

CHAPTER 1

INTRODUCTION AND BACKGROUND

INTRODUCTION

There is no question that gambling is a major industry in the State of Louisiana. Louisiana has more forms of legalized gambling than any other state, save Nevada, with a land-based casino, riverboat casinos, horse-racing tracks, off-track betting, video poker in a large number of locations, Indian reservation casinos, and lotteries. With the exception of horse tracks and off-track betting, all of the other forms of gambling have been introduced into the State's economy over the past ten years.

In 1998, total revenues for the State's gambling industry were \$2.178 billion. In contrast, 1990 total revenues for the State's gambling industry were \$192.1 million. Clearly, the gambling industry has been a growth industry in the State in the 1990s. Unlike other industries, especially growth industries, the gambling industry has faced a great deal of criticism by business, government, and religious leaders. In the face of this explosive growth in the industry and the constant questions posed about the industry, the Louisiana Legislature in the Fiscal Session of 1998 added \$600,000 to the budget of the Louisiana Gaming Control Board for **the purpose of studying the impact of gambling on the Louisiana economy.**

Among the questions that the Gaming Control Board and the Legislature wanted addressed are:

1. Who provides the billions of dollars spent on gambling in the State?
2. To what extent do the various gambling venues bring in dollars and people from outside the State to gamble in Louisiana? Do those visitors spend money in other businesses in the State while they are here to gamble?
3. Are the gambling dollars spent by Louisiana residents dollars that would have been spent out of state or are they dollars that would have been spent on activities other than gambling?
4. Do the gambling businesses spend their money in Louisiana with local business or do the dollars flow out of state?

5. Does gambling cause additional crime in the State?
6. Does gambling create additional social costs in the State?

These are some of the important questions that are addressed in this study.

RESEARCH TEAM

The Gaming Control Board contracted with the University of New Orleans to lead a team of Louisiana and national researchers in the search for answer to these and other questions. Dr. Timothy P. Ryan and Dr. Janet F. Speyrer, of the University of New Orleans, directed this effort. They assembled a team that included scholars from all corners of the State, especially those areas that had significant gambling activities.

Several major universities in the State of Louisiana are represented. To guide the project, an Editorial Board was created to make important research decisions and give final approval to the overall project. The members of the Editorial Board are:

1. Dr. Timothy P. Ryan, University of New Orleans
2. Dr. Janet F. Speyrer, University of New Orleans
3. Ms. Susan T. Beal, Louisiana State University, Shreveport
4. Dr. Daryl V. Burckel, McNeese State University
5. Dr. Bobby R. Cunningham, Grambling State University
6. Dr. Michael M. Kurth, McNeese State University
7. Dr. Loren C. Scott, Louisiana State University, Baton Rouge
8. Dr. Jerry L. Wall, Northeast Louisiana University
9. Dr. James R. Westphal, Louisiana State University Medical School, Shreveport

In addition to the members of the Editorial Board, the research team also included Dr. Rachel Volberg and Mr. Lamar Moore, Gemini Research; Mr. John Boston, Survey Communications, Inc.; Dr. Dek Terrell, Louisiana State University in Baton Rouge; Dr. Lee Stevens, Louisiana State University Medical Center in Shreveport; Dr. Joyce Johnson, Centenary College of Louisiana; Ms. Carolyn White, Louisiana State University in Shreveport; Ms. Dee Jones, Northeast Louisiana University; and Ms. Jamie Fisk, Mr. Vinnie Maruggi, Ms. Patricia Connor, and Ms. Ludivine DorJe Foley, University of New Orleans.

The final report is a joint product of the Editorial Board. Several reports were conducted on specific subjects as part of the overall study and are included in the appendices. Those reports are credited to the individual authors.

In this study, the types of gambling analyzed include riverboat casino gambling, Indian reservation casino gambling, video poker, horse racing and off-track betting, and the lottery. Note that riverboat gambling receives the most in-depth treatment because of the limited number of locations and the potential ability of riverboat casinos to attract people and dollars from outside the community. Other than border effects, the other forms of gambling have limited ability to attract visitors from out of state. Indian casino gambling receives more limited analysis due to the non-availability of data. Since Indian gambling occurs in sovereign nations and is not subject to state regulation or taxation, data are not available from government sources. Indian casino representatives were unresponsive to our direct requests for data.

HISTORY OF THE GAMBLING INDUSTRY IN LOUISIANA

Prior to 1990, horse racing and charitable gambling were the only forms of legalized gambling in Louisiana. In 1990, the Louisiana Legislature and the voters passed a constitutional amendment authorizing the Louisiana Lottery. In 1991, the Legislature authorized video poker gambling devices for bars, restaurants, truck stops, racetracks, and off-track betting facilities. In the same year, the Legislature passed legislation authorizing 15 riverboat casinos statewide with a maximum of six in any one parish. In 1992, the Legislature passed legislation legalizing land-based casino gambling at the Rivergate site in New Orleans. During the period from 1990 to 1998, Indian reservation casinos also developed as the State entered into compacts with certain tribes.

Once the necessary legislation was passed, gambling activity began quickly. The Louisiana Lottery was unveiled in 1991; and, in 1995, Louisiana joined the multi-state powerball. Lottery revenues started at \$79.7 million in the first year of operation and quickly climbed to \$248.3 million in only the second year of operation. To this point in time, second year lottery revenues still mark maximum annual revenues.

After an initial delay in the licensing process, video poker machines began to operate in late spring 1992 at 42 locations with 1,273 devices operating. Then, video poker spread like wildfire throughout the State. In 1998, approximately 15,125 video poker machines existed in 3,600 establishments. Players lost approximately \$676.5 million, and state and local governments collected almost \$200 million in taxes, fees, penalties and interest. Recently, 33 parishes voted to make video poker illegal when current contracts expire. This change has not taken effect yet, and it is unclear how video poker revenues to the government will be affected.

Of the 15 riverboat casino licenses authorized, 13 license holders are currently operating casinos and one plans to start operations soon. One license remains available. Of the 13 operating boats, three are in the New Orleans metropolitan area (one in Orleans Parish and two in Jefferson Parish), two are in Baton Rouge, four are in Lake Charles, and four are in the Shreveport-Bossier City metropolitan area (one in Caddo Parish and three in Bossier Parish). The 14th license has been designated for a boat in the Shreveport-Bossier City metropolitan area, bringing the total in the Shreveport-Bossier City metropolitan area to five.

Land-based gambling, on the other hand, has had a much more tumultuous history. In 1995, a temporary casino, Harrah's Jazz, opened in New Orleans at the Municipal Auditorium while the permanent land-based casino was being constructed at the Rivergate site. However, when Harrah's Jazz went into Chapter 11 bankruptcy protection in November 1995, the temporary casino was closed after only six months of operation. All construction at the Rivergate site was halted until the company came out of bankruptcy in 1998. The casino is expected to re-open in 2000. (Note that the land-based casino was not included in this study since it did not operate during the period of this study).

Finally, three Indian tribes have signed compacts with the State to operate casinos on their reservations. By 1998, the Chitimacha, Tunica-Biloxi, and Coushatta tribes operated a casino in St. Mary, Avoyelles, and Allen Parishes, respectively.

Before proceeding with an analysis of the Louisiana gambling industry, it is important to define some terms used in the industry and in this report. First, it is very important to make a distinction between **gross wagering** and **gross revenue** for the gambling establishment. Gross wagering is the total amount of money bet by the players

(for racetracks, the gross wager is referred to as the "handle"). A significant fraction of the gross wager amount is returned to winners. The difference between the gross wager and the amount paid to winners is the gross revenue to the gambling establishment, which is equal to the amount lost by the players. For casinos, the gross revenue is referred to as the "Win."

Table 1-1 presents the overall history of gambling revenue from 1990 to 1998. In 1998, players lost approximately \$2.178 billion on the forms of gambling being studied. Over the period from 1990 to 1998, the gambling industry has grown by 1,134%, an increase of \$1.986 billion.

TABLE 1-1
GAMBLING NET REVENUES OVER TIME
(IN MILLIONS)

Year	Video Poker	Riverboat Casinos	Lottery	Horse Racing	Charitable Gaming	Total
1990	-	-	-	\$131.9	\$60.2	\$192.1
1991	-	-	\$79.7	129.8	76.5	286.0
1992	\$94.7	-	248.3	114.4	87.9	545.3
1993	274.6	-	201.8	104.5	79.3	660.2
1994	474.6	\$309.3	158.4	87.1	65.1	1,094.6
1995	549.5	1,050.0	153.0	73.2	55.2	1,880.9
1996	605.4	1,211.5	142.0	73.7	53.6	2,086.2
1997	632.4	1,245.0	143.8	74.9	51.3	2,147.4
1998	676.5	1,212.9	156.1	78.7	54.1	2,178.3

Source: Louisiana State Police, Louisiana Racing Commission, Louisiana Lottery Corporation

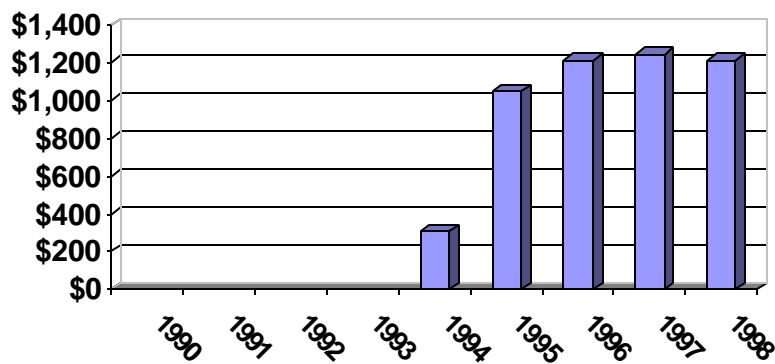
Clearly, the gambling industry is a very significant industry in the Louisiana economy. However, there does seem to be some substitution among forms of gambling. In 1992, before riverboat casinos and video poker were fully implemented, the lottery,

horse racing, and charitable gaming had net revenues of \$450.6 million. In 1996, after these other forms of gambling were fully implemented, the lottery, horse racing, and charitable gaming had net revenues of only \$269.3 million, a decline of \$181.3 million (40%).

Initially, upon introduction of a new form of gambling, net revenues tend to grow rapidly. Once that form of gambling is in operation for a few years, the growth tends to slow. From 1990 to 1995, the gambling industry in Louisiana grew at an annual rate of 57.8%. From 1995 to 1998, a period in which no new forms of gambling were introduced into the economy, the annual growth rate has been 5.0%.

Figures 1-1 through 1-6 present the revenue trends of the various components of the gambling industry from 1990 to 1998. Figure 1-1 presents riverboat casino revenue.

FIGURE 1-1
RIVERBOAT CASINO WIN
(IN MILLIONS OF DOLLARS)



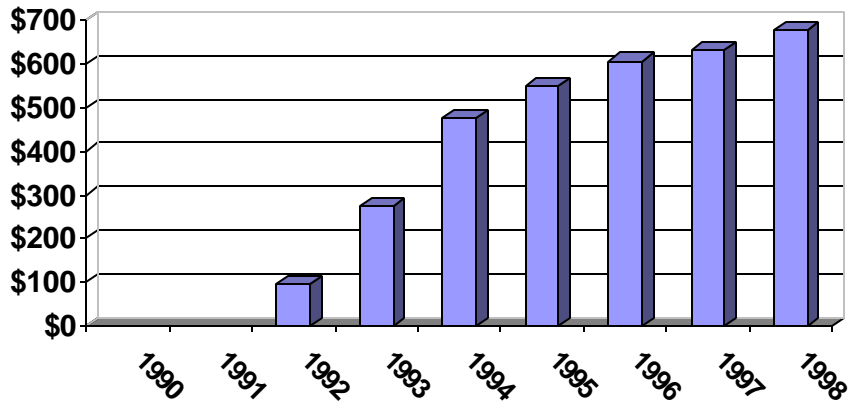
Source: Louisiana State Police

The riverboat casino industry reached high levels of Win very quickly. In only the second year of operation (1995), total riverboat revenues were 84% of the maximum

annual revenues (achieved in 1997). Riverboat revenues declined 3% in 1998 from the maximum revenues, which were achieved the previous year. This decline may be due to the closure of the Flamingo Casino in New Orleans.

Figure 1-2 presents video poker gross device revenue totals for the State from 1992 to 1998. Unlike riverboat revenues, video poker revenues rose more gradually from inception in 1992 to 1998. Also unlike riverboat revenues, video poker revenues have not declined in the most recent year.

FIGURE 1-2
VIDEO POKER REVENUE
(IN MILLIONS OF DOLLARS)

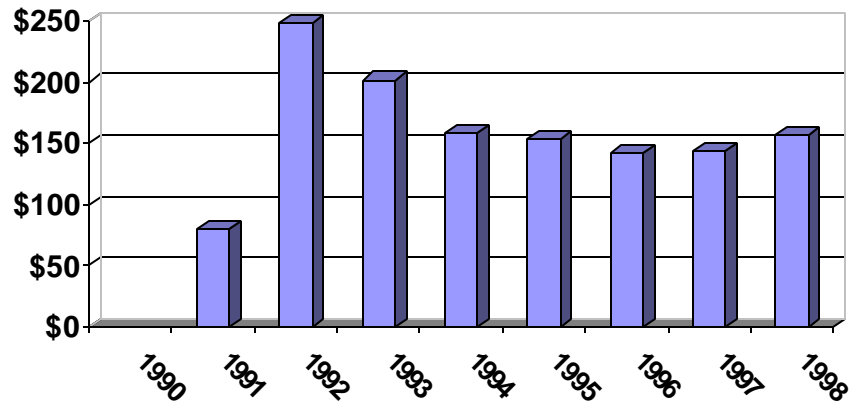


Source: Louisiana State Police

Figure 1-3 presents total net revenues for the Louisiana Lottery from 1991 to 1998. For the lottery, net revenues are defined as the total number of dollars that contribute to the economy through taxes or lottery expenses. Approximately 50% of total dollars wagered in the lottery are returned to winners, and 50% goes to the state government or the Louisiana Lottery Corporation to pay expenses associated with the

game. The Lottery reached its peak in only its second year of operation, 1992. From 1993 to 1996, Lottery net revenues dropped each year. Since 1996, a year after Louisiana joined the multi-state powerball lottery, State lottery sales have increased slightly.

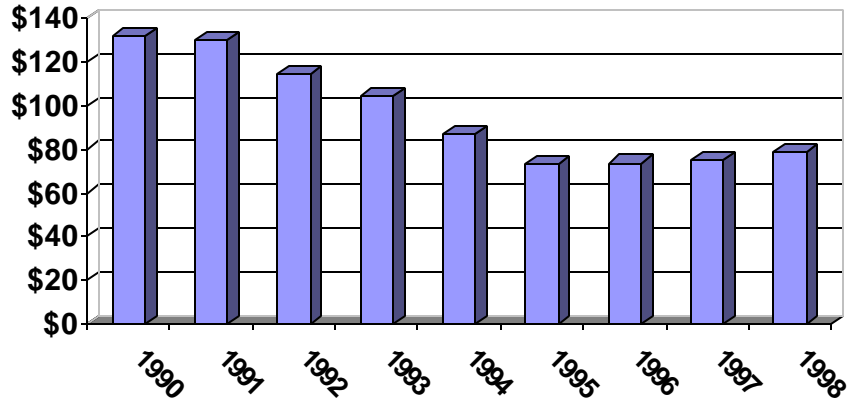
FIGURE 1-3
LOTTERY NET REVENUES
(IN MILLIONS OF DOLLARS)



Source: Louisiana Lottery Corporation

Figure 1-4 presents horse racing and off-track betting net revenues from 1990 to 1998. As the State's oldest form of legalized gambling, horse racing has not fared well compared to the new forms of gambling. In 1998, horse racing net revenues were 60% of what they were in 1990, before, lottery, video poker and riverboat casinos were legal.

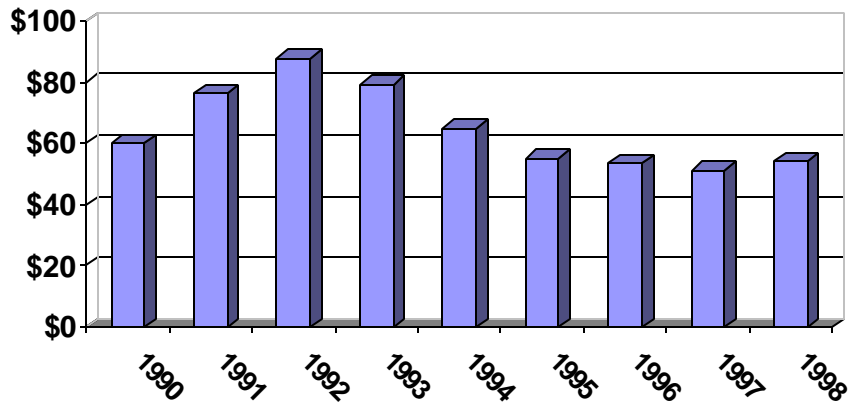
FIGURE 1-4
HORSE RACING REVENUES (INCLUDING OFF-TRACK BETTING)
(IN MILLIONS OF DOLLARS)



Source: Louisiana Racing Commission

Figure 1-5 presents the net revenues over time for charitable gaming. Although charitable gaming has fared somewhat better than horse racing, the pattern is similar. In 1998, charitable gaming net revenues were 89.9% of what they were in 1990. They are, however, 61.5% of what they were in 1992.

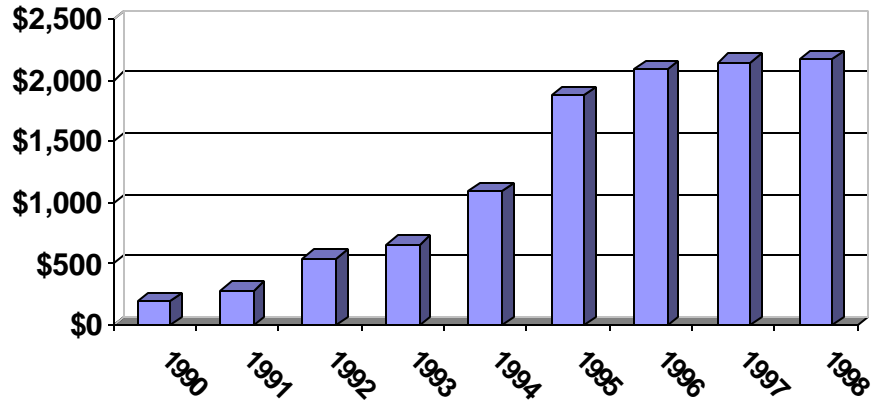
FIGURE 1-5
CHARITABLE GAMING NET REVENUES
(IN MILLIONS OF DOLLARS)



Source: Louisiana State Police

Finally, Figure 1-6 presents total net gambling revenues over the five forms of gambling identified.

FIGURE 1-6
OVERALL GAMBLING NET REVENUES
(IN MILLIONS OF DOLLARS)



Source: Louisiana State Police, Louisiana Racing Commission, Louisiana Lottery Corporation

The trend during the period from 1990 to 1998 has been positive with net revenues rising every year. The rate of growth has clearly slowed, however, as the gambling industry, as a whole, starts to mature. This pattern is similar to what most industries experience with companies tending to show higher growth rates in the early years than the later years.

DATA SOURCES AND METHODOLOGY

To answer the questions posed earlier in this report, it was necessary to gather as much data about the gambling industry as possible. Primary and secondary data were examined. Primary data are data that were generated expressly for this study. These data were obtained through a series of questionnaires developed by the research team.

Secondary data are those published data series that relate to the overall economy and to the impact of gambling on the economy.

PRIMARY DATA

Several different survey instruments designed and administered by the research team were used to collect primary data. Those instruments included:

1. **Intercept surveys** at the various riverboat casino sites to gather information on the visitors to casinos. The information collected included:
 - a. State of residence
 - b. Primary purpose of trip (gambling, other pleasure, business/convention, other)
 - c. Length of trip
 - d. Frequency of visits
 - e. Spending in the casino
 - f. Spending elsewhere in the community/elsewhere in Louisiana
 - g. Basic demographics (residents/nonresidents and other)
2. **Surveys of vehicles in riverboat casino parking lots** to determine the percentage of license plates registered in Louisiana versus out of state (see Appendix G). This percentage, along with information from the intercept surveys, was used to determine the state of origin of casino visitors.
3. **A telephone survey** of Louisiana residents to gather information on casino and video poker visits and other gambling activities by locals. The data collected included:
 - a. Frequency of gambling
 - b. Annual resident spending on various gambling activities
 - c. Source of gambling funds
 - d. What type of gambling is preferred
 - e. Where residents gamble
 - f. Attitudes about gambling in general and about specific forms of gambling
 - g. Perceived benefits and drawbacks or costs of gambling
4. **A mail survey of local businesses** in Louisiana. Although businesses statewide were surveyed, metropolitan areas with riverboat casinos were specifically targeted in the sample. The objective of the survey was to determine the impact of gambling on the following aspects of local businesses:
 - a. Sales
 - b. Costs
 - c. Profits
 - d. Business climate
 - e. Employee performance
 - f. Theft

5. **A casino employee survey** was designed to determine the working conditions, prior job history, job satisfaction, and other attributes of casino employment. The survey was distributed to a random sample of riverboat casino employees.
6. **A second telephone survey of Louisiana residents** was used to determine the prevalence of problem and pathological gambling among Louisiana residents. Dr. Rachel Volberg conducted this part of the current study to assure comparability to a similar 1995 Louisiana study and the recently completed National Gambling Commission study (both were conducted by Dr. Volberg). The prevalence study uses the South Oaks Gambling Screen (SOGS), a series of questions designed to determine the level of any gambling problem that may exist, to measure problem gambling prevalence. The SOGS has been used in all major gambling prevalence studies in the past 15 years. In addition to the SOGS, the 1998 prevalence study uses the Fisher screen to determine problem and pathological gambling behavior according to the DSM-IV criteria. DSM-IV is the currently accepted problem gambling measure used by the American Psychiatric Association.
7. **A survey of Gamblers Anonymous (GA) participants and gamblers in treatment programs** was conducted to determine the social costs created by problem gambling behavior. These include crime, credit problems, family problems, personal bankruptcies, treatment, and legal costs. Business costs such as absenteeism, reduced productivity, and embezzlement caused by gambling problems were also addressed. A random sample of people interviewed during the prevalence study were recalled for a panel-back survey so that a comparison of costs incurred could be made and the results generalized to the Louisiana population.

SECONDARY DATA SOURCES

In addition to the primary data gathered for the study, a number of sources of secondary data were used. The secondary data included:

1. Total employment by parish, by state planning district, and for the State of Louisiana.
Data sources: United States Department of the Census, Bureau of Economic Analysis, and Louisiana Department of Labor.
2. Total earnings by parish and for the State of Louisiana.
Data sources: United States Department of the Census and Bureau of Economic Analysis.
3. Total retail sales by parish and for the State of Louisiana.
Data source: Woods and Poole Economics, Inc.
4. Per capita personal income by parish and for the State of Louisiana.
Data sources: United States Department of the Census and Bureau of Economic Analysis.

5. Riverboat casino revenues, Win, and tax payments.
Data source: Louisiana Department of Public Services, Information Services Section.
6. Riverboat casino accounting data.
Data sources: Riverboat casinos and Louisiana Attorney General's Office.
7. Video poker revenue and tax receipts.
Data source: Louisiana State Police, Video Poker Division.
8. Horse race track and off-track betting revenues, handle, and taxes paid.
Data source: Louisiana State Racing Commission.
9. Horse race track and off-track betting employment and other expenditure.
Data source: Horse race tracks.
10. Other data sources as listed.