

# CALIFORNIA STATE LOTTERY

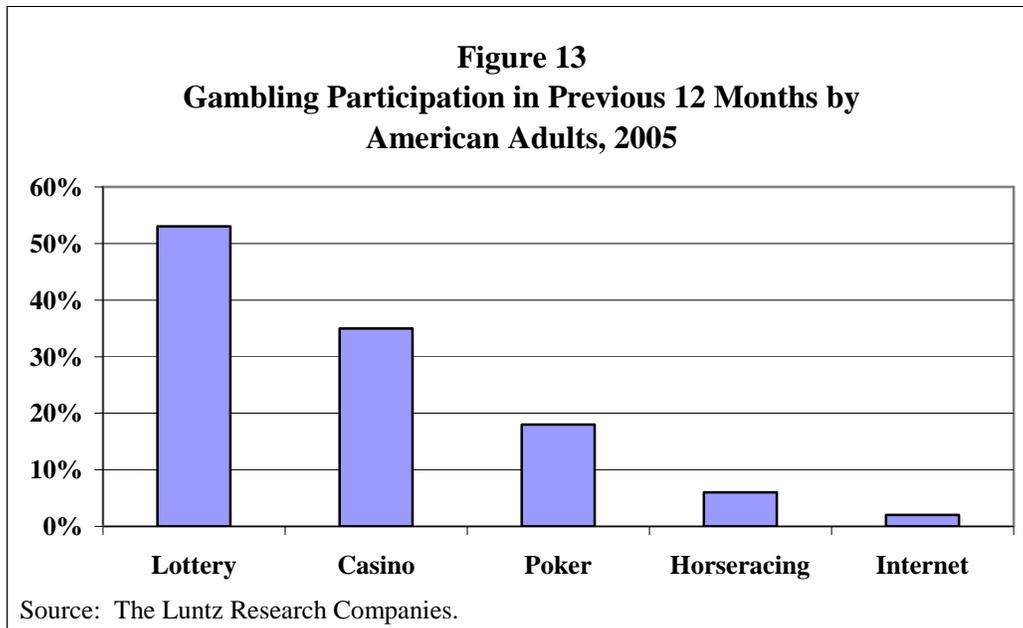
## BACKGROUND

The drawing of lots--a lottery--may be the oldest game of chance. A lottery is “A contest in which tokens are distributed or sold, the winning token or tokens being secretly predetermined or ultimately selected in a random drawing.”<sup>208</sup> Lotteries are based on the pari mutuel system of wagering, in which all the money bet is divided up among those who have winning tickets (after expenses and other deductions are made). The term “parier mutuel,” meaning, “betting among ourselves,” originated in France in the 19<sup>th</sup> century, and became known as “Paris mutuals” and then “pari mutuels” in England.<sup>209</sup>

New Hampshire authorized the first state-run lottery, a sweepstakes based on the results of a horse race, in 1963. New York followed with monthly drawings in 1967, and in 1969 New Jersey began to offer weekly state lottery games promoted by mass marketing that became the first modern successful lottery in the United States. By the year 2000, lotteries were operating in 37 states plus the District of Colombia.

The California State Lottery Act, enacted by the voters by initiative in 1984, was passed by 58 percent. The initiative also amended the state Constitution to prohibit “casinos of the type currently operating in Nevada and New Jersey,” and required that at least 34 percent of lottery revenues go to public education.<sup>210</sup>

Lotteries are the most popular of all legal wagering games. A 2005 poll by The Luntz Research Companies found that 53 percent of American adults had purchased lottery tickets in the last year. The second largest group—35 percent—had visited a casino. In 2002, the average Californian spent \$77 on lotteries.<sup>211</sup>



California's lottery currently offers a number of games: *Super Lotto Plus*, *Daily 3*, *Daily Derby*, *Scratchers* (including a bingo variation authorized by legislation in 2003), *Big Spin*, *Fantasy 5*, *Hot Spot*, and *Mega Millions*. The goal is to attract players by offering a variety of games with either quick or large jackpots. Information about all California State Lottery games is presented on the state's official website via links from the Lottery's site, but tickets must be purchased from authorized retailers in order to play.

In 1996, the California Supreme Court ruled that the state lottery was not authorized to offer electronic keno, since keno is a banked game, pitting the state against the player and thus giving the state an interest in the outcome of each game, contrary to the state's constitutional restrictions on Nevada-style banked gaming (*Western Telcon Inc. v. California State Lottery*).<sup>212</sup>

There are currently 18,500 retailers that sell lottery products in California under contract with the State Lottery. That number will increase to nearly 20,000 over the next six months as the Lottery seeks additional outlets for its games. Sales commissions range from four and one half percent to six percent. Retailers also receive cash bonuses for cashing winning tickets ranging from two percent of the prize value for a winning *Scratchers* ticket, to a half a percent of the jackpot prize for selling a top prize ticket such as for *MEGA Millions* or a *SuperLOTTO Plus Jackpot* winner.<sup>213</sup>

The California State Lottery is operated and administered by the Lottery Commission, which is composed of five members appointed by the governor, and meets quarterly and as needed. The Lottery's Security Division and independent auditors maintain the integrity of the games. The Security Division conducts background checks on employees and vendors and monitors complaints against vendors. Retailers' contracts may be terminated for just cause, such as fraudulent activity. In general, however, the Lottery's primary motivation is to expand its vendor base and market, not decrease it through enforcement actions.

## **COMPETITION, INNOVATION AND EXPANSION**

State lotteries compete with other forms of gambling for customers, so like other businesses, they must be innovative in order to maintain and gain market share. Preprogrammed instant scratch-off tickets were first introduced in Massachusetts in 1974, and are now offered in most states with lotteries. Instant ticket vending machines operate in 30 states. Some state lotteries offer subscription programs, allowing players to sign up in advance for drawings without having to go to a retailer to buy tickets. New games are regularly introduced by all lotteries. Competition for the gaming dollar worldwide is fierce:

...many lotteries around the world are worrying about generating revenues in a softening economy, finding new channels of distribution, creating interesting new products, and enhancing public awareness of how lottery revenues benefit good causes.<sup>214</sup>

### *Video Lottery Terminals*

Some states allow video lottery terminals (VLTs), which are played like slot machines. By law, the California State Lottery does not operate VLTs. VLT revenues dwarf other lottery revenues in states where they are allowed to operate.<sup>215</sup> The six states in which lotteries operate VLTs reported net machine income of \$3.2 billion in FY 2004-05, an increase of 17 percent from the previous year.

VLTs are run by lotteries in South Dakota, Oregon, New York, Delaware, Rhode Island, and West Virginia, by other state agencies in Montana, Indiana, Mississippi, Colorado, Illinois, and are authorized for operation by racetracks in Iowa, New Mexico, and Louisiana (see discussion of “racinos”). Maine and Pennsylvania expect to offer VLTs by the end of 2006. New York has set a goal of one VLT for every 1,188 people.<sup>216</sup>

South Dakota was the first state to offer VLTs in 1989, and now offers variations of poker, blackjack, keno, and bingo games. The private sector runs the South Dakota’s VLT games to a significant degree, with the state serving more as a regulator than an operator. State administrative expenses consume only 0.5 percent of net machine income; 49.5 percent is deposited in the state’s property tax reduction fund and 50 percent goes to licensed operators.<sup>217</sup>

### *Multistate Games*

In 1985, the smaller states of New Hampshire, Maine, and Vermont began the first multi-state lottery in order to compete against larger states with bigger prizes. In 1987, six states got together to offer *Lotto America* (Iowa, Kansas, Missouri, Oregon, Rhode Island, West Virginia and the District of Columbia). The Multi-State Lottery Association (MUSL), which is now comprised of 29 states (not including California), the District of Columbia and the U.S. Virgin Islands, currently runs six games, of which *Powerball* is the best known. The *Powerball* game is designed to sell about \$2 billion a year or about 17 percent of the total lottery sales of all its members; the amount contributed to total state sales varies from four to nearly 60 percent in different states.<sup>218</sup>

*Mega Millions* is another large multistate lottery that currently includes 12 states: California, Georgia, Illinois, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Texas, Virginia and Washington.\* It began in 1996 as *The Big Game* with six states, and was given the name *Mega Millions* in 2002. Jackpots start at \$12 million and can roll over to higher levels. The largest jackpot, of \$363 million, occurred in 2002. The average jackpot in 2004 was \$70 million. Smaller prizes range from \$250,000 to \$1 million. Each play costs one dollar.

With a combined population of over 150 million people in the 12 participating states, *Mega Millions* jackpots attract attention that draws in more players. For example, in 2004, the New York lottery’s *Mega Millions* revenue increased by more than \$100 million, prompted in part by a \$239 million jackpot.<sup>219</sup> According to the game’s website,

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\* Florida is the only state lottery not to participate in a multi-state game.

on average 35 percent of all *Mega Millions* ticket sales go to support government services in the member states, 50 percent is returned to players as prizes, five percent goes to retailers who sell tickets and ten percent is used for lottery administrative expenses.<sup>220</sup>

California is the most recent state to join *Mega Millions*. Its 2005 entry resulted in considerable controversy, a lawsuit and pending legislation. The state entered into the multi-state game without legislative approval, which the legislative counsel opined was necessary, but with the Attorney General's approval.<sup>221</sup> State law does not allow the lottery to have games in which prizes do not increase as ticket sales increase. *Mega Millions* jackpots increase with ticket sales, but eight other non-jackpot prizes are fixed. In order to enable California to enter the game, the other states agreed to let the California Lottery create its own non-jackpot prize levels.<sup>222</sup>

### ***Internet Lottery Games***

In other parts of the world, especially the European Union, government lotteries are going online, retailing their ticket games from web sites, interactive televisions and mobile phones, but not in the United States. This is because the federal 1961 Wire Act prohibits online gambling, although horse racing has since carved out an exemption (see Chapter on horse racing).

Nonetheless, some states are developing Internet lottery games that are legal because the transactions do not actually occur on the Internet and the outcome is predetermined. In 2004, the Kansas Lottery began offering an interactive Internet lottery game, *eScratch*, while New Jersey offered *Cyber Slingo*. Once a player has purchased a ticket for a given amount and number of plays, he/she can go to the website listed on the ticket to play the game. If they win, they must return to the retail establishment to claim their prize. Alternatively, they can ask the retailer to scan the ticket to determine if it is a winner.<sup>223</sup> However the real potential appears to be in allowing ticket sales on the Internet.<sup>224</sup>

Currently state and multi-state lotteries provide information about gambling opportunities on their websites, but do not offer direct access to gambling by allowing online purchase of tickets. However Internet technology is transforming lottery games: "Traditional online lottery systems are printing instant-win and extended-play instant games, and tickets bought at retail, either in a regular scratch format or as an online ticket voucher, have an Internet gaming component."<sup>225</sup>

## **REVENUES**

State lotteries are the single largest contributor to state treasuries of any gambling industry, earning \$15.7 billion in 2005 on gross gambling revenues of \$47.6 billion (excluding VLTs)<sup>226</sup>. With thousands of retail outlets at the neighborhood level, state lotteries also have the most extensive system of distribution of any gambling industry.

State lottery sales are significantly influenced by the top prize amount and the odds of winning it. States set prize amounts, the number of combinations, and the probabilities of

winning each prize, thereby determining the structure of the lottery and its games.<sup>227</sup> Multi-state games can offer larger prizes and attract more players.

In 2003, the California State Lottery was ranked tenth in the world based on total sales of nearly \$2.8 billion. The national lotteries of Japan, Spain, France, Italy, and the United Kingdom were in the top five spots, followed by the state lotteries of New York, Massachusetts, Texas, Florida, and California.<sup>228</sup> In 2005, California lottery sales increased to \$3.3 billion, resulting in gross revenues of \$1.59 billion.<sup>229</sup>

Efficiency in lottery operations is an important component in the amount of revenue returned to the state. Table 12 provides information on the California State Lottery's revenues and expenses for 2003 and 2004.

	<u>2003</u>	<u>2004</u>
Sales	\$2,781,569,856	\$2,973,975,717
Prizes	\$1,451,804,079 (52.2%)	\$1,566,027,494 (52.7%)
Gross Revenue*	\$1,329,765,777	\$1,407,948,223
Operating Expenses**	\$362,342,273	\$370,821,346
Operating Income***	\$967,423,504	\$1,037,126,877
Net to state government****	\$1,019,816,972	\$1,094,256,988

Source: *International Gaming & Wagering*, June 2004, p. 28, and March 2005, p. 30, and the California State Lottery.

\*Total sales minus total prizes paid, or the net gaming revenue.

\*\*Current year expenses, including retailer commissions.

\*\*\*Net revenue from current year operations.

\*\*\*\*Includes current year operations and nonoperating items such as interest and investments.

Table 13 examines the amount of revenue that each state lottery returned to state governments in 2004, and the per capita transfer amount adjusted for population. West Virginia, the state with the highest per capita transfer, benefited from its location as the only state offering VLTs in its geographical region. That strategy is not open to California, which placed 32<sup>nd</sup> out of 41 in this comparison. Many factors influence state lottery operations, making state-to-state comparisons difficult. These include demographic characteristics, product offerings, promotion and distribution methods, and the competitive environment.<sup>230</sup>

**Table 13**  
**State Lottery Returns to State Governments, 2004**

<i>State</i>	<i>'04 Transfer in millions</i>	<i>Transfer per capita</i>	<i>State</i>	<i>'04 Transfer in millions</i>	<i>Transfer per capita</i>
Arizona	\$107.8	\$19.25	Missouri	\$230	\$40.35
California	\$1090	\$30.70	Montana	\$58.2	\$74.67
Connecticut*	\$202.5	\$44.02	Nebraska	\$20.8	\$12.24
District of Columbia	\$73.5	\$122.50	New Hampshire	\$73.7	\$56.69
Delaware	\$222	\$277.50	New Jersey	\$793	\$92.21
Florida	\$1051	\$61.82	New Mexico*	\$193.7	\$101.95
Georgia	\$782	\$89.89	New York	\$1890	\$98.44
Idaho	\$25	\$17.86	Ohio	\$648.1	\$56.85
Illinois*	\$1239.7	\$97.61	Oregon	\$364.7	\$101.31
Indiana*	\$942.1	\$151.95	Pennsylvania	\$818.7	\$66.02
Iowa*	\$280.7	\$96.79	Rhode Island	\$281	\$255.45
Kansas	\$70	\$25.93	South Carolina	\$287	\$70.00
Kentucky	\$193.5	\$47.20	South Dakota	\$115.5	\$144.38
Louisiana*	\$656.6	\$145.91	Texas	\$1000	\$45.25
Maine	\$41.8	\$32.15	Vermont	\$19.5	\$32.50
Maryland	\$458	\$83.27	Virginia	\$408	\$55.14
Massachusetts	\$912	\$142.50	Washington	\$117.6	\$19.28
Michigan	\$644.5	\$63.81	West Virginia	\$512	\$284.44
Minnesota	\$100	\$19.61	Wisconsin	\$154.89	\$28.16

\*Return figure includes lottery and non-lottery-operated FY 2004 gaming machine return.

Source: *Public Gaming International*, February 2005, p. 15.

While the states with the largest per capita returns have VLTs, Massachusetts and the District of Columbia have achieved very high per capita returns without them. Returns are a function of the types of games that are legally allowed, degree of competition, efficiency of operations, and marketing effectiveness. Developing new content and widening distribution channels are key areas that drive growth.

Differences in state lottery sales can partly be explained by the socioeconomic characteristics of state residents. National studies generally find that lottery sales are higher for individuals who belong to minority groups, have little or no formal education, are residents of urban areas, and are between 45 and 65 years old.<sup>231</sup>

### ***Displacement Effect***

When consumers spend money on lottery tickets they spend less on other items, some of which would have been taxable. Thus general sales and excise tax revenues fall with additional lottery revenues. This is called a “displacement effect.”

The amount of displacement found in different studies varies:<sup>232</sup>

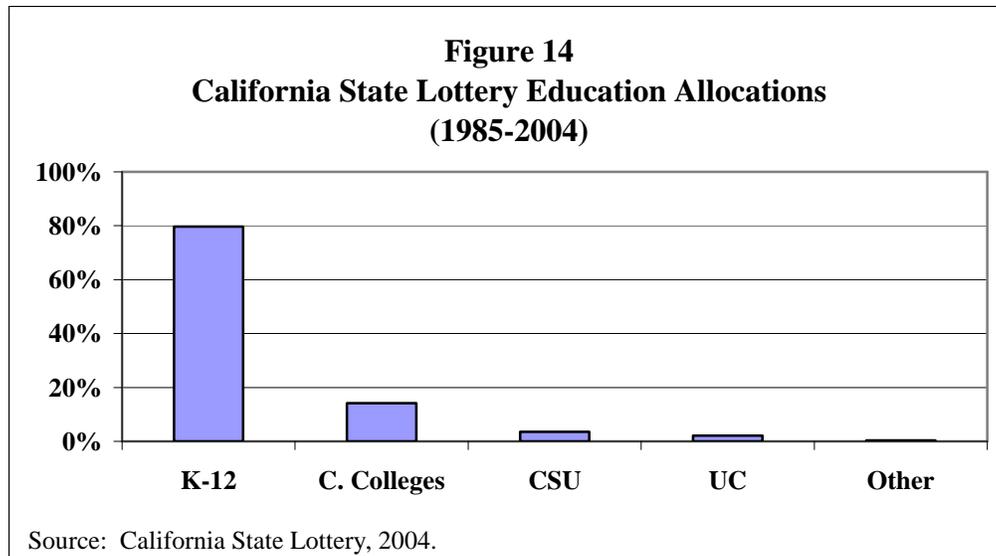
- A multistate analysis spanning the years 1953 to 1987 found that the displacement effect ranged from a two cent to a 14 cent reduction in sales tax revenue per one dollar increase in state lottery revenues.
- The most recent multistate study, examining 1967 to 1999, found that sales tax revenues declined by \$1.35 per \$1 in additional lottery revenues, in part due to substitution of lottery purchases for taxable purchases and in part due to a reduced likelihood that a state will raise sales taxes when lottery revenues are high.

There is also evidence of substitution of spending among games. Interstate lottery competition can reduce single state lottery sales, and the introduction of new lottery games reduces spending on traditional lottery games.<sup>233</sup>

### **PUBLIC EDUCATION—CALIFORNIA’S STATE LOTTERY BENEFICIARY**

State lotteries transfer a portion of their revenues to states to help fund important programs such as education, economic development and natural resource programs. The beneficiaries of the revenues vary in each state. The California and New York lotteries provide funds for public education. The Pennsylvania lottery generates funds for older residents, contributing more than \$14.6 billion since 1971 to elder programs that provide low-cost prescription drugs, specialized transportation, and rent and property tax assistance.

By law, the California lottery must send a minimum of 34 percent of revenues to schools, although over a 20 year period the average has been 37 percent due to unclaimed prizes and other savings. As of November 2004, the California Lottery had sent nearly \$16 billion to education during its 19 years of existence.<sup>234</sup> Most of that funding (\$12,890,874,665) went to K-12 schools, as shown in Figure 14. The funds can be used only for instructional purposes. Schools spend the majority of funds, 80 to 90 percent, for teachers.



Total California state revenues in FY 2004-05 were \$98.7 billion. Net lottery revenue contributed about one percent of that amount.

The California State Lottery's contribution to state public education in FY 2003-04 was \$1,094,601,888. That year the Governor's budget proposed to spend \$35,900,000,000 on public education (K-12, higher education, other); lottery income contributed about three percent of that amount.

Studies find that state lottery funds generally do not benefit the statutory recipients because equivalent funds are merely shifted into other programs. Several studies have examined the earmarking of lottery funds for education and found that "...the state was robbing Peter to pay Paul," and that "...lottery revenues earmarked for education had no impact on education expenditures."<sup>235</sup> According to a California school official, when districts first received lottery money the state simultaneously reduced funding nearly the same amount, making the deal a wash.<sup>236</sup> Proposition 98, which was enacted four years after the lottery, sets a minimum level of school funding from the state's General Fund. Funds from the lottery are on top of that funding.

## CONSUMER IMPACT—PROBLEM GAMBLING

A study published in 2002 found that the introduction of a state lottery results in increased household gambling expenditures and participation, and a decrease in nongambling expenditures by about two percent on average.<sup>237</sup>

- Participation in lotteries among adults living in lottery states was 54.7 percent versus 25.2 percent in non-lottery states.
- Lottery expenditures substituted away from other non-gambling consumption: "The introduction of a state lottery is associated with a decline of \$115 per quarter in household non-gambling consumption."

- For low-income households, there was a larger \$139 or three percent average quarterly reduction in non-gambling consumption, financed by reduced expenditures on food eaten in the home (3.1 percent) and home mortgage, rent and other bills (6.9 percent).

As Table 14 shows, Blacks spent nearly twice as much on lottery tickets as did Whites and Hispanics. According to the study author, the Black male high-school dropouts in the sample reported average annual expenditures of over \$1,000. Expenditures among income groups were roughly equivalent, meaning that low-income households spent a larger amount of their wealth on lottery tickets than other households.

**Table 14**  
**Lottery Participation Rates and Expenditures in Lottery States**  
**(1998 survey data adjusted to 2000 dollars)**

	% Playing in the previous year	Mean annual spending, all adults
Overall	55.7%	\$128.4
Male	51.8%	\$153.4
Female	59.9%	\$105.3
White	57%	\$119.3
Black	46%	\$230
Hispanic	61%	\$107.5
Other	51.8%	\$81.8
Household income less than \$27,000	50.5%	\$139.5
\$27,000-\$54,000	63%	\$127.1
More than \$54,000	62.9%	\$158.9
High school drop out	54%	\$197.2
High school graduate	57.3%	\$155.1
Some college	58.8%	\$120
College graduate	52%	\$86.7

Source: 1998 National Survey on Gambling conducted by the National Opinion Research Council, as presented in Kearney, NBER Working Paper 9330. p. 31.

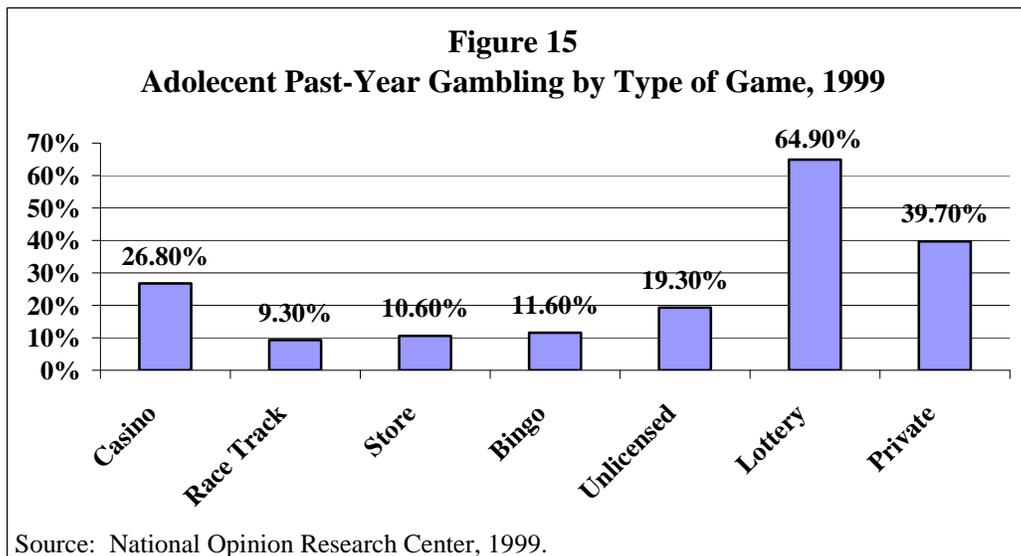
A study in the *Journal of the American Medical Association* found that 3.6 percent of lottery patrons were problem gamblers and 5.2 percent were pathological gamblers (see the Chapter on Social Impacts for a discussion of problem and pathological gambling).<sup>238</sup> Lotteries appear to be a key entry point into this disorder, given their widespread and ready availability and state-sponsored legitimacy.

An Oregon study reinforces this finding. An analysis of individuals in gambling treatment and prevention programs in the state found that nearly 70 percent gambled primarily at a lottery retailer near their home. The average gambling debt was \$22,840, and the average annual household income was \$36,246.<sup>239</sup> Oregon has video lottery terminals (VLTs), which are prohibited by law in California. VLTs have been called “the

most addictive form of gambling in history,” because they create pathological addiction nearly four times faster than other popular games of chance.<sup>240</sup>

Adolescents who gamble are more likely to develop problem and pathological gambling problems. Studies find that underage youth have little difficulty in purchasing lottery tickets. One study found that 90 percent of young people in the United States had purchased lottery tickets by the time they were seniors in high school.<sup>241</sup> An Oregon study of 13 to 17 year olds found that 39 percent had played the Oregon Lottery at least once, 30 percent within the last year. Over a third of those bought their tickets illegally at grocery and convenience stores.<sup>242</sup>

Figure 15 shows the types of gambling that adolescents had engaged in during the previous year, as measured in 1999, according to a survey conducted by the National Opinion Research Center at the University of Chicago. More minors played the lottery than any other game.



Given that lotteries are the entry point into problem gambling for many adolescents, the enforcement of California’s prohibition against the purchase of lottery tickets by minors is important. *Government Code* § 8880.52 provides that:

No tickets or shares in Lottery Games shall be sold to persons under the age of 18 years. Any person who knowingly sells a ticket or share in a Lottery Game to a person under the age of 18 years is guilty of a misdemeanor. Any person under the age of 18 years who buys a ticket or share in a Lottery is guilty of a misdemeanor. In the case of lottery tickets or shares sold by Lottery Game Retailers or their employees, these persons shall establish safeguards to assure that the sales are not made to persons under the age of 18 years.

There appears to be very limited enforcement of California’s laws against the purchase of lottery tickets by persons under the age of 18. The State Lottery’s investigations unit

relies on complaints and self-regulation by retailers, and does not undertake stings to locate retailers who sell to underage customers. This type of enforcement has proven to be critical to enforcing laws against underage purchase of alcohol and tobacco. In the last five years, no retailer in California has had its contract with the State Lottery terminated because of sales to underage players. Although state law provides that underage players may not collect winnings, as a practical matter anyone can redeem a ticket that pays under \$500 at the retailer.<sup>243</sup>

Lottery advertising is controversial, as it represents state government actively promoting gambling. The National Gambling Impact Study Commission found that ads that are persuasive, manipulative, or misleading (i.e. not explaining the poor odds of winning) are particularly troublesome when targeted towards groups least able to afford to play. A few states ban lottery ads designed to induce people to play.<sup>244</sup>

Some state lottery websites prominently display a link to information about problem gambling, including how to identify a problem, links to Gamblers Anonymous and a toll-free help line number. In contrast, a small-type grey link at the bottom of the California Lottery's website is entitled "Play Responsibly." While not featured prominently, it contains useful information about problem gambling and provides links to the Lottery's help line, the California Council on Problem Gambling, NICOS Chinese Health Coalition and other service providers. The California Lottery website does not include information indicating that adolescents should not play.

The California Lottery contracts with the California Council on Problem Gambling to respond to calls to its helpline. In 2004, 3,399 calls for help with problem gambling were made to the helpline, predominantly from people who prefer casino gambling (82 percent). Nearly 41 percent of the callers played the lottery, but the lottery was the referral source of only about two percent of the calls.<sup>245</sup> In contrast, casinos signs were the referral source of nearly half of all calls. This suggests that the lottery is not providing a strong message about where to find assistance with problem gambling. The lottery does distribute pamphlets to its retail outlets, but a visit to several retailers indicates that they are not being distributed effectively.



# CALIFORNIA HORSE RACING

## BACKGROUND

Horseracing has a long history in California. The Californians, inheritors of a proud tradition from Spain and Mexico, were renowned horsemen and regularly held races on Sundays for entertainment and wagering. After California became a state, organized racing was conducted at district fairs. In addition, many communities had local horse race tracks. Horses were the primary means of transportation, and races were analogous in popularity to today's car racing.

During the Great Depression, the need for state revenues and for a stable source of support for county fairs led to the adoption of state-regulated horse racing and wagering. The California Horse Racing Act of 1933 was ratified by the voters in 1933, and Article IV, Section 19(b) was added to the state Constitution:

The Legislature may provide for the regulation of horse races and horse race meetings and wagering on the results.

The California Horse Racing Act provides for a California Horse Racing Board to oversee the industry, "...with the goal of protecting the public from fraud, promoting California agriculture and quality racehorse breeding, and encouraging expansion of the racing industry to maximize tax revenues in the public interest."<sup>246</sup> The board is charged with maintaining the integrity of the races, ensuring that the state and local jurisdictions receive tax revenues, overseeing the licensing of tracks and operators, and preventing crime.

Several of the state's major racetracks were created in the 1930s, including Santa Anita (1934), Hollywood Park (1938) and Bay Meadows (1934). The late 1930s through the early 1980s was horse racing's "golden era," including the much celebrated Seabiscuit. Attendance in 1972 at the tracks nationally was triple that of baseball, 72 million people.<sup>247</sup> However over the last decade, attendance has declined considerably both nationally and in the state (see discussion below).

Horseracing uses the pari-mutuel system of wagering, in which bettors bet against one another instead of against the house. The money bet on a race is pooled, with approximately 80 percent returned to the winning bettors and 20 percent paid out to jockeys and horse owners, the racetrack, and state and local governments.

The Chairman of the Senate Select Committee on California's Horse-Racing Industry reports that the sport generates over \$4 billion a year for the state's agribusiness, tourism, and entertainment economies and directly or indirectly employs more than 52,500 Californians. The California Horse Racing Board licenses nearly 14,000 individuals who work in the industry (trainers, jockeys, etc.). More than 1,000 farms in California breed racehorses.<sup>248</sup>

## CALIFORNIA RACE TRACKS

The state has seven licensed racetracks (although Bay Meadows will close soon) and nine licensed racing series at county fairs, as shown in Table 15.

<b>Table 15</b>	
<b>California Horse Racing Venues, 2005</b>	
<u><i>Race Tracks</i></u>	<u><i>Racing Fairs</i></u>
Bay Meadows (San Mateo)—scheduled to close and be replaced by housing	Alameda County Fair
Cal Expo (Sacramento)	California State Fair, Sacramento
Del Mar (Del Mar)	Humboldt County Fair
Golden Gate (Albany)	Los Angeles County Fair
Hollywood Park (Inglewood)	San Joaquin Fair
Los Alamitos (Los Alamitos)	San Mateo County Fair
Santa Anita (Arcadia)	Solano County Fair
	Sonoma County Fair
	The Big Fresno Fair
Source: California Horse Racing Board, <a href="http://www.chrb.ca.gov">www.chrb.ca.gov</a> .	

A person does not have to be at tracks to wager on the results of the race. Simulcast facilities where races may be viewed and bets placed are located around the state at the following locations:

Alameda County Fair, Antelope Valley Fair, Barona Casino, Bay Meadows Race Track, CalExpo (Sacramento), Desert Expo Centre (Indio), Earl Warren Showgrounds (Santa Barbara), Fantasy Spring Casino, Fresno Club One, Fresno District Fairground, Hollywood Park Race Track, Kern County Fair, Lake Perris Sports Pavilion, Los Alamitos Race Course, Los Angeles County Fair, Los Angeles Turf Club, Monterey County Fair, National Orange Show (San Bernardino), Pacific Racing Association (Albany), Redwood Acres Fair (Eureka), San Bernardino County Fair, San Joaquin Fair, Santa Clara County Fair, Santa Anita Race Track, Santa Barbara County Fair, Shasta District Fair, Sonoma County Fair, Solano County Fair, Stanislaus County Fair, Surfside Race Place (Del Mar), Sycuan Casino, Tulare County Fair, Ventura County Fair, Viejas Casino & Turf Club

California's horse racing industry, like its counterparts nationally has experienced declining attendance for the better part of a decade. From a 28 percent share of America's gambling market in 1982, horse racing declined to a 5.2 percent share in 2000, the "...victim of shifts in consumer preference...from the track window to the slot machine."<sup>249</sup> Since 1990, attendance at California racetracks has declined by 35 percent and on-track handle has decreased by 59 percent. There were 938 horse racing days in

California in 2004, with an average daily attendance of 9,540 and an average daily handle\* of more than four million dollars.<sup>250</sup> The 2005 attendance and handle numbers at the CalExpo spring harness meet were down more than 25 percent from the previous year.<sup>251</sup>

The growth is in off-track and Internet betting. According to analysts, “Without off-track betting and simulcasting, horse racing as we know it today would not exist.”<sup>252</sup> Off-track betting at simulcast locations generated \$13.1 billion nationally in 2001, 82 percent of the industry total. Off-track handle now accounts for nearly three quarters of wagering on California horse races and is increasing rapidly, particularly for Advance Deposit Wagering (see discussion). Wagers actually made at the state’s racetracks account for less than 22 percent of total wagers. Off-track betting in the state’s simulcast facilities accounts for nearly 40 percent, with out-of-state wagers nearly as significant, at 38 percent.<sup>253</sup> Competition from offshore Internet betting services that offer a wider selection of betting options at lower prices is one reason for declining track revenues.<sup>254</sup>

California’s horse racing industry is consolidating. Magna Entertainment Corporation operates Santa Anita Park and Golden Gate Fields. In August 2005, the California Horse Racing Board approved the purchase of Hollywood Park by the owner-operator of Bay Meadows. Bay Meadows will close and be replaced by housing.

## **ACCOUNT WAGERING**

In 2001, Governor Gray Davis signed a bill (AB 471 Hertzberg, Chapter 198, Statutes of 2001) to permit in-state Internet and telephone gambling on authorized horse races, and allowing California-licensed operators to accept bets from people in any state that authorizes interstate betting. This is called “advance deposit wagering” (ADW). According to I. Nelson Rose, a leading authority on gambling law, this may have been “...the second largest expansion of legal gambling in the history of the United States.” (According to Rose, the largest expansion was California’s authorization of Indian gaming in 2000).<sup>255</sup>

California’s entrance into long distance electronic gambling on horse races followed Congress’ 2000 expansion of the Interstate Horseracing Act to allow wagers across state lines by phone or other electronic media, which presumably includes the Internet (15 U.S.C. §§ 3001-3007). The Act governs the relationship between the off-track betting operators, “...licensed Internet and interactive television horserace betting services, the tracks, the horse owners and trainers, and the state racing commissions concerning wagers placed in one state on the outcome of races being held in another state.”<sup>256</sup> The state where the bettor is located and the state where the “off-track betting operator” is located must both have authorized interstate betting. Twelve states have authorized the acceptance of ADW over the Internet for off-track pari-mutuel wagering.

The California Horse Racing Board is the state’s lead agency responsible for adopting regulations and approving all arrangements involving ADW. From the California Horse

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\* “Handle” is the sum of wagers (or “pari-mutuel pool”) made on a race.

Racing Board's state website, one can directly access three authorized ADW companies: XpressBet, youbet.com and TVG. XpressBet enables betting on horse races in England and Australia, creating a state-licensed international Internet gambling opportunity. Conversely, bettors in other countries can bet on California horse races. For example, Darwin All Sports, an account wagering system based in Australia, has an agreement that allows it to merge its wagers into California pari-mutuel pools. California's total ADW handle increased by more than \$89 million from 2003 to 2004 (about 28 percent), to \$403 million, and has increased 37 percent in 2005 over the previous year for three fair meets (Sonoma, San Mateo, and Humboldt).<sup>257</sup>

Internet gambling on horse races outside of the established state-regulated wagering systems is increasing at a rapid rate. Offshore Internet gambling sites may offer higher return rates, as they do not need to make payments to jockeys, owners, tracks or state and local governments. This hurts the horse racing industry, which needs the income provided by state-regulated pari-mutuel wagering to survive.

Federal legislation introduced by Senator Kyl (R-AZ) in 1998 and 1999, and again 2005, would prohibit all wagering over the Internet, including for horse racing. The immediate impetus is a World Trade Organization (WTO) decision involving a dispute between the United States and Antigua over Antigua's attempt to secure rights to host Internet casinos serving U.S. residents.<sup>258</sup> A WTO appeals panel decision in April 2005, found that the entire U.S. gambling service sector was covered by the General Agreement on Trade in Services (GATS) and thus the ability of local, state and federal governments to regulate all forms of gambling was limited by the rules of GATS. The WTO ruling found that the government does have the right to restrict remote gambling to protect public morals and public order, but must consistently apply restrictions to domestic and foreign operations. The fact that the United States allows an exemption for ADW on horse races over the Internet weakens the U.S. position.

## **REGULATION**

The California Horse Racing Board is composed of seven members appointed by the governor. Its purpose:

...is to regulate pari-mutuel wagering for the protection of the betting public, to promote horse racing and breeding industries, and to maximize State of California tax revenues... Principal activities of the board include: protecting the betting public; licensing of racing associations; sanctioning of every person who participates in any phase of horse racing; designating racing days and charity days; acting as a quasi-judicial body in matters pertaining to horse racing meets; collecting the state's lawful share of revenue derived from horse racing meets; and enforcing laws, rules, and regulations pertaining to horse racing in California.<sup>259</sup>

The board is financed by horse racing fees (nearly \$8.5 million in 2005-06). Judging from the board's agendas, it spends a considerable amount of time creating and enforcing safety standards and investigating and fining violators. Drug abuse is a particular

concern. Equine research at the University of California, Davis, receives a share of the pari-mutuel tax (.06 percent in 2003 and 2004), amounting to \$2,183,975 in 2004, for research and for the equine analytical chemistry laboratory which carries out the board's drug testing programs.

The board delegates its enforcement responsibility at each track to three stewards, who it licenses, and they serve as judges in determining legal violations. Stewards can "...level fines, suspend licenses, bar individuals from the track, and suspend horses from racing. They determine the official results of races, and can order the redistribution of purses."<sup>260</sup> Their decisions can be appealed to the board.

## RACINOS

Over the last decade, the horse racing industry has experienced declining attendance and increased competition from other forms of legalized gambling, primarily lotteries and casinos: "The [horse racing] industry was taking a real beating when lotteries and commercial casinos were introduced..."<sup>261</sup> The response in some jurisdictions has been to allow other types of gambling at the tracks, resulting in "racinos"-- "racing" plus "casino."

According to the American Gaming Association, the racetrack casino sector of the commercial gaming industry experienced substantial growth in 2004: "The 23 operational racetrack casinos in seven states generated nearly \$2.9 billion in gross gaming revenues, a 30 percent increase over 2003 figures."<sup>262</sup>

State	# Racetrack casinos	Gross gaming revenue	Distribution to state and local government	Number of employees
Delaware	3	\$553.32 million	\$196.26 million	2,370
Iowa	3	\$337.48 million	\$98.31 million	2,207
Louisiana	3	\$280.97 million	\$42.6 million	1,856
New Mexico	5	\$149.68 million	\$37.42 million	518
New York	4	\$192.45 million	\$136.64 million	1,813
Rhode Island	2	\$383.8 million	\$234.1 million	1,057
West Virginia	4	\$882.4 million	\$327.63 million	4,404
<b>Total</b>	<b>24</b>	<b>\$2.86 billion</b>	<b>\$1.07 billion</b>	<b>14,225</b>

Source: American Gaming Association, 2006

In California, Hollywood Park in Los Angeles operates the third largest card club in the state. Minnesota permits card games at racetracks, with limitations on the types of games, amount of wagers and number of tables. A number of states have considered allowing expanded gambling operations at racetracks. A proposal to do so was opposed by tribal gambling interests and defeated by California voters in November 2004. In

some other states, tribes are buying racetracks and/or operating casino facilities at racetracks (Oklahoma, Wisconsin, Minnesota among others).

In the mid-1990s, video lottery terminals were allowed at racetracks in Rhode Island, Oregon, Louisiana, Delaware, and New Mexico. They have been very profitable. For example, in FY 2004-05, the West Virginia Lottery's racetrack VLT net machine income totaled \$894.5 million, up 4.6 percent from the previous year.<sup>263</sup>

In 2004, New York began implementing a video gaming system in eight of its racetracks, and similar legislation has been introduced in a number of states. The first New York racino to open was Saratoga Gaming and Raceway, with 1,324 video gaming machines. In the facility's first month of operation, it earned \$5.1 million from \$81 million in wagers, of which the state received \$3.7 million. During that month, video gaming machines averaged more than \$11,500 per hour in revenues, generating approximately \$185,000 per day.<sup>264</sup> Two of the New York racinos being planned will house 4,500 and 5,500 VLT machines each. In addition, Governor Pataki has proposed authorizing eight additional facilities, with the only restriction being that they are not located within 15 miles of an existing facility (not necessarily at a racetrack).

Other states allow slot machines at racetracks. Their revenues are subsidizing the racing side of the house. For example, New Mexico's horseracing industry was "on the verge of collapse" when the legislature approved slot machines at the tracks (as part of tribal-state gaming compacts). Revenues from slot machines have led to facility improvements and bigger horse racing purses. However slot machine players generally do not convert to racing enthusiasts.<sup>265</sup>

Slot machines draw recreational gamblers to the tracks, but there seems to be very little crossover between the trackside and the gaming side. Nonetheless, racing revenue is also rising. The additional traffic and revenue have allowed for stronger racing programs and facility upgrades, leading to larger purses, higher horse sales and growth in the breeding industry, according to observations drawn from racinos in Ontario, Canada, Iowa, Minnesota, Texas and New Mexico.<sup>266</sup>

## **REVENUES**

According to the California Horse Racing Board's most recent annual report, \$4.1 billion was wagered on California horse racing during the 2004-05 fiscal year (FY), \$138 million less than in FY 2002-03. Payments of over \$3.3 billion were returned to holders of winning tickets, an 80.1 percent return.<sup>267</sup> The remaining nearly 20 percent supported purses for winning owners and jockeys, racetrack commissions, off-track betting operations and taxes. In 2004, the state received \$39.5 million in licensing fees and breakage\* (1.03 percent), local governments retained more than \$7 million (0.19 percent), the tracks kept \$153 million (four percent), and horsemen earned \$149 million (four percent).<sup>268</sup>

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\* "Breakage" is the odd cents not paid to winning ticket holders.

In FY 1999-2000, the state received \$44 million from wagering on California horse races, (\$4.5 million more than in FY 2004-05), of which \$37.5 million went to the Fair and Exposition Fund and \$4.5 million to the General Fund. Donations to local charities from legally required benefits races totaled more than \$1 million.<sup>269</sup> (Most charity proceeds are directed to equine-related charities.)

### ***County Fairs***

Horse racing license fees help support the state's 79 local fairs.<sup>270</sup> The Department of Food & Agriculture's *2005/06 Expenditure Plan for the Fair and Exposition Fund and Satellite Wagering Account* projected a slight increase in horse racing fees to result in over \$39 million in revenues. Nearly \$8.5 million of that amount funds the California Horse Racing Board, and the department receives over \$4 million for its support of the state's fairs and expositions. About \$26.3 million is allocated for local assistance, of which \$14.8 million is for general fair programs and funding. Once various reimbursements and fees are subtracted, the local fair revenue base was \$9.7 million.<sup>271</sup>

Given that there were 79 fairs scheduled in California in 2005, the average payment per fair from horse racing fees was less than \$125,000.

According to the Department, county fair economic activity results in more than \$136 million in direct state and local income from sales, income and other tax sources and 28,000 jobs, with a total statewide economic impact of \$2.5 billion.<sup>272</sup>

### **SOCIAL IMPACT**

Race betting has the fewest players relative to other forms of legal gambling, but a 2001 survey found that each player represents substantially more revenue. Race bettors spent an average of \$171 per month compared to casino (\$164), lottery (\$95) and bingo players (\$104).<sup>273</sup>

Studies find that adults who bet on horse racing (both on and off-track) have the highest incidence of problem and pathological gambling of any gambling patrons. Fourteen percent of pari-mutuel bettors are estimated to be problem gamblers and 25 percent are pathological gamblers.<sup>274</sup> The California Horse Racing Board does not have any programs designed to assist people with gambling problems and seems to provide state-sanctioned encouragement for gambling (for example their web site links directly to sites that offer online account deposit wagering on horse races--see [http://www.chrb.ca.gov/advance\\_deposit\\_wagering.htm](http://www.chrb.ca.gov/advance_deposit_wagering.htm)).



# CALIFORNIA'S CARD CLUBS

## BACKGROUND

Card clubs (also called cardrooms) have existed in California since before statehood. They were a particularly popular form of entertainment during the Gold Rush, when gambling was pervasive. However in 1860, all house-banked games (meaning that each player wagers money against the gambling establishment) were prohibited by the legislature. From the 1860s through the 1980s, the poker club, or cardroom, was the major form of gambling in the state, with the house acting as a neutral overseer of the games.<sup>275</sup> The clubs were regulated at the local level with minimal state oversight.

Rather than having a stake in the game (house banked) and taking a percentage of the wager, California card clubs provide a house dealer and charge a player participation fee by time period (generally every half hour) or by hand played. Third party players are paid by a card club or an independent business to play in the games, usually to start a new game or keep a shorthanded game going.

Card clubs are limited in the types of games that they can offer by the California Constitution, which reserves house-banked Nevada-style casino games for casinos operated by tribes that have federally-approved tribal-state gaming compacts.

As of July 2005, there were 98 licensed card clubs and four clubs with provisional licenses in California (one has since received a regular license, according to the state Department of Justice; see Table 17); in February 2006, there were 86 licensed card clubs. In contrast, in 2001, the state had 113 card clubs with 1,473 tables. The industry is consolidating but business is booming; the number of tables had increased to 1,515 in July 2005, primarily due to the popularity of poker. Some clubs are open 24 hours, with people waiting in line to play poker.<sup>276</sup>

Cardroom revenues statewide have increased by nearly 75 percent over the last eight years (see Figure 17). Revenues in the five cardroom states—California, Florida, Minnesota, Montana and Washington—rose from \$844 million in 2003 to \$1.01 billion in 2004.<sup>277</sup>

Many card clubs are small businesses but a few are quite large (see Table 17). The Hollywood Park Casino in Inglewood is co-located with a racetrack. It offers a variety of games 24 hours a day and is the most profitable of Hollywood Park's divisions. The Hawaiian Gardens Casino has 180 tables and 1,675 employees, with yearly revenues of \$85 million.

The state currently has a moratorium on the authorization and expansion of cardrooms until 2010, which does not allow local jurisdiction to expand gaming beyond that permitted on January 1, 1996 (*Business and Professions Code* §19962). However a number of local ordinances in effect as of that deadline already allowed for considerable expansion, and in addition state law allows expansion of up to 25 percent in the number

of licensed cardrooms, gambling tables (total and per card room), hours of operation and in the maximum wager over the limits imposed in 1996 by a city or county (*Business and Professions Code § 19961*). Thus in actuality state law allows for considerable cardroom expansion. For example, according to press accounts the Hawaiian Gardens Casino is expanding from five tables in 1997 to a planned 300 tables by the end of the year.<sup>278</sup>

## **POKER**

Poker is the most widely known card game and in its various formats is played more than any other game. Its popularity has increased considerably and has brought new customers to the state's card rooms, drawn by televised tournaments of Texas Hold'Em. According to the American Gaming Association, 18 percent of American adults played poker in 2004, a 50 percent increase over the previous year. Poker draws in younger players, ages 21 through 39, who also provide incremental revenue at other table games, as well as purchasing food and beverages.

Some forms of poker are house-banked and can be offered only by tribal casinos in California, including blackjack, craps (with cards, not dice), baccarat, Caribbean Stud Poker, Let It Ride, Spanish 21, Three Card Poker, and Pai Gow poker. New games are introduced regularly, with the most successful being variations on blackjack or poker that offer larger jackpots.<sup>279</sup>

Poker tournaments have become very popular. The California Gambling Control Commission recently clarified that both state and local city approval must be obtained by a card room before the number of tables, which is set by licensing regulations, can be expanded to accommodate a tournament. The Alcohol Beverage Control (ABC) Board followed with an *Industry Advisory* that ABC-licensed premises cannot hold, or allow anyone else to hold, unlicensed poker tournaments.

Online poker does not have these restrictions and offers cheaper fees. One analyst asserts that online poker is having the effect on card rooms that "Napster" had on the music industry—widespread low or no cost access that bypasses traditional retailers.<sup>280</sup>

## **SHARED STATE AND LOCAL CONTROL**

In 1997, the legislature enacted the California Gambling Act, which among other things created the Division of Gambling Control in the Department of Justice and the California Gambling Control Commission, an independent agency with quasi-judicial powers and five members appointed by the governor. The Act established a concurrent state regulatory jurisdiction with local governments over cardrooms and created uniform statewide minimum regulatory standards. Local governments may enact more stringent controls by local ordinance on matters such as size, location, hours of operation, security, and wagering limits.

The state administers a comprehensive licensing and registration system for cardrooms, their key employees, and work permit holders. The Division and the Commission are

jointly responsible for ensuring that card club licenses, approvals, and permits are not issued to unqualified or disqualified persons. The Division investigates the background of applicants for gambling licenses, including owners, directors, employees and vendors, and forwards its findings to the Commission, which issues licenses. The Division also monitors the conduct of licensees, regulates accounting and internal controls, reviews and approves gaming equipment and rules of the games, investigates suspected violations and complaints, and initiates disciplinary actions.<sup>281</sup>

Since 1984, when state licensing by the Department of Justice began, 304 applications for card club licenses have been approved, 123 were denied, 49 were revoked, and two have been surrendered. Key employees must also be licensed. There are currently 254 licensed key card room employees. Since 1984, 43 applications for key employee licenses have been denied and four were revoked. Many more have been withdrawn.

Third party providers of proposition player services run a business in which a player is paid by a card club or an independent business to play in the games, usually to start a new game or keep a shorthanded game going. For example, Network Management Group, Inc., bills itself as the largest provider of third-party proposition player services in the California gambling industry, employing more than 650 associates in over a dozen card rooms.<sup>282</sup>

Contracts for proposition player services must be approved in advance by the Division of Gambling Control, and businesses that utilize the services must register with the California Gambling Control Commission. Some clubs do not have contracts with third parties, but have banking businesses that may register with the Gambling Control Commission on a voluntary basis. The goal is to protect patrons from money laundering, loan sharking,<sup>\*</sup> and organized crime. According to the Division, although many card rooms have these businesses on their premises, only about 25 are registered. It would require an investigation to locate the other businesses, and the Division does not have sufficient resources to uncover them.<sup>283</sup>

Both the Division and the Commission are special funded by fees. All applications for state card club licenses include a nonrefundable fee of \$500. Card clubs pay licensing fees set in statute in 1998 (Business & Professions Code § 19951). Fee revenue is less now than in 1998, when inflation is taken into account. Cardroom revenues have increased by nearly 75 percent since that time.

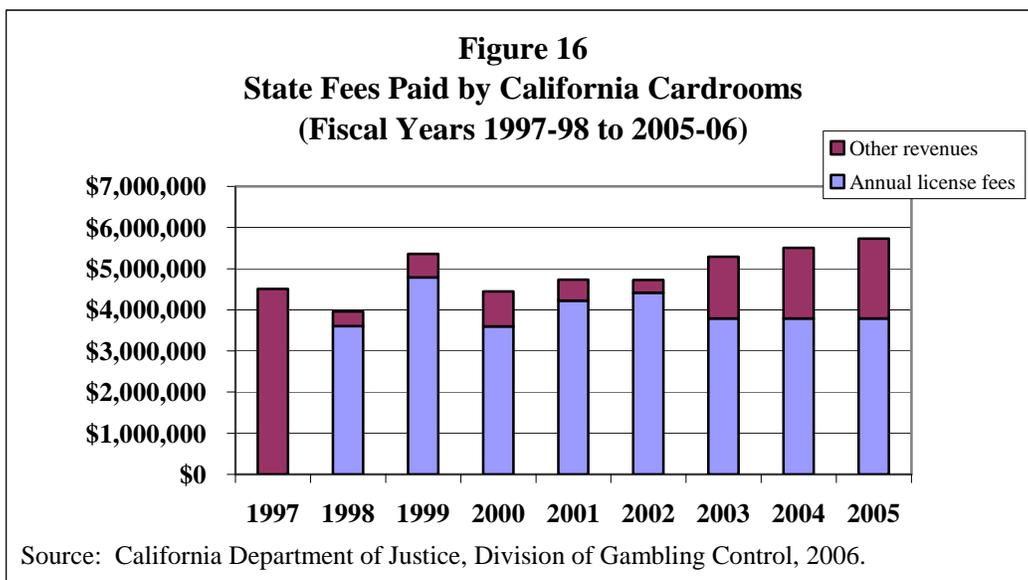
- A club with one to five tables pays \$250 for each table.
- A club with five to eight tables, or earning \$200,000 to \$499,999 in gross revenues, pays \$450 per table.
- Clubs with nine to 14 tables, or earning \$500,000 to \$1,999,999 in gross revenues, pay \$1,050 for each table.

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<sup>\*</sup> Loan sharking is the practice of lending money to heavy gamblers at extremely high interest rates, making it difficult for the gambler to ever pay off the debt. As a consequence, the gambler may fall under the control of the loan sharking operation.

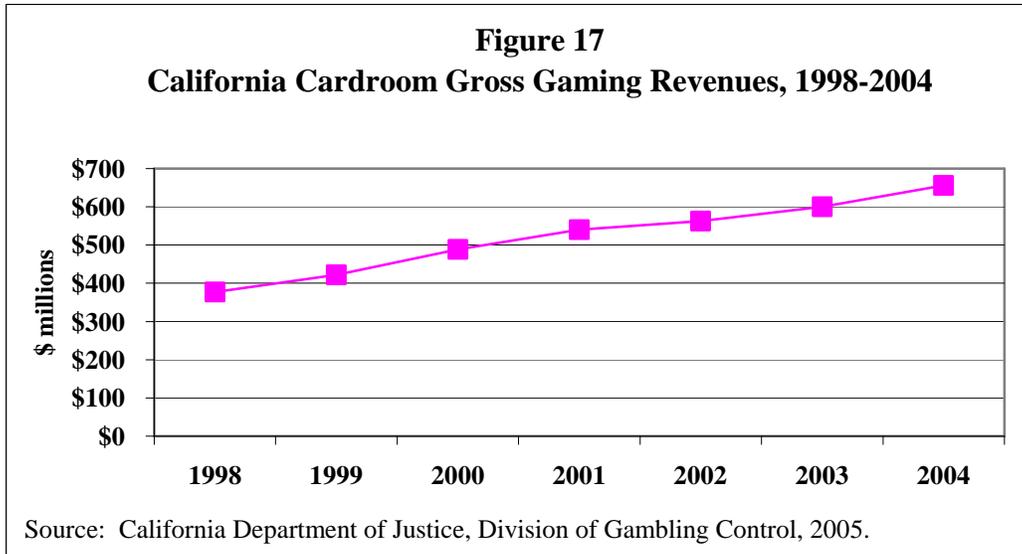
- Clubs with 15 to 25 tables, or earning \$2 million to \$9,999,999 in gross revenues, pay \$2,150 per table.
- Clubs with 26 to 70 tables, or earning ten million dollars or more in gross revenues, pay \$3,200 per table.
- Clubs with 71 or more tables pay \$3,700 for each table.

As shown in Figure 16, fees paid by California cardrooms to the state have not increased appreciably for six years (“other revenues” on the chart include application fees, background deposits and initial license fees). Since fees are intended to support the state’s regulatory operations, low fees impede the ability of the state to enforce its gambling control laws.



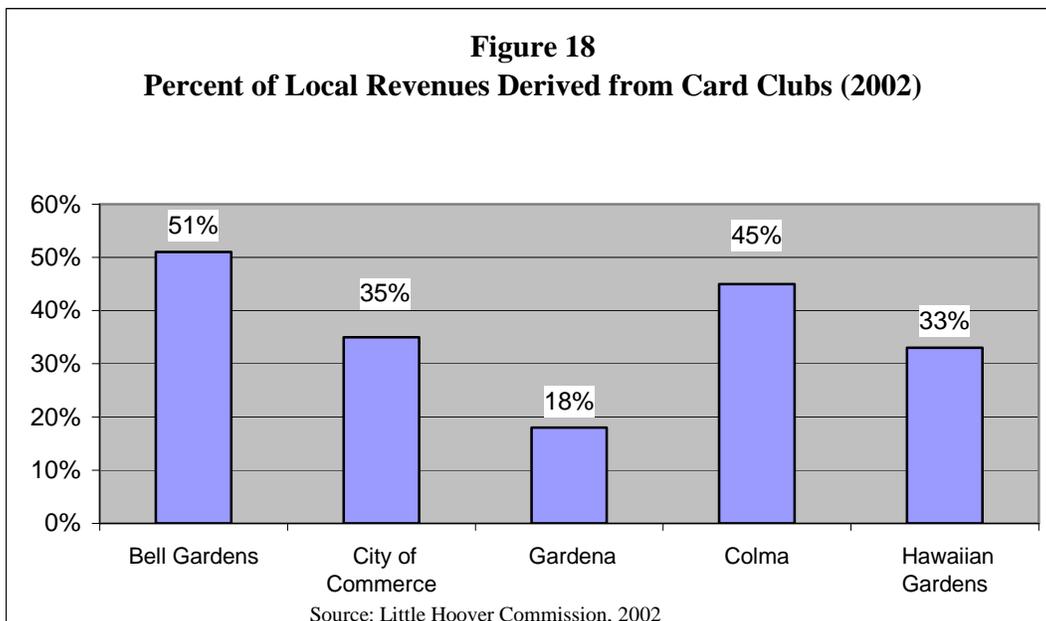
## REVENUES AND TAXES

A 1995 survey found that California card clubs are the largest in the nation, with a total handle (wagering total) of \$8.9 million and gross revenues of \$711 million.<sup>284</sup> According to the American Gaming Association, California cardrooms earned \$688 million in 2003, an increase from \$563 million in 2002, fueled by the popularity of poker and other table games.<sup>285</sup> The gross gaming revenues reported by cardrooms to the Division of Gambling Control are shown in Figure 17.



The state does not tax cardrooms, although they pay licensing fees as described above, but local governments may negotiate a tax, typically on the table fees collected by the cardrooms. These can be very lucrative sources of revenue. For example, the Lake Elsinore Hotel & Casino pays a gaming fee of more than \$74,000 a year for 18 table games, as well as property, sales, and hotel-room taxes.<sup>286</sup>

Some cities are particularly dependent on card room revenues as a major source of municipal funds. Cities such as Commerce, Bell Gardens, Colma, Hawaiian Gardens, Gardena, and San Pablo depend on local cardrooms for a significant portion of their income. This dependence has raised questions as to whether these cities can adequately regulate club operations, as they are in essence a “municipal partner.”<sup>287</sup>



In 2005, the small town of Colma's ordinance allowing unlimited card betting was declared illegal by the Attorney General as a violation of the state's moratorium on card club expansion, a finding that reportedly could cost the city half of the \$3.8 million in fees that the Lucky Chances Casino generates for the town each year.<sup>288</sup> The California Gambling Control Division subsequently ordered Lucky Chances Casino to halt unlimited card betting. The casino's owner is advocating removing the betting cap via a local ordinance and state legislation. (He was recently indicted for allegedly diverting card room money and owing nearly \$1 million in taxes.)<sup>289</sup>

The Colma dispute over wagering limits has raised a larger issue, as some 30 local jurisdictions apparently do not comply with the state's moratorium on card club expansion. The result is a patchwork of wagering limits in different jurisdictions and clubs that may create a competitive disadvantage for some card clubs.<sup>290</sup>

## CRIME

Gambling in card clubs has been associated with a number of crimes including embezzlement, bookmaking, loan sharking, money laundering, criminal gangs, job selling, prostitution, cheating and gambling by minors. For example, in 2000, 55 people were indicted in connection with alleged illegal activity at the Bay 101 and Garden City cardrooms in San Jose. Testimony before the grand jury described loan-sharking, drug sales, credit-card and check fraud, and buying stolen computer chips, all of which were alleged to have taken place on a routine basis.<sup>291</sup>

Proposals to allow or expand local card clubs can be extremely contentious, particularly since most are located in urban areas. For example, some members of the Vietnamese-American community in San Jose have been vocal in their opposition to the city's two cardrooms, which they claim have exploited gambling addiction in the Vietnamese community and led to increased crime, domestic violence and child neglect.<sup>292</sup> In 2000, San Jose's two cardrooms produced \$7.5 million in tax revenue, based on a 13 percent tax on gross receipts. Asian games provide about 70 percent of the clubs' combined revenues.

Gambling by minors in card clubs is particularly problematic given the popularity of youth poker and its role as a gateway to adolescent problem gambling. Gambling by minors is also illegal. According to Division of Gambling Control's records, only one cardroom has been cited for minor gambling but pled guilty to having a minor on the premises, a lesser charge. Three other cardrooms have received violation notices for having a minor on premises. A Division investigator contends, "I'm sure more is occurring out there. We just do not have the staff to be on site in the cardrooms as much as we would like."<sup>293</sup> Local governments are also responsible for enforcing gambling laws in cardrooms.

Cardrooms are subject to the Federal Bank Secrecy Act and must track cash buy-ins and cash-outs at the gaming tables, and report all transactions in excess of \$10,000 in any

gambling day to the IRS. The IRS has audit and investigation authority for compliance purposes.

## **OWNERSHIP**

State law prohibits California card club proprietors from owning an interest in out-of-state gambling operations that would be illegal under California law, with the exception of companies that own racetracks. Since slot machines are illegal (except in Indian casinos), companies that are engaged in casino operations legal in other states may not operate a card club in California. State law also requires that every owner, director and key employee be licensed, including shareholders of corporations, effectively excluding most publicly owned companies from operating card clubs. Over the last five years, several bills have been introduced in the legislature to remove one or both of these prohibitions, but they have either been defeated or vetoed.

According to the Little Hoover Commission, these prohibitions were enacted as attempts to keep organized crime out of California.<sup>294</sup> However publicly traded gambling companies with good reputations now dominate the gambling market and even manage casinos for California Indian gaming tribes. The Commission concludes that state's card club ownership prohibitions are not necessary to protect the public against criminal activities and are "...an anachronistic attempt to protect public safety."<sup>295</sup> The prohibitions do have the effect of limiting the capital resources available to card clubs and thus restricting their expansion, a goal of anti-gambling forces and other competitors in the gaming industry such as tribal casinos.

## **LOCATIONS**

Of the state's 58 counties, 24 do not have any card rooms and 13 only have one card room. Los Angeles County has over half the licensed tables in the state, while the city of Sacramento has the most card rooms of any city. The size and location of card rooms varies considerably, as Table 17 shows (updated lists can be found at <http://www.cgcc.ca.gov/cardrooms/CardRoomData.htm>).

<b>Table 17</b>						
<b>California Card Clubs by City, December 2005</b>						
<b>Active Clubs</b>	<b>No. of Tables</b>	<b>Club Address</b>	<b>City</b>	<b>Zip</b>	<b>License Issuance</b>	<b>License Expiration</b>
Napa Valley Casino	8	3466 Broadway	American Canyon	94589	12/01/04	11/30/05
Kelly's	6	408 "O" St.	Antioch	94509	08/01/05	02/28/06
Nineteenth Hole, The	5	2746 W. Tregallas	Antioch	94509	10/01/05	09/30/06
Outlaws Bar & Grill	2	9850 E. Front Rd.	Atascadero	93423	12/01/04	07/31/06
Dealer's Choice Cardroom	3	13483 Bowman Rd.	Auburn	95603	12/01/04	06/30/06
Golden West Casino	25	1001 S. Union Ave.	Bakersfield	93307	03/01/05	02/28/06
Bell Gardens Bicycle Club	170	7301 Eastern Ave.	Bell Gardens	90201	01/01/05	12/31/05
Bruce's Casino	1	116 S. Main	Blythe	92225	07/01/05	06/30/06
Cibola Club	1	138 N. Main	Blythe	92225	10/01/04	09/30/05
Black Sheep Casino	2	3181 Cameron Park Dr., #108	Cameron Park	95682	08/01/05	07/31/06
Old Cayucos Tavern	2	130 N. Ocean Ave.	Cayucos	93430	12/01/04	11/30/05
Angie's Poker Club	3	114 W. 15 <sup>th</sup> St.	Chico	95928	11/01/05	04/30/07
Village Club	12	429 Broadway	Chula Vista	91910	01/01/05	12/31/05
Lucky Derby Casino	7	7433 Greenback Lane, Ste. C	Citrus Heights	95610	08/01/05	07/31/06
Phoenix Lounge Casino	7	5948 Auburn Blvd.	Citrus Heights	95621	08/01/05	07/31/06
Clovis 500 Club	6	500 Clovis Ave.	Clovis	93612	06/01/05	05/31/06
Commerce Casino	243	6131 E. Telegraph Rd.	Commerce	90040	01/01/05	12/31/05
Crystal Park Casino	22	123 E. Artesia Blvd.	Compton	90220	01/01/05	02/28/06

**Table 17**  
**California Card Clubs by City, December 2005**

<b>Active Clubs</b>	<b>No. of Tables</b>	<b>Club Address</b>	<b>City</b>	<b>Zip</b>	<b>License Issuance</b>	<b>License Expiration</b>
Club Caribe	10	7617 Atlantic Ave.	Cudahy	90201	02/01/05	01/31/06
Aldo's Cardroom	2	1225 Airport Dr.	Delano	93215	10/01/05	09/30/06
St. Charles Place	1	315 Main St.	Downieville	95936	09/01/05	08/31/06
Tommy's Casino & Saloon	3	467 W. Main St.	El Centro	92243	01/01/05	12/31/05
Oaks Card Club	40	4097 San Pablo Ave.	Emeryville	94608	02/01/05	01/31/06
Klondike Casino	2	1930 Fourth St.	Eureka	95501	10/01/05	01/31/07
S & K Card Room	4	306 F St.	Eureka	95501	11/01/05	01/31/06
Lake Bowl Cardroom	5	511 E. Bidwell St.	Folsom	95630	10/01/05	09/30/06
Hustler Casino	65	15331 So. Vermont	Gardena	90247	02/01/05	01/31/06
Normandie Club	45	1045 W. Rosecrans	Gardena	90247	12/01/04	05/31/06
Garlic City Club	5	40 Hornlien Ct.	Gilroy	95020	09/01/05	03/31/07
Gloria's Lounge & Casino	2	30435 Road 68	Visalia	93291	11/01/05	10/31/06
Gold Rush Casino	5	106 E. Main St.	Grass Valley	95945	10/01/05	01/31/06
Central Coast Casino-G.B.	2	359 Grand Ave.	Grover Beach	93433	12/01/04	06/30/06
Jalisco Pool Room	4	920 Guadalupe St.	Guadalupe	93434	07/01/05	06/30/06
Cottage, The	3	106 W. Seventh St.	Hanford	93230	11/01/04	10/31/05
Hawaiian Gardens Casino	180	11871 Carson St.	Hawaiian Gardens	90716	09/01/05	08/31/06
Palace Card Room	8	22821 Mission Blvd.	Hayward	94541	11/01/05	10/31/06

Active Clubs	No. of Tables	Club Address	City	Zip	License Issuance	License Expiration
Hollywood Park	102	3883 W. Century Blvd.	Inglewood	90301	01/01/05	12/31/05
Hotel Del Rio & Casino	4	209 Second St.	Isleton	95641	11/01/05	10/31/06
Rogelio's, Inc.	2	34 Main St.	Isleton	95641	09/01/05	03/31/07
Royal Flush Card Room	2	44 North 19½ Ave.	Lemoore	93245	11/01/05	10/31/06
Livermore Casino	3	2223 First St.	Livermore	94550	09/01/05	08/31/06
Lucky Buck Card Club	5	1620 Railroad Ave.	Livermore	94550	02/01/05	01/31/06
Axtion Jaxon Cardroom	3	29 N. Sacramento St.	Lodi	95240	08/01/05	07/31/06
La Primavera Pool Hall & Café	2	224 S. "C" St.	Madera	93638	05/01/05	04/30/06
Casino Real	6	1030-B West Yosemite	Manteca	95336	07/01/05	06/30/06
Marina Club	7	204 Carmel Ave.	Marina	93933	11/01/05	10/31/06
Mortimer's Card Room	5	3100 Del Monte Blvd.	Marina	93933	09/01/05	11/30/05
Ginny's Club	1	5402 Lindhurst Ave.	Marysville	95901	03/01/05	02/28/06
Rooney's Cardroom	4	515 Fourth St.	Marysville	95901	09/01/05	08/31/06
Gold Sombero	4	2217 Yosemite Parkway	Merced	95340	05/01/05	04/30/06
Poker Flats Casino	4	1714 Martin Luther King Jr., Way	Merced	95340	08/01/05	07/31/06
Empire Sportsmen's Assoc.	5	5801 N. McHenry	Modesto	95356	12/01/04	11/30/05
Hemphill's Card Room	3	3385 California Blvd.	Napa	94558	10/01/05	09/30/05

**Table 17**  
**California Card Clubs by City, December 2005**

<b>Active Clubs</b>	<b>No. of Tables</b>	<b>Club Address</b>	<b>City</b>	<b>Zip</b>	<b>License Issuance</b>	<b>License Expiration</b>
Mike's Card Casino	5	112 N. Yosemite Ave.	Oakdale	95361	04/01/05	03/31/06
Brooks Oceana Cardroom	3	1795 Front St.	Oceana	93445	12/01/04	06/30/06
Ocean's Eleven Casino	45	121 Brooks St.	Oceanside	92054	12/01/04	11/30/05
California Grand Casino	14	5867 Pacheco Blvd.	Pacheco	94553	11/01/05	10/31/06
Central Coast Casino-P.R.	2	1428 Spring St.	Paso Robles	93446	11/01/05	10/31/06
101 Casino, The	15	5151 Montero Way	Petaluma	94954	01/01/05	12/31/05
River Cardroom, The	7	246 Petaluma Blvd., North	Petaluma	94952	05/01/05	04/30/06
Mint, The	3	940 West Morton Ave.	Porterville	93257	05/01/05	06/30/06
Don Juan Club & Casino	1	2785 Don Juan Dr.	Rancho Cordova	95670	12/01/04	06/30/05
Rancho's Club	7	2740 Mills Park Dr.	Rancho Cordova	95670	09/01/05	01/31/07
Casino Club	5	1885 Hilltop Dr.	Redding	96002	01/01/05	12/31/05
Oasis Card Room	3	117 Ridgecrest Blvd., #A	Ridgecrest	93555	11/01/05	02/28/07
Diamond Jim's	16	118 20 <sup>th</sup> Street West	Rosamond	93560	10/01/05	09/30/06
Capitol Casino	8	411 N. 16th St.	Sacramento	95814	06/01/05	05/31/06
Duffy's Cardroom	1	1944 El Camino Ave.	Sacramento	95815	04/01/05	03/31/06
Limelight Cardroom	5	1014 Alhambra Blvd.	Sacramento	95816	09/01/05	05/31/07
Silver Fox	7	6010 Stockton Blvd.	Sacramento	95824	08/01/05	07/31/06
Cap's Saloon	3	12 W. Gabilan St.	Salinas	93901	12/01/04	11/30/05

<p style="text-align: center;"><b>Table 17</b> <b>California Card Clubs by City, December 2005</b></p>						
Active Clubs	No. of Tables	Club Address	City	Zip	License Issuance	License Expiration
Artichoke's Joe's Casino	51	659 Huntington Ave.	San Bruno	94066	08/01/05	07/31/06
Lucky Lady	7	5526 El Cajon Blvd.	San Diego	92115	01/01/05	01/31/06
Palomar Card Club	5	2724 El Cajon Blvd.	San Diego	92104	10/01/05	02/28/07
Garden City	40	360 South Saratoga Ave.	San Jose	95129	10/01/05	09/30/06
Sutter's Place, Inc. dba Bay 101	40	1801 Bering Dr.	San Jose	95112	01/01/05	12/31/05
Club San Rafael	4	721 Lincoln Ave.	San Rafael	94901	01/01/05	12/31/05
Ocean View Cardroom	4	709 Pacific Ave.	Santa Cruz	95060	03/01/05	02/28/06
Ven A Mexico	2	955 Front St.	Soledad	93960	12/01/04	11/30/05
Cameo Club	6	5757 Pacific Ave.	Stockton	95202	01/01/05	01/31/06
Delta Club Card Room	6	6518 A Pacific Ave.	Stockton	95207	12/01/04	11/30/05
Saigon Casino Club	4	146 E Market St.	Stockton	95202	12/01/04	11/30/05
Comstock Cardroom	5	125 W. 11th St.	Tracy	95376	11/01/05	10/31/06
Turlock Poker Room	4	270 W. Main St.	Turlock	95380	06/01/05	05/31/06
Player's Poker Club	4	906 N. Ventura Ave.	Ventura	93001	09/01/05	03/31/07
Sundowner Cardroom (Visalia)	1	15638 Ave., 296	Visalia	93292	05/01/05	04/30/06
Caesar's Club	3	184 Main St.	Watsonville	95076	12/01/04	11/30/05
Philippine Gardens	5	410 Rodriguez St.	Watsonville	95077	10/01/04	09/30/05
El Resbalon	1	154 N. Valencia	Woodlake	93286	12/01/04	06/30/06

**Table 17**  
**California Card Clubs by City, December 2005**

<b>Active Clubs</b>	<b>No. of Tables</b>	<b>Club Address</b>	<b>City</b>	<b>Zip</b>	<b>License Issuance</b>	<b>License Expiration</b>
La Fuerza	2	175 E. Antelope	Woodlake	93286	09/01/05	08/31/06
Total Tables	1417					
<b>Provisionally Licensed Clubs</b>	<b>No. of Tables</b>	<b>Club Address</b>	<b>City</b>	<b>Zip</b>		
Club One, Inc.	35	1033 Van Ness Ave.	Fresno	93721		
Lucky Chances	43	1700 Hillside Blvd.	Colma	94014		
Pastime Club	2	726 First St.	Benicia	94510		
Lake Elsinore Hotel and Casino (Sahara Dunes)	18	20930 Malaga Rd.	Lake Elsinore	92350		
Total Tables	98					
Sources: The Division of Gambling Control, Department of Justice, and the California Gambling Control Commission, 12/2005.						

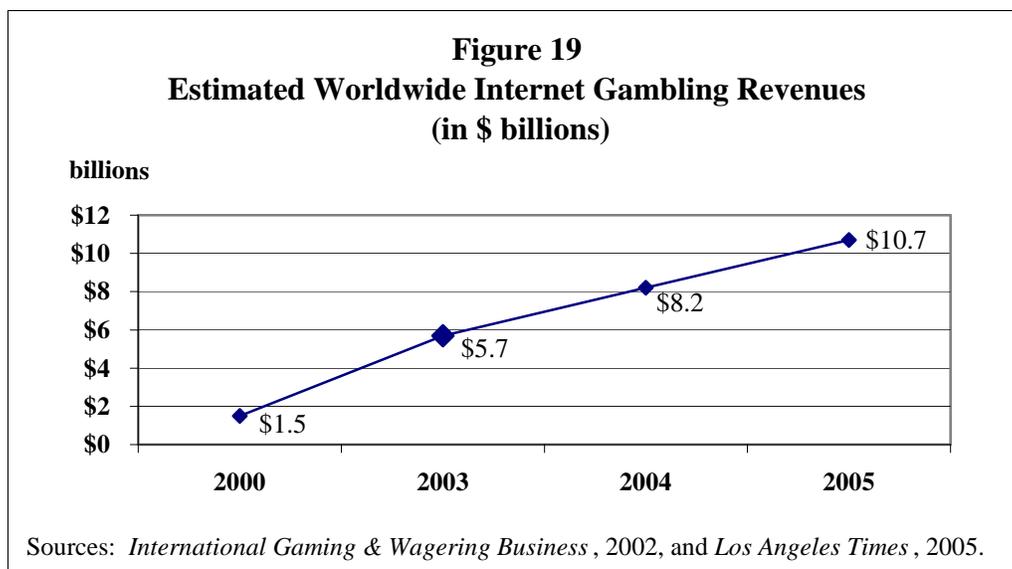


# INTERNET GAMBLING

## BACKGROUND

The Internet's global reach and the ability of individuals to access it by wire and wireless devices have enabled an unprecedented movement of goods and information across national borders. Gambling is no exception. Internet gambling offers a powerful means to reach people in their homes and allows gambling without the need for a physical gaming establishment.

Global gaming operations were quick to understand the potential and ramped up operations in the late 1990s. Virtually all of the estimated 250 to 300 companies that operated about 1,400 Internet gambling services in 2003 were privately held and located offshore in 55 different jurisdictions. As shown in Figure 19, revenues were estimated to have been \$1.5 billion in 2000, \$5.7 billion in 2003, \$8.2 billion in 2004, and \$10.7 billion in 2005.<sup>296</sup> The American Gaming Association estimates that in 2006, Internet gambling will be a \$12 billion to \$15 billion market worldwide.<sup>297</sup>



A 2003 Government Accounting Office (GAO) study estimated that United States players make up between 50 and 70 percent of Internet gamblers worldwide, despite the fact that Internet gambling is illegal in the United States (except on horse racing--see chapter on horse racing).<sup>298</sup>

The industry is moving towards legalization in some countries, most recently in the United Kingdom, which has instituted a comprehensive licensing and regulatory regime for Internet, iTV and mobile phone gambling. Major Internet gambling companies are now traded on the London Stock Exchange. For example PartyGaming, the parent company of PartyPoker.com, is licensed in Gibraltar and was valued at \$8.5 billion on the London Stock Exchange when it went public on June 30, 2005.<sup>299</sup> It is now valued at \$9.6 billion. SportingBet and BetOnSports are also publicly traded in London.

SportingBet acquired 700,000 new customers in a recent quarter, almost equal to the number of people who signed up the previous year. The company reports taking in \$530,000 a day just from its poker business. American investment houses own substantial amounts of stock in these highly profitable, fast-growing companies, even though online gambling is illegal under federal law.<sup>300</sup>

## **PLAYERS**

Internet gambling sites can turn a personal computer or a cell phone into a virtual duplicate of a casino video slot machine. Online games include blackjack, video poker, bingo, craps, roulette, baccarat, and keno—virtually every form of gambling. Players deposit “front money,” which includes payment in advance by credit/debit card, wire transfer, mailed checks, money orders, or payment aggregators. Many sites allow players to obtain a small number of chips for free. Even with low stakes betting, the fastest games can run through hundreds of dollars an hour.

Two of the online market’s fastest growing areas are betting exchanges and online poker. Poker accounts for nearly a quarter of Internet gaming revenues; sports betting and online casinos each account for 35 percent of revenues.<sup>301</sup>

Sport betting is one of the most popular forms of at-home gambling, although it is illegal in many jurisdictions. Industry analysts estimate that online sports betting generated \$4.29 billion in revenues in 2005, more than double the \$1.7 billion earned in 2001.<sup>302</sup> One 24-hour online site advertises that over 7,000 players are logged in during peak times. According to the site, payments can be made by cash advances through credit card companies and by direct access to bank accounts.

Online poker is especially popular with young men and has even become a problem on school campuses where kids play it on their mobile phones. Recently the president of the sophomore class at Lehigh University robbed a bank in an attempt to pay off \$5,000 in Internet gambling debts.<sup>303</sup>

A 2001 study found that 14 of the top 20 most recognized Internet gambling sites were online casinos.<sup>304</sup> While 83 percent of gamblers played online, only one third of that group, or 28 percent of all gamblers, played for real money. The rest were drawn by websites that offered free games. Other findings included:

- Seventy-three percent of the gamblers who played both on-and-offline had lost money in the past month, compared to 80 percent of players at bricks and mortar casinos.
- Three of five online gamblers visited more than one gambling site a day, and one-fifth visited four or more.
- Gamblers who played both at land-based casinos and online lost an average (net loss) of \$122 a month, double that of any other group.

- Players who wagered exclusively online tended to confine their gambling to bingo and lottery sites, and lost the least of any of the real-money gambler groups.
- One quarter of online bingo players gambled for real money, averaging about \$104 a month, compared to their casino counterparts who spent \$164 per month.

## **THE LEGALITY OF INTERNET GAMBLING IN THE UNITED STATES**

The Internet "...is a means, not a location, it exists and functions outside of traditional governmental spheres of central control, sovereignty, and regulation...[and] presents considerable challenges to any attempt to regulate its use."<sup>305</sup>

State governments have the primary responsibility for determining what forms of gambling may legally take place within their borders, and for this reason gambling has traditionally been treated as a state's rights or 10<sup>th</sup> amendment issue. Prohibitions vary from state to state. Nevada makes it a crime to make or accept a wager over the Internet unless the operator is a state licensee. Certain aspects of Internet gambling are prohibited in Illinois, Louisiana, Oregon, and South Dakota (excluding the state lottery), and are covered by broader laws in other states. Washington State recently made it a felony to play poker on the Internet.<sup>306</sup>

If and how state prohibitions can be effectively enforced is an open question given that Internet gambling consists of interstate transactions. Some state Attorneys General have been active in attempting to regulate online gambling. For example, in 1998-99, the Florida Attorney General distributed "cease and desist" letters to at least ten media companies providing publishing or broadcasting advertisements for offshore computer gambling sites.<sup>307</sup>

Federal gambling law (the Wire Act, the Illegal Gambling Business Act, and the Travel Act) prohibits most interstate and extraterritorial gambling, including transmitting bets over state lines. However the language of the law has become outdated by technology and various courts have interpreted it differently. For example, the Wire Act has been used primarily to prosecute cases involving sports betting. It does not clearly prohibit Internet gambling sites.<sup>308</sup> According to one analysis, "The Department of Justice has limited its few criminal complaints to American citizens licensed in foreign countries who were taking bets from the United States."<sup>309</sup>

The growing participation by Americans in online gambling, as well as large investments by many of Wall Street's largest firms in shares of online casinos and betting parlors, underscores "...a striking gap between the federal law enforcement position on online gambling and the realities behind what has emerged as a booming business."<sup>310</sup>

Several bills have been introduced in Congress to create a regulatory scheme that would identify and block financial transactions related to illegal Internet gambling, but none has passed. How to address off-the-track Internet betting on horse racing, allowed in some states including California, is one unresolved issue (see chapter on horse racing). Multistate lotteries also raise issues. A major concern of the Department of Justice is

how a law making it a federal crime to place a bet over the Internet would be enforced, raising memories of Prohibition. For this reason, most bills target businesses by making it a crime to conduct gambling online.

Given the loopholes in anti-Internet gambling laws, the federal government has concentrated its prohibition efforts on credit card companies and advertisers. In 2003, the Department of Justice (DOJ) sent letters to the National Association of Broadcasters, the Magazine Publishers of America and other trade groups warning that ads for Internet gambling are “ubiquitous,” misleading the public into believing that such gambling is legal, when it is not. The DOJ threatened to prosecute major communications companies under aiding and abetting statutes for accepting advertising from online gaming companies, raising First Amendment concerns.<sup>311</sup>

According to the Government Accountability Office (GAO), major U.S. credit card companies have tried to restrict the use of their cards for Internet gambling by denying authorization for Internet gambling transactions and by developing transaction codes that banks can use to block payments at their discretion. Attempts by Visa and Mastercard to prohibit the use of their credit cards for Internet gambling purposes have not always been effective, however, although GAO estimates that they have slowed the growth of the industry. This is because payments are actually made through banks, some of which operate in jurisdictions where Internet gambling is legal. Furthermore, it is difficult to distinguish between legal (i.e., bets on horse racing) and illegal gambling transactions.

Debts incurred through potentially illegal activities are unenforceable. Some losing bettors have refused to pay their credit card gambling debts, claiming that the banks issuing the credit cards facilitated illegal activities.<sup>312</sup>

Online payment providers that aggregate payments, such as PayPal, can also be used to circumvent Internet gambling prohibitions, since banks cannot necessarily determine the type of activity being charged. In addition, wire transfers, private label debit cards, direct deposit/withdrawal and personal checks are other ways to transfer funds. Finally, electronic cash allows an individual to use real money to purchase electronic cash units to make any transaction over the Internet. The authors of one analysis conclude that, “From the U.S. experience, regulating prohibition of Internet gambling effectively is unfeasible.”<sup>313</sup>

If Internet gambling operators are U.S. citizens, they may be prosecuted under state and federal criminal and/or civil laws for accepting bets from residents in every state.<sup>314</sup> Individual citizens are not likely to be charged for betting online, however, and thus online gambling is available to consumers as a practical matter.<sup>315</sup>

### ***An International Business***

As of 2003, Internet gambling had been legalized in over 50 countries and jurisdictions, including Europe, the Caribbean, Australia, and the Pacific islands. In April 2005, online casinos became legal in the United Kingdom. Other European countries are considering similar actions. Sportingbet pic, a publicly traded company on the London Stock

Exchange, recently joined forces with Paradise Poker to form the world's largest online betting company, with over two million customers. Partypoker.com, another large website, is licensed in Gibraltar.

At least two U.S. courts have held that foreign casino businesses accepting bets from customers in the United States may violate federal law. However extradition treaties ordinarily cannot reach offshore operators and may be contrary to U.S. treaty obligations under the General Agreement on Trade in Services (GATS).<sup>316</sup>

Whether the federal government can restrict virtual casinos that originate in areas where casino gambling is a legal activity has been the subject of a World Trade Organization (WTO) dispute brought by the nation of Antigua, which houses some Internet gaming operations. In April 2005, a WTO appeals panel ruled that the U.S. federal ban on Internet gambling violated WTO treaty obligations, and that the entire U.S. gambling service sector was covered by the GATS, thus limiting the ability of federal, state and local government to limit gambling. According to one commentator, the ruling also puts state lotteries and tribal-state gaming compacts at risk because GATS prohibits government monopolies.

The fact that the United States allows an exemption for account deposit wagering\* on horse races over the Internet weakens the U.S. position. The WTO ruling found that the government does have the right to restrict remote gambling to protect public morals and public order, but must consistently apply restrictions to domestic and foreign operations. Congress is considering removing the exemption allowing account deposit wagering for horse racing in order to strengthen the U.S. position.<sup>317</sup>

## **SOCIAL AND ECONOMIC COSTS OF INTERNET GAMBLING**

Congress created the National Gambling Impact Study Commission in 1996, to study the social and economic impacts of gambling. Concerns about Internet gambling raised by the Commission in its 1999 report included: increased and unregulated underage gambling, more pathological and problem gambling with associated personal, family and community costs, lack of consumer protections and criminal abuse. The use of virtual cash, unlimited accessibility, and the solitary nature of gambling on the Internet are all potential risk factors for the development of problem gambling.<sup>318</sup>

Critics contend that gambling on the Internet offers a particularly addictive and child-alluring form of gambling, as evidenced by the number of websites that offer free electronic games as an introduction to gambling. Research shows that young people are particularly at risk of becoming addicted to gambling. Parents may have little control, even with the most advanced software protections.

The convenience of easy access to gambling in one's home may lead to more personal bankruptcies for consumers of all ages (see a more extended discussion, under Economic

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\* See discussion of account deposit wagering in the chapter on horse racing.

Impacts). According to an analysis by Deloitte, “Managing the issues of problem and under-age gaming will be critical to the industry’s success...”<sup>319</sup>

Law enforcement officials are concerned about an increased risk of fraud in today’s unregulated Internet gaming environment, and the enhanced opportunity for international money laundering by organized crime and terrorists. According to GAO, “Law enforcement officials said they believed that Internet gambling could potentially be a powerful vehicle for laundering criminal proceeds [due to]...the volume, speed and international reach of Internet transactions and the offshore locations of Internet gambling sites.”<sup>320</sup> However gaming industry officials contend that all e-commerce is susceptible to money laundering, not just gaming.

I. Nelson Rose, a prolific analyst of gaming law, concludes that:

There is general agreement that a complete prohibition [of Internet gambling] is impossible to enforce, while complete legalization without regulation would cause untold social harm, particularly to children and compulsive gamblers. Lawmakers at all levels and in all branches of government are now faced with the necessity of finding a way to control this constantly evolving invention.<sup>321</sup>

## **SOCIAL IMPACTS OF GAMBLING**

### **PROBLEM AND PATHOLOGICAL GAMBLING**

#### ***Background***

If everyone could gamble responsibly, as most people do for recreation and leisure, a discussion of the social impacts of gambling might be relatively brief. However a significant percentage of people who gamble do so excessively, harming themselves, their families, and their communities. As access to gambling--either state-promoted or authorized--increases, the prevalence of problem and pathological gambling is also increasing. This addiction creates social costs analogous to the impact of excessive alcohol consumption or of tobacco and illegal drug use.<sup>322</sup>

Problem gambling refers to gambling that significantly interferes with a person's basic occupational, interpersonal, and financial functioning. Pathological gambling is the most severe form and is classified as a mental disorder with similarities to drug abuse including "...features of tolerance, withdrawal, diminished control, and relinquishing of important activities."<sup>323</sup>

Pathological gamblers are important to the fiscal health of the gaming industry, generating 15 percent of the industry's gross revenues, according to a study by the National Opinion Research Center at the University of Chicago.<sup>324</sup> A 1999 study by the Australian Productivity Commission found that problem gamblers accounted for about one-third of the gambling industries' market in the country, and that problem gamblers lost, on average, around \$12,000 a year compared with under \$650 for other gamblers.<sup>325</sup>

#### ***Clinical Definition***

In 1980, the American Psychiatric Association (APA) recognized compulsive gambling as a mental disorder. The World Health Organization also recognizes this mental disorder.

Pathological gambling is classified as an impulse control disorder or a nonsubstance-related addictive disorder, a "...failure to resist an impulse, drive, or temptation to perform some act that is harmful to the person or others."<sup>326</sup> It is characterized by "High rates of mood, psychotic, anxiety, attention-deficit, personality, and substance use disorders."<sup>327</sup> An individual suffering from pathological gambling is unable to participate responsibly in gambling with any sense of moderation, and is unable to stop. The APA states:

The essential features of this disorder are a chronic and progressive failure to resist impulses to gambling, and gambling behavior that compromises, disrupts, or damages personal, family, or vocational pursuits. The gambling preoccupation, urge and activity increase during periods of stress. Problems that arise as a result of gambling lead to an intensification of the gambling behavior. Characteristic problems include extensive indebtedness and consequent default on debts and

other financial responsibility, disrupted family relationships, inattention at work, and financially motivated illegal activities to pay for gambling.<sup>328</sup>

The diagnostic criteria for pathological gambling includes at least five of the following behaviors (DSM-IV):\*

1. Is preoccupied with gambling.
2. Needs to gamble with increasing amounts of money in order to achieve the desired excitement.
3. Has repeated unsuccessful efforts to control or stop gambling.
4. Is restless or irritable when attempting to control or stop gambling.
5. Gambles as a way of escaping from problems or of relieving feelings of helplessness, guilt, anxiety, and depression.
6. After losing money, often returns another day in order to get even (“chasing losses”).<sup>329</sup>

Studies have suggested “...neurobiological explanations for the similarities and high rates of co-morbidity between substance abuse disorders and pathological gambling.”<sup>330</sup>

Recent studies of medicines prescribed to calm tremors of Parkinson’s disease have found an association with a heightened risk of pathological gambling, according to an analysis of adverse drug reactions reported to the Food and Drug Administration. The link seems to be related to increased dopamine, which leads to impulsive behavior.<sup>331</sup>

### ***Prevalence***

A meta-analysis of prevalence studies published in the *Journal of the American Medical Association (JAMA)* estimated an adult population prevalence rate for pathological gamblers in the United States of 1.2 percent for the previous year and 1.6 percent over a lifetime.<sup>332</sup> Problem gamblers comprised an additional 2.8 percent during the previous year, and 3.85 percent over a lifetime. The problem increases considerably among gambling patrons—4.6 percent (problem gamblers) and 5.4 percent (pathological gamblers) for casino gamblers, 3.6 percent and 5.2 percent for gamblers at lottery terminals, and 14.3 percent and 25 percent for gamblers in pari-mutuel locations.

The National Council on Problem Gambling cites similar estimates: two million (one percent) U.S. adults meet the criteria for pathological gambling in a given year. Another four to eight million adults (two to three percent) are problem gamblers who do not meet the full diagnostic criteria for pathological gambling, but meet one or more of the criteria and are experiencing problems due to their gambling behavior.<sup>333</sup>

The National Gambling Impact Study Commission estimated in its 1999 report that of the 125 million Americans who gambled at least once a year, about 5.5 million had some

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\* Diagnostic and Statistical Manual of Mental Disorders, IV ed. (DSM-IV)

form of gambling problem (2.5 million pathological gamblers and three million problem gamblers), while another 15 million were “at risk” of developing a gambling problem.<sup>334</sup>

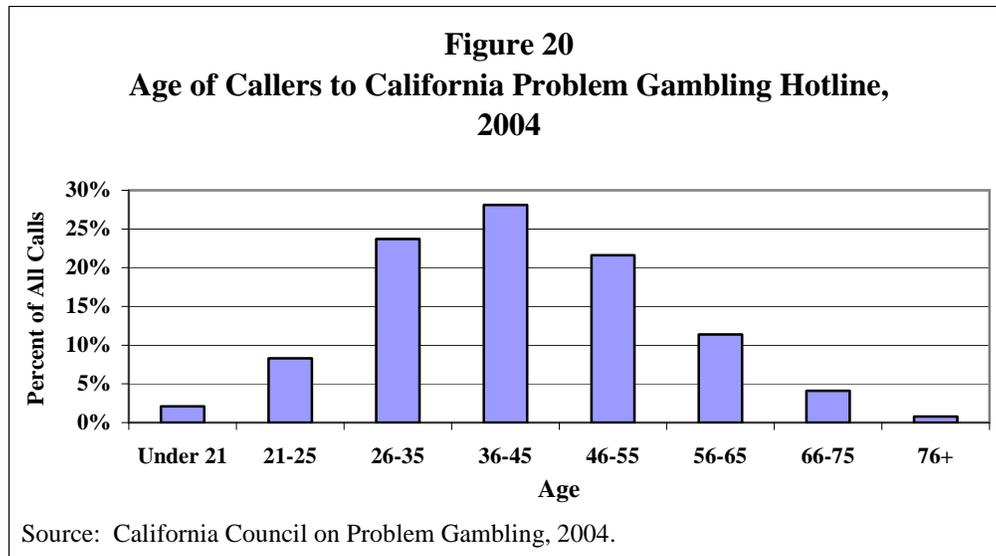
If we apply the *JAMA* estimates to California, using 2000 Census data, we find that 336,419 adults are pathological gamblers and 588,733 adults are problem gamblers (lifetime prevalence). This means that 925,151 adults in California had a serious gambling problem in 2000, a number that is probably closer to one million now.

Researchers have also concluded that the rate of problem gambling increases when more gambling alternatives become available in a community.

- A study by the National Opinion Research Center found that adults living within 50 miles of a casino had double the probability of pathological or problem gambling.<sup>335</sup>
- A 1998 study in seven jurisdictions with new casinos estimated that 16 percent of local residents had a gambling problem.<sup>336</sup>
- A 1999 study by the Australian government found that “The prevalence of problem gambling is related to the degree of accessibility of gambling, particularly gaming machines.”<sup>337</sup>
- In Nevada, which has casinos located in every corner of the state, the Nevada Council on Problem Gambling estimates that as many as six percent of Nevada adults may suffer from a gambling problem, a number twice the estimated national prevalence.<sup>338</sup>

In a 2003 *Gallup Lifestyle Poll*, eight percent of those who had participated in gambling activities said they sometimes gambled more than they should, and six percent said that gambling had been a source of problems within their families. Twelve percent of 18-to-29 year olds agreed that gambling had been a problem for someone in their family, compared to four percent of those aged over 50.<sup>339</sup> A 1999 Gallup Poll found that 41 percent of adults and 10 percent of teens reported knowing someone outside their family for whom gambling had become a problem.<sup>340</sup>

The California Council on Problem Gambling operates a helpline for problem gamblers that received 3,399 calls in 2004. The largest number (12 percent) of calls originated in the San Bernardino County area. Over half the callers were male (53 percent). Nearly half the callers were married (48 percent) and 11 percent were divorced or separated. Most of the callers were middle-aged, as shown in Figure 20.



As discussed previously, Indian casinos were the primary gambling preference of over three quarters of the calls to the state’s problem gambling helpline in 2004 (77.5 percent). Another five percent preferred gambling in Nevada casinos. Thus casino gambling is by far the largest source of problem gambling in California.

### ***Vulnerable Groups***

High risk groups include adults in mental health and substance abuse treatment, who have rates of problem and pathological gambling four to ten times higher than the general population.<sup>341</sup> Men have a prevalence rate two to three times higher than women (although they call the state helpline in roughly equal numbers). Adolescents are more likely than adults to become problem and pathological gamblers.

Some ethnic groups are especially vulnerable to problem gambling. A study in St. Louis, Missouri, found that African Americans comprised 31 percent of persons with problem and pathological gambling.<sup>342</sup> In California, the Commission on Asian & Pacific Islander American Affairs (APIAs) has identified problem gambling as a serious concern, citing research that “...APIAs may have significantly higher rates of problem gambling compared with that of the mainstream population.” For example, the Commission cites anecdotal reports that as many 70 percent of the gamblers at the Lucky Chance card room in Colma are Asian Pacific Islanders.<sup>343</sup>

Newspaper accounts verify that Indian casinos and card clubs target their marketing efforts at the APIA community. The Barona tribal casino recently opened an office in San Gabriel Valley, which is 22 percent Asian American; “Every property in Southern California tries to appeal to the Asian community, because Asians have a propensity to play table games...”<sup>344</sup> In Northern California, buses from the Cache Creek Casino operated by the Rumsey Band of Wintun Indians pick up Chinese gamblers from San Francisco, following practices long established by Nevada casinos. Casino San Pablo targets Asian language advertising and “...celebrates the Chinese, Vietnamese, and

Cambodian new years and employs APIA music promoters, celebrities, and performers from Vietnam and Cambodia to provide entertainment at the casino.<sup>345</sup>

The Commission's report cites a study by the NICOS\* Chinese Health Coalition in San Francisco that found that gambling was the number one social concern in the Chinese American community. The NICOS study also found that 84 percent of Chinese American adults in the community reported gambling in the previous year; 15 percent were classified as problem gamblers and 21 percent were classified as pathological gamblers.<sup>346</sup>

The Commission and a community coalition have formed the Asian and Pacific Islander Problem Gambling Task Force to gather information and make recommendations, which include securing more revenues from all sectors of the gambling industry for prevention and treatment services for problem and pathological gamblers. The United Cambodian Association of Minnesota and the Lao Family Community of Minnesota have also developed prevention and education programs to inform young people about the risks of adolescent gambling.

People who work in the industry are particularly vulnerable to problems with their own gambling behaviors. In a notable case, the president of Caesars Atlantic City was fired and lost his license in 2001, due to compulsive gambling.<sup>347</sup> Employees who have problem gambling behaviors may be afraid to seek help. However some gambling companies have developed training programs and responsible gambling programs and policies to help their employees who have gambling problems.<sup>348</sup>

### *Adolescents*

A number of studies have found that adolescents who engage in adult forms of gambling are more likely to develop problem and pathological gambling problems:

- A 1998 study by the National Research Council estimated that as many as 1.1 million adolescents, or six percent of teenagers between the ages of 12 and 18, were pathological gamblers, a higher rate than adults.<sup>349 350</sup>
- As many as 30 percent of American youth wager money on some game of chance weekly and four percent gamble daily; between four and eight percent have a very serious gambling problem, with another ten to 15 percent at risk for developing a gambling problem.<sup>351</sup>
- Young adults ages 18-24, especially males, comprise a disproportionate number of adults with significant gambling disorders, almost double their representation in the population (they represent 12.7 percent of the population but 20.4 percent of the population with a gambling problem).<sup>352</sup>

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\* The organizations, whose names form the acronym "NICOS," are: North East Medical Services, IPA (Chinese Community Health Care Association), Chinese Hospital, On-Lok Senior Health Services, and Self-Help for the Elderly.

A study by the Annenberg Public Policy Center at the University of Pennsylvania found that the number of American men ages 14 to 22 who gamble once a month rose 20 percent from 2004 to 2005. Of the 2.9 million young people who gamble on cards at least once a week, 80 percent are men. Over half of male college students gamble on cards at least once a month. Poker competitions and Internet betting websites are especially popular, and college students are the target demographic. One poker website, [absolutepoker.com/](http://absolutepoker.com/), based in Canada, offers to pay a semester's tuition for tournament winners. In a notable case, the president of the sophomore class at Lehigh University robbed a bank in an attempt to pay off \$5,000 in Internet gambling debts.<sup>353</sup>

A 1998 Oregon study found that 75 percent of 13-17 year olds in the state had gambled for money at least once, 66 percent within the last year. Boys and older adolescents were more likely to gamble than girls and younger adolescents. The study measured self-reported youth gambling on a continuum of involvement ranging from 0 (no gambling), to 1 (social, no problem), 2 (signs of gambling problems), 3 (gambling-related disorder with impairment) and 4 (impaired gambler who seeks treatment). The study found that 11.2 percent of Oregon adolescents were level 2 gamblers and 4.1 percent were level 3 gamblers, equating to an estimated 20,000 to 29,000 youth in the state with a gambling problem, and between 4,700 and 13,600 youth with a gambling-related disorder.<sup>354</sup>

In the 2000 Census, 27 percent of California's population was under age 18; of that group, 42 percent or 3.9 million youth were ages ten to 18. If we apply Oregon's gambling problem/disorder prevalence percentages to California,\* we could expect to find that 436,800 youth are level 2 problem gamblers and 159,900 youth are level three gamblers who have gambling-related disorders with impairment. In total, 600,000 California youth could have serious gambling problems.

In California, it is a misdemeanor for a person under 21 years of age to play any gambling game, or loiter in any room where gambling is conducted. Any gambling licensee or employee who allows a minor to gamble is also guilty of a misdemeanor unless he/she can demonstrate that the minor presented a fake identification card [*Business & Professions Code* § 19941(a) and (b)]. However persons 18 and older can play the state lottery, and the state's 1999 tribal-state gaming compact, which applies to most Indian casinos in the state, allows individuals 18 or older to gamble. Beginning in 2003, tribal-state gaming compacts began providing that no persons under age 21 may be present in any room where class III gaming activities are taking place unless enroute to a nongaming area.

Adolescent excessive gambling can result in a number of long-term negative consequences, including truancy, dropping out of school, severed relationships with family and friends, and mental health and behavioral problems including illegal behavior to finance gambling. In addition, there is a moderate correlation between adolescent gambling and other risk behaviors including alcohol, drug, and tobacco use. A study of adolescent pathological gamblers found the following significant negative behaviors:<sup>355</sup>

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\* Oregon has a different mix of gambling opportunities than California, particularly video lottery terminals, which are more accessible and may create more adolescent problem gambling.

...91% of adolescents with a pathological gambling problem show signs of having a preoccupation with gambling; 85% indicate chasing their losses; 70% lie to family members, peer and friends about their gambling behavior; 61% use their lunch money and/or allowance for gambling; 61% become tense and restless when trying to cut down on their gambling; 57% report spending increasing amounts of money gambling; 52% gamble as a way of escaping problems; 27% report skipping school (more than five times) to gamble in the past year; 24% have taken money from a family member to gamble without their knowledge; 21% have developed familial problems resulting from their gambling behavior; and 12% report having stolen money from outside the family to gamble.

Adolescent pathological gamblers report starting as early as age ten, often with family members, which means that early prevention efforts--of which there are few--need to begin in the elementary grades. Youth often fail to comprehend the risks and odds associated with gambling. They find Internet gambling particularly attractive. Sites incorporating video technology offer blackjack, roulette, slots, poker and other casino games and sports betting. "Practice sites" where no money is needed to play expose youth to adult games without adult supervision or control. The similarity of video games with online gambling games can be deceptive since the more one plays video games, the more one can improve, compared to gambling, which is a game of chance each time.

The availability of gambling in the community affects youth participation even though it is illegal. A study of the impact of gambling in Atlantic City in the mid 1980s found that 86 percent of high school students in New Jersey had gambled in the past year and 91 percent had participated in some form of gambling during their lifetime.<sup>356</sup>

Young men in the military are vulnerable to developing gambling problems. There are 4,150 video slot machines located in officers' clubs, activity centers and bowling alleys on overseas bases taking in about \$2 billion a year, of which \$127 million remains with the armed forces to help pay for recreational programs such as golf courses and family activity centers. A PricewaterhouseCoopers report found "a general lack of accessible treatment for gambling addiction" in the military.<sup>357</sup>

Gambling opponents argue that slot machines are increasingly designed to attract children. Machines that give cash payments without authorization enable youth gambling. Machines that are distributed in the community at convenience locations such as gas stations, liquor stores, restaurants and laundromats, exacerbate adolescent (and adult) problem gambling because they are so easily accessible.<sup>358</sup>

### ***Electronic Technologies and Problem Gambling***

Video poker, slot machines, and other video gambling terminals are the most addictive forms of gambling as well as the most effective at generating revenue.<sup>359</sup> "These machines combine quick-cycling, sensory-rich experiences, the psychologically attractive principle of intermittent reward, and the statistically inevitable house advantage which are assured to produce significant gambling losses over time."<sup>360</sup> A recent article in the

*Atlantic Monthly* calls them the “crack cocaine” of the gambling world, and points out that the United States has twice as many publicly available gambling devices (740,000) that take money as it does ATMS that dispense it.<sup>361</sup>

A study by the State of Oregon of gambling treatment and prevention programs in the state found that the primary gambling activity of gamblers enrolled in treatment was video poker (74.5 percent), followed by slot machines (10 percent), cards (5.2 percent), betting on animals (1.6 percent), Keno (1.5 percent), and bingo (1.4 percent).<sup>362</sup> A 2005 study for the California Office of Problem Gambling found that “Policies that significantly enhance access to electronic gambling machines, casino table games and other continuous gambling forms can be expected to generate increases in problem gambling.”<sup>363</sup>

Electronic technology has also made it easier than ever for a pathological or problem gambler to access money to play. Cash can be transferred from a player’s bank account to a machine on the casino floor and ATM machines are readily accessible. The National Gambling Impact Study Commission recommended that this ready access to gambling cash be restricted, but its recommendations were not adopted as public policy or by the industry. According to articles in trade magazines, the industry is focused on making it easier for people to obtain quick cash and credit to gamble through cashclub cards and other devices that let the casino keep the entire transaction fee.<sup>364</sup>

The National Gambling Impact Study Commission examined the issue of ready access to credit in casinos, which can contribute to problem and pathological gambling. The Commission found that 40 to 60 percent of the cash wagered by individuals in casinos is not physically brought onto the premises. Casinos extend billions of dollars of credit, accounting for nearly ten percent of casino revenues in Nevada. This figure does not include credit extensions from ATM’s, debit and credit cards, or other credit providers.<sup>365</sup>

There is a significant monetary benefit to casinos by enabling gamblers to spend money easily. When bill acceptors were introduced in casinos, they enabled people to play more quickly by eliminating coins, and thus “...dramatically increased slot machine revenues” by 30 to 40 percent.<sup>366</sup> Many casinos place ATM machines near their gambling machines. Credit cards and debit cards can allow people, especially compulsive gamblers, to run up debts they cannot pay. The question then arises as to who is responsible for those debts—the casino or the player—and whether credit card companies can and will enforce collection.

## ***Public Health Impacts***

### *Suicide*

A number of studies have attempted to document whether excessive gambling losses lead to suicide. There are many tragic stories but prevalence studies are unclear; some find an effect and some do not. This is because gambling may be one of several interacting or independent variables contributing to an individual’s decision to commit suicide. Clinical studies have reported elevated levels of “suicidality” in pathological gamblers,

ranging from 17 to 80 percent for thoughts-of-suicide and from four to 23 percent for actual attempts. An Australian study of coroner's files estimated that approximately 1.7 percent of suicides during 1997 were gambling related.<sup>367</sup> Studies of individuals in treatment for pathological gambling and of members of Gambler Anonymous have found rates of attempted suicide of 17 to 24 percent.<sup>368</sup>

Males aged 15 to 35 are the group at highest risk for both suicide and the development of gambling problems.

### *Domestic Violence and Child Neglect*

Testimonial accounts before the National Gambling Impact Study Commission suggest that individuals who suffer from problem or pathological gambling engage in destructive family behavior, such as domestic violence, divorce, child neglect and homelessness. However the data is inconclusive, and quantifying social costs by isolating gambling from other contributing factors, such as drug and alcohol abuse, has proven difficult. A National Opinion Research Center survey conducted for the Commission found that 53.5 percent of identified pathological gamblers reported having been divorced; the U.S. per capita divorce rate at the time of the survey was 41 percent. Two studies found that between one quarter and one half of the spouses of compulsive gamblers had been abused.<sup>369</sup>

The Commission on Asian & Pacific Islander American Affairs' *Annual Report 2005* found that "...gambling leads to problems related to child welfare and domestic violence." The report presents testimony from a Santa Clara social service worker who estimated that about 20 percent of the APIA child neglect cases he sees are caused by problem gambling. For example, children are left unattended in cars in parking lots while their parents gamble. A family counselor in San Francisco estimated that about 30 percent of the APIA domestic violence cases he sees are related to gambling.<sup>370</sup>

### *Social Costs*

The National Gambling Impact Study Commission found that individuals with problem and pathological gambling "...had higher rates of receipt of past-year unemployment and welfare benefits, bankruptcy, arrest, incarceration, divorce, poor or fair physical health, and mental health treatment." Out-of-control gambling is an important contributor to this cluster of problems and the related social costs.\* A study conducted for the Commission estimated the annual cost in the United States at that time to be \$1,200 for each adult pathological gambler and \$715 for each adult problem gambler, or an estimated \$5 billion annual/\$40 billion in lifetime costs (\$6 billion annual/\$48 billion in 2006 dollars). Each

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\* The definition of "social costs" in the gambling literature is not clear, and, in general, studies do not isolate gambling's contribution to the array of social costs associated with problem and pathological gambling. As Walker and Barnett point out, "...simply observing that gambling is correlated with such problems does not imply that gambling causes them." Douglas M. Walker, A.H. Barnett, "The Social Costs of Gambling: An Economic Perspective," *Journal of Gambling Studies*, Vol. 15, No. 3, September 1999, p. 195.

adult problem gambler cost society an estimated \$5,130 and each pathological gambler cost society an estimated \$10,550 over his/her lifetime<sup>371</sup>

If we update these estimated costs to 2006, and apply them to California, we find that each adult problem gambler in the state annually costs society an estimated \$865, or \$6211 over his/her lifetime, while each adult pathological gambler annually costs an estimated \$1,453, or \$12,774 over a lifetime. Given our previous estimate of 588,733 adult problem gamblers and 333,419 adult pathological gamblers in the state, based on *JAMA* data, the annual estimated cost of pathological gamblers in California is \$488,816,807, while the annual estimated cost of problem gamblers is \$509,254,045, or nearly one billion dollars in total. Table 18 presents average estimated financial and health effects.

<b>Table 18</b>			
<b>Lifetime Financial and Health Effects for Problem and Pathological Gamblers (1998 data)</b>			
<b>Characteristic</b>	<b>Non-gambler</b>	<b>Problem Gambler</b>	<b>Pathological Gambler</b>
Any unemployment benefits, 12 months	4.6%	10.9%	15%
Welfare benefits, 12 months	1.9%	7.3%	4.6%
Household income, 12 months	\$36,000	\$45,000	\$40,000
Household debt	\$22,000	\$14,000	\$48,000
Health poor/fair last year	22.8%	16.3%	31.1%
Depression	NA	16.9%	29.1%
Divorce	18.2%	29.8%	53.5%
Emotionally harmful family arguments about gambling	NA	15.8%	53.1%
Alcohol/drug dependent, ever	1.1%	12.4%	9.9%
Job loss, last year	2.6%	10.8%	13.8%
Bankruptcy, ever	3.9%	10.3%	19.2%
Arrested, ever	4%	10.4%	21.4%

Source: National Opinion Research Center at the University of Chicago, *National Gambling Impact Study Commission Report*, 1999, pp. 7-21, 7-26.

### ***Prevention and Treatment***

Primary prevention efforts seek to delay or prevent the onset of activities that can lead to harmful gambling. These include public education and careful enforcement of prohibitions against gambling by minors. Secondary prevention efforts target social gamblers to ensure that they do not develop problems related to gambling. Once a person has a gambling problem, prevention efforts seek to stop the behavior and minimize the harm caused by that behavior.

Pathological gambling is a compulsive disorder that can be treated, but it is often a hidden addiction. There are various treatment approaches. Gamblers Anonymous is a self-help program that recommends that its members do not go near or enter a gambling establishment. There are also pharmaceutical treatments utilizing drugs that obstruct or impede the pathway of nerve cells to the brain's reward center.

The gambling industry recognizes that gambling addiction is a problem in the industry. According to a study by the National Opinion Research Center, 96 percent of the 25 largest casinos provide gambling treatment coverage for their employees.<sup>372</sup>

States that authorize state lotteries, like California, generally have programs to assist and treat problem and pathological gamblers. California's Office of Problem Gambling was founded in 1997, in the Department of Mental Health, and moved by 2003 legislation to the Department of Drug and Alcohol Programs in order to take advantage of the state's network of county alcohol and drug abuse service providers. The 2003 legislation directed the Office to develop a problem gambling program including, as a first priority, a statewide plan to address problem and pathological gambling. The Office is also directed to establish a toll-free telephone service; undertake public awareness campaigns; sponsor research into prevalence, causation, and best treatment practices; and, offer training for health care and law enforcement professionals.

The Office was appropriated \$3 million from the Special Distribution Fund in FY 2004-05, but did not spend the funds. In FY 2005-06, the Office expects to expend most of its \$3 million in funding. It is a very small amount compared to the size of gambling in California and the estimated prevalence of problem and pathological gamblers. The Office's website is not easy to find on the Department of Alcohol and Drug homepage, as the user must scroll down past prominently featured drug and alcohol abuse programs.

There is no state funding for treatment services in California. In recommending that the state provide treatment funding, the Commission on Asian & Pacific Islander Americans noted that "Other states, such as Wisconsin, have set aside between 0.5% and 1 % of all gross [gambling] revenues for treatment, prevention, and education of pathological gambling."<sup>373</sup> One percent of gross gambling revenues in California would generate about \$120,000,000.

The California Council on Problem Gambling reports that most callers to its gambling problem help line have exhausted their resources and do not have funds to cover the cost of gambling addiction treatment. A typical six-week intensive treatment might cost \$2,800, with a reference to Gambler's Anonymous (which is free) for aftercare. Given our previous estimate of one million problem and pathological gamblers in the state, treatment costs could top \$280,000,000 a year if they all requested it.

In March 2005, the Office of Problem Gambling issued a report, *Situational Assessment of Problem Gambling Services in California*, which found that there are few trained problem gambling counselors and problem gambling service programs in California. The

assessment concluded that "...there is clearly an enormous gap between the need for problem gambling treatment in California and the availability of such services." Nearly three quarters of crisis and treatment respondents did not know where to refer their clients for problem gambling services or only referred them to Gambler Anonymous.<sup>374</sup>

The Commission on Asian & Pacific Islander American Affairs, in its *Annual Report 2005*, found one "culturally competent" gambling prevention and treatment service in the state, in San Francisco—the NICOS Chinese Health Coalition. Despite the large number of Asian and Pacific Islander Americans in Southern California, and widespread marketing of gambling to that community, there are no prevention and treatment programs directed to that community.

Very few treatment programs in California target adolescent gamblers and "The vast majority of schools [colleges]...have no formal or informal policy regarding gambling." Most counselors on campuses have very little training in understanding what constitutes a gambling problem. Experts recommend youth education, starting young, the same prevention strategy used for drugs and alcohol.<sup>375</sup>

A study in Oregon found that 28 percent of gamblers enrolling in treatment and prevention programs accessed the system through the Help line; ten percent through recommendations of a current or former program participant; and, ten percent through a family or friend. A goal of the treatment system is to respond in a timely manner. The average number of workdays between first call to a program and a first appointment was less than four days.<sup>376</sup>

There are four statewide help line numbers that problem gamblers in California can call. In 2003, there were 13,349 calls to these help lines; 60 percent were from Southern California, 20 percent from the San Francisco Bay Area, and 15 percent from the Sacramento and Fresno areas.<sup>377</sup> Data developed by the California Council on Problem Gambling finds that casino signs generate nearly half of all calls to the problem gambling help line, suggesting that this type of information marketing is important. Friends and the Internet were the next most frequent sources of referral.<sup>378</sup>

Some states and casinos have instituted voluntary self-exclusion programs, in which an individual can request in writing to be refused entrance to all gaming venues. California's Gambling Control Act provides for the exclusion of individuals from gaming establishments (*Business and Professions Code* § 19844) for violations of law or offensive behavior such as intoxication, but not to preclude problem gambling. However some efforts are underway.

The California Gambling Control Commission is developing a problem gambling regulation in which a voluntary, confidential "self-exclusion" list would be maintained by the Division of Gambling Control. Gambling establishments would be prohibited from issuing credit, cashing a check or marketing to individuals on the list.<sup>379</sup> In addition, the Division is coordinating with the casino and card club industries, the Commission and the Office of Problem Gambling to write regulations that would require card clubs to have

problem gambling materials available for patrons, a Help line phone number posted, trained staff and a voluntary self exclusion program.

The recent tribal-state compact with the Quechan Tribe of the Fort Yuma Indian Reservation (negotiated in 2005, but not ratified) provides for the tribe to establish a self-exclusion program for problem gamblers, the first compact to do so. The California Tribal Business Alliance, composed of six tribes with casinos, has announced a responsible gambling policy that includes a self-exclusion program, employee training, casino advertising standards, a toll-free help line and problem-gambling information to be posted on casino web sites.

### *Australia's Responsible Gambling Code*

In response to a government-commissioned report that found that one in 50 adults in Australia have a gambling problem, the industry's Australian Gaming Council crafted a responsible gambling code. In the code, the industry acknowledges that problem gambling is a community issue and makes a commitment to develop measures to reduce the potential for harm including training staff, allowing self-exclusion arrangements, and providing better public information about the likelihood of winning.<sup>380</sup>

## **CRIME**

Crime and gambling interact in a number of ways, including: illegal gambling, which is a direct violation of the law; crimes committed by problem and pathological gamblers; and, crimes associated with legal gambling.

### *Public Corruption*

The National Gambling Impact Study Commission pointed out in its 1999 report that "...the shape and operation of legalized gambling has been largely a product of government decisions...[and a]...key determinant of the various industries' potential profits and losses."<sup>381</sup> Thus it is not surprising that legal gambling is at times associated with public corruption. An article published in 1998, entitled "Follow the Money: Gambling, Ethics and Subpoenas," found "...significant congressional fears that the gambling industry could become sufficiently powerful to change U.S. policy and the economy (locally, regionally and nationally)."<sup>382</sup>

A scandal currently unfolding in Washington, D.C. involves, in part, \$66 million in contributions from six gaming tribes made to indicted lobbyists, in part to block rival casinos. Casino-owning tribes also contributed millions of dollars to congressional campaigns at the lobbyists' direction.<sup>383</sup> Federal law allows Indian tribes to contribute to an unlimited number of candidates, political parties, political actions committees, and state parties, unlike other donors, who are subject to limits.<sup>384</sup>

There are many examples of gambling money influencing the public policy and regulatory process, legally through substantial campaign contributions to elected officials and at times illegally. In British Columbia, a scandal involving charity gambling was

called “Bingogate,” and a second scandal involving the approval of casino locations led to the resignation of the provincial premier.<sup>385</sup>

In California, two cases involving non-disclosure of otherwise legal tribal campaign contributions are moving through the courts. The National Gambling Impact Study Commission recommended that states adopt tight restrictions on contributions to state and local campaigns by corporate, private or tribal entities that have applied for or been granted the privilege of operating gambling facilities.

### ***Financial Crimes***

The large amount of money that circulates in casinos offers occasions for money laundering and other financial crimes. For this reason, the United Nations’ *Law on Prevention of Money Laundering* lists “gaming establishments, automated casino clubs, organizers of lottery games, special event raffles, lotteries and other games of chance” as obligated to implement measures to detect and prevent money laundering.<sup>386</sup> U.S. federal and state laws require similar precautions.

According to one literature review, “The connection between gambling and crime has been well-documented, with adult gambling-related criminal offenses typically including fraud, theft, fencing stolen goods, embezzlement, tax fraud and evasion, forgery, selling drugs and counterfeiting.”<sup>387</sup>

### ***Victim Crimes***

Research suggests that crime rises as casinos attract visitors who either commit or are the victims of crime. This phenomenon may also occur in other venues that attract cash-bearing participants.<sup>388</sup> Unique to gambling enterprises, problem and pathological gambling increases among local residents and is associated with crimes that generate money to gamble or pay off gambling debts.

A study using data from every U.S. County between 1977 and 1996, found that casinos (including Indian casinos and riverboat casinos) increased crime (defined as FBI Index 1 Offenses: aggravated assault, rape, murder, robbery, larceny, burglary, and auto theft) after a lag of three or four years. Prior to the opening of a casino, casino and noncasino counties had similar crime rates, but after six years, casino counties had eight percent more property crimes and ten percent more violent crimes than noncasino counties. Border counties experienced about half the rate of increase as casino counties. The study’s authors conclude that, “...casinos create crime, rather than attract it from elsewhere.”<sup>389</sup>

- The aggravated assault rate was 112 incidents per 100,000 population higher five years after a casino opened in a county.
- The rape rate was higher by eight to twelve incidents per 100,000 population in the fourth and fifth years after a casino opened.

- Increases in robberies began almost immediately after a casino opened; after five years the rate per 100,000 population was about 70 incidents higher.
- Property crimes increased dramatically after a casino opened: the rate of larceny per 100,000 population increased from about 300 to 1,400 over seven years; burglary increased from about 80 to over 500; and, auto theft increased from about 200 to nearly 500 incidents per 100,000 population.

The authors of this study speculate that violent crime increases more rapidly after a casino opens because it is committed by criminals drawn to the gambling operation, while the impact of property crime is delayed as local residents, who may become problem or pathological gamblers, exhaust their resources. The most significant crime effects were for property crimes such as larceny and burglary, where obtaining resources was the primary motivation for the crime.

A 2002 national study, using county-level data, found that four years after a Native American casino opened, property crimes (primarily auto theft and larceny) and violent crimes increased by about ten percent.<sup>390</sup>

Similar findings were found in a study of casino gambling and crime in Wisconsin: "...the emergence of casino gambling significantly increased county crime rates..." by about 8.6 percent in casino counties and by 7.5 percent in counties adjacent to two or more counties with casinos.<sup>391</sup> At the time of this study, there were 17 casinos in Wisconsin owned by 11 Indian tribes, most located in rural areas. Thus these findings are especially applicable to California.

Casinos are associated with increased consumption of alcohol, which also may have an impact on crime rates. Many tribal casinos are located in rural areas and reached by narrow winding roads, leading to problems with drunken driving. The Wisconsin study found that arrests for Driving While Intoxicated, liquor law violations, and disorderly conduct comprised 45 percent of Non-FBI Index arrests.<sup>392</sup>

Crime has substantial social costs. A national study of crime in casino counties found total costs in 1995-96 for increased crime associated with the casinos of \$65 per adult in casino counties, not counting the judicial and regulatory costs, costs related to employment and lost productivity, and social service and welfare costs. The 1996 Wisconsin study found that the cost to the public for increased crime resulting from the introduction of Indian casinos was nearly \$51 million (\$63.8 million in 2005 dollars).<sup>393</sup>

Other studies have found that problem and pathological gamblers impose high costs on society. A 1990 Maryland study found that 62 percent of the members of a Gamblers Anonymous group had committed illegal acts as a result of their gambling: 80 percent had committed civil offenses\* and 29 percent had committed criminal offenses. A study

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\* A civil offense is an infraction of a law that is not a crime. This may be something like a routine traffic offense such as speeding. The only penalty for a civil offense is a fine.

of 400 members of Gamblers Anonymous found that 57 percent admitted to stealing an average of \$135,000 to finance their gambling; the total stolen was over \$30 million.<sup>394</sup>

A 1996 study in Plymouth, England found that adolescents who gamble excessively on slot machines engage in stealing to fund their habit. In examining police reports over a one-year period, the authors found that in 3.9 percent of the juvenile cases the offense was gambling-related; of these, 86 percent involved theft or burglary. The offender was male in 93 percent of the cases. This was a first time offense for over one third of the offenders.<sup>395</sup>

Given that casinos create external social costs for the larger society, the policy issue arises as to whether they should compensate for those costs. The authors of one study estimate that taxes compensating for the casino-induced increase in FBI Index 1 crimes would represent about 25-30 percent of casino revenues.<sup>396</sup> Policy options for reducing this impact would have to effectively and directly address problem and pathological gambling. The authors of the Wisconsin study made the following recommendations to the state as it renegotiated its tribal-state gaming compacts:<sup>397</sup>

- The tribes should fund enhanced law-enforcement activities in casino and adjacent counties, including road patrols, especially in areas around bars.
- The tribes should fund community assistance, such as creating and activating neighborhood-watch programs.
- Tribes should not sell alcoholic beverages in their casinos.
- Drug-detection units of state police should be enhanced and made available to sheriffs and police.
- Police officer and prosecutors in all counties should include gambling screening questions in all arrest reports and crime reports.

### *Illegal Games*

Estimates of the amount of illegal gambling in the U.S. range from \$80 billion to \$360 billion a year. Sport betting is the largest illegal gaming enterprise in most states.<sup>398</sup>

### *Sports betting*

A 2002 Gallup Poll survey found that ten percent of American adults had bet on a sporting event in the previous year. Sport betting is illegal under federal law in all states but Nevada, Oregon, Delaware and Montana. In 2005, \$2.25 billion was legally wagered in Nevada's sports books.<sup>399</sup>

The National Gaming Association estimated in 1999 that illegal wagers on sporting events are as much as \$380 billion annually. According to one report, the United States has the world's largest illegal bookmaking network, principally on sports.<sup>400</sup> The FBI estimates that more than \$2.5 billion is illegally wagered annually on college basketball's

*March Madness* playoffs each year. There is evidence that sports wagering can act as a gateway to other forms of gambling, and threaten the integrity of sports and athletes.<sup>401</sup>

As previously discussed in the chapter on Internet Gambling, sport betting is one of the most popular forms of at-home gambling, accounting for about 35 percent of the Internet gambling industry's revenues.<sup>402</sup>

### *Cockfighting*

Cockfighting has been illegal in California since 1905, and is illegal in every state but New Mexico and Louisiana. However it is a growing problem in California, along with other forms of illegal animal fighting. According to news accounts, a number of large cockfighting derbies have been broken up in recent years, resulting in the arrests of dozens of people and thousands of birds confiscated. A cockfighting bust in Amador County resulted in the arrest of 30 people including the ranch owner, who is facing felony conspiracy and gambling charges.<sup>403</sup>

In 2003, officials estimated that some 50,000 gamecock operations existed in Southern California alone. During the containment of Newcastle disease that year, one third of the flocks eradicated were illegal gamecocks.<sup>404</sup>

Cockfights offer opportunities for money laundering, drug trafficking, and violence. Training or causing a bird to fight or even watching a cockfight is a misdemeanor, with a penalty of up to one year in jail and a \$5,000 fine. Legislation that would make it a felony for second and subsequent offenses, with a maximum one year prison sentence and \$25,000 fine, was proposed but not enacted by the legislature this session (see early versions of SB 156, Soto).

## **HEALTH ISSUES**

### *Smoking*

“Gambling, cigarettes and cigars” is a combination that makes for smoky casinos and tribal and charity bingo halls. According to an industry publication, “. . .it is generally acknowledged that the prevalence of smokers is higher among gamblers than the general population.”<sup>405</sup> Smoking and exposure to secondhand smoke are serious health hazards in California Indian casinos, as discussed in that section of this report.

The gambling industry has been active in opposing laws restricting smoking in public places. A study of revenues at three video lottery terminal gaming facilities located at racetracks, and run by the state lottery in Delaware, found a significant decline after the implementation of a smoke-free law, depending on whether there were alternative gaming venues in the region. Competing gambling venues in nearby states continued to allow smoking, drawing customers.<sup>406</sup>

## *Alcohol*

Alcohol abuse is a significant contributor to crime in and around gambling enterprises. Fifteen California Indian gaming tribes are authorized by the Department of Alcohol Beverage Control (ABC) to sell alcohol at their casinos (see list on page 74). Drunken driving and violent and disorderly behavior are problems, according to local law enforcement. Researchers studying the interaction between crime and Indian casinos in Wisconsin recommended that alcohol not be sold at the casinos.<sup>407</sup> An alternative is well-trained servers following clear policies on limited alcohol service.

# ECONOMIC IMPACTS OF GAMBLING

## BACKGROUND

Gambling is a product for which there is considerable consumer demand, as the polling and financial data presented in Chapter 1 indicate. Some form of commercial gambling is legal in every state except for two, and in 1998, gambling accounted for over ten percent of leisure expenditures by Americans. The gambling industry has since expanded considerably and seems to have considerable potential to grow further in the casino and Internet gaming sectors.<sup>408</sup> Like many discretionary consumer goods, spending on gambling is cyclical. When aggregate income slows, so does gambling revenue.

In this chapter, we review the economic literature examining gambling through standard measures such as job creation and personal income. Many jurisdictions have pursued gambling enterprises as economic development opportunities, most famously Atlantic City and Las Vegas. The literature generally finds a positive economic development benefit when gamblers are drawn from outside an area to a destination resort. Destination resorts create jobs in the casinos, but also in hotels, restaurants, casino supply firms, outdoor recreation, and retail shopping. They attract a high proportion of their visitors from outside the region in which they operate, exporting social costs.<sup>409</sup> For example, about 85 percent of Nevada's gambling revenues come from out-of-state tourists.

However the calculus for urban casinos is different. They attract people primarily to gamble for a few hours, not to experience a destination resort, and so stimulate considerably less job creation and economic development. They are also more likely to displace other local consumer spending (the "cannibalization effect"). Shifting expenditures from one area to another does not represent new income for the local economy. The convenience of urban casinos and their proximity to large numbers of people means that the negative social impacts caused by excessive gambling are likely to be felt locally. Urban casinos are also likely to reduce the demand for rural casinos. One analyst recommends that, "It is better to concentrate casinos in one specific area, creating competition between them (forcing them to attract outside gamblers) than to establish several local monopolies."<sup>410</sup>

## DIRECT EMPLOYMENT

The National Gambling Impact Study Commission found that in 1996, the legal gambling industry employed over half a million people, primarily in casinos and in the pari-mutuel (horse-racing) industry, with total salaries of more than \$15 billion.<sup>411</sup> Studies conducted for the Commission found decreased unemployment, a slight increase in construction employment and earnings, a substantial increase in earnings in the hotel and lodgings and recreation and amusement industries, and reduced welfare outlays, but no change in overall per capita income in communities near casinos (commercial and tribal). None of the tribal casinos were unionized, and paid on average \$18,000 in annual salaries, \$8,000 less than the largest, unionized casinos.<sup>412</sup>

### *A Point of Comparison—Commercial Casinos*

In 1997, Coopers & Lybrand L.L.P. conducted a national survey of employees in the commercial, non-Indian casino gaming industry for the American Gaming Association. Total industry employment at that time was estimated to be 330,000 employees in ten states (not including California, where only Indian tribes may operate casinos). Over half of those employees were in Nevada, where much of the industry is unionized. The sample size was approximately 54 percent of all casino employees. Key results include:<sup>413</sup>

- Commercial casinos are major employers. Employment had increased by 16 percent in the previous year and a half, compared to total nonagricultural job growth in the U.S. of 2.2 percent.
- Commercial casinos offer benefits. All of the companies participating in the survey offered health benefits and a retirement or profit sharing program.
- Less than half of all employees in the commercial casino gaming industry nationwide, and under one third in Nevada, actually worked in the casino. The rest worked in hotels, restaurants, and other jobs associated with the casino.

The types of jobs provided by the gaming industry are predominantly “service workers,” according to a Price WaterhouseCoopers study for the American Gaming Association, which concluded “...it appears that the industry is providing ‘entry-level’ positions to a diverse workforce.”<sup>414</sup> Other studies have found that non-unionized casino jobs are, for the most part, low paying and/or part time jobs with no benefits.<sup>415</sup> Most Indian casinos in California are not unionized.

### *Local Impact*

In 1998, the National Opinion Research Center analyzed data from 1980 to 1997, to determine the impact of casinos on jobs and other economic indicators. The Center sampled 100 communities and reported that communities with a casino within a 50-mile radius experienced:

- A one percent decrease in the unemployment rate.
- A 17 percent decrease in per capita unemployment insurance payments.
- A 13 percent decrease in welfare costs.<sup>416</sup>

A number of studies find that the major economic benefit a casino can bring to an area is if it attracts gamblers from out of the area. If casino revenue comes mainly from local residents, displacing other local expenditures, jobs may be merely transferred from other sectors of employment.<sup>417</sup>

For example, a study of the impact of casinos on the local economy of Greenville, Mississippi during 1990-1997, found increased personal income and retail spending which the authors’ attributed to the opening of two casinos and wages paid to casino

employees. However the casinos relied heavily on local residents for their business, attracting few tourists, and “Residents are as likely to know someone employed by the casinos as they are someone wiped out by a gambling addiction.”<sup>418</sup>

Casinos in areas attracting tourists fared better in a study by the University of Southern Mississippi, which found that non-residents generated 82 percent of all gaming revenues in the North Mississippi region (close to Memphis) and 66 percent of gaming revenues on the Gulf Coast.<sup>419</sup>

## STATE AND LOCAL REVENUES

“Legalized gaming,” said Biloxi’s Mayor, A.J. Holloway, “is going to be what saves us.”<sup>420</sup>

A 1995 gambling industry report found that the commercial casino industry paid \$2.9 billion in federal, state, and local taxes.<sup>421</sup> Some jurisdictions, such as Atlantic City, New Jersey, and states such as Nevada and Mississippi, are particularly dependent on revenues derived from commercial casinos. For example, Mississippi’s casinos pay 12 percent of their revenues to state and local governments, two-thirds to the state and one-third to localities. Mississippi Gulf Coast casinos generated \$1.4 billion in profit in 2004, and paid \$168 million in state and local taxes.<sup>422</sup>

Increasing public revenue has been one of the main motivations for states and localities to legalize gambling, particularly state lotteries and expanded casino venues. However in California, the public revenues have been comparatively modest:

- The state lottery provides about one percent of the state’s General Fund revenues and about three percent of education revenues.
- Horse racing provided about \$4 million to the state General Fund in FY 2004-05, around \$39 million to the Fair and Exposition Fund, and about \$7 million to local governments.
- Card room licensing fees have not kept pace with increasing industry revenues, and are less now than they were than seven years ago, adjusting for inflation.
- Some gaming tribes make payments to the Special Distribution Fund and the Revenue Sharing Trust Fund (see Table 8). These fees and payments over a five-year period represent less than one percent of the gross gaming revenues earned by the gaming tribes over a four year period. In addition, five gaming tribes will make an estimated \$35 million in payments to the state’s General Fund in FY 2005-06 and will support a \$1 billion transportation bond issue over a ten year period.
- Since Indian casino revenues are not taxable, their presence may divert funds from a taxable activity and thus negatively impact state and local revenues.

Casino gambling creates public costs as well as benefits. These include the regulatory costs of gaming boards and other regulatory institutions; police, prosecutorial and judicial/correctional costs; expenditures for new roads and fire protection; social costs due to problem and pathological gambling (lost of productive work time, family welfare costs, treatment costs, crime costs); and local environmental and planning costs. These have previously been discussed in more detail.

## **BANKRUPTCIES**

In 1998, the Congress directed the Department of the Treasury to study the interaction between gambling and bankruptcy. The subsequent 1999 report found that:

On average, frequent high-risk gambling is associated, in our data, with a 6-percentage point increase in the lifetime probability of declaring bankruptcy. Other levels of gambling activity (non-frequent, non-high-risk) are not associated with elevated probabilities of declaring bankruptcy. Since only an estimated 2.7 percent of the population gambles frequently in high-risk venues, the impact of these activities on overall bankruptcy rates is relatively small.<sup>423</sup>

Contrary to other studies, which have found a localized impact of increased bankruptcies associated with casino operations, the Treasury report found "...no statistically significant casino effect (proximity to a casino) with regard to county bankruptcy rates." In contrast, a 2002 study by the National Bureau of Economic Research found that four years after a Native American casino opens, bankruptcy rates increase ten percent in counties with a casino and seven percent in counties within 50 miles of a casino.<sup>424</sup>

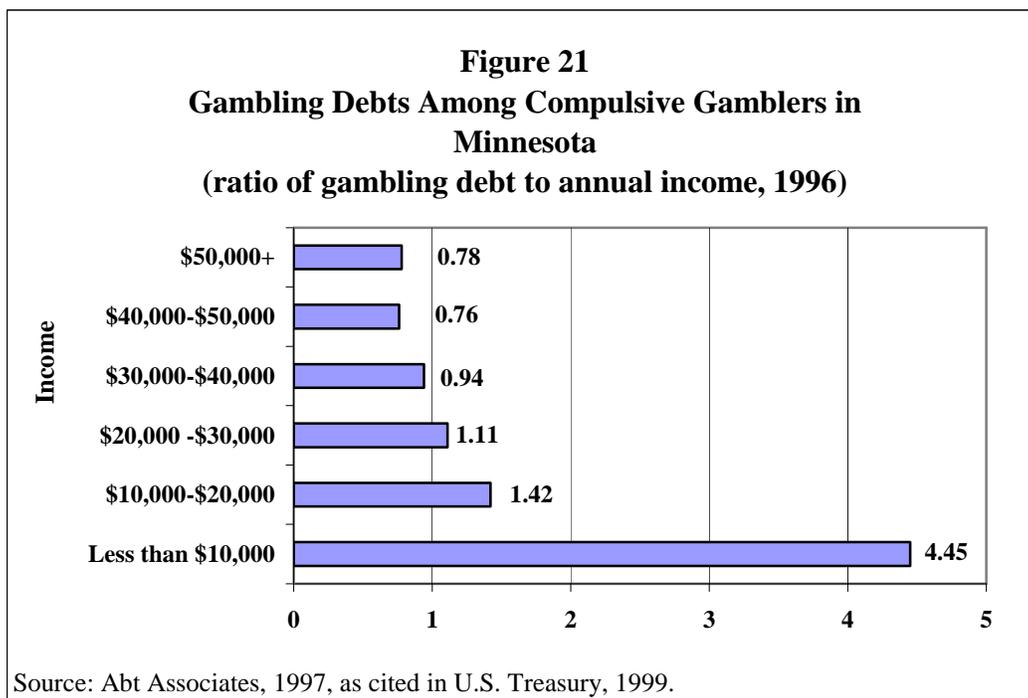
The California Council on Problem Gambling reports that 61 percent of the 3,399 callers to its problem gambling hotline in 2004 used credit cards to finance their gambling, and nearly 49 percent were maxed out. They spent an average of \$33,636 a year on gambling, and had an average debt of \$32,461. The total spent on gambling per year by these callers was \$45,745,199, and their total debt was reported to be \$41,809,983. Financial problems are one of the main reasons that gamblers call the California problem gambling hotline, according to the Council.<sup>425</sup>

A 2005 study by the Federal Reserve Bank of St. Louis found "strong evidence" that destination casinos export bankruptcy back to visitors' home states, especially in the Southern United States.<sup>426</sup> A study of bankruptcy rates from 1990 to 2002 found that "...adding legalized casino gambling to a local economy correlates positively to increasing bankruptcy rates over time...explained in part by the effects of problem gamblers." The authors speculate that over time casino patrons are increasingly drawn from the local population, causing economic distress in other businesses in the community.<sup>427</sup>

A 1996 study by SMR Research Corporation found that gambling was one of several variables affecting bankruptcy rates, along with easy credit, unemployment, lender marketing, and consumer debt loads.<sup>428</sup> The study found that counties with gambling

facilities had higher bankruptcy filing rates (4.67 per thousand residents) than counties with no facilities (3.96 per thousand residents). Bankruptcy rates in Atlantic City were 71 percent higher than in the rest of the state, and in Las Vegas 50 percent higher than the national average, although the reasons for this difference were not identified in the study.

Based on interviews, SMR found that 20 percent of compulsive gamblers were forced to file for bankruptcy protection because of gambling losses. This finding was supported by another study of gamblers receiving treatment from compulsive gambling treatment centers in Minnesota, which found that 21 percent had declared bankruptcy. A subsequent study by Abt Associates, Inc. found that the amount of debt held by compulsive gamblers was relatively large, especially for low-income compulsive gamblers (see Figure 21).<sup>429</sup>



A 1996 Wisconsin study, also cited in the Treasury report, sought to determine the extent of compulsive gambling in the state and found that one fifth of the self-identified “serious problem gamblers” had filed for bankruptcy, with an average debt of \$39,000. The study projected that Wisconsin had 32,000 serious problem gamblers, costing \$300 million a year in the form of bankruptcies, treatment, unemployment compensation, lost tax revenue and law enforcement.

The weight of these studies suggests that problem and pathological gamblers have relatively high rates of bankruptcies. However when considered in the aggregate, the U.S. Treasury concluded that, “...gambling has no measurable effect on *statewide* bankruptcy rates (italics added).”<sup>430</sup> The report recommended that, “Public education regarding bankruptcy and gambling should be considered as a part of our efforts to inform and educate the public on financial security and public health issues.”<sup>431</sup>



## APPENDIX A

### *List of Petitioners by State*

U.S. Bureau of Indian Affairs

Groups Petitioning the Bureau of Indian Affairs to be Federally Recognized  
Tribes in California as of February 2005



**Ione Band of Miwok Indians (Ione)**

Letter of Intent to Petition 1916, status clarified administratively 1994

**Mono Lake Indian Community (Lee Vining)**

Letter of Intent to Petition 1976

**Washoe/Paiute of Antelope Valley (Coleville)**

Letter of Intent to Petition 1976

**Antelope Valley Paiute Tribe (Coleville)**

Letter of Intent to Petition 1976

**United Maidu Nation (Susanville)**

Letter of Intent to Petition 1977

**Kern Valley Indian Community (Weldon)**

Letter of Intent to Petition 1979

**Death Valley Timbi-Sha Shoshone Band (Death Valley)**

Letter of Intent to Petition 1979

Acknowledged 1983

**United Lumbee Nation of North Carolina and America (Exeter, CA)**

Letter of Intent to Petition 1980

Decline to acknowledge 1985

**Coastal Band of Chumash (Buelton)**

Letter of Intent to Petition 1982

**Southern Sierra Miwuk Nation (formerly American Indian Council of Mariposa County, *aka* Yosemite)**

Letter of Intent to Petition 1982

**Shasta Nation (Yreka)**

Letter of Intent to Petition 1982

**Juaneño Band of Mission Indians (also Juaneño Band of Mission Indians, Acjachemen Nation) (San Juan Capistrano)**

Letter of Intent to Petition 1996

**Tolowa Nation (Fort Dick)**

Letter of Intent to Petition 1983

**North Fork Band of Mono Indians (Clovis)**

Letter of Intent to Petition 1983

**Dunlap Band of Mono Indians (*aka* Mono Tribal Council of Dunlap)**

Letter of Intent to Petition 2002

**Nor-Rel-Muk Nation (formerly Hayfork Band; formerly Nor-El-Muk Band of Wintu Indians) (Hayfork)**

Letter of Intent to Petition 1984

**San Luis Rey Band of Mission Indians (Oceanside)**

Letter of Intent to Petition 1984

- Wintu Indians of Central Valley, California (Central Valley)**  
Letter of Intent to Petition 1984; certified letter returned by P.O. 1997
- Wintoon Indians (Anderson)**  
Letter of Intent to Petition 1984; certified letter returned by P.O. 1997
- Chukchansi Yokotch Tribe (Raymond)**  
Letter of Intent to Petition 1985; letter withdrawn 2000
- Yokayo Tribe of Indians (Ukiah)**  
Letter of Intent to Petition 1987
- Wukchumni Council (Fresno)**  
Letter of Intent to Petition 1988
- Choinumni Council (Stockton)**  
Letter of Intent to Petition 1988
- Coastanoan Band of Carmel Mission Indians (El Monte)**  
Letter of Intent to Petition 1988
- Muwekma Ohlone Tribe (formerly Ohlone/Costanoan Muwekma Tribe) (San Jose)**  
Letter of Intent to Petition 1989  
Decline to acknowledge 2002
- Indian Canyon Band of Coastanoan/Mutsun Indians (Hollister)**  
Letter of Intent to Petition 1989
- Salinan Nation (*aka* Salinan-Chumash Nation) (San Jose)**  
Letter of Intent to Petition 1989
- Amah Mutsun Band of Ohlone/Costanoan Indians (formerly Amah Band of Ohlone/Cosstanoan Indians) (Woodside)**  
Letter of Intent to Petition 1990
- Tsungwe Council (Salyer)**  
Letter of Intent to Petition 1992
- Esselen/Costanoan Tribe of Monterey County (Monterey)**  
Letter of Intent to Petition 1992; letter withdrawn 1996
- Ohlone/Costanoan-Esselen Nation (Monterey)**  
Letter of Intent to Petition 1992
- Chukchansi Yokotch Tribe of Mariposa California (Mariposa)**  
Letter of Intent to Petition 1993
- Wintu Tribe of Northern California (Project City)**  
Letter of Intent to Petition 1993
- Salinan Tribe of Monterey & San Luis Obispo Counties (King City)**  
Letter of Intent to Petition 1993
- Gabrielino/Tongva Nation (San Gabriel)**  
Letter of Intent to Petition 1994
- Gabrielino/Tongva Indians of California Tribal Council (Culver City)**

- Letter of Intent to Petition 1997
- Costanoan-Rumsen Carmel Tribe (Chino)**  
Letter of Intent to Petition 1994
- Costoanoan Ohlone Rumsen-Mutsun Tribe (Watsonville)**  
Letter of Intent to Petition 1994
- Federated Coast Miwok (Novato)**  
Letter of Intent to Petition 1995; restored as Graton Rancheria by Act of Congress  
12/27/2000
- Fernandeno/Tatviam Tribe (Sylmar)**  
Letter of Intent to Petition 1995
- Wadatuht Band of the Northern Paiutes of the Honey Lake Valley (Susanville)**  
Letter of Intent to Petition 1995
- San Fernando Band of Mission Indians (formerly Ish Panesh United Band of  
Indians) (Newhall)**  
Letter of Intent to Petition 1995
- Tinoqui-Chalola Council of Kitanemuk and Yowlumne Tejon Indians (Covina)**  
Letter of Intent to Petition 1996
- Ani Yvwi Yuchi (Yucca Valley)**  
Letter of Intent to Petition 1996
- Coastal Gabrieleño Diegueño Band of Mission Indians (Santa Ana)**  
Letter of Intent to Petition 1997
- Calusa-Seminole Nation (Santa Cruz)**  
Letter of Intent to Petition 1998
- The Displaced Elem Lineage Emancipated Members (*aka* DELEMA) (Santa Rosa)**  
Letter of Intent to Petition 1998
- Konkow Valley Band of Maidu (Oroville)**  
Letter of Intent to Petition 1998
- Gabrieleño Band of Mission Indians of California (Beaumont)**  
Letter of Intent to Petition 1998
- T'Si-akim Maidu (Quincy)**  
Letter of Intent to Petition 1998
- Sierra Foothill Wuksachi Yokuts Tribe (Sanger)**  
Letter of Intent to Petition 1999
- Costanoan Tribe of Santa Cruz and San Juan Bautista Missions (Madera)**  
Letter of Intent to Petition 1999; letter withdrawn 2000
- Traditional Choinuymni Tribe (Sanger)**  
Letter of Intent to Petition 2000
- Honey Lake Maidu (Susanville)**  
Letter of Intent to Petition 2000

**North Valley Yokut Tribe (Stockton)**

Letter of Intent to Petition 2000

**Tejon Indian Tribe (Wasco)**

Letter of Intent to Petition 2000

**Calaveras Band of Miwuk Indians (West Point)**

Letter of Intent to Petition 2001

**Xolon Salinan Tribe (Bay Point)**

Letter of Intent to Petition 2001

**Barbareño/Ventureño Band of Mission Indians (Thousand Oaks)**

Letter of Intent to Petition 2002

**Dumna Wo-Wah Tribal Government (formerly Dumna Tribe of Millerton Lake)  
(Fresno)**

Letter of Intent to Petition 2002

**The Chiricahua Tribe of California (El Cajon)**

Letter of Intent to Petition 2003

**Digueño Band of San Diego Mission Indians (Colton)**

Letter of Intent to Petition 2003

**Choctaw Allen Tribe (Willows)**

Letter of Intent to Petition 2003

**Callattakapa-Choctaw Tribe (San Diego)**

Letter of Intent to Petition 2004

**Monachi Indian Tribe (Exeter)**

Letter of Intent to Petition 2004

**Nashville-Eldorado Miwok Tribe (Elk Grove)**

Letter of Intent to Petition 2004

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