



HARRAH'S ENTERTAINMENT, INC.
The Premier Name in Casino Entertainment

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Remarks by Phil Satre
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Good morning Chairman Gannon and members of the committee. My name is Phil Satre. I am President and Chief Executive Officer of Harrah's Entertainment, Inc., headquartered in Memphis, Tennessee. I began my career in the casino entertainment business more than 20 years ago as an attorney for Bill Harrah. Since that time, I have served as president of Harrah's Atlantic City, and then was responsible for Harrah's overall casino operations before becoming president and CEO in 1994. I am a board member of the National Council on Problem Gambling.

It's a pleasure to be here to discuss casino entertainment -- one of the most dynamic economic development tools to emerge in the '90s.

To preface my comments today, I want to give you some background on my company and our leadership role in the industry. From there, I will turn to an overview of the casino entertainment industry today -- how and why it is growing, and the economic benefits of jobs, tax revenues and tourism that the industry's growth is generating.

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

We are the only truly national casino entertainment brand. With casinos in nine states and New Zealand, we deliver on our promise of a "Great Time. Every Time." in more locations and more segments of the industry than any other company. That also means we operate successfully under strict guidelines and regulations in more casino jurisdictions than any other company.

We have also called upon our wealth of experience to enter more emerging markets than any of our competitors.

We operate land-based, cruising riverboat, dockside riverboat, small-stakes and Indian casinos. We operate in highly competitive markets ... and in markets where supply is limited. We operate in mature markets ... and in dynamic emerging ones. We operate large facilities ... and smaller ones. We manage for ourselves ... and for others.

In short, we are more diversified than any other casino entertainment company.

Our leadership position in the industry was recently recognized by Fortune magazine. We are proud to have been named to the top 20 most admired companies in America by Fortune's recent poll. We shared the limelight with Mirage Resorts, which broke into the top 10. It's a remarkable accomplishment for a relatively small industry like casino entertainment to have two companies named to the top five percent of this prestigious list.

But what we really feel good about is delivering on our promises, as evidenced for example in the article you may have read in the New York Times about a month ago featuring Harrah's Joliet. An excerpt from the article reads: "Joliet is growing, building homes and adding jobs. It has spiffed up its schools, streets and the library. ... And even as the city has undergone this transformation, it has cut taxes. " We are a leader in growing casino entertainment in new markets ... and we will continue to be.

Our business will continue to grow basically because guests are demanding more of our form of entertainment.

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

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

Visits to both traditional and new markets continues to climb. There were 154 million casino visits in 1995, an increase of 23 percent over 1994.

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

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

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

The combination of these facts about acceptance and demand for our entertainment, along with evidence that we can deliver on our promises of job creation, tax generation and economic development all bodes well for future growth of the casino entertainment industry.

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

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

Outside of Nevada and New Jersey, legalized casino gaming began to appear on Indian reservations in 1990 in Minnesota and Wisconsin. These casinos sparked "border wars" among neighboring states. In 1991, Iowa had riverboat casinos. This was followed rapidly by casinos across the Mississippi River in Illinois. Then Missouri and Indiana legalized casino entertainment on riverboats. Similarly, when Mississippi legalized casinos, it was quickly followed by Louisiana.

Two questions always come up in discussions about the economics of casino entertainment. They are: how big is the market and what is the saturation point.

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

Coupled with what we know about the acceptability of casino entertainment, this tells us that an additional one quarter of American adults -- more than 45 million people -- are potential casino customers. That is a huge untapped market. And as we have already seen, acceptance grows even stronger as new supply comes on line. As a nation, then, we are nowhere near the point of saturation.

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

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

Indian gaming has expanded quickly since the passage of the federal Indian Gaming Regulatory Act in 1988. I probably do not need to tell you about Foxwoods in Connecticut, which is considered the most successful casino of any kind anywhere in the world.

Riverboat gaming evolved following Iowa's lead. Since 1989, five additional states have authorized casino gaming on board floating vessels: Illinois, Mississippi, Louisiana, Iowa, Missouri and Indiana. This category includes casinos on cruising riverboats, as in Illinois, as well as dockside vessels that are permanently moored, as in Mississippi.

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

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

Jobs in our industry pay well, averaging about \$25,000 per year. Speaking for Harrah's, our compensation package includes an excellent 401(k) retirement plan, as well as health insurance and education benefits.

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

The benefits of job creation are not limited to the casinos themselves. Each casino job creates between one to two-and-a-half jobs in the economy at large. In Missouri alone, the casino industry purchased more than \$100 million dollars in goods and services in 1995. An overwhelming majority of those purchases was made from local suppliers. Missouri banks have been some of the top beneficiaries -- providing operations and cash management services, including coin and currency, night depositories, short-term investment and payroll. Other industries receiving spin-off benefits include food services, construction and small businesses like dry cleaners, florists and advertising agencies.

In addition to creating jobs, casinos provide a revenue source for state and local governments, paid for only by those who choose this form of entertainment. Casino entertainment generated total state and local gaming tax revenue in 1995 of \$1.75 billion dollars -- a 27 percent increase over the prior year. Gaming taxes are now the fifth largest source of income for the states of Missouri and Mississippi and the eighth largest for Illinois. Here's a example from just one market. In 1995, Harrah's Joliet paid more than \$46 million dollars in taxes from operations. This figure is about triple what it was for the casino's first year of operation in 1993. The casino paid more than an additional \$700,000 in local surcharges, sales and property taxes last year.

The city is using the revenue from Harrah's Joliet and our competitor, the Empress casino, to pay off debt. In fact, the city manager projects that the city will be debt-free by the year 2001. The new revenue has also allowed the city to make capital improvements, such as neighborhood improvements, streets, sewers and schools. Despite this spending, the city has also begun to cut taxes, like an annual motor vehicle tax and a water fee.

Joliet is just one example of what we have experienced in other casino hometown communities. Local economies with casino entertainment grow across the board as new jobs, new investment and new spending cause the economic pie to expand.

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

Casino entertainment is also a proven regional tourism draw that fills hotel rooms, increases restaurant visits, and stimulates local retail sales. In Missouri, cities like St. Louis, Kansas City and historic St. Charles are using riverboat gaming as a catalyst for downtown development and riverfront revitalization. I'd like to quote Mary Nelson, the general counsel for the St. Louis Development Corporation. She says: "In a city that has recently built a new convention center, domed stadium, indoor sports arena and light rail system, gaming was the element needed to provide the critical mass to draw visitors to St. Louis and enhance the city experience for residents."

A new casino has tourism and entertainment appeal much like the Oilers have to Nashville, the Seahawks do to Los Angeles, or the Cleveland Browns to Baltimore. Casino entertainment has the added benefit of requiring no public funding, no special taxes and no new indebtedness to become operational. While professional sports franchises pay comparatively little in taxes, provide fewer good paying jobs and require huge investments of public dollars, riverboats pay significant taxes and fees, provide good paying jobs with health and retirement benefits, and require no public funding.

Casino entertainment as a regional tourism draw is analogous to a new aquarium, a new amusement park or major league sports franchise -- and in fact is quite comparable in cost as an entertainment option. None of these forms of entertainment is intended to change the character of the local community, but all are intended to bring people from throughout the region to a designated location for entertainment.

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

Having looked at the macro view, let's turn next specifically to riverboat casinos and what you might expect at a typical riverboat development. I'll use Harrah's North Kansas City as an example. We invested \$86 million dollars to build this exciting complex which opened in September of 1994. We currently offer 47,000 square feet of gaming space on board a replica of an 1880s-style paddlewheeler. The complex is anchored by a themed 58,000 square-foot shoreside pavilion, featuring a brick facade and clock tower. The pavilion includes two restaurants, a sports bar, meeting space and retail in approximately 42,000 square feet of space.

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

The tremendous customer response during the casino's first year of operation is the catalyst for an expansion currently under way. We are nearly doubling our initial investment in the market, spending an additional \$78 million dollars. We are adding a second gaming vessel, expanding the pavilion and adding a 200-room hotel. We just completed a 1000-space parking garage to accommodate the additional demand.

Looking inside the physical plant at our operations and especially our system of internal controls, it might be helpful to think in terms of how someone once described a casino -- that is, it's a bank surrounded by slot machines. Because of the large inventories of cash and other negotiable instruments like chips and tokens that are necessary to operate our business, an effective set of controls is essential.

We are proud to have taken the industry lead in developing stringent financial controls. For example, Harrah's was the first casino to develop daily financial reports, and the first to institute "eye in the sky" surveillance. Our internal controls also include documentation and supervision to ensure that management decisions and regulatory requirements are carried out, and continuous monitoring through accounting procedures, closed circuit TV surveillance, and uniformed security. We have established an independent internal audit function, reporting to our board of directors, to monitor all of our financial systems.

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

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

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

Our Project 21 and Operation Bet Smart programs -- addressing underage and compulsive gambling -- have become industry standards and are widely adopted. Shortly after we introduced Project 21 in Atlantic City, virtually all of the city's casinos joined forces and agreed to adopt and jointly fund the program.

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

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

In Pennsylvania, we are proud to support and work with the state's Compulsive Gambling Council, for which we recently funded a Public Service Announcement.

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

In summary, if casino entertainment creates problems in its hometown communities, they are overwhelmingly problems of prosperity. And they are good problems to have. More tourists in town ... spending discretionary income. More jobs ... putting people to work. More revenues for states and local communities ... improving balance sheets. I do not suggest casino entertainment as a cure-all, but it is a proven economic engine for growth.

Seeing the success of casino entertainment makes us optimistic about the future of our industry. Seeing the benefits to our communities makes us optimistic about the positive economic impact of casino entertainment.

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