions
15 gaming in the form of lottery and horse racing
16 and charitable small games of chance. The
17 continued viability of each of these products
18 must be given consideration.

19 5. Both horse racing commissions that
20 exist within the Commonwealth today provide a
21 framework for preserving the integrity of horse
22 racing via rigid enforcement procedures and they
23 should be used as a blueprint for any other
24 gaming commissions.

25 In conclusion, we recognize that you,

1 the Legislature, and the Governor must determine
2 whether or expanded gaming options are in the
3 best interest of the people of Pennsylvania.

4 Should expansion be the chosen course,
5 we at Ladbroke would welcome the opportunity to
6 be part of any plan in that expansion.

7 We have the willingness, the resolve
8 and the financial resources to invest capital in
9 such a venture to ensure its success in and for
10 the Commonwealth of Pennsylvania.

11 Finally, I would like to thank you for
12 giving me an opportunity to share this
13 information about the horse racing industry in
14 Pennsylvania and our opinions on the broader
15 issue of expanded gaming.

16 I commend the Committee for undertaking
17 the comprehensive and thoughtful process of
18 hearings to better understand these various
19 issues involved.

20 We at Ladbroke would welcome the
21 opportunity to participate as a resource to the
22 Legislature in regards to its consideration of
23 expanded gaming as we are uniquely qualified,
24 via our successful record here in Pennsylvania
25 and our worldwide experiences in casino and

1 hotel management.

2 Thank you very much and we will be
3 happy to answer any of your questions.

4 CHAIRMAN GANNON: Thank you, Mr. Long.
5 Representative James.

6 REP. JAMES: Thank you, Mr. Chairman.

7 And thank you for your testimony. Just
8 kind of a few quick questions. Do we have --
9 and I am very impressed with your testimony --
10 do we have like in Pennsylvania, like they have
11 a Kentucky Derby, do we have anything similar to
12 that in Pennsylvania?

13 MR. LONG: We don't have a race with a
14 purse size that size. Ladbroke at The Meadows
15 holds the largest state race in the Commonwealth
16 on the first Saturday of every -- of August and
17 it is called the Adios and the purses on that
18 Saturday would be half a million dollars.

19 REP. JAMES: How do you spell that?

20 MR. LONG: A-d-i-o-s, the name from a
21 great horse.

22 REP. JAMES: The other question is: I
23 see on page eight at the top, you talk about the
24 news on television, about cable and wagering;
25 does that seem to hurt the track by doing that?

1 Because we are seeing that people don't have to
2 go to the track if they do it by cable and
3 television, I was wondering how that, does that
4 hurt tripping (phonetic)?

5 MR. LONG: Since 1989, since the
6 enabling legislation allowing for off-track
7 betting and even going back to 1986 where
8 telecomping Tom Petty first started, all of
9 those different forms of distribution of the
10 racing product have diminished live racing
11 attendance at the race tracks, but the overall
12 business has grown substantially.

13 Pennsylvania has the most unique racing
14 legislation in the country and even though
15 on-track attendance is not what it once was in
16 the 1960s because of the availability of
17 off-track betting facilities, telephone account
18 wagering and the fact that we are in 1.3 million
19 homes every night of the week, the pie is
20 considerably bigger than it was 15 years ago.

21 REP. JAMES: Because I think that is
22 great, it gives more people the opportunity to
23 participate. And, of course, that does increase
24 your revenues.

25 MR. LONG: Yes, it does.

1 REP. JAMES: Since we have such good
2 regulations as relates to the industries and you
3 talked about people, legislators, coming from
4 other states, have any of those other states
5 adopted anything similar to Pennsylvania yet, if
6 you know?

7 MR. LONG: Unfortunately, no, because I
8 do business in some of those other states.

9 Recently, there was some legislation
10 that was passed in Michigan that does now allow
11 for full-card simulcasting. Much of the
12 legislation that was put together in Michigan
13 was based on the experience in Pennsylvania.
14 California has not. Illinois has. So much what
15 exists here in terms of the legislation has been
16 looked at, but it has been very difficult for
17 other states to copy it word for word.

18 REP. JAMES: And two more. In one of
19 your recommendations, you say both horse racing
20 commissions, so we have two horse racing
21 commissions?

22 MR. LONG: That is correct.

23 REP. JAMES: And, finally, I just
24 wanted to say that I think that we indicate we
25 have the opportunity to review what is happening

1 in other states and so as we develop with them,
2 we have to develop to make this happen, make it
3 beneficial to the people which we serve. And
4 you are offering to be at the table. I think
5 that is important for our Committee to undertake
6 that, so that whenever we decide to do what we
7 have to do that we have a roundtable that
8 includes everyone so that everyone can have a
9 stake in developing an ideal piece of
10 legislation.

11 Thanks for your offering.

12 MR. LONG: Thank you very much.

13 REP. JAMES: Thank you, Mr. Chairman.

14 CHAIRMAN GANNON: Thank you.

15 I wanted to recognize, we have been
16 joined by Representative Hennessey, and also
17 Representative Paul Clymer is with us today
18 also.

19 Welcome, Paul.

20 CHAIRMAN GANNON: Representative
21 Boscola.

22 REP. BOSCOLA: John and John, hi.

23 I had a constituent call me just
24 yesterday and his name is Ron Wendel (phonetic)
25 and he was down at the Dover Downs maybe a

1 couple of weeks ago, in which there are slot
2 machines in the off-track betting facility and
3 what he told me was that -- because he is
4 interested and he saw it -- at 3:30 in the
5 afternoon, he was there, the place was packed,
6 it was totally full, there were people waiting
7 in lines to play the slot machines.

8 And he announced to individuals there,
9 what, you know, if they were satisfied with what
10 was coming in, the revenue. And they told him
11 that they were paying out \$1.5 million a week to
12 individuals that were playing these slot
13 machines.

14 And I am asking you, if somebody, if a
15 facility pays out 1.5 million, how much do they
16 take in? I don't know if you can tell me that.

17 But I also want to know if the majority
18 of these people are going down to Delaware from
19 Pennsylvania. Because he said he went around
20 and asked people where they were from and a lot
21 of them were from Pennsylvania. Would it
22 benefit your facility to have these types of
23 slot machines? And, do you have a position on
24 it or no? Just out of curiosity.

25 Because he was indignant. He was

1 saying to me, listen, Lisa, there are a lot of
2 people going out to Dover Downs and they are
3 gambling and these people are from Pennsylvania,
4 so why can't we have that here in Pennsylvania
5 and keep the revenue in Pennsylvania?

6 MR. LONG: I think that that question
7 all goes back to the question that the Professor
8 dealt with earlier and that has to do with what
9 I believe to be the single largest question
10 based on the Legislature with regard to this
11 whole issue and, that is, how much of this we
12 would like to keep at home.

13 And we certainly see the same situation
14 on the other end of the state where we compete
15 with West Virginia. Both Mountaineer Park and
16 Wheeling Downs have the video lottery machines
17 that Mr. Kline spoke about earlier, you can go
18 to either of those facilities, any day of the
19 week, any time of the day and you will see 30 to
20 40 percent of the cars in the parking lot will
21 have license plates that come from the
22 Commonwealth of Pennsylvania, so we are facing
23 the same competition on our end of the state.

24 What is different, though -- and much
25 of the success again rests with the Legislature

1 -- is that every new whistle, every new product,
2 every new opportunity, every new product that
3 has come down the pike in terms of parimutuel
4 racing, you have been able to make it work for
5 us. Dover Downs doesn't have telephone account
6 betting, Delaware doesn't have off-track
7 betting; they don't have the same level of
8 full-card simulcasting that we do. So what we
9 have been able to do is to add these products --
10 bullets to our holster, if you will -- over the
11 last 10 years so that we are in a position that
12 is completely different from the tracks in
13 Delaware.

14 And with regard to slot machines at
15 race tracks, personally I am still undecided as
16 to whether that makes sense or not. I do think
17 that, to the extent that new gaming
18 opportunities are legalized within the
19 Commonwealth, that the parimutuel facilities,
20 both the race tracks and the off-track betting
21 facilities, are going to have to be kept in a
22 current playing field. That, to me, is very
23 clear. The importance of racing to the economy,
24 hopefully is now clear to you. And I would
25 think, I would certainly hope that we wouldn't

1 want to do any damage to what the Legislature
2 has created for racing over the last 9 or 10
3 years.

4 REP. BOSCOLA: Thank you.

5 CHAIRMAN GANNON: Thank you,
6 Representative Boscola.

7 Representative Manderino.

8 REP. MANDERINO: Thank you, Mr.
9 Chairman.

10 John, a couple of the earlier
11 presenters all talked about the pace of betting
12 and that's where I want to start my questioning.
13 Chuck Kline from the Lottery talked about how
14 that is, on most cases, a one-time daily
15 occurrence type of thing. On-track races
16 happen, what, every 20 minutes?

17 MR. LONG: That's correct.

18 REP. MANDERINO: And what is the
19 wagering window, meaning when you can place a
20 wager and time frame that you can't do anything?

21 MR. LONG: I am not sure if I
22 understand your question.

23 REP. MANDERINO: Okay. Meaning, are
24 windows open the whole time the track is open
25 but for -- I know they are not open necessarily

1 during the race -- but -- or is there a
2 10-minute window before each race that you can
3 place the bet and then a 20-minute breather
4 where you can't do any betting?

5 MR. LONG: For live racing, the betting
6 window closed when the race goes off. But so
7 much has changed in the last couple of years.
8 You can go to the Meadows Race Track or you can
9 go to Philadelphia Park, the National Pocono
10 Downs and it is not just the window that you are
11 going to place a bet for that race track at, but
12 you may be placing a second bet from San Pablo
13 or from the Meadowlands at the same window, so,
14 in effect, the windows don't close at all any
15 more.

16 REP. MANDERINO: That may then get to
17 my second question, was, with the off-track --
18 and I was making a wrong assumption that
19 on-track was dealing with races just at that
20 particular track where as off-track would be
21 dealing with the races at other tracks, but now
22 you are telling me it is pretty much the same,
23 whether you are on-track or off-track.

24 MR. LONG: Yes, in the last couple of
25 years, we now present the same number of races

1 and the same number of race cards at the race
2 tracks as we do at the OTB facilities.

3 REP. MANDERINO: So is it fair to say
4 whatever the pace of those two things are,
5 whether they are faster than the Lottery or
6 slower than slot machines, at least with regard
7 to on-track and off-track betting now, it is
8 kind of like the same?

9 MR. LONG: I think it is safe to say
10 that we are someplace in the middle.

11 REP. MANDERINO: The call-a-bet
12 program, my familiarity with it is very little,
13 but if I am recalling, you have to have kind of
14 like a cash account money in the bank in which
15 you are charging against it. Is that still the
16 current case, or can people kind of card call-in
17 with Visa or Master Card?

18 MR. SWIATEK: Well, basically, you have
19 to have an account established and it is a debit
20 account, you are betting off your debit account.
21 But there are services in which you could
22 transfer money off a credit card into a debit
23 account with the race track, but that is handled
24 by a secondary service, not the race tracks.

25 REP. MANDERINO: In the horse racing

1 field -- I am not exactly sure how to phrase
2 this, but, again, I am just going from my
3 layman's perspective of how it works -- is there
4 a concept of staking wagers: I don't have the
5 cash right now, but I am good for it and so,
6 therefore, I can continue gambling?

7 MR. LONG: If you are asking do we
8 extend credit, the answer is: no, there is no
9 credit of any betting.

10 REP. MANDERINO: Is that because of how
11 you are regulated in Pennsylvania, or is that an
12 industry-wide kind of thing?

13 MR. LONG: In terms of the parimutuel,
14 it is an industry-wide, it is an industry-wide
15 almost requirement. Because when you stop to
16 think about: you are not betting against the
17 house, you are not betting against the race
18 track, you are betting against the person that
19 is sitting on the other side of the table; that
20 is what parimutuel means. So it wouldn't been
21 us extending the credit, it would conceivably be
22 the person sitting across the table that would
23 be extending the credit to you.

24 REP. MANDERINO: In 1988, when the
25 legislation was passed to enable you to expand

1 into off-track betting, I was not here so I
2 don't remember in detail the arguments that were
3 used, the rationale that was presented as to why
4 that was needed and you have already explained
5 to us what has happened and how the industry has
6 expanded or grown since then, but I would like a
7 little bit of historical perspective on where
8 you were in '88 and from your view what would
9 have happened had you not gotten that expansion
10 legislation.

11 MR. LONG: Well, that's a simple
12 question to answer, actually.
13 Our offer to purchase The Meadows race track was
14 contingent upon the passage of off-track betting
15 legislation, so to the extent that the
16 legislation was not enabled, I wouldn't be here
17 today talking to you, we would not have, we
18 would not have finalized the purchase of the
19 race track.

20 I think in a very general sense the
21 rationale for passing off-track betting
22 legislation was this: that racing, the racing
23 industry in Pennsylvania realized that it was
24 not as competitive as it once was and that
25 unless it did something pretty quick and put

1 aside all of the old arguments and embitterments
2 that had been involved in racing for many, many
3 years -- thoroughbreds versus standard bred,
4 track owners versus horsemen -- unless those
5 issues are put aside to come up with a plan to,
6 one, attract new people to the sport while still
7 trying to preserve the integrity of live racing
8 and at the same time be able to revitalize the
9 breeding industry, that those were the things
10 that cemented the agreement that cemented the
11 consensus to get all of the parties together.

12 So as we look back on it, 10 years ago,
13 not quite 10 years, but as we look back on it
14 today, I would have to say that both the
15 Legislature and the racing industry deserves to
16 pat itself on the back. Everything that we set
17 out to do, we have done.

18 I know that there are new people
19 involved in racing today that were not involved
20 in racing in 1991. I know there are more people
21 owning horses today that had no idea about the
22 excitement and the economic opportunities about
23 owning horses back in 1991. I know that the
24 OTBs have brought people to the race track that
25 have never gone racing before and I have

1 personally seen it. And I am one of them. I
2 somehow managed to live the first 40 some odd
3 years of my life without ever having gone to a
4 race track. And now I do it, I do it because of
5 what happened at the OTB.

6 So everything that we set out to do in
7 terms of breeding, bringing new people into the
8 sport, creation of jobs, revenues to the state,
9 I would give us an A plus all the way across the
10 board.

11 REP. MANDERINO: You said that in '88,
12 or at least when the horse racing industry had
13 realized they weren't as competitive as they
14 could have been then, and in further explanation
15 I heard the reasoning as being more inside the
16 industry problems and pressures as compared to
17 outside of the industry pressures, was there any
18 influence, and when I say outside the industry,
19 outside the horse racing industry, was it the
20 advent of other avenues of gaming in other
21 places part of the pressures that were making
22 you uncompetitive or was it purely internally
23 how the horse racing industry was operating?

24 MR. LONG: I think it was a little bit
25 of both. I had an opportunity to speak to the

1 Michigan Legislature a few months ago and we had
2 basically the same conversation.

3 Much of racing problems are in racing's
4 front yard and I think we have all come to grips
5 with that over the last couple of years. But
6 even going back in the late '80s where we saw
7 the significant growth that the lotteries were
8 undertaking in many of the racing states and the
9 lotteries' impact on to racing, it was at the
10 very beginning days of simulcasting where we
11 finally understood what satellites were all
12 about and it was possible to put a race from
13 Churchill Downs in to Tampa, Florida, you could
14 bet on it on real-time. I think everybody began
15 to see these things happening.

16 And it was also about the same time,
17 incidentally, where Indian casinos started to
18 pop up across the United States. And no one
19 knows more about what can happen with a casino,
20 an Indian casino doing business against the race
21 track, than by another racing corporation. We
22 have a wonderful, beautiful, spectacular race
23 track up in Twin Cities that we ended up going
24 out of business because we couldn't compete,
25 back in the late '80s again.

1 So I think we all saw the tea leaves.
2 We didn't know what to do about it. We kind of
3 looked at ourselves and pointed fingers and we
4 got angry with each other. We said there is too
5 much standard bred racing and there is not
6 enough thoroughbred racing, and the horsemen are
7 bad guys and the tracks are the bad guys; I
8 think all of those things started to happen
9 together about the late '80s. And then,
10 fortunately, the telephone account betting
11 started here in 1986, the double game simulcast
12 and then OTBs put our house in order in
13 Pennsylvania.

14 REP. MANDERINO: My other area of
15 questioning deals with regulation of the harness
16 racing industry in Pennsylvania and, again, I am
17 not extremely familiar. I thought there was
18 only one harness racing commission. Did I
19 understand that there are two in Pennsylvania
20 and, if so, can you explain to me what they do
21 differently?

22 MR. LONG: There is only one harness
23 racing commission, but there are two racing
24 commissions; one that oversees the thoroughbred
25 part and one that oversees the standard bred

1 part.

2 REP. MANDERINO: So those are
3 subdivisions of -- I see, the harness racing
4 commission and there is a thoroughbred racing
5 commission.

6 MR. LONG: That's correct.

7 REP. MANDERINO: Let me ask a question,
8 but then also I am thinking that this may be an
9 area that the Committee just may want to hear
10 from somebody from the racing commission in
11 terms of what all they regulate. But, I mean,
12 for example, do we in Pennsylvania regulate how
13 much of the revenue has to go to wagers and so
14 much is limited for profit? Do you understand
15 my question? I am trying to figure out where
16 the money is going.

17 I heard in the Lottery, 50 percent is
18 going back to --

19 CHAIRMAN GANNON: Representative
20 Manderino, wait a minute. She has to change the
21 paper.

22 REP. MANDERINO: Let me start all over
23 again and be more specific in the questions.

24 Do we, for example, the Pennsylvania
25 Lottery, I have now learned 50 percent of their

1 intake goes to prizes, 40 percent is what I
2 would call revenue, what we use for programs,
3 and the rest are other costs for administration
4 or fees or whatever. Do we have those same
5 kinds of breakdowns either for your track or for
6 the horse racing industry and is that something
7 that is actually set by regulations?

8 MR. SWIATEK: That is set by law. On
9 the most part, on average, 80 percent of what is
10 bet goes back to the customers and 20 percent is
11 there to pay taxes, purses and operate the
12 facilities. So that is set in law, a lot of
13 what we do is set in law and then what isn't,
14 the commissions promulgate rules. The
15 commission license people and they do background
16 checks; they audit the way we do our business,
17 we have state auditors in our facilities on a
18 regular basis; the commission oversees the
19 outcome of races so they are in every aspect of
20 the game ensuring the integrity of what happens
21 at the racing facilities and the off-track
22 betting facilities.

23 REP. MANDERINO: From the time we
24 started horse racing in Pennsylvania in the
25 1960s to date, do I understand it was the 1960s?

1 MR. SWIATEK: '63 was the start of
2 parimutuel racing.

3 REP. MANDERINO: See, I don't know when
4 this was actually done, but I am trying to see
5 historically whether and how we have changed our
6 regulation of the industry.

7 MR. SWIATEK: The regulations change as
8 our business change and with each legislative
9 change that it goes through that it authorizes
10 additional distribution forms or methods, so do
11 the laws change and so do the regulations that
12 go along with it; so they really continue to
13 stay up-to-date on the way we conduct our
14 business.

15 REP. MANDERINO: Is the 80 percent to
16 customers something that is part of the
17 regulations?

18 MR. SWIATEK: Yes, it is in there. I
19 mean, it is not quite that simple. There is so
20 much on a place show, exactives and the
21 multiples, but on average that is our rule of
22 thumb. But that is also regulated by the state.
23 Each year, we have to go and request retention
24 rates and there are certain parameters that are
25 spelled out within the legislation.

1 REP. MANDERINO: Thank you very much.

2 Mr. Chairman, just by way of comment
3 and perhaps suggestion, if you haven't thought
4 about it already, but I think that is a really
5 important area for us to get a handle on and
6 understand, if Pennsylvania's horse racing
7 industry regulation is something it is
8 considered a model, I guess, and if it is also
9 something that we are considering would
10 potentially be a model should we expand into
11 other areas, it might be interesting to hear
12 from and be able to ask detailed questions of
13 our regulators.

14 CHAIRMAN GANNON: Okay. Thank you,
15 Representative Manderino.

16 REP. MANDERINO: Thank you.

17 CHAIRMAN GANNON: Representative
18 Horsey.

19 REP. HORSEY: I just have a couple of
20 brief questions. I know nothing whatsoever
21 about the gambling industry when it comes to
22 horse racing. But I am not a gambler, neither
23 is my wife. But are you related or connected to
24 the off-track operation known as Turf Club
25 (phonetic) which is the primary off-track

1 operation in the Philadelphia area?

2 MR. LONG: No, we have no -- We don't
3 own those. Those are our friends Bob Green and
4 Bill Hogwood from a Philadelphia firm.

5 REP. HORSEY: But you run an off-track
6 operation comparable to his?

7 MR. LONG: We would like to think it is
8 a little bit better, but it is comparable.

9 REP. HORSEY: Well, like I said, my
10 wife and I don't gamble but we go quite often to
11 the Turf Club -- 20, 30 times a year, even
12 though we are not gambling -- for simply to have
13 a nice atmosphere and a dinner. And, you know,
14 speaking of the Turf Club, because that is where
15 I come from, I am from Philadelphia, they are
16 very, very nice facilities; and if your
17 facilities are better, I have to make it a point
18 of getting out to the western part of the state
19 and visiting them. But they are really very
20 nice.

21 And race track gambling and the
22 operations, you don't have to be committed.
23 They are doing a great job.

24 MR. LONG: Thank you, Representative.
25 We would love to have you for dinner.

1 REP. HORSEY: I bet you would.

2 CHAIRMAN GANNON: Representative
3 Maitland.

4 REP. MAITLAND: Thank you, gentlemen.
5 My district contains the largest standard bred
6 harness racing horse farm in the world at
7 Hanover Shoe Farms and a number of other horse
8 farms also and the horsemen in my area are very
9 concerned about the expansion of gaming in
10 Pennsylvania because they feel threatened by it
11 and they are afraid that racing would lose their
12 share of the overall pie that we have talked
13 about this morning; how would you address those
14 concerns?

15 MR. LONG: I think we can get through
16 all of that. I think that we had the same
17 discussions, we had the same concerns with
18 regard to the off-track betting legislation.
19 There were a lot of concerns expressed by the
20 horsemen. In fact, probably some of them are
21 still making the same expressions that OTB was
22 one of the worst things that we have ever done:
23 it has taken people away from the race track.
24 But I can tell you that the horsemen at
25 our race track are making more money today on

1 purses than they would have ever dreamed
2 possible and the only way that happened was
3 because of off-track betting.

4 Now, what is the lesson for other forms
5 of gaming? I am not sure what it is yet. We
6 have had a significant number discussions with
7 our own horsemen with regards to that. I think
8 that there is a way that we can get through it.
9 I think that the industry has to stand together
10 and we have to take care of each other. We have
11 done it before, we have allegiances that are now
12 in place, we have 6 years of off-track under our
13 belt, we have gotten through a lot of difficult
14 problems; and we can use those relationships to
15 take it to the next step.

16 REP. MAITLAND: What is the level of
17 legal activity in your business? Do you have a
18 lot of lawsuits going on? Do you find yourself
19 tied up in court? Is it a chronic legal
20 environment problem that you have or not?

21 MR. LONG: Well, any lawsuit is more
22 than I really like to have. We don't have
23 really anything to speak of. We have an
24 occasional slip and fall, those are the kinds of
25 things that we have, that any business that

1 employs as many people as we do, in as many
2 locations as we already have, but I would
3 categorize it as being minuscule.

4 REP. MAITLAND: What kind of problem do
5 you have with the problem gambler or the
6 addictive gambler? And do you have any programs
7 or education in place to handle that?

8 MR. LONG: I have listened to the
9 questions and to the conversations about that
10 this morning. I don't think that anyone can be
11 in the business that we are in and not be
12 cognizant of that. But at the risk of sounding
13 flip -- and I don't really mean to do so -- we
14 are really not aware of any problems.

15 Our employees are trained, much like a
16 bartender is trained, to identify a customer
17 that is having a difficulty and we simply stop
18 taking the bet. Just as we instruct our
19 bartenders to stop serving drinks and to find a
20 taxicab to take this person home.

21 I know maybe there is a hundred people
22 that I know that I would consider my circle of
23 friends, one is a taxicab driver and another one
24 is the president of a very big company and they
25 all go to race tracks. I don't know of one

1 person that has a gaming problem, that has a
2 gambling problem. So I think we have done a
3 tremendous job at the local level, at the track
4 level, at the OTB level, to help to try to find
5 these problems before they really occur.

6 Now, have there been problems? Sure.
7 And we have recommended people, we have put
8 people into contact with Gamblers Anonymous and
9 we have insisted that they have gone to the
10 first meeting, we have followed up with Gamblers
11 Anonymous to make sure that they actually did
12 attend. But it is not the problem that I would
13 have expected and I would say that, for the most
14 part, it really does not exist in my part of the
15 state.

16 REP. MAITLAND: If we don't expand
17 gaming in Pennsylvania, would you feel that
18 would be a negative for your business, as it
19 currently stands? I mean, could you take more
20 gaming or leave it or is this something that you
21 really would like to see?

22 MR. LONG: Two-part answer. I think if
23 you look around the United States and you look
24 at every racing jurisdiction that has had casino
25 legislation passed, racing has been hurt. And

1 one of the points that I make in the testimony
2 is that I think we have an opportunity to craft
3 some legislation here that has never been done
4 before and shame on us if we don't do that. I
5 think that we can do the kinds of things to
6 prevent that from happening here.

7 But, generally speaking, wherever it is
8 opened, where the casinos have opened, it has
9 hurt the racing operations.

10 Secondly, I want to participate. I
11 want to invest more money. I want my company to
12 invest more money. We will have \$55 million in
13 capital investment in the Commonwealth by the
14 end of this year as we open up our sixth OTB. I
15 don't want to take all of the cards and go home.
16 I want to invest more, I want to hire more
17 people, I want to create more development; I
18 think that is the way you grow a business, not
19 by stopping and being concerned about the
20 competition. We have all the tools at our
21 disposal racing here in Pennsylvania. And to go
22 to the next step, I think it is going to force
23 us to even invest more. So I think we can
24 protect our investment and my share holders can
25 be made confident that we can actually grow the

1 investment in Pennsylvania if we are allowed to
2 participate.

3 REP. MAITLAND: Okay. Thank you for
4 your testimony and please keep using those Admas
5 County horses.

6 CHAIRMAN GANNON: Thank you.
7 Representative Schuler.

8 REP. SCHULER: Thank you, Mr. Chairman.
9 And I would just like to go back to
10 Representative Manderino in talking about where
11 the money goes; would you go through that again
12 for me, either one of you, the winnings from?

13 MR. LONG: The math goes like this: for
14 every dollar bet, about 80 cents goes back to
15 the betters in the forms of prizes and winnings.
16 And then you end up with about 20 cents left and
17 you end up paying about 2 1/2 percent in tax,
18 you end up paying something in the 6- to 7-cent
19 range for purses (those are the prizes that go
20 back to the horsemen). We pay each other, the
21 cost, the fee for sending the simulcast signal
22 back and forth and that is a couple, 2 to 3
23 percent. And so that when we get it all down at
24 the end of the day, the margins that the race
25 track operator and the off-track operator works

1 off of is some place around a nickel on the
2 dollar. We pay all of our expenses, all of our
3 labor comes out of that and all of the
4 operational expenses for operating the OTB.

5 REP. SCHULER: You mentioned the 2 1/2
6 percent tax.

7 MR. LONG: Yes.

8 REP. SCHULER: Is that the tax that
9 goes back to the breeders and the county fair,
10 what?

11 MR. LONG: That is a parimutuel tax
12 that goes -- and I will let John speak to that
13 more specifically than I can.

14 MR. SWIATEK: Yes, part of it does go
15 back to pay for big purse races, stake races,
16 breeding races.

17 REP. SCHULER: It goes to the breeders?

18 MR. SWIATEK: Well, no, actually it
19 goes to pay purses. So like in the standard
20 bred industry, we have Pennsylvania sired races,
21 which are some of the best races. And it is
22 high, a little over a hundred thousand dollar
23 race, but it encourages breeders do breed horses
24 in Pennsylvania. And that is on the harness
25 side. The other part of it goes back to pay for

1 the commission and I would think some of it goes
2 to the general fund. And I don't know the exact
3 calculation, I am sure the commission can
4 provide you with the detailed information.

5 REP. SCHULER: Okay. But that wasn't
6 mentioned and that's why I wanted to clarify the
7 question of Representative Manderino.

8 You mentioned the model that we have in
9 Pennsylvania is unique, good regulation and,
10 compared to other states, it probably is, but I
11 have some problems with it. And it is no fault
12 of yours, or your people. It is the fault of
13 the Legislature, in my opinion.

14 Let me ask you this question to get to
15 where I am going here. Do you own any off-track
16 betting parlors in the municipalities that have
17 voted against small game and chance?

18 MR. LONG: I don't know the answer to
19 that, Representative. I do know, as well I am
20 sure you must know, that the process of putting
21 off-track betting facilities into a locality
22 begin with a public hearing which is held by
23 either the horse racing commission or the
24 standard bred commission, the harness racing
25 commission. I have personally been to five of

1 the six that we have done on our end of the
2 state. And the most difficult one was in New
3 Castle in 1990 because it was the first one, the
4 first public hearing, in a locality that talked
5 about off-track betting.

6 We attracted more than a hundred and
7 fifty people at that meeting and many people
8 spoke out against us. Fortunately, more spoke
9 out for the opportunity of creating some new
10 jobs in New Castle.

11 About 18 months after we operated that
12 facility, we got that the facility up and
13 running, we got an opportunity to meet with two
14 of the ministers that testified against us at
15 that public hearing and they said to me, totally
16 off the record, everything that you said you
17 were going to do, you have done: there has been
18 no increase in crime, I don't have parishoners
19 going down to pick up the food stamps,
20 everything that you have done, everything that
21 you have said you are going to do, you did.

22 Now, subsequent to that, in Johnstown
23 and in Greensburg and in Harmar and Moon
24 Townships, we didn't have one person speak
25 against us because I think we demonstrated what

1 we said we were going to do and that's, I think
2 from our end of the state, has been the most
3 important contribution that we have made: we
4 have been able to demonstrate what we said we
5 were going to do.

6 REP. SCHULER: In your situation, the
7 four or five off-track betting parlors that you
8 have, from what you are telling me, you were
9 received with open arms, is that what you are
10 telling me?

11 MR. LONG: Yes, that is correct.

12 REP. SCHULER: If the situation were to
13 arise in which you were not welcome, how would
14 you handle it?

15 MR. LONG: I think we would have to
16 take a look at the problem. I mean, we have had
17 some zoning problems early on in some of the
18 locations and at first, actually said, well,
19 maybe we should just go someplace else, but the
20 local municipality wanted our business there and
21 we were able to work out what at the time
22 appeared to be very difficult problems with
23 regard to zoning. So I can't, I can't really
24 say that in any of the operations that we have
25 on the western end of the state, we haven't

1 found a problem that we haven't been able to
2 work through.

3 REP. SCHULER: I understand that. But
4 if you would, if doing your marketing research
5 you found an area in which you would like to put
6 an off-track betting parlor but the people of
7 that area have voted against all games of
8 chance, would that play into your decision
9 making?

10 MR. LONG: I think we would have to the
11 take it to the people to find out what it is
12 they want to do. We have done that in other
13 cases.

14 REP. SCHULER: That raises another
15 question, take it to the people. That's one of
16 the problems I have with the law: there is no
17 provision other than going to a hearing to allow
18 the people to express their views about this.
19 And that's not your fault, that is part of the
20 Legislature's fault, by not allowing a
21 referendum in there. That is one of the
22 problems that I don't -- that I look at. I have
23 a problem with these liquor licenses and so
24 forth that we allow in certain areas, the
25 proliferation of liquor licenses. But, again,

1 that is not your problem -- it is your problem,
2 in a way -- but we make the decision, it is our
3 problem.

4 But these are, when you say that we
5 model for all and it probably is for the rest of
6 the other states, but there are some people in
7 this Commonwealth and in the Legislature who
8 feel that there should be some changes made.

9 So, with that, I will stop right there,
10 Mr. Chairman.

11 CHAIRMAN GANNON: Representative
12 Hennessey, any questions?

13 REP. HENNESSEY: No questions.

14 CHAIRMAN GANNON: Representative
15 Caltagirone.

16 REP. CALTAGIRONE: Thank you.

17 Just to share with the gentlemen here
18 and the Members, I am in my 20th year, I was one
19 of the few members that were around at the time
20 that we crafted that legislation and I know some
21 of the people sitting behind you know that also,
22 former Speaker in the House sees it, Jim
23 Manderino, one of the Members sitting here, Joe
24 Lassinger, and several other people, played a
25 vital role in the racing legislation that

1 finally did become law. And then my little
2 brother Jerry back here, I must say that
3 Lancaster County, along with Dauphin County and
4 many of the other counties that have a large
5 agricultural presence and having had the benefit
6 of serving 10 years on the House Agricultural
7 Committee, I can tell you, without any degree of
8 uncertainty, that without the legislation that
9 we implemented at that time, with those
10 safeguards, the agricultural industry: the oats,
11 the hay, the barley, the vet bills and
12 everything else, Grantville wouldn't be
13 Grantville and I am sure there are many other
14 agricultural areas in this state that would be
15 suffering if we did not come to the rescue of
16 the industry at the time that we did.

17 I also worked with members in
18 developing the games of small chance that
19 benefited many of our clubs throughout this
20 Commonwealth. I might also add, having had the
21 benefit of serving a number of years on the
22 Liquor Committee, that we are seeing a very
23 large decrease on the number of liquor licenses
24 in this state. That's not been going up. As a
25 matter of fact, it has been going down.

1 I just want to ask you if there is
2 information that you have from your operations
3 in other states around the country that you
4 might be able to share with us. This is going
5 to be a very grueling, time-consuming process.
6 Legislation may not go anywhere. Jerry and many
7 other members have raised some very vital
8 concerns where we need statistical information,
9 we need facts about experiences that you may
10 have had in other states that if you could
11 provide Chairman Gannon with that, I am sure
12 that he would share that with the rest of the
13 Members of the Committee and I think that that
14 would go a long way in helping to round out the
15 information that we are trying to gather. Thank
16 you.

17 MR. LONG: I would be very pleased to
18 be able to provide that information to the
19 Committee.

20 CHAIRMAN GANNON: Thank you,
21 Representative Caltagirone.

22 You had stated earlier -- I think
23 Representative Manderino asked about this --
24 that a person cannot play or make wagers on
25 credit at a race track?

1 MR. LONG: That's correct.

2 CHAIRMAN GANNON: Can they, whether it
3 is off-track or if you have this off-track cable
4 system, how does the wagering work on something
5 like that? Is it the same way?

6 MR. SWIATEK: Well, they establish a
7 debit account, typically at the race track.
8 Although, they can establish them also at the
9 OTB facilities. And they put money in an
10 account just like a savings account. And what
11 they will do, they will have a pin name and some
12 of them a pin number, a code name just like
13 using an ATM machine. You know, the safeguards
14 that are in there. And they will call in to the
15 race track and make wagers off that account.
16 And you can only, if you have a hundred dollars,
17 you can only bet up to a hundred dollars. And
18 when you win, that money is then credited to
19 your account. So if you make \$2 a count and you
20 started with a hundred dollar balance, after the
21 wager is made, you have \$98. Say if that \$2,
22 that bet does not win, then you still have \$98.
23 But say it does hit for \$20, then you will end
24 up with the \$20 plus the \$2 that you bet so you
25 are now up to \$120. And that is how the account

1 process works.

2 Most of the people either go to our
3 facilities or use the mail to deposit/withdraw
4 money from their accounts.

5 CHAIRMAN GANNON: Is there any minimum
6 wager for that account? For example, like if
7 the minimum wager is \$2, could you make a \$2
8 bet?

9 MR. SWIATEK: Yes, the minimum wager in
10 Pennsylvania is \$2. Some of the tracks have
11 different minimums. We basically allow our
12 customers to bet whatever they want. We think
13 it is their choice and we shouldn't be telling
14 them how much they should or should not pay. So
15 typically, you know, a bet or wager of \$5 or \$6
16 on average. And it could be a couple \$2 bets.
17 But it is really up to them.

18 CHAIRMAN GANNON: Now, does the
19 customer receive a statement periodically as to
20 the account?

21 MR. SWIATEK: Yes, they do. And
22 actually each time they call in. I mean,
23 everything is voice recorded and there is really
24 a complete process and they are updated on the
25 balance and so with each transaction, their

1 balance is read off to them. It is all
2 computerized.

3 CHAIRMAN GANNON: Can you get the
4 statement every month, a written statement?

5 MR. SWIATEK: We don't offer statements
6 unless requested. It is something that they
7 pretty much know and understand.

8 CHAIRMAN GANNON: Thank you very much.
9 Thank you for joining us today and helping with
10 testimony and taking questions from the
11 Committee. Thank you for being here.

12 MR. LONG: Thank you very much.

13 CHAIRMAN GANNON: We are going to take
14 maybe about a five-minute break to give our
15 stenographer, her fingers, a rest.

16 (Brief recess taken.)

17 CHAIRMAN GANNON: I would like to call
18 the hearing to order, please. If everyone would
19 be seated. And conversations, move outside.

20 And our next witness is Mr. Phil Satre,
21 Chief Executive Officer of Harrah's
22 Entertainment Corporation.

23 Welcome, Mr. Satre, and thank you for
24 being with us here today.

25 MR. SATRE: Good afternoon, Chairman

1 Gannon, and Members of the Committee. My name
2 is Phil Satre. I am the President and Chief
3 Executive Officer of Harrah's Entertainment. We
4 are headquartered in Memphis, Tennessee.

5 And this just got turned on (indicating
6 the microphone). I trust I don't need to repeat
7 what I just said.

8 I began my career in the casino
9 entertainment business more than 20 years ago,
10 originally as an attorney for Bill Harrah.
11 Since that time, I have served as President of
12 Harrah's Atlantic City, and then was responsible
13 for Harrah's overall casino operations before
14 becoming President and CEO of the company in
15 1994. I am a Board member of the National
16 Council on Problem Gambling and the National
17 Center for Responsible Gaming in Kansas City
18 Missouri. In 1990, I was the first recipient of
19 the National Council on Problem Gambling
20 Corporate Responsibility Award.

21 It is a pleasure to be here to discuss
22 casino entertainment: one of the most dynamic
23 economic development tools to emerge in the
24 '90s.

25 To preface my comments today, I want to

1 give you some background on my company and our
2 leadership role in the industry. From there, I
3 will turn to an overview of the casino
4 entertainment industry today: how and why it is
5 growing and the economic benefits of jobs, tax
6 revenues and tourism that the industry's growth
7 is generating.

8 Harrah's was founded in Reno, Nevada by
9 entrepreneur Bill Harrah in 1937. Our company,
10 now almost 60 years old, was the first pure
11 casino company to be listed on the New York
12 Stock Exchange. For decades, Harrah's has been
13 an innovator and a leader in customer service,
14 social responsibility and integrity.

15 We are the only truly national casino
16 entertainment brand. With casinos in nine
17 states and in the country of New Zealand, we
18 deliver on our promise of a great time, every
19 time, in more locations and more segments of the
20 industry than any other company. That also
21 means that we operate successfully under strict
22 guidelines and regulations in more casino
23 jurisdictions than any other company.

24 We have also called upon our wealth of
25 experience to enter more emerging markets than

1 any of our competitors. In so doing, we operate
2 land-based, cruising riverboat, dockside
3 riverboat, small-stakes and Indian casinos. We
4 operate in highly competitive markets and in
5 markets where supply is limited. We operate in
6 mature markets and in dynamic emerging markets.
7 We operate large facilities and smaller ones.
8 We manage for ourselves and we manage for
9 others.

10 In short, as a company, we are more
11 diversified than any other casino entertainment
12 company.

13 Our leadership position in the industry
14 was recently recognized by Fortune magazine. We
15 are proud to have been named to the top 20 most
16 admired companies in America by a recent Fortune
17 poll. We share the limelight with one of our
18 competitors, Mirage Resorts, which broke into
19 the top 10. I think it is a remarkable
20 accomplishment for a relatively small industry
21 like casino entertainment to have two companies
22 named to the top 5 percent of this prestigious
23 list.

24 But what we really feel good about is
25 delivering on our promises. As evidenced, for

1 example, in the article you may have read in the
2 New York Times about a month ago featuring
3 Harrah's Joliet. An excerpt from that article
4 reads: Joliet is growing, building homes and
5 adding jobs. It has spiffied up its schools,
6 streets and the library. ... And even as the
7 city has undergone transformation, it has cut
8 taxes. Harrah's is a leader in the growing
9 casino entertainment in new markets and we will
10 continue to be.

11 Our business will grow, will continue
12 to grow basically because guests, our customers,
13 are demanding more of our form of entertainment.

14 That point is very clear in the fourth
15 Harrah's U.S. Survey of Casino Entertainment.
16 The survey is being published in the next two
17 weeks, but I would like to preview some
18 highlights with you today.

19 Acceptance of casino entertainment is
20 stronger than others, with an overwhelming 91
21 percent of American adults saying casinos are
22 acceptable for themselves or for others.

23 Visits to both traditional and new
24 market casinos continues to climb. There were
25 154 million casino visits in 1995, an increase

1 of 23 percent over 1994.

2 Casino entertainment ranks just behind
3 major spectator sports -- like the NBA, Major
4 League Baseball and the NFL -- in numbers of
5 visits, and it surpasses other popular
6 entertainment forms like amusement parks and
7 Broadway shows and symphony concerts.

8 The Carlson travel agency poll recently
9 found that casinos are the favorite destination
10 for weekend getaways: rating more highly than
11 ocean or lakeside resorts, theme parks, or big
12 city destinations.

13 What type of person enjoys casino
14 entertainment? In comparison to the average
15 American, casino players tend to be about the
16 same age, but have a significantly higher level
17 of household income (39,000 per year versus
18 31,000 per year). They are also somewhat better
19 educated and are more likely to hold white collar
20 jobs than the average American.

21 The combination of these facts about
22 acceptance and demand for our entertainment
23 source, along with evidence that we can deliver
24 on our promises of job creation, tax generation
25 and economic development all bodes well for the

1 future growth of the casino entertainment
2 industry.

3 As acceptability has increased, casinos
4 have proliferated. In 1988, casinos operated in
5 just two states: Nevada and New Jersey. Today,
6 more than two dozen states permit some form of
7 legal casino entertainment. These include
8 riverboat casinos in Iowa, Illinois, Missouri,
9 Indiana, Mississippi and Louisiana; limited
10 stakes casinos in South Dakota and Colorado;
11 land-based casinos in Nevada, New Jersey and
12 Louisiana; and Indian casinos in 20 states
13 across the country.

14 A dozen other states are at some stage
15 of considering casino legalization. These
16 include nearby states such as Maryland, which is
17 considering slot machines at its race tracks and
18 OTB facilities; West Virginia, which currently
19 has video lottery terminals at its race tracks
20 and has passed a bill to allow simulated
21 electronic slot machines at the tracks; or New
22 York, which is in the first step of a process
23 toward a constitutional amendment. That's not
24 to mention Delaware, which recently added slot
25 machines to its two race tracks.

1 Outside of Nevada and New Jersey,
2 legalized casino gaming began to appear on
3 Indian reservations in 1990 in Minnesota and
4 Wisconsin. These casinos sparked what we had
5 called border wars among neighboring states. In
6 1991, Iowa had riverboat casinos. This was
7 followed rapidly by casinos across the
8 Mississippi River in the State of Illinois.
9 Then Missouri and Indiana legalized casino
10 entertainment on riverboats. Similarly, when
11 Mississippi legalized casinos, it was quickly
12 followed by the State of Louisiana.

13 Two questions always come up in the
14 discussions about the economics of casino
15 entertainment. And they are: how big is the
16 market and what is the saturation point?

17 The Harrah's Survey tells us that only
18 about 31 percent of Americans visited a casino
19 last year. That is up 14 percentage points
20 since 1990, but is still a relatively low
21 percentage.

22 Coupled with what we know about the
23 acceptability of casino entertainment, this
24 tells us that an additional one-quarter of
25 American adults -- or more than 45 million

1 people -- are potential casino customers. That
2 is a huge untapped market. And as we have
3 already seen, acceptance grows even stronger as
4 new supply comes on line. As a nation, then, we
5 are nowhere near the point of saturation.

6 Casino gaming comes in three basic
7 forms: land-based, Indian and riverboat.

8 Land-based gaming includes what we call
9 traditional land-based gaming, as found in
10 Nevada and New Jersey, as well as limited stakes
11 land-based gaming, for example as in Colorado.

12 Indian gaming has expanded quickly
13 since the passage of the federal Indian Gaming
14 Regulatory Act of 1988. I probably do not need
15 to tell you about the Foxwoods casino in
16 Connecticut, which is considered the highest
17 grossing casino anywhere in the world.

18 Riverboat gaming evolved following
19 Iowa's lead. Since 1989, five additional states
20 have authorized casino gaming on board floating
21 vessels -- I have mentioned them already --
22 Illinois, Mississippi, Louisiana, Iowa, Missouri
23 and Indiana. This category includes casinos on
24 cruising riverboats, as is the case in Illinois,
25 as well as dockside vessels that are permanently

1 moored, as in Mississippi.

2 Regardless of the format, casino
3 entertainment is a proven job creator, a
4 catalyst for economic rejuvenation and a proven
5 tourism draw that does not depend on asking
6 taxpayers for handouts in the form of
7 inducements, tax abatements and infrastructure
8 improvements.

9 First, let's talk about jobs. On a
10 national basis, the number of jobs created by
11 the casino entertainment industry is quite
12 impressive. In 1995, more than 350,000 people
13 worked in the casino entertainment industry.
14 That is a 28 percent increase over 1994. Total
15 payroll for 1995 was \$9.8 billion.

16 Parenthetically, at Harrah's, we have
17 22,000 employees. 8,500 of those jobs have been
18 created in the last three years. And our total
19 payroll is over a half a billion dollars.

20 Jobs in our industry pay well,
21 averaging about \$25,000 per year. Speaking for
22 Harrah's, our compensation package includes an
23 excellent 401(k) retirement plan with a 100
24 percent company match, as well as health
25 insurance and education benefits.

1 Our experience in new markets has shown
2 that new casino jobs often go to the unemployed
3 or the underemployed: which can have significant
4 and positive impact in social programs like Aid
5 to Families with Dependent Children, Food
6 Stamps, and welfare payments. In Mississippi,
7 for example, the number of AFDC and food stamp
8 recipients has dropped in each county in which
9 casinos now operate.

10 The benefits of job creation are not
11 limited to jobs in the casinos themselves. Each
12 casino job creates one to two-and-a-half jobs in
13 the economy at large. In Missouri alone, the
14 casino industry purchased more than \$100 million
15 in goods and services in 1995.

16 Again, parenthetically, for New Jersey,
17 that number is over \$2 billion annually in
18 purchases from suppliers in the State of New
19 Jersey.

20 Obviously, an overwhelming majority of
21 those purchases made from local suppliers is
22 going to impact their jobs. Missouri banks have
23 been some of the top beneficiaries: providing
24 operations and cash management services,
25 including coin and currency, night depositories,

1 short-term investment and payroll services.
2 Other industries receiving spin-off benefits
3 include food services, construction companies
4 and small businesses like dry cleaners, florists
5 and advertising agencies.

6 In addition to creating jobs, casinos
7 provide a revenue source for state and local
8 governments, paid for only by those who choose
9 to enjoy this form of entertainment. Casino
10 Entertainment generated total state and local
11 tax revenue in 1995 of \$1.75 billion: a 27
12 percent increase over the prior year. Gaming
13 taxes are now the fifth largest source of income
14 for the States of Missouri and Mississippi and
15 the eighth largest for the State of Illinois.
16 Here's an example from just one market. In
17 1995, Harrah's Joliet paid more than \$46 million
18 in taxes from its operations. This figure is
19 about triple what it was for the casino's first
20 year of operation in 1993. The casino paid more
21 than an additional \$700,000 in local surcharges,
22 sales and property taxes last year.

23 The City of Joliet is using the
24 revenues from Harrah's Joliet and our
25 competitor, the Empress Casino, to pay off its

1 debt. In fact, the city manager projects that
2 the city will be debt-free by the year 2,001.
3 The new revenue has also allowed the city to
4 make capital improvements, such as neighborhood
5 improvements, streets, sewers and schools.
6 Despite this spending, the city has also begun
7 to cut taxes, like an annual motor vehicle tax
8 and a water fee.

9 Joliet is just one example of what we
10 have experienced in other casino hometown
11 communities. Local economies with casino
12 entertainment grow because, across the board, we
13 are creating new jobs, new investment and new
14 spending that causes the economic pie to expand.

15 The notion that new casinos will siphon
16 business out of existing retail establishments
17 or bars or restaurants is not supported by an
18 analysis of any new casino jurisdiction in the
19 United States. In these locations, reliable
20 sales data tend to show that existing local
21 businesses either hold their own or perform
22 better after new riverboat, land-based or Indian
23 casinos open.

24 Casino entertainment is also a proven
25 regional tourism draw that fills hotel rooms,

1 increases restaurant visits and stimulates local
2 retail sales. In Missouri, cities like St.
3 Louis, Kansas City and historic St. Charles are
4 using riverboat gaming as a catalyst for
5 downtown development and a riverfront
6 revitalization. I would like to quote Mary
7 Nelson, the general counsel for the St. Louis
8 Development Corporation. She says: "In a city
9 that has recently built a new convention center,
10 domed stadium, indoor sports arena and light
11 rail system, gaming was the element needed to
12 provide the critical mass to draw visitors to
13 St. Louis and enhance the city experience for
14 residents."

15 A new casino has tourism and
16 entertainment appeal much like the Oilers will
17 have for Nashville, the Seahawks do to Los
18 Angeles, or the Cleveland Browns to Baltimore.
19 Casino entertainment has an added benefit of
20 requiring no public funding, no special taxes
21 and no new indebtedness to become operational.
22 While professional sports franchises pay
23 comparatively little in taxes, provide fewer
24 good paying jobs and require huge investments of
25 public dollars, riverboats pay significant taxes

1 and fees, provide good paying jobs and health
2 and retirement benefits, and require no public
3 funding.

4 Casino entertainment as a regional
5 tourism draw is analogous to a new aquarium, a
6 new amusement park or a major league sports
7 franchise -- and in fact is quite comparable in
8 cost as an entertainment option -- that is, the
9 amount of money that the customer will spend
10 when they go to a ballpark, a theatre or a
11 casino is relatively the same. None of these
12 forms of entertainment is intended to change the
13 character of the local community, but all are
14 intended to bring people from throughout the
15 region to a designated location for
16 entertainment.

17 Like these other regional tourist
18 draws, casino entertainment should not be
19 considered a panacea. Casinos alone will not
20 balance your state budget, end unemployment or
21 be the sole driver for a strong, stable economy
22 in this state or in any other state. As an
23 economic development tool, casino entertainment
24 fits well into a broad plan for revitalization.

25 Having looked at the macro view, let's

1 turn specifically to riverboat casinos and what
2 you might expect at a typical riverboat
3 development. I will use Harrah's North Kansas
4 City as an example. We invested \$86 million in
5 North Kansas City to build this exciting complex
6 which opened in September of 1994. We currently
7 offer 47,000 square feet of gaming space on
8 board a replica of an 1880s-style paddlewheeler.
9 The complex is anchored by a themed 58,000
10 square-foot shoreside pavilion, featuring a
11 brick facade and a clock tower. The pavilion
12 includes two restaurants, a sports bar, meeting
13 space and retail in a approximately 42,000
14 square feet of space.

15 Harrah's North Kansas City employs more
16 than 1,600 people (85 percent of those are local
17 hires), at an annual payroll of \$45 million,
18 including tips.

19 The tremendous customer response during
20 the casino's first year of operation is the
21 catalyst for an expansion currently under way.
22 We are nearly doubling our initial investment in
23 the market, spending an additional \$78 million
24 in capital. We are adding a second gaming
25 vessel, expanding the pavilion and adding a

1 200-room hotel. We just completed a 1,000-space
2 parking garage to accommodate this additional
3 demand.

4 Looking inside the physical plant at
5 our operations and especially our system of
6 internal controls, it might be helpful to think
7 in terms of how someone once described a casino;
8 that is, it is a bank surrounded by slot
9 machines. Because of the large inventories of
10 cash and other negotiable instruments like chips
11 and tokens that are necessary to operate our
12 business, an effective set of controls is
13 essential.

14 We are proud to have taken the industry
15 lead in developing stringent financial controls.
16 For example, Harrah's was the first casino to
17 develop daily financial reports and the first to
18 institute eye in the sky surveillance. Our
19 internal controls also include documentation and
20 supervision to ensure that management decisions
21 and regulatory requirements are carried out, and
22 continuous monitoring through accounting
23 procedures, closed circuit TV surveillance, and
24 uniformed security. We have establish an
25 independent internal audit function, reporting

1 directly to our board of directors, to monitor
2 all of our financial systems.

3 We also operate under the U.S. Treasure
4 regulations for monetary transaction reporting,
5 which is the responsibility of compliance
6 officers at each of our properties. Further, we
7 furnish gaming regulators in each of our
8 jurisdictions with extensive documentation on
9 how we will operate within the regulations they
10 set for their particular state.

11 At Harrah's, we are proud to be making
12 good on our promises of jobs, revenues and
13 tourism in our home communities. We are also
14 proud of our reputation as an industry leader in
15 addressing social issues like responsible
16 gaming.

17 Our position is simple. We know the
18 entertainment we offer is a fun night out and a
19 planned and budgeted recreation activity for the
20 vast majority of our guests. Anyone who is not
21 in our casinos legally or simply for the fun of
22 it is not welcome.

23 Our Project 21 and Operation Bet Smart
24 programs -- addressing underage and compulsive
25 gambling -- have become industry standards and

1 now are widely adopted. Shortly after we
2 introduced Project 21 in Atlantic City,
3 virtually all of the city's casinos joined
4 forces and agreed to adopt and jointly fund the
5 program.

6 In January 1995, the Missouri Riverboat
7 Gaming Association unanimously voted to form a
8 Responsible Gaming Committee and establish
9 responsible gaming programs among all of its
10 members. One of the association's first actions
11 was to adopt Harrah's Operation Bet Smart and
12 Harrah's Project 21 and Know When to Say When,
13 the Anheuser-Busch consumer awareness program on
14 responsible drinking.

15 Similarly, in Illinois, the state
16 Riverboat Gaming Council announced a statewide
17 three-pronged initiative to promote responsible
18 gaming. Project 21 and Operation Bet Smart were
19 adopted uniformly across the state, along with a
20 toll-free help line, and training of treatment
21 professionals in the area of compulsive gambling
22 disorders.

23 In Pennsylvania, we are proud to
24 support and work with the state's Compulsive
25 Gambling Council, for which we recently funded a

1 Public Service Announcement.

2 Harrah's is proud to lead the way as
3 the industry continues to step up the issues of
4 social responsibility.

5 In summary, if casino entertainment
6 creates problems in its hometown communities,
7 they are overwhelmingly the problems of
8 prosperity. And they are good problems to have.
9 More tourists in town, spending discretionary
10 income. More jobs, putting people to work.
11 More revenues for state and local communities,
12 improving balance sheets. I do not suggest and
13 I am not here to suggest that casino
14 entertainment is a cure-all, but it is a proven
15 economic engine for growth.

16 Seeing the success of casino
17 entertainment makes us optimistic about the
18 future of our industry. Seeing the benefits to
19 our communities makes us optimistic about the
20 positive economic impact of casino
21 entertainment.

22 I thank you for the opportunity to
23 share our views on how and why the industry is
24 growing. And now, I am happy to answer any
25 questions you might have.

1 CHAIRMAN GANNON: Thank you very much.
2 Representative James.

3 REP. JAMES: Thank you, Mr. Chairman.
4 And thank you for your testimony.

5 Going to the second page of your
6 testimony, you talk about you operate
7 facilities, smaller ones, you manage for
8 yourselves and for others. Can you give me an
9 example of others?

10 MR. SATRE: Primarily Indian
11 reservations where we manage on behalf of Indian
12 tribes.

13 REP. JAMES: That brings me to the next
14 question. When you talk about land-based,
15 Indian and then riverboat, what is the
16 difference between land-based and Indian
17 casinos?

18 MR. SATRE: Well, Indian casinos are
19 generally a form of land-based casinos. That
20 means that they are on land. The difference
21 primarily is that most land-based casinos in the
22 United States, other than the Indian casinos,
23 are privately owned and operated by primarily
24 publically traded companies. In Indian gaming,
25 the right to own that casino is exclusively in

1 the purview of the Indian tribes.

2 REP. JAMES: I see. Okay. Thank you.
3 And also going further, you talk about, it was
4 interesting, in Mississippi, you said the number
5 of AFDC and food stamp recipients has dropped in
6 each county which casinos operate. Does that
7 hold true for other states?

8 MR. SATRE: Yes. But the only place
9 that I have seen significant detail on that is
10 in Connecticut where the Indian casino opened up
11 in Ledyard, Connecticut and they saw the same
12 type of statistics.

13 REP. JAMES: So we only have
14 information as relates to those?

15 MR. SATRE: I am not sure that that is
16 the only information available, sir. That's the
17 only information that I have seen recently.
18 There is a lot more research being done, though.

19 REP. JAMES: As I am going over to page
20 five, you talk about the total state and local
21 gambling tax, and you list some states. I was
22 wondering: do you have a list of all the states
23 that the casinos are in, in terms of how much
24 you are paying in taxes or how much you
25 generate?

1 MR. SATRE: Yes, I can provide you
2 that, and you can also get that information
3 through published state documents. Each of the
4 states: Missouri, Illinois, Mississippi,
5 Louisiana, Nevada and New Jersey, all of them,
6 their gaming agencies publish a report annually
7 that indicates the total tax revenues received
8 and breaks down those revenues by area, in
9 general, or by a particular property.

10 REP. JAMES: Okay. Also, I remember
11 when casino gambling started in Atlantic City
12 and you talk about, in Joliet, how you have
13 really improved neighborhoods and the community.
14 And, seemingly, that didn't happen in Atlantic
15 City. You know, from my information, from my
16 understanding. What do you think the difference
17 was as it was handled?

18 MR. SATRE: Well, I would ask you to go
19 look at a project where Harrah's sponsored in
20 Atlantic City where we completely revitalized an
21 entire neighborhood at a \$50 million cost. And,
22 in fact, you will see that more and more in
23 Atlantic City. I think what has happened in
24 Atlantic City is that it's been unfortunately
25 misunderstood. It was a slow starter, to take

1 the prosperity created by casino entertainment
2 and convert that into benefits for the city.
3 But if you look at what has happened in the last
4 five years, they have really made up for a slow
5 start.

6 The project that we created, which is
7 in the inlet area of Atlantic City, has taken an
8 area where all of the homes were either
9 dilapidated or abandoned, completely rebuilt
10 that with condominiums and apartments, targeted
11 to low-income residents and low-income buyers.
12 And we have subsidized the purchase of those
13 homes by people who otherwise couldn't have
14 afforded to buy those homes. And that is not
15 just by Harrah's. Other casino companies have
16 done that. And that's all in the last five
17 years.

18 You will also see a new airport under
19 construction, a new convention facility under
20 construction in Atlantic City. And I think that
21 is all because the industry there has created
22 40,000 jobs. And the kind of payroll that that
23 creates for that state is in the neighborhood of
24 \$2 billion and that is significant.

25 REP. JAMES: Okay. You also talk about

1 how, in these different locations that you have
2 casinos, how it shows that the reliable sales
3 data tend to show that local businesses either
4 hold their own or perform better. If we were to
5 have that kind of riverboat gambling in
6 Philadelphia, would you, as an industry, work to
7 make sure that the businesses in Philadelphia,
8 that you don't take anything away from them, the
9 local businesses, that you will work together in
10 terms of trying to improve the economy for the
11 state?

12 MR. SATRE: Yes, I think that has been
13 true in all of the environments we go in. We
14 recognize that we are about the one of many
15 businesses in those communities. And when we go
16 in, whether it is Joliet, North Kansas City, we
17 are like everybody else: we join the local
18 Chamber of Commerce, we work with others to
19 support events that are going in the city that
20 attract tourists. And we have generally found
21 that our customers, while they'll eat a lot in
22 our restaurants, they are going to eat in
23 restaurants outside of the casino as well. So a
24 cooperative posture has been very successful for
25 us in each of our markets.

1 REP. JAMES: Because like if you come
2 to Philadelphia, we may not want to have a
3 restaurant on the boat because all the
4 restaurants we have down there. I mean, would
5 you be working with, I guess it is the
6 administration in Philadelphia to make sure that
7 you don't take anything away from those types?

8 MR. SATRE: Yes. But I think you have
9 to keep in mind that you don't want to create a
10 situation where the customer is going to say,
11 look, you made this not as entertaining an
12 experience for me and, therefore, all of the
13 things that you start out wanting to create by
14 bringing this into your state (more jobs, more
15 taxes, more tourism) doesn't work because you
16 constrained the industry too much by limiting
17 the customer's experience. And that has
18 happened in a couple of other states and they
19 have had to go back and adjust it because with
20 the idea that they would help somebody else,
21 they made the customer's experience a
22 noncompetitive, frankly.

23 I mean, you have to realize that
24 Philadelphia is going to compete with Atlantic
25 City where the customer gets a full array of

1 restaurant experiences and entertainment
2 experiences.

3 REP. JAMES: I understand. I just want
4 to make, just be assured of the fact that if you
5 are looking towards that, that you are really
6 talking in being with the administration as
7 relates to those, maybe, concerns.

8 MR. SATRE: Absolutely recognize that
9 as a responsibility.

10 REP. JAMES: Are you in New Orleans?

11 MR. SATRE: Um-hum (yes).

12 REP. JAMES: Did you have to close in
13 New Orleans?

14 MR. SATRE: We closed in New Orleans
15 last November.

16 REP. JAMES: What happened? You went
17 bankrupt?

18 MR. SATRE: The property had an
19 economic problem in that the negotiated task and
20 the rising cost of the project outstripped the
21 ability of the market to sustain it. So that
22 what we are trying to do with that now is to
23 reorganize that so that the cost of the project
24 is lower and the tax structure is more suitable
25 to the size of the market.

1 REP. JAMES: My final question, Mr.
2 Chairman.

3 Would you, in terms of riverboat
4 gambling coming into, let's say, Philadelphia,
5 would you be working in conjunction with the
6 horse racing industry and the other industries,
7 the gaming industries, the concern to make sure
8 that no one interest is taken over the other
9 interest?

10 MR. SATRE: Yes, I think we have
11 already established a pretty good dialogue with
12 them already.

13 REP. JAMES: Thank you, Mr. Chairman.
14 Thank you.

15 CHAIRMAN GANNON: Thank you,
16 Representative James.

17 Representative Boscola.

18 REP. BOSCOLA: Hi. Are you familiar
19 with the April 1st edition of Time? It is an
20 article, No Dice, What's at Stake, a Glance at
21 U.S. Gambling. And in there it says that, in
22 Louisiana, the bankruptcy of Hannah's casino in
23 New Orleans punched a \$23.6 million whole in the
24 city's budget. Can you tell me, I mean, who is
25 going to pick up that cost in the city's budget

1 where this type of thing occurs?

2 MR. SATRE: Well, it is being
3 reorganized right now. That is the whole
4 purpose of coming back in and reopening the
5 casino under a situation where the size of the
6 project, the costs associated with the project
7 including the tax structure are more sized to
8 the sum of the overall market in which it
9 competes.

10 REP. BOSCOLA: Well, it was a very
11 balanced article. It just explained that, in
12 some communities, you know, they have reaped
13 some of the benefit of expanding gaming, but in
14 other areas, it hasn't been successful and so
15 when we talk about expanding gaming in
16 Pennsylvania, we want to make sure that we are
17 not, you know, Louisiana's Harrah's casino. I
18 mean, we want to be, what you just pointed out,
19 Joliet.

20 And in the article, it was great. It
21 talked about, in St. Louis, where basically
22 drugs were rampant, the murder rate was the
23 highest in the nation, all of a sudden five
24 businessmen launched the casino Queen and as a
25 result, the revenues to the city was \$12

1 million. They slashed 30 percent of that city's
2 debt, they doubled the number of police officers
3 and patrol cars and their murder rate decreased
4 by a third and they employed 1250 workers.

5 And this is what was quoted by the
6 Mayor. Warren Bush said, it is bringing about
7 the city's renaissance. And what we want to
8 make sure of in Pennsylvania is that this type
9 of action occurs and not what happened. And I
10 don't understand, I mean, I am having a hard
11 time trying to understand what makes expanding
12 gaming successful in some areas and not in
13 others.

14 MR. SATRE: Well, you have to make it
15 competitive for the customer. In one of the
16 issues that Nuance has is that the structure of
17 that project, because of a combination of
18 political factors and regulatory factors, made
19 the project bigger than it should have been,
20 without some of the customer amenities that it
21 should have. For example, a very limited amount
22 of food service opportunities for the guests, no
23 hotel rooms for the guests, very limited inside
24 entertainment opportunities for the guests. And
25 you are trying to compete in that market with

1 Las Vegas, with Mississippi, with Atlantic City.
2 And if you regulate it down so much that the
3 customer has an experience that isn't
4 competitive, they'll go somewhere else.

5 Iowa had the same experience. The
6 boats there opened up and did very well until
7 Illinois opened up and then Iowa had such
8 anti-friendly customer regulations, they made it
9 difficult for the customer to have fun, in other
10 words. That it became noncompetitive with
11 Illinois and they had to go back and change it.
12 And I think you are dealing with some of the
13 same issues in the State of Louisiana in the
14 land-based casino.

15 And I think you have to look at that
16 very carefully, use the benefit of all of the
17 experiences in this industry: Missouri,
18 Illinois, Nevada, Atlantic City, Louisiana and
19 other states to reach the best possible
20 legislation and regulatory structure that you
21 can in the State of Pennsylvania.

22 REP. BOSCOLA: Thank you.

23 CHAIRMAN GANNON: Thank you,
24 Representative Boscola.

25 Representative Manderino.

1 REP. MANDERINO: Thank you, Mr.
2 Chairman.

3 Phil, you said Harrah's is in nine
4 states. Am I correct in assuming that all nine
5 states are, the casino industry is state
6 regulated?

7 MR. SATRE: That's correct.

8 REP. MANDERINO: Okay. None of those
9 states do you self-regulate?

10 MR. SATRE: No, there is a form of
11 state regulation in every single state and also
12 in New Zealand.

13 REP. MANDERINO: I am remembering
14 conversation, news reports in the past couple of
15 years with regards to the State of New Jersey
16 and there being a desire of the gaming industry
17 to move New Jersey to a self-regulated state. I
18 was going to ask you to explain what that
19 movement was all about, but you are shaking your
20 head.

21 MR. SATRE: Yeah, I am shaking my head
22 no. There was no move to go to self-regulation.
23 In fact, it is still the most heavily regulated
24 environment in the world that I am aware of.
25 The movement that was afoot there from the

1 casino industry was to give the regulators to
2 focus on those issues of regulation that go to
3 financial stability, integrity in the
4 operations, and in the owners of the facilities
5 that go to the adequacy and internal accounting
6 and control procedures that go to who's working
7 in them. In other words, are they being -- are
8 they: employees and the vendors and the owners
9 -- responsible people with good reputations and
10 all of that sort of stuff, and to try to get the
11 regulators not to be in the business of telling
12 us how to market our facilities, how to design
13 our facilities or when to open or close those
14 facilities, things that the customer is more
15 likely to tell you that they like or dislike.

16 And what has happened in the State of
17 New Jersey is that over the last four years,
18 they have relaxed those types of regulations.
19 They haven't relaxed any of the regulations that
20 go to financial integrity, stability,
21 responsibility, honesty, etc. As a consequence
22 of doing that, the state has seen a resurgence
23 of new capital investment. And as a result,
24 Atlantic City in the State of New Jersey are
25 going to have a much more worldwide competitive

1 casino industry because of the new capital that
2 is being attracted in there. There was no
3 effort to try to go to self-regulation.

4 REP. MANDERINO: Thank you. I am
5 putting together the remarks that you just made,
6 along with your observations to Representative
7 Boscola about why New Orleans failed and
8 particularly the political and regulatory
9 restriction that you reference there, and
10 combining that with the observations that
11 Representative James made about the desire of
12 folks as they look at gaming in Pennsylvania to
13 put restrictions on things like hotel
14 development or restaurant development or the
15 size of the facility or whether the facility
16 moves or does not move. Wouldn't it be fair to
17 say that those are all of the things that you
18 just suggested states should move away or be
19 weary of regulating and that they should only be
20 concerned about regulating the financial
21 stability and integrity of the internal
22 operations of your casino?

23 MR. SATRE: I think you can regulate
24 some of those things, but you need to strike a
25 balance between how big you want the industry to

1 be and how successful you want it to be. If you
2 put more and more of those things, that is, a
3 casino is not going to have any hotel rooms or
4 any restaurants or any ability to serve alcohol
5 or no entertainment facilities inside of it or
6 it is going to have to go on a two hour
7 excursion before anybody can gamble and all of
8 those things, you need to realize that you are
9 going to create fewer jobs, fewer tax revenues
10 and less tourism and economic development. And
11 that it is always a balance. And I think that's
12 what you are always doing in the Legislature, in
13 any case.

14 New Jersey is still a balance. It
15 isn't Nevada. It isn't some of the other states
16 in terms of its regulatory structure. It still
17 has more controls even on operating issues than
18 most other states. But it is a balance that
19 they are happy to live with. And the industry
20 obviously is successful in operating there. But
21 in order to attract that incremental amount of
22 new investment that they needed to get in order
23 to compete in a worldwide basis, they made a
24 decision to tip the balance in favor of the
25 relaxation of operating regulations, and I think

1 that they can manage that balance according to
2 their own wishes. I think you can do the same
3 thing here.

4 REP. MANDERINO: Is it fair to say that
5 the balance of those regulations is a fluid
6 situation, meaning you gave an example of one --
7 I am trying to think of the states along the
8 Mississippi where the balance had to shift when
9 the competitive factors of another state
10 offering the same thing should --

11 MR. SATRE: I used the example of Iowa
12 and Illinois and I have used the example of New
13 Jersey and Nevada. I mean, part of the reason
14 I think New Jersey had a change of mindset in
15 terms of how strict their regulations would be
16 on operations is that they saw, in the State of
17 Nevada in the late '80s and the early '90s, this
18 huge amount of new capital investment, huge
19 amount of tourism increment, a huge amount of
20 new jobs created there with the opening of five
21 or six big properties. And they went out there
22 and they kept saying, how come no one will come
23 and do that in New Jersey, why won't anybody
24 come and make those kinds of significant
25 investments in job creating, tax generating

1 tourist attraction facilities? And they were
2 told by those operators, they said, we can't do
3 that in your state because you have put so many
4 handcuffs on us, you have tied our arms behind
5 our backs so much that we can't make this an
6 attractive enough experience ultimately for the
7 guest who is always going to decide whether this
8 business succeeds or fails. And if you relax
9 that and we can create something that will
10 succeed with the customer, then we will succeed
11 in making that capital investment. It is always
12 competitive and, therefore, it is always fluid.

13 REP. MANDERINO: I assume there is some
14 way that the industry measures -- I am calling
15 it -- local visitors versus outside visitors. I
16 don't know if you draw a 50-mile radius around
17 your casinos and say these are the local folks,
18 or you define it by these are the day trippers
19 and these are the travelers, but I assume there
20 is some kind of industry-wide breakdown of who
21 of your local people. What is that standard
22 that the industry uses?

23 MR. SATRE: Well, there is no standard
24 because it varies by market. But what you will
25 find is that most markets will publish some

1 statistics that will give you a pretty good idea
2 on that. For example, if you go to the Las
3 Vegas Visitors and Convention Authority, they
4 will give you a breakdown of what percent of
5 their customers arrive by air, which is a pretty
6 good indicator that they are coming from out of
7 state; what percentage of their customers arrive
8 by car, how many of those people who have
9 arrived by car are coming in from the main
10 arteries out of Los Angeles and northern
11 California, which is again a pretty good
12 indicator; and then they have a total breakdown
13 of where they come from by state and by country.

14 For example, in Las Vegas, 10 percent
15 of the visitors roughly are international
16 visitors. That includes Canada, that includes
17 Mexico, that includes the Far East. The other
18 90 percent are U.S. customers. Roughly, in that
19 90 percent, you will find that about 30 percent
20 of the total comes from California, the rest
21 from throughout the United States.

22 REP. MANDERINO: And what percent from
23 Nevada?

24 MR. SATRE: And what percent from
25 Nevada, I think it is about 4 or 5 percent.

1 REP. MANDERINO: That was kind of the
2 information I am looking for. Do you know that
3 same kind of information for New Jersey since
4 you also operate there?

5 MR. SATRE: Off the top of my head, in
6 New Jersey, it's -- I don't want to go off the
7 top of my head because I don't have it as well
8 as I do the Las Vegas. But what I can tell you
9 about New Jersey is the average stay in Las
10 Vegas, which is another way of thinking about
11 this, is about four nights. In New Jersey,
12 because of the low number of hotel rooms there,
13 the absence of a major airline facility and to
14 some extent the customer's experience there,
15 they have had a much shorter visit than Las
16 Vegas. Somewhere around a day or a little less
17 than a day. That obviously tells you that their
18 customer base is much more regional, coming from
19 New York, Pennsylvania, south Jersey, north
20 Jersey, Delaware, Maryland and the like.

21 And that is the broader market for New
22 Jersey. It has a smaller number of
23 international customers: less than 1 percent, I
24 believe. It has a smaller representation of
25 other states visiting, people from other states

1 visiting than Las Vegas does. Now that will
2 change as you go. But we operate in Reno and
3 Lake Tahoe. They look a little bit more like
4 Las Vegas: a longer stay, more hotel rooms, a
5 lot more entertainment facilities, bigger
6 airport facilities closer to the casinos.

7 In the riverboat markets, it varies by
8 state. For example, in the State of
9 Mississippi, the vast majority of those
10 customers come from other states. In the State
11 of Illinois, I would say somewhere in the
12 neighborhood of 80 percent, perhaps as low as 70
13 percent of the customers for those operations
14 come from the State of Illinois. So it is
15 primarily a regional market, attracted from the
16 State of Illinois, the balance coming from other
17 states, and visitors from the City of Chicago.

18 And each one of those is a different
19 story, is what I am trying to say.

20 And I think if you proceed with
21 legalization in this state, it will vary by
22 cities. Your two largest cities are going to
23 attract people from a variety of other states
24 because they are on borders of populace states.
25 And they will be able to attract people from

1 Ohio and other states when you think about
2 Pittsburgh and you think about Philadelphia.

3 REP. MANDERINO: Thank you. On another
4 --

5 MR. SATRE: I worry that I confused
6 you.

7 REP. MANDERINO: No, you didn't. I
8 just decided that the next question is kind of
9 like when you cross-examine, you have to figure
10 out where you stopped with your questions and
11 form your own opinions and I just decided to
12 stop there.

13 On another front. In the casino
14 industry, I understand from the Lottery, I asked
15 the horse racing industry about the dollars in
16 that industry and what percentage goes to wagers
17 versus other places; how does that break down in
18 the casino industry?

19 MR. SATRE: Well --

20 REP. MANDERINO: Or is that something
21 that is regulated state by state?

22 MR. SATRE: It is really only regulated
23 in one state, which is New Jersey, which has a
24 mandatory minimum payback to the customer. And
25 that minimum payback on slot machines, if my

1 recollection serves me correctly, is 87.5
2 percent.

3 What you will find in other states that
4 don't regulate that is that the market, that is,
5 customers in competition, have moved that
6 payback on slots down to 95, 96 and 1997 percent
7 so that the house hold is somewhere between 3
8 and 6 percent. And in the case of Atlantic
9 City, the house hold is higher. And I think
10 that is an example of where, trying to regulate
11 that actually decreased competition and
12 backfired to a certain extent because the
13 customer is getting less payback than they
14 otherwise would have, if you follow me.

15 REP. MANDERINO: Well, I follow your
16 answer. I just don't follow the logic. Because
17 it is a minimum, mandatory minimum payback, I
18 don't understand how the market force is
19 working. Either there is something else in that
20 equation or it defies logic why the market is
21 working to depress it just because there is a
22 minimum, unless you are telling me that the
23 industry response to the minimum has been to
24 treat it as a maximum.

25 MR. SATRE: I think what happened was

1 when the industry opened up, they treated it as
2 a maximum and it has been slow in coming down to
3 the more competitive paybacks on slot machines
4 that you see in states like Nevada and in the
5 new merchant riverboat markets.

6 REP. MANDERINO: The last area of
7 question that I want to ask is about the notion
8 of -- I am sure there is a better word to use
9 that the industry is -- but the notion of people
10 being able to bet on credit of the gaming
11 institution. And it appears that that is not
12 the case, obviously with the Lottery, and it
13 appears that that is not the case at least in
14 Pennsylvania with regard to the horse racing
15 industry. My anecdotal survey says that is the
16 case in general with the gaming industry. Is
17 that true across the board, or are there states
18 that actually regulate not being allowed to
19 stake a customer?

20 MR. SATRE: Yes, there are some states
21 that do that. I can't recall right off the top
22 of my head where that is. It just doesn't come
23 to mind. But it really varies by company as
24 well. You will find that a lot of companies,
25 more and more, particularly in the new markets

1 which are more regional based, are doing a lot
2 less credit.

3 The credit that you read about is
4 primarily at the higher end of the play and it
5 is in markets that are more tourism oriented and
6 long-term stay oriented than somebody who is
7 coming in for four or five days, and have a lot
8 more international segment to their play. And
9 generally there are people who have high
10 economic worth who would like to have a credit
11 line set up.

12 REP. MANDERINO: Would you consider
13 regulation in that area part of a regulation
14 that you would put into the, quote,
15 political/regulatory restrictions that hamper
16 competitiveness, or would you put that into the
17 financial stability, industry integrity, ones
18 that don't affect competitiveness?

19 MR. SATRE: Oh, I think it is going to
20 be somewhere between the two. And I don't want
21 to weasel out on that, but I think you can
22 hamper competitiveness if you said we want to
23 create an industry here that was going to
24 attract high rollers from New York or from the
25 Far east. Obviously, if you don't have credit,

1 they are not going to come here. Now the
2 likelihood is that they weren't going to come
3 here anyway to play on the riverboat when they
4 have the choice of staying in Las Vegas in a
5 much more fully built facility.

6 So in that respect it would as a
7 practical matter probably not have very much
8 impact. When literally it would prevent those
9 people from coming, as a practical matter, it
10 won't. If you follow me. So that's where you
11 strike a balance.

12 REP. MANDERINO: And my last question
13 is just: there was a reference to, I think it
14 was in Illinois or maybe it was even in our
15 market here, experience in new markets, new
16 casino jobs often go to the
17 unemployed/underemployed and there was a
18 significant impact on programs like AFDC, etc.
19 In those markets, do you know if whether in any
20 of those there was any sort of requirement as
21 part of the --

22 MR. SATRE: -- regulatory structure?

23 REP. MANDERINO: Right. To hire
24 someone as an employer of --

25 REP. MANDERINO: So the requirements

1 that target the groups --

2 COURT REPORTER: Wait a minute, wait a
3 minute.

4 REP. MANDERINO: I apologise.

5 COURT REPORTER: I am sorry. I can't
6 hear.

7 REP. MANDERINO: I was just trying to
8 clarify further to say whether they were
9 requirements to either hire unemployed or
10 welfare recipients.

11 MR. SATRE: Sorry. I don't know of any
12 that specifically targeted welfare recipients or
13 unemployed people. What they have targeted more
14 was social economic mixes. And they looked at
15 the demographics -- for example, in Shreveport,
16 Louisiana where we operated a riverboat -- and
17 they said X percent of this population is
18 female, X percent of this population is
19 minority, we want you to hire within those
20 percentages; and that has been a part of either
21 state or local regulatory structure. And I
22 think it is a part of the reason it worked.
23 Mississippi, to my recollection, has no
24 requirements, whatsoever, on any of those
25 features. It is simply a matter of the hiring

1 pool and who you look for when you are hiring
2 into those jobs.

3 REP. MANDERINO: Thank you.

4 Thank you, Mr. Chairman.

5 CHAIRMAN GANNON: Thank you,
6 Representative Manderino.

7 Representative Hennessey.

8 REP. HENNESSEY: Thank you, Mr.
9 Chairman.

10 Mr. Satre, I was intrigued by the
11 locations of Harrah's operations: you have nine
12 states and New Zealand. Is there any common
13 factor that you look for as to where you are
14 going to locate? What does the United States
15 have in common with New Zealand and what makes
16 them an attractive environment for you? And
17 part of that is what? You are not involved in
18 Hong Kong or the European continent, is there a
19 reason that you are not?

20 MR. SATRE: Yes, the primary reason
21 that we are in New Zealand is when they
22 legalized casinos in New Zealand. And they
23 legalized two. One in Auckland which is on the
24 North Island and one in Christchurch which is on
25 the South Island. The form of casino gaming

1 that they legalized is an American style. In
2 other words, it is a large-scale facility that
3 has slot machines, table games, restaurants,
4 hotel rooms, entertainment facilities and the
5 like.

6 Most of the European continent
7 facilities are private clubs, with very limited
8 access that are targeted at the sort of blue
9 blood trade, for lack of a better
10 characterization, and not the mass market that
11 is looking for an entertainment night out.

12 So we have stayed away from those,
13 primarily, because we see ourselves as mass
14 marketers. And we have been attracted to
15 opportunities internationally, such as New
16 Zealand, that have a broader appeal to the
17 general public.

18 REP. HENNESSEY: Turning to your
19 testimony you had indicated that, in 1995, jobs
20 in the casino industry nationwide had increased
21 by 28 percent. I think you said that revenues
22 increased 27 percent in that same time frame.
23 What happened? What drove the 27 percent
24 increase in the gaming industry in that
25 particular year and is it likely to recur?

1 MR. SATRE: It is pretty closely what
2 it has been growing at through the '90s right
3 now, and the driver of that is increased
4 acceptance, more people believe this is an
5 acceptable way to recreate, that it is an
6 entertainment experience rather than a gambling
7 experience. And you will find that in tracking
8 through Harrah's U.S. Survey.

9 But you will also find it -- and I saw
10 reference to it earlier -- if you go way back to
11 the 1976 national study that was conducted of
12 the gaming industry. A higher percentage of
13 people interviewed there viewed casino
14 experiences as a chance to win or lose than as a
15 chance to have an entertainment experience.

16 That has changed dramatically in the
17 last 20 years. This industry has transformed
18 itself in part through a lot more regulation,
19 the ownership structure, the companies that have
20 come into this industry view themselves as
21 casino entertainment providers rather than as
22 the operators of a gambling joint.

23 And you will see that everywhere you go
24 now. And our customers see us that way as well.
25 The younger the demographic of the customer,

1 that is, customers in the 25 to 35 age range,
2 few this industry as much more acceptable to
3 them than our parents did. Not that I am in
4 that age range. But it is in that factor, is
5 increasing visitations to casinos. It is
6 increasing, I think, legalization of casinos,
7 because those people ultimately are the voters
8 who will influence outcomes in elections. And
9 they don't believe this is an industry that has
10 some of the myths, some of the taints that have
11 attached to it historically. They have grown up
12 in an era where you can play the Lottery, where
13 you can go to a casino and not only play a slot
14 machine, but have a great meal, see a great
15 show, watch a volcano erupt or dolphins jump.

16 So what I think is driving all of this
17 job creation, which you cited, the revenue
18 increases and the tax increases that have also
19 occurred during that time frame, is that there
20 is a major change in the attitudes towards this
21 industry by the people who ultimately decide
22 whether it is going to be there or not and
23 that's customers.

24 REP. HENNESSEY: You also indicated in
25 your testimony that, in 1988, there were only

1 two states that allowed casino gambling: Nevada
2 and New Jersey. And now, I think you said there
3 are two dozen.

4 MR. SATRE: That's about right.

5 REP. HENNESSEY: There were two dozen
6 in the space of eight years and now another 12
7 states are considering legalizing it. At which
8 point do we tend to reach saturation? And if
9 you were asking, what would you be looking for
10 in terms of whether or not we would ever, how
11 would you build a statute to cover this
12 situation in Pennsylvania and protect it from
13 saturation?

14 MR. SATRE: I will answer the first
15 question on terms of saturation. I think it is
16 very difficult to have a precise answer that
17 saturation is reached when there are X number of
18 casinos or X number of states with casinos or
19 whatever because the customer base is constantly
20 changing.

21 It would be a little bit like saying
22 there is only X number of customers to buy
23 computers or calculators, which both of those
24 industries have found is that as the product
25 changed and as the customer changed, the market

1 changed. So it wasn't finite. It was an ever
2 expanding and fluid market.

3 And the same is true in gaming. As
4 people who reach 21 years of age and decide they
5 are now ready for an adult entertainment
6 experience, look at the options. More and more
7 of them, I think say casino entertainment is one
8 of the options that I want to explore.

9 So you have to say what is happening to
10 the overall entire U.S. population. Because as
11 we near the year 2,000 and more baby boomers are
12 in their 50s and 60s, and everyone behind them
13 has a different attitude to this industry, the
14 market is bigger than it is today, because there
15 are a lot of people who simply won't go into
16 casinos today and older age brackets in
17 particular because they think it is
18 inappropriate. So I see the market as being
19 relatively fluid.

20 One of the figures we have used in here
21 and my remarks behind that figure is the gaming
22 casino entertainment revenues from gaming
23 activities in the year 1995 were \$20 billion.
24 That's an increase of \$12 billion since 1990
25 when it was 8 billion in revenues. That growth

1 comes about from more places to go with more
2 people willing to do it. We believe that
3 saturation in the United States, at a minimum,
4 doesn't occur until the industry gets over \$40
5 billion. So it is not even half way to its
6 ultimate level.

7 Now, on the state-by-state basis, if
8 the state is concerned about saturation, one of
9 the ways to do that is to limit the number of
10 licenses and limit the number of locations.

11 And if that is a concern, that
12 saturation will cause businesses to overbuild
13 and then to have problems of sustaining
14 themselves on an ongoing basis, one way a state
15 can do that is to regulate the number of
16 licenses. It isn't a cure-all. There is a
17 regulated number of licenses in the State of
18 Illinois and one of those licenses has been
19 chronically ill since the day it opened up. So
20 nine out of ten have been pretty darn successful
21 and one struggled. And they did it through
22 controlling, through ten licenses.

23 In the State of Mississippi where there
24 were no controls on the number of licenses, the
25 controls were by local option votes run by

1 county, and then within those counties you
2 should put as many as you can fit on the body of
3 water. There have been a lot more of them that
4 have gone out of business. In the long run, it
5 is a tremendous success in the State of
6 Mississippi. Far exceeding their expectations.
7 But they have had a few more dropouts that
8 haven't been able to make it and that's been
9 attributed to saturation.

10 I think you could also attribute that
11 to experience, financial capability, quality of
12 management, quality of product and location.
13 Five things that you would use to describe
14 anybody opening up any business anywhere in your
15 state, whether it was a restaurant, a men's
16 store or a hotel.

17 REP. HENNESSEY: Thank you. In follow
18 up to Representative James' questions, there has
19 been criticism generally about the lack of
20 involvement of the casino industry typically
21 outside the confines of their own boundaries,
22 their own properties. And you pointed to
23 Harrah's and said that in the last couple of
24 years, I guess you have invested \$50 million.

25 Can you tell us, what was the catalyst

1 for you doing that, number one? And, number
2 two, have other industries joined your lead and
3 are they also investing, or is it, do they have
4 a more parochial mindset than others?

5 MR. SATRE: Other competitors in our
6 industry or?

7 REP. HENNESSEY: No, the other
8 competitors, the other casinos in Atlantic City,
9 for example.

10 MR. SATRE: Yeah, Atlantic City has a
11 structure whereby you could, as an operator, do
12 what we did as one option. They have a casino
13 reinvestment, basically a tax of a point and a
14 quarter (.0125) of game revenues that needs to
15 be reinvested. On the one hand, you could turn
16 that money over to the government and let the
17 government reinvest it or you could take the
18 initiative and go out and look for a way to
19 reinvest that that would have an impact on the
20 community.

21 We chose to work with actually a
22 Philadelphia company to build this development
23 in Harbortown, we call it, in Atlantic City,
24 using money that was, would otherwise have been
25 turned over to the state. So it was a

1 methodology of using state reinvestment funds
2 that were required to be reinvested. And that
3 is how we ended up doing that.

4 And some of our other competitors have
5 done the same thing, and some of them have
6 simply handed the money over to the government
7 and said you reinvest it. And I think it is
8 really a matter of choice. We felt more
9 strongly about having an impact that was visible
10 to the people who lived in that city and the
11 people who visited that city.

12 REP. HENNESSEY: Did that occur as a
13 result of the change in the state regulation in
14 New Jersey after the fact, or was that built-in
15 and it just took some time to percolate?

16 MR. SATRE: It was built-in and it took
17 some time to percolate. That's what I think.
18 You know, I really, I only lived in Atlantic
19 City one year, but I really feel like Atlantic
20 City has gotten such a bad wrap on what has been
21 accomplished there. And in the first five
22 years, I think it was fair to say, look, nothing
23 has happened. But I think since then there has
24 been a concerted effort by the current Governor,
25 by the current Mayor of that city to really make

1 things happen. And if you go there right now
2 and you look at what is going on with that
3 airport, with that convention facility, with the
4 roads, you are going to see a lot is going on in
5 that city. And I am not here to defend them. I
6 just think it is a practical matter.

7 REP. HENNESSEY: Mr. Satre, thank you
8 very much.

9 Thank you, Mr. Chairman.

10 CHAIRMAN GANNON: Thank you,
11 Representative Hennessey.

12 Representative Caltigirone.

13 REP. CALTAGIRONE: Thank you, Mr.
14 Chairman.

15 You must have done some surveys in
16 Pennsylvania -- I would be surprised if you
17 didn't -- as the potential that you could make
18 as far as potential profits in earnings,
19 potential jobs, goods and services; that we had,
20 let's say, approval of this legislation, after
21 all the details were worked out; Pittsburgh,
22 Erie, Philadelphia, let's say if you had three
23 site locations, what would be your prospectus on
24 the potential of what your earnings might be,
25 the number of people you employ, the amount of

1 money that you would spend on goods and
2 services?

3 MR. SATRE: I will try to answer it.
4 We generally don't do a forecast of earnings.
5 We look at revenues. That is a fair statement.
6 We try to assess the gaming revenues and other
7 revenues that are the potential, which I think
8 is a valid way of trying to look at it. And if
9 it is okay with you, I will answer it based on
10 what we would see as revenues and jobs and goods
11 and services purchased. And I will use as the
12 template, the current legislation which I am
13 familiar with, which is 19 locations in a
14 continuous dockside environment for casino
15 entertainment.

16 Generally speaking, starting with what
17 that would involve in terms of investment, I
18 think you can look at, depending upon some
19 smaller markets, places that are more remote
20 areas are going to build smaller facilities,
21 have fewer employees and probably lesser
22 revenues. But if you took all 19 of those, I
23 think you could look at that and say, on
24 average, they'll have a thousand direct
25 employees each. They'll be more in the

1 facilities in Philadelphia and in Pittsburgh, in
2 all likelihood, perhaps fewer in some of the
3 other locations.

4 But I think using a thousand per
5 facility is a good rule of thumb. We are
6 actually running it more like 1300 in our
7 riverboats. And land-based facilities, they
8 average around 3,000 employees per facility,
9 somewhere in that neighborhood, down to 2,000.

10 So 19,000 direct jobs, it creates
11 normally one and a half more jobs in the
12 community, and those are construction jobs,
13 vendor jobs, suppliers and the like. So if you
14 just round-up to 20,000 and you do it one and a
15 half times that, you are up to 50,000 new jobs.
16 That would be the rule of thumb, looking at the
17 industry, if you had 19 separate locations
18 throughout the state.

19 And that can vary because that is not a
20 precise number, it is an estimate based upon a
21 rule of thumb.

22 The type of capital investment will
23 also vary. Again, using as a rule of thumb in
24 riverboat jurisdictions we are probably, right
25 now we have six riverboats, total capital

1 investment by our company in those six
2 riverboats is \$340 million as of the end of the
3 year. So that is, you know, \$55 million -
4 \$60 million per facility. That is rising
5 because of the investment that I talked about in
6 Kansas City. We are also expanding Joliet and a
7 couple of others. So it would be larger
8 overall.

9 But using \$50 million as an estimate
10 times the number of locations in the state, I
11 think would give you the level of investment;
12 and that is, of course, tied directly to
13 construction jobs and materials provided during
14 the construction stage of the business.

15 Then looking at revenues for the state,
16 based upon the locations of your major cities,
17 based upon the population throughout the state
18 and from what I understand to be the locations
19 identified in the statute for the 19 licenses, I
20 think you would have revenues in this state of
21 over \$1 billion statewide. That compares with
22 \$3.7 billion in Atlantic City in 1995; that
23 compares with, in Mississippi, around \$1.3
24 billion in 1995; that compares to Nevada
25 revenues in 1995 of somewhere in the

1 neighborhood of \$7.5 billion. Off the top of my
2 -- I am just trying to add up all the markets.
3 That gives you some sense of order of magnitude
4 where you would be looking at. The State
5 Illinois' revenues are below that amount, but
6 they have only four licenses in the very
7 populace part of their state near Chicago.

8 REP. CALTAGIRONE: One final question.
9 If you could provide the Committee with
10 information about the number of Pennsylvanians
11 that frequent the casinos in Atlantic City. Not
12 just Harrah's. I am sure there is some
13 industrywide sharing of information, information
14 that they have on the numbers of Pennsylvanians
15 that go down to the facility down there. I
16 would appreciate that.

17 MR. SATRE: Yes. But one thing that I
18 would recommend, sir, to you, that you look at,
19 I don't recall if it is like the Las Vegas
20 Commission Visitors Authority, but the Atlantic
21 City Visitors Authority keeps records of where
22 the visitors to Atlantic City are coming, how
23 many come in, and I believe they keep track of
24 where they are originating from. So that would
25 be one source that is marketwide that may be a

1 public source that already has that information.

2 The general rule of thumb that I have
3 heard for Atlantic City, among all the
4 operators, is that the estimate is that
5 approximately 20 to 25 percent of the visitors
6 through that city originate from Pennsylvania,
7 from the State of Pennsylvania.

8 REP. CALTAGIRONE: And what would that
9 total number be then, roughly?

10 MR. SATRE: Well, I think Atlantic City
11 has about 20 million visitors annually. So that
12 would add up to, in the neighborhood of five
13 million visitors if it is 25 percent.

14 REP. CALTAGIRONE: Thank you.

15 Thank you, Mr. Chairman.

16 CHAIRMAN GANNON: Thank you,
17 Representative Caltagirone.

18 Just a follow-up on that last question.
19 That five million, is that five million visits
20 or five million visitors, or 20 million visits?

21 MR. SATRE: That is visits. That is
22 not individual people. That might be one person
23 visiting five times, another person visiting
24 just once and another visiting 10 times. And it
25 will all add up. You add up their visits rather

1 than the individual visitors.

2 CHAIRMAN GANNON: In your report to us
3 on page four, you said the jobs industry paid
4 well averaging about \$25,000 per year. Do you
5 know what the mean salary is in the industry is?

6 MR. SATRE: You would have to use the
7 information based on markets actually to come up
8 with something realistic. You really need to
9 compare what will happen in this state with what
10 is the situation in Atlantic City. And in
11 Atlantic City, the mean and the average are much
12 higher than it is in the rest of the industry
13 because we are in a more competitive employment
14 market, we have to compete with lots of other
15 industries and as a consequence we have higher
16 wages, higher salaries and benefits are
17 generally the same. So it is higher in Atlantic
18 City.

19 If you look at salaried personnel in
20 our company, the average salaried personnel is
21 over 50,000 in Atlantic City. If you look at
22 wages, people who are on wages, the distribution
23 will be somewhere in the neighborhood of 28,000
24 or 29,000 a year for the mean, and in an
25 environment like Atlantic City.

1 CHAIRMAN GANNON: What's the general
2 starting salary for someone who would just come
3 in to, say a dealer or something like that,
4 somebody getting into the industry, starting?

5 MR. SATRE: For a dealer, I am a little
6 bit unfamiliar with it from an Atlantic City
7 standpoint which is I think the most relevant,
8 but I think it is probably, without tips,
9 probably around \$24,000 a year.

10 CHAIRMAN GANNON: And then that would
11 progress up as that dealer got experience?

12 MR. SATRE: Yes. There is generally a
13 way of grading jobs based upon length of service
14 and the number of different games that they
15 learn how to deal such as Black Jack, roulette,
16 craps, etc.

17 CHAIRMAN GANNON: Thank you very much,
18 Mr. Satre, for being with us today and
19 presenting your testimony and taking questions
20 from the Committee. We appreciate it.

21 MR. SATRE: Okay. Thank you.

22 CHAIRMAN GANNON: My next witness is
23 Vicki Abt, Professor of Sociology and American
24 Studies from the Pennsylvania State University.

25 DR. ABT: What is the chance that it is

1 snowing in Philadelphia? That is where I have
2 to go.

3 CHAIRMAN GANNON: You may proceed, Dr.
4 Abt.

5 DR. ABT: Okay. First of all, I would
6 like to apologize for the misspellings. My
7 computer is not and we are not totally in sink
8 yet. I just got this computer. And I didn't
9 know I was going to be -- although I am very
10 delighted to do so -- until late on Tuesday. So
11 I really could have added so much more, but I
12 guess now it is getting late and you are glad
13 that I didn't.

14 I have to also say, I would like to say
15 as a preface, I wish I could respond to all of
16 what I heard so far. I have been sitting here
17 through most of it. But I know that you don't
18 want me to do that. Maybe you will ask me
19 questions. Some of the things that you asked
20 that they couldn't answer, I have statistics for
21 and data on it that has been gotten through
22 research of scholars, people who have no ax to
23 grind in particular. All right.

24 Good afternoon, lady and gentlemen. I
25 appreciate this opportunity, more than you know,

1 to appear before you and to offer my testimony
2 as you consider some of the very complex issues
3 surrounding gambling in Pennsylvania and the
4 United States as we approach the 21st century.
5 My name is Vicki Abt. I am a professor, as you
6 said, of Sociology and the American Studies at
7 Penn State's Abington-Ogontz Campus near
8 Philadelphia. I have been employed there for 30
9 years. Since receiving my masters from Penn
10 State, I now feel like a Pennsylvanian. I think
11 30 years. You know, I was born in New York. I
12 earned my Doctorate in Soch. from Temple
13 University in 1972, staying at Penn State
14 part-time.

15 This is not the first time,
16 unfortunately, that I have appeared before
17 government to discuss gambling policy. I have
18 been doing this at least since I guess 1984, but
19 I started studying in the field in 1978.

20 I testified in '84, for example, the
21 House Business and Commerce Committee -- I think
22 it was then under Fred Taylor -- on then House
23 Bill 1808 Legalizing Gaming Machines in
24 Pennsylvania.

25 I was consulted on pending Act 63,

1 which is not pending any more, to legalize
2 off-track betting in Pennsylvania by the
3 Government Office of Administration Bureau of
4 Management Services in 1985.

5 In 1989, I consulted with a Mr. -- I
6 think it is -- Peter Boyer, an information aide
7 to the Illinois State Legislature on riverboat
8 gambling legislation.

9 I was interviewed in 1992 by Ted Settle
10 of the New Jersey State Legislature on legalized
11 sports betting or sports gambling in Atlantic
12 City casinos. Although we have not talked about
13 that at all, which is really the most popular
14 form of gambling that we still, in most cases,
15 say is illegal.

16 I have been the book review editor and
17 a papers reviewer for the Journal of Gambling
18 Studies (devoted to the academic and empirical
19 scholarly study of gambling since its
20 inception).

21 I have published in the industrie's
22 trade publication, Gaming and Wagering Business.

23 I am a consultant to the National
24 Council on Problem Gambling. I also worked at
25 Valley Forge Medical Center where these problem

1 gamblers that no one seems to have seen very
2 much of. I, unfortunately, have seen a lot of
3 them.

4 All of this started in 1978 when I gave
5 a paper entitled The Appeal of Race Track
6 Gambling: A Social Psychological Perspective. I
7 had spent literally hundreds -- I hate to say
8 thousands but I think it is thousands of hours
9 -- at Liberty Bell, which interestingly enough
10 was the first form of legalized gambling in the
11 20th century in Pennsylvania at the early 1960s,
12 and which went broke.

13 I was friends with its president, Mr.
14 Burbank. I had many dinners with him at the
15 finish line. And he kept saying, they are
16 killing me. It was the Lottery. When the
17 Lottery started in 1971, I wrote: '72 was the
18 last good year that I believe we really had.

19 I won't go into the tax problems they
20 had. They paid -- unless you want me to --
21 they, I will say very briefly, they had to pay
22 on handle. That is, they had to pay for each
23 person who walked in and made a bet. Whether in
24 fact it was a negative pool and the track lost
25 money, they still had to pay. And that was one

1 of their big problems.

2 This paper that I gave on my hundreds
3 of hours at race tracks --

4 And by the way, I interviewed jockeys
5 at Philadelphia State Park before it was
6 Philadelphia State Park. I interviewed drivers
7 at the harness track. I went behind the scenes
8 and I actually got up at 4:00 in the morning,
9 like I did today, to watch them fix the horses,
10 curry the horses and so on. I spoke to the
11 lady's rooms attendant. Not men's room
12 attendant, but lady's room attendant. I spoke
13 to gamblers. I spoke to guys behind the
14 windows, the token machine, etc. I have written
15 several papers about that. But I can give you
16 the citations, if you would like it. I brought
17 some.

18 In 1978, this paper was really one of
19 the first papers that was of an empirical
20 nature, and it was sponsored by the Bureau of
21 Business Economic Research, out of all things,
22 the University of Nevada. Certainly, they did
23 have -- I said they are nonpartisan -- but they
24 certainly have a stake in promulgating positive
25 studies of gambling. And mine wasn't

1 particularly positive, but they let me talk.

2 This was started by Professor Bill
3 Radington, who you may have heard of. He is
4 really the first (he was the Professor of
5 Economics at the University of Nevada) who has
6 now had about 12 of these. Now is an
7 international conference. As a matter of fact,
8 it was just at MGM Grande. I guess it was two
9 years ago when Harrah's came and gave this
10 wonderful scenario of what was going to happen
11 in New Orleans and I asked him questions then,
12 saying this is not too rosy of a scenario.

13 I have published dozens, more than
14 dozens of academic papers on the gambling
15 phenomenon and the principal author of the 1985
16 book *The Business of Risk: Commercial Gambling*
17 *in Mainstream America*, published by the
18 University Press of Kansas and cited in most of
19 the literature in gambling today.

20 Most recently I was contributed a
21 section for in the encyclopedia called *The*
22 *Dictionary of Ethics* -- it is not really a
23 dictionary, it is in the encyclopedia -- *The*
24 *Dictionary of Ethics, Theology and Society*. I
25 contributed a section on gambling. It is put

1 out by London's Routledge. Usually Routledge
2 Pagen (phonetic). And it is quite a good
3 publisher.

4 My professional work in the field is
5 centered around many things. I summed it up by
6 saying it centered around studying the
7 historical, political and economic factors that
8 have contributed to the recent radical changes
9 in our cultural norms and definitions of
10 gambling that was play and entertainment, as
11 well as a dramatic increase that has come right
12 with this in gambling behavior. Not just the
13 speakers who have spoken, but my own experience.
14 I think we underestimate the fact that we were
15 sometimes --

16 REPORTER: Excuse me.

17 DR. ABT: What was I saying? Oh, I was
18 saying many people keep talking about the fact
19 that they spend so much money through gambling.
20 Well, the fact is it can be stretched. And I am
21 not even talking about pathological compulsive
22 gambling. I am talking about obsessive
23 gambling. Gambling that they are spending too
24 much money by almost anybody's definition unless
25 they are moving this and then they are just

1 eccentric. Too much money, by their wives'
2 definition of it.

3 You can either do one of two things if
4 you want to the keep increasing this market.
5 One thing you can do is get people to gamble
6 more. And in my own studies, when I started in
7 1983, it was \$17 billion that was lost. By the
8 way, these revenues are losses, for your
9 information. Revenues losses, okay?
10 \$17 billion was lost. Today, it is \$30 billion.
11 The population did not double in that time. So
12 people are gambling more than they did before
13 legalization.

14 By the way, illegal gambling is a
15 battle at the same level. So it does not reduce
16 it. It rises about 5, 6 percent. About a
17 little more than inflation. It is in the
18 appendix of my book, The Business of Risk, which
19 was not really subpoenaed but it was requested
20 by the President's Commission on Crime. And it
21 is in the appendix of the President's Commission
22 on Crime as being the best estimate on illegal
23 handles.

24 It isn't true that we know nothing
25 about it. We do. We have a very complex

1 statistical analysis of how to get there. It is
2 in the appendix.

3 And that is pretty much just riding a
4 little with inflation.

5 The biggest jump in gambling has been
6 legalized gambling. We have the biggest bookie
7 in town, in the state. In other words, the
8 Lottery did not put numbers runners out of
9 business. What it did do was hurt the race
10 track industry, and I will talk about that a
11 little bit later. Because each form of
12 gambling, even though it is true, it expands
13 everything because it softens attitudes against
14 gambling.

15 The fact is that in the beginning at
16 least, the easier form of gambling, but that is
17 the one that is not as aggressive. And when I
18 say easier, I really shouldn't because what
19 happens is the aggressive form of gambling is
20 really easier for the player. It seems easier,
21 but he's going to lose more. In other words,
22 parimutuel handicappers can in fact change some
23 of the odds against them by knowing something
24 about the horses, by going to the track and
25 looking at the horses.

1 I have gone to the people and we had to
2 look at everything: a rump of the horse, the
3 tail of the horse. Because if they see the
4 mother, does it look like the outside, does it
5 look like the inside. These serious gamblers
6 could in fact drop the odds against them at
7 parimutuel wagering. They include it as a mixed
8 game of chance and skill.

9 Today, if you do it at home from the
10 phone, it is all chance. You might as well go
11 eenie, meenie, whatever. This is a culture of
12 that we are teaching young people. A kind of
13 fatalism that there is nothing you can really do
14 except to be superstitious to help your faith.

15 One of the reasons people were opposed
16 to gambling -- I heard the question about
17 religious opposition. There were two reasons.
18 One were the early Puritans and the Protestants
19 believed in predestination and believed only God
20 knew your destiny. That was one reason. I
21 won't say whether I agree with that or not.

22 But the second reason and the more
23 important one for America's capitalistic society
24 was that Adam Smith, who was also a Protestant,
25 argued that when you gamble, you are in fact

1 engaging in eating up your cash, your
2 investment, whatever. You are engaging in
3 consumption activity. When I buy a pair of
4 shoes, I stimulate the shoe business and make a
5 real capital investment in industry by making
6 shoes unless they go to Mexico or Brazil or
7 wherever the shoes are going.

8 By the way, you are not going to be the
9 wealthiest nation in the world if you become
10 Monte Carlo. It is not going to happen. The
11 top industrial nation is Venezuela and the ones
12 that we have to take into account do not depend
13 on this consumer exchange of money that is used
14 already in the economy.

15 Yes, I know we can compete with New
16 Jersey, but we are the United States of America.
17 I mean, if Philadelphia gets riverboat gambling,
18 do you think Camden is going to want it. I
19 mean, how many can we have. We could become a
20 nation that gambles much more than we are doing
21 it now.

22 You would have to think of what kind of
23 a future do you want for America.

24 Investment was the key to the Wealth of
25 Nations.

1 This is not investment activity. This
2 is a consumption activity.

3 Right now, we are in the third wave of
4 gambling. We have already gone over this. I
5 have heard other speakers talk about the
6 lotteries that founded Harvard University.
7 Pennsylvania Hospital, by the way, is the oldest
8 hospital in the United States. But one thing
9 they didn't tell you is that these were private
10 lotteries that were franchised by the state.
11 The state did not have a stake directly in them.

12 I would use the English model as the
13 best model of all. The state has no stake in
14 increasing or stimulating demand for gambling,
15 but rather it is just allows gambling.

16 I mean, if gambling was just another
17 fun play, just get rid of all of the criminal
18 laws, don't select to decriminalize, just say
19 gambling is fine. But then you have no way of
20 saying that this is a syntax. That is why we
21 can charge in effect a hundred percent tax on
22 lotteries. When they told me about returning a
23 billion dollars -- let's say it was \$2 billion a
24 bet -- \$1.6 billion, \$2 billion in sales and you
25 return a billion dollars to the players, that

1 means the players lost as a group half of their
2 stake. That's a hundred percent tax. No
3 consumer tax is that high.

4 Let me further suggest that when they
5 talk about voluntary taxes, all tax in the
6 United States are voluntary, especially consumer
7 taxes. I don't have to buy that stereo. But if
8 I buy it, I pay 6 or 8 percent depending on
9 where I am. So that is a specious argument.

10 I won't go over the three major ways we
11 had in America, except to stay with this third
12 way. This third way is the most virulent of all
13 of the attempts by the government, by the state
14 which should be a disinterested mediator of
15 competing interest, not have a vested stake in
16 helping casinos make money off of our losses.
17 And that is what has happened to Atlantic City.

18 I suggest you might want to read a book
19 by Richard Lehne, a Rutgers professor
20 (L-e-h-n-e) called Casino Policy. And he showed
21 that in every juncture the two commissions
22 (there are two different ones) caved into the
23 demands of casinos when the casinos were
24 threatened, like the resorts did not open on
25 time unless they raised the minimum bet because

1 they wanted to let people them take so they
2 wouldn't lose so much money, the commission.
3 And the resort said we won't open. Well, they
4 had put so much into it already, they invested
5 so much time and so much press and also money
6 into it and their jobs were at stake, too, they
7 couldn't say to the public, guys, we are
8 leaving.

9 Also, but even now, although it is
10 almost 20 years. And I have been in Atlantic
11 City almost every weekend. And, by the way, the
12 most popular business in Atlantic City, in spite
13 of what other people have suggested here, is the
14 pawnbroker business. They are now an average of
15 1.5 gold -- cash for gold. On every single
16 street from Caesar's to resorts, that is the big
17 business.

18 It did put businesses out of business.
19 There is only one movie theatre left. There is
20 one synagogue. There is one temple. I remember
21 five years ago wanting to go to the flower show
22 and what was in the Civic Center and they said
23 don't bother because nobody is going to be
24 there. No one is coming. Everybody is in the
25 casino. The only casino that went broke in

1 Atlantic City, in effect, was Playboy. And it
2 is was not because he was Mafia related. In
3 fact, he was the only one who was disorganized.

4 He went broke, I think one of the
5 reasons at least aside from disorganization is
6 because casinos have a license to put money into
7 casino owners unless they are mismanaged. Well,
8 then he allowed the windows to stay and people
9 saw the ocean and they said what am I doing in
10 this dark pit.

11 By the way, if you are going to put
12 casinos anywhere, put it where it can't compete,
13 because it competes too well even with the
14 ocean.

15 I remember talking about the Poconos
16 years ago, and I might even say put them there
17 if you want it. But in a major city, I came in
18 to you and I said this is a national issue's
19 apoclyptical statement, I was talking to one of
20 the vice presidents at Caesar's in interviewing
21 him for my book, and he said, Vicki, you let me
22 open one casino in New York City and I will put
23 Lincoln Center out of business.

24 I am not going to reiterate all of the
25 states that now have some form of gambling.

1 What I will say is that some of the things that
2 should be taken into account is that while
3 gambling is a \$40 billion a year business (that
4 means \$40 billion of losses, money that is not
5 going to buy the food and the bread and going to
6 the movies and so on) how much more do you want
7 to stimulate that? Americans gamble about 10
8 times that amount to get that \$40 billion as a
9 revenue source. By the way, it is gross
10 revenues. There are lots of costs to this.

11 So we gambled it back to the national
12 -- not the national debt because that is a
13 couple of trillion now, or almost 3 trillion
14 now, but every year, what the deficit is, that
15 is what we have gambled. We spend more money on
16 gambling than any leisure activity. All of
17 movies, all of newspapers, all of books, there
18 is more money gambling. People gamble more than
19 they do any other leisure activity.

20 I think that is serious for the future
21 of America. As a professor, I can tell you, my
22 students don't read but they gamble. They play
23 lotteries. By the way, teen-age addiction is
24 way up. It isn't true that young people are
25 just accepting this. Yeah, they are accepting

1 it and they are gambling and they are gambling
2 young. And it is like the opiate of marijuana
3 leading to crack or leading to heroin. Yet some
4 marijuana users never go to the other step, but
5 almost no heroin users never took marijuana.

6 And the fact is that most of these
7 people who have lots of problems with gambling
8 later started out playing the state lottery.

9 Little old ladies who never would have bet with
10 a bookie are betting with the state. The people
11 who would have bet with the bookie are betting
12 with the state and the bookie. And the state
13 gives the worst odds to its citizens. No
14 self-respecting bookie -- and I say that as an
15 oxymoran -- would take out more than 5 or 6
16 percent.

17 If you really say that gambling is just
18 another form of playing, legalize the bookies.
19 They'll give them a better chance to play. But
20 what should really seem natural is the generic
21 use. Well, we are agreeing the same, is that we
22 know this isn't a good activity, but it has some
23 benefits. It is just a Puritan notion of
24 pleasure can only be legitimate -- or vice can
25 only be legitimate if somehow we can make it

1 pay. But I am suggesting that is not paying as
2 well as you think it is going to pay. It
3 hasn't.

4 It is the fastest growing teen-age
5 addiction. People gamble disproportionately
6 from the most vulnerable -- not just the
7 teenagers -- the poor and the elderly. We say
8 that, but the Lottery started it. And I am not
9 going to ask you to get into the Lottery. I am
10 not going to do that. But to fund programs for
11 the elderly, it is precisely the elderly who are
12 gambling much more out of proportion than the
13 people who are not on fixed incomes. In other
14 words, you are taking away from Peter to give
15 back less to Peter.

16 Every dollar spent on gambling by
17 citizens is a dollar not spent on other consumer
18 activities. The argument that at least we get
19 the taxes on this behavior that went on anyway,
20 by legalizing it, is undermined by the fact that
21 illegal gambling continues at its average growth
22 and is only legal gambling that is exploding.

23 Gambling, this kind of gambling has
24 created a whole group of new people who are
25 gambling who have never gambled before or they

1 are gambling more because they gamble with the
2 bookie and the state or the casino or whatever.

3 Legalization increases the amount of
4 gambling period. The political clout of casino
5 interests promising easy money to legislators
6 and communities has been described in detail
7 most notably in Gigi Mahone's The Company that
8 Bought the Boardwalk. She is a very
9 well-respected journalist. She wrote for the
10 Wall Street Journal and the New York Times.
11 Gigi Mahon. That book really got me to write my
12 book. She wrote hers before me. The Company
13 that Bought the Boardwalk, it is about the
14 history of Resorts International.

15 By the way, they are still own the
16 major undeveloped land in Atlantic City. And
17 Harrah's was talking about how they are building
18 \$50 million, I don't know what he said exactly,
19 but the fact is that, 18 years, I tell you I go
20 there every year, I know the people in the
21 industry, and it is a wasteland, it is a
22 disaster for the people who are the citizens who
23 live there because no casino wants to be next to
24 poor people. They dug their heels in.

25 One of the people that I interviewed --

1 it wasn't at Harrah's, it was at Trump -- I
2 interviewed one of the people, one of the
3 executives. And I said why don't you fix up
4 Atlantic City? Why don't you get high rollers
5 coming in? My father was a high roller. They
6 wouldn't go near Atlantic City, unless they did
7 all kinds of things for them, because it is
8 horrible, it is ugly, it is depressing. He
9 says, well, we may have to fix it up. Because
10 in the beginning, we didn't have to bother, we
11 were the only game in town: the resorts, the
12 Trump and the casino. He said but now every
13 jurisdiction, we'll get Camden and I guess we
14 will have to fix it up. They didn't want to fix
15 it up. They didn't have to fix it up. They
16 will probably do something now because it is
17 desperation time, but it wasn't out of the
18 goodness' sake of their heart. Believe me. And
19 they waited 18 years and dragged their heel at
20 every, every opportunity.

21 By the way, what makes money for
22 Atlantic City, often nearby environment does not
23 necessarily get to the state in the right way.
24 You can't mix levels of analysis. And it
25 doesn't always get to the right people in the

1 particular locale. If you did a study right
2 now, which I am doing, and ask people in
3 Atlantic City who lived there for 30, 40 years,
4 would you vote again for the referendum, they
5 would say no. The majority of them would say
6 no.

7 Remember, like Pogo said, them are us.
8 In other words, when we talk about players, they
9 are us. This is our community. Our community.
10 What do we want our communities to look like?
11 Atlantic City, in my opinion, should be a
12 cautionary town. Taxes went up after casinos
13 debuted. In fact, there were many people who
14 couldn't hold onto their houses because of the
15 value of the property went up. And the casinos
16 could sit around and wait until the person --

17 Did you read about the casino who
18 literally built around this person? They are
19 the only game in town. If you don't want to
20 work for them, you don't work. If you get fired
21 from the casino, the other ones blackball you.
22 I have evidence for this. And if you don't want
23 to sell your house to them, it goes down to
24 worth nothing. They'll build around you,
25 they'll do all kinds of things.

1 They are very -- and I don't want to
2 make them into a devil -- they are a strong,
3 strong competitor. I am saying, you are right,
4 gambling appeals so much that does not mean we
5 should let people do it. So does doing drugs
6 for my students and I have got tell them don't
7 do it. Do you want to build opium dens? You
8 will have lots of construction, jobs and so on,
9 prostitution houses.

10 And if you are going to do that, or if
11 you want to legalize it, then do it the way you
12 did alcohol: you legalized it to keep
13 consumption down. You did it not so you could
14 raise tons of money. You didn't allow
15 advertising. What is your justification to, in
16 effect, make it a special visit that needs
17 commissions and the Legislature overlooking it
18 if you want to stimulate its demand? I don't
19 get it.

20 To me, it really is very confusing to
21 me. And I think we both agree, we all agree,
22 that the vices, we are not all of a sudden going
23 to say there is nothing wrong with doing drugs
24 or prostitution. It's that gambling is not a
25 biological substance so we can so easily, as a

1 sociologist, I am interested in changing the
2 definition of it. It is not just another form
3 of play. It is not just entertainment. It has
4 incredible ramifications for the community, for
5 what is built in communities, for what children
6 learn culturally. The highest students I rate
7 in the country, by the way, is in Las Vegas.
8 Yes, it has the highest building rate, too.

9 But the social costs, the economic
10 costs. And I am a sociologist, not a
11 psychologist. I am not even talking right now
12 about compulsive gamblers. We must be taking
13 the challenge and just look at these beautiful
14 figures of gross revenues.

15 The best thing I can suggest that you
16 read is by John Kindt, who I reviewed his
17 article. I have done a paper review for the
18 journal, also. And it is a wonderful article.

19 John Kindt, he is an attorney and also
20 a professor, as somebody mentioned, at the
21 University of Illinois. He has done a
22 cost analysis. He is also an economist, not a
23 psychologist. And the figures are right now. I
24 can't read them all right now, I don't have
25 time. But the name of the article is The

1 Economic Impacts of Legalized Gambling
2 Activities. It was published in the Drake Law
3 Review in 1992.

4 He refers to legalized gambling in
5 Deadwood, for example, as a black hole of
6 economics in the Black Hills. That is on page
7 70 of that article.

8 And he has no ax to grind, by the way.
9 He is not running for office. He is not trying
10 to work with casino. He does not work for GA.
11 He does not work for the National Council on
12 Problem Gambling. What John is a consultant
13 for, they don't pay any money.

14 He points out that child abuse cases
15 went from 350 to 500 cases within two years of
16 the beginning of casino gambling. Police costs
17 had increased 80 to 100 percent. Crime in the
18 Deadwood area had increased with a 50 percent
19 increase in felonies. Though national rates, by
20 the way as a sociologist I can tell you, had
21 declined over the same period except for
22 teenagers.

23 The highest incidents of crime now is
24 getting younger and younger. In other words,
25 the age of highest incidents is very serious

1 for us as a Nation. It used to be it was 23,
2 now it is 17. And this has been on the books
3 for a long time.

4 Compulsive gambling also increased, and
5 I don't want to talk too much about that. But
6 the associated costs of approximately \$52,000
7 per year per problem gambler. This increase
8 cost South Dakota an added \$260 million per
9 year.

10 In 1992, the national figures on
11 insurance fraud related to legal gambling was
12 about \$1.3 billion. Gamblers Anonymous -- and I
13 don't like to quote them too much, but they do
14 have an ax to grind -- has estimated that 47
15 percent of its members engaged in insurance
16 fraud, the average amount of the fraud is about
17 \$65,000.

18 Moreover, if you look at Iowa's
19 experience, we note that approximately one year
20 after beginning operations, two out of Iowa's
21 five riverboats left Iowa for Biloxi,
22 Mississippi.

23 Also, Kindt points out that once
24 gambling interests are voted into a local
25 community -- against what somebody just said --

1 their common tactic is to ask for and get tax
2 waivers. Usually five year waivers.

3 With regard to the issue of jobs, Kindt
4 reports that the thousands of construction jobs
5 and permanent jobs promised could also be gotten
6 by building other activities that we don't want
7 to build. And I mentioned some of them. And He
8 more seriously reports that in most cases, the
9 entire state economy would probably have lost
10 more jobs than the casinos -- this is in
11 Illinois he was talking about -- than the
12 casinos create due to the migration of consumer
13 dollars away from pre-existing businesses.

14 Interestingly, casinos may even hurt
15 the tourist industry (as in New Orleans) by
16 creating low-paying jobs, by attracting criminal
17 elements (prostitution, drugs), just traffic
18 jams. I can ask my neighbors in Queens Village
19 to talk to them in Philadelphia in the
20 happenings of the town with a riverboat. I said
21 why do you want to. So they said we don't want
22 the traffic, we don't want the people hanging
23 out, we don't want the day trippers. And we
24 said no, ma'am, because I didn't want to do
25 that.

1 I think somebody ought to do a study in
2 community. And one study, in my way, Senator
3 Paul Simon is going to do a national -- I hope
4 -- is going to do some kind of national study
5 which we do have a number. This is like stitch
6 a quilt, a crazy quilt of
7 decriminalization/criminalization. It makes no
8 sense. We should be doing national studies,
9 taking the smaller areas and watching them for
10 ten years. I mean, this is a longitudinal study
11 that sociologists have been doing for years.

12 I asked the Unlimited Lottery Fund -- I
13 think that is the one -- if they stuck the
14 Lottery in a small little place and let me check
15 it out. They wouldn't do it.

16 I will tell you what we did. I did a
17 paper at the Iowa conference on gambling and I
18 think the Iowa casinos and lotteries are
19 intensive there. And they did, in fact, pay all
20 the expenses for the National Council on Problem
21 Gambling. That is a kitten's amount. They are
22 very happy. I am surprised that the casinos and
23 the lotteries in town either said that they
24 don't speak, they don't do much of Gamblers
25 Anonymous. That would legitimate them so

1 beautifully that would scare them. In other
2 words, just give \$100,000 to spend. It is
3 nothing.

4 Besides, I have to say as a sociologist
5 who studied this, the recidivism rate is so high
6 we don't even talk about it in business yet.
7 Recidivism is long term. We have added it to a
8 garden variety in most. And as a light note,
9 Woody Allen has been in therapy for four years
10 and I don't think it is right.

11 I just did a study of talk shows. And
12 one of the big things that you are saying is go
13 get sassy. You know, he has just abused four
14 kids, rapes his father or something like that
15 and you say get better. What is going to
16 happen? Rehabilitate him? But we know it does
17 not usually work.

18 Recidivism is high in every crime.
19 They were unhabilitated (phonetic) to begin
20 with. I mean rehabilitate them. No, we just
21 throw it on the addict. It just looks good that
22 he must quit at the end of the month. The
23 12-step program is going to work. A 92 percent
24 recidivism rate. That's not just a fact,
25 people. I know everywhere he showed it. Over

1 97 -- in fact, people gained it back even more.
2 But all of the conferences were meant to do so,
3 right?

4 Okay. I don't want to take up too much
5 more of your time.

6 Even lotteries that only account for
7 about 3 percent of the total revenue raised by
8 lottery states fall below the amount raised by
9 sales and income taxes. While the maneuver of
10 shifting costs and passing the buck is seductive
11 to local elected officials, this is poor public
12 policy. Ironically once a state legalizes
13 gambling, that state can become addicted to the
14 initial tax revenues. Yet at 1 cent increase in
15 a state's sales tax would generally bring in
16 more revenues than all of that state's lottery
17 revenues.

18 In Illinois, for example, a 1 cent
19 increase would more than compensate for the
20 entire revenues from the state lottery and all
21 other forms of legalized gambling.

22 And it is the Lottery that softened the
23 attitudes against gambling. It is true that
24 most Americans now say that they don't want a
25 casino. Not in their back yard. They don't

1 want casinos.

2 That wasn't the case in 1978 with the
3 first national study. And the only national
4 study was a survey of the populace opinion and
5 most of them were opposed to casinos, hence the
6 title of the book, The Last Resort. Dombrink
7 and Thompson was already mentioned. It was a
8 pun. And I am resolved to the national, but
9 also the casinos would be the last resort and
10 yet we see in very few years that almost 32
11 states -- it is probably 37 -- have mapped out
12 some form of legislation for rec. gambling. I
13 don't know what they had to do, but they had to
14 amend their constitutions to get some form of
15 casinos. And Dombrink and Thompson did not
16 predict it in the book, the dire need for the
17 journal, so they just had to write an addendum
18 saying we were wrong. We didn't think that it
19 would do this in four or five years. And we
20 should have. We will never get another casino
21 after that Atlantic City debacle.

22 Now, you think of Nevada as an example.
23 It is really specious because it is not
24 representative. It is an anomaly. I already
25 said that. It is basically a desert state.

1 Without air conditioning and Bugsy Siegel, it
2 never would have happened anyway. It was an
3 entire economy based primarily around people
4 who visit and then take the costs and
5 ramifications of any problems back home with
6 them to their home state. We would have to turn
7 the state over to gambling as the principle
8 business to get equivalent data from Nevada. I
9 don't think you want to do that.

10 Right now one of your biggest exploits,
11 by the way, is education. I call it junking
12 education. We have it great. Our university is
13 in Pennsylvania and London now.

14 Gambling is generally legalized to
15 capture tax revenues, but the pre-existing
16 illegal gambling dollars have a tendency to go
17 to harder forms of gambling that are usually
18 still illegal for the simple marketing reasons
19 that the odds are better and the thrill factor
20 -- somebody did mention -- greater. Illegal
21 gambling handles are still much the same as they
22 have always been. What the legalized market
23 does is to seduce a whole new generation, a
24 whole new market segment of the public into
25 gambling. Therefore, legalizing gambling does

1 little to capture and tax the illegal gambling
2 market.

3 If you don't believe me, you just look
4 in my summary at Peter Boyer, an attorney who
5 talked about the fact that we tend to exaggerate
6 illegal gambling so that we can exaggerate how
7 whether or not we reduce it with legalized
8 gambling.

9 In 1988, the New Jersey Governor's
10 Advisory Commission on Gambling heard from law
11 enforcement officials who contended that
12 legalized gambling has not only failed to curb
13 illegal gambling, but, in fact, has been
14 conducive to its growth. (We reported much the
15 same things in the appendix to the Business of
16 Risk.)

17 The fundamental question as to whether
18 gambling legalizations and increased gambling
19 associated with legalization helps or hinders
20 the economy must, then, be seen in terms of its
21 impacts on national and state economies as well
22 as local communities and individuals. To only
23 focus on local economies or on short-term tax
24 benefits (pitting Camden against Philadelphia)
25 distorts the true effects on our population.

1 The social and personal costs of
2 gambling, which always leads in the aggregated
3 to losses -- These are games of unequal chance
4 to be gambled in your home basement, which is
5 illegal, by the way. I don't know what, but I
6 am doing something. I don't win. Somebody who
7 doesn't have the means. Somebody is going to
8 win. But if you gamble in a casino, the players
9 as a whole will lose whatever the takeout rate
10 is. It is a sure thing for the casino. I say
11 it, not even gambling, you are going to lose.
12 The best bet is the first bet, you win a little
13 more money. And gambling lets you do that. But
14 then your mechanics can't make it good on
15 anything that you do that comes.

16 The gambling industry competes only too
17 well with other activities that make up a viable
18 interestingly heterogeneous community,
19 especially in an open area. Do not put it in an
20 open area. The moral and religious arguments
21 against gambling aside, gambling is a fool's
22 gold for the average gambler as well as the
23 state. It is a bad bet for our future.

24 CHAIRMAN GANNON: Thank you, Dr. Abt.
25 Representative Hennessey.

1 REP. HENNESSEY: You are against it,
2 right?

3 DR. ABT: The funny thing is: no. I
4 have done more gambling and known more gamblers
5 than most people I know.

6 REP. HENNESSEY: You spend every
7 weekend in Atlantic City.

8 DR. ABT: Yeah.

9 I am against the state, not against
10 gamblers.

11 REP. HENNESSEY: That was the treat
12 with one of your comments which you said
13 entertainment is not a product?

14 DR. ABT: No, no. I said we were
15 changing the meaning of gambling and that this
16 lottery did it first -- by yelling at you, I
17 hope -- that gambling is a no-no, it is a play.
18 You change it and it sounds nicer and we just
19 call it gaming instead of gambling, you know.
20 It is gambling. I didn't say it is good. I
21 take no moral position one way or the other. I
22 am just saying shift the role of the state be,
23 to be in bed with casinos, because it is --
24 obviously you want them to succeed if you want,
25 if you are going to tax them. I mean, you are

1 hitching your wagon to these people's saws.

2 REP. HENNESSEY: I have no other
3 questions. Thank you.

4 CHAIRMAN GANNON: Thank you,
5 Representative Hennessey.

6 Representative Manderino.

7 REP. MANDERINO: Thank you, Mr.
8 Chairman. Just the one question. And I will
9 take a closer look at your written testimony.
10 But one of the areas that I am interested in --
11 and since you seem to know the literature very
12 well -- is there any paper or study that has
13 been done specifically that tracks the
14 government regulations of industries and how
15 they have changed over time, meaning over time
16 as a particular casino or gaming industry has
17 been in that jurisdiction?

18 DR. ABT: Richard Lehne, it is called
19 Casino Policy. He traces day by day, year by
20 year. And he doesn't just do New Jersey. You
21 know, he is at Rudger's. And it is fascinating.

22 REP. MANDERINO: Is that a book or?

23 DR. ABT: Yes, it is a book.

24 REP. CALTAGIRONE: Casino Policy?

25 DR. ABT: Yes, Casino Policy. Richard

1 Lehne. That is a good question, by the way.

2 Yeah, I wish we would look at these things
3 before we make policy.

4 REP. MANDERINO: Thank you.

5 Thank you, Mr. Chairman.

6 CHAIRMAN GANNON: Thank you,
7 Representative Manderino.

8 Representative Caltagirone.

9 REP. CALTAGIRONE: Yes.

10 Doctor, is there anything that you have
11 have done yourself that you could share with us,
12 any studies or a book? Have you written a book
13 yet or you are preparing to do that?

14 DR. ABT: Yes. Well, the Business of
15 Risk: Commercial Gambling in Mainstream America,
16 won the American Library Association award. I
17 believe outstanding scholar (phonetic)
18 publication of 1985. I wrote it with the vice
19 president of OTB, so I am not opposed to
20 gambling, okay? I wrote it with the Vice
21 President, Eugene Martin Christianson, who cited
22 in many of the statistics on gambling. He is a
23 casino consultant right now.

24 I wrote the book. It was the first and
25 only sociological analysis of the differential

1 impact of the various gaming on various parts of
2 the community.

3 REP. CALTAGIRONE: And the book is
4 called?

5 DR. ABT: The Business of Risk. We
6 were going to call it Risky Business, but Tom
7 Cruise came out with the movie at the same time.
8 That did us in. But it was also, that is the
9 book whose appendix was in the President's
10 Commission on Crime.

11 REP. CALTAGIRONE: And you co-authored
12 that with?

13 DR. ABT: I am the principal author.
14 With Eugene Martin Christianson, who is a gaming
15 consultant. I also worked with Ladbroke, I
16 think for a while, because he was interested in
17 OTB, in horse racing.

18 REP. CALTAGIRONE: Have you had an
19 opportunity to do statistical analysis?

20 DR. ABT: I can leave the book. I
21 brought it with me. I will give you a present.

22 REP. CALTAGIRONE: All right. Very
23 good. I will share it with the Committee.

24 Do you have any statistical analysis
25 also or is it incorporated in this book or is

1 there anything since then?

2 DR. ABT: They are all there up until
3 1985. Of course, I have worked since then. In
4 fact, they want me to redo the book. But I
5 don't want to work with Christianson so I am not
6 going to do it. But I have written many, many
7 papers that have those statistics. And I will
8 send you all of my papers. I will send you my
9 testimony at other -- I was an expert witness.
10 I wasn't being paid anything. I mean, this is
11 the first time I ever really been with a group.
12 And I will send you everything that I have done,
13 which is -- You will pay postage? Since I
14 gamble, I don't have no money.

15 REP. CALTAGIRONE: We will pay your
16 postage. Thank you.

17 Thank you, Mr. Chairman.

18 CHAIRMAN GANNON: Thank you,
19 Representative Caltagirone.

20 Dr. Abt, thank you very much for coming
21 here today and sharing your testimony with us
22 and answering our questions. We appreciate it
23 very much. Thank you.

24 Unless there is any further comments or
25 questions, this Committee hearing is adjourned.

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(Whereupon, the hearing was adjourned
at 3:05 p.m.)

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I hereby certify that the proceedings
and evidence are contained fully and accurately
in the notes taken by me on the within hearing,
to the best of my ability, and that this copy is
a correct transcript of the same.

Mrs. Roxy Cressler

Mrs. Roxy Cressler, Reporter
Notary Public